

ASSURED GUARANTY LTD

Form 10-Q

August 06, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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

For the Quarterly Period Ended June 30, 2015

Or

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

For the transition Period from to

Commission File No. 001-32141

ASSURED GUARANTY LTD.

(Exact name of registrant as specified in its charter)

Bermuda

(State or other jurisdiction

of incorporation)

98-0429991

(I.R.S. employer

identification no.)

30 Woodbourne Avenue

Hamilton HM 08

Bermuda

(Address of principal executive offices)

(441) 279-5700

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer x

Accelerated filer o

Non-accelerated filer o

Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

The number of registrant's Common Shares (\$0.01 par value) outstanding as of August 3, 2015 was 146,508,128 (includes 47,517 unvested restricted shares).

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

Assured Guaranty Ltd.

Consolidated Balance Sheets (unaudited)

(dollars in millions except per share and share amounts)

|                                                                                                                           | As of<br>June 30, 2015 | As of<br>December 31,<br>2014 |
|---------------------------------------------------------------------------------------------------------------------------|------------------------|-------------------------------|
| Assets                                                                                                                    |                        |                               |
| Investment portfolio:                                                                                                     |                        |                               |
| Fixed-maturity securities, available-for-sale, at fair value (amortized cost of \$10,229 and \$9,972)                     | \$10,582               | \$10,491                      |
| Short-term investments, at fair value                                                                                     | 834                    | 767                           |
| Other invested assets                                                                                                     | 215                    | 126                           |
| Total investment portfolio                                                                                                | 11,631                 | 11,384                        |
| Cash                                                                                                                      | 75                     | 75                            |
| Premiums receivable, net of commissions payable                                                                           | 703                    | 729                           |
| Ceded unearned premium reserve                                                                                            | 282                    | 381                           |
| Deferred acquisition costs                                                                                                | 119                    | 121                           |
| Reinsurance recoverable on unpaid losses                                                                                  | 77                     | 78                            |
| Salvage and subrogation recoverable                                                                                       | 139                    | 151                           |
| Credit derivative assets                                                                                                  | 81                     | 68                            |
| Deferred tax asset, net                                                                                                   | 439                    | 260                           |
| Current income tax receivable                                                                                             | 11                     | —                             |
| Financial guaranty variable interest entities' assets, at fair value                                                      | 1,601                  | 1,402                         |
| Other assets                                                                                                              | 321                    | 276                           |
| Total assets                                                                                                              | \$15,479               | \$14,925                      |
| Liabilities and shareholders' equity                                                                                      |                        |                               |
| Unearned premium reserve                                                                                                  | \$4,389                | \$4,261                       |
| Loss and loss adjustment expense reserve                                                                                  | 996                    | 799                           |
| Reinsurance balances payable, net                                                                                         | 66                     | 107                           |
| Long-term debt                                                                                                            | 1,305                  | 1,303                         |
| Credit derivative liabilities                                                                                             | 1,007                  | 963                           |
| Current income tax payable                                                                                                | —                      | 5                             |
| Financial guaranty variable interest entities' liabilities with recourse, at fair value                                   | 1,361                  | 1,277                         |
| Financial guaranty variable interest entities' liabilities without recourse, at fair value                                | 71                     | 142                           |
| Other liabilities                                                                                                         | 378                    | 310                           |
| Total liabilities                                                                                                         | 9,673                  | 9,167                         |
| Commitments and contingencies (See Note 15)                                                                               |                        |                               |
| Common stock (\$0.01 par value, 500,000,000 shares authorized; 148,257,197 and 158,306,661 shares issued and outstanding) | 1                      | 2                             |
| Additional paid-in capital                                                                                                | 1,606                  | 1,887                         |
| Retained earnings                                                                                                         | 3,955                  | 3,494                         |
| Accumulated other comprehensive income, net of tax of \$102 and \$159                                                     | 239                    | 370                           |
| Deferred equity compensation (320,193 and 320,193 shares)                                                                 | 5                      | 5                             |

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|                                            |          |          |
|--------------------------------------------|----------|----------|
| Total shareholders' equity                 | 5,806    | 5,758    |
| Total liabilities and shareholders' equity | \$15,479 | \$14,925 |

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

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Assured Guaranty Ltd.

Consolidated Statements of Operations (unaudited)

(dollars in millions except per share amounts)

|                                                                                                | Three Months Ended June 30, |        | Six Months Ended June 30, |        |
|------------------------------------------------------------------------------------------------|-----------------------------|--------|---------------------------|--------|
|                                                                                                | 2015                        | 2014   | 2015                      | 2014   |
| Revenues                                                                                       |                             |        |                           |        |
| Net earned premiums                                                                            | \$219                       | \$136  | \$361                     | \$268  |
| Net investment income                                                                          | 98                          | 96     | 199                       | 199    |
| Net realized investment gains (losses):                                                        |                             |        |                           |        |
| Other-than-temporary impairment losses                                                         | (11                         | ) (27  | ) (16                     | ) (30  |
| Less: portion of other-than-temporary impairment loss recognized in other comprehensive income | 1                           | (15    | ) 3                       | (13    |
| Net impairment loss                                                                            | (12                         | ) (12  | ) (19                     | ) (17  |
| Other net realized investment gains (losses)                                                   | 3                           | 4      | 26                        | 11     |
| Net realized investment gains (losses)                                                         | (9                          | ) (8   | ) 7                       | (6     |
| Net change in fair value of credit derivatives:                                                |                             |        |                           |        |
| Realized gains (losses) and other settlements                                                  | 8                           | 15     | 29                        | 34     |
| Net unrealized gains (losses)                                                                  | 82                          | 88     | 185                       | (142   |
| Net change in fair value of credit derivatives                                                 | 90                          | 103    | 214                       | (108   |
| Fair value gains (losses) on committed capital securities                                      | 23                          | (6     | ) 25                      | (15    |
| Fair value gains (losses) on financial guaranty variable interest entities                     | 5                           | 25     | (2                        | ) 182  |
| Bargain purchase gain and settlement of pre-existing relationships                             | 214                         | —      | 214                       | —      |
| Other income (loss)                                                                            | 55                          | 7      | 46                        | 28     |
| Total revenues                                                                                 | 695                         | 353    | 1,064                     | 548    |
| Expenses                                                                                       |                             |        |                           |        |
| Loss and loss adjustment expenses                                                              | 188                         | 57     | 206                       | 98     |
| Amortization of deferred acquisition costs                                                     | 6                           | 3      | 10                        | 8      |
| Interest expense                                                                               | 26                          | 20     | 51                        | 40     |
| Other operating expenses                                                                       | 66                          | 55     | 122                       | 115    |
| Total expenses                                                                                 | 286                         | 135    | 389                       | 261    |
| Income (loss) before income taxes                                                              | 409                         | 218    | 675                       | 287    |
| Provision (benefit) for income taxes                                                           |                             |        |                           |        |
| Current                                                                                        | 24                          | 18     | 37                        | 39     |
| Deferred                                                                                       | 88                          | 41     | 140                       | 47     |
| Total provision (benefit) for income taxes                                                     | 112                         | 59     | 177                       | 86     |
| Net income (loss)                                                                              | \$297                       | \$159  | \$498                     | \$201  |
| Earnings per share:                                                                            |                             |        |                           |        |
| Basic                                                                                          | \$1.97                      | \$0.89 | \$3.25                    | \$1.12 |
| Diluted                                                                                        | \$1.96                      | \$0.89 | \$3.23                    | \$1.11 |
| Dividends per share                                                                            | \$0.12                      | \$0.11 | \$0.24                    | \$0.22 |

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



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Assured Guaranty Ltd.

Consolidated Statements of Comprehensive Income (unaudited)

(in millions)

|                                                                                                                                                     | Three Months Ended June 30, |        | Six Months Ended June 30, |         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|--------|---------------------------|---------|
|                                                                                                                                                     | 2015                        | 2014   | 2015                      | 2014    |
| Net income (loss)                                                                                                                                   | \$297                       | \$159  | \$498                     | \$201   |
| Unrealized holding gains (losses) arising during the period on:                                                                                     |                             |        |                           |         |
| Investments with no other-than-temporary impairment, net of tax provision (benefit) of \$(54), \$29, \$(53) and \$70                                | (136                        | ) 75   | (118                      | ) 169   |
| Investments with other-than-temporary impairment, net of tax provision (benefit) of \$(1), \$(8), \$(3) and \$(5)                                   | (6                          | ) (17  | ) (8                      | ) (9    |
| Unrealized holding gains (losses) arising during the period, net of tax                                                                             | (142                        | ) 58   | (126                      | ) 160   |
| Less: reclassification adjustment for gains (losses) included in net income (loss), net of tax provision (benefit) of \$(4), \$(3), \$(2) and \$(4) | (5                          | ) (7   | ) 5                       | (9      |
| Change in net unrealized gains on investments                                                                                                       | (137                        | ) 65   | (131                      | ) 169   |
| Other, net of tax provision                                                                                                                         | 6                           | 3      | 0                         | 3       |
| Other comprehensive income (loss)                                                                                                                   | \$(131                      | ) \$68 | \$(131                    | ) \$172 |
| Comprehensive income (loss)                                                                                                                         | \$166                       | \$227  | \$367                     | \$373   |

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

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Assured Guaranty Ltd.

Consolidated Statement of Shareholders' Equity (unaudited)

For the Six Months Ended June 30, 2015

(dollars in millions, except share data)

|                                          | Common<br>Shares<br>Outstanding | Common Stock<br>Par Value | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Deferred<br>Equity<br>Compensation | Total<br>Shareholders'<br>Equity |
|------------------------------------------|---------------------------------|---------------------------|----------------------------------|----------------------|-------------------------------------------------|------------------------------------|----------------------------------|
| Balance at<br>December 31,<br>2014       | 158,306,661                     | \$ 2                      | \$ 1,887                         | \$3,494              | \$ 370                                          | \$ 5                               | \$5,758                          |
| Net income                               | —                               | —                         | —                                | 498                  | —                                               | —                                  | 498                              |
| Dividends (\$0.24<br>per share)          | —                               | —                         | —                                | (37 )                | —                                               | —                                  | (37 )                            |
| Common stock<br>repurchases              | (10,597,679 )                   | (1 )                      | (284 )                           | —                    | —                                               | —                                  | (285 )                           |
| Share-based<br>compensation and<br>other | 548,215                         | 0                         | 3                                | —                    | —                                               | —                                  | 3                                |
| Other<br>comprehensive<br>loss           | —                               | —                         | —                                | —                    | (131 )                                          | —                                  | (131 )                           |
| Balance at June<br>30, 2015              | 148,257,197                     | \$ 1                      | \$ 1,606                         | \$3,955              | \$ 239                                          | \$ 5                               | \$5,806                          |

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

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Assured Guaranty Ltd.

Consolidated Statements of Cash Flows (unaudited)

(in millions)

|                                                                                     | Six Months Ended June 30, |          |
|-------------------------------------------------------------------------------------|---------------------------|----------|
|                                                                                     | 2015                      | 2014     |
| Net cash flows provided by (used in) operating activities                           | \$105                     | \$222    |
| Investing activities                                                                |                           |          |
| Fixed-maturity securities:                                                          |                           |          |
| Purchases                                                                           | (1,172                    | ) (1,357 |
| Sales                                                                               | 1,381                     | 444      |
| Maturities                                                                          | 411                       | 397      |
| Net sales (purchases) of short-term investments                                     | 382                       | (51      |
| Net proceeds from paydowns on financial guaranty variable interest entities' assets | 70                        | 315      |
| Acquisition of Radian Asset, net of cash acquired                                   | (800                      | ) —      |
| Other                                                                               | 27                        | 23       |
| Net cash flows provided by (used in) investing activities                           | 299                       | (229     |
| Financing activities                                                                |                           |          |
| Dividends paid                                                                      | (37                       | ) (40    |
| Repurchases of common stock                                                         | (285                      | ) (212   |
| Share activity under option and incentive plans                                     | (2                        | ) 1      |
| Net paydowns of financial guaranty variable interest entities' liabilities          | (78                       | ) (311   |
| Proceeds from issuance of long-term debt                                            | —                         | 496      |
| Repayment of long-term debt                                                         | (2                        | ) (7     |
| Net cash flows provided by (used in) financing activities                           | (404                      | ) (73    |
| Effect of foreign exchange rate changes                                             | 0                         | 2        |
| Increase (decrease) in cash                                                         | 0                         | (78      |
| Cash at beginning of period                                                         | 75                        | 184      |
| Cash at end of period                                                               | \$75                      | \$106    |
| Supplemental cash flow information                                                  |                           |          |
| Cash paid (received) during the period for:                                         |                           |          |
| Income taxes                                                                        | \$51                      | \$68     |
| Interest                                                                            | \$48                      | \$36     |

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (unaudited)

June 30, 2015

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 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.

In the past, the Company sold credit protection by issuing policies that guaranteed payment obligations under credit derivatives, primarily credit default swaps ("CDS"). Financial guaranty 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 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 (the "Dodd-Frank Act") also contributed to the Company not entering into such new CDS since 2009. The Company actively pursues opportunities to terminate existing CDS, which have the effect of reducing future fair value volatility in income and/or reducing rating agency capital charges.

Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and, in the opinion of management, reflect all adjustments that are of a normal recurring nature, 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") for the periods presented. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These unaudited interim consolidated financial statements are as of June 30, 2015 and cover the three-month period ended June 30, 2015 ("Second Quarter 2015"), the three-month period ended June 30, 2014 ("Second Quarter 2014"), six-month period ended June 30, 2015 ("Six Months 2015") and the six-month period ended June 30, 2014 ("Six Months 2014"). Certain financial information that is normally included in annual financial statements prepared in accordance with GAAP, but is not required for interim reporting

purposes, has been condensed or omitted. The year-end balance sheet data was derived from audited financial statements.

The unaudited interim consolidated financial statements include the accounts of AGL, its direct and indirect subsidiaries (collectively, the “Subsidiaries”), and its consolidated VIEs. Intercompany accounts and transactions between and among all consolidated entities have been eliminated.

These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements included in AGL’s Annual Report on Form 10-K for the year ended December 31, 2014, filed with the U.S. Securities and Exchange Commission (the “SEC”).

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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) Ltd. ("AGE"), organized in the United Kingdom; and
- ✦ Assured Guaranty Re Ltd. ("AG Re"), domiciled in Bermuda.

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.

## Future Application of Accounting Standards

### Consolidation

In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which is intended to improve certain areas of consolidation guidance for legal entities such as limited partnerships, limited liability companies, and securitization structures. The ASU will be effective on January 1, 2016. Early adoption is permitted, including adoption in an interim period. The Company does not expect that ASU 2015-02 will have any material effect on its Consolidated Financial Statements.

### Interest

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Topic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The ASU will be effective on January 1, 2016 and should be applied retrospectively. The adoption of this ASU will require the Company to reclassify its debt issuance costs from other assets to long-term debt on the Consolidated Balance Sheet. As of June 30, 2015, the debt issuance costs were approximately \$5 million.

### Investments

In May 2015, the FASB issued ASU No. 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share, which removes the requirement to make certain disclosures and categorize within the fair value hierarchy, certain investments for which fair value is measured using the net asset value per share. The ASU will be effective on January 1, 2016 and should be applied retrospectively to all periods presented; earlier adoption is permitted. The Company has investments with a fair value of \$74 million and \$76 million, as of June 30, 2015 and December 31, 2014, respectively, that are carried at fair value using the net asset value per share subject to this ASU.

## 2. Acquisition of Radian Asset Assurance Inc.

On April 1, 2015 ("Acquisition Date"), AGC completed the acquisition ("Radian Asset Acquisition") of all of the issued and outstanding capital stock of financial guaranty insurer Radian Asset Assurance Inc. ("Radian Asset") for \$804.5 million; the cash consideration was paid from AGC's available funds and from the proceeds of a \$200 million loan from AGC's direct parent, AGUS. AGC repaid the loan in full to AGUS on April 14, 2015. Radian Asset was merged

with and into AGC, with AGC as the surviving company of the merger. The Radian Asset Acquisition added \$13.6 billion to the Company's net par outstanding on April 1, 2015, and is consistent with one of the Company's key business strategies of supplementing its book of business through acquisitions.

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Radian Asset Acquisition was accounted for under the acquisition method of accounting which required that the assets and liabilities acquired be recorded at fair value. The Company was required to exercise significant judgment to determine the fair value of the assets it acquired and liabilities it assumed in the Radian Asset Acquisition. The most significant of these determinations related to the valuation of Radian Asset's financial guaranty insurance and credit derivative contracts. On an aggregate basis, Radian Asset's contractual premiums for financial guaranty contracts were less than the premiums a market participant of similar credit quality would demand to acquire those contracts at the Acquisition Date, particularly for below-investment-grade transactions, resulting in a significant amount of the purchase price being allocated to these contracts. For information on the methodology the Company used to measure the fair value of assets it acquired and liabilities it assumed in the Radian Asset Acquisition, including financial guaranty insurance and credit derivative contracts, please refer to Note 8, Fair Value Measurement.

The fair value of the Company's stand-ready obligation on the Acquisition Date is recorded in unearned premium reserve. At the Acquisition Date, the fair value of each financial guaranty contract acquired was in excess of the expected losses for each contract and therefore no explicit loss reserves were recorded on the Acquisition Date. Instead, loss reserves and loss and loss adjustment expenses ("LAE") will be recorded when the expected losses for each contract exceeds the remaining unearned premium reserve, in accordance with the Company's accounting policy described in the Annual Report on Form 10-K. The expected losses acquired by the Company as part of the Radian Asset Acquisition are included in the description of expected losses to be paid under Note 6, Expected Losses to be Paid.

The excess of the fair value of net assets acquired over the consideration transferred was recorded as a bargain purchase gain in "bargain purchase gain and settlement of pre-existing relationships" in net income. In addition, the Company and Radian Asset had pre-existing reinsurance relationships, which were also effectively settled at fair value on the Acquisition Date. The gain on settlement of these pre-existing reinsurance relationships primarily represents the net difference between the historical ceded balances that were recorded by AGM and the fair value of assumed balances acquired from Radian. The Company believes the bargain purchase resulted from the announced desire of Radian Guaranty Inc. to focus its business strategy on the mortgage and real estate markets and to monetize its investment in Radian Asset and thereby accelerate its ability to comply with the financial requirements of the final Private Mortgage Insurer Eligibility Requirements.

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The following table shows the net effect of the Radian Asset Acquisition, including the effects of the settlement of preexisting relationships.

|                                                                                                                       | Fair Value of Net<br>Assets Acquired,<br>before Settlement<br>of Pre-existing<br>Relationships<br>(in millions) | Net effect of<br>Settlement of<br>Pre-existing<br>Relationships | Net Effect of<br>Radian Asset<br>Acquisition |
|-----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|----------------------------------------------|
| Cash purchase price(1)                                                                                                | \$804                                                                                                           | \$—                                                             | \$804                                        |
| Identifiable assets acquired:                                                                                         |                                                                                                                 |                                                                 |                                              |
| Investments                                                                                                           | 1,473                                                                                                           | —                                                               | 1,473                                        |
| Cash                                                                                                                  | 4                                                                                                               | —                                                               | 4                                            |
| Ceded unearned premium reserve                                                                                        | (3                                                                                                              | ) (65                                                           | ) (68                                        |
| Credit derivative assets                                                                                              | 30                                                                                                              | —                                                               | 30                                           |
| Deferred tax asset, net                                                                                               | 263                                                                                                             | (56                                                             | ) 207                                        |
| Financial guaranty VIE assets                                                                                         | 122                                                                                                             | —                                                               | 122                                          |
| Other assets                                                                                                          | 86                                                                                                              | (67                                                             | ) 19                                         |
| Total assets                                                                                                          | 1,975                                                                                                           | (188                                                            | ) 1,787                                      |
| Liabilities assumed:                                                                                                  |                                                                                                                 |                                                                 |                                              |
| Unearned premium reserves                                                                                             | 697                                                                                                             | (216                                                            | ) 481                                        |
| Credit derivative liabilities                                                                                         | 271                                                                                                             | (26                                                             | ) 245                                        |
| Financial guaranty VIE liabilities                                                                                    | 118                                                                                                             | —                                                               | 118                                          |
| Other liabilities                                                                                                     | 30                                                                                                              | (49                                                             | ) (19                                        |
| Total liabilities                                                                                                     | 1,116                                                                                                           | (291                                                            | ) 825                                        |
| Net asset effect of Radian Asset Acquisition                                                                          | 859                                                                                                             | 103                                                             | 962                                          |
| Bargain purchase gain and settlement of pre-existing relationships resulting from Radian Asset Acquisition, after-tax | 55                                                                                                              | 103                                                             | 158                                          |
| Deferred tax                                                                                                          | —                                                                                                               | 56                                                              | 56                                           |
| Bargain purchase gain and settlement of pre-existing relationships resulting from Radian Asset Acquisition, pre-tax   | \$55                                                                                                            | \$159                                                           | \$214                                        |

The cash purchase price of \$804 million was the cash transferred for the acquisition which was allocated as (1) follows: (1) \$987 million for the purchase of net assets of \$1,042 million, and (2) the settlement of pre-existing relationships between Radian and Assured Guaranty at a fair value of \$(183) million.

Net income related to Radian Asset from the Acquisition Date through June 30, 2015 included in the consolidated statement of operations were approximately \$313 million and \$212 million, respectively. For Second Quarter 2015 and Six Months 2015, the Company recognized transaction expenses related to the Radian Asset Acquisition. These expenses were primarily driven by the fees paid to the Company's legal and financial advisors and to the Company's independent auditor.

## Radian Asset Acquisition-Related Expenses

Second Quarter Six Months  
2015 2015  
(in millions)

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|                         |      |      |
|-------------------------|------|------|
| Professional services   | \$2  | \$2  |
| Financial advisory fees | 10   | 10   |
| Total                   | \$12 | \$12 |

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## Unaudited Pro Forma Results of Operations

The following unaudited pro forma information presents the combined results of operations of Assured Guaranty and Radian Asset as if the acquisition had been completed on January 1, 2014, as required under GAAP. The pro forma accounts include the estimated historical results of the Company and Radian Asset and pro forma adjustments primarily comprising the earning of the unearned premium reserve and the expected losses that would be recognized in net income for each prior period presented, as well as the accounting for bargain purchase gain, settlement of pre-existing relationships and Radian acquisition related expenses, all net of tax at the applicable statutory rate.

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, 2014, nor is it indicative of the results of operations in future periods.

## Pro Forma Unaudited Results of Operations

|                               | Six Months<br>2015                      | Six Months<br>2014 |
|-------------------------------|-----------------------------------------|--------------------|
|                               | (in millions, except per share amounts) |                    |
| Pro forma revenues            | \$887                                   | \$977              |
| Pro forma net income          | 365                                     | 470                |
| Pro forma earnings per share: |                                         |                    |
| Basic                         | 2.38                                    | 2.60               |
| Diluted                       | 2.36                                    | 2.59               |

## 3. Rating Actions

## Rating Actions

When a rating agency assigns a public rating to a financial obligation guaranteed by one of AGL's insurance company subsidiaries, it generally awards that obligation the same rating it has assigned to the financial strength of the AGL subsidiary that provides the guaranty. Investors in products insured by AGL's insurance company subsidiaries frequently rely on ratings published by the rating agencies because such ratings influence the trading value of securities and form the basis for many institutions' investment guidelines as well as individuals' bond purchase decisions. Therefore, the Company manages its business with the goal of achieving strong financial strength ratings. However, the methodologies and models used by rating agencies differ, presenting conflicting goals that may make it inefficient or impractical to reach the highest rating level. The methodologies and models are not fully transparent, contain subjective elements and data (such as assumptions about future market demand for the Company's products) and change frequently. Ratings are subject to continuous review and revision or withdrawal at any time. If the financial strength ratings of one (or more) of the Company's insurance subsidiaries were reduced below current levels, the Company expects it could have adverse effects on the impacted subsidiary's future business opportunities as well as the premiums the impacted subsidiary could charge for its insurance policies.

In the last several years, Standard & Poor's Ratings Services ("S&P") and Moody's Investors Service, Inc. ("Moody's") have changed, multiple times, their financial strength ratings of AGL's insurance subsidiaries, or changed the outlook on such ratings. More recently, Kroll Bond Rating Agency ("KBRA") and A.M. Best Company, Inc. have assigned financial strength ratings to some of AGL's insurance subsidiaries. The rating agencies' most recent actions, proposals

and statements related to AGL's insurance subsidiaries are:

On March 18, 2014, S&P upgraded the financial strength ratings of all of AGL's insurance subsidiaries to AA (stable outlook) from AA- (stable outlook); it most recently affirmed such ratings in a credit analysis issued on June 29, 2015.

On July 2, 2014, Moody's affirmed the ratings of AGL's insurance subsidiaries, but changed to negative the outlook of the financial strength ratings of AGC and its subsidiary Assured Guaranty (UK) Ltd. ("AGUK"). Moody's adopted changes to its credit methodology for financial guaranty insurance companies on January 20, 2015 and, on February 18, 2015, Moody's published a credit opinion maintaining its existing ratings of AGL and its subsidiaries under that

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that new methodology. Effective April 8, 2015, at the Company's request, Moody's withdrew the financial strength ratings it had assigned to Assured Guaranty Re Ltd. ("AG Re") and Assured Guaranty Re Overseas Ltd. ("AGRO"). In a summary opinion published on June 4, 2015, Moody's noted that, despite adverse developments in Puerto Rico, Moody's believed that its current ratings on the financial guarantors remained well positioned.

On June 22, 2013, KBRA assigned a financial strength rating of AA+ (stable outlook) to MAC, and affirmed that rating on August 3, 2015. On November 13, 2014, KBRA assigned a financial strength rating of AA+ (stable outlook) to AGM. On June 29, 2015 KBRA released a comment reviewing the approach it had taken to Puerto Rico exposures in its stress loss analysis of AGM, noting that its financial model showed AGM's claims paying resources were sufficient to meet all requirements by a comfortable margin.

On May 5, 2015, A.M. Best Company, Inc. assigned a financial strength rating of A+ (Stable) to AGRO.

There can be no assurance that any of the rating agencies will not take negative action on their financial strength ratings of AGL's insurance subsidiaries in the future.

For a discussion of the effects of rating actions on the Company, see the following:

- Note 7, Financial Guaranty Insurance Losses
- Note 9, Financial Guaranty Contracts Accounted for as Credit Derivatives
- Note 14, Reinsurance and Other Monoline Exposures
- Note 16, Long-Term Debt and Credit Facilities

## 4. Outstanding Exposure

The Company's financial guaranty contracts are written in either insurance or credit derivative form, but collectively are considered financial guaranty contracts. The Company seeks to limit its exposure to losses by underwriting obligations that are investment grade at inception, or in the case of restructurings of troubled credits, the Company may underwrite new issuances that one or more of the rating agencies may rate below-investment-grade ("BIG") as part of its loss mitigation strategy. The Company diversifies its insured portfolio across asset classes and, in the structured finance portfolio, requires rigorous subordination or collateralization requirements. Reinsurance is utilized in order to reduce net exposure to certain insured transactions.

Public finance obligations insured by the Company consist primarily 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.

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 10, Consolidated 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.

## 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 investment grade credits to determine whether any need to be internally downgraded to BIG and refreshes its internal credit ratings on individual credits in quarterly, semi-annual or annual cycles based on the

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Company's view of the credit's quality, loss potential, volatility and sector. Ratings on credits in sectors identified as under the most stress or with the most potential volatility are reviewed every quarter. The Company's credit ratings on assumed credits are based on the Company's reviews of low-rated credits or credits in volatile sectors, unless such information is not available, in which case, the ceding company's credit rating of the transactions are used. The Company models the performance of many of its structured finance transactions as part of its periodic internal credit rating review of them.

Credits identified as BIG are subjected to further review to determine the probability of a loss. See Note 6, 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. For surveillance purposes, the Company calculates present value using a constant discount rate of 4.5% or 5% depending on the insurance subsidiary. (Risk-free rates are used for calculating the expected loss for financial statement measurement purposes.)

More extensive monitoring and intervention is employed for all BIG surveillance categories, with internal credit ratings reviewed quarterly. 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 in the future of that transaction 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 is a claim 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.

## Components of Outstanding Exposure

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.

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 (unless otherwise indicated) from par and Debt Service outstanding, because it manages such securities as investments and not insurance exposure.

## Financial Guaranty

### Debt Service Outstanding

|                | Gross Debt Service Outstanding |                   | Net Debt Service Outstanding |                   |
|----------------|--------------------------------|-------------------|------------------------------|-------------------|
|                | June 30, 2015                  | December 31, 2014 | June 30, 2015                | December 31, 2014 |
|                | (in millions)                  |                   |                              |                   |
| Public finance | \$557,816                      | \$587,245         | \$532,992                    | \$553,612         |

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|                          |           |           |           |           |
|--------------------------|-----------|-----------|-----------|-----------|
| Structured finance       | 54,177    | 59,477    | 51,436    | 56,010    |
| Total financial guaranty | \$611,993 | \$646,722 | \$584,428 | \$609,622 |

In addition to the amounts shown in the table above, the Company's net mortgage guaranty insurance debt service was approximately \$117 million as of June 30, 2015 and \$127 million as of December 31, 2014, related to loans originated in Ireland. As of June 30, 2015, the Company also had exposure to €12 million of surety reinsurance contracts relating to Spanish housing cooperatives risk.

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## Financial Guaranty Portfolio by Internal Rating (2)

As of June 30, 2015

|                                        | Public Finance<br>U.S. |       |   | Public Finance<br>Non-U.S. |       |   | Structured Finance<br>U.S |       |   | Structured Finance<br>Non-U.S |       |   | Total                  |       |   |
|----------------------------------------|------------------------|-------|---|----------------------------|-------|---|---------------------------|-------|---|-------------------------------|-------|---|------------------------|-------|---|
| Rating<br>Category                     | Net Par<br>Outstanding | %     |   | Net Par<br>Outstanding     | %     |   | Net Par<br>Outstanding    | %     |   | Net Par<br>Outstanding        | %     |   | Net Par<br>Outstanding | %     |   |
|                                        | (dollars in millions)  |       |   |                            |       |   |                           |       |   |                               |       |   |                        |       |   |
| AAA                                    | \$3,280                | 1.1   | % | \$695                      | 2.1   | % | \$17,619                  | 45.3  | % | \$3,715                       | 53.2  | % | \$25,309               | 6.5   | % |
| AA                                     | 80,550                 | 25.8  |   | 2,735                      | 8.5   |   | 8,628                     | 22.2  |   | 395                           | 5.7   |   | 92,308                 | 23.6  |   |
| A                                      | 171,633                | 55.0  |   | 7,627                      | 23.6  |   | 2,684                     | 6.9   |   | 378                           | 5.4   |   | 182,322                | 46.7  |   |
| BBB                                    | 46,822                 | 15.0  |   | 19,651                     | 60.8  |   | 1,797                     | 4.6   |   | 1,771                         | 25.4  |   | 70,041                 | 17.9  |   |
| BIG                                    | 9,897                  | 3.1   |   | 1,611                      | 5.0   |   | 8,178                     | 21.0  |   | 718                           | 10.3  |   | 20,404                 | 5.3   |   |
| Total net<br>par<br>outstanding<br>(1) | \$312,182              | 100.0 | % | \$32,319                   | 100.0 | % | \$38,906                  | 100.0 | % | \$6,977                       | 100.0 | % | \$390,384              | 100.0 | % |

(1) Excludes \$1.2 billion of loss mitigation securities insured and held by the Company as of June 30, 2015, which are primarily in the BIG category.

(2) The June 30, 2015 amounts include \$13.1 billion of net par acquired from Radian Asset.

## Financial Guaranty Portfolio by Internal Rating

As of December 31, 2014

| Rating<br>Category                     | Public Finance<br>U.S. |       |                            | Public Finance<br>Non-U.S. |       |                            | Structured Finance<br>U.S |       |                            | Structured Finance<br>Non-U.S |       |                            | Total       |       |                            |
|----------------------------------------|------------------------|-------|----------------------------|----------------------------|-------|----------------------------|---------------------------|-------|----------------------------|-------------------------------|-------|----------------------------|-------------|-------|----------------------------|
|                                        | Net Par                |       | %<br>(dollars in millions) | Net Par                    |       | %<br>(dollars in millions) | Net Par                   |       | %<br>(dollars in millions) | Net Par                       |       | %<br>(dollars in millions) | Net Par     |       | %<br>(dollars in millions) |
|                                        | Outstanding            |       |                            | Outstanding                |       |                            | Outstanding               |       |                            | Outstanding                   |       |                            | Outstanding |       |                            |
|                                        |                        |       |                            |                            |       |                            |                           |       |                            |                               |       |                            |             |       |                            |
| AAA                                    | \$4,082                | 1.3   | %                          | \$615                      | 2.0   | %                          | \$20,037                  | 48.7  | %                          | \$5,409                       | 59.6  | %                          | \$30,143    | 7.5   | %                          |
| AA                                     | 90,464                 | 28.1  |                            | 2,785                      | 8.9   |                            | 8,213                     | 19.9  |                            | 503                           | 5.5   |                            | 101,965     | 25.3  |                            |
| A                                      | 176,298                | 54.7  |                            | 7,192                      | 22.9  |                            | 2,940                     | 7.1   |                            | 445                           | 4.9   |                            | 186,875     | 46.3  |                            |
| BBB                                    | 43,429                 | 13.5  |                            | 19,363                     | 61.7  |                            | 1,795                     | 4.4   |                            | 1,912                         | 21.1  |                            | 66,499      | 16.4  |                            |
| BIG                                    | 7,850                  | 2.4   |                            | 1,404                      | 4.5   |                            | 8,186                     | 19.9  |                            | 807                           | 8.9   |                            | 18,247      | 4.5   |                            |
| Total net<br>par<br>outstanding<br>(1) | \$322,123              | 100.0 | %                          | \$31,359                   | 100.0 | %                          | \$41,171                  | 100.0 | %                          | \$9,076                       | 100.0 | %                          | \$403,729   | 100.0 | %                          |

(1) Excludes \$1.3 billion of loss mitigation securities insured and held by the Company as of December 31, 2014, which are primarily in the BIG category.

In addition to amounts shown in the tables above, the Company had outstanding commitments to provide guaranties of \$1.2 billion for public finance obligations as of June 30, 2015. The expiration dates for the public finance commitments range between July 1, 2015 and February 25, 2017, with \$609 million expiring prior to the date of this

filing and an additional \$477 million expiring prior to December 31, 2015. 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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## Components of BIG Portfolio

Components of BIG Net Par Outstanding  
(Insurance and Credit Derivative Form)  
As of June 30, 2015

|                                                                        | BIG Net Par Outstanding |         | BIG 3<br>(in millions) | Total BIG | Net Par<br>Outstanding |
|------------------------------------------------------------------------|-------------------------|---------|------------------------|-----------|------------------------|
|                                                                        | BIG 1                   | BIG 2   |                        |           |                        |
| U.S. public finance                                                    | \$7,622                 | \$2,132 | \$143                  | \$9,897   | \$312,182              |
| Non-U.S. public finance                                                | 952                     | 659     | —                      | 1,611     | 32,319                 |
| Structured finance:                                                    |                         |         |                        |           |                        |
| First lien U.S. residential<br>mortgage-backed securities<br>("RMBS"): |                         |         |                        |           |                        |
| Prime first lien                                                       | 246                     | 61      | 29                     | 336       | 498                    |
| Alt-A first lien                                                       | 543                     | 430     | 777                    | 1,750     | 2,397                  |
| Option ARM                                                             | 44                      | 15      | 101                    | 160       | 338                    |
| Subprime                                                               | 218                     | 512     | 827                    | 1,557     | 3,920                  |
| Second lien U.S. RMBS:                                                 |                         |         |                        |           |                        |
| Closed-end second lien                                                 | 0                       | 19      | 112                    | 131       | 208                    |
| Home equity lines of credit<br>("HELOCs")                              | 877                     | 34      | 548                    | 1,459     | 1,567                  |
| Total U.S. RMBS                                                        | 1,928                   | 1,071   | 2,394                  | 5,393     | 8,928                  |
| Triple-X life insurance transactions                                   | —                       | —       | 598                    | 598       | 3,133                  |
| Trust preferred securities ("TruPS")                                   | 560                     | —       | 306                    | 866       | 4,850                  |
| Student loans                                                          | —                       | 81      | 86                     | 167       | 1,827                  |
| Other structured finance                                               | 1,660                   | 169     | 43                     | 1,872     | 27,145                 |
| Total                                                                  | \$12,722                | \$4,112 | \$3,570                | \$20,404  | \$390,384              |

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Components of BIG Net Par Outstanding  
(Insurance and Credit Derivative Form)  
As of December 31, 2014

|                                      | BIG Net Par Outstanding |         |                        |           | Net Par Outstanding |
|--------------------------------------|-------------------------|---------|------------------------|-----------|---------------------|
|                                      | BIG 1                   | BIG 2   | BIG 3<br>(in millions) | Total BIG |                     |
| U.S. public finance                  | \$6,577                 | \$1,156 | \$117                  | \$7,850   | \$322,123           |
| Non-U.S. public finance              | 1,402                   | 2       | —                      | 1,404     | 31,359              |
| Structured finance:                  |                         |         |                        |           |                     |
| First lien U.S. RMBS:                |                         |         |                        |           |                     |
| Prime first lien                     | 68                      | 33      | 252                    | 353       | 471                 |
| Alt-A first lien                     | 585                     | 531     | 725                    | 1,841     | 2,532               |
| Option ARM                           | 47                      | 18      | 118                    | 183       | 407                 |
| Subprime                             | 156                     | 654     | 765                    | 1,575     | 4,051               |
| Second lien U.S. RMBS:               |                         |         |                        |           |                     |
| Closed-end second lien               | —                       | 19      | 115                    | 134       | 218                 |
| HELOCs                               | 1,012                   | 36      | 509                    | 1,557     | 1,738               |
| Total U.S. RMBS                      | 1,868                   | 1,291   | 2,484                  | 5,643     | 9,417               |
| Triple-X life insurance transactions | —                       | —       | 598                    | 598       | 3,133               |
| TruPS                                | 997                     | —       | 336                    | 1,333     | 4,326               |
| Student loans                        | 14                      | 68      | 113                    | 195       | 1,857               |
| Other structured finance             | 1,007                   | 172     | 45                     | 1,224     | 31,514              |
| Total                                | \$11,865                | \$2,689 | \$3,693                | \$18,247  | \$403,729           |

BIG Net Par Outstanding  
and Number of Risks  
As of June 30, 2015

| Description | Net Par Outstanding                                            |                      |          | Number of Risks(2)                    |                      |       |
|-------------|----------------------------------------------------------------|----------------------|----------|---------------------------------------|----------------------|-------|
|             | Financial<br>Guaranty<br>Insurance(1)<br>(dollars in millions) | Credit<br>Derivative | Total    | Financial<br>Guaranty<br>Insurance(1) | Credit<br>Derivative | Total |
| BIG:        |                                                                |                      |          |                                       |                      |       |
| Category 1  | \$10,504                                                       | \$2,218              | \$12,722 | 266                                   | 22                   | 288   |
| Category 2  | 3,389                                                          | 723                  | 4,112    | 76                                    | 11                   | 87    |
| Category 3  | 3,011                                                          | 559                  | 3,570    | 126                                   | 24                   | 150   |
| Total BIG   | \$16,904                                                       | \$3,500              | \$20,404 | 468                                   | 57                   | 525   |

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BIG Net Par Outstanding  
and Number of Risks  
As of December 31, 2014

| Description | Net Par Outstanding                                            |                      |          | Number of Risks(2)                    |                      |       |
|-------------|----------------------------------------------------------------|----------------------|----------|---------------------------------------|----------------------|-------|
|             | Financial<br>Guaranty<br>Insurance(1)<br>(dollars in millions) | Credit<br>Derivative | Total    | Financial<br>Guaranty<br>Insurance(1) | Credit<br>Derivative | Total |
| BIG:        |                                                                |                      |          |                                       |                      |       |
| Category 1  | \$10,195                                                       | \$1,670              | \$11,865 | 164                                   | 18                   | 182   |
| Category 2  | 2,135                                                          | 554                  | 2,689    | 75                                    | 14                   | 89    |
| Category 3  | 2,892                                                          | 801                  | 3,693    | 119                                   | 24                   | 143   |
| Total BIG   | \$15,222                                                       | \$3,025              | \$18,247 | 358                                   | 56                   | 414   |

(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.

#### Exposure to Puerto Rico

The Company insures general obligation bonds of the Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations aggregating \$5.4 billion net par as of June 30, 2015, all of which are rated BIG. In Second Quarter 2015, the Company's Puerto Rico exposures increased due to (1) the Radian Asset Acquisition, which increased net par by \$422 million, and (2) a commutation of previously ceded Puerto Rico exposures.

Puerto Rico has experienced significant general fund budget deficits in recent years. These deficits have been covered primarily with the net proceeds of bond issuances, interim financings provided by Government Development Bank for Puerto Rico ("GDB") and, in some cases, one-time revenue measures or expense adjustment measures. In addition to high debt levels, Puerto Rico faces a challenging economic environment.

In June 2014, the Puerto Rico legislature passed the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Recovery Act") in order to provide a legislative framework for certain public corporations experiencing severe financial stress to restructure their debt, including Puerto Rico Highway and Transportation Authority ("PRHTA") and Puerto Rico Electric Power Authority ("PREPA"). Subsequently, the Commonwealth stated PREPA might need to seek relief under the Recovery Act due to liquidity constraints. Investors in bonds issued by PREPA filed suit in the United States District Court for the District of Puerto Rico challenging the Recovery Act. On February 6, 2015, the U.S. District Court for the District of Puerto Rico ruled the Recovery Act is preempted by the U.S. Bankruptcy Code and is therefore void; on July 6, 2015, the U.S. Court of Appeals for the First Circuit upheld that ruling. In addition, the Commonwealth's Resident Commissioner has introduced a bill to the U.S. Congress that, if passed, would enable the Commonwealth to authorize one or more of its public corporations to restructure their debts under chapter 9 of the U.S. Bankruptcy Code if they were to become insolvent. The passage of the Recovery Act, its subsequent invalidation, and the introduction of legislation that would enable the Commonwealth to authorize chapter 9 protection for its public corporations have resulted in uncertainty among investors about the rights of creditors of the Commonwealth and its related authorities and public corporations.

On June 28, 2015, Governor García Padilla of Puerto Rico publicly stated that the Commonwealth's public debt, considering the current level of activity, is unpayable and that a comprehensive debt restructuring may be necessary. On June 29, 2015 a report commissioned by the Commonwealth and authored by former World Bank Chief Economist and former Deputy Director of the International Monetary Fund Dr. Anne Krueger and economists Dr. Ranjit Teja and Dr. Andrew Wolfe and calling for debt restructuring of all Puerto Rico bonds was released ("Krueger Report"). The Governor recently formed a task force to prepare a five-year stability plan and start broad debt negotiation discussions.

On August 3, 2015, Puerto Rico Public Finance Corporation ("PFC"), a subsidiary of the GDB, failed to make most of an approximately \$58 million debt service payment because the Commonwealth's legislature did not appropriate funds for payment. The Company does not insure any obligations of the PFC. Also on August 3, 2015, the Commonwealth announced that it had temporarily suspended its monthly deposits to the general obligation redemption fund.

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S&P, Moody's and Fitch Ratings have lowered the credit rating of the Commonwealth's bonds and on certain of its public corporations several times over the past approximately two years, and the Commonwealth has disclosed its liquidity has been adversely affected by rating agency downgrades and by the limited market access for its debt, and also noted it has relied on short-term financings and interim loans from the GDB and other private lenders, which reliance has constrained its liquidity and increased its near-term refinancing risk.

**PREPA**

As of June 30, 2015, the Company insured \$818 million net par of PREPA obligations, which was reduced to \$744 million by a payment made on July 1, 2015. In August 2014, PREPA entered into forbearance agreements with the GDB, its bank lenders, and bondholders and financial guaranty insurers (including AGM and AGC) that hold or guarantee more than 60% of PREPA's outstanding bonds, in order to address its near-term liquidity issues. Creditors, including AGM and AGC, agreed not to exercise available rights and remedies until March 31, 2015, and the bank lenders agreed to extend the maturity of two revolving lines of credit to the same date. PREPA agreed it would continue to make principal and interest payments on its outstanding bonds, and interest payments on its lines of credit. It also agreed it would develop a five year business plan and a recovery program in respect of its operations; a preliminary business plan was released in December 2014. Subsequently, the parties extended these forbearance agreements several times, and they now expire on September 15, 2015.

On July 1, 2015, PREPA made full payment of the \$416 million of principal and interest due on its bonds, including bonds insured by AGM and AGC. However, that payment was conditioned on and facilitated by AGM and AGC agreeing, also on July 1, to purchase a portion of \$131 million of interest-bearing bonds to help replenish certain of the operating funds PREPA used to make the \$416 million of principal and interest payments. On July 31, 2015, AGM and AGC purchased \$74 million aggregate principal amount of those bonds.

PREPA and its creditors (including AGM and AGC) continue to negotiate the terms of a potential consensual recovery plan. Since the expiration of relevant confidentiality agreements on July 22, 2015, several competing proposals have been made public. There can be no assurance that the negotiations will result in agreement on an actual consensual recovery plan. PREPA, during the pendency of the forbearance agreements, has suspended deposits into its debt service fund.

**PRHTA**

As of June 30, 2015, the Company insured \$934 million net par of PRHTA (Transportation revenue) bonds and \$376 million net par of PRHTA (Highway revenue) bonds. In March 2015, legislation was passed in the Commonwealth that, among other things, provided for an increase in oil taxes that would benefit PRHTA, the transfer out of PRHTA of certain deficit-producing transit facilities, and a statutory lien on revenues at PRHTA, subject to certain conditions, including the issuance of at least \$1.0 billion of bonds by the Puerto Rico Infrastructure Finance Authority ("PRIFA"). That legislative package would have supported proposals involving the GDB and PRIFA that contemplated PRIFA issuing up to \$2.95 billion of bonds and a series of potential actions that would have, among other things, strengthened PRHTA. However, the Governor's statement in late June 2015 that a comprehensive debt restructuring may be necessary has created uncertainty around this effort, and published reports suggest that there may not be a market for the debt issuance by PRIFA that was contemplated as part of a series of actions that would have strengthened PRHTA. In addition, because certain revenues supporting PRHTA are subject to a prior constitutional claim of the Commonwealth, the increased financial difficulties of the Commonwealth itself has increased the uncertainty regarding the full and timely receipt by PRHTA of such revenues.



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The following tables show the Company's 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 |                   |
|---------------------------------------------------|--------------------------------|-------------------|--------------------------------|-------------------|
|                                                   | June 30, 2015<br>(in millions) | December 31, 2014 | June 30, 2015                  | December 31, 2014 |
| Previously Subject to the Voided Recovery Act (1) | \$3,135                        | \$3,058           | \$5,408                        | \$5,326           |
| Not Previously Subject to the Voided Recovery Act | 3,087                          | 2,977             | 4,852                          | 4,748             |
| Total                                             | \$6,222                        | \$6,035           | \$10,260                       | \$10,074          |

On February 6, 2015, the U.S. District Court for the District of Puerto Rico ruled that the Recovery Act is (1) preempted by the Federal Bankruptcy Code and is therefore void, and on July 6, 2015, the U.S. Court of Appeals for the First Circuit upheld that ruling.

## Puerto Rico

## Net Par Outstanding

|                                                          | As of June 30, 2015           |                 | As of December 31, 2014 |                 |
|----------------------------------------------------------|-------------------------------|-----------------|-------------------------|-----------------|
|                                                          | Total (1)(2)<br>(in millions) | Internal Rating | Total                   | Internal Rating |
| Exposures Previously Subject to the Voided Recovery Act: |                               |                 |                         |                 |
| PRHTA (Transportation revenue)                           | \$934                         | CCC-            | \$844                   | BB-             |
| PREPA                                                    | 818                           | CC              | 772                     | B-              |
| Puerto Rico Aqueduct and Sewer Authority                 | 403                           | CCC             | 384                     | BB-             |
| PRHTA (Highway revenue)                                  | 376                           | CCC             | 273                     | BB              |
| Puerto Rico Convention Center District Authority         | 174                           | CCC-            | 174                     | BB-             |
| Total                                                    | 2,705                         |                 | 2,447                   |                 |

## Exposures Not Previously Subject to the Voided Recovery Act:

|                                                        |         |      |         |     |
|--------------------------------------------------------|---------|------|---------|-----|
| Commonwealth of Puerto Rico - General Obligation Bonds | 1,744   | CCC  | 1,672   | BB  |
| Puerto Rico Municipal Finance Agency                   | 444     | CCC- | 399     | BB- |
| Puerto Rico Sales Tax Financing Corporation            | 269     | CCC+ | 269     | BBB |
| Puerto Rico Public Buildings Authority                 | 216     | CCC  | 100     | BB  |
| GDB                                                    | 33      | CCC  | 33      | BB  |
| PRIFA                                                  | 18      | CCC- | 18      | BB- |
| University of Puerto Rico                              | 1       | CCC- | 1       | BB- |
| Total                                                  | 2,725   |      | 2,492   |     |
| Total net exposure to Puerto Rico                      | \$5,430 |      | \$4,939 |     |

(1) In Second Quarter 2015, the Company's Puerto Rico exposures increased due to (1) the Radian Asset Acquisition, which increased net par outstanding by \$422 million, of which \$22 million was for PREPA and \$169 million for

PRHTA, and (2) a commutation of previously ceded Puerto Rico exposures.

- (2) In July 2015, various Puerto Rico issuers made payment on \$293 million of par scheduled to be paid; of that amount, \$74 million and \$31 million of par was paid by PREPA and PRHTA, respectively.

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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.

Amortization Schedule of Puerto Rico Net Par Outstanding  
and Net Debt Service Outstanding  
As of June 30, 2015

|                                | Scheduled Net Par Amortization                |                                                   |          | Scheduled Net Debt Service Amortization       |                                                   |          |
|--------------------------------|-----------------------------------------------|---------------------------------------------------|----------|-----------------------------------------------|---------------------------------------------------|----------|
|                                | Previously Subject to the Voided Recovery Act | Not Previously Subject to the Voided Recovery Act | Total    | Previously Subject to the Voided Recovery Act | Not Previously Subject to the Voided Recovery Act | Total    |
|                                | (in millions)                                 |                                                   |          |                                               |                                                   |          |
| 2015 (July 1 - September 30)   | \$ 131                                        | \$ 207                                            | \$ 338   | \$ 198                                        | \$ 276                                            | \$ 474   |
| 2015 (October 1 - December 31) | 0                                             | 33                                                | 33       | 2                                             | 35                                                | 37       |
| 2016                           | 98                                            | 204                                               | 302      | 229                                           | 332                                               | 561      |
| 2017                           | 51                                            | 171                                               | 222      | 175                                           | 289                                               | 464      |
| 2018                           | 56                                            | 123                                               | 179      | 178                                           | 232                                               | 410      |
| 2019                           | 74                                            | 130                                               | 204      | 192                                           | 232                                               | 424      |
| 2020                           | 87                                            | 183                                               | 270      | 202                                           | 280                                               | 482      |
| 2021                           | 66                                            | 60                                                | 126      | 177                                           | 147                                               | 324      |
| 2022                           | 47                                            | 68                                                | 115      | 153                                           | 152                                               | 305      |
| 2023                           | 110                                           | 41                                                | 151      | 214                                           | 123                                               | 337      |
| 2024                           | 89                                            | 85                                                | 174      | 187                                           | 165                                               | 352      |
| 2025-2029                      | 619                                           | 395                                               | 1,014    | 1,032                                         | 723                                               | 1,755    |
| 2030-2034                      | 505                                           | 475                                               | 980      | 787                                           | 712                                               | 1,499    |
| 2035 -2039                     | 429                                           | 283                                               | 712      | 567                                           | 382                                               | 949      |
| 2040 -2044                     | 97                                            | 267                                               | 364      | 171                                           | 296                                               | 467      |
| 2045 -2047                     | 246                                           | —                                                 | 246      | 272                                           | —                                                 | 272      |
| Total                          | \$ 2,705                                      | \$ 2,725                                          | \$ 5,430 | \$ 4,736                                      | \$ 4,376                                          | \$ 9,112 |

#### Exposure to the Selected European Countries

Several European countries continue to experience significant economic, fiscal and/or political strains such that the likelihood of default on obligations with a nexus to those countries may be higher than the Company anticipated when such factors did not exist. The European countries where the Company has exposure and believes heightened uncertainties exist are: Hungary, Italy, Portugal and Spain (collectively, the “Selected European Countries”). The Company is closely monitoring its exposures in the Selected European Countries where it believes heightened uncertainties exist. The Company’s direct economic exposure to the Selected European Countries (based on par for financial guaranty contracts and notional amount for financial guaranty contracts accounted for as derivatives) is shown in the following table, net of ceded reinsurance.



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## Net Direct Economic Exposure to Selected European Countries(1)

As of June 30, 2015

|                                            | Hungary<br>(in millions) | Italy   | Portugal | Spain | Total   |
|--------------------------------------------|--------------------------|---------|----------|-------|---------|
| Sovereign and sub-sovereign exposure:      |                          |         |          |       |         |
| Non-infrastructure public finance (2)      | \$—                      | \$813   | \$90     | \$257 | \$1,160 |
| Infrastructure finance                     | 291                      | 11      | 11       | 126   | 439     |
| Total sovereign and sub-sovereign exposure | 291                      | 824     | 101      | 383   | 1,599   |
| Non-sovereign exposure:                    |                          |         |          |       |         |
| Regulated utilities                        | —                        | 226     | —        | —     | 226     |
| RMBS and other structured finance          | 175                      | 256     | —        | 13    | 444     |
| Total non-sovereign exposure               | 175                      | 482     | —        | 13    | 670     |
| Total                                      | \$466                    | \$1,306 | \$101    | \$396 | \$2,269 |
| Total BIG (See Note 6)                     | \$397                    | \$—     | \$101    | \$396 | \$894   |

(1) While the Company's exposures are shown in U.S. dollars, the obligations the Company insures are in various currencies, primarily Euros. One of the residential mortgage-backed securities included in the table above includes residential mortgages in both Italy and Germany, and only the portion of the transaction equal to the portion of the original mortgage pool in Italian mortgages is shown in the table.

(2) The exposure shown in the "Non-infrastructure public finance" category is from transactions backed by receivable payments from sub-sovereigns in Italy, Spain and Portugal. Sub-sovereign debt is debt issued by a governmental entity or government backed entity, or supported by such an entity, that is other than direct sovereign debt of the ultimate governing body of the country.

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. The Company may also have direct exposures to the Selected European Countries in business assumed from unaffiliated monoline insurance companies, in which case the Company depends upon geographic information provided by the primary insurer.

The Company has excluded from the exposure tables above its indirect economic exposure to the Selected European Countries through policies it provides on pooled corporate and commercial receivables transactions. The Company calculates indirect exposure to a country by multiplying the par amount of a transaction insured by the Company times the percent of the relevant collateral pool reported as having a nexus to the country. On that basis, the Company has calculated exposure of \$332 million to Selected European Countries (plus Greece) in transactions with \$5.2 billion of net par outstanding. The indirect exposure to credits with a nexus to Greece is \$10 million across several highly rated pooled corporate obligations with net par outstanding of \$404 million.

## 5. Financial Guaranty Insurance Premiums

The portfolio of outstanding exposures discussed in Note 4, Outstanding Exposure, includes financial guaranty contracts that meet the definition of insurance contracts as well as those that meet the definition of a derivative under GAAP. Amounts presented in this note relate to financial guaranty insurance contracts, unless otherwise noted. See Note 9, Financial Guaranty Contracts Accounted for as Credit Derivatives for amounts that relate to CDS.

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## Net Earned Premiums

|                                                  | Second Quarter |       | Six Months |       |
|--------------------------------------------------|----------------|-------|------------|-------|
|                                                  | 2015           | 2014  | 2015       | 2014  |
|                                                  | (in millions)  |       |            |       |
| Scheduled net earned premiums                    | \$118          | \$106 | \$214      | \$213 |
| Acceleration of net earned premiums              | 96             | 24    | 137        | 43    |
| Accretion of discount on net premiums receivable | 5              | 5     | 9          | 11    |
| Financial guaranty insurance net earned premiums | 219            | 135   | 360        | 267   |
| Other                                            | 0              | 1     | 1          | 1     |
| Net earned premiums(1)                           | \$219          | \$136 | \$361      | \$268 |

(1) Excludes \$5 million and \$5 million for Second Quarter 2015 and 2014, respectively, and \$10 million and \$22 million for Six Months 2015 and 2014, respectively, related to consolidated financial guaranty ("FG") VIEs.

## Components of Unearned Premium Reserve

|                              | As of June 30, 2015 |       |         | As of December 31, 2014 |       |         |
|------------------------------|---------------------|-------|---------|-------------------------|-------|---------|
|                              | Gross               | Ceded | Net(1)  | Gross                   | Ceded | Net(1)  |
|                              | (in millions)       |       |         |                         |       |         |
| Deferred premium revenue:    |                     |       |         |                         |       |         |
| Financial guaranty insurance | \$4,312             | \$289 | \$4,023 | \$4,167                 | \$387 | \$3,780 |
| Other                        | 1                   | —     | 1       | 0                       | —     | 0       |
| Deferred premium revenue     | \$4,313             | \$289 | \$4,024 | \$4,167                 | \$387 | \$3,780 |
| Contra-paid (2)              | 76                  | (7    | ) 83    | 94                      | (6    | ) 100   |
| Unearned premium reserve     | \$4,389             | \$282 | \$4,107 | \$4,261                 | \$381 | \$3,880 |

(1) Excludes \$125 million and \$125 million of deferred premium revenue, and \$37 million and \$42 million of contra-paid related to FG VIEs as of June 30, 2015 and December 31, 2014, respectively.

(2) See Note 7, "Financial Guaranty Insurance Losses— Insurance Contracts' Loss Information" for an explanation of "contra-paid".

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Gross Premium Receivable,  
Net of Commissions on Assumed Business  
Roll Forward

|                                                                           | Six Months<br>2015 | 2014  |
|---------------------------------------------------------------------------|--------------------|-------|
|                                                                           | (in millions)      |       |
| Beginning of period, December 31                                          | \$729              | \$876 |
| Premiums receivable acquired in Radian Asset Acquisition on April 1, 2015 | 2                  | —     |
| Gross premium written, net of commissions on assumed business             | 61                 | 61    |
| Gross premiums received, net of commissions on assumed business           | (79                | ) (97 |
| Adjustments:                                                              |                    |       |
| Changes in the expected term                                              | (9                 | ) (13 |
| Accretion of discount, net of commissions on assumed business             | 10                 | 12    |
| Foreign exchange translation                                              | (8                 | ) 9   |
| Consolidation/deconsolidation of FG VIEs                                  | (4                 | ) 1   |
| Other adjustments                                                         | 0                  | —     |
| End of period, June 30 (1)                                                | \$702              | \$849 |

(1) Excludes \$23 million and \$18 million as of June 30, 2015 and June 30, 2014, respectively, related to consolidated FG VIEs. Excludes \$1 million related to non-financial guaranty line of business as of June 30, 2015.

Foreign exchange translation relates to installment premium receivables denominated in currencies other than the U.S. dollar. Approximately 50% and 51% of installment premiums at June 30, 2015 and December 31, 2014, respectively, are denominated in currencies other than the U.S. dollar, primarily the Euro and British Pound Sterling.

The timing and cumulative amount of actual collections may differ from expected collections in the tables below due to factors such as foreign exchange rate fluctuations, counterparty collectability issues, accelerations, commutations and changes in expected lives.

Expected Collections of  
Financial Guaranty Gross Premiums Receivable,  
Net of Commissions on Assumed Business  
(Undiscounted)

|                                | As of June 30,<br>2015<br>(in millions) |
|--------------------------------|-----------------------------------------|
| 2015 (July 1 – September 30)   | \$25                                    |
| 2015 (October 1 – December 31) | 23                                      |
| 2016                           | 77                                      |
| 2017                           | 69                                      |
| 2018                           | 62                                      |
| 2019                           | 58                                      |
| 2020-2024                      | 244                                     |
| 2025-2029                      | 158                                     |
| 2030-2034                      | 111                                     |
| After 2034                     | 101                                     |
| Total(1)                       | \$928                                   |

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(1) Excludes expected cash collections on FG VIEs of \$29 million.

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## Scheduled Financial Guaranty Net Earned Premiums

|                                  | As of June 30, 2015<br>(in millions) |
|----------------------------------|--------------------------------------|
| 2015 (July 1 – September 30)     | \$ 103                               |
| 2015 (October 1 – December 31)   | 100                                  |
| 2016                             | 383                                  |
| 2017                             | 334                                  |
| 2018                             | 302                                  |
| 2019                             | 276                                  |
| 2020-2024                        | 1,080                                |
| 2025-2029                        | 690                                  |
| 2030-2034                        | 413                                  |
| After 2034                       | 342                                  |
| Net deferred premium revenue(1)  | 4,023                                |
| Future accretion                 | 206                                  |
| Total future net earned premiums | \$4,229                              |

(1) Excludes scheduled net earned premiums on consolidated FG VIEs of \$125 million.

## Selected Information for Financial Guaranty Policies Paid in Installments

|                                                           | As of<br>June 30, 2015 | As of<br>December 31,<br>2014 |   |
|-----------------------------------------------------------|------------------------|-------------------------------|---|
|                                                           | (dollars in millions)  |                               |   |
| Premiums receivable, net of commission payable            | \$ 702                 | \$ 729                        |   |
| Gross deferred premium revenue                            | 1,302                  | 1,370                         |   |
| Weighted-average risk-free rate used to discount premiums | 3.4                    | % 3.5                         | % |
| Weighted-average period of premiums receivable (in years) | 9.4                    | 9.4                           |   |

## 6. Expected Loss to be Paid

## Loss Estimation Process

The Company's loss reserve committees estimate expected loss to be paid for all contracts. Surveillance personnel present analyses related to potential losses to the Company's loss reserve committees for consideration in estimating the expected loss to be paid. Such analyses include the consideration of 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 and sector-driven loss severity assumptions 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 and 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 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 over the long duration of most contracts.

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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 quarter, and as a result the Company's loss estimates may change materially over that same period. Changes over a quarter 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 quarter in the Company's loss estimates for its RMBS transactions may be influenced by such factors as the level and timing of loan defaults experienced; changes in housing prices; results from the Company's loss mitigation activities; and other variables. Similarly, changes over a quarter 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. On the other hand, changes over a quarter 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 downgrades that reduce 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.

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 estimates of probable and estimable losses may be subject to considerable volatility and may not reflect the Company's future ultimate claims paid.

The following tables present a roll forward of the present value of net expected loss to be paid for all contracts, whether accounted for as insurance, credit derivatives or FG VIEs, by sector, after the benefit for net expected recoveries for contractual breaches of representations and warranties ("R&W"). The Company used weighted average risk-free rates for U.S. dollar denominated obligations that ranged from 0.0% to 3.37% as of June 30, 2015 and 0.0% to 2.95% as of December 31, 2014.

## Net Expected Loss to be Paid

## After Net Expected Recoveries for Breaches of R&amp;W

## Roll Forward

|                                                                            | Second Quarter<br>2015<br>(in millions) | Six Months 2015 |
|----------------------------------------------------------------------------|-----------------------------------------|-----------------|
| Net expected loss to be paid, beginning of period                          | \$1,154                                 | \$1,169         |
| Net expected loss to be paid on Radian Asset portfolio as of April 1, 2015 | 190                                     | 190             |
| Economic loss development due to:                                          |                                         |                 |
| Accretion of discount                                                      | 7                                       | 14              |
| Changes in discount rates                                                  | (47)                                    | (40)            |
| Changes in timing and assumptions                                          | 232                                     | 215             |
| Total economic loss development                                            | 192                                     | 189             |
| Paid losses                                                                | (26)                                    | (38)            |
| Net expected loss to be paid, end of period                                | \$1,510                                 | \$1,510         |



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Net Expected Loss to be Paid  
After Net Expected Recoveries for Breaches of R&W  
Roll Forward by Sector  
Second Quarter 2015

|                                      | Net Expected<br>Loss to be<br>Paid<br>(Recovered)<br>as of<br>March 31,<br>2015<br><br>(in millions) | Net Expected<br>Loss to be<br>Paid<br>(Recovered)<br>on Radian<br>Asset portfolio<br>as of<br>April 1, 2015 | Economic Loss<br>Development | (Paid)<br>Recovered<br>Losses (1) | Net Expected<br>Loss to be<br>Paid<br>(Recovered)<br>as of<br>June 30, 2015<br>(2) |   |
|--------------------------------------|------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|------------------------------|-----------------------------------|------------------------------------------------------------------------------------|---|
| Public Finance:                      |                                                                                                      |                                                                                                             |                              |                                   |                                                                                    |   |
| U.S. public finance                  | \$310                                                                                                | \$81                                                                                                        | \$226                        | \$(4                              | ) \$613                                                                            |   |
| Non-U.S public finance               | 42                                                                                                   | 4                                                                                                           | (2                           | ) —                               | 44                                                                                 |   |
| Public Finance                       | 352                                                                                                  | 85                                                                                                          | 224                          | (4                                | ) 657                                                                              |   |
| Structured Finance:                  |                                                                                                      |                                                                                                             |                              |                                   |                                                                                    |   |
| U.S. RMBS:                           |                                                                                                      |                                                                                                             |                              |                                   |                                                                                    |   |
| First lien:                          |                                                                                                      |                                                                                                             |                              |                                   |                                                                                    |   |
| Prime first lien                     | 3                                                                                                    | —                                                                                                           | (1                           | ) (1                              | ) 1                                                                                |   |
| Alt-A first lien                     | 289                                                                                                  | 7                                                                                                           | (16                          | ) (15                             | ) 265                                                                              |   |
| Option ARM                           | (16                                                                                                  | ) 0                                                                                                         | (3                           | ) 1                               | (18                                                                                | ) |
| Subprime                             | 293                                                                                                  | (4                                                                                                          | ) (6                         | ) (10                             | ) 273                                                                              |   |
| Total first lien                     | 569                                                                                                  | 3                                                                                                           | (26                          | ) (25                             | ) 521                                                                              |   |
| Second lien:                         |                                                                                                      |                                                                                                             |                              |                                   |                                                                                    |   |
| Closed-end second lien               | 11                                                                                                   | —                                                                                                           | (3                           | ) 1                               | 9                                                                                  |   |
| HELOCs                               | (10                                                                                                  | ) 1                                                                                                         | (3                           | ) 6                               | (6                                                                                 | ) |
| Total second lien                    | 1                                                                                                    | 1                                                                                                           | (6                           | ) 7                               | 3                                                                                  |   |
| Total U.S. RMBS                      | 570                                                                                                  | 4                                                                                                           | (32                          | ) (18                             | ) 524                                                                              |   |
| Triple-X life insurance transactions | 165                                                                                                  | —                                                                                                           | 2                            | (2                                | ) 165                                                                              |   |
| TruPS                                | 14                                                                                                   | —                                                                                                           | (4                           | ) —                               | 10                                                                                 |   |
| Student loans                        | 62                                                                                                   | —                                                                                                           | 1                            | (5                                | ) 58                                                                               |   |
| Other structured finance             | (9                                                                                                   | ) 101                                                                                                       | 1                            | 3                                 | 96                                                                                 |   |
| Structured Finance                   | 802                                                                                                  | 105                                                                                                         | (32                          | ) (22                             | ) 853                                                                              |   |
| Total                                | \$1,154                                                                                              | \$190                                                                                                       | \$192                        | \$(26                             | ) \$1,510                                                                          |   |

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Net Expected Loss to be Paid  
After Net Expected Recoveries for Breaches of R&W  
Roll Forward by Sector  
Second Quarter 2014

|                                      | Net Expected<br>Loss to be<br>Paid (Recovered)<br>as of<br>March 31, 2014<br>(in millions) | Economic Loss<br>Development | (Paid)<br>Recovered<br>Losses (1) | Net Expected<br>Loss to be<br>Paid (Recovered)<br>as of<br>June 30, 2014 |   |
|--------------------------------------|--------------------------------------------------------------------------------------------|------------------------------|-----------------------------------|--------------------------------------------------------------------------|---|
| Public Finance:                      |                                                                                            |                              |                                   |                                                                          |   |
| U.S. public finance                  | \$281                                                                                      | \$82                         | \$(24                             | ) \$339                                                                  |   |
| Non-U.S public finance               | 57                                                                                         | (5                           | ) —                               | 52                                                                       |   |
| Public Finance                       | 338                                                                                        | 77                           | (24                               | ) 391                                                                    |   |
| Structured Finance:                  |                                                                                            |                              |                                   |                                                                          |   |
| U.S. RMBS:                           |                                                                                            |                              |                                   |                                                                          |   |
| First lien:                          |                                                                                            |                              |                                   |                                                                          |   |
| Prime first lien                     | 18                                                                                         | (7                           | ) —                               | 11                                                                       |   |
| Alt-A first lien                     | 308                                                                                        | 4                            | (11                               | ) 301                                                                    |   |
| Option ARM                           | (28                                                                                        | ) (24                        | ) 1                               | (51                                                                      | ) |
| Subprime                             | 295                                                                                        | 6                            | 40                                | 341                                                                      |   |
| Total first lien                     | 593                                                                                        | (21                          | ) 30                              | 602                                                                      |   |
| Second lien:                         |                                                                                            |                              |                                   |                                                                          |   |
| Closed-end second lien               | (4                                                                                         | ) (5                         | ) —                               | (9                                                                       | ) |
| HELOCs                               | (109                                                                                       | ) (33                        | ) 25                              | (117                                                                     | ) |
| Total second lien                    | (113                                                                                       | ) (38                        | ) 25                              | (126                                                                     | ) |
| Total U.S. RMBS                      | 480                                                                                        | (59                          | ) 55                              | 476                                                                      |   |
| Triple-X life insurance transactions | 87                                                                                         | 1                            | (1                                | ) 87                                                                     |   |
| TruPS                                | 32                                                                                         | 0                            | —                                 | 32                                                                       |   |
| Student loans                        | 54                                                                                         | 4                            | —                                 | 58                                                                       |   |
| Other structured finance             | (7                                                                                         | ) 0                          | (2                                | ) (9                                                                     | ) |
| Structured Finance                   | 646                                                                                        | (54                          | ) 52                              | 644                                                                      |   |
| Total                                | \$984                                                                                      | \$23                         | \$28                              | \$1,035                                                                  |   |

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Net Expected Loss to be Paid  
After Net Expected Recoveries for Breaches of R&W  
Roll Forward by Sector  
Six Months 2015

|                                      | Net Expected<br>Loss to be<br>Paid<br>(Recovered)<br>as of<br>December 31,<br>2014 (2)<br><br>(in millions) | Net Expected<br>Loss to be<br>Paid<br>(Recovered)<br>on Radian<br>Asset portfolio<br>as of<br>April 1, 2015 | Economic Loss<br>Development | (Paid)<br>Recovered<br>Losses (1) | Net Expected<br>Loss to be<br>Paid<br>(Recovered)<br>as of<br>June 30, 2015<br>(2) |   |
|--------------------------------------|-------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|------------------------------|-----------------------------------|------------------------------------------------------------------------------------|---|
| Public Finance:                      |                                                                                                             |                                                                                                             |                              |                                   |                                                                                    |   |
| U.S. public finance                  | \$303                                                                                                       | \$81                                                                                                        | \$235                        | \$(6                              | ) \$613                                                                            |   |
| Non-U.S public finance               | 45                                                                                                          | 4                                                                                                           | (5                           | ) —                               | 44                                                                                 |   |
| Public Finance                       | 348                                                                                                         | 85                                                                                                          | 230                          | (6                                | ) 657                                                                              |   |
| Structured Finance:                  |                                                                                                             |                                                                                                             |                              |                                   |                                                                                    |   |
| U.S. RMBS:                           |                                                                                                             |                                                                                                             |                              |                                   |                                                                                    |   |
| First lien:                          |                                                                                                             |                                                                                                             |                              |                                   |                                                                                    |   |
| Prime first lien                     | 4                                                                                                           | —                                                                                                           | (1                           | ) (2                              | ) 1                                                                                |   |
| Alt-A first lien                     | 304                                                                                                         | 7                                                                                                           | (21                          | ) (25                             | ) 265                                                                              |   |
| Option ARM                           | (16                                                                                                         | ) 0                                                                                                         | 1                            | (3                                | ) (18                                                                              | ) |
| Subprime                             | 303                                                                                                         | (4                                                                                                          | ) (7                         | ) (19                             | ) 273                                                                              |   |
| Total first lien                     | 595                                                                                                         | 3                                                                                                           | (28                          | ) (49                             | ) 521                                                                              |   |
| Second lien:                         |                                                                                                             |                                                                                                             |                              |                                   |                                                                                    |   |
| Closed-end second lien               | 8                                                                                                           | —                                                                                                           | (2                           | ) 3                               | 9                                                                                  |   |
| HELOCs                               | (19                                                                                                         | ) 1                                                                                                         | 2                            | 10                                | (6                                                                                 | ) |
| Total second lien                    | (11                                                                                                         | ) 1                                                                                                         | 0                            | 13                                | 3                                                                                  |   |
| Total U.S. RMBS                      | 584                                                                                                         | 4                                                                                                           | (28                          | ) (36                             | ) 524                                                                              |   |
| Triple-X life insurance transactions | 161                                                                                                         | —                                                                                                           | 7                            | (3                                | ) 165                                                                              |   |
| TruPS                                | 23                                                                                                          | —                                                                                                           | (13                          | ) —                               | 10                                                                                 |   |
| Student loans                        | 68                                                                                                          | —                                                                                                           | (5                           | ) (5                              | ) 58                                                                               |   |
| Other structured finance             | (15                                                                                                         | ) 101                                                                                                       | (2                           | ) 12                              | 96                                                                                 |   |
| Structured Finance                   | 821                                                                                                         | 105                                                                                                         | (41                          | ) (32                             | ) 853                                                                              |   |
| Total                                | \$1,169                                                                                                     | \$190                                                                                                       | \$189                        | \$(38                             | ) \$1,510                                                                          |   |

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Net Expected Loss to be Paid  
 After Net Expected Recoveries for Breaches of R&W  
 Roll Forward by Sector  
 Six Months 2014

|                                      | Net Expected<br>Loss to be<br>Paid (Recovered)<br>as of<br>December 31,<br>2013<br>(in millions) | Economic Loss<br>Development | (Paid)<br>Recovered<br>Losses (1) | Net Expected<br>Loss to be<br>Paid (Recovered)<br>as of<br>June 30, 2014 |
|--------------------------------------|--------------------------------------------------------------------------------------------------|------------------------------|-----------------------------------|--------------------------------------------------------------------------|
| Public Finance:                      |                                                                                                  |                              |                                   |                                                                          |
| U.S. public finance                  | \$264                                                                                            | \$105                        | \$ (30)                           | ) \$339                                                                  |
| Non-U.S. public finance              | 57                                                                                               | (5)                          | ) —                               | 52                                                                       |
| Public Finance                       | 321                                                                                              | 100                          | (30)                              | ) 391                                                                    |
| Structured Finance:                  |                                                                                                  |                              |                                   |                                                                          |
| U.S. RMBS:                           |                                                                                                  |                              |                                   |                                                                          |
| First lien:                          |                                                                                                  |                              |                                   |                                                                          |
| Prime first lien                     | 21                                                                                               | (10)                         | ) —                               | 11                                                                       |
| Alt-A first lien                     | 304                                                                                              | 12                           | (15)                              | ) 301                                                                    |
| Option ARM                           | (9)                                                                                              | ) (39)                       | ) (3)                             | ) (51)                                                                   |
| Subprime                             | 304                                                                                              | (1)                          | ) 38                              | 341                                                                      |
| Total first lien                     | 620                                                                                              | (38)                         | ) 20                              | 602                                                                      |
| Second lien:                         |                                                                                                  |                              |                                   |                                                                          |
| Closed-end second lien               | (11)                                                                                             | ) —                          | 2                                 | (9)                                                                      |
| HELOCs                               | (116)                                                                                            | ) (31)                       | ) 30                              | (117)                                                                    |
| Total second lien                    | (127)                                                                                            | ) (31)                       | ) 32                              | (126)                                                                    |
| Total U.S. RMBS                      | 493                                                                                              | (69)                         | ) 52                              | 476                                                                      |
| Triple-X life insurance transactions | 75                                                                                               | 14                           | (2)                               | ) 87                                                                     |
| TruPS                                | 51                                                                                               | (19)                         | ) —                               | 32                                                                       |
| Student loans                        | 52                                                                                               | 6                            | —                                 | 58                                                                       |
| Other structured finance             | (10)                                                                                             | ) 3                          | (2)                               | ) (9)                                                                    |
| Structured Finance                   | 661                                                                                              | (65)                         | ) 48                              | 644                                                                      |
| Total                                | \$982                                                                                            | \$35                         | \$18                              | \$1,035                                                                  |

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 (1)recoverable on paid losses included in other assets. The Company paid \$5 million and \$8 million in LAE for Second Quarter 2015 and 2014, respectively, and \$9 million and \$14 million in LAE for Six Months 2015 and 2014, respectively.

(2)Includes expected LAE to be paid of \$15 million as of June 30, 2015 and \$16 million as of December 31, 2014.

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Net Expected Recoveries from  
Breaches of R&W Rollforward  
Second Quarter 2015

|                        | Future Net<br>R&W Benefit as of<br>March 31,<br>2015<br><br>(in millions) | Future Net<br>R&W Benefit of<br>Radian Asset<br>as of<br>April 1, 2015 | R&W Development<br>and Accretion of<br>Discount<br>During Second<br>Quarter 2015 | R&W (Recovered)<br>During Second<br>Quarter 2015 | Future Net<br>R&W Benefit as of<br>June 30, 2015 (1) |
|------------------------|---------------------------------------------------------------------------|------------------------------------------------------------------------|----------------------------------------------------------------------------------|--------------------------------------------------|------------------------------------------------------|
| U.S. RMBS:             |                                                                           |                                                                        |                                                                                  |                                                  |                                                      |
| First lien:            |                                                                           |                                                                        |                                                                                  |                                                  |                                                      |
| Prime first lien       | \$ 1                                                                      | \$ —                                                                   | \$ —                                                                             | \$ —                                             | \$ 1                                                 |
| Alt-A first lien       | 94                                                                        | —                                                                      | —                                                                                | (1                                               | ) 93                                                 |
| Option ARM             | (20                                                                       | ) —                                                                    | 6                                                                                | (19                                              | ) (33                                                |
| Subprime               | 87                                                                        | 1                                                                      | (4                                                                               | ) (3                                             | ) 81                                                 |
| Total first lien       | 162                                                                       | 1                                                                      | 2                                                                                | (23                                              | ) 142                                                |
| Second lien:           |                                                                           |                                                                        |                                                                                  |                                                  |                                                      |
| Closed-end second lien | 83                                                                        | 1                                                                      | 2                                                                                | (3                                               | ) 83                                                 |
| HELOC                  | —                                                                         | —                                                                      | —                                                                                | —                                                | —                                                    |
| Total second lien      | 83                                                                        | 1                                                                      | 2                                                                                | (3                                               | ) 83                                                 |
| Total                  | \$245                                                                     | \$ 2                                                                   | \$ 4                                                                             | \$ (26                                           | ) \$ 225                                             |

Net Expected Recoveries from  
Breaches of R&W Rollforward  
Second Quarter 2014

|                        | Future Net<br>R&W Benefit as of<br>March 31, 2014<br><br>(in millions) | R&W Development<br>and Accretion of<br>Discount<br>During Second<br>Quarter 2014 | R&W (Recovered)<br>During Second<br>Quarter 2014 | Future Net<br>R&W Benefit as of<br>June 30, 2014 |
|------------------------|------------------------------------------------------------------------|----------------------------------------------------------------------------------|--------------------------------------------------|--------------------------------------------------|
| U.S. RMBS:             |                                                                        |                                                                                  |                                                  |                                                  |
| First lien:            |                                                                        |                                                                                  |                                                  |                                                  |
| Prime first lien       | \$3                                                                    | \$ —                                                                             | \$ —                                             | \$ 3                                             |
| Alt-A first lien       | 269                                                                    | (2                                                                               | ) (4                                             | ) 263                                            |
| Option ARM             | 152                                                                    | 11                                                                               | (19                                              | ) 144                                            |
| Subprime               | 146                                                                    | 1                                                                                | (48                                              | ) 99                                             |
| Total first lien       | 570                                                                    | 10                                                                               | (71                                              | ) 509                                            |
| Second lien:           |                                                                        |                                                                                  |                                                  |                                                  |
| Closed-end second lien | 95                                                                     | —                                                                                | (2                                               | ) 93                                             |
| HELOC                  | 56                                                                     | 9                                                                                | (16                                              | ) 49                                             |
| Total second lien      | 151                                                                    | 9                                                                                | (18                                              | ) 142                                            |
| Total                  | \$721                                                                  | \$ 19                                                                            | \$ (89                                           | ) \$ 651                                         |



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Net Expected Recoveries from  
Breaches of R&W Rollforward  
Six Months 2015

|                        | Future Net<br>R&W Benefit as of<br>December<br>31, 2014<br><br>(in millions) | Future Net<br>R&W Benefit on<br>Radian Asset<br>portfolio as of<br>April 1, 2015 | R&W Development<br>and Accretion of<br>Discount<br>During 2015 | R&W (Recovered)<br>During 2015 | Future Net<br>R&W Benefit as of<br>June 30, 2015 (1) |
|------------------------|------------------------------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------|--------------------------------|------------------------------------------------------|
| U.S. RMBS:             |                                                                              |                                                                                  |                                                                |                                |                                                      |
| First lien:            |                                                                              |                                                                                  |                                                                |                                |                                                      |
| Prime first lien       | \$2                                                                          | \$ —                                                                             | \$ (1                                                          | ) \$ —                         | \$ 1                                                 |
| Alt-A first lien       | 106                                                                          | —                                                                                | (10                                                            | ) (3                           | ) 93                                                 |
| Option ARM             | 15                                                                           | —                                                                                | (14                                                            | ) (34                          | ) (33                                                |
| Subprime               | 109                                                                          | 1                                                                                | (23                                                            | ) (6                           | ) 81                                                 |
| Total first lien       | 232                                                                          | 1                                                                                | (48                                                            | ) (43                          | ) 142                                                |
| Second lien:           |                                                                              |                                                                                  |                                                                |                                |                                                      |
| Closed-end second lien | 85                                                                           | 1                                                                                | 1                                                              | (4                             | ) 83                                                 |
| HELOC                  | —                                                                            | —                                                                                | —                                                              | —                              | —                                                    |
| Total second lien      | 85                                                                           | 1                                                                                | 1                                                              | (4                             | ) 83                                                 |
| Total                  | \$317                                                                        | \$ 2                                                                             | \$ (47                                                         | ) \$ (47                       | ) \$ 225                                             |

Net Expected Recoveries from  
Breaches of R&W Rollforward  
Six Months 2014

|                        | Future Net<br>R&W Benefit as of<br>December<br>31, 2013<br><br>(in millions) | R&W Development<br>and Accretion of<br>Discount<br>During 2014 | R&W (Recovered)<br>During 2014 | Future Net<br>R&W Benefit as of<br>June 30, 2014 |
|------------------------|------------------------------------------------------------------------------|----------------------------------------------------------------|--------------------------------|--------------------------------------------------|
| U.S. RMBS:             |                                                                              |                                                                |                                |                                                  |
| First lien:            |                                                                              |                                                                |                                |                                                  |
| Prime first lien       | \$4                                                                          | \$ (1                                                          | ) \$ —                         | \$ 3                                             |
| Alt-A first lien       | 274                                                                          | 1                                                              | (12                            | ) 263                                            |
| Option ARM             | 173                                                                          | 20                                                             | (49                            | ) 144                                            |
| Subprime               | 118                                                                          | 29                                                             | (48                            | ) 99                                             |
| Total first lien       | 569                                                                          | 49                                                             | (109                           | ) 509                                            |
| Second lien:           |                                                                              |                                                                |                                |                                                  |
| Closed-end second lien | 98                                                                           | (3                                                             | ) (2                           | ) 93                                             |
| HELOC                  | 45                                                                           | 21                                                             | (17                            | ) 49                                             |
| Total second lien      | 143                                                                          | 18                                                             | (19                            | ) 142                                            |
| Total                  | \$712                                                                        | \$ 67                                                          | \$ (128                        | ) \$ 651                                         |

(1) See the section "Breaches of Representations and Warranties" below for eligible assets held in trust.



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The following tables present the present value of net expected loss to be paid for all contracts by accounting model, by sector and after the benefit for estimated and contractual recoveries for breaches of R&W.

## Net Expected Loss to be Paid (Recovered)

## By Accounting Model

As of June 30, 2015

|                                      | Financial<br>Guaranty<br>Insurance<br>(in millions) | FG VIEs(1)<br>and Other | Credit<br>Derivatives(2) | Total   |   |
|--------------------------------------|-----------------------------------------------------|-------------------------|--------------------------|---------|---|
| Public Finance:                      |                                                     |                         |                          |         |   |
| U.S. public finance                  | \$613                                               | \$—                     | \$0                      | \$613   |   |
| Non-U.S. public finance              | 44                                                  | —                       | 0                        | 44      |   |
| Public Finance                       | 657                                                 | —                       | 0                        | 657     |   |
| Structured Finance:                  |                                                     |                         |                          |         |   |
| U.S. RMBS:                           |                                                     |                         |                          |         |   |
| First lien:                          |                                                     |                         |                          |         |   |
| Prime first lien                     | 2                                                   | —                       | (1                       | ) 1     |   |
| Alt-A first lien                     | 261                                                 | 16                      | (12                      | ) 265   |   |
| Option ARM                           | (20                                                 | ) —                     | 2                        | (18     | ) |
| Subprime                             | 151                                                 | 62                      | 60                       | 273     |   |
| Total first lien                     | 394                                                 | 78                      | 49                       | 521     |   |
| Second lien:                         |                                                     |                         |                          |         |   |
| Closed-end second lien               | (25                                                 | ) 30                    | 4                        | 9       |   |
| HELOCs                               | (12                                                 | ) 6                     | —                        | (6      | ) |
| Total second lien                    | (37                                                 | ) 36                    | 4                        | 3       |   |
| Total U.S. RMBS                      | 357                                                 | 114                     | 53                       | 524     |   |
| Triple-X life insurance transactions | 157                                                 | —                       | 8                        | 165     |   |
| TruPS                                | 0                                                   | —                       | 10                       | 10      |   |
| Student loans                        | 58                                                  | —                       | —                        | 58      |   |
| Other structured finance             | 35                                                  | 19                      | 42                       | 96      |   |
| Structured Finance                   | 607                                                 | 133                     | 113                      | 853     |   |
| Total                                | \$1,264                                             | \$133                   | \$113                    | \$1,510 |   |

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Net Expected Loss to be Paid (Recovered)  
By Accounting Model  
As of December 31, 2014

|                                      | Financial<br>Guaranty<br>Insurance<br>(in millions) | FG VIEs(1)<br>and Other | Credit<br>Derivatives(2) | Total   |   |
|--------------------------------------|-----------------------------------------------------|-------------------------|--------------------------|---------|---|
| Public Finance:                      |                                                     |                         |                          |         |   |
| U.S. public finance                  | \$303                                               | \$—                     | \$—                      | \$303   |   |
| Non-U.S. public finance              | 45                                                  | —                       | —                        | 45      |   |
| Public Finance                       | 348                                                 | —                       | —                        | 348     |   |
| Structured Finance:                  |                                                     |                         |                          |         |   |
| U.S. RMBS:                           |                                                     |                         |                          |         |   |
| First lien:                          |                                                     |                         |                          |         |   |
| Prime first lien                     | 2                                                   | —                       | 2                        | 4       |   |
| Alt-A first lien                     | 288                                                 | 17                      | (1                       | ) 304   |   |
| Option ARM                           | (15                                                 | ) —                     | (1                       | ) (16   | ) |
| Subprime                             | 163                                                 | 71                      | 69                       | 303     |   |
| Total first lien                     | 438                                                 | 88                      | 69                       | 595     |   |
| Second lien:                         |                                                     |                         |                          |         |   |
| Closed-end second lien               | (27                                                 | ) 31                    | 4                        | 8       |   |
| HELOCs                               | (26                                                 | ) 7                     | —                        | (19     | ) |
| Total second lien                    | (53                                                 | ) 38                    | 4                        | (11     | ) |
| Total U.S. RMBS                      | 385                                                 | 126                     | 73                       | 584     |   |
| Triple-X life insurance transactions | 153                                                 | —                       | 8                        | 161     |   |
| TruPS                                | 1                                                   | —                       | 22                       | 23      |   |
| Student loans                        | 68                                                  | —                       | —                        | 68      |   |
| Other structured finance             | 34                                                  | (4                      | ) (45                    | ) (15   | ) |
| Structured Finance                   | 641                                                 | 122                     | 58                       | 821     |   |
| Total                                | \$989                                               | \$122                   | \$58                     | \$1,169 |   |

(1) Refer to Note 10, Consolidated Variable Interest Entities.

(2) Refer to Note 9, Financial Guaranty Contracts Accounted for as Credit Derivatives.

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The following tables present the net economic loss development for all contracts by accounting model, by sector and after the benefit for estimated and contractual recoveries for breaches of R&W.

## Net Economic Loss Development (Benefit)

## By Accounting Model

## Second Quarter 2015

|                                      | Financial<br>Guaranty<br>Insurance<br>(in millions) | FG VIEs(1)<br>and Other | Credit<br>Derivatives(2) | Total   |   |
|--------------------------------------|-----------------------------------------------------|-------------------------|--------------------------|---------|---|
| Public Finance:                      |                                                     |                         |                          |         |   |
| U.S. public finance                  | \$232                                               | \$—                     | \$(6                     | ) \$226 |   |
| Non-U.S. public finance              | (2                                                  | ) —                     | —                        | (2      | ) |
| Public Finance                       | 230                                                 | —                       | (6                       | ) 224   |   |
| Structured Finance:                  |                                                     |                         |                          |         |   |
| U.S. RMBS:                           |                                                     |                         |                          |         |   |
| First lien:                          |                                                     |                         |                          |         |   |
| Prime first lien                     | (1                                                  | ) —                     | —                        | (1      | ) |
| Alt-A first lien                     | (12                                                 | ) (1                    | ) (3                     | ) (16   | ) |
| Option ARM                           | (4                                                  | ) —                     | 1                        | (3      | ) |
| Subprime                             | —                                                   | (1                      | ) (5                     | ) (6    | ) |
| Total first lien                     | (17                                                 | ) (2                    | ) (7                     | ) (26   | ) |
| Second lien:                         |                                                     |                         |                          |         |   |
| Closed-end second lien               | (2                                                  | ) (2                    | ) 1                      | (3      | ) |
| HELOCs                               | (5                                                  | ) 2                     | —                        | (3      | ) |
| Total second lien                    | (7                                                  | ) —                     | 1                        | (6      | ) |
| Total U.S. RMBS                      | (24                                                 | ) (2                    | ) (6                     | ) (32   | ) |
| Triple-X life insurance transactions | 1                                                   | —                       | 1                        | 2       |   |
| TruPS                                | —                                                   | —                       | (4                       | ) (4    | ) |
| Student loans                        | 1                                                   | —                       | —                        | 1       |   |
| Other structured finance             | (1                                                  | ) 1                     | 1                        | 1       |   |
| Structured Finance                   | (23                                                 | ) (1                    | ) (8                     | ) (32   | ) |
| Total                                | \$207                                               | \$(1                    | ) \$(14                  | ) \$192 |   |

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Net Economic Loss Development (Benefit)  
 By Accounting Model  
 Second Quarter 2014

|                                      | Financial<br>Guaranty<br>Insurance<br>(in millions) | FG VIEs(1)<br>and Other | Credit<br>Derivatives(2) | Total  |
|--------------------------------------|-----------------------------------------------------|-------------------------|--------------------------|--------|
| Public Finance:                      |                                                     |                         |                          |        |
| U.S. public finance                  | \$82                                                | \$—                     | \$—                      | \$82   |
| Non-U.S. public finance              | (4                                                  | ) —                     | (1                       | ) (5   |
| Public Finance                       | 78                                                  | —                       | (1                       | ) 77   |
| Structured Finance:                  |                                                     |                         |                          |        |
| U.S. RMBS:                           |                                                     |                         |                          |        |
| First lien:                          |                                                     |                         |                          |        |
| Prime first lien                     | 1                                                   | —                       | (8                       | ) (7   |
| Alt-A first lien                     | 7                                                   | 2                       | (5                       | ) 4    |
| Option ARM                           | (23                                                 | ) —                     | (1                       | ) (24  |
| Subprime                             | 4                                                   | 3                       | (1                       | ) 6    |
| Total first lien                     | (11                                                 | ) 5                     | (15                      | ) (21  |
| Second lien:                         |                                                     |                         |                          |        |
| Closed-end second lien               | (1                                                  | ) 1                     | (5                       | ) (5   |
| HELOCs                               | (34                                                 | ) 1                     | —                        | (33    |
| Total second lien                    | (35                                                 | ) 2                     | (5                       | ) (38  |
| Total U.S. RMBS                      | (46                                                 | ) 7                     | (20                      | ) (59  |
| Triple-X life insurance transactions | —                                                   | —                       | 1                        | 1      |
| TruPS                                | —                                                   | —                       | —                        | —      |
| Student loans                        | 4                                                   | —                       | —                        | 4      |
| Other structured finance             | 0                                                   | —                       | —                        | 0      |
| Structured Finance                   | (42                                                 | ) 7                     | (19                      | ) (54  |
| Total                                | \$36                                                | \$7                     | \$(20                    | ) \$23 |

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Net Economic Loss Development (Benefit)  
 By Accounting Model  
 Six Months 2015

|                                      | Financial<br>Guaranty<br>Insurance<br>(in millions) | FG VIEs(1)<br>and Other | Credit<br>Derivatives(2) | Total   |   |
|--------------------------------------|-----------------------------------------------------|-------------------------|--------------------------|---------|---|
| Public Finance:                      |                                                     |                         |                          |         |   |
| U.S. public finance                  | \$241                                               | \$—                     | \$(6                     | ) \$235 |   |
| Non-U.S. public finance              | (5                                                  | ) —                     | —                        | (5      | ) |
| Public Finance                       | 236                                                 | —                       | (6                       | ) 230   |   |
| Structured Finance:                  |                                                     |                         |                          |         |   |
| U.S. RMBS:                           |                                                     |                         |                          |         |   |
| First lien:                          |                                                     |                         |                          |         |   |
| Prime first lien                     | 0                                                   | —                       | (1                       | ) (1    | ) |
| Alt-A first lien                     | (10                                                 | ) (1                    | ) (10                    | ) (21   | ) |
| Option ARM                           | (3                                                  | ) —                     | 4                        | 1       |   |
| Subprime                             | (4                                                  | ) 3                     | (6                       | ) (7    | ) |
| Total first lien                     | (17                                                 | ) 2                     | (13                      | ) (28   | ) |
| Second lien:                         |                                                     |                         |                          |         |   |
| Closed-end second lien               | (1                                                  | ) (1                    | ) —                      | (2      | ) |
| HELOCs                               | 2                                                   | 0                       | —                        | 2       |   |
| Total second lien                    | 1                                                   | (1                      | ) —                      | —       |   |
| Total U.S. RMBS                      | (16                                                 | ) 1                     | (13                      | ) (28   | ) |
| Triple-X life insurance transactions | 5                                                   | —                       | 2                        | 7       |   |
| TruPS                                | (1                                                  | ) —                     | (12                      | ) (13   | ) |
| Student loans                        | (5                                                  | ) —                     | —                        | (5      | ) |
| Other structured finance             | 0                                                   | —                       | (2                       | ) (2    | ) |
| Structured Finance                   | (17                                                 | ) 1                     | (25                      | ) (41   | ) |
| Total                                | \$219                                               | \$1                     | \$(31                    | ) \$189 |   |

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Net Economic Loss Development (Benefit)  
By Accounting Model  
Six Months 2014

|                                      | Financial<br>Guaranty<br>Insurance<br>(in millions) | FG VIEs(1)<br>and Other | Credit<br>Derivatives(2) | Total   |
|--------------------------------------|-----------------------------------------------------|-------------------------|--------------------------|---------|
| Public Finance:                      |                                                     |                         |                          |         |
| U.S. public finance                  | \$ 105                                              | \$—                     | \$—                      | \$ 105  |
| Non-U.S. public finance              | (4                                                  | ) —                     | (1                       | ) (5    |
| Public Finance                       | 101                                                 | —                       | (1                       | ) 100   |
| Structured Finance:                  |                                                     |                         |                          |         |
| U.S. RMBS:                           |                                                     |                         |                          |         |
| First lien:                          |                                                     |                         |                          |         |
| Prime first lien                     | 1                                                   | —                       | (11                      | ) (10   |
| Alt-A first lien                     | 26                                                  | (10                     | ) (4                     | ) 12    |
| Option ARM                           | (39                                                 | ) 1                     | (1                       | ) (39   |
| Subprime                             | (4                                                  | ) 1                     | 2                        | (1      |
| Total first lien                     | (16                                                 | ) (8                    | ) (14                    | ) (38   |
| Second lien:                         |                                                     |                         |                          |         |
| Closed-end second lien               | (2                                                  | ) 3                     | (1                       | ) —     |
| HELOCs                               | (90                                                 | ) 59                    | —                        | (31     |
| Total second lien                    | (92                                                 | ) 62                    | (1                       | ) (31   |
| Total U.S. RMBS                      | (108                                                | ) 54                    | (15                      | ) (69   |
| Triple-X life insurance transactions | 13                                                  | —                       | 1                        | 14      |
| TruPS                                | (1                                                  | ) —                     | (18                      | ) (19   |
| Student loans                        | 6                                                   | —                       | —                        | 6       |
| Other structured finance             | 2                                                   | (1                      | ) 2                      | 3       |
| Structured Finance                   | (88                                                 | ) 53                    | (30                      | ) (65   |
| Total                                | \$ 13                                               | \$ 53                   | \$(31                    | ) \$ 35 |

(1) Refer to Note 10, Consolidated Variable Interest Entities.

(2) Refer to Note 9, Financial Guaranty Contracts Accounted for as Credit Derivatives.

#### Selected U.S. Public Finance Transactions

The Company insures general obligation bonds of the Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations aggregating \$5.4 billion net par as of June 30, 2015, all of which are BIG. For additional information regarding the Company's exposure to general obligations of Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations, please refer to "Exposure to Puerto Rico" in Note 4, Outstanding Exposure.

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 June 30, 2015, the Company's net exposure subject to the plan consists of \$117 million of pension obligation bonds. As part of the plan settlement, the City will repay the pension obligation bonds from certain fixed payments and certain variable payments contingent on the City's revenue growth. The Company agreed as part of the plan to cancel its \$40 million of the City's lease revenue bonds in exchange for the irrevocable option to take title to the office building that served as collateral for the lease revenue

bonds. The Company also receives net rental payments from the office building. The Company no longer reflects the canceled lease revenue bonds as outstanding insured

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net par, but instead the financial statements reflect an investment in the office building and related lease revenue and expenses. As of June 30, 2015, the office building is carried at approximately \$30 million and is reported as part of Other Assets.

The Company has \$337 million of net par exposure to the Louisville Arena Authority. The bond proceeds were used to construct the KFC Yum Center, home to the University of Louisville men's and women's basketball teams. Actual revenues available for Debt Service are well below original projections, and under the Company's internal rating scale, the transaction is BIG.

In December 2014, the City of Detroit emerged from bankruptcy under chapter 9 of the U.S. Bankruptcy Code. The Company still expects to make debt service payments on the 15.5% of the City's unlimited tax general obligation ("UTGO") that were not exchanged as part of the related settlement. As of June 30, 2015, these bonds had a net par outstanding of \$18 million.

As a result of the Radian Asset Acquisition, the Company has approximately \$21 million of net par exposure as of June 30, 2015 to bonds issued by Parkway East Public Improvement District, which is located in Madison County, Mississippi. 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 the County now claims that 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. A declaratory judgment action is pending against the District and the County to establish the Company's rights under the contribution agreement. See "Recovery Litigation" below.

The Company also has \$15.9 billion of net par exposure to healthcare transactions. The BIG net par outstanding in this sector is \$376 million, \$325 million of which was acquired as part of the Radian Asset Acquisition.

The Company projects that its total net expected loss across its troubled U.S. public finance credits as of June 30, 2015, which incorporated the likelihood of the outcomes mentioned above, will be \$613 million, compared with a net expected loss of \$310 million as of March 31, 2015. On April 1, 2015, the Radian Asset Acquisition added \$81 million in net economic losses to be paid for U.S. public finance credits. In addition, economic loss development in Second Quarter 2015 was \$226 million which was primarily attributable to Puerto Rico exposures. Economic loss development in Six Months 2015 was \$235 million, which was also primarily attributable to Puerto Rico exposures.

## Certain Selected European Country Sub-Sovereign Transactions

The Company insures and reinsures credits 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 gross exposure to these Spanish and Portuguese credits is \$479 million and \$108 million, respectively, and exposure net of reinsurance for Spanish and Portuguese credits is \$383 million and \$101 million, respectively. The Company rates most of these issuers in the BB category due to the financial condition of Spain and Portugal and their dependence on the sovereign. The Company's Hungary exposure is to infrastructure bonds dependent on payments from Hungarian governmental entities and covered mortgage bonds issued by Hungarian banks. The Company's gross exposure to these Hungarian credits is \$475 million and its exposure net of reinsurance is \$466 million, most of which is rated BIG. The Company estimated net expected losses of \$41 million related to these Spanish, Portuguese and Hungarian credits. The positive economic loss development of approximately \$2 million during Second Quarter 2015 and \$4 million during Six Months 2015 was primarily related to changes in the exchange rate between the Euro and US Dollar.



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### Infrastructure Finance

The Company has insured exposure of approximately \$3.1 billion to infrastructure transactions with refinancing risk as to which the Company may need to make claim payments that it did not anticipate paying when the policies were issued. Although the Company may not experience ultimate loss on a particular transaction, the aggregate amount of the claim payments may be substantial and reimbursement may not occur for an extended time. These transactions generally involve long-term infrastructure projects that were financed by bonds that mature prior to the expiration of the project concession. The Company expects the cash flows from these projects to be sufficient to repay all of the debt over the life of the project concession, but also expects the debt to be refinanced in the market at or prior to its maturity. If the issuer is unable to refinance the debt due to market conditions, the Company may have to pay a claim when the debt matures, and then recover its payment from cash flows produced by the project in the future. The Company generally projects that in most scenarios it will be fully reimbursed for such payments. However, the recovery of the payments is uncertain and may take from 10 to 35 years, depending on the transaction and the performance of the underlying collateral. The Company estimates total claims for the two largest transactions with significant refinancing risk, assuming no refinancing, and based on certain performance assumptions could be \$1.9 billion on a gross basis; such claims would be payable from 2017 through 2022.

### Approach to Projecting Losses in U.S. RMBS

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 to the projected performance of the collateral over time. The resulting projected claim payments or reimbursements are then discounted using risk-free rates. For transactions where the Company projects it will receive recoveries from providers of R&W, it projects the amount of recoveries and either establishes a recovery for claims already paid or reduces its projected claim payments accordingly.

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 throughout 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 conditional default rates will develop over time. Loans that are defaulted pursuant to the conditional default rate after the near-term liquidation of currently delinquent loans represent defaults of currently performing loans and projected re-performing loans. A conditional default rate 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 based on its

experience to date. The Company continues to update its evaluation of these exposures as new information becomes available.

The Company has been enforcing claims for breaches of R&W regarding the characteristics of the loans included in the collateral pools. The Company calculates a credit for R&W recoveries to include in its cash flow projections. Where the Company has an agreement with an R&W provider (such as its agreements with Bank of America, Deutsche Bank and UBS, which are described in more detail under "Breaches of Representations and Warranties" below), that credit is based on the agreement or potential agreement. Where the Company does not have an agreement with the R&W provider but the Company believes the R&W provider to be economically viable, the Company estimates what portion of its past and projected future claims it believes will be reimbursed by that provider.

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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.

### Second Quarter 2015 U.S. 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, the Company chose to use the same general assumptions to project RMBS losses as of June 30, 2015 as it used as of March 31, 2015, except that, for its first lien RMBS loss projections it again this quarter shortened by three months the period it is projecting it will take in the base case to reach the final CDR.

### 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 have been modified or have been delinquent in the previous 12 months, are two or more payments behind, are in foreclosure or that have been foreclosed and so the RMBS issuer owns the underlying real estate). 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 year the Company reviews the most recent twenty-four months of this data and adjusts its liquidation rates based on its observations. The following table shows liquidation assumptions for various non-performing categories.

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## First Lien Liquidation Rates

|                                                    | June 30, 2015 | March 31, 2015 | December 31, 2014 |
|----------------------------------------------------|---------------|----------------|-------------------|
| Current Loans Modified in the Previous 12 Months   |               |                |                   |
| Alt A and Prime                                    | 25%           | 25%            | 25%               |
| Option ARM                                         | 25            | 25             | 25                |
| Subprime                                           | 25            | 25             | 25                |
| Current Loans Delinquent in the Previous 12 Months |               |                |                   |
| Alt A and Prime                                    | 25            | 25             | 25                |
| Option ARM                                         | 25            | 25             | 25                |
| Subprime                                           | 25            | 25             | 25                |
| 30 – 59 Days Delinquent                            |               |                |                   |
| Alt A and Prime                                    | 35            | 35             | 35                |
| Option ARM                                         | 40            | 40             | 40                |
| Subprime                                           | 35            | 35             | 35                |
| 60 – 89 Days Delinquent                            |               |                |                   |
| Alt A and Prime                                    | 50            | 50             | 50                |
| Option ARM                                         | 55            | 55             | 55                |
| Subprime                                           | 40            | 40             | 40                |
| 90+ Days Delinquent                                |               |                |                   |
| Alt A and Prime                                    | 60            | 60             | 60                |
| Option ARM                                         | 65            | 65             | 65                |
| Subprime                                           | 55            | 55             | 55                |
| Bankruptcy                                         |               |                |                   |
| Alt A and Prime                                    | 45            | 45             | 45                |
| Option ARM                                         | 50            | 50             | 50                |
| Subprime                                           | 40            | 40             | 40                |
| Foreclosure                                        |               |                |                   |
| Alt A and Prime                                    | 75            | 75             | 75                |
| Option ARM                                         | 80            | 80             | 80                |
| Subprime                                           | 70            | 70             | 70                |
| Real Estate Owned                                  |               |                |                   |
| All                                                | 100           | 100            | 100               |

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 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 eight years after the initial 36-month CDR plateau period, which is three months shorter than assumed as of March 31, 2014 and six months shorter than assumed at December 31, 2014 but the

same calendar date as it assumed as of June 30, 2014. 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.

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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 have reached historically high levels, and the Company is assuming in the base case that these high levels generally will continue for another 18 months. The Company determines its initial loss severity based on actual recent experience. 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. Beginning for December 31, 2014, the Company differentiated the loss severity assumptions depending on the vintage of the transaction, as shown in the table below.

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 direct vintage 2004 - 2008 first lien U.S. RMBS.

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## Key Assumptions in Base Case Expected Loss Estimates First Lien RMBS(1)

|                                             | As of<br>June 30, 2015 |           |                     | As of<br>March 31, 2015 |           |                     | As of<br>December 31, 2014 |           |                     |
|---------------------------------------------|------------------------|-----------|---------------------|-------------------------|-----------|---------------------|----------------------------|-----------|---------------------|
|                                             | Range                  |           | Weighted<br>Average | Range                   |           | Weighted<br>Average | Range                      |           | Weighted<br>Average |
| Alt-A First Lien                            |                        |           |                     |                         |           |                     |                            |           |                     |
| Plateau CDR                                 | 1.7                    | % - 13.3% | 7.1%                | 2.6                     | % - 13.1% | 7.4%                | 2.0                        | % - 13.4% | 7.3%                |
| Intermediate CDR                            | 0.3                    | % - 2.7%  | 1.4%                | 0.5                     | % - 2.6%  | 1.5%                | 0.4                        | % - 2.7%  | 1.5%                |
| Period until intermediate CDR               | 48 months              |           |                     | 48 months               |           |                     | 48 months                  |           |                     |
| Final CDR                                   | 0.1                    | % - 0.7%  | 0.3%                | 0.1                     | % - 0.7%  | 0.3%                | 0.1                        | % - 0.7%  | 0.3%                |
| Initial loss severity:                      |                        |           |                     |                         |           |                     |                            |           |                     |
| 2005 and prior                              | 60.0%                  |           |                     | 60.0%                   |           |                     | 60.0%                      |           |                     |
| 2006                                        | 70.0%                  |           |                     | 70.0%                   |           |                     | 70.0%                      |           |                     |
| 2007                                        | 65.0%                  |           |                     | 65.0%                   |           |                     | 65.0%                      |           |                     |
| Initial conditional prepayment rate ("CPR") | 1.6                    | % - 27.7% | 8.5%                | 2.7                     | % - 22.4% | 8.1%                | 1.7                        | % - 21.0% | 7.7%                |
| Final CPR(2)                                | 15.0                   | % - 27.7% | 15.3%               | 15.0                    | % - 22.4% | 15.2%               | 15%                        |           |                     |
| Option ARM                                  |                        |           |                     |                         |           |                     |                            |           |                     |
| Plateau CDR                                 | 4.0                    | % - 12.1% | 9.2%                | 4.5                     | % - 12.9% | 9.9%                | 4.3                        | % - 14.2% | 10.6%               |
| Intermediate CDR                            | 0.8                    | % - 2.4%  | 1.8%                | 0.9                     | % - 2.6%  | 2.0%                | 0.9                        | % - 2.8%  | 2.1%                |
| Period until intermediate CDR               | 48 months              |           |                     | 48 months               |           |                     | 48 months                  |           |                     |
| Final CDR                                   | 0.2                    | % - 0.6%  | 0.5%                | 0.2                     | % - 0.6%  | 0.5%                | 0.2                        | % - 0.7%  | 0.5%                |
| Initial loss severity:                      |                        |           |                     |                         |           |                     |                            |           |                     |
| 2005 and prior                              | 60.0%                  |           |                     | 60.0%                   |           |                     | 60.0%                      |           |                     |
| 2006                                        | 70.0%                  |           |                     | 70.0%                   |           |                     | 70.0%                      |           |                     |
| 2007                                        | 65.0%                  |           |                     | 65.0%                   |           |                     | 65.0%                      |           |                     |
| Initial CPR                                 | 1.6                    | % - 12.3% | 5.0%                | 1.8                     | % - 12.7% | 4.9%                | 1.1                        | % - 11.8% | 4.9%                |
| Final CPR(2)                                | 15%                    |           |                     | 15%                     |           |                     | 15%                        |           |                     |
| Subprime                                    |                        |           |                     |                         |           |                     |                            |           |                     |
| Plateau CDR                                 | 4.9                    | % - 13.5% | 9.7%                | 4.8                     | % - 14.4% | 10.2%               | 4.9                        | % - 15.0% | 10.6%               |
| Intermediate CDR                            | 1.0                    | % - 2.7%  | 1.9%                | 1.0                     | % - 2.9%  | 2.0%                | 1.0                        | % - 3.0%  | 2.1%                |
| Period until intermediate CDR               | 48 months              |           |                     | 48 months               |           |                     | 48 months                  |           |                     |
| Final CDR                                   | 0.2                    | % - 0.7%  | 0.4%                | 0.2                     | % - 0.7%  | 0.4%                | 0.2                        | % - 0.7%  | 0.4%                |
| Initial loss severity:                      |                        |           |                     |                         |           |                     |                            |           |                     |
| 2005 and prior                              | 75.0%                  |           |                     | 75.0%                   |           |                     | 75.0%                      |           |                     |
| 2006                                        | 90.0%                  |           |                     | 90.0%                   |           |                     | 90.0%                      |           |                     |
| 2007                                        | 90.0%                  |           |                     | 90.0%                   |           |                     | 90.0%                      |           |                     |
| Initial CPR                                 | 0.0                    | % - 8.7%  | 4.0%                | 0.0                     | % - 9.7%  | 4.7%                | 0.0                        | % - 10.5% | 6.1%                |
| Final CPR(2)                                | 15%                    |           |                     | 15%                     |           |                     | 15%                        |           |                     |

(1) Represents variables for most heavily weighted scenario (the "base case").

(2) 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.

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 conditional default rate, 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 CPR follows a similar pattern to that of the

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conditional default rate. 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 assumptions are the same as those the Company used for March 31, 2015 and December 31, 2014.

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 conditional default rate returned to its modeled equilibrium, which was defined as 5% of the initial conditional default rate. The Company also stressed CPR and the speed of recovery of loss severity rates. The Company probability weighted a total of five scenarios (including its base case) as of June 30, 2015. The Company used a similar approach to establish its pessimistic and optimistic scenarios as of June 30, 2015 as it used as of March 31, 2015 and December 31, 2014, increasing and decreasing the periods of stress from those used in the base case.

In a somewhat more stressful environment than that of the base case, where the conditional default rate plateau was extended six months (to be 42 months long) before the same more gradual conditional default rate recovery and loss severities were assumed to recover over 4.5 rather than 2.5 years (and subprime loss severities were assumed to recover only to 60% and Option ARM and Alt A loss severities to only 45%), expected loss to be paid would increase from current projections by approximately \$25 million for Alt-A first liens, \$6 million for Option ARM, \$62 million for subprime and \$1 million for prime transactions.

In an even more stressful scenario where loss severities were assumed to rise and then recover over nine years and the initial ramp-down of the conditional default rate was assumed to occur over 15 months and other assumptions were the same as the other stress scenario, expected loss to be paid would increase from current projections by approximately \$69 million for Alt-A first liens, \$14 million for Option ARM, \$87 million for subprime and \$4 million for prime transactions.

In a scenario with a somewhat less stressful environment than the base case, where conditional default rate recovery was somewhat less gradual, expected loss to be paid would increase from current projections by approximately \$0.4 million for Alt-A first liens, and decrease by \$13 million for Option ARM, \$10 million for subprime and \$41 thousand for prime transactions.

In an even less stressful scenario where the conditional default rate plateau was six months shorter (30 months, effectively assuming that liquidation rates would improve) and the conditional default rate recovery was more pronounced, (including an initial ramp-down of the conditional default rate over nine months), expected loss to be paid would decrease from current projections by approximately \$24 million for Alt-A first liens, \$22 million for Option ARM, \$43 million for subprime and \$0.3 million for prime transactions.

### U.S. Second Lien RMBS Loss Projections: HELOCs and Closed-End Second Lien

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 the draw rate and loss severity.

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 direct vintage 2004 - 2008 second lien U.S. RMBS.



Table of ContentsKey Assumptions in Base Case Expected Loss Estimates  
Second Lien RMBS(1)

| HELOC key assumptions                  | As of<br>June 30, 2015 |          |                     | As of<br>March 31, 2015 |          |                     | As of<br>December 31, 2014 |          |                     |
|----------------------------------------|------------------------|----------|---------------------|-------------------------|----------|---------------------|----------------------------|----------|---------------------|
|                                        | Range                  |          | Weighted<br>Average | Range                   |          | Weighted<br>Average | Range                      |          | Weighted<br>Average |
| Plateau CDR                            | 5.3                    | %– 23.3% | 8.9%                | 2.3                     | %– 7.5%  | 4.4%                | 2.8                        | %– 6.8%  | 4.1%                |
| Final CDR trended down to              | 0.5                    | %– 3.2%  | 1.2%                | 0.5                     | %– 3.2%  | 1.2%                | 0.5                        | %– 3.2%  | 1.2%                |
| Period until final CDR                 | 34 months              |          |                     | 34 months               |          |                     | 34 months                  |          |                     |
| Initial CPR                            | 9.3%                   |          | 9.3%                | 6.9                     | %– 23.2% | 10.2%               | 6.9                        | %– 21.8% | 11.0%               |
| Final CPR(2)                           | 10.0                   | %– 15.0% | 13.25%              | 10.0                    | %– 23.2% | 15.2%               | 15.0                       | %– 21.8% | 15.5%               |
| Loss severity                          | 90.0                   | %– 98.0% | 90.5%               | 90.0                    | %– 98.0% | 90.4%               | 90.0                       | %– 98.0% | 90.4%               |
|                                        |                        |          |                     |                         |          |                     |                            |          |                     |
| Closed-end second lien key assumptions | As of<br>June 30, 2015 |          |                     | As of<br>March 31, 2015 |          |                     | As of<br>December 31, 2014 |          |                     |
|                                        | Range                  |          | Weighted<br>Average | Range                   |          | Weighted<br>Average | Range                      |          | Weighted<br>Average |
| Plateau CDR                            | 6.0                    | %– 21.4% | 10.8%               | 4.7                     | %– 12.4% | 6.9%                | 5.5                        | %– 12.5% | 7.2%                |
| Final CDR trended down to              | 3.5                    | %– 9.2%  | 4.8%                | 3.5                     | %– 9.1%  | 4.9%                | 3.5                        | %– 9.1%  | 4.9%                |
| Period until final CDR                 | 34 months              |          |                     | 34 months               |          |                     | 34 months                  |          |                     |
| Initial CPR                            | 5.3                    | %– 13.4% | 8.6%                | 3.4                     | %– 11.8% | 7.6%                | 2.8                        | %– 13.9% | 9.9%                |
| Final CPR(2)                           | 15%                    |          |                     | 15%                     |          |                     | 15%                        |          |                     |
| Loss severity                          | 98%                    |          |                     | 98%                     |          |                     | 98%                        |          |                     |

(1) Represents variables for most heavily weighted scenario (the “base case”).

(2) 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.

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. Most second lien transactions report the amount of loans in five monthly delinquency categories (i.e., 30-59 days past due, 60-89 days past due, 90-119 days past due, 120-149 days past due and 150-179 days past due). The Company estimates the amount of loans that will default over the next five months by calculating current representative liquidation rates. A liquidation rate is the percent of loans in a given cohort (in this instance, delinquency category) that ultimately default. 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 period that follows the embedded five months of losses. Liquidation rates assumed as of June 30, 2015, were from 10% to 100%.

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, comprising five months of delinquent data, a one month plateau period and 28 months of decrease to the steady state CDR, the same as of

March 31, 2015 and December 31, 2014.

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, and so increase the borrower's aggregate monthly payment. Some of the HELOC loans underlying the Company's insured HELOC transactions have reached their principal amortization period. The Company has observed that the increase in monthly payments occurring when a loan reaches its principal amortization period, even if mitigated by borrower relief offered by the servicer, is associated with increased borrower defaults. Thus, most of the Company's HELOC projections incorporate an assumption that a percentage of loans reaching their amortization periods will default around the time of the payment increase. These projected defaults are in addition to those generated using the CDR curve as described above. This assumption is similar to the one used

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at March 31, 2015 and December 31, 2014. The Company refined its current approach to calculate the number of additional delinquencies as a function of the number of modified loans in the transaction and the final steady state CDR. Thus transactions that have worse than average expected experience will have higher defaults and transactions where borrowers are receiving modifications so that they will not default when their interest only period ends will have higher losses.

When a second lien loan defaults, there is generally a very low recovery. The Company had assumed as of June 30, 2015 that it will generally recover only 10% or less of the collateral defaulting in the future and declining additional amounts on post-default receipts on previously defaulted collateral. This is the same as at March 31, 2015 and December 31, 2014.

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 for the (based on experience of the most recent three quarters) is assumed to continue 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 both HELOC and closed-end second lien transactions, which is lower than the historical average but reflects the Company's continued uncertainty about the projected performance of the borrowers in these transactions. This pattern is generally consistent with how the Company modeled the CPR at March 31, 2015 and December 31, 2014. To the extent that prepayments differ from projected levels it could materially change the Company's projected excess spread and losses.

The Company uses a number of other variables in its second lien loss projections, including the spread between relevant interest rate indices. These variables have been relatively stable and in the relevant ranges have less impact on the projection results than the variables discussed above. However, in a number of HELOC transactions the servicers have been modifying poorly performing loans from floating to fixed rates, and, as a result, rising interest rates would negatively impact the excess spread available from these modified loans to support the transactions. The Company incorporated these modifications in its assumptions.

In estimating expected losses, the Company modeled and probability weighted five possible CDR curves applicable to the period preceding the return to the long-term steady state CDR. The Company used three scenarios at March 31, 2015 and at December 31, 2014. The Company believes that the level of the elevated CDR and the length of time it will persist, the ultimate prepayment rate, and the amount of additional defaults because of the expiry of the interest only period, 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'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. 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), and doubling the defaults relating to the end of the interest only period would increase the expected loss by approximately \$38 million for HELOC transactions and \$1 million for closed-end second lien transactions. On the other hand, reducing the CDR plateau to four month 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 \$38 million for HELOC transactions and \$0.6 million for closed-end second lien transactions.

## Breaches of Representations and Warranties

Generally, when mortgage loans are transferred into a securitization, the loan originator(s) and/or sponsor(s) provide R&W that the loans meet certain characteristics, and a breach of such R&W often requires that the loan be repurchased from the securitization. In many of the transactions the Company insures, it is in a position to enforce

these R&W provisions. The Company has pursued breaches of R&W on a loan-by-loan basis or in cases where a provider of R&W refused to honor its repurchase obligations, the Company sometimes chose to initiate litigation. The Company's success in pursuing these strategies permitted the Company to enter into agreements with R&W providers under which those providers made payments to the Company, agreed to make payments to the Company in the future, and / or repurchased loans from the transactions, all in return for releases of related liability by the Company. In some instances, the entity providing the R&W (or an affiliate of that entity) also benefited from credit protection sold by the Company through a CDS, and the Company entered into an agreement terminating the CDS protection it provided (and so avoiding future losses on that transaction), again in return for releases of related liability by the Company and in certain instances other consideration. Such agreements with R&W providers provide the Company with many of the benefits of pursuing the R&W claims on a loan by loan basis or through litigation, but without the related expense and uncertainty. The Company continues to pursue these strategies for certain transactions where it does not yet have agreements.

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Through June 30, 2015, the Company has caused entities providing R&Ws to pay, or agree to pay, or to terminate insurance protection on future projected losses of, approximately \$4.2 billion (gross of reinsurance) in respect of their R&W liabilities for transactions in which the Company has provided insurance and included in its net expected loss estimates as of June 30, 2015 an estimated net benefit of \$225 million, (net of reinsurance). Most of this net benefit is projected to be received pursuant to existing agreements with R&W providers, although some is projected to be received in connection with transactions where the company does not yet have such an agreement. Most of the amount projected to be received pursuant to existing agreements with R&W providers benefits from eligible assets placed in trusts to collateralize the R&W provider's future reimbursement obligation, with the amount of such collateral subject to increase or decrease from time to time as determined by rating agency requirements. Currently the Company has agreements with three counterparties where a future reimbursement obligation is collateralized by eligible assets held in trust:

**Bank of America.** Under the Company's agreement with Bank of America Corporation and certain of its subsidiaries ("Bank of America"), Bank of America agreed to reimburse the Company for 80% of claims on the first lien transactions covered by the agreement that the Company pays in the future, until the aggregate lifetime collateral losses (not insurance losses or claims) on those transactions reach \$6.6 billion. As of June 30, 2015 aggregate lifetime collateral losses on those transactions was \$4.3 billion, and the Company was projecting in its base case that such collateral losses would eventually reach \$5.2 billion. Bank of America's reimbursement obligation is secured by \$557 million of collateral held in trust for the Company's benefit.

**Deutsche Bank.** Under the Company's May 2012 agreement with Deutsche Bank AG and certain of its affiliates (collectively, "Deutsche Bank"), Deutsche Bank agreed to reimburse the Company for certain claims it pays in the future on eight first and second lien transactions, including 80% of claims it pays on those transactions until the aggregate lifetime claims (before reimbursement) reach \$319 million. As of June 30, 2015, the Company was projecting in its base case that such aggregate lifetime claims would remain below \$319 million. In the event aggregate lifetime claims paid exceed \$389 million, Deutsche Bank must reimburse the Company for 85% of such claims paid (in excess of \$389 million) until such claims paid reach \$600 million.

When the agreement was first signed, Deutsche Bank was also required to reimburse AGC for future claims it pays on certain RMBS securitizations. AGC and Deutsche Bank terminated one of the securitization transactions on October 10, 2013, another on September 12, 2014 and two more in the fourth quarter of 2014. In the fourth quarter of 2014, AGC and Deutsche Bank also terminated one other BIG transaction under which AGC had provided credit protection to Deutsche Bank through a CDS. In connection with the 2014 terminations, AGC and Deutsche Bank agreed to terminate Deutsche Bank's reimbursement obligation on all of the RMBS securitizations, and AGC made a termination payment to Deutsche Bank and released some of the collateral that had been held in trust. Deutsche Bank remains liable to reimburse the Company for certain claims it pays on eight first and second lien transactions, as described above, and such reimbursement obligation remains secured by \$74 million of collateral held in trust for the Company's benefit.

**UBS.** On May 6, 2013, the Company entered into an agreement with UBS Real Estate Securities Inc. and affiliates ("UBS") and a third party resolving the Company's claims and liabilities related to specified RMBS transactions that were issued, underwritten or sponsored by UBS and insured by AGM or AGC under financial guaranty insurance policies. Under the agreement, UBS agreed to reimburse the Company for 85% of future losses on three first lien RMBS transactions, and such reimbursement obligation is secured by \$79 million of collateral held in trust for the Company's benefit.

For the expected recovery from breaches of R&W in transactions not covered by agreements as of June 30, 2015, the Company did not incorporate any gain contingencies from potential litigation in its estimated repurchases. The amount the Company will ultimately recover related to such contractual R&W is uncertain and subject to a number of

factors including the counterparty's ability to pay, the number and loss amount of loans determined to have breached R&W and, potentially, negotiated settlements or litigation recoveries. As such, the Company's estimate of recoveries is uncertain and actual amounts realized may differ significantly from these estimates. In arriving at the expected recovery from breaches of R&W not already covered by agreements, the Company considered the creditworthiness of the provider of the R&W, the number of breaches found on defaulted loans, the success rate in resolving these breaches across those transactions where material repurchases have been made and the potential amount of time until the recovery is realized. The calculation of expected recovery from breaches of such contractual R&W involved a variety of scenarios which ranged from the Company recovering substantially all of the losses it incurred due to violations of R&W to the Company realizing limited recoveries. These scenarios were probability weighted in order to determine the recovery incorporated into the Company's estimate of expected losses. This approach was used for both loans that had already defaulted and those assumed to default in the future. The Company adjusts the calculation

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of its expected recovery from breaches of R&W based on changing facts and circumstances with respect to each counterparty and transaction.

The Company uses the same RMBS projection scenarios and weightings to project its future R&W benefit as it uses to project RMBS losses on its portfolio. To the extent the Company increases its loss projections, the R&W benefit (whether pursuant to an R&W agreement or not) generally will also increase, subject to the agreement limits and thresholds described above. Similarly, to the extent the Company decreases its loss projections, the R&W benefit (whether pursuant to an R&W agreement or not) generally will also decrease, subject to the agreement limits and thresholds described above.

The number of risks subject to R&W recovery is 30, with related net debt service of \$2.0 billion as of June 30, 2015 compared to 29 with related net debt service of \$2.1 billion as of December 31, 2014. Included in these amounts is net debt service related to transactions not yet subject to an agreement. A risk represents the aggregate of the financial guaranty policies that share the same revenue source for purposes of making Debt Service payments.

The following table provides a breakdown of the development and accretion amount in the roll forward of estimated recoveries associated with claims for breaches of R&W.

## Components of R&amp;W Development

|                                                                                                          | Second Quarter |       | Six Months |         |
|----------------------------------------------------------------------------------------------------------|----------------|-------|------------|---------|
|                                                                                                          | 2015           | 2014  | 2015       | 2014    |
|                                                                                                          | (in millions)  |       |            |         |
| Estimated increase (decrease) in defaults that will result in additional (lower) breaches <sup>(1)</sup> | \$3            | \$(11 | ) \$(49    | ) \$(11 |
| Inclusion or removal of deals with breaches of R&W during period                                         | —              | —     | 0          | —       |
| Change in recovery assumptions                                                                           | —              | 17    | —          | 27      |
| Settlements and anticipated settlements                                                                  | —              | 10    | —          | 45      |
| Accretion of discount on balance                                                                         | 1              | 3     | 2          | 6       |
| Total                                                                                                    | \$4            | \$19  | \$(47      | ) \$67  |

<sup>(1)</sup> The negative R&W development is offset by higher anticipated cash flows in the covered transactions that were related to a third party settlement.

## Triple-X Life Insurance Transactions

The Company had \$3.1 billion of net par exposure to Triple-X life insurance transactions as of June 30, 2015. Two of these transactions, with \$598 million of net par outstanding, are rated BIG: (i) Orkney Re II plc ("Orkney"), where AGUK guaranteed \$382.5 million original par of Series A-1 Notes and AGC guaranteed \$40.5 million original par of Series A-2 Notes; and (ii) Ballantyne Re plc ("Ballantyne"), which AGUK guaranteed.

The Triple-X life insurance transactions are based on discrete blocks of individual life insurance business. In older vintage Triple-X transactions, which include Orkney and Ballantyne, the monies 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 monies are invested at inception in accounts managed by third-party investment managers. In the case of Orkney and Ballantyne, material amounts of their assets were invested in U.S. RMBS. Based on its analysis of the information currently available, including estimates of future investment performance, and projected credit

impairments on the invested assets and performance of the blocks of life insurance business at June 30, 2015, the Company's projected net expected loss to be paid is \$165 million. The economic loss development during Second Quarter 2015 was approximately \$2 million, which was due primarily to additional loss adjustment expenses. The economic loss development during Six Months 2015 was approximately \$7 million, which was due primarily to changes in the risk free rates used to discount the losses and life insurance projections.

AGM had also guaranteed a CDS that referenced the entire issued and outstanding amount of Orkney's Series A-1 Notes. On July 9, 2015, in consideration of a cash payment by AGM, the swap counterparty delivered to AGM all of Orkney's AGUK-guaranteed Series A-1 Notes, and the parties terminated the CDS.

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### TruPS

The Company has insured or reinsured \$4.9 billion of net par (77% of which is in CDS form) of collateralized debt obligations ("CDOs") backed by TruPS and similar debt instruments, or "TruPS CDOs." Of the \$4.9 billion, \$0.9 billion is rated BIG. The underlying collateral in the TruPS CDOs consists of subordinated debt instruments such as TruPS issued by bank holding companies and similar instruments issued by insurance companies, real estate investment trusts ("REITs") and other real estate related issuers.

The Company projects losses for TruPS CDOs by projecting the performance of the asset pools across several scenarios (which it weights) and applying the CDO structures to the resulting cash flows. At June 30, 2015, the Company has projected expected losses to be paid for TruPS CDOs of \$10 million. During Second Quarter 2015, there was positive economic development of approximately \$4 million, which was due primarily to improving collateral performance during the quarter. During Six Months 2015, there was positive economic development of approximately \$13 million, which was due primarily to improving collateral performance during the period.

### Student Loan Transactions

The Company has insured or reinsured \$1.8 billion net par of student loan securitizations issued by private issuers and that it classifies as structured finance. Of this amount, \$167 million is rated BIG. The Company is projecting approximately \$58 million of net expected loss to be paid on these transactions. In general, the 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 negative economic development during Second Quarter 2015 was approximately \$1 million, which was due primarily to delinquencies in the loan portfolio being slightly higher than expected. The positive economic development during Six Months 2015 was approximately \$5 million, which was driven primarily by a partial commutation by the underlying insurer during the first quarter.

### Other structured finance

The Company's other structured finance include \$1.9 billion net par rated BIG, including a distressed collateralized loan obligation ("CLO") transaction, a commercial mortgage-backed security ("CMBS") transaction, transactions backed by manufactured housing loans and quota share surety reinsurance contracts on Spanish housing cooperatives. In Second Quarter 2015 the Radian Asset Acquisition added \$101 million in net economic losses for other structured finance credits. The Company has expected loss to be paid of \$96 million as of June 30, 2015. The economic loss development during Second Quarter 2015 was a negative \$1 million and for Six Months 2015 was a positive \$2 million.

The two transactions most sensitive to changes in losses in the future are the distressed CLO and the CMBS transactions. For the distressed CLO, in its most pessimistic scenario, where the primary insurer defaults (the Company's contract is a second-to-pay policy), the expected loss could increase by \$111 million. In its most optimistic scenario, where the primary insurer pays the full claim, the Company would have no expected losses. For the CMBS, in its most pessimistic scenario, the expected losses could result in \$143 million of additional losses, while its most optimistic scenario would result in no expected losses. Expected losses in its CMBS sector are based on the expected values of various commercial real estate properties.

### Recovery Litigation

### RMBS Transactions

In November 2014, AGM and its affiliate AGC reached a confidential settlement with DLJ Mortgage Capital, Inc., Credit Suisse First Boston Mortgage Securities Corp. and Credit Suisse Securities (USA) LLC to resolve a lawsuit relating to six first lien U.S. RMBS transactions. AGM and AGC sought damages for alleged breaches of representations and warranties in respect of the underlying loans in these transactions, and failure to cure or repurchase defective loans identified by AGM and AGC. On November 25, 2014, the parties filed a joint stipulation discontinuing the lawsuit with prejudice. However, on November 20, 2014, U.S. Bank National Association, as trustee for the transactions, had filed a motion to intervene as a plaintiff in the lawsuit. On November 26, 2014, the trustee submitted a letter stating that the joint stipulation is ineffective and that the lawsuit may be discontinued only by court order, and requesting an opportunity to review and potentially oppose the settlement. On March 5, 2015 the Court denied the motion to intervene.

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Triple-X Life Insurance Transactions

In December 2008, AGUK filed an action against J.P. Morgan Investment Management Inc. (“JPMIM”), the investment manager in the Orkney transaction, in the Supreme Court of the State of New York alleging that JPMIM engaged in breaches of fiduciary duty, gross negligence and breaches of contract based upon its handling of the Orkney investments. After AGUK’s claims were dismissed with prejudice in January 2010, AGUK was successful in its subsequent motions and appeals and, as of December 2011, all of AGUK’s claims for breaches of fiduciary duty, gross negligence and contract were reinstated in full. Discovery is ongoing.

Public Finance Transactions

On November 1, 2013, Radian Asset commenced a declaratory judgment action in the U.S. District Court for the Southern District of Mississippi against Madison County, Mississippi and the Parkway East Public Improvement 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 (now AGC). As of June 30, 2015, \$21 million of such bonds were outstanding. The County maintains that its payment obligation is limited to two years of annual debt service, while AGC contends no such limitation applies. On April 20, 2015, the Court issued an order addressing AGC's and the County's cross-motions for partial summary judgment, and denied the County's motion for summary judgment that its payment obligation lasts only two years. Discovery is ongoing.

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## 7. Financial Guaranty Insurance Losses

## Insurance Contracts' Loss Information

The following table provides balance sheet information on loss and LAE reserves and salvage and subrogation recoverable, net of reinsurance. The Company used weighted average risk-free rates for U.S. dollar denominated financial guaranty insurance obligations that ranged from 0.0% to 3.37% as of June 30, 2015 and 0.0% to 2.95% as of December 31, 2014. Financial guaranty insurance expected LAE reserve was \$10 million as of June 30, 2015 and \$12 million as of December 31, 2014.

## Loss and LAE Reserve and Salvage and Subrogation Recoverable

## Net of Reinsurance

## Insurance Contracts

|                                      | As of June 30, 2015                              |                                                   |                              | As of December 31, 2014         |                                                   |                              |
|--------------------------------------|--------------------------------------------------|---------------------------------------------------|------------------------------|---------------------------------|---------------------------------------------------|------------------------------|
|                                      | Loss and<br>LAE<br>Reserve, net<br>(in millions) | Salvage and<br>Subrogation<br>Recoverable,<br>net | Net Reserve<br>(Recoverable) | Loss and<br>LAE<br>Reserve, net | Salvage and<br>Subrogation<br>Recoverable,<br>net | Net Reserve<br>(Recoverable) |
| Public Finance:                      |                                                  |                                                   |                              |                                 |                                                   |                              |
| U.S. public finance                  | \$453                                            | \$10                                              | \$443                        | \$243                           | \$8                                               | \$235                        |
| Non-U.S. public finance              | 30                                               | —                                                 | 30                           | 30                              | —                                                 | 30                           |
| Public Finance                       | 483                                              | 10                                                | 473                          | 273                             | 8                                                 | 265                          |
| Structured Finance:                  |                                                  |                                                   |                              |                                 |                                                   |                              |
| U.S. RMBS:                           |                                                  |                                                   |                              |                                 |                                                   |                              |
| First lien:                          |                                                  |                                                   |                              |                                 |                                                   |                              |
| Prime first lien                     | 2                                                | —                                                 | 2                            | 2                               | —                                                 | 2                            |
| Alt-A first lien                     | 76                                               | —                                                 | 76                           | 87                              | —                                                 | 87                           |
| Option ARM                           | 22                                               | 40                                                | (18)                         | 28                              | 40                                                | (12)                         |
| Subprime                             | 152                                              | 12                                                | 140                          | 166                             | 8                                                 | 158                          |
| First lien                           | 252                                              | 52                                                | 200                          | 283                             | 48                                                | 235                          |
| Second lien:                         |                                                  |                                                   |                              |                                 |                                                   |                              |
| Closed-end second lien               | 4                                                | 36                                                | (32)                         | 4                               | 39                                                | (35)                         |
| HELOCs                               | 5                                                | 35                                                | (30)                         | 3                               | 39                                                | (36)                         |
| Second lien                          | 9                                                | 71                                                | (62)                         | 7                               | 78                                                | (71)                         |
| Total U.S. RMBS                      | 261                                              | 123                                               | 138                          | 290                             | 126                                               | 164                          |
| Triple-X life insurance transactions | 140                                              | —                                                 | 140                          | 140                             | —                                                 | 140                          |
| TruPS                                | —                                                | —                                                 | —                            | 0                               | —                                                 | 0                            |
| Student loans                        | 55                                               | —                                                 | 55                           | 64                              | —                                                 | 64                           |
| Other structured finance             | 50                                               | —                                                 | 50                           | 34                              | 8                                                 | 26                           |
| Structured Finance                   | 506                                              | 123                                               | 383                          | 528                             | 134                                               | 394                          |
| Subtotal                             | 989                                              | 133                                               | 856                          | 801                             | 142                                               | 659                          |
| Other recoverables                   | —                                                | 8                                                 | (8)                          | —                               | 13                                                | (13)                         |
| Subtotal                             | 989                                              | 141                                               | 848                          | 801                             | 155                                               | 646                          |
| Effect of consolidating FG VIEs      | (70)                                             | (1)                                               | (69)                         | (80)                            | (1)                                               | (79)                         |
| Total (1)                            | \$919                                            | \$140                                             | \$779                        | \$721                           | \$154                                             | \$567                        |

- (1) See “Components of Net Reserves (Salvage)” table for loss and LAE reserve and salvage and subrogation recoverable components.

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## Components of Net Reserves (Salvage)

|                                                                | As of<br>June 30, 2015 | As of<br>December 31,<br>2014 |
|----------------------------------------------------------------|------------------------|-------------------------------|
|                                                                | (in millions)          |                               |
| Loss and LAE reserve                                           | \$996                  | \$799                         |
| Reinsurance recoverable on unpaid losses                       | (77                    | ) (78                         |
| Loss and LAE reserve, net                                      | 919                    | 721                           |
| Salvage and subrogation recoverable                            | (139                   | ) (151                        |
| Salvage and subrogation payable(1)                             | 7                      | 10                            |
| Other recoverables                                             | (8                     | ) (13                         |
| Salvage and subrogation recoverable, net and other recoverable | (140                   | ) (154                        |
| Net reserves (salvage)                                         | \$779                  | \$567                         |

(1) Recorded as a component of reinsurance balances payable.

Balance Sheet Classification of  
Net Expected Recoveries for Breaches of R&W  
Insurance Contracts

|                                          | As of June 30, 2015                                                         |                                       |                                 | As of December 31, 2014                                    |                                       |                                 |
|------------------------------------------|-----------------------------------------------------------------------------|---------------------------------------|---------------------------------|------------------------------------------------------------|---------------------------------------|---------------------------------|
|                                          | For all<br>Financial<br>Guaranty<br>Insurance<br>Contracts<br>(in millions) | Effect of<br>Consolidating<br>FG VIEs | Reported on<br>Balance Sheet(1) | For all<br>Financial<br>Guaranty<br>Insurance<br>Contracts | Effect of<br>Consolidating<br>FG VIEs | Reported on<br>Balance Sheet(1) |
| Salvage and subrogation recoverable, net | \$(8                                                                        | ) \$—                                 | \$ (8                           | ) \$20                                                     | \$—                                   | \$ 20                           |
| Loss and LAE reserve, net                | 140                                                                         | (8                                    | ) 132                           | 185                                                        | (8                                    | ) 177                           |

(1) The remaining benefit for R&W is either recorded at fair value in FG VIE assets, or not recorded on the balance sheet until the total loss, net of R&W, exceeds unearned premium reserve.

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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: (1) the contra-paid which represent the claim payments made and recoveries received that have not yet been recognized in the statement of operations, (2) 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 (having the effect of reducing net expected loss to be paid by the amount of the previously paid claim and the expected recovery), but will have no future income effect (because the previously paid claims and the corresponding recovery of those claims will offset in income in future periods), and (3) 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<br>June 30, 2015<br>(in millions) |
|----------------------------------------------------------|-----------------------------------------|
| Net expected loss to be paid                             | \$ 1,397                                |
| Less: net expected loss to be paid for FG VIEs and other | 133                                     |
| Total                                                    | 1,264                                   |
| Contra-paid, net                                         | (83 )                                   |
| Salvage and subrogation recoverable, net of reinsurance  | 132                                     |
| Loss and LAE reserve, net of reinsurance                 | (900 )                                  |
| Other recoveries                                         | 8                                       |
| Net expected loss to be expensed (present value) (1)     | \$421                                   |

(1) Excludes \$82 million as of June 30, 2015, 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 refundings, accelerations, commutations, changes in expected lives and updates to loss estimates. This table excludes amounts related to FG VIEs, which are eliminated in consolidation.

Net Expected Loss to be Expensed  
Financial Guaranty Insurance Contracts

|                                | As of<br>June 30, 2015<br>(in millions) |
|--------------------------------|-----------------------------------------|
| 2015 (July 1 – September 30)   | \$ 12                                   |
| 2015 (October 1 – December 31) | 12                                      |
| Subtotal 2015                  | 24                                      |
| 2016                           | 40                                      |
| 2017                           | 33                                      |
| 2018                           | 30                                      |
| 2019                           | 29                                      |
| 2020-2024                      | 106                                     |
| 2025-2029                      | 77                                      |
| 2030-2034                      | 55                                      |
| After 2034                     | 27                                      |

|                                    |       |
|------------------------------------|-------|
| Net expected loss to be expensed   | 421   |
| Discount                           | 494   |
| Total expected future loss and LAE | \$915 |

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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

|                                                                 | Second Quarter |       | Six Months |       |
|-----------------------------------------------------------------|----------------|-------|------------|-------|
|                                                                 | 2015           | 2014  | 2015       | 2014  |
|                                                                 | (in millions)  |       |            |       |
| Public Finance:                                                 |                |       |            |       |
| U.S. public finance                                             | \$196          | \$83  | \$209      | \$109 |
| Non-U.S. public finance                                         | 1              | (1    | ) 6        | 0     |
| Public finance                                                  | 197            | 82    | 215        | 109   |
| Structured Finance:                                             |                |       |            |       |
| U.S. RMBS:                                                      |                |       |            |       |
| First lien:                                                     |                |       |            |       |
| Prime first lien                                                | (1             | ) 0   | (1         | ) 0   |
| Alt-A first lien                                                | (9             | ) 10  | (11        | ) 17  |
| Option ARM                                                      | 0              | (22   | ) (1       | ) (30 |
| Subprime                                                        | 1              | 10    | 1          | 2     |
| First lien                                                      | (9             | ) (2  | ) (12      | ) (11 |
| Second lien:                                                    |                |       |            |       |
| Closed-end second lien                                          | (2             | ) (1  | ) (1       | ) (1  |
| HELOCs                                                          | 2              | (18   | ) 11       | (10   |
| Second lien                                                     | 0              | (19   | ) 10       | (11   |
| Total U.S. RMBS                                                 | (9             | ) (21 | ) (2       | ) (22 |
| Triple-X life insurance transactions                            | 1              | 2     | 7          | 15    |
| TruPS                                                           | 0              | 0     | (1         | ) (1  |
| Student loans                                                   | 1              | 3     | (5         | ) 6   |
| Other structured finance                                        | 0              | (1    | ) (1       | ) (2  |
| Structured finance                                              | (7             | ) (17 | ) (2       | ) (4  |
| Loss and LAE on insurance contracts before FG VIE consolidation | 190            | 65    | 213        | 105   |
| Effect of consolidating FG VIEs                                 | (2             | ) (8  | ) (7       | ) (7  |
| Loss and LAE                                                    | \$188          | \$57  | \$206      | \$98  |

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The following table provides information on financial guaranty insurance contracts categorized as BIG.

Financial Guaranty Insurance  
BIG Transaction Loss Summary  
As of June 30, 2015

|                                                       | BIG Categories        |            | BIG 2   |          | BIG 3   |          | Total    | Effect of     | Total    |
|-------------------------------------------------------|-----------------------|------------|---------|----------|---------|----------|----------|---------------|----------|
|                                                       | Gross                 | Ceded      | Gross   | Ceded    | Gross   | Ceded    | BIG, Net | Consolidating | Total    |
|                                                       | (dollars in millions) |            |         |          |         |          |          | FG VIEs       |          |
| Number of risks(1)                                    | 266                   | (54 )      | 76      | (14 )    | 126     | (41 )    | 468      | —             | 468      |
| Remaining weighted-average contract period (in years) | 9.7                   | 6.5        | 10.3    | 8.1      | 9.2     | 6.7      | 10.1     | —             | 10.1     |
| Outstanding exposure:                                 |                       |            |         |          |         |          |          |               |          |
| Principal                                             | \$12,125              | \$(1,621 ) | \$3,696 | \$(307 ) | \$3,147 | \$(136 ) | \$16,904 | \$—           | \$16,904 |
| Interest                                              | 6,019                 | (542 )     | 2,005   | (122 )   | 1,039   | (37 )    | 8,362    | —             | 8,362    |
| Total(2)                                              | \$18,144              | \$(2,163 ) | \$5,701 | \$(429 ) | \$4,186 | \$(173 ) | \$25,266 | \$—           | \$25,266 |
| Expected cash outflows (inflows)                      | \$561                 | \$(28 )    | \$1,012 | \$(79 )  | \$1,659 | \$(49 )  | \$3,076  | \$(339 )      | \$2,737  |
| Potential recoveries                                  |                       |            |         |          |         |          |          |               |          |
| Undiscounted R&W                                      | 17                    | (1 )       | (49 )   | 1        | (127 )  | 6        | (153 )   | 9             | (144 )   |
| Other(3)                                              | (446 )                | 14         | (209 )  | 6        | (399 )  | 19       | (1,015 ) | 180           | (835 )   |
| Total potential recoveries                            | (429 )                | 13         | (258 )  | 7        | (526 )  | 25       | (1,168 ) | 189           | (979 )   |
| Subtotal                                              | 132                   | (15 )      | 754     | (72 )    | 1,133   | (24 )    | 1,908    | (150 )        | 1,758    |
| Discount                                              | 10                    | (1 )       | (190 )  | 13       | (365 )  | 3        | (530 )   | 36            | (494 )   |
| Present value of expected cash flows                  | \$142                 | \$(16 )    | \$564   | \$(59 )  | \$768   | \$(21 )  | \$1,378  | \$(114 )      | \$1,264  |
| Deferred premium revenue                              | \$631                 | \$(59 )    | \$144   | \$(4 )   | \$296   | \$(19 )  | \$989    | \$(107 )      | \$882    |
| Reserves (salvage)(4)                                 | \$7                   | \$(8 )     | \$459   | \$(54 )  | \$433   | \$(8 )   | \$829    | \$(69 )       | \$760    |

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Financial Guaranty Insurance  
BIG Transaction Loss Summary  
As of December 31, 2014

|                                                       | BIG Categories        |            | BIG 2   |          | BIG 3   |          | Total    | Effect of     | Total    |
|-------------------------------------------------------|-----------------------|------------|---------|----------|---------|----------|----------|---------------|----------|
|                                                       | BIG 1                 |            |         |          |         |          | BIG, Net | Consolidating | Total    |
|                                                       | Gross                 | Ceded      | Gross   | Ceded    | Gross   | Ceded    |          | FG VIEs       |          |
|                                                       | (dollars in millions) |            |         |          |         |          |          |               |          |
| Number of risks(1)                                    | 164                   | (59 )      | 75      | (15 )    | 119     | (38 )    | 358      | —             | 358      |
| Remaining weighted-average contract period (in years) | 9.9                   | 7.4        | 10.1    | 8.9      | 9.6     | 6.9      | 10.3     | —             | 10.3     |
| Outstanding exposure:                                 |                       |            |         |          |         |          |          |               |          |
| Principal                                             | \$12,358              | \$(2,163 ) | \$2,421 | \$(286 ) | \$3,067 | \$(175 ) | \$15,222 | \$—           | \$15,222 |
| Interest                                              | 6,350                 | (838 )     | 1,274   | (121 )   | 1,034   | (48 )    | 7,651    | —             | 7,651    |
| Total(2)                                              | \$18,708              | \$(3,001 ) | \$3,695 | \$(407 ) | \$4,101 | \$(223 ) | \$22,873 | \$—           | \$22,873 |
| Expected cash outflows (inflows)                      | \$1,762               | \$(626 )   | \$763   | \$(77 )  | \$1,716 | \$(75 )  | \$3,463  | \$(345 )      | \$3,118  |
| Potential recoveries                                  |                       |            |         |          |         |          |          |               |          |
| Undiscounted R&W                                      | (39 )                 | 0          | (48 )   | 2        | (171 )  | 9        | (247 )   | 8             | (239 )   |
| Other(3)                                              | (1,687 )              | 608        | (206 )  | 5        | (404 )  | 30       | (1,654 ) | 177           | (1,477 ) |
| Total potential recoveries                            | (1,726 )              | 608        | (254 )  | 7        | (575 )  | 39       | (1,901 ) | 185           | (1,716 ) |
| Subtotal                                              | 36                    | (18 )      | 509     | (70 )    | 1,141   | (36 )    | 1,562    | (160 )        | 1,402    |
| Discount                                              | 3                     | 0          | (117 )  | 11       | (353 )  | 9        | (447 )   | 34            | (413 )   |
| Present value of expected cash flows                  | \$39                  | \$(18 )    | \$392   | \$(59 )  | \$788   | \$(27 )  | \$1,115  | \$(126 )      | \$989    |
| Deferred premium revenue                              | \$378                 | \$(70 )    | \$119   | \$(6 )   | \$312   | \$(33 )  | \$700    | \$(116 )      | \$584    |
| Reserves (salvage)(4)                                 | \$(42 )               | \$(5 )     | \$278   | \$(53 )  | \$482   | \$(10 )  | \$650    | \$(79 )       | \$571    |

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) Includes excess spread and draws on HELOCs.

(4) See table “Components of net reserves (salvage).”

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 the insured obligors were 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. At AGM's current financial strength ratings, if the conditions giving rise to the obligation of AGM to

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make a termination payment under the swap termination policies were all satisfied, then AGM could pay claims in an amount not exceeding approximately \$132 million in respect of such termination payments. Taking into consideration whether the rating of the municipal obligor is below any applicable specified trigger, if the financial strength ratings of AGM were further 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 additional amount not exceeding approximately \$355 million in respect of such termination payments.

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 June 30, 2015, AGM and AGC had insured approximately \$5.9 billion net par of VRDOs, of which approximately \$0.3 billion 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. Most of the guaranteed investment contracts ("GICs") insured by AGM allow the GIC holder to terminate the GIC and withdraw the funds in the event of a downgrade of AGM below A3 or A-, with no right of the GIC issuer to avoid such withdrawal by posting collateral or otherwise enhancing its credit. Each GIC contract stipulates the thresholds below which the GIC issuer must post eligible collateral, along with the types of securities eligible for posting and the collateralization percentage applicable to each security type. These collateralization percentages range from 100% of the GIC balance for cash posted as collateral to, typically, 108% for asset-backed securities. If the entire aggregate accreted GIC balance of approximately \$1.9 billion as of June 30, 2015 were terminated, the assets of the GIC issuers (which had an aggregate market value which exceed the liabilities by \$0.9 billion) would be sufficient to fund the withdrawal of the GIC funds.

## 8. 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 Six Months 2015, 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.

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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 or liability's categorization within the fair value hierarchy 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.

**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.

Transfers between Levels 1, 2 and 3 are recognized at the end of the period when the transfer occurs. The Company reviews the classification between Levels 1, 2 and 3 quarterly to determine whether a transfer is necessary. During the periods presented, there were no transfers between Level 1, 2 and 3.

### 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 include available relevant market information, benchmark curves, benchmarking of like securities, 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. The market inputs used in the pricing evaluation include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data and industry and economic events. 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. Given the asset class, the priority of the use of inputs may change or some market inputs may not be relevant. Additionally, the valuation of fixed-maturity investments is more subjective when markets are less liquid due to the lack of market based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction would occur.

Short-term investments, that are traded in active markets, are classified within Level 1 in the fair value hierarchy and are 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.

Annually, the Company reviews each pricing service's procedures, controls and models used in the valuations of the Company's investment portfolio, as well as the competency of the pricing service's key personnel. In addition, on a quarterly basis, the Company holds a meeting of the internal valuation committee (comprised of individuals within the Company with market, valuation, accounting, and/or finance experience) that reviews and approves prices and assumptions used by the pricing services.

For Level 1 and 2 securities, the Company, on a quarterly basis, reviews internally developed analytic packages that highlight, at a CUSIP level, price changes from the previous quarter to the current quarter. Where unexpected price movements are noted for a specific CUSIP, the Company formally challenges the price provided, and reviews all key inputs utilized in the third party's pricing model, and compares such information to management's own market information.

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For Level 3 securities, the Company, on a quarterly basis:

- reviews methodologies, any model updates and inputs and compares such information to management's own market information and, where applicable, the internal models,

- reviews internally developed analytic packages that highlight, at a CUSIP level, price changes from the previous quarter to the current quarter, and evaluates, documents, and resolves any significant pricing differences with the assistance of the third party pricing source, and

- compares prices received from different third party pricing sources, and evaluates, documents the rationale for, and resolves any significant pricing differences.

Prices determined based on models where at least one significant model assumption or input is unobservable, are considered to be Level 3 in the fair value hierarchy. As of June 30, 2015, the Company used models to price 31 fixed-maturity securities (which were purchased or obtained for loss mitigation or other risk management purposes), which was 5.7% or \$655 million of the Company's fixed-maturity securities and short-term investments at fair value. Certain 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 depreciation/appreciation 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 bond 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 materially change 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 June 30, 2015 and December 31, 2014, other invested assets include investments carried and measured at fair value on a recurring basis of \$85 million and \$95 million, respectively, and include primarily investments in the global property catastrophe risk market and investment in a fund that invests primarily in senior loans and bonds. Both of these investments were classified as Level 3. Other invested assets also include fixed-maturity securities classified as trading carried as Level 2.

### 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's CCS (the "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 on the consolidated statement of operations. The estimated current cost of the Company's CCS is based on several factors, including broker-dealer quotes for the outstanding securities, AGM and AGC CDS spreads, the U.S. dollar forward swap curve, London Interbank Offered Rate ("LIBOR") curve projections 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 net asset value of the funds if a published daily value is not available (Level 2). The net asset values are based on observable information.

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### Financial Guaranty Contracts Accounted for as Credit Derivatives

The Company's credit derivatives consist primarily 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 Company does 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; however, the Company has mutually agreed with various counterparties to terminate certain CDS transactions. Such terminations generally are not completed at fair value but instead for an amount that approximates the present value of future premiums or for an amount negotiated as part of an R&W settlement.

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 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 or purchases for credit protection purposes, 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 to derive an estimate of the fair value of the Company's contracts in its principal markets (see "Assumptions and 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 deals 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 since there is reliance on at least one unobservable input 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 of the Company's current credit standing.

The Company's models and the related assumptions are continuously reevaluated by management and enhanced, as appropriate, based upon improvements in modeling techniques and availability of more timely and relevant market information.

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 June 30, 2015 were such that market prices of the Company's CDS contracts were not available.

Management considers factors such as current prices charged for similar agreements, when available, performance of underlying assets, life of the instrument, and the nature and extent of activity in the financial guaranty credit derivative marketplace. The assumptions that management uses to determine the fair value may change in the future due to market conditions. Due to the inherent uncertainties of the assumptions used in the valuation models, actual experience may differ from the estimates reflected in the Company's consolidated financial statements and the

differences may be material.

#### 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:

- Gross spread.
- The allocation of gross spread among:  
the profit the originator, usually an investment bank, realizes for putting the deal together and funding the transaction ("bank profit");  
premiums paid to the Company for the Company's credit protection provided ("net spread"); and

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the cost of CDS protection purchased by the originator to hedge their counterparty credit risk exposure to the Company ("hedge cost").

- The weighted average life which is based on Debt Service schedules.

The rates used to discount future expected premium cash flows ranged from 0.29% to 3.00% at June 30, 2015 and 0.26% to 2.70% at December 31, 2014.

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. If observable market credit spreads are not available or reliable for the underlying reference obligations, then market indices are used that most closely resemble the underlying reference obligations, considering asset class, credit quality rating and maturity of the underlying reference obligations. These indices are adjusted to reflect the non-standard terms of the Company's CDS contracts. 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.

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.

The following spread hierarchy is utilized in determining which source of gross spread to use, with the rule being to use CDS spreads where available. If not available, CDS spreads are either interpolated or extrapolated based on similar transactions or market indices.

- Actual collateral specific credit spreads (if up-to-date and reliable market-based spreads are available).
- Deals 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.
- 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         | As of        |
| June 30, 2015 | December 31, |

|                                             |     | 2014  |   |
|---------------------------------------------|-----|-------|---|
| Based on actual collateral specific spreads | 11  | % 9   | % |
| Based on market indices                     | 77  | % 82  | % |
| Provided by the CDS counterparty            | 12  | % 9   | % |
| Total                                       | 100 | % 100 | % |

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(1) Based on par.

Over time the data inputs can change as new sources become available or existing sources are discontinued or are no longer considered to be the most appropriate. It is the Company's objective to move to higher levels on the hierarchy whenever possible, but it is sometimes necessary to move to lower priority inputs because of discontinued data sources or management's

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assessment that the higher priority inputs are no longer considered to be representative of market spreads for a given type of collateral. This can happen, for example, if transaction volume changes such that a previously used spread index is no longer viewed as being reflective of current market levels.

The Company interpolates a curve based on the historical relationship between the premium the Company receives when a credit derivative is closed to the daily closing price of the market index related to the specific asset class and rating of the deal. This curve indicates expected credit spreads at each indicative level on the related market index. For transactions with unique terms or characteristics where no price quotes are available, management extrapolates credit spreads based on a similar transaction for which the Company has received a spread quote from one of the first three sources within the Company's spread hierarchy. This alternative transaction will be within the same asset class, have similar underlying assets, similar credit ratings, and similar time to maturity. The Company then calculates the percentage of relative spread change quarter over quarter for the alternative transaction. This percentage change is then applied to the historical credit spread of the transaction for which no price quote was received in order to calculate the transactions' current spread. Counterparties 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. These quotes are validated by cross-referencing quotes received from one market source with those quotes received from another market source to ensure reasonableness.

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 deals. 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 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 deals 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 deal generally decreases. As the cost to acquire CDS protection referencing AGC or AGM decreases, the amount of premium the Company retains on a deal generally increases. 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%, 20% and 21% based on number of deals, of the Company's CDS contracts are fair valued using this minimum premium as of June 30, 2015, March 31, 2015 and December 31, 2014, respectively. The percentage of deals that price using the minimum premiums fluctuates due to changes in AGM's and AGC's credit spreads. In general when AGM's and AGC's credit spreads narrow, the cost to hedge AGM's and AGC's name declines and more transactions price above previously established floor levels. Meanwhile, when AGM's and AGC's credit spreads widen, the cost to hedge AGM's and 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 deal originator hedging a significant 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 fair value resulting in a credit derivative asset on protection sold is the result of contractual cash inflows on in-force deals in excess of 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 be able to realize a gain representing the difference between the higher 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.

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## Example

The following is an example of how changes in gross spreads, the Company's own credit spread and the cost to buy protection on the Company affect the amount of premium the Company can demand for its credit protection. The assumptions used in these examples are hypothetical amounts. Scenario 1 represents the market conditions in effect on the transaction date and Scenario 2 represents market conditions at a subsequent reporting date.

|                                                     | Scenario 1 |            | Scenario 2 |            |   |
|-----------------------------------------------------|------------|------------|------------|------------|---|
|                                                     | bps        | % of Total | bps        | % of Total |   |
| Original gross spread/cash bond price (in bps)      | 185        |            | 500        |            |   |
| Bank profit (in bps)                                | 115        | 62         | % 50       | 10         | % |
| Hedge cost (in bps)                                 | 30         | 16         | % 440      | 88         | % |
| The premium the Company receives per annum (in bps) | 40         | 22         | % 10       | 2          | % |

In Scenario 1, the gross spread is 185 basis points. The bank or deal originator captures 115 basis points of the original gross spread and hedges 10% of its exposure to AGC, when the CDS spread on AGC was 300 basis points (300 basis points  $\times$  10% = 30 basis points). Under this scenario the Company receives premium of 40 basis points, or 22% of the gross spread.

In Scenario 2, the gross spread is 500 basis points. The bank or deal originator captures 50 basis points of the original gross spread and hedges 25% of its exposure to AGC, when the CDS spread on AGC was 1,760 basis points (1,760 basis points  $\times$  25% = 440 basis points). Under this scenario the Company would receive premium of 10 basis points, or 2% of the gross spread. Due to the increased cost to hedge AGC's name, the amount of profit the bank would expect to receive, and the premium the Company would expect to receive decline significantly.

In this example, the contractual cash flows (the Company premium received per annum above) exceed the amount a market participant would require the Company to pay in today's market to accept its obligations under the CDS contract, thus resulting in an asset.

## 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 transaction structure includes par insured, weighted average life, level of subordination and composition of collateral.

- The model maximizes the use of market-driven inputs whenever they are available. The key inputs to the model are market-based spreads for the collateral, and the credit rating of referenced entities. These are viewed by the Company to be the key parameters that affect fair value of the transaction.

- The model is a consistent approach to valuing positions. The Company has developed a hierarchy for market-based spread inputs that helps mitigate the degree of subjectivity during periods of high illiquidity.

The primary weaknesses of the Company's CDS modeling techniques are:

-

There is no exit market or 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.

• At June 30, 2015 and December 31, 2014, the markets for the inputs to the model were 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.

These contracts were classified as Level 3 in the fair value hierarchy because there is a reliance on at least one unobservable input deemed significant to the valuation model, most significantly the Company's estimate of the value of non-standard terms and conditions of its credit derivative contracts and amount of protection purchased on AGC or AGM's name.

### Fair Value Option on FG VIEs' Assets and Liabilities

The Company elected the fair value option for all the FG VIEs' assets and liabilities. See Note 10, Consolidated Variable Interest Entities.

The FG VIEs issued securities collateralized by first lien and second lien RMBS as well as loans and receivables. The lowest level input that is significant to the fair value measurement of these assets and liabilities was a Level 3 input (i.e., unobservable), therefore management classified them as Level 3 in the fair value hierarchy. Prices are generally determined with the assistance of an independent third-party, based on a discounted cash flow approach. The models to price the FG VIEs' liabilities used, where appropriate, inputs such as estimated prepayment speeds; market values of the assets that collateralize the securities; 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); yields implied by market prices for similar securities; house price depreciation/appreciation rates based on macroeconomic forecasts 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 timing of the potential default and the Company's own credit rating. The third-party also 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 third-party, on comparable bonds.

The fair value of the Company's FG VIE 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); discount rates 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 VIE's assets and the implied collateral losses within the transaction. In general, the fair value of the FG VIE asset 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 VIE assets, while a decrease in collateral losses typically leads to an increase in the fair value of FG VIE assets. These factors also directly impact the fair value of the Company's FG VIE liabilities.

The fair value of the Company's FG VIE liabilities is also generally sensitive to changes relating to estimated prepayment speeds; market values of the underlying assets; 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); discount rates implied by market prices for similar securities; and house price depreciation/appreciation rates based on macroeconomic forecasts. In addition, the Company's FG VIE liabilities with recourse are also sensitive to changes in the Company's implied credit worthiness. Significant changes to any of these inputs 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 VIE 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 VIE 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 VIE liabilities with recourse.

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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. On a quarterly basis, the Company also 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 includes adjustments to the carrying value of unearned premium reserve for stressed losses, ceding commissions and return on capital. The significant inputs were not readily observable. The Company accordingly classified this fair value measurement as Level 3.

#### Long-Term Debt

The Company's long-term debt, excluding notes payable, 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 the notes payable was determined by calculating the present value of the expected cash flows. The Company determines discounted future cash flows using market driven discount rates and a variety of assumptions, including a projection of the LIBOR rate, prepayment and default assumptions, and AGM CDS spreads. The fair value measurement was classified as Level 3 in the fair value hierarchy because there is a reliance on significant unobservable inputs to the valuation model, including the discount rates, prepayment and default assumptions, loss severity and recovery on delinquent loans.

#### Other Invested Assets

The fair value of the other invested assets was determined by calculating the present value of the expected cash flows. The Company uses a market approach to determine discounted future cash flows using market driven discount rates and a variety of assumptions, including a projection of the LIBOR rate and prepayment and default assumptions. The fair value measurement was classified as Level 3 in the fair value hierarchy because there is a reliance on significant unobservable inputs to the valuation model, including the discount rates, prepayment and default assumptions, loss severity and recovery on delinquent loans.

#### Other Assets and Other Liabilities

The Company's other assets and other liabilities consist predominantly of accrued interest, receivables for securities sold and payables for securities purchased, the carrying values of which approximate fair value.

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## Financial Instruments Carried at Fair Value

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 June 30, 2015

|                                                      | Fair Value<br>(in millions) | Fair Value Hierarchy |          |         |
|------------------------------------------------------|-----------------------------|----------------------|----------|---------|
|                                                      |                             | Level 1              | Level 2  | Level 3 |
| Assets:                                              |                             |                      |          |         |
| Investment portfolio, available-for-sale:            |                             |                      |          |         |
| Fixed-maturity securities                            |                             |                      |          |         |
| Obligations of state and political subdivisions      | \$5,986                     | \$—                  | \$5,979  | \$7     |
| U.S. government and agencies                         | 486                         | —                    | 486      | —       |
| Corporate securities                                 | 1,442                       | —                    | 1,365    | 77      |
| Mortgage-backed securities:                          |                             |                      |          |         |
| RMBS                                                 | 1,329                       | —                    | 994      | 335     |
| CMBS                                                 | 601                         | —                    | 601      | —       |
| Asset-backed securities                              | 431                         | —                    | 195      | 236     |
| Foreign government securities                        | 307                         | —                    | 307      | —       |
| Total fixed-maturity securities                      | 10,582                      | —                    | 9,927    | 655     |
| Short-term investments                               | 834                         | 535                  | 299      | —       |
| Other invested assets (1)                            | 90                          | —                    | 7        | 83      |
| Credit derivative assets                             | 81                          | —                    | —        | 81      |
| FG VIEs' assets, at fair value (2)                   | 1,596                       | —                    | —        | 1,596   |
| Other assets                                         | 107                         | 25                   | 22       | 60      |
| Total assets carried at fair value                   | \$13,290                    | \$560                | \$10,255 | \$2,475 |
| Liabilities:                                         |                             |                      |          |         |
| Credit derivative liabilities                        | \$1,007                     | \$—                  | \$—      | \$1,007 |
| FG VIEs' liabilities with recourse, at fair value    | 1,361                       | —                    | —        | 1,361   |
| FG VIEs' liabilities without recourse, at fair value | 171                         | —                    | —        | 171     |
| Other liabilities                                    | 17                          | —                    | —        | 17      |
| Total liabilities carried at fair value              | \$2,556                     | \$—                  | \$—      | \$2,556 |

Table of ContentsFair Value Hierarchy of Financial Instruments Carried at Fair Value  
As of December 31, 2014

|                                                      | Fair Value<br>(in millions) | Fair Value Hierarchy |          |         |
|------------------------------------------------------|-----------------------------|----------------------|----------|---------|
|                                                      |                             | Level 1              | Level 2  | Level 3 |
| Assets:                                              |                             |                      |          |         |
| Investment portfolio, available-for-sale:            |                             |                      |          |         |
| Fixed-maturity securities                            |                             |                      |          |         |
| Obligations of state and political subdivisions      | \$5,795                     | \$—                  | \$5,757  | \$38    |
| U.S. government and agencies                         | 665                         | —                    | 665      | —       |
| Corporate securities                                 | 1,368                       | —                    | 1,289    | 79      |
| Mortgage-backed securities:                          |                             |                      |          |         |
| RMBS                                                 | 1,285                       | —                    | 860      | 425     |
| CMBS                                                 | 659                         | —                    | 659      | —       |
| Asset-backed securities                              | 417                         | —                    | 189      | 228     |
| Foreign government securities                        | 302                         | —                    | 302      | —       |
| Total fixed-maturity securities                      | 10,491                      | —                    | 9,721    | 770     |
| Short-term investments                               | 767                         | 359                  | 408      | —       |
| Other invested assets (1)                            | 100                         | 0                    | 17       | 83      |
| Credit derivative assets                             | 68                          | —                    | —        | 68      |
| FG VIEs' assets, at fair value (2)                   | 1,398                       | —                    | —        | 1,398   |
| Other assets                                         | 78                          | 26                   | 17       | 35      |
| Total assets carried at fair value                   | \$12,902                    | \$385                | \$10,163 | \$2,354 |
| Liabilities:                                         |                             |                      |          |         |
| Credit derivative liabilities                        | \$963                       | \$—                  | \$—      | \$963   |
| FG VIEs' liabilities with recourse, at fair value    | 1,277                       | —                    | —        | 1,277   |
| FG VIEs' liabilities without recourse, at fair value | 142                         | —                    | —        | 142     |
| Total liabilities carried at fair value              | \$2,382                     | \$—                  | \$—      | \$2,382 |

(1) Includes Level 3 mortgage loans that are recorded at fair value on a non-recurring basis.

(2) Excludes restricted cash.

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## Changes in Level 3 Fair Value Measurements

The table below presents a roll forward of the Company's Level 3 financial instruments carried at fair value on a recurring basis during Second Quarter 2015 and 2014, and Six Months 2015 and 2014.

## Fair Value Level 3 Rollforward

## Recurring Basis

## Second Quarter 2015

|                                                                                                                    | Fixed-Maturity Securities                                |                         |        |                                |                             |                                        |                 |                                                         |                                                                  |                                                                     |
|--------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|-------------------------|--------|--------------------------------|-----------------------------|----------------------------------------|-----------------|---------------------------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------|
|                                                                                                                    | Obligations<br>of State and<br>Political<br>Subdivisions | Corporate<br>Securities | RMBS   | Asset-<br>Backed<br>Securities | Other<br>Invested<br>Assets | FG VIEs'<br>Assets at<br>Fair<br>Value | Other<br>Assets | Credit<br>Derivative<br>Asset<br>(Liability),<br>net(5) | FG VIEs'<br>Liabilities<br>with<br>Recourse,<br>at Fair<br>Value | FG VIEs'<br>Liabilities<br>without<br>Recourse,<br>at Fair<br>Value |
|                                                                                                                    | (in millions)                                            |                         |        |                                |                             |                                        |                 |                                                         |                                                                  |                                                                     |
| Fair value as of<br>March 31, 2015                                                                                 | \$8                                                      | \$79                    | \$383  | \$226                          | \$76                        | \$1,495                                | \$37            | \$(782 )                                                | \$(1,278 )                                                       | \$(145 )                                                            |
| Radian Asset<br>Acquisition                                                                                        | —                                                        | —                       | 4      | —                              | 2                           | 122                                    | —               | (215 )                                                  | (114 )                                                           | (4 )                                                                |
| Total pretax<br>realized and<br>unrealized<br>gains/(losses)<br>recorded in:(1)                                    |                                                          |                         |        |                                |                             |                                        |                 |                                                         |                                                                  |                                                                     |
| Net income<br>(loss)                                                                                               | 0                                                        | (2)(3 )                 | (2)8   | (2)3                           | (2)0                        | (2)19                                  | (3)23           | (4)90                                                   | (6)(5 )                                                          | (3)(25 )                                                            |
| Other<br>comprehensive<br>income (loss)                                                                            | (1 )                                                     | 1                       | (9 )   | 8                              | 0                           | —                                      | —               | —                                                       | —                                                                | —                                                                   |
| Purchases                                                                                                          | —                                                        | —                       | 1      | —                              | —                           | —                                      | —               | —                                                       | —                                                                | —                                                                   |
| Settlements                                                                                                        | —                                                        | —                       | (51 )  | (1 )                           | 0                           | (40 )                                  | —               | (19 )                                                   | 36                                                               | 3                                                                   |
| FG VIE<br>consolidations                                                                                           | —                                                        | —                       | (1 )   | —                              | —                           | —                                      | —               | —                                                       | —                                                                | —                                                                   |
| FG VIE<br>deconsolidations                                                                                         | —                                                        | —                       | —      | —                              | —                           | —                                      | —               | —                                                       | —                                                                | —                                                                   |
| Fair value as of<br>June 30, 2015                                                                                  | \$7                                                      | \$77                    | \$335  | \$236                          | \$78                        | \$1,596                                | \$60            | \$(926 )                                                | \$(1,361 )                                                       | \$(171 )                                                            |
| Change in<br>unrealized<br>gains/(losses)<br>related<br>to financial<br>instruments held<br>as of June 30,<br>2015 | \$0                                                      | \$1                     | \$(7 ) | \$8                            | \$0                         | \$31                                   | \$23            | \$82                                                    | \$(6 )                                                           | \$(14 )                                                             |



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Fair Value Level 3 Rollforward  
Recurring Basis  
Second Quarter 2014

|                                                                                                                    | Fixed-Maturity Securities                                |                         |       |                            |                             |                                        |                 |                                                         |                                                                     |                                                                     |      |
|--------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|-------------------------|-------|----------------------------|-----------------------------|----------------------------------------|-----------------|---------------------------------------------------------|---------------------------------------------------------------------|---------------------------------------------------------------------|------|
|                                                                                                                    | Obligations<br>of State and<br>Political<br>Subdivisions | Corporate<br>Securities | RMBS  | Asset-Backed<br>Securities | Other<br>Invested<br>Assets | FG VIEs'<br>Assets at<br>Fair<br>Value | Other<br>Assets | Credit<br>Derivative<br>Asset<br>(Liability),<br>net(5) | FG<br>VIEs'<br>Liabilities<br>with<br>Recourse,<br>at Fair<br>Value | FG VIEs'<br>Liabilities<br>without<br>Recourse,<br>at Fair<br>Value |      |
|                                                                                                                    | (in millions)                                            |                         |       |                            |                             |                                        |                 |                                                         |                                                                     |                                                                     |      |
| Fair value as of<br>March 31, 2014                                                                                 | \$38                                                     | \$138                   | \$359 | 252                        | \$48                        | \$1,257                                | \$37            | \$(1,923)                                               | \$(1,346)                                                           | \$(101)                                                             |      |
| Total pretax<br>realized and<br>unrealized<br>gains/(losses)<br>recorded in:(1)                                    |                                                          |                         |       |                            |                             |                                        |                 |                                                         |                                                                     |                                                                     |      |
| Net income<br>(loss)                                                                                               | 1                                                        | (2)(7                   | )(2)6 | (2)3                       | (2)—                        | 35                                     | (3)(6           | )(4)103                                                 | (6)(25                                                              | )(3)(27                                                             | )(3) |
| Other<br>comprehensive<br>income (loss)                                                                            | 0                                                        | (25                     | ) 0   | 0                          | 1                           | —                                      | —               | —                                                       | —                                                                   | —                                                                   |      |
| Purchases                                                                                                          | —                                                        | —                       | —     | —                          | —                           | —                                      | —               | —                                                       | —                                                                   | —                                                                   |      |
| Settlements                                                                                                        | (1                                                       | ) —                     | (15   | ) (1                       | ) 0                         | (29                                    | ) —             | (17                                                     | ) 30                                                                | —                                                                   |      |
| FG VIE<br>consolidations                                                                                           | —                                                        | —                       | —     | —                          | —                           | 46                                     | —               | —                                                       | (25                                                                 | ) (21                                                               | )    |
| FG VIE<br>deconsolidations                                                                                         | —                                                        | —                       | —     | —                          | —                           | (25                                    | ) —             | —                                                       | —                                                                   | 25                                                                  |      |
| Fair value as of<br>June 30, 2014                                                                                  | \$38                                                     | \$106                   | \$350 | \$254                      | \$49                        | \$1,284                                | \$31            | \$(1,837)                                               | \$(1,366)                                                           | \$(124)                                                             |      |
| Change in<br>unrealized<br>gains/(losses)<br>related<br>to financial<br>instruments held<br>as of June 30,<br>2014 | \$0                                                      | \$(25                   | ) \$0 | \$0                        | \$1                         | \$40                                   | \$(6            | ) \$88                                                  | \$(24                                                               | ) \$4                                                               |      |

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Fair Value Level 3 Rollforward  
Recurring Basis  
Six Months 2015

| Fixed-Maturity Securities                                                                                          |                                                          |                         |       |                                |                             |                                        |                 |                                                         |                                                                     |                                                                     |
|--------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|-------------------------|-------|--------------------------------|-----------------------------|----------------------------------------|-----------------|---------------------------------------------------------|---------------------------------------------------------------------|---------------------------------------------------------------------|
|                                                                                                                    | Obligations<br>of State and<br>Political<br>Subdivisions | Corporate<br>Securities | RMBS  | Asset-<br>Backed<br>Securities | Other<br>Invested<br>Assets | FG VIEs'<br>Assets at<br>Fair<br>Value | Other<br>Assets | Credit<br>Derivative<br>Asset<br>(Liability),<br>net(5) | FG<br>VIEs'<br>Liabilities<br>with<br>Recourse,<br>at Fair<br>Value | FG VIEs'<br>Liabilities<br>without<br>Recourse,<br>at Fair<br>Value |
|                                                                                                                    | (in millions)                                            |                         |       |                                |                             |                                        |                 |                                                         |                                                                     |                                                                     |
| Fair value as of<br>December 31,<br>2014                                                                           | \$38                                                     | \$79                    | \$425 | \$228                          | \$78                        | \$1,398                                | \$35            | \$(895)                                                 | \$(1,277)                                                           | \$(142)                                                             |
| Radian Asset<br>Acquisition                                                                                        | —                                                        | —                       | 4     | —                              | 2                           | 122                                    | —               | (215)                                                   | (114)                                                               | (4)                                                                 |
| Total pretax<br>realized and<br>unrealized<br>gains/(losses)<br>recorded in:(1)                                    |                                                          |                         |       |                                |                             |                                        |                 |                                                         |                                                                     |                                                                     |
| Net income<br>(loss)                                                                                               | 3                                                        | (2)(1)                  | (2)17 | (2)1                           | (2)(4)                      | (2)42                                  | (3)25           | (4)214                                                  | (6)88                                                               | (3)(30)                                                             |
| Other<br>comprehensive<br>income (loss)                                                                            | (3)                                                      | (1)                     | (4)   | 9                              | 2                           | —                                      | —               | —                                                       | —                                                                   | —                                                                   |
| Purchases                                                                                                          | —                                                        | —                       | 10    | —                              | —                           | —                                      | —               | —                                                       | —                                                                   | —                                                                   |
| Settlements                                                                                                        | (31)                                                     | (7)                     | (116) | (2)                            | 0                           | (70)                                   | —               | (30)                                                    | 73                                                                  | 5                                                                   |
| FG VIE<br>consolidations                                                                                           | —                                                        | —                       | (1)   | —                              | —                           | 104                                    | —               | —                                                       | (131)                                                               | —                                                                   |
| FG VIE<br>deconsolidations                                                                                         | —                                                        | —                       | —     | —                              | —                           | —                                      | —               | —                                                       | —                                                                   | —                                                                   |
| Fair value as of<br>June 30, 2015                                                                                  | \$7                                                      | \$77                    | \$335 | \$236                          | \$78                        | \$1,596                                | \$60            | \$(926)                                                 | \$(1,361)                                                           | \$(171)                                                             |
| Change in<br>unrealized<br>gains/(losses)<br>related<br>to financial<br>instruments held<br>as of June 30,<br>2015 | \$0                                                      | \$(1)                   | \$(1) | \$9                            | \$2                         | \$65                                   | \$25            | \$186                                                   | \$(12)                                                              | \$(19)                                                              |

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Fair Value Level 3 Rollforward  
Recurring Basis  
Six Months 2014

|                                                                                                                    | Fixed-Maturity Securities                                |                         |       |                            |                             |                                        |                 |                                                         |                                                                     |                                                                     |
|--------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|-------------------------|-------|----------------------------|-----------------------------|----------------------------------------|-----------------|---------------------------------------------------------|---------------------------------------------------------------------|---------------------------------------------------------------------|
|                                                                                                                    | Obligations<br>of State and<br>Political<br>Subdivisions | Corporate<br>Securities | RMBS  | Asset-Backed<br>Securities | Other<br>Invested<br>Assets | FG VIEs'<br>Assets at<br>Fair<br>Value | Other<br>Assets | Credit<br>Derivative<br>Asset<br>(Liability),<br>net(5) | FG<br>VIEs'<br>Liabilities<br>with<br>Recourse,<br>at Fair<br>Value | FG VIEs'<br>Liabilities<br>without<br>Recourse,<br>at Fair<br>Value |
|                                                                                                                    | (in millions)                                            |                         |       |                            |                             |                                        |                 |                                                         |                                                                     |                                                                     |
| Fair value as of<br>December 31,<br>2013                                                                           | \$36                                                     | \$136                   | \$290 | 268                        | \$2                         | \$2,565                                | \$46            | \$(1,693)                                               | \$(1,790)                                                           | \$(1,081)                                                           |
| Total pretax<br>realized and<br>unrealized<br>gains/(losses)<br>recorded in:(1)                                    |                                                          |                         |       |                            |                             |                                        |                 |                                                         |                                                                     |                                                                     |
| Net income<br>(loss)                                                                                               | 2                                                        | (2)(4)                  | (2)10 | (2)10                      | (2)—                        | 117                                    | (3)(15)         | (4)(108)                                                | (6)(97)                                                             | (3)(36)                                                             |
| Other<br>comprehensive<br>income (loss)                                                                            | 1                                                        | (21)                    | 14    | 8                          | 2                           | —                                      | —               | —                                                       | —                                                                   | —                                                                   |
| Purchases                                                                                                          | —                                                        | —                       | 53    | —                          | 45                          | (7)—                                   | —               | —                                                       | —                                                                   | —                                                                   |
| Settlements                                                                                                        | (1)                                                      | (5)                     | (30)  | (32)                       | 0                           | (315)                                  | —               | (36)                                                    | 299                                                                 | 12                                                                  |
| FG VIE<br>consolidations                                                                                           | —                                                        | —                       | —     | —                          | —                           | 46                                     | —               | —                                                       | (25)                                                                | (21)                                                                |
| FG VIE<br>deconsolidations                                                                                         | —                                                        | —                       | 13    | —                          | —                           | (1,129)                                | —               | —                                                       | 247                                                                 | 1,002                                                               |
| Fair value as of<br>June 30, 2014                                                                                  | \$38                                                     | \$106                   | \$350 | \$254                      | \$49                        | \$1,284                                | \$31            | \$(1,837)                                               | \$(1,366)                                                           | \$(124)                                                             |
| Change in<br>unrealized<br>gains/(losses)<br>related<br>to financial<br>instruments held<br>as of June 30,<br>2014 | \$1                                                      | \$(21)                  | \$15  | \$7                        | \$2                         | \$65                                   | \$(15)          | \$(144)                                                 | \$(53)                                                              | \$(5)                                                               |

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 fair value gains (losses) on CCS.

(5) Represents net position of credit derivatives. The consolidated balance sheet presents gross assets and liabilities based on net counterparty exposure.

(6) Reported in net change in fair value of credit derivatives.

(7) Includes a non-cash transaction.

In addition to the amounts shown in the tables above, the Company entered into a forward commitment to acquire a loss mitigation security and recorded its fair value loss of \$17 million in "other liabilities" in the consolidated balance sheet as of June 30, 2015.

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## Level 3 Fair Value Disclosures

Quantitative Information About Level 3 Fair Value Inputs  
At June 30, 2015

| Financial Instrument Description<br>(1)         | Fair Value at<br>June<br>30, 2015<br>(in millions) | Significant Unobservable Inputs | Range               | Weighted<br>Average as a<br>Percentage<br>of Current<br>Par<br>Outstanding |
|-------------------------------------------------|----------------------------------------------------|---------------------------------|---------------------|----------------------------------------------------------------------------|
| Assets:                                         |                                                    |                                 |                     |                                                                            |
| Fixed-maturity securities:                      |                                                    |                                 |                     |                                                                            |
|                                                 |                                                    | Rate of inflation               | 1.0 % - 3.0%        | 2.0%                                                                       |
| Obligations of state and political subdivisions | \$7                                                | Cash flow receipts              | 0.5 % - 21.2%       | 13.1%                                                                      |
|                                                 |                                                    | Yield                           | 4.6%                |                                                                            |
|                                                 |                                                    | Collateral recovery period      | 1 month - 8.1 years | 4.0 years                                                                  |
| Corporate securities                            | 77                                                 | Yield                           | 18.7%               |                                                                            |
| RMBS                                            | 335                                                | CPR                             | 0.3 % - 7.5%        | 2.9%                                                                       |
|                                                 |                                                    | CDR                             | 2.2 % - 12.1%       | 5.2%                                                                       |
|                                                 |                                                    | Loss severity                   | 57.0 % - 100.0%     | 75.4%                                                                      |
|                                                 |                                                    | Yield                           | 4.6 % - 9.5%        | 6.0%                                                                       |
| Asset-backed securities:                        |                                                    |                                 |                     |                                                                            |
| Investor owned utility                          | 98                                                 | Cash flow receipts              | 100.0%              |                                                                            |
|                                                 |                                                    | Collateral recovery period      | 3.4 years           |                                                                            |
|                                                 |                                                    | Discount factor                 | 7.0%                |                                                                            |
| Triple-X life insurance transactions            | 138                                                | Yield                           | 7.3%                |                                                                            |
| Other invested assets                           | 83                                                 | Discount for lack of liquidity  | 20.0%               |                                                                            |
|                                                 |                                                    | Recovery on delinquent loans    | 40.0%               |                                                                            |
|                                                 |                                                    | Default rates                   | 0.0 % - 5.0%        | 4.5%                                                                       |
|                                                 |                                                    | Loss severity                   | 40.0 % - 75.0%      | 68.5%                                                                      |
|                                                 |                                                    | Prepayment speeds               | 8.0 % - 15.0%       | 12.3%                                                                      |
|                                                 |                                                    | Net asset value (per share)     | \$978 - \$1,162     | \$1,060                                                                    |
| FG VIEs' assets, at fair value                  | 1,596                                              | CPR                             | 0.3 % - 11.5%       | 3.5%                                                                       |
|                                                 |                                                    | CDR                             | 1.6 % - 18.5%       | 5.4%                                                                       |
|                                                 |                                                    | Loss severity                   | 40.0 % - 100.0%     | 80.8%                                                                      |
|                                                 |                                                    | Yield                           | 1.5 % - 16.6%       | 6.1%                                                                       |

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| Financial Instrument Description<br>(1) | Fair Value at<br>June<br>30, 2015<br>(in millions) | Significant Unobservable Inputs                 | Range                  | Weighted<br>Average as a<br>Percentage<br>of Current<br>Par<br>Outstanding |
|-----------------------------------------|----------------------------------------------------|-------------------------------------------------|------------------------|----------------------------------------------------------------------------|
| Other assets                            | 60                                                 | Quotes from third party pricing<br>Term (years) | \$41 - \$46<br>5 years | \$44                                                                       |
| Liabilities:                            |                                                    |                                                 |                        |                                                                            |
|                                         |                                                    | Year 1 loss estimates                           | 0.0 % - 100.0%         | 3.9%                                                                       |
|                                         |                                                    | Hedge cost (in bps)                             | 30.0 - 307.5           | 73.5                                                                       |
| Credit derivative liabilities, net      | (926)                                              | ) Bank profit (in bps)                          | 3.8 - 1,087.4          | 153.6                                                                      |
|                                         |                                                    | Internal floor (in bps)                         | 7.0 - 100.0            | 25.2                                                                       |
|                                         |                                                    | Internal credit rating                          | AAA - CCC              | AA                                                                         |
|                                         |                                                    | CPR                                             | 0.3 % - 11.5%          | 3.5%                                                                       |
| FG VIEs' liabilities, at fair value     | 1,532                                              | CDR                                             | 1.6 % - 18.5%          | 5.4%                                                                       |
|                                         |                                                    | Loss severity                                   | 40.0 % - 100.0%        | 80.8%                                                                      |
|                                         |                                                    | Yield                                           | 1.5 % - 16.6%          | 5.2%                                                                       |

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(1) Discounted cash flow is used as valuation technique for all financial instruments.

Table of ContentsQuantitative Information About Level 3 Fair Value Inputs  
At December 31, 2014

| Financial Instrument Description<br>(1)            | Fair Value at<br>December<br>31, 2014<br>(in millions) | Significant Unobservable Inputs | Range      | Weighted<br>Average as a<br>Percentage<br>of Current<br>Par<br>Outstanding |          |
|----------------------------------------------------|--------------------------------------------------------|---------------------------------|------------|----------------------------------------------------------------------------|----------|
| Assets:                                            |                                                        |                                 |            |                                                                            |          |
| Fixed-maturity securities:                         |                                                        |                                 |            |                                                                            |          |
| Obligations of state and political<br>subdivisions | \$ 38                                                  | Rate of inflation               | 1.0        | % - 3.0%                                                                   | 2.0%     |
|                                                    |                                                        | Cash flow receipts              | 0.5        | % - 74.3%                                                                  | 63.0%    |
|                                                    |                                                        | Discount rates                  | 4.6        | % - 8.0%                                                                   | 7.3%     |
|                                                    |                                                        | Collateral recovery period      | 1<br>month | - 34 years                                                                 | 28 years |
| Corporate securities                               | 79                                                     | Yield                           | 17.8%      |                                                                            |          |
| RMBS                                               | 425                                                    | CPR                             | 0.3        | % - 8.1%                                                                   | 3.3%     |
|                                                    |                                                        | CDR                             | 2.7        | % - 10.6%                                                                  | 5.3%     |
|                                                    |                                                        | Loss severity                   | 52.6       | % - 100.0%                                                                 | 75.2%    |
|                                                    |                                                        | Yield                           | 4.7        | % - 11.7%                                                                  | 6.4%     |
| Asset-backed securities:                           |                                                        |                                 |            |                                                                            |          |
| Investor owned utility                             | 95                                                     | Cash flow receipts              | 100%       |                                                                            |          |
|                                                    |                                                        | Collateral recovery period      | 4 years    |                                                                            |          |
|                                                    |                                                        | Discount factor                 | 7.0%       |                                                                            |          |
| Triple-X life insurance<br>transactions            | 133                                                    | Yield                           | 7.3%       |                                                                            |          |
| Other invested assets                              | 83                                                     | Discount for lack of liquidity  | 20.0%      |                                                                            |          |
|                                                    |                                                        | Recovery on delinquent loans    | 40.0%      |                                                                            |          |
|                                                    |                                                        | Default rates                   | 0.0        | % - 7.0%                                                                   | 5.8%     |
|                                                    |                                                        | Loss severity                   | 40.0       | % - 75.0%                                                                  | 68.3%    |
|                                                    |                                                        | Prepayment speeds               | 5.0        | % - 15.0%                                                                  | 12.3%    |
|                                                    |                                                        | Net asset value (per share)     | \$965      | - \$1,159                                                                  | \$1,082  |
| FG VIEs' assets, at fair value                     | 1,398                                                  | CPR                             | 0.3        | % - 11.0%                                                                  | 3.3%     |
|                                                    |                                                        | CDR                             | 1.6        | % - 11.8%                                                                  | 5.1%     |
|                                                    |                                                        | Loss severity                   | 40.0       | % - 100.0%                                                                 | 82.2%    |
|                                                    |                                                        | Yield                           | 2.7        | % - 17.7%                                                                  | 7.9%     |

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| Financial Instrument Description<br>(1) | Fair Value at<br>December<br>31, 2014<br>(in millions) | Significant Unobservable Inputs                 | Range                  | Weighted<br>Average as a<br>Percentage<br>of Current<br>Par<br>Outstanding |
|-----------------------------------------|--------------------------------------------------------|-------------------------------------------------|------------------------|----------------------------------------------------------------------------|
| Other assets                            | 35                                                     | Quotes from third party pricing<br>Term (years) | \$52 - \$61<br>5 years | \$57                                                                       |
| Liabilities:                            |                                                        |                                                 |                        |                                                                            |
|                                         | (895)                                                  | ) Year 1 loss estimates                         | 0.0 % - 93.0%          | 2.1%                                                                       |
|                                         |                                                        | Hedge cost (in bps)                             | 20.0 - 243.8           | 61.5                                                                       |
| Credit derivative liabilities, net      |                                                        | Bank profit (in bps)                            | 1.0 - 994.4            | 127.0                                                                      |
|                                         |                                                        | Internal floor (in bps)                         | 7.0 - 100.0            | 15.9                                                                       |
|                                         |                                                        | Internal credit rating                          | AAA - CCC              | AA+                                                                        |
|                                         |                                                        | CPR                                             | 0.3 % - 11.0%          | 3.3%                                                                       |
| FG VIEs' liabilities, at fair value     | (1,419)                                                | ) CDR                                           | 1.6 % - 11.8%          | 5.1%                                                                       |
|                                         |                                                        | Loss severity                                   | 40.0 % - 100.0%        | 82.2%                                                                      |
|                                         |                                                        | Yield                                           | 2.7 % - 17.7%          | 5.8%                                                                       |

(1) Discounted cash flow is used as valuation technique for all financial instruments.

The carrying amount and estimated fair value of the Company's financial instruments are presented in the following table.

## Fair Value of Financial Instruments

|                                                      | As of<br>June 30, 2015              |                         | As of<br>December 31, 2014 |                         |
|------------------------------------------------------|-------------------------------------|-------------------------|----------------------------|-------------------------|
|                                                      | Carrying<br>Amount<br>(in millions) | Estimated<br>Fair Value | Carrying<br>Amount         | Estimated<br>Fair Value |
| Assets:                                              |                                     |                         |                            |                         |
| Fixed-maturity securities                            | \$10,582                            | \$10,582                | \$10,491                   | \$10,491                |
| Short-term investments                               | 834                                 | 834                     | 767                        | 767                     |
| Other invested assets                                | 180                                 | 182                     | 108                        | 110                     |
| Credit derivative assets                             | 81                                  | 81                      | 68                         | 68                      |
| FG VIEs' assets, at fair value                       | 1,596                               | 1,596                   | 1,398                      | 1,398                   |
| Other assets                                         | 219                                 | 219                     | 184                        | 184                     |
| Liabilities:                                         |                                     |                         |                            |                         |
| Financial guaranty insurance contracts(1)            | 4,247                               | 8,275                   | 3,823                      | 6,205                   |
| Long-term debt                                       | 1,305                               | 1,486                   | 1,303                      | 1,603                   |
| Credit derivative liabilities                        | 1,007                               | 1,007                   | 963                        | 963                     |
| FG VIEs' liabilities with recourse, at fair value    | 1,361                               | 1,361                   | 1,277                      | 1,277                   |
| FG VIEs' liabilities without recourse, at fair value | 171                                 | 171                     | 142                        | 142                     |
| Other liabilities                                    | 152                                 | 152                     | 27                         | 27                      |

- (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.

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9. Financial Guaranty Contracts Accounted for as Credit Derivatives

Credit Derivatives

The Company has a portfolio of financial guaranty contracts that meet the definition of a derivative in accordance with GAAP (primarily CDS).

Credit derivative transactions are governed by ISDA documentation and have different characteristics 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 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. 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.

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## Credit Derivative Net Par Outstanding by Sector

The estimated remaining weighted average life of credit derivatives was 5.1 years at June 30, 2015 and 4.7 years at December 31, 2014. The components of the Company's credit derivative net par outstanding are presented below.

Credit Derivatives  
Subordination and Ratings

| Asset Type                                                 | As of June 30, 2015   |                        |                       |                                | As of December 31, 2014 |                        |                       |                                |
|------------------------------------------------------------|-----------------------|------------------------|-----------------------|--------------------------------|-------------------------|------------------------|-----------------------|--------------------------------|
|                                                            | Net Par Outstanding   | Original Subordination | Current Subordination | Weighted Average Credit Rating | Net Par Outstanding     | Original Subordination | Current Subordination | Weighted Average Credit Rating |
|                                                            | (dollars in millions) |                        |                       |                                |                         |                        |                       |                                |
| Pooled corporate obligations:                              |                       |                        |                       |                                |                         |                        |                       |                                |
| Collateralized loan obligation/collateral bond obligations | \$9,046               | 30.9 %                 | 37.5 %                | AAA                            | \$11,688                | 32.0 %                 | 36.9 %                | AAA                            |
| Synthetic investment grade pooled corporate TruPS CDOs     | 7,118                 | 21.7                   | 19.3                  | AAA                            | 7,640                   | 22.6                   | 20.6                  | AAA                            |
| Market value CDOs of corporate obligations                 | 3,738                 | 45.7                   | 40.5                  | BBB+                           | 3,119                   | 45.3                   | 35.8                  | BBB-                           |
| Total pooled corporate obligations                         | 1,113                 | 17.0                   | 15.1                  | AAA                            | 1,174                   | 19.1                   | 20.7                  | AAA                            |
| U.S. RMBS:                                                 | 21,015                | 29.7                   | 30.7                  | AAA                            | 23,621                  | 30.1                   | 30.7                  | AAA                            |
| Option ARM and Alt-A first lien                            | 1,250                 | 15.9                   | 10.6                  | BB+                            | 1,378                   | 16.3                   | 10.7                  | BB+                            |
| Subprime first lien                                        | 1,264                 | 31.5                   | 49.0                  | A                              | 1,366                   | 31.1                   | 50.5                  | A                              |
| Prime first lien                                           | 199                   | 10.9                   | 0.0                   | BB                             | 223                     | 10.9                   | 0.0                   | B                              |
| Closed-end second lien                                     | 18                    | —                      | —                     | CCC                            | 19                      | —                      | —                     | CCC                            |
| Total U.S. RMBS                                            | 2,731                 | 24.8                   | 32.8                  | BBB                            | 2,986                   | 24.8                   | 33.9                  | BBB                            |
| CMBS                                                       | 1,745                 | 29.9                   | 40.0                  | AA                             | 1,952                   | 35.3                   | 43.6                  | AAA                            |
| Other                                                      | 6,818                 | —                      | —                     | A                              | 6,437                   | —                      | —                     | A                              |
| Total(2)                                                   | \$32,309              |                        |                       | AA                             | \$34,996                |                        |                       | AA+                            |

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

(2) The June 30, 2015 total amount includes \$4.3 billion net par outstanding of credit derivatives acquired from Radian Asset.

Except for TruPS CDOs, the Company's exposure to pooled corporate obligations is highly diversified in terms of obligors and industries. Most pooled corporate transactions are structured to limit exposure to any given obligor and industry. The majority of the Company's pooled corporate exposure consists of CLO or synthetic pooled corporate obligations. Most of these CLOs have an average obligor size of less than 1% of the total transaction and typically restrict the maximum exposure to any one industry to approximately 10%. The Company's exposure also benefits from embedded credit enhancement in the transactions which allows a transaction to sustain a certain level of losses in the

underlying collateral, further insulating the Company from industry specific concentrations of credit risk on these deals.

The Company's TruPS CDO asset pools are generally less diversified by obligors and industries than the typical CLO asset pool. Also, the underlying collateral in TruPS CDOs consists primarily of subordinated debt instruments such as TruPS issued by bank holding companies and similar instruments issued by insurance companies, REITs and other real estate related issuers while CLOs typically contain primarily senior secured obligations. However, to mitigate these risks TruPS CDOs were typically structured with higher levels of embedded credit enhancement than typical CLOs.

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The Company's exposure to "Other" CDS contracts is also highly diversified. It includes \$2.0 billion of exposure to one pooled infrastructure transaction comprising diversified pools of international infrastructure project transactions and loans to regulated utilities. These pools were all structured with underlying credit enhancement sufficient for the Company to attach at AAA levels at origination. The remaining \$4.8 billion of exposure in "Other" CDS contracts comprises numerous deals across various asset classes, such as commercial receivables, international RMBS, infrastructure, regulated utilities and consumer receivables.

## Distribution of Credit Derivative Net Par Outstanding by Internal Rating

| Ratings                               | As of June 30, 2015   |            | As of December 31, 2014 |            |   |
|---------------------------------------|-----------------------|------------|-------------------------|------------|---|
|                                       | Net Par Outstanding   | % of Total | Net Par Outstanding     | % of Total |   |
|                                       | (dollars in millions) |            |                         |            |   |
| AAA                                   | \$18,018              | 55.8       | % \$21,817              | 62.3       | % |
| AA                                    | 5,688                 | 17.6       | 5,398                   | 15.4       |   |
| A                                     | 2,319                 | 7.2        | 1,982                   | 5.7        |   |
| BBB                                   | 2,784                 | 8.6        | 2,774                   | 8.0        |   |
| BIG(1)                                | 3,500                 | 10.8       | 3,025                   | 8.6        |   |
| Credit derivative net par outstanding | \$32,309              | 100.0      | % \$34,996              | 100.0      | % |

(1) The June 30, 2015 BIG amount includes \$933 million net par outstanding of credit derivatives acquired from Radian Asset.

## Fair Value of Credit Derivatives

## Net Change in Fair Value of Credit Derivatives Gain (Loss)

|                                                                                                 | Second Quarter |       | Six Months |        |   |
|-------------------------------------------------------------------------------------------------|----------------|-------|------------|--------|---|
|                                                                                                 | 2015           | 2014  | 2015       | 2014   |   |
|                                                                                                 | (in millions)  |       |            |        |   |
| Realized gains on credit derivatives (1)                                                        | \$15           | \$21  | \$38       | \$41   |   |
| Net credit derivative losses (paid and payable) recovered and recoverable and other settlements | (7)            | ) (6  | ) (9       | ) (7   | ) |
| Realized gains (losses) and other settlements on credit derivatives                             | 8              | 15    | 29         | 34     |   |
| Net change in unrealized gains (losses) on credit derivatives:                                  |                |       |            |        |   |
| Pooled corporate obligations                                                                    | 7              | 64    | 24         | 6      |   |
| U.S. RMBS                                                                                       | 62             | 5     | 137        | (135   | ) |
| CMBS                                                                                            | 4              | 2     | 4          | 2      |   |
| Other                                                                                           | 9              | 17    | 20         | (15    | ) |
| Net change in unrealized gains (losses) on credit derivatives                                   | 82             | 88    | 185        | (142   | ) |
| Net change in fair value of credit derivatives                                                  | \$90           | \$103 | \$214      | \$(108 | ) |

(1) Includes realized gain due to terminations of CDS contracts of \$1.8 million and \$0.5 million for Second Quarter 2015 and Second Quarter 2014, respectively, and \$12.6 million and \$0.7 million for Six Months 2015 and Six Months 2014, respectively. Net par of \$0.5 billion and \$0.2 billion were terminated in Second Quarter 2015 and Second Quarter 2014, respectively, and \$0.6 billion and \$1.3 billion for Six Months 2015 and Six Months 2014,

respectively. CDS terminations in Six Months 2015 also included a payment received from the resolution of a dispute related to a termination of CDS in 2008.

During Second Quarter 2015, unrealized fair value gains were generated primarily in the trust preferred, and U.S. RMBS prime first lien and Option ARM and subprime sectors, due to tighter implied net spreads. The tighter implied net

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spreads were primarily a result of the increased cost to buy protection in AGC's and AGM's name, particularly for the one year and five year CDS spread, as the market cost of AGC's and AGM's credit protection increased during the period. These transactions were pricing at or above their floor levels (or the minimum rate at which the Company would consider assuming these risks based on historical experience); therefore when the cost of purchasing CDS protection on AGC and AGM, which management refers to as the CDS spread on AGC and AGM, increased the implied spreads that the Company would expect to receive on these transactions decreased.

During Six Months 2015, unrealized fair value gains were generated primarily in the trust preferred, and U.S. RMBS prime first lien and Option ARM and subprime sectors, due to tighter implied net spreads. The tighter implied net spreads were primarily a result of the increased cost to buy protection in AGC's and AGM's name, particularly for the one year and five year CDS spread, as the market cost of AGC's and AGM's credit protection increased during the period. These transactions were pricing at or above their floor levels; therefore, when the cost of purchasing CDS protection on AGC and AGM increased, the implied spreads that the Company would expect to receive on these transactions decreased. In addition, during Six Months 2015 there was a refinement in methodology to address an instance in a U.S. RMBS transaction where the Company now expects recoveries. This refinement resulted in approximately \$49 million in fair value gains in Six Months 2015.

During Second Quarter 2014, unrealized fair value gains were generated primarily in the pooled corporate obligations and Other sectors due to tighter implied net spreads. The tighter implied net spreads were primarily a result of the increased cost to buy protection in AGC's and AGM's name, as the market cost of AGC's and AGM's credit protection increased during the period, with the change in the one year CDS spread having the largest impact. These transactions were pricing at or above their floor levels; therefore when the cost of purchasing CDS protection on AGC and AGM, increased the implied spreads that the Company would expect to receive on these transactions decreased.

During Six Months 2014, unrealized fair value losses were generated primarily in the U.S. RMBS prime first lien, Alt-A, and Option ARM sectors, due to wider implied net spreads. The wider implied net spreads were primarily a result of the decreased cost to buy protection in AGC's name as the market cost of AGC's credit protection decreased significantly during the period. These transactions were pricing above their floor levels; therefore when the cost of purchasing CDS protection on AGC decreased, the implied spreads that the Company would expect to receive on these transactions increased. The cost of AGM's credit protection also decreased during Six Months 2014, but did not lead to significant fair value losses, as the majority of AGM policies continue to price at floor levels.

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.

Five-Year CDS Spread  
on AGC and AGM

Quoted price of CDS contract (in basis points)

|     | As of<br>June 30,<br>2015 | As of<br>March 31,<br>2015 | As of<br>December<br>31, 2014 | As of<br>June 30,<br>2014 | As of<br>March 31,<br>2014 | As of<br>December<br>31, 2013 |
|-----|---------------------------|----------------------------|-------------------------------|---------------------------|----------------------------|-------------------------------|
| AGC | 390                       | 317                        | 323                           | 327                       | 291                        | 460                           |
| AGM | 410                       | 341                        | 325                           | 346                       | 305                        | 525                           |



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## One-Year CDS Spread

## on AGC and AGM

## Quoted price of CDS contract (in basis points)

|     | As of<br>June 30,<br>2015 | As of<br>March 31,<br>2015 | As of<br>December<br>31, 2014 | As of<br>June 30,<br>2014 | As of<br>March 31,<br>2014 | As of<br>December<br>31, 2013 |
|-----|---------------------------|----------------------------|-------------------------------|---------------------------|----------------------------|-------------------------------|
| AGC | 120                       | 60                         | 80                            | 85                        | 55                         | 185                           |
| AGM | 125                       | 80                         | 85                            | 115                       | 70                         | 220                           |

## Fair Value of Credit Derivatives Assets (Liabilities)

## and Effect of AGC and AGM

## Credit Spreads

|                                                                              | As of<br>June 30, 2015<br>(in millions) | As of<br>December 31,<br>2014 |
|------------------------------------------------------------------------------|-----------------------------------------|-------------------------------|
| Fair value of credit derivatives before effect of AGC and AGM credit spreads | \$(2,236)                               | \$(2,029)                     |
| Plus: Effect of AGC and AGM credit spreads                                   | 1,310                                   | 1,134                         |
| Net fair value of credit derivatives (1)                                     | \$(926)                                 | \$(895)                       |

(1) June 30, 2015 amount includes \$190 million of net fair value loss of credit derivatives acquired from Radian Asset.

The fair value of CDS contracts at June 30, 2015, 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. The asset classes that remain most affected are 2005-2007 vintages of prime first lien, Alt-A, Option ARM, subprime RMBS deals as well as TruPS and pooled corporate securities. Comparing June 30, 2015 with December 31, 2014, there was a widening of spreads primarily related to the Company's pooled corporate obligations. In addition the Company acquired Radian Asset Assurance's CDS portfolio. This widening of spreads combined with the acquisition of Radian Asset, resulted in a liability of approximately \$207 million, before taking into account AGC's or AGM's credit spreads.

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 and to increased demand for credit protection against AGC and AGM as the result of its financial guaranty volume, as well as the overall lack of liquidity in the CDS market. 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 high yield CDO, TruPS CDO, and CLO markets as well as continuing market concerns over the 2005-2007 vintages of RMBS.

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The following table presents the fair value and the present value of expected claim payments or recoveries (i.e. net expected loss to be paid as described in Note 6) for contracts accounted for as derivatives.

Net Fair Value and Expected Losses  
of Credit Derivatives by Sector

| Asset Type                   | Fair Value of Credit Derivative<br>Asset (Liability), net |                               | Expected Loss to be (Paid)<br>Recovered (1) |                               |
|------------------------------|-----------------------------------------------------------|-------------------------------|---------------------------------------------|-------------------------------|
|                              | As of<br>June 30, 2015                                    | As of<br>December 31,<br>2014 | As of<br>June 30, 2015                      | As of<br>December 31,<br>2014 |
|                              | (in millions)                                             |                               |                                             |                               |
| Pooled corporate obligations | \$(205                                                    | ) \$(49                       | ) \$(71                                     | ) \$(23                       |
| U.S. RMBS                    | (357                                                      | ) (494                        | ) (53                                       | ) (73                         |
| CMBS                         | (38                                                       | ) 0                           | (23                                         | ) —                           |
| Other                        | (326                                                      | ) (352                        | ) 34                                        | 38                            |
| Total                        | \$(926                                                    | ) \$(895                      | ) \$(113                                    | ) \$(58                       |

(1) Includes R&W benefit of \$74 million as of June 30, 2015 and \$86 million as of December 31, 2014.

Ratings Sensitivities of Credit Derivative Contracts

Within the Company's insured CDS portfolio, the transaction documentation for approximately \$5.3 billion in CDS gross par insured as of June 30, 2015 requires AGC and AGRO to post eligible collateral to secure its obligations 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.

For approximately \$5.1 billion of such contracts, AGC has negotiated caps such that the posting requirement cannot exceed a certain fixed amount, regardless of the mark-to-market valuation of the exposure or the financial strength ratings of AGC. For such contracts, AGC need not post on a cash basis more than \$575 million, although the value of the collateral posted may exceed such fixed amount depending on the advance rate agreed with the counterparty for the particular type of collateral posted.

For the remaining approximately \$238 million of such contracts, AGC or AGRO could be required from time to time to post additional collateral without such cap based on movements in the mark-to-market valuation of the underlying exposure.

As of June 30, 2015, the Company posted approximately \$330 million to secure obligations under its CDS exposure, of which approximately \$20 million related to such \$238 million of notional. As of December 31, 2014, the Company posted approximately \$376 million, of which approximately \$25 million related to \$242 million of notional where AGC or AGRO could be required to post additional collateral based on movements in the mark-to-market valuation of the underlying exposure.

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## Sensitivity to Changes in Credit Spread

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 June 30, 2015

| Credit Spreads(1)        | Estimated Net<br>Fair Value<br>(Pre-Tax)<br>(in millions) | Estimated Change<br>in Gain/(Loss)<br>(Pre-Tax) |
|--------------------------|-----------------------------------------------------------|-------------------------------------------------|
| 100% widening in spreads | \$ (1,883                                                 | ) \$ (957                                       |
| 50% widening in spreads  | (1,405                                                    | ) (479                                          |
| 25% widening in spreads  | (1,167                                                    | ) (241                                          |
| 10% widening in spreads  | (1,023                                                    | ) (97                                           |
| Base Scenario            | (926                                                      | ) —                                             |
| 10% narrowing in spreads | (837                                                      | ) 89                                            |
| 25% narrowing in spreads | (703                                                      | ) 223                                           |
| 50% narrowing in spreads | (482                                                      | ) 444                                           |

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

## 10. Consolidated Variable Interest Entities

## Consolidated FG VIEs

The Company provides financial guaranties with respect to debt obligations of special purpose entities, including VIEs. Assured Guaranty does not act as the servicer or collateral manager for any VIE obligations insured by its companies. 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 financial guaranty insurance policy only covers a senior layer of losses experienced by multiple obligations issued by special purpose entities, including 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 special purpose entities, including VIEs, generate cash flows that are in excess of the interest payments on the debt issued by the special purpose entity. 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 special purpose entities, including 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 VIE liabilities. Net fair value gains and losses on FG VIEs are expected to reverse to zero at maturity of the VIE 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 6, Expected Loss to be Paid.

As part of the terms of its financial guaranty contracts, the Company obtains certain protective rights with respect to the VIE that 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

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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 obtains protective rights under its insurance contracts that give the Company additional controls over a VIE if there is either deterioration of deal performance or in the financial health of the deal servicer. 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 transaction is deconsolidated.

## Number of FG VIEs Consolidated

|                                      | Six Months<br>2015 | 2014 |
|--------------------------------------|--------------------|------|
| Beginning of the period, December 31 | 32                 | 40   |
| Radian Asset Acquisition             | 4                  | —    |
| Consolidated (1)                     | 1                  | 1    |
| Deconsolidated (1)                   | —                  | (8)  |
| Matured                              | —                  | (2)  |
| End of the period, June 30           | 37                 | 31   |

Net loss on consolidation was \$26 million in Six Months 2015, and net gain on deconsolidation was \$120 million (1) in Six Months 2014, and recorded in “fair value gains (losses) on FG VIEs” in the consolidated statement of operations.

The total unpaid principal balance for the FG VIEs’ assets that were over 90 days or more past due was approximately \$216 million at June 30, 2015 and \$183 million at December 31, 2014. The aggregate unpaid principal of the FG VIEs’ assets was approximately \$924 million greater than the aggregate fair value at June 30, 2015, excluding the effect of R&W settlements. The aggregate unpaid principal of the FG VIEs’ assets was approximately \$941 million greater than the aggregate fair value at December 31, 2014, excluding the effect of R&W settlements.

The change in the instrument-specific credit risk of the FG VIEs’ assets held as of June 30, 2015 that was recorded in the consolidated statements of operations for Second Quarter 2015 and Six Months 2015 were losses of \$50 million and \$32 million, respectively. The change in the instrument-specific credit risk of the FG VIEs’ assets held as of June 30, 2014 that was recorded in the consolidated statements of operations for Second Quarter 2014 and Six Months 2014 were gains of \$30 million and \$54 million, respectively. To calculate the instrument specific credit risk, the changes in the fair value of the FG VIE assets are allocated between those changes that are due to the instrument specific credit risk and those are due to other factors, including interest rates. The instrument specific credit risk amount is determined by using expected contractual cash flows versus 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, excluding the Company’s financial guaranty insurance, at the relevant effective interest rate.

The unpaid principal for FG VIE liabilities with recourse was \$2,096 million and \$1,912 million as of June 30, 2015 and December 31, 2014, respectively. FG VIE liabilities with recourse will mature at various dates ranging from 2025 to 2046. The aggregate unpaid principal balance of the FG VIE liabilities with and without recourse was approximately \$986 million greater than the aggregate fair value of the FG VIEs’ liabilities as of June 30, 2015. The aggregate unpaid principal balance was approximately \$916 million greater than the aggregate fair value of the FG VIEs’ liabilities as of December 31, 2014.



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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 their respective debt obligations for FG VIE liabilities with recourse.

## Consolidated FG VIEs

## By Type of Collateral

|                       | As of June 30, 2015 (1) |             | As of December 31, 2014 |             |
|-----------------------|-------------------------|-------------|-------------------------|-------------|
|                       | Assets                  | Liabilities | Assets                  | Liabilities |
|                       | (in millions)           |             |                         |             |
| With recourse:        |                         |             |                         |             |
| U.S. RMBS first lien  | \$743                   | \$594       | \$632                   | \$581       |
| U.S. RMBS second lien | 223                     | 312         | 238                     | 327         |
| Other                 | 455                     | 455         | 369                     | 369         |
| Total with recourse   | 1,421                   | 1,361       | 1,239                   | 1,277       |
| Without recourse      | 180                     | 171         | 163                     | 142         |
| Total                 | \$1,601                 | \$1,532     | \$1,402                 | \$1,419     |

(1) The June 30, 2015 amounts include \$119 million of FG VIE assets and \$115 million of FG VIE liabilities acquired from Radian Asset.

The consolidation of FG VIEs has a significant effect on net income and shareholder's equity due to (1) changes in fair value gains (losses) on FG VIE assets and liabilities, (2) the elimination of premiums and losses related to the AGC and AGM FG VIE liabilities with recourse and (3) the elimination of investment balances related to the Company's purchase of AGC and AGM insured FG VIE 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 on Net Income,  
Cash Flows From Operating Activities and Shareholders' Equity

|                                                | Second Quarter |       | Six Months |        |
|------------------------------------------------|----------------|-------|------------|--------|
|                                                | 2015           | 2014  | 2015       | 2014   |
|                                                | (in millions)  |       |            |        |
| Net earned premiums                            | \$(5)          | \$(5) | \$(10)     | \$(22) |
| Net investment income                          | (3)            | (3)   | (6)        | (6)    |
| Net realized investment gains (losses)         | 3              | (5)   | 3          | (5)    |
| Fair value gains (losses) on FG VIEs           | 5              | 25    | (2)        | 182    |
| Bargain purchase gain                          | 2              | —     | 2          | —      |
| Other income (loss)                            | 0              | 0     | 0          | (2)    |
| Loss and LAE                                   | 2              | 8     | 7          | 7      |
| Effect on net income before tax                | 4              | 20    | (6)        | 154    |
| Less: tax provision (benefit)                  | 1              | 7     | (3)        | 54     |
| Effect on net income (loss)                    | \$3            | \$13  | \$(3)      | \$100  |
| Effect on cash flows from operating activities | \$15           | \$47  | \$33       | \$39   |

As of  
June 30, 2015

As of  
December 31,

|                                                    |               | 2014    |   |
|----------------------------------------------------|---------------|---------|---|
|                                                    | (in millions) |         |   |
| Effect on shareholders' equity (decrease) increase | \$(40         | ) \$(44 | ) |

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Fair value gains (losses) on FG VIEs represent the net change in fair value on the consolidated FG VIEs' assets and liabilities. During Second Quarter 2015, the Company recorded a pre-tax net fair value gain on consolidated FG VIEs of \$5 million. The primary driver of the gain was mark-to-market gains due to price appreciation on the FG VIE assets during the quarter resulting from improvements in the underlying collateral. During Six Months 2015, the Company recorded a pre-tax net fair value loss on consolidated FG VIEs of \$2 million. The primary driver of the loss was a pre-tax loss of \$26 million on the consolidation of one new FG VIE which was partially offset by net mark-to-market gains due to price appreciation on the FG VIE assets resulting from improvements in the underlying collateral.

During Second Quarter 2014, the Company recorded a pre-tax net fair value gain on consolidated FG VIEs of \$25 million. The primary driver of this gain was price appreciation on the Company's FG VIE assets during the quarter resulting from improvements in the underlying collateral, as well as large principal paydowns made on the Company's FG VIEs. During Six Months 2014 the Company recorded a pre-tax net fair value gain of consolidated FG VIEs of \$182 million. The primary driver of this gain, \$120 million, was a result of the deconsolidation of seven VIEs in first quarter 2014. There was an additional gain of \$37 million resulting from the Company exercising its option to accelerate two second lien RMBS VIEs. These two VIEs were treated as maturities during the period.

## Other Consolidated VIEs

In certain instances where the Company consolidates a VIE that was established as part of a loss mitigation negotiation settlement agreement 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 VIE assets and FG VIE liabilities.

## Non-Consolidated VIEs

As of June 30, 2015 and December 31, 2014, the Company had financial guaranty contracts outstanding for approximately 935 and 930 VIEs, respectively, that it did not consolidate. To date, the Company's analyses have indicated that it does not have a controlling financial interest in any other VIEs and, as a result, they are not consolidated in the consolidated financial statements. The Company's exposure provided through its financial guaranties with respect to debt obligations of special purpose entities is included within net par outstanding in Note 4, Outstanding Exposure.

## 11. Investments and Cash

## 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 was \$99 million and \$98 million as of June 30, 2015 and December 31, 2014, respectively.

## Net Investment Income

|                                                                | Second Quarter |      | Six Months |       |
|----------------------------------------------------------------|----------------|------|------------|-------|
|                                                                | 2015           | 2014 | 2015       | 2014  |
|                                                                | (in millions)  |      |            |       |
| Income from fixed-maturity securities managed by third parties | \$85           | \$81 | \$167      | \$161 |

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Income from internally managed securities:

|                         |      |      |       |       |
|-------------------------|------|------|-------|-------|
| Fixed maturities        | 14   | 17   | 29    | 37    |
| Other invested assets   | 1    | 0    | 7     | 5     |
| Gross investment income | 100  | 98   | 203   | 203   |
| Investment expenses     | (2   | ) (2 | ) (4  | ) (4  |
| Net investment income   | \$98 | \$96 | \$199 | \$199 |

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## Net Realized Investment Gains (Losses)

|                                                               | Second Quarter |        | Six Months |        |
|---------------------------------------------------------------|----------------|--------|------------|--------|
|                                                               | 2015           | 2014   | 2015       | 2014   |
|                                                               | (in millions)  |        |            |        |
| Gross realized gains on available-for-sale securities         | \$8            | \$3    | \$32       | \$7    |
| Gross realized gains on other assets in investment portfolio  | 2              | 2      | 3          | 7      |
| Gross realized losses on available-for-sale securities        | (6             | ) (1   | ) (7       | ) (3   |
| Gross realized losses on other assets in investment portfolio | (1             | ) 0    | (2         | ) 0    |
| Other-than-temporary impairment                               | (12            | ) (12  | ) (19      | ) (17  |
| Net realized investment gains (losses)                        | \$(9           | ) \$(8 | ) \$7      | ) \$(6 |

The following table presents the roll-forward of the credit losses of fixed-maturity securities for which the Company has recognized an other-than-temporary-impairment and where the portion of the fair value adjustment related to other factors was recognized in other comprehensive income ("OCI").

Roll Forward of Credit Losses  
in the Investment Portfolio

|                                                                                                                      | Second Quarter |       | Six Months |       |
|----------------------------------------------------------------------------------------------------------------------|----------------|-------|------------|-------|
|                                                                                                                      | 2015           | 2014  | 2015       | 2014  |
|                                                                                                                      | (in millions)  |       |            |       |
| Balance, beginning of period                                                                                         | \$106          | \$85  | \$124      | \$80  |
| Additions for credit losses on securities for which an other-than-temporary-impairment was not previously recognized | 0              | 9     | 0          | 10    |
| Reductions for securities sold and other settlement during the period                                                | (7             | ) (12 | ) (28      | ) (12 |
| Additions for credit losses on securities for which an other-than-temporary-impairment was previously recognized     | 5              | 2     | 8          | 6     |
| Balance, end of period                                                                                               | \$104          | \$84  | \$104      | \$84  |

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## Investment Portfolio

## Fixed-Maturity Securities and Short-Term Investments

## by Security Type

As of June 30, 2015

| Investment Category                                | Percent<br>of<br>Total(1) | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value | AOCI(2)<br>Gain<br>(Loss) on<br>Securities<br>with<br>Other-Than-Temporary<br>Impairment | Weighted<br>Average<br>Credit<br>Rating<br>(3) |
|----------------------------------------------------|---------------------------|-------------------|------------------------------|-------------------------------|----------------------------|------------------------------------------------------------------------------------------|------------------------------------------------|
| (dollars in millions)                              |                           |                   |                              |                               |                            |                                                                                          |                                                |
| Fixed-maturity securities:                         |                           |                   |                              |                               |                            |                                                                                          |                                                |
| Obligations of state and<br>political subdivisions | 52                        | % \$5,736         | \$278                        | \$(28                         | ) \$5,986                  | \$ 2                                                                                     | AA                                             |
| U.S. government and<br>agencies                    | 4                         | 459               | 28                           | (1                            | ) 486                      | —                                                                                        | AA+                                            |
| Corporate securities                               | 13                        | 1,415             | 42                           | (15                           | ) 1,442                    | (3                                                                                       | ) A                                            |
| Mortgage-backed<br>securities(4):                  | 0                         |                   |                              |                               |                            |                                                                                          |                                                |
| RMBS                                               | 12                        | 1,313             | 38                           | (22                           | ) 1,329                    | (1                                                                                       | ) A+                                           |
| CMBS                                               | 5                         | 588               | 14                           | (1                            | ) 601                      | —                                                                                        | AAA                                            |
| Asset-backed securities                            | 4                         | 416               | 15                           | 0                             | 431                        | 10                                                                                       | BBB-                                           |
| Foreign government<br>securities                   | 3                         | 302               | 7                            | (2                            | ) 307                      | 1                                                                                        | AA+                                            |
| Total fixed-maturity<br>securities                 | 93                        | 10,229            | 422                          | (69                           | ) 10,582                   | 9                                                                                        | AA-                                            |
| Short-term investments                             | 7                         | 834               | 0                            | 0                             | 834                        | —                                                                                        | AAA                                            |
| Total investment<br>portfolio                      | 100                       | % \$11,063        | \$422                        | \$(69                         | ) \$11,416                 | \$ 9                                                                                     | AA-                                            |

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Fixed-Maturity Securities and Short-Term Investments  
by Security Type  
As of December 31, 2014

| Investment Category                             | Percent<br>of<br>Total(1) | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value | AOCI<br>Gain<br>(Loss) on<br>Securities<br>with<br>Other-Than-Temporary<br>Impairment | Weighted<br>Average<br>Credit<br>Rating |
|-------------------------------------------------|---------------------------|-------------------|------------------------------|-------------------------------|----------------------------|---------------------------------------------------------------------------------------|-----------------------------------------|
| (dollars in millions)                           |                           |                   |                              |                               |                            |                                                                                       |                                         |
| Fixed-maturity securities:                      |                           |                   |                              |                               |                            |                                                                                       |                                         |
| Obligations of state and political subdivisions | 50                        | % \$5,416         | \$380                        | \$(1                          | ) \$5,795                  | \$ 7                                                                                  | AA                                      |
| U.S. government and agencies                    | 6                         | 635               | 31                           | (1                            | ) 665                      | —                                                                                     | AA+                                     |
| Corporate securities                            | 12                        | 1,320             | 53                           | (5                            | ) 1,368                    | (2                                                                                    | ) A                                     |
| Mortgage-backed securities(4):                  |                           |                   |                              |                               |                            |                                                                                       |                                         |
| RMBS                                            | 12                        | 1,255             | 51                           | (21                           | ) 1,285                    | 0                                                                                     | A-                                      |
| CMBS                                            | 6                         | 639               | 20                           | 0                             | 659                        | —                                                                                     | AAA                                     |
| Asset-backed securities                         | 4                         | 411               | 9                            | (3                            | ) 417                      | 3                                                                                     | BBB-                                    |
| Foreign government securities                   | 3                         | 296               | 8                            | (2                            | ) 302                      | —                                                                                     | AA+                                     |
| Total fixed-maturity securities                 | 93                        | 9,972             | 552                          | (33                           | ) 10,491                   | 8                                                                                     | AA-                                     |
| Short-term investments                          | 7                         | 767               | 0                            | 0                             | 767                        | 0                                                                                     | AA+                                     |
| Total investment portfolio                      | 100                       | % \$10,739        | \$552                        | \$(33                         | ) \$11,258                 | \$ 8                                                                                  | AA-                                     |

(1) Based on amortized cost.

(2) Accumulated OCI. See also Note 18, Shareholders' Equity.

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 consists primarily of high-quality, liquid instruments.

(4) Government-agency obligations were approximately 53% of mortgage backed securities as of June 30, 2015 and 44% as of December 31, 2014 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. Securities rated lower than A-/A3 by S&P or Moody's are not eligible to be purchased for the Company's portfolio unless acquired for loss mitigation or risk management strategies.

The majority of the investment portfolio is managed by five outside managers. The Company has established detailed guidelines regarding credit quality, exposure to a particular sector and exposure to a particular obligor within a sector.



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The following tables summarize, for all 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 June 30, 2015

|                                                           | Less than 12 months   |            | 12 months or more |            | Total     |            |
|-----------------------------------------------------------|-----------------------|------------|-------------------|------------|-----------|------------|
|                                                           | Fair                  | Unrealized | Fair              | Unrealized | Fair      | Unrealized |
|                                                           | Value                 | Loss       | Value             | Loss       | Value     | Loss       |
|                                                           | (dollars in millions) |            |                   |            |           |            |
| Obligations of state and political subdivisions           | \$ 1,142              | \$(28      | ) \$ 4            | \$ 0       | \$ 1,146  | \$(28      |
| U.S. government and agencies                              | 95                    | (1         | ) 12              | 0          | 107       | (1         |
| Corporate securities                                      | 390                   | (11        | ) 92              | (4         | ) 482     | (15        |
| Mortgage-backed securities:                               |                       |            |                   |            |           |            |
| RMBS                                                      | 457                   | (8         | ) 79              | (14        | ) 536     | (22        |
| CMBS                                                      | 96                    | (1         | ) 2               | 0          | 98        | (1         |
| Asset-backed securities                                   | 7                     | 0          | —                 | —          | 7         | 0          |
| Foreign government securities                             | 98                    | (2         | ) —               | —          | 98        | (2         |
| Total                                                     | \$2,285               | \$(51      | ) \$189           | \$(18      | ) \$2,474 | \$(69      |
| Number of securities (1)                                  |                       | 527        |                   | 26         |           | 550        |
| Number of securities with other-than-temporary impairment |                       | 4          |                   | 4          |           | 8          |

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## Fixed-Maturity Securities

## Gross Unrealized Loss by Length of Time

As of December 31, 2014

|                                                           | 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           | \$64                  | \$0             | \$25              | \$(1)           | \$89       | \$(1)           |
| U.S. government and agencies                              | 139                   | 0               | 68                | (1)             | 207        | (1)             |
| Corporate securities                                      | 189                   | (3)             | 104               | (2)             | 293        | (5)             |
| Mortgage-backed securities:                               |                       |                 |                   |                 |            |                 |
| RMBS                                                      | 205                   | (3)             | 159               | (18)            | 364        | (21)            |
| CMBS                                                      | 36                    | 0               | 19                | 0               | 55         | 0               |
| Asset-backed securities                                   | 56                    | (2)             | 18                | (1)             | 74         | (3)             |
| Foreign government securities                             | 108                   | (2)             | 0                 | 0               | 108        | (2)             |
| Total                                                     | \$797                 | \$(10)          | \$393             | \$(23)          | \$1,190    | \$(33)          |
| Number of securities (1)                                  |                       | 125             |                   | 82              |            | 198             |
| Number of securities with other-than-temporary impairment |                       | 3               |                   | 7               |            | 10              |

The number of securities does not add across because lots of the same securities have been purchased at different (1)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 June 30, 2015, two securities had unrealized losses greater than 10% of book value. The total unrealized loss for these securities as of June 30, 2015 was \$12 million. The Company has determined that the unrealized losses recorded as of June 30, 2015 are yield related and not the result of other-than-temporary-impairment.

The amortized cost and estimated fair value of available-for-sale fixed maturity securities by contractual maturity as of June 30, 2015 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 June 30, 2015

|                                       | Amortized Cost<br>(in millions) | Estimated Fair Value |
|---------------------------------------|---------------------------------|----------------------|
| Due within one year                   | \$217                           | \$220                |
| Due after one year through five years | 1,660                           | 1,717                |
| Due after five years through 10 years | 2,200                           | 2,299                |

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|                             |           |           |
|-----------------------------|-----------|-----------|
| Due after 10 years          | 4,251     | 4,416     |
| Mortgage-backed securities: |           |           |
| RMBS                        | 1,313     | 1,329     |
| CMBS                        | 588       | 601       |
| Total                       | \$ 10,229 | \$ 10,582 |

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The investment portfolio and miscellaneous other assets/liabilities contain securities and cash that are either held in trust for the benefit of third party reinsurers in accordance with statutory requirements, invested in guaranteed investment contract for future claims payments, placed on deposit to fulfill state licensing requirements, or otherwise restricted in the amount of \$300 million and \$236 million as of June 30, 2015 and December 31, 2014, respectively, based on fair value. 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 \$1,541 million and \$1,395 million as of June 30, 2015 and December 31, 2014, respectively, based on fair value.

The fair value of the Company's pledged securities to secure its obligations under its CDS exposure totaled \$330 million and \$376 million as of June 30, 2015 and December 31, 2014, respectively.

No material investments of the Company were non-income producing for Six Months 2015 and Six Months 2014, respectively.

**Internally Managed Portfolio**

The investment portfolio tables shown above include both assets managed externally and internally. In the table below, more detailed information is provided for the component of the total investment portfolio that is internally managed (excluding short-term investments). The internally managed portfolio, as defined below, represents approximately 8% and 8% of the investment portfolio, on a fair value basis as of June 30, 2015 and December 31, 2014, respectively. The internally managed portfolio consists primarily of the Company's investments in securities for (i) loss mitigation purposes, (ii) other risk management purposes and (iii) where the Company believes a particular security presents an attractive investment opportunity.

One of the Company's strategies for mitigating losses has been to purchase securities it has insured that have expected losses, at discounted prices (assets purchased for loss mitigation purposes). In addition, the Company holds other invested assets that were obtained or purchased as part of negotiated settlements with insured counterparties or under the terms of our financial guaranties (other risk management assets).

**Internally Managed Portfolio  
Carrying Value**

|                                                                          | As of<br>June 30, 2015<br>(in millions) | As of<br>December 31,<br>2014 |
|--------------------------------------------------------------------------|-----------------------------------------|-------------------------------|
| Assets purchased for loss mitigation and other risk management purposes: |                                         |                               |
| Fixed-maturity securities, at fair value                                 | 746                                     | 835                           |
| Other invested assets                                                    | 119                                     | 46                            |
| Other                                                                    | 97                                      | 79                            |
| Total                                                                    | \$962                                   | \$960                         |

**12. Insurance Company Regulatory Requirements****Contingency Reserves**

On July 15, 2013, AGM and its wholly-owned subsidiary AGE (together, the "AGM Group") and AGC, were notified that the New York State Department of Financial Services ("NYDFS") and the Maryland Insurance Administration ("MIA") do not object to the AGM Group and AGC, respectively, reassuming contingency reserves in the amount of

approximately \$250 million, in the case of the AGM Group, and \$267 million, in the case of AGC, that they had ceded to AG Re and electing to cease ceding future contingency reserves to AG Re. The insurance regulators permitted the AGM Group and AGC to reassume the contingency reserves in increments over three years. As of June 30, 2015, the AGM Group and AGC had reassumed an aggregate of \$428 million. One more installment remains to be reassumed in the third quarter of 2015, subject to the prior approval of the NYDFS, in the case of the AGM Group, and the MIA and the NYDFS, in the case of AGC.

With respect to the regular, quarterly contributions to contingency reserves required by the applicable Maryland and New York laws and regulations, such laws and regulations permit the discontinuation of such quarterly contributions to a company's contingency reserves when such company's aggregate contingency reserves for a particular line of business (i.e., municipal or non-municipal) exceed the sum of the company's outstanding principal for each specified category of obligations within the

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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.

### Dividend Restrictions and Capital Requirements

Under New York insurance law, AGM may only pay dividends out of "earned surplus", which is the portion of a 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 appreciation of assets. AGM may 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, does not exceed the lesser of 10% of its policyholders' surplus (as of the 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 2015 for AGM to distribute as dividends without regulatory approval is estimated to be approximately \$218 million, of which approximately \$57 million is estimated to be available for distribution in the third quarter of 2015.

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 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 2015 for AGC to distribute as ordinary dividends will be approximately \$90 million, of which approximately \$16 million is available for distribution in the third quarter of 2015.

MAC is a New York domiciled insurance company subject to the same dividend limitations described above for AGM. The Company does not currently anticipate that MAC will distribute any dividends.

Any distribution (including repurchase of shares) of any share capital, contributed surplus or other statutory capital) that would reduce AG Re's 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 Bermuda Monetary Authority ("Authority"). Separately, dividends are paid out of an insurer's statutory surplus and cannot exceed that surplus. Further, annual dividends cannot exceed 25% of total statutory capital and surplus as set out in its previous year's financial statements, which is \$279 million, without AG Re certifying to the Authority that it will continue to meet required margins. Based on the foregoing limitations, in 2015 AG Re has the capacity to (i) make capital distributions in an aggregate amount up to \$127 million without the prior approval of the Authority and (ii) declare and pay dividends in an aggregate amount up to the limit of its outstanding statutory surplus, which is \$271 million. 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 June 30, 2015, AG Re had unencumbered assets of approximately \$566 million.

U.K. company law prohibits each of AGE and AGUK 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 Prudential Regulation Authority's capital requirements may in practice act as a restriction on dividends. The Company does not expect AGE or AGUK to distribute any dividends at this time.

### Dividends and Surplus Notes

By Insurance Company Subsidiaries

|                                          | Second Quarter |      | Six Months |      |
|------------------------------------------|----------------|------|------------|------|
|                                          | 2015           | 2014 | 2015       | 2014 |
|                                          | (in millions)  |      |            |      |
| Dividends paid by AGC to AGUS            | \$15           | \$15 | \$35       | \$15 |
| Dividends paid by AGM to AGMH            | 40             | 45   | 106        | 45   |
| Dividends paid by AG Re to AGL           | 35             | 20   | 85         | 82   |
| Repayment of surplus note by AGM to AGMH | —              | —    | 25         | 25   |

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### 13. Income Taxes

#### Overview

AGL, and its "Bermuda Subsidiaries," which consist of AG Re, AGRO, and Cedar Personnel Ltd., 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 and AGE, a U.K. domiciled company, have elected under Section 953(d) of the U.S. Internal Revenue Code to be taxed as a U.S. domestic corporation.

In November 2013, AGL became tax resident in the U.K. although it will remain a Bermuda-based company and its administrative and head office functions will continue to be carried on in Bermuda. As a company that is not incorporated in the U.K., AGL currently manages the affairs of AGL in such a way as to establish and maintain its status as a company that is tax resident in the U.K. As a U.K. tax resident company, AGL is required to file a corporation tax return with Her Majesty's Revenue & Customs ("HMRC"). AGL is subject to U.K. corporation tax in respect of its worldwide profits (both income and capital gains), subject to any applicable exemptions. AGL has also registered in the U.K. to report its Value Added Tax ("VAT") liability. The current rate of VAT is 20%. 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. The U.K. government implemented a new tax regime for "controlled foreign companies" ("CFC regime") effective January 1, 2013. Assured Guaranty does not expect any profits of non-U.K. resident members of the group to be taxed under the CFC regime and has obtained a clearance from HMRC confirming this on the basis of current facts.

For the periods beginning on July 1, 2009 and forward, AGMH files a consolidated federal income tax return with AGUS, AGC, AG Financial Products Inc. ("AGFP") and AG Analytics Inc. ("AGUS consolidated tax group"). Beginning on May 12, 2012, MAC also joined the AGUS consolidated tax group. Assured Guaranty Overseas US Holdings Inc. and its subsidiaries AGRO and AG Intermediary Inc., file their own consolidated federal income tax return.

#### Provision for Income Taxes

The Company's provision for income taxes for interim financial periods is not based on an estimated annual effective rate due, for example, to the variability in fair value of its credit derivatives, which prevents the Company from projecting a reliable estimated annual effective tax rate and pretax income for the full year 2015. A discrete calculation of the provision is calculated for each interim period.

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 35%, U.K. subsidiaries taxed at the U.K. blended marginal corporate tax rate of 20.25% unless subject to U.S. tax by election or as a U.S. controlled foreign corporation, 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. For periods subsequent to April 1, 2015, the U.K. corporation tax rate has been reduced to 20%, for the period April 1, 2014 to April 1, 2015 the U.K. corporation tax rate was 21% resulting in a blended tax rate of 20.25% in 2015, and prior to April 1, 2014, the U.K. corporation tax rate was 23% resulting in a blended tax rate of 21.5% in 2014. 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

|                                                                              | Second Quarter |        | Six Months |        |   |
|------------------------------------------------------------------------------|----------------|--------|------------|--------|---|
|                                                                              | 2015           | 2014   | 2015       | 2014   |   |
|                                                                              | (in millions)  |        |            |        |   |
| Expected tax provision (benefit) at statutory rates in taxable jurisdictions | \$143          | \$72   | \$220      | \$110  |   |
| Tax-exempt interest                                                          | (13            | ) (14  | ) (27      | ) (28  | ) |
| Gain on bargain purchase                                                     | (19            | ) —    | (19        | ) —    |   |
| Change in liability for uncertain tax positions                              | 1              | —      | 2          | 1      |   |
| Other                                                                        | 0              | 1      | 1          | 3      |   |
| Total provision (benefit) for income taxes                                   | \$112          | \$59   | \$177      | \$86   |   |
| Effective tax rate                                                           | 27.5           | % 27.2 | % 26.2     | % 30.0 | % |

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. Pretax income of the Company's subsidiaries which are not U.S. or U.K. domiciled but are subject to U.S. or U.K. tax by election, establishment of tax residency or as controlled foreign corporations, are included at the U.S. or U.K. statutory tax rate. 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 table presents pretax income and revenue by jurisdiction.

## Pretax Income (Loss) by Tax Jurisdiction

|               | Second Quarter |       | Six Months |       |   |
|---------------|----------------|-------|------------|-------|---|
|               | 2015           | 2014  | 2015       | 2014  |   |
|               | (in millions)  |       |            |       |   |
| United States | \$414          | \$209 | \$637      | \$322 |   |
| Bermuda       | 5              | 18    | 55         | (19   | ) |
| U.K.          | (10            | ) (9  | ) (17      | ) (16 | ) |
| Total         | \$409          | \$218 | \$675      | \$287 |   |

## Revenue by Tax Jurisdiction

|               | Second Quarter |       | Six Months |       |   |
|---------------|----------------|-------|------------|-------|---|
|               | 2015           | 2014  | 2015       | 2014  |   |
|               | (in millions)  |       |            |       |   |
| United States | \$618          | \$293 | \$918      | \$488 |   |
| Bermuda       | 78             | 61    | 151        | 62    |   |
| U.K.          | (1             | ) (1  | ) (5       | ) (2  | ) |
| Total         | \$695          | \$353 | \$1,064    | \$548 |   |

Pretax income by jurisdiction may be disproportionate to revenue by jurisdiction to the extent that insurance losses incurred are disproportionate.



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### Valuation Allowance

As a part of Radian Asset Acquisition, the Company acquired \$11 million of foreign tax credits (“FTC”) which will expire between 2018 and 2020. After reviewing positive and negative evidence, the Company came to the conclusion that it is more likely than not that the FTC credit 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 operating 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 this deferred tax asset. The Company will continue to analyze the need for a valuation allowance on a quarterly basis.

### Audits

AGUS has open tax years with the U.S. Internal Revenue Service (“IRS”) for 2009 forward and is currently under audit for the 2009-2012 tax years. On February 20, 2013 the IRS notified AGUS that the Joint Committee on Taxation completed its review of the 2006 through 2008 tax years and has accepted the results of the IRS examination without exception. Assured Guaranty Overseas US Holdings Inc. has open tax years of 2010 forward. The IRS concluded its field work with respect to tax year through 2009 for AGMH and subsidiaries while members of the Dexia Holdings Inc. consolidated tax group without adjustment. The Company's U.K. subsidiaries are not currently under examination and have open tax years of 2012 forward.

### Uncertain Tax Positions

The Company's policy is to recognize interest and penalties related to uncertain tax positions in income tax expense and has accrued \$0.6 million for Six Months 2015 and \$1 million for 2014. As of June 30, 2015 and December 31, 2014, the Company has accrued \$5.1 million and \$4.5 million of interest, respectively.

The total amount of unrecognized tax benefits as of June 30, 2015 and December 31, 2014, that would affect the effective tax rate, if recognized, was \$29.5 million and \$28 million, respectively.

### 14. Reinsurance and Other Monoline Exposures

The Company assumes exposure on insured obligations (“Assumed Business”) and cedes portions of its exposure on obligations it has insured (“Ceded Business”) in exchange for premiums, net of ceding commissions. The Company has historically entered into ceded reinsurance contracts in order to obtain greater business diversification and reduce the net potential loss from large risks.

### Assumed and Ceded Business

The Company assumes business from other monoline financial guaranty companies. 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. The Company's facultative and treaty agreements are generally subject to termination at the option of the ceding company:

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if the Company fails to meet certain financial and regulatory criteria and to maintain a specified minimum financial strength rating, or

upon certain changes of control of the Company.

Upon termination under these conditions, the Company may be required (under some of its reinsurance agreements) to return to the ceding company unearned premiums (net of ceding commissions) and loss reserves calculated on a statutory basis of accounting, attributable to reinsurance assumed pursuant to such agreements after which the Company would be released from liability with respect to the Assumed Business.

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Upon the occurrence of the conditions set forth in the first bullet above, whether or not an agreement is terminated, the Company may be required to obtain a letter of credit or alternative form of security to collateralize its obligation to perform under such agreement or it may be obligated to increase the level of ceding commission paid.

The downgrade of the financial strength ratings of AG Re or of AGC gives certain ceding companies the right to recapture business they had ceded to AG Re and AGC, which would lead to a reduction in the Company's unearned premium reserve and related earnings on such reserve. With respect to a significant portion of the Company's in-force financial guaranty assumed business, based on AG Re's and AGC's current ratings and subject to the terms of each reinsurance agreement, the third party ceding company may have the right to recapture business it had ceded to AG Re and/or AGC, and in connection therewith, to receive payment from AG Re or AGC of an amount equal to the statutory unearned premium (net of ceding commissions) and statutory loss reserves (if any) associated with that business, plus, in certain cases, an additional ceding commission. As of June 30, 2015, if each third party insurer 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 \$76 million and \$40 million, respectively.

The Company has Ceded Business to non-affiliated companies to limit its exposure to risk. Under these relationships, the Company cedes a portion of its insured risk in exchange for a premium paid to the reinsurer. 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. A number of the financial guaranty insurers to which the Company has ceded par have experienced financial distress and been downgraded by the rating agencies as a result. In addition, state insurance regulators have intervened with respect to some of these insurers. The Company's ceded contracts generally allow the Company to recapture Ceded Business after certain triggering events, such as reinsurer downgrades.

In Six Months 2015, the Company entered into a commutation agreement to reassume previously ceded U.S. public finance par. In Six Months 2014, the Company entered into commutation agreements to reassume previously ceded business consisting of approximately \$856 million par of almost exclusively U.S. public finance and European (predominantly UK) utility and infrastructure exposures outstanding as of February 28, 2014. For such reassumptions, the Company received the statutory unearned premium outstanding as of the commutation dates plus, in one case, a commutation premium.

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The following table presents the components of premiums and losses reported in the consolidated statement of operations and the contribution of the Company's Assumed and Ceded Businesses.

## Effect of Reinsurance on Statement of Operations

|                   | Second Quarter |       | Six Months |         |
|-------------------|----------------|-------|------------|---------|
|                   | 2015           | 2014  | 2015       | 2014    |
|                   | (in millions)  |       |            |         |
| Premiums Written: |                |       |            |         |
| Direct            | \$23           | \$17  | \$52       | \$48    |
| Assumed           | (1             | ) 0   | 2          | (1 )    |
| Ceded             | 2              | 2     | 2          | (22 )   |
| Net               | \$24           | \$19  | \$56       | \$25    |
| Premiums Earned:  |                |       |            |         |
| Direct            | \$224          | \$147 | \$372      | \$287   |
| Assumed           | 12             | 9     | 22         | 20      |
| Ceded             | (17            | ) (20 | ) (33      | ) (39 ) |
| Net               | \$219          | \$136 | \$361      | \$268   |
| Loss and LAE:     |                |       |            |         |
| Direct            | \$186          | \$70  | \$212      | \$104   |
| Assumed           | 19             | 9     | 12         | 15      |
| Ceded             | (17            | ) (22 | ) (18      | ) (21 ) |
| Net               | \$188          | \$57  | \$206      | \$98    |

## Other Monoline Exposures

In addition to assumed and ceded reinsurance arrangements, the Company may also have exposure to some financial guaranty reinsurers (i.e., monolines) in other areas. Second-to-pay insured par outstanding represents transactions the Company has insured that were previously insured by other monolines. The Company underwrites such transactions based on the underlying insured obligation without regard to the primary insurer. Another area of exposure is in the investment portfolio where the Company holds fixed-maturity securities that are wrapped by monolines and whose value may change based on the rating of the monoline. As of June 30, 2015, based on fair value, the Company had fixed-maturity securities in its investment portfolio consisting of \$296 million insured by National Public Finance Guarantee Corporation ("NPFGC"), \$240 million insured by Ambac Assurance Corporation ("Ambac") and \$31 million insured by other guarantors.

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## Exposure by Reinsurer

| Reinsurer                                                       | Ratings at<br>August 5, 2015   |                            | Par Outstanding (1)<br>As of June 30, 2015 |                                                 |                            |
|-----------------------------------------------------------------|--------------------------------|----------------------------|--------------------------------------------|-------------------------------------------------|----------------------------|
|                                                                 | Moody's<br>Reinsurer<br>Rating | S&P<br>Reinsurer<br>Rating | Ceded Par<br>Outstanding                   | Second-to-<br>Pay Insured<br>Par<br>Outstanding | Assumed Par<br>Outstanding |
| (dollars in millions)                                           |                                |                            |                                            |                                                 |                            |
| American Overseas Reinsurance<br>Company Limited (f/k/a Ram Re) | WR (2)                         | WR                         | \$6,006                                    | \$—                                             | \$30                       |
| Tokio Marine & Nichido Fire<br>Insurance Co., Ltd.              | Aa3 (3)                        | AA- (3)                    | 4,768                                      | —                                               | —                          |
| Syncora Guarantee Inc.                                          | WR                             | WR                         | 3,671                                      | 1,612                                           | 160                        |
| Mitsui Sumitomo Insurance Co. Ltd.                              | A1                             | A+ (3)                     | 1,927                                      | —                                               | —                          |
| ACA Financial Guaranty Corp.                                    | NR (4)                         | WR                         | 745                                        | 19                                              | —                          |
| Ambac                                                           | WR                             | WR                         | 117                                        | 4,725                                           | 12,320                     |
| Swiss Reinsurance Co.                                           | Aa3                            | AA-                        | 25                                         | —                                               | —                          |
| NPFGC (5)                                                       | A3                             | AA-                        | —                                          | 5,680                                           | 5,391                      |
| MBIA                                                            | (6)                            | (6)                        | —                                          | 2,704                                           | 469                        |
| Financial Guaranty Insurance Co.                                | WR                             | WR                         | —                                          | 1,797                                           | 690                        |
| Ambac Assurance Corp. Segregated<br>Account                     | NR                             | NR                         | —                                          | 100                                             | 903                        |
| CIFG Assurance North America Inc.                               | WR                             | WR                         | —                                          | 102                                             | 3,914                      |
| Other                                                           | Various                        | Various                    | 196                                        | 853                                             | 138                        |
| Total                                                           |                                |                            | \$17,455                                   | \$17,592                                        | \$24,015                   |

(1) Includes par related to insured credit derivatives.

(2) Represents “Withdrawn Rating.”

(3) The Company benefits from trust arrangements that satisfy the triple-A credit requirement of S&P and/or Moody's.

(4) Represents “Not Rated.”

(5) NPFGC is also rated AA+ by KBRA.

(6) MBIA includes subsidiaries MBIA Insurance Corp. rated B by S&P and B2 by Moody's and MBIA U.K. Insurance Ltd. rated B by S&P and Ba2 by Moody's.

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## Amounts Due (To) From Reinsurers

As of June 30, 2015

|                                                                 | Assumed<br>Premium, net<br>of Commissions<br>(in millions) | Ceded<br>Premium, net<br>of<br>Commissions | Assumed<br>Expected<br>Loss and LAE | Ceded<br>Expected<br>Loss and LAE |
|-----------------------------------------------------------------|------------------------------------------------------------|--------------------------------------------|-------------------------------------|-----------------------------------|
| American Overseas Reinsurance Company Limited<br>(f/k/a Ram Re) | \$—                                                        | \$(7 )                                     | \$—                                 | \$15                              |
| Tokio Marine & Nichido Fire Insurance Co., Ltd.                 | —                                                          | (12 )                                      | —                                   | 51                                |
| Syncora Guarantee Inc.                                          | —                                                          | (28 )                                      | —                                   | 8                                 |
| Mitsui Sumitomo Insurance Co. Ltd.                              | —                                                          | (3 )                                       | —                                   | 19                                |
| Swiss Reinsurance Co.                                           | —                                                          | (2 )                                       | —                                   | —                                 |
| Ambac                                                           | 43                                                         | —                                          | (17 )                               | —                                 |
| Ambac Assurance Corp. Segregated Account                        | 11                                                         | —                                          | (70 )                               | —                                 |
| CIFG Assurance North America Inc.                               | —                                                          | —                                          | (20 )                               | —                                 |
| MBIA                                                            | 5                                                          | —                                          | (11 )                               | —                                 |
| NPFGC                                                           | 6                                                          | —                                          | (10 )                               | —                                 |
| Financial Guaranty Insurance Co.                                | 4                                                          | —                                          | (7 )                                | —                                 |
| Other                                                           | 2                                                          | (3 )                                       | —                                   | —                                 |
| Total                                                           | \$71                                                       | \$(55 )                                    | \$(135 )                            | \$93                              |

## Excess of Loss Reinsurance Facility

AGC, AGM and MAC entered into an aggregate excess of loss reinsurance facility with a number of reinsurers, effective as of January 1, 2014. Currently, the facility covers losses occurring from January 1, 2015 through December 31, 2021, subject to the payment of certain additional premium by AGC, AGM and MAC on or before January 1, 2016. If AGC, AGM and MAC elect not to pay such additional premium, the facility terminates on January 1, 2016. The facility covers certain U.S. public finance credits insured or reinsured by AGC, AGM and MAC as of September 30, 2013, excluding credits that were rated non-investment grade as of December 31, 2013 by Moody's or S&P or internally by AGC, AGM or MAC and is subject to certain per credit limits. Among the credits excluded are those associated with the Commonwealth of Puerto Rico and its related authorities and public corporations. The 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 \$1.5 billion in the aggregate. The facility covers a portion of the next \$500 million of losses, with the reinsurers assuming pro rata in the aggregate \$450 million of the \$500 million of losses and AGC, AGM and MAC jointly retaining the remaining \$50 million of losses. The reinsurers are required to be rated at least AA- or to post collateral sufficient to provide AGM, AGC and MAC with the same reinsurance credit as reinsurers rated AA-. AGM, AGC and MAC are obligated to pay the reinsurers their share of recoveries relating to losses during the coverage period in the covered portfolio. AGC, AGM and MAC paid approximately \$19 million of premiums for the term January 1, 2014 through December 31, 2014 and also paid approximately \$19 million of premiums for the term January 1, 2015 through December 31, 2015.

## 15. Commitments and Contingencies

## 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.

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

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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.

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. For example, as described in the "Recovery Litigation" section of Note 6, Expected Loss to be Paid, in December 2008, the Company filed a claim in the Supreme Court of the State of New York against an investment manager in a transaction it insured alleging breach of fiduciary duty, gross negligence and breach of contract; discovery on the matter is ongoing. In the past, AGC and AGM have filed complaints against certain sponsors and underwriters of RMBS securities that AGC or AGM had insured, alleging that such persons had breached representations and warranties in the transaction documents, failed to cure or repurchase defective loans and/or violated state securities laws. The amounts, if any, the Company will recover in 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.

### Litigation

#### Proceedings Relating to the Company's Financial Guaranty Business

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 AGFP, an affiliate of AGC which in the past had provided credit protection to counterparties under credit default swaps. AGC acts as the credit support provider of AGFP under these credit default swaps. LBIE's complaint, which was filed in the Supreme Court of the State of New York, alleged that AGFP improperly terminated nine credit derivative transactions between LBIE and AGFP and improperly calculated the termination payment in connection with the termination of 28 other credit derivative transactions between LBIE and AGFP. Following defaults by LBIE, AGFP properly terminated the transactions in question in compliance with the requirements of the agreement between AGFP and LBIE, and calculated the termination payment. 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. On February 3, 2012, AGFP filed a motion to dismiss certain of the counts in the complaint, and on March 15, 2013, the court granted AGFP's motion to dismiss the count relating to improper termination of the nine credit derivative transactions and denied AGFP's motion to dismiss the count relating to the remaining transactions. In their April 10, 2015 report to LBIE's unsecured creditors, LBIE's administrators disclosed that LBIE's valuation expert has calculated LBIE's 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. Discovery has been ongoing and motions for summary judgment are due in October 2015. Notwithstanding the range calculated by LBIE's valuation expert, the Company cannot reasonably estimate the possible loss, if any, that may arise from this lawsuit.

On September 25, 2013, Wells Fargo Bank, N.A., as trust administrator of the MASTR Adjustable Rate Mortgages Trust 2007-3, filed an interpleader complaint in the U.S. District Court for the Southern District of New York against AGM, among others, relating to the right of AGM to be reimbursed from certain cashflows for principal claims paid in respect of insured certificates. The Company estimates that an adverse outcome to the interpleader proceeding could increase losses on the transaction by approximately \$10 - \$20 million, net of expected settlement payments and reinsurance in force.

On May 28, 2014, Houston Casualty Company Europe, Seguros y Reseguros, S.A. (“HCCE”) notified Radian Asset that it was demanding arbitration against Radian Asset in connection with housing cooperative losses presented to Radian Asset by HCCE under several years of quota-share surety reinsurance contracts. HCCE claims AGC, as successor to Radian Asset, is required to pay to it, as ceding company, among other amounts, its share of certain current and future housing cooperative losses, together with certain fees, expenses and costs relating thereto. HCCE has presented approximately €15 million in claims to AGC through June 30, 2015 and is still in the process of settling additional similar claims. Based on the experience to date, AGC estimates HCCE may submit additional claims of approximately €3.1 million under the reinsurance contracts. AGC is disputing the claims and intends to assert its defenses in the arbitration. The reinsurance contracts provide for arbitration in Madrid and are governed by Spanish law. Arbitration proceedings may commence in 2015.

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### Proceedings Resolved Since December 31, 2014

On November 19, 2012, Lehman Brothers Holdings Inc. ("LBHI") and Lehman Brothers Special Financing Inc. ("LBSF") commenced an adversary complaint and claim objection in the United States Bankruptcy Court for the Southern District of New York against Credit Protection Trust 283 ("CPT 283"), FSA Administrative Services, LLC, as trustee for CPT 283, and AGM, in connection with CPT 283's termination of a CDS between LBSF and CPT 283. CPT 283 terminated the CDS as a consequence of LBSF failing to make a scheduled payment owed to CPT 283, which termination occurred after LBHI filed for bankruptcy but before LBSF filed for bankruptcy. The CDS provided that CPT 283 was entitled to receive from LBSF a termination payment in that circumstance of approximately \$43.8 million (representing the economic equivalent of the future fixed payments CPT 283 would have been entitled to receive from LBSF had the CDS not been terminated), and CPT 283 filed proofs of claim against LBSF and LBHI (as LBSF's credit support provider) for such amount. LBHI and LBSF sought to disallow and expunge (as impermissible and unenforceable penalties) CPT 283's proofs of claim against LBHI and LBSF and recover approximately \$67.3 million, which LBHI and LBSF allege was the mark-to-market value of the CDS to LBSF (less unpaid amounts) on the day CPT 283 terminated the CDS, plus interest, attorney's fees, costs and other expenses. On the same day, LBHI and LBSF also commenced an adversary complaint and claim objection against Credit Protection Trust 207 ("CPT 207"), FSA Administrative Services, LLC, as trustee for CPT 207, and AGM, in connection with CPT 207's termination of a CDS between LBSF and CPT 207. Similarly, the CDS provided that CPT 207 was entitled to receive from LBSF a termination payment in that circumstance of \$492,555. LBHI and LBSF seek to disallow and expunge CPT 207's proofs of claim against LBHI and LBSF and recover approximately \$1.5 million. On January 30, 2015, the parties signed an agreement pursuant to which LBHI and LBSF dismissed their litigation related to CPT 283's and CPT 207's CDS terminations and the parties agreed that CPT 283 and CPT 207 have a total allowed claim in bankruptcy against LBSF and LBHI of \$20 million.

### Proceedings Related to AGMH's Former Financial Products Business

The following is a description of legal proceedings involving AGMH's former Financial Products Business. Although the Company did not acquire AGMH's former Financial Products Business, which included AGMH's former GIC business, medium term notes business and portions of the leveraged lease businesses, certain legal proceedings relating to those businesses are against entities that the Company did acquire. While Dexia SA and Dexia Crédit Local S.A., jointly and severally, have agreed to indemnify the Company against liability arising out of the proceedings described below, such indemnification might not be sufficient to fully hold the Company harmless against any injunctive relief or civil or criminal sanction that is imposed against AGMH or its subsidiaries.

### Governmental Investigations into Former Financial Products Business

AGMH and/or AGM have received subpoenas duces tecum and interrogatories or civil investigative demands from the Attorneys General of the States of Connecticut, Florida, Illinois, Massachusetts, Missouri, New York, Texas and West Virginia relating to their investigations of alleged bid rigging of municipal GICs. AGMH has been responding to such requests. AGMH may receive additional inquiries from these or other regulators and expects to provide additional information to such regulators regarding their inquiries in the future. In addition, AGMH received a subpoena from the Antitrust Division of the Department of Justice in November 2006 issued in connection with an ongoing criminal investigation of bid rigging of awards of municipal GICs and other municipal derivatives. Pursuant to that subpoena, AGMH has furnished to the Department of Justice records and other information with respect to AGMH's municipal GIC business. The ultimate loss that may arise from these investigations remains uncertain.

### Lawsuits Relating to Former Financial Products Business

During 2008, nine putative class action lawsuits were filed in federal court alleging federal antitrust violations in the municipal derivatives industry, seeking damages and alleging, among other things, a conspiracy to fix the pricing of, and manipulate bids for, municipal derivatives, including GICs. These cases have been coordinated and consolidated

for pretrial proceedings in the U.S. District Court for the Southern District of New York as MDL 1950, In re Municipal Derivatives Antitrust Litigation, Case No. 1:08-cv-2516 (“MDL 1950”). Five of these cases named both AGMH and AGM: (a) Hinds County, Mississippi v. Wachovia Bank, N.A.; (b) Fairfax County, Virginia v. Wachovia Bank, N.A.; (c) Central Bucks School District, Pennsylvania v. Wachovia Bank, N.A.; (d) Mayor and City Council of Baltimore, Maryland v. Wachovia Bank, N.A.; and (e) Washington County, Tennessee v. Wachovia Bank, N.A. In April 2009, the MDL 1950 court granted the defendants’ motion to dismiss on the federal claims, but granted leave for the plaintiffs to file an amended complaint. The Corrected Third Consolidated Amended Class Action Complaint, filed on October 9, 2013, lists neither AGM nor AGMH as a named defendant or a co-conspirator. The complaint generally seeks unspecified monetary damages, interest, attorneys’ fees and other costs. The other four cases named AGMH (but not AGM) and also alleged that the defendants violated California state antitrust law and

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common law by engaging in illegal bid-rigging and market allocation, thereby depriving the cities or municipalities of competition in the awarding of GICs and ultimately resulting in the cities paying higher fees for these products: (f) City of Oakland, California v. AIG Financial Products Corp.; (g) County of Alameda, California v. AIG Financial Products Corp.; (h) City of Fresno, California v. AIG Financial Products Corp.; and (i) Fresno County Financing Authority v. AIG Financial Products Corp. When the four plaintiffs filed a consolidated complaint in September 2009, the plaintiffs did not name AGMH as a defendant. However, the complaint does describe some of AGMH's and AGM's activities. The consolidated complaint generally seeks unspecified monetary damages, interest, attorneys' fees and other costs. In April 2010, the MDL 1950 court granted in part and denied in part the named defendants' motions to dismiss this consolidated complaint. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from these lawsuits.

In 2008, AGMH and AGM also were named in five non-class action lawsuits originally filed in the California Superior Courts alleging violations of California law related to the municipal derivatives industry: (a) City of Los Angeles, California v. Bank of America, N.A.; (b) City of Stockton, California v. Bank of America, N.A.; (c) County of San Diego, California v. Bank of America, N.A.; (d) County of San Mateo, California v. Bank of America, N.A.; and (e) County of Contra Costa, California v. Bank of America, N.A. Amended complaints in these actions were filed in September 2009, adding a federal antitrust claim and naming AGM (but not AGMH) and AGUS, among other defendants. These cases have been transferred to the Southern District of New York and consolidated with MDL 1950 for pretrial proceedings. In late 2009, AGM and AGUS, among other defendants, were named in six additional non-class action cases filed in federal court, which also have been coordinated and consolidated for pretrial proceedings with MDL 1950; one has since been voluntarily dismissed with prejudice, leaving five: (f) City of Riverside, California v. Bank of America, N.A.; (g) Los Angeles World Airports v. Bank of America, N.A.; (h) Redevelopment Agency of the City of Stockton v. Bank of America, N.A.; (i) Sacramento Suburban Water District v. Bank of America, N.A.; and (j) County of Tulare, California v. Bank of America, N.A. The MDL 1950 court denied AGM and AGUS's motions to dismiss these ten complaints in April 2010. Amended complaints were filed in May 2010. The complaints in these lawsuits generally seek or sought unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from the remaining lawsuits.

In May 2010, AGM and AGUS, among other defendants, were named in five additional non-class action cases filed in federal court in California: (a) City of Richmond, California v. Bank of America, N.A. (filed on May 18, 2010, N.D. California); (b) City of Redwood City, California v. Bank of America, N.A. (filed on May 18, 2010, N.D. California); (c) Redevelopment Agency of the City and County of San Francisco, California v. Bank of America, N.A. (filed on May 21, 2010, N.D. California); (d) East Bay Municipal Utility District, California v. Bank of America, N.A. (filed on May 18, 2010, N.D. California); and (e) City of San Jose and the San Jose Redevelopment Agency, California v. Bank of America, N.A. (filed on May 18, 2010, N.D. California). These cases have also been transferred to the Southern District of New York and consolidated with MDL 1950 for pretrial proceedings. In September 2010, AGM and AGUS, among other defendants, were named in a sixth additional non-class action filed in federal court in New York, but which alleges violation of New York's Donnelly Act in addition to federal antitrust law: Active Retirement Community, Inc. d/b/a Jefferson's Ferry v. Bank of America, N.A. (filed on September 21, 2010, E.D. New York), which has also been transferred to the Southern District of New York and consolidated with MDL 1950 for pretrial proceedings. In December 2010, AGM and AGUS, among other defendants, were named in a seventh additional non-class action filed in federal court in the Central District of California, Los Angeles Unified School District v. Bank of America, N.A., and in an eighth additional non-class action filed in federal court in the Southern District of New York, Kendal on Hudson, Inc. v. Bank of America, N.A. These cases also have been consolidated with MDL 1950 for pretrial proceedings. The complaints in these lawsuits generally seek unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from these lawsuits.

In January 2011, AGM and AGUS, among other defendants, were named in an additional non-class action case filed in federal court in New York, which alleges violation of New York's Donnelly Act in addition to federal antitrust law: Peconic Landing at Southold, Inc. v. Bank of America, N.A. This case has been consolidated with MDL 1950 for pretrial proceedings. The complaint in this lawsuit generally seeks unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from this lawsuit.

In September 2009, the Attorney General of the State of West Virginia filed a lawsuit (Circuit Ct. Mason County, W. Va.) against Bank of America, N.A. alleging West Virginia state antitrust violations in the municipal derivatives industry, seeking damages and alleging, among other things, a conspiracy to fix the pricing of, and manipulate bids for, municipal derivatives, including GICs. An amended complaint in this action was filed in June 2010, adding a federal antitrust claim and naming AGM (but not AGMH) and AGUS, among other defendants. This case has been removed to federal court as well as transferred to the S.D.N.Y. and consolidated with MDL 1950 for pretrial proceedings. AGM and AGUS answered West Virginia's Second Amended Complaint on November 11, 2013. The complaint in this lawsuit generally seeks civil penalties, unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from this lawsuit.

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## 16. Long-Term Debt and Credit Facilities

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 June 30, 2015 |                | As of December 31, 2014 |                |
|--------------------------------------------------|---------------------|----------------|-------------------------|----------------|
|                                                  | Principal           | Carrying Value | Principal               | Carrying Value |
|                                                  | (in millions)       |                |                         |                |
| AGUS:                                            |                     |                |                         |                |
| 7.0% Senior Notes                                | \$ 200              | \$ 198         | \$ 200                  | \$ 198         |
| 5.0% Senior Notes                                | 500                 | 499            | 500                     | 499            |
| Series A Enhanced Junior Subordinated Debentures | 150                 | 150            | 150                     | 150            |
| Total AGUS                                       | 850                 | 847            | 850                     | 847            |
| AGMH:                                            |                     |                |                         |                |
| 67/8% QUIBS                                      | 100                 | 69             | 100                     | 68             |
| 6.25% Notes                                      | 230                 | 140            | 230                     | 139            |
| 5.60% Notes                                      | 100                 | 55             | 100                     | 55             |
| Junior Subordinated Debentures                   | 300                 | 178            | 300                     | 175            |
| Total AGMH                                       | 730                 | 442            | 730                     | 437            |
| AGM:                                             |                     |                |                         |                |
| Notes Payable                                    | 14                  | 16             | 16                      | 19             |
| Total AGM                                        | 14                  | 16             | 16                      | 19             |
| Total                                            | \$ 1,594            | \$ 1,305       | \$ 1,596                | \$ 1,303       |

## Recourse Credit Facilities

## 2009 Strip Coverage Facility

In connection with the Company's acquisition of AGMH and its subsidiaries from Dexia Holdings Inc., AGM agreed to retain the risks relating to the debt and strip policy portions of the leveraged lease business. The liquidity risk to AGM related to the strip policy portion of the leveraged lease business is mitigated by the strip coverage facility described below.

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 "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. 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 do not make the required early termination payments, then AGM would be exposed to possible liquidity claims on gross exposure of approximately \$1.2 billion as of June 30, 2015. 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. It is difficult to determine the probability that AGM will have to pay strip provider claims or the likely aggregate amount of such claims. At

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June 30, 2015, approximately \$1.4 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.

On July 1, 2009, AGM and Dexia Crédit Local S.A., acting through its New York Branch (“Dexia Crédit Local (NY)”), entered into a credit facility (the “Strip Coverage Facility”). Under the Strip Coverage Facility, Dexia Crédit Local (NY) agreed to make loans to AGM to finance all draws made by lessors on AGM strip policies that were outstanding as of November 13, 2008, up to the commitment amount. The commitment amount of the Strip Coverage Facility was \$1 billion at closing of the Company's acquisition of AGMH. AGM has reduced the maximum commitment amount from time to time, after taking into account its experience with its exposure to leveraged lease transactions. Most recently, as of June 30, 2014, AGM reduced the maximum commitment amount to \$495 million and agreed with Dexia Crédit Local (NY) that the commitment amount would no longer amortize on a scheduled monthly basis.

Fundings under this facility are subject to certain conditions precedent, and their repayment is collateralized by a security interest that AGM granted to Dexia Crédit Local (NY) in amounts that AGM recovers—from the tax-exempt entity, or from asset sale proceeds—following its payment of strip policy claims. On June 30, 2014, AGM and Dexia Crédit Local (NY) agreed to shorten the duration of the facility. Accordingly, the Strip Coverage Facility will terminate upon the earliest to occur of an AGM change of control, the reduction of the commitment amount to \$0 in accordance with the terms of the facility, and June 30, 2024 (rather than the original maturity date of January 31, 2042).

The Strip Coverage Facility's financial covenants require that AGM and its subsidiaries maintain:

- a maximum debt-to-capital ratio of 30%; and

a minimum net worth of 75% of consolidated net worth as of July 1, 2009, plus, beginning June 30, 2015 and on each anniversary of such date, an amount equal to the product of (i) 25% of the aggregate consolidated net income (or loss) for the period beginning July 2, 2009 and ending on June 30, 2014 and (ii) a fraction, the numerator of which is the commitment amount as of the relevant calculation date and the denominator of which is \$1 billion.

The Company was in compliance with all financial covenants as of June 30, 2015.

The Strip Coverage Facility contains restrictions on AGM, including, among other things, in respect of its ability to incur debt, permit liens, pay dividends or make distributions, dissolve or become party to a merger or consolidation. Most of these restrictions are subject to exceptions. The Strip Coverage Facility has customary events of default, including (subject to certain materiality thresholds and grace periods) payment default, bankruptcy or insolvency proceedings and cross-default to other debt agreements.

As of June 30, 2015, no amounts were outstanding under this facility, nor have there been any borrowings during the life of this facility.

### 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. Such commitment terminates on the October 25, 2018 (the “loan termination date”). The unpaid principal amount of each loan will bear interest at a fixed rate equal to 100% of the then applicable Federal short-term or mid-term interest rate, as the case may be, as determined under Internal Revenue Code Sec. 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 by the third anniversary of the loan termination date. No amounts are currently outstanding under the credit facility.

On March 30, 2015, AGUS loaned \$200 million to AGC to facilitate the acquisition of Radian Asset on April 1, 2015. AGC repaid the loan on April 14, 2015.

In addition, in 2012 AGUS borrowed \$90 million from its affiliate Assured Guaranty Re Overseas Ltd. to fund the acquisition of MAC. That loan remained outstanding as of June 30, 2015.

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Committed Capital Securities

On April 8, 2005, AGC entered into separate agreements (the “Put Agreements”) with four custodial trusts (each, a “Custodial Trust”) pursuant to which AGC may, at its option, cause each of the Custodial Trusts to purchase up to \$50 million of perpetual preferred stock of AGC (the “AGC Preferred Stock”). The custodial trusts were created as a vehicle for providing capital support to AGC by allowing AGC to obtain immediate access to new capital at its sole discretion at any time through the exercise of the put option. If the put options were exercised, AGC would receive \$200 million in return for the issuance of its own perpetual preferred stock, the proceeds of which may be used for any purpose, including the payment of claims. The put options have not been exercised through the date of this filing.

Distributions on the AGC CCS are determined pursuant to an auction process. On April 7, 2008 this auction process failed, thereby increasing the annualized rate on the AGC CCS to one-month LIBOR plus 250 basis points. Distributions on the AGC preferred stock will be determined pursuant to the same process.

In June 2003, \$200 million of “AGM CPS”, money market preferred trust securities, were issued by trusts created for the primary purpose of issuing the AGM CPS, investing the proceeds in high-quality commercial paper and selling put options to AGM, allowing AGM to issue the trusts non-cumulative redeemable perpetual preferred stock (the “AGM Preferred Stock”) of AGM in exchange for cash. There are four trusts, each with an initial aggregate face amount of \$50 million. These trusts hold auctions every 28 days, at which time investors submit bid orders to purchase AGM CPS. If AGM were to exercise a put option, the applicable trust would transfer the portion of the proceeds attributable to principal received upon maturity of its assets, net of expenses, to AGM in exchange for AGM Preferred Stock. AGM pays a floating put premium to the trusts, which represents the difference between the commercial paper yield and the winning auction rate (plus all fees and expenses of the trust). If an auction does not attract sufficient clearing bids, however, the auction rate is subject to a maximum rate of one-month LIBOR plus 200 basis points for the next succeeding distribution period. Beginning in August 2007, the AGM CPS required the maximum rate for each of the relevant trusts. AGM continues to have the ability to exercise its put option and cause the related trusts to purchase AGM Preferred Stock. The trusts provide AGM access to new capital at its sole discretion through the exercise of the put options. As of June 30, 2015 the put option had not been exercised. The Company does not consider itself to be the primary beneficiary of the trusts. See Note 8, Fair Value Measurement, –Other Assets–Committed Capital Securities, for a fair value measurement discussion.

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## 17. Earnings Per Share

## Computation of Earnings Per Share

|                                                                                                                | Second Quarter |        | Six Months |        |
|----------------------------------------------------------------------------------------------------------------|----------------|--------|------------|--------|
|                                                                                                                | 2015           | 2014   | 2015       | 2014   |
|                                                                                                                | (in millions)  |        |            |        |
| Basic earnings per share ("EPS"):                                                                              |                |        |            |        |
| Net income (loss) attributable to AGL                                                                          | \$297          | \$159  | \$498      | \$201  |
| Less: Distributed and undistributed income (loss) available to nonvested shareholders                          | 0              | 0      | 0          | 0      |
| Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries, basic    | \$297          | \$159  | \$498      | \$201  |
| Basic shares                                                                                                   | 150.6          | 178.4  | 153.2      | 180.3  |
| Basic EPS                                                                                                      | \$1.97         | \$0.89 | \$3.25     | \$1.12 |
| Diluted EPS:                                                                                                   |                |        |            |        |
| Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries, basic    | \$297          | \$159  | \$498      | \$201  |
| Plus: Re-allocation of undistributed income (loss) available to nonvested shareholders of AGL and subsidiaries | 0              | 0      | 0          | —      |
| Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries, diluted  | \$297          | \$159  | \$498      | \$201  |
| Basic shares                                                                                                   | 150.6          | 178.4  | 153.2      | 180.3  |
| Effect of dilutive securities:                                                                                 |                |        |            |        |
| Options and restricted stock awards                                                                            | 1.0            | 1.1    | 0.9        | 1.0    |
| Diluted shares                                                                                                 | 151.6          | 179.5  | 154.1      | 181.3  |
| Diluted EPS                                                                                                    | \$1.96         | \$0.89 | \$3.23     | \$1.11 |
| Potentially dilutive securities excluded from computation of EPS because of antidilutive effect                | 0.1            | 1.5    | 0.4        | 1.5    |

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## 18. Shareholders' Equity

## Other Comprehensive Income

The following tables present the changes in each component of AOCI and the effect of significant reclassifications out of AOCI on the respective line items in net income.

Changes in Accumulated Other Comprehensive Income by Component  
Second Quarter 2015

|                                                               | Net Unrealized<br>Gains (Losses) on<br>Investments<br>with no<br>Other-Than-Temporary<br>Impairment<br>(in millions) | Net Unrealized<br>Gains (Losses) on<br>Investments with<br>Other-Than-Temporary<br>Impairment | Cumulative<br>Translation<br>Adjustment | Cash Flow Hedge | Total Accumulated<br>Other<br>Comprehensive<br>Income |
|---------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|-----------------------------------------|-----------------|-------------------------------------------------------|
| Balance, March 31, 2015                                       | \$ 372                                                                                                               | \$ 5                                                                                          | \$(15 )                                 | \$ 8            | \$ 370                                                |
| Other comprehensive income<br>(loss) before reclassifications | (136 )                                                                                                               | (6 )                                                                                          | 6                                       | —               | (136 )                                                |
| Amounts reclassified from<br>AOCI to:                         |                                                                                                                      |                                                                                               |                                         |                 |                                                       |
| Net realized investment gains<br>(losses)                     | 1                                                                                                                    | 8                                                                                             | —                                       | —               | 9                                                     |
| Interest expense                                              | —                                                                                                                    | —                                                                                             | —                                       | 0               | 0                                                     |
| Total before tax                                              | 1                                                                                                                    | 8                                                                                             | —                                       | 0               | 9                                                     |
| Tax (provision) benefit                                       | (1 )                                                                                                                 | (3 )                                                                                          | —                                       | 0               | (4 )                                                  |
| Total amount reclassified from<br>AOCI, net of tax            | 0                                                                                                                    | 5                                                                                             | —                                       | 0               | 5                                                     |
| Net current period other<br>comprehensive income (loss)       | (136 )                                                                                                               | (1 )                                                                                          | 6                                       | 0               | (131 )                                                |
| Balance, June 30, 2015                                        | \$ 236                                                                                                               | \$ 4                                                                                          | \$(9 )                                  | \$ 8            | \$ 239                                                |

Table of ContentsChanges in Accumulated Other Comprehensive Income by Component  
Second Quarter 2014

|                                                               | Net Unrealized<br>Gains (Losses) on<br>Investments<br>with no<br>Other-Than-Temporary<br>Impairment<br>(in millions) | Net Unrealized<br>Gains (Losses) on<br>Investments with<br>Other-Than-Temporary<br>Impairment | Cumulative<br>Translation<br>Adjustment | Cash Flow Hedge | Total Accumulated<br>Other<br>Comprehensive<br>Income |
|---------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|-----------------------------------------|-----------------|-------------------------------------------------------|
| Balance, March 31, 2014                                       | \$ 271                                                                                                               | \$ (13 )                                                                                      | \$(2 )                                  | \$ 8            | \$ 264                                                |
| Other comprehensive income<br>(loss) before reclassifications | 75                                                                                                                   | (17 )                                                                                         | 3                                       | —               | 61                                                    |
| Amounts reclassified from<br>AOCI to:                         |                                                                                                                      |                                                                                               |                                         |                 |                                                       |
| Net realized investment gains<br>(losses)                     | (2 )                                                                                                                 | 12                                                                                            | —                                       | —               | 10                                                    |
| Interest expense                                              | —                                                                                                                    | —                                                                                             | —                                       | 0               | 0                                                     |
| Total before tax                                              | (2 )                                                                                                                 | 12                                                                                            | —                                       | 0               | 10                                                    |
| Tax (provision) benefit                                       | 1                                                                                                                    | (4 )                                                                                          | —                                       | 0               | (3 )                                                  |
| Total amount reclassified from<br>AOCI, net of tax            | (1 )                                                                                                                 | 8                                                                                             | —                                       | 0               | 7                                                     |
| Net current period other<br>comprehensive income (loss)       | 74                                                                                                                   | (9 )                                                                                          | 3                                       | 0               | 68                                                    |
| Balance, June 30, 2014                                        | \$ 345                                                                                                               | \$ (22 )                                                                                      | \$ 1                                    | \$ 8            | \$ 332                                                |

Changes in Accumulated Other Comprehensive Income by Component  
Six Months 2015

|                                                               | Net Unrealized<br>Gains (Losses) on<br>Investments<br>with no<br>Other-Than-Temporary<br>Impairment<br>(in millions) | Net Unrealized<br>Gains (Losses) on<br>Investments with<br>Other-Than-Temporary<br>Impairment | Cumulative<br>Translation<br>Adjustment | Cash Flow Hedge | Total Accumulated<br>Other<br>Comprehensive<br>Income |
|---------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|-----------------------------------------|-----------------|-------------------------------------------------------|
| Balance, December 31, 2014                                    | \$ 367                                                                                                               | \$ 4                                                                                          | \$(10 )                                 | \$ 9            | \$ 370                                                |
| Other comprehensive income<br>(loss) before reclassifications | (118 )                                                                                                               | (8 )                                                                                          | 1                                       | —               | (125 )                                                |
| Amounts reclassified from<br>AOCI to:                         |                                                                                                                      |                                                                                               |                                         |                 |                                                       |
| Net realized investment gains<br>(losses)                     | (19 )                                                                                                                | 12                                                                                            | —                                       | —               | (7 )                                                  |
| Interest expense                                              | —                                                                                                                    | —                                                                                             | —                                       | (1 )            | (1 )                                                  |
| Total before tax                                              | (19 )                                                                                                                | 12                                                                                            | —                                       | (1 )            | (8 )                                                  |
| Tax (provision) benefit                                       | 6                                                                                                                    | (4 )                                                                                          | —                                       | 0               | 2                                                     |
| Total amount reclassified from<br>AOCI, net of tax            | (13 )                                                                                                                | 8                                                                                             | —                                       | (1 )            | (6 )                                                  |

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|                                                      |       |      |      |        |        |   |
|------------------------------------------------------|-------|------|------|--------|--------|---|
| Net current period other comprehensive income (loss) | (131  | ) 0  | 1    | (1     | ) (131 | ) |
| Balance, June 30, 2015                               | \$236 | \$ 4 | \$(9 | ) \$ 8 | \$ 239 |   |

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Table of ContentsChanges in Accumulated Other Comprehensive Income by Component  
Six Months 2014

|                                                               | Net Unrealized<br>Gains (Losses) on<br>Investments<br>with no<br>Other-Than-Temporary<br>Impairment<br>(in millions) | Net Unrealized<br>Gains (Losses) on<br>Investments with<br>Other-Than-Temporary<br>Impairment | Cumulative<br>Translation<br>Adjustment | Cash Flow Hedge | Total Accumulated<br>Other<br>Comprehensive<br>Income |
|---------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|-----------------------------------------|-----------------|-------------------------------------------------------|
| Balance, December 31, 2013                                    | \$ 178                                                                                                               | \$ (24 )                                                                                      | \$ (3 )                                 | \$ 9            | \$ 160                                                |
| Other comprehensive income<br>(loss) before reclassifications | 169                                                                                                                  | (9 )                                                                                          | 4                                       | —               | 164                                                   |
| Amounts reclassified from<br>AOCI to:                         |                                                                                                                      |                                                                                               |                                         |                 |                                                       |
| Net realized investment gains<br>(losses)                     | (4 )                                                                                                                 | 17                                                                                            | —                                       | —               | 13                                                    |
| Interest expense                                              | —                                                                                                                    | —                                                                                             | —                                       | 0               | 0                                                     |
| Total before tax                                              | (4 )                                                                                                                 | 17                                                                                            | —                                       | 0               | 13                                                    |
| Tax (provision) benefit                                       | 2                                                                                                                    | (6 )                                                                                          | —                                       | (1 )            | (5 )                                                  |
| Total amount reclassified from<br>AOCI, net of tax            | (2 )                                                                                                                 | 11                                                                                            | —                                       | (1 )            | 8                                                     |
| Net current period other<br>comprehensive income (loss)       | 167                                                                                                                  | 2                                                                                             | 4                                       | (1 )            | 172                                                   |
| Balance, June 30, 2014                                        | \$ 345                                                                                                               | \$ (22 )                                                                                      | \$ 1                                    | \$ 8            | \$ 332                                                |

## Share Repurchase

The following table presents share repurchases by quarter since January 2013.

## Share Repurchases

| Period                                             | Number of<br>Shares<br>Repurchased | Total<br>Payments(in<br>millions) | Average Price<br>Paid Per Share |
|----------------------------------------------------|------------------------------------|-----------------------------------|---------------------------------|
| 2013                                               | 12,512,759                         | \$264                             | \$21.12                         |
| 2014 (January 1 - March 31)                        | 1,350,443                          | 35                                | 25.92                           |
| 2014 (April 1 - June 30)                           | 7,051,842                          | 177                               | 25.14                           |
| 2014 (July 1 - September 30)                       | 9,623,309                          | 226                               | 23.47                           |
| 2014 (October 1 - December 31)                     | 6,388,187                          | 152                               | 23.83                           |
| Total 2014                                         | 24,413,781                         | 590                               | 24.17                           |
| 2015 (January 1 - March 31)                        | 5,860,291                          | 152                               | 25.87                           |
| 2015 (April 1 - June 30)                           | 4,737,388                          | 133                               | 28.13                           |
| Total 2015 (through June 30)                       | 10,597,679                         | 285                               | 26.88                           |
| 2015 (June 30 though August 5)                     | 1,817,605                          | 45                                | 24.76                           |
| Total 2015                                         | 12,415,284                         | 330                               | 26.57                           |
| Cumulative repurchases since the beginning of 2013 | 49,341,824                         | \$1,184                           | \$24.00                         |

As of August 5, 2015, approximately \$280 million of capacity remains from the May 6, 2015 \$400 million share repurchase authorization.

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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 free funds available at the parent company, 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. It does not have an expiration date.

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## 19. 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 (see Note 16, Long Term Debt and Credit Facilities). The information for AGL, AGUS and AGMH presents its subsidiaries on the equity method of accounting.

## CONDENSED CONSOLIDATING BALANCE SHEET

AS OF JUNE 30, 2015

(in millions)

|                                                                           | Assured<br>Guaranty Ltd.<br>(Parent) | AGUS<br>(Issuer) | AGMH<br>(Issuer) | Other<br>Entities | Consolidating<br>Adjustments | Assured<br>Guaranty Ltd.<br>(Consolidated) |
|---------------------------------------------------------------------------|--------------------------------------|------------------|------------------|-------------------|------------------------------|--------------------------------------------|
| <b>ASSETS</b>                                                             |                                      |                  |                  |                   |                              |                                            |
| Total investment portfolio and cash                                       | \$ 145                               | \$68             | \$26             | \$11,767          | \$ (300 )                    | \$ 11,706                                  |
| Investment in subsidiaries                                                | 5,637                                | 5,271            | 3,962            | 356               | (15,226 )                    | —                                          |
| Premiums receivable, net of commissions payable                           | —                                    | —                | —                | 844               | (141 )                       | 703                                        |
| Ceded unearned premium reserve                                            | —                                    | —                | —                | 1,373             | (1,091 )                     | 282                                        |
| Deferred acquisition costs                                                | —                                    | —                | —                | 186               | (67 )                        | 119                                        |
| Reinsurance recoverable on unpaid losses                                  | —                                    | —                | —                | 412               | (335 )                       | 77                                         |
| Credit derivative assets                                                  | —                                    | —                | —                | 274               | (193 )                       | 81                                         |
| Deferred tax asset, net                                                   | —                                    | 48               | —                | 523               | (132 )                       | 439                                        |
| Intercompany receivable                                                   | —                                    | —                | —                | 90                | (90 )                        | —                                          |
| Financial guaranty variable interest entities' assets, at fair value      | —                                    | —                | —                | 1,601             | —                            | 1,601                                      |
| Other                                                                     | 29                                   | 91               | 35               | 597               | (281 )                       | 471                                        |
| <b>TOTAL ASSETS</b>                                                       | <b>\$ 5,811</b>                      | <b>\$ 5,478</b>  | <b>\$ 4,023</b>  | <b>\$ 18,023</b>  | <b>\$ (17,856 )</b>          | <b>\$ 15,479</b>                           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                               |                                      |                  |                  |                   |                              |                                            |
| Unearned premium reserves                                                 | \$ —                                 | \$ —             | \$ —             | \$ 5,606          | \$ (1,217 )                  | \$ 4,389                                   |
| Loss and LAE reserve                                                      | —                                    | —                | —                | 1,323             | (327 )                       | 996                                        |
| Long-term debt                                                            | —                                    | 847              | 442              | 16                | —                            | 1,305                                      |
| Intercompany payable                                                      | —                                    | 90               | —                | 300               | (390 )                       | —                                          |
| Credit derivative liabilities                                             | —                                    | —                | —                | 1,200             | (193 )                       | 1,007                                      |
| Deferred tax liabilities, net                                             | —                                    | —                | 92               | —                 | (92 )                        | —                                          |
| Financial guaranty variable interest entities' liabilities, at fair value | —                                    | —                | —                | 1,532             | —                            | 1,532                                      |
| Other                                                                     | 5                                    | 11               | 16               | 833               | (421 )                       | 444                                        |
| <b>TOTAL LIABILITIES</b>                                                  | <b>5</b>                             | <b>948</b>       | <b>550</b>       | <b>10,810</b>     | <b>(2,640 )</b>              | <b>9,673</b>                               |
| <b>TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO ASSURED GUARANTY LTD.</b>   | <b>5,806</b>                         | <b>4,530</b>     | <b>3,473</b>     | <b>6,857</b>      | <b>(14,860 )</b>             | <b>5,806</b>                               |
| Noncontrolling interest                                                   | —                                    | —                | —                | 356               | (356 )                       | —                                          |
|                                                                           | 5,806                                | 4,530            | 3,473            | 7,213             | (15,216 )                    | 5,806                                      |

TOTAL SHAREHOLDERS'  
EQUITY

|                                               |          |         |         |          |              |           |
|-----------------------------------------------|----------|---------|---------|----------|--------------|-----------|
| TOTAL LIABILITIES AND<br>SHAREHOLDERS' EQUITY | \$ 5,811 | \$5,478 | \$4,023 | \$18,023 | \$ (17,856 ) | \$ 15,479 |
|-----------------------------------------------|----------|---------|---------|----------|--------------|-----------|

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CONDENSED CONSOLIDATING BALANCE SHEET  
AS OF DECEMBER 31, 2014  
(in millions)

|                                                                           | Assured<br>Guaranty Ltd.<br>(Parent) | AGUS<br>(Issuer) | AGMH<br>(Issuer) | Other<br>Entities | Consolidating<br>Adjustments | Assured<br>Guaranty Ltd.<br>(Consolidated) |
|---------------------------------------------------------------------------|--------------------------------------|------------------|------------------|-------------------|------------------------------|--------------------------------------------|
| <b>ASSETS</b>                                                             |                                      |                  |                  |                   |                              |                                            |
| Total investment portfolio and cash                                       | \$ 126                               | \$204            | \$47             | \$11,382          | \$ (300 )                    | \$ 11,459                                  |
| Investment in subsidiaries                                                | 5,612                                | 5,072            | 3,965            | 339               | (14,988 )                    | —                                          |
| Premiums receivable, net of commissions payable                           | —                                    | —                | —                | 864               | (135 )                       | 729                                        |
| Ceded unearned premium reserve                                            | —                                    | —                | —                | 1,469             | (1,088 )                     | 381                                        |
| Deferred acquisition costs                                                | —                                    | —                | —                | 186               | (65 )                        | 121                                        |
| Reinsurance recoverable on unpaid losses                                  | —                                    | —                | —                | 338               | (260 )                       | 78                                         |
| Credit derivative assets                                                  | —                                    | —                | —                | 277               | (209 )                       | 68                                         |
| Deferred tax asset, net                                                   | —                                    | 54               | —                | 295               | (89 )                        | 260                                        |
| Intercompany receivable                                                   | —                                    | —                | —                | 90                | (90 )                        | —                                          |
| Financial guaranty variable interest entities' assets, at fair value      | —                                    | —                | —                | 1,402             | —                            | 1,402                                      |
| Other                                                                     | 27                                   | 77               | 27               | 538               | (242 )                       | 427                                        |
| <b>TOTAL ASSETS</b>                                                       | <b>\$ 5,765</b>                      | <b>\$5,407</b>   | <b>\$4,039</b>   | <b>\$17,180</b>   | <b>\$ (17,466 )</b>          | <b>\$ 14,925</b>                           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                               |                                      |                  |                  |                   |                              |                                            |
| Unearned premium reserves                                                 | \$ —                                 | \$ —             | \$ —             | \$5,328           | \$ (1,067 )                  | \$ 4,261                                   |
| Loss and LAE reserve                                                      | —                                    | —                | —                | 1,066             | (267 )                       | 799                                        |
| Long-term debt                                                            | —                                    | 847              | 437              | 19                | —                            | 1,303                                      |
| Intercompany payable                                                      | —                                    | 90               | —                | 300               | (390 )                       | —                                          |
| Credit derivative liabilities                                             | —                                    | —                | —                | 1,172             | (209 )                       | 963                                        |
| Deferred tax liabilities, net                                             | —                                    | —                | 94               | —                 | (94 )                        | —                                          |
| Financial guaranty variable interest entities' liabilities, at fair value | —                                    | —                | —                | 1,419             | —                            | 1,419                                      |
| Other                                                                     | 7                                    | 9                | 16               | 764               | (374 )                       | 422                                        |
| <b>TOTAL LIABILITIES</b>                                                  | <b>7</b>                             | <b>946</b>       | <b>547</b>       | <b>10,068</b>     | <b>(2,401 )</b>              | <b>9,167</b>                               |
| <b>TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO ASSURED GUARANTY LTD.</b>   | <b>5,758</b>                         | <b>4,461</b>     | <b>3,492</b>     | <b>6,773</b>      | <b>(14,726 )</b>             | <b>5,758</b>                               |
| Noncontrolling interest                                                   | —                                    | —                | —                | 339               | (339 )                       | —                                          |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                                         | <b>5,758</b>                         | <b>4,461</b>     | <b>3,492</b>     | <b>7,112</b>      | <b>(15,065 )</b>             | <b>5,758</b>                               |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                         | <b>\$ 5,765</b>                      | <b>\$5,407</b>   | <b>\$4,039</b>   | <b>\$17,180</b>   | <b>\$ (17,466 )</b>          | <b>\$ 14,925</b>                           |



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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
AND COMPREHENSIVE INCOME  
FOR THE THREE MONTHS ENDED JUNE 30, 2015  
(in millions)

|                                                                                       | Assured<br>Guaranty Ltd.<br>(Parent) | AGUS<br>(Issuer) | AGMH<br>(Issuer) | Other<br>Entities | Consolidating<br>Adjustments | Assured<br>Guaranty Ltd.<br>(Consolidated) |
|---------------------------------------------------------------------------------------|--------------------------------------|------------------|------------------|-------------------|------------------------------|--------------------------------------------|
| REVENUES                                                                              |                                      |                  |                  |                   |                              |                                            |
| Net earned premiums                                                                   | \$ —                                 | \$ —             | \$ —             | \$ 226            | \$ (7 )                      | \$ 219                                     |
| Net investment income                                                                 | 0                                    | 0                | 0                | 101               | (3 )                         | 98                                         |
| Net realized investment gains<br>(losses)                                             | 0                                    | 0                | 1                | (10 )             | 0                            | (9 )                                       |
| Net change in fair value of<br>credit derivatives:                                    |                                      |                  |                  |                   |                              |                                            |
| Realized gains (losses) and<br>other settlements                                      | —                                    | —                | —                | 8                 | 0                            | 8                                          |
| Net unrealized gains (losses)                                                         | —                                    | —                | —                | 108               | (26 )                        | 82                                         |
| Net change in fair value of<br>credit derivatives                                     | —                                    | —                | —                | 116               | (26 )                        | 90                                         |
| Bargain purchase gain and<br>settlement of pre-existing<br>relationships              | —                                    | —                | —                | 54                | 160                          | 214                                        |
| Other                                                                                 | —                                    | —                | —                | 83                | —                            | 83                                         |
| TOTAL REVENUES                                                                        | 0                                    | 0                | 1                | 570               | 124                          | 695                                        |
| EXPENSES                                                                              |                                      |                  |                  |                   |                              |                                            |
| Loss and LAE                                                                          | —                                    | —                | —                | 184               | 4                            | 188                                        |
| Amortization of deferred<br>acquisition costs                                         | —                                    | —                | —                | 8                 | (2 )                         | 6                                          |
| Interest expense                                                                      | —                                    | 13               | 14               | 3                 | (4 )                         | 26                                         |
| Other operating expenses                                                              | 9                                    | 1                | 0                | 57                | (1 )                         | 66                                         |
| TOTAL EXPENSES                                                                        | 9                                    | 14               | 14               | 252               | (3 )                         | 286                                        |
| INCOME (LOSS) BEFORE<br>INCOME TAXES AND<br>EQUITY IN NET EARNINGS<br>OF SUBSIDIARIES | (9 )                                 | (14 )            | (13 )            | 318               | 127                          | 409                                        |
| Total (provision) benefit for<br>income taxes                                         | —                                    | 4                | 4                | (78 )             | (42 )                        | (112 )                                     |
| Equity in net earnings of<br>subsidiaries                                             | 306                                  | 305              | 122              | 11                | (744 )                       | —                                          |
| NET INCOME (LOSS)                                                                     | \$ 297                               | \$ 295           | \$ 113           | \$ 251            | \$ (659 )                    | \$ 297                                     |
| Less: noncontrolling interest                                                         | —                                    | —                | —                | 11                | (11 )                        | —                                          |
| NET INCOME (LOSS)<br>ATTRIBUTABLE TO<br>ASSURED GUARANTY LTD.                         | \$ 297                               | \$ 295           | \$ 113           | \$ 240            | \$ (648 )                    | \$ 297                                     |
| COMPREHENSIVE INCOME<br>(LOSS)                                                        | \$ 166                               | \$ 210           | \$ 50            | \$ 122            | \$ (382 )                    | \$ 166                                     |



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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
AND COMPREHENSIVE INCOME  
FOR THE THREE MONTHS ENDED JUNE 30, 2014  
(in millions)

|                                                                                                 | Assured<br>Guaranty Ltd.<br>(Parent) | AGUS<br>(Issuer) | AGMH<br>(Issuer) | Other<br>Entities | Consolidating<br>Adjustments | Assured<br>Guaranty Ltd.<br>(Consolidated) |
|-------------------------------------------------------------------------------------------------|--------------------------------------|------------------|------------------|-------------------|------------------------------|--------------------------------------------|
| <b>REVENUES</b>                                                                                 |                                      |                  |                  |                   |                              |                                            |
| Net earned premiums                                                                             | \$ —                                 | \$ —             | \$ —             | \$ 135            | \$ 1                         | \$ 136                                     |
| Net investment income                                                                           | 0                                    | 0                | 0                | 98                | (2                           | ) 96                                       |
| Net realized investment gains<br>(losses)                                                       | 0                                    | 0                | 0                | (8                | ) —                          | (8 )                                       |
| Net change in fair value of<br>credit derivatives:                                              |                                      |                  |                  |                   |                              |                                            |
| Realized gains (losses) and<br>other settlements                                                | —                                    | —                | —                | 15                | 0                            | 15                                         |
| Net unrealized gains (losses)                                                                   | —                                    | —                | —                | 88                | —                            | 88                                         |
| Net change in fair value of<br>credit derivatives                                               | —                                    | —                | —                | 103               | 0                            | 103                                        |
| Other                                                                                           | —                                    | —                | —                | 27                | (1                           | ) 26                                       |
| <b>TOTAL REVENUES</b>                                                                           | <b>0</b>                             | <b>0</b>         | <b>0</b>         | <b>355</b>        | <b>(2</b>                    | <b>) 353</b>                               |
| <b>EXPENSES</b>                                                                                 |                                      |                  |                  |                   |                              |                                            |
| Loss and LAE                                                                                    | —                                    | —                | —                | 53                | 4                            | 57                                         |
| Amortization of deferred<br>acquisition costs                                                   | —                                    | —                | —                | 5                 | (2                           | ) 3                                        |
| Interest expense                                                                                | —                                    | 7                | 14               | 3                 | (4                           | ) 20                                       |
| Other operating expenses                                                                        | 8                                    | 1                | 0                | 46                | —                            | 55                                         |
| <b>TOTAL EXPENSES</b>                                                                           | <b>8</b>                             | <b>8</b>         | <b>14</b>        | <b>107</b>        | <b>(2</b>                    | <b>) 135</b>                               |
| <b>INCOME (LOSS) BEFORE<br/>INCOME TAXES AND<br/>EQUITY IN NET EARNINGS<br/>OF SUBSIDIARIES</b> | <b>(8</b>                            | <b>) (8</b>      | <b>) (14</b>     | <b>) 248</b>      | <b>—</b>                     | <b>218</b>                                 |
| Total (provision) benefit for<br>income taxes                                                   | —                                    | 3                | 4                | (67               | ) 1                          | (59 )                                      |
| Equity in net earnings of<br>subsidiaries                                                       | 167                                  | 152              | 120              | 8                 | (447                         | ) —                                        |
| <b>NET INCOME (LOSS)</b>                                                                        | <b>\$ 159</b>                        | <b>\$ 147</b>    | <b>\$ 110</b>    | <b>\$ 189</b>     | <b>\$ (446</b>               | <b>) \$ 159</b>                            |
| Less: noncontrolling interest                                                                   | —                                    | —                | —                | 16                | (16                          | ) —                                        |
| <b>NET INCOME (LOSS)<br/>ATTRIBUTABLE TO<br/>ASSURED GUARANTY LTD.</b>                          | <b>\$ 159</b>                        | <b>\$ 147</b>    | <b>\$ 110</b>    | <b>\$ 173</b>     | <b>\$ (430</b>               | <b>) \$ 159</b>                            |
| <b>COMPREHENSIVE INCOME<br/>(LOSS)</b>                                                          | <b>\$ 227</b>                        | <b>\$ 191</b>    | <b>\$ 137</b>    | <b>\$ 302</b>     | <b>\$ (630</b>               | <b>) \$ 227</b>                            |



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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
AND COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED JUNE 30, 2015  
(in millions)

|                                                                                       | Assured<br>Guaranty Ltd.<br>(Parent) | AGUS<br>(Issuer) | AGMH<br>(Issuer) | Other<br>Entities | Consolidating<br>Adjustments | Assured<br>Guaranty Ltd.<br>(Consolidated) |
|---------------------------------------------------------------------------------------|--------------------------------------|------------------|------------------|-------------------|------------------------------|--------------------------------------------|
| REVENUES                                                                              |                                      |                  |                  |                   |                              |                                            |
| Net earned premiums                                                                   | \$ —                                 | \$ —             | \$ —             | \$ 366            | \$ (5 )                      | \$ 361                                     |
| Net investment income                                                                 | 0                                    | 0                | 0                | 205               | (6 )                         | 199                                        |
| Net realized investment gains<br>(losses)                                             | 0                                    | 0                | 1                | 9                 | (3 )                         | 7                                          |
| Net change in fair value of<br>credit derivatives:                                    |                                      |                  |                  |                   |                              |                                            |
| Realized gains (losses) and<br>other settlements                                      | —                                    | —                | —                | 29                | 0                            | 29                                         |
| Net unrealized gains (losses)                                                         | —                                    | —                | —                | 211               | (26 )                        | 185                                        |
| Net change in fair value of<br>credit derivatives                                     | —                                    | —                | —                | 240               | (26 )                        | 214                                        |
| Bargain purchase gain and<br>settlement of pre-existing<br>relationships              | —                                    | —                | —                | 54                | 160                          | 214                                        |
| Other                                                                                 | —                                    | —                | —                | 69                | —                            | 69                                         |
| TOTAL REVENUES                                                                        | 0                                    | 0                | 1                | 943               | 120                          | 1,064                                      |
| EXPENSES                                                                              |                                      |                  |                  |                   |                              |                                            |
| Loss and LAE                                                                          | —                                    | —                | —                | 202               | 4                            | 206                                        |
| Amortization of deferred<br>acquisition costs                                         | —                                    | —                | —                | 14                | (4 )                         | 10                                         |
| Interest expense                                                                      | —                                    | 26               | 27               | 7                 | (9 )                         | 51                                         |
| Other operating expenses                                                              | 17                                   | 1                | 0                | 105               | (1 )                         | 122                                        |
| TOTAL EXPENSES                                                                        | 17                                   | 27               | 27               | 328               | (10 )                        | 389                                        |
| INCOME (LOSS) BEFORE<br>INCOME TAXES AND<br>EQUITY IN NET EARNINGS<br>OF SUBSIDIARIES | (17 )                                | (27 )            | (26 )            | 615 )             | 130                          | 675                                        |
| Total (provision) benefit for<br>income taxes                                         | —                                    | 9                | 9                | (150 )            | (45 )                        | (177 )                                     |
| Equity in net earnings of<br>subsidiaries                                             | 515                                  | 468              | 214              | 20                | (1,217 )                     | —                                          |
| NET INCOME (LOSS)                                                                     | \$ 498                               | \$ 450           | \$ 197           | \$ 485            | \$ (1,132 )                  | \$ 498                                     |
| Less: noncontrolling interest                                                         | —                                    | —                | —                | 20                | (20 )                        | —                                          |
| NET INCOME (LOSS)<br>ATTRIBUTABLE TO<br>ASSURED GUARANTY LTD.                         | \$ 498                               | \$ 450           | \$ 197           | \$ 465            | \$ (1,112 )                  | \$ 498                                     |
| COMPREHENSIVE INCOME<br>(LOSS)                                                        | \$ 367                               | \$ 344           | \$ 130           | \$ 355            | \$ (829 )                    | \$ 367                                     |



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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
AND COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED JUNE 30, 2014  
(in millions)

|                                                                                                 | Assured<br>Guaranty Ltd.<br>(Parent) | AGUS<br>(Issuer) | AGMH<br>(Issuer) | Other<br>Entities | Consolidating<br>Adjustments | Assured<br>Guaranty Ltd.<br>(Consolidated) |
|-------------------------------------------------------------------------------------------------|--------------------------------------|------------------|------------------|-------------------|------------------------------|--------------------------------------------|
| <b>REVENUES</b>                                                                                 |                                      |                  |                  |                   |                              |                                            |
| Net earned premiums                                                                             | \$ —                                 | \$ —             | \$ —             | \$ 266            | \$ 2                         | \$ 268                                     |
| Net investment income                                                                           | 0                                    | 0                | 0                | 203               | (4                           | ) 199                                      |
| Net realized investment gains<br>(losses)                                                       | 0                                    | 0                | 0                | (4                | ) (2                         | ) (6                                       |
| Net change in fair value of<br>credit derivatives:                                              |                                      |                  |                  |                   |                              |                                            |
| Realized gains (losses) and<br>other settlements                                                | —                                    | —                | —                | 34                | 0                            | 34                                         |
| Net unrealized gains (losses)                                                                   | —                                    | —                | —                | (142              | ) —                          | (142                                       |
| Net change in fair value of<br>credit derivatives                                               | —                                    | —                | —                | (108              | ) 0                          | (108                                       |
| Other                                                                                           | —                                    | —                | —                | 196               | (1                           | ) 195                                      |
| <b>TOTAL REVENUES</b>                                                                           | <b>0</b>                             | <b>0</b>         | <b>0</b>         | <b>553</b>        | <b>(5</b>                    | <b>) 548</b>                               |
| <b>EXPENSES</b>                                                                                 |                                      |                  |                  |                   |                              |                                            |
| Loss and LAE                                                                                    | —                                    | —                | —                | 92                | 6                            | 98                                         |
| Amortization of deferred<br>acquisition costs                                                   | —                                    | —                | —                | 11                | (3                           | ) 8                                        |
| Interest expense                                                                                | —                                    | 14               | 27               | 8                 | (9                           | ) 40                                       |
| Other operating expenses                                                                        | 16                                   | 1                | 0                | 99                | (1                           | ) 115                                      |
| <b>TOTAL EXPENSES</b>                                                                           | <b>16</b>                            | <b>15</b>        | <b>27</b>        | <b>210</b>        | <b>(7</b>                    | <b>) 261</b>                               |
| <b>INCOME (LOSS) BEFORE<br/>INCOME TAXES AND<br/>EQUITY IN NET EARNINGS<br/>OF SUBSIDIARIES</b> | <b>(16</b>                           | <b>) (15</b>     | <b>) (27</b>     | <b>) 343</b>      | <b>2</b>                     | <b>287</b>                                 |
| Total (provision) benefit for<br>income taxes                                                   | —                                    | 5                | 9                | (100              | ) —                          | (86                                        |
| Equity in net earnings of<br>subsidiaries                                                       | 217                                  | 239              | 289              | 16                | (761                         | ) —                                        |
| <b>NET INCOME (LOSS)</b>                                                                        | <b>\$ 201</b>                        | <b>\$ 229</b>    | <b>\$ 271</b>    | <b>\$ 259</b>     | <b>\$ (759</b>               | <b>) \$ 201</b>                            |
| Less: noncontrolling interest                                                                   | —                                    | —                | —                | 16                | (16                          | ) —                                        |
| <b>NET INCOME (LOSS)<br/>ATTRIBUTABLE TO<br/>ASSURED GUARANTY LTD.</b>                          | <b>\$ 201</b>                        | <b>\$ 229</b>    | <b>\$ 271</b>    | <b>\$ 243</b>     | <b>\$ (743</b>               | <b>) \$ 201</b>                            |
| <b>COMPREHENSIVE INCOME<br/>(LOSS)</b>                                                          | <b>\$ 373</b>                        | <b>\$ 356</b>    | <b>\$ 349</b>    | <b>\$ 560</b>     | <b>\$ (1,265</b>             | <b>) \$ 373</b>                            |

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2015  
(in millions)

|                                                                         | Assured<br>Guaranty Ltd.<br>(Parent) | AGUS<br>(Issuer) | AGMH<br>(Issuer) | Other<br>Entities | Consolidating<br>Adjustments | Assured<br>Guaranty Ltd.<br>(Consolidated) |
|-------------------------------------------------------------------------|--------------------------------------|------------------|------------------|-------------------|------------------------------|--------------------------------------------|
| Net cash flows provided by<br>(used in) operating activities            | \$ 343                               | \$ 138           | \$ 83            | \$ 170            | \$ (629 )                    | \$ 105                                     |
| Cash flows from investing<br>activities                                 |                                      |                  |                  |                   |                              |                                            |
| Fixed-maturity securities:                                              |                                      |                  |                  |                   |                              |                                            |
| Purchases                                                               | —                                    | (67 )            | (6 )             | (1,099 )          | —                            | (1,172 )                                   |
| Sales                                                                   | —                                    | 159              | 27               | 1,195             | —                            | 1,381                                      |
| Maturities                                                              | —                                    | 6                | —                | 405               | —                            | 411                                        |
| Sales (purchases) of short-term<br>investments, net                     | (19 )                                | 39               | (1 )             | 363               | —                            | 382                                        |
| Net proceeds from financial<br>guaranty variable entities' assets       | —                                    | —                | —                | 70                | —                            | 70                                         |
| Intercompany debt                                                       | —                                    | —                | —                | —                 | —                            | —                                          |
| Investment in subsidiary                                                | —                                    | —                | 25               | —                 | (25 )                        | —                                          |
| Acquisition of Radian Asset, net<br>of cash acquired                    | —                                    | —                | —                | (800 )            | —                            | (800 )                                     |
| Other                                                                   | —                                    | —                | —                | 27                | —                            | 27                                         |
| Net cash flows provided by<br>(used in) investing activities            | (19 )                                | 137              | 45               | 161               | (25 )                        | 299                                        |
| Cash flows from financing<br>activities                                 |                                      |                  |                  |                   |                              |                                            |
| Return of capital                                                       | —                                    | —                | —                | (25 )             | 25                           | —                                          |
| Dividends paid                                                          | (37 )                                | (275 )           | (128 )           | (226 )            | 629                          | (37 )                                      |
| Repurchases of common stock                                             | (285 )                               | —                | —                | —                 | —                            | (285 )                                     |
| Share activity under option and<br>incentive plans                      | (2 )                                 | —                | —                | —                 | —                            | (2 )                                       |
| Net paydowns of financial<br>guaranty variable entities'<br>liabilities | —                                    | —                | —                | (78 )             | —                            | (78 )                                      |
| Payment of long-term debt                                               | —                                    | —                | —                | (2 )              | —                            | (2 )                                       |
| Intercompany debt                                                       | —                                    | —                | —                | —                 | —                            | —                                          |
| Net cash flows provided by<br>(used in) financing activities            | (324 )                               | (275 )           | (128 )           | (331 )            | 654                          | (404 )                                     |
| Effect of exchange rate changes                                         | —                                    | —                | —                | —                 | —                            | —                                          |
| Increase (decrease) in cash                                             | —                                    | —                | —                | —                 | —                            | —                                          |
| Cash at beginning of period                                             | 0                                    | 0                | 4                | 71                | —                            | 75                                         |
| Cash at end of period                                                   | \$ 0                                 | \$ 0             | \$ 4             | \$ 71             | \$ —                         | \$ 75                                      |

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2014  
(in millions)

|                                                                         | Assured<br>Guaranty Ltd.<br>(Parent) | AGUS<br>(Issuer) | AGMH<br>(Issuer) | Other<br>Entities | Consolidating<br>Adjustments | Assured<br>Guaranty Ltd.<br>(Consolidated) |
|-------------------------------------------------------------------------|--------------------------------------|------------------|------------------|-------------------|------------------------------|--------------------------------------------|
| Net cash flows provided by<br>(used in) operating activities            | \$ 264                               | \$68             | \$32             | \$275             | \$ (417 )                    | \$ 222                                     |
| Cash flows from investing<br>activities                                 |                                      |                  |                  |                   |                              |                                            |
| Fixed-maturity securities:                                              |                                      |                  |                  |                   |                              |                                            |
| Purchases                                                               | —                                    | (356 )           | (6 )             | (995 )            | —                            | (1,357 )                                   |
| Sales                                                                   | —                                    | 126              | 7                | 311               | —                            | 444                                        |
| Maturities                                                              | —                                    | 3                | 1                | 393               | —                            | 397                                        |
| Sales (purchases) of short-term<br>investments, net                     | (13 )                                | (199 )           | 6                | 155               | —                            | (51 )                                      |
| Net proceeds from financial<br>guaranty variable entities' assets       | —                                    | —                | —                | 315               | —                            | 315                                        |
| Intercompany debt                                                       | —                                    | —                | —                | —                 | —                            | —                                          |
| Investment in subsidiary                                                | —                                    | —                | 25               | —                 | (25 )                        | —                                          |
| Other                                                                   | —                                    | —                | —                | 23                | —                            | 23                                         |
| Net cash flows provided by<br>(used in) investing activities            | (13 )                                | (426 )           | 33               | 202               | (25 )                        | (229 )                                     |
| Cash flows from financing<br>activities                                 |                                      |                  |                  |                   |                              |                                            |
| Return of capital                                                       | —                                    | —                | —                | (25 )             | 25                           | —                                          |
| Dividends paid                                                          | (40 )                                | (200 )           | (65 )            | (152 )            | 417                          | (40 )                                      |
| Repurchases of common stock                                             | (212 )                               | —                | —                | —                 | —                            | (212 )                                     |
| Share activity under option and<br>incentive plans                      | 1                                    | —                | —                | —                 | —                            | 1                                          |
| Net paydowns of financial<br>guaranty variable entities'<br>liabilities | —                                    | —                | —                | (311 )            | —                            | (311 )                                     |
| Net proceeds from issuance of<br>long-term debt                         | —                                    | 496              | —                | —                 | —                            | 496                                        |
| Payment of long-term debt                                               | —                                    | —                | —                | (7 )              | —                            | (7 )                                       |
| Intercompany debt                                                       | —                                    | —                | —                | —                 | —                            | —                                          |
| Net cash flows provided by<br>(used in) financing activities            | (251 )                               | 296              | (65 )            | (495 )            | 442                          | (73 )                                      |
| Effect of exchange rate changes                                         | —                                    | —                | —                | 2                 | —                            | 2                                          |
| Increase (decrease) in cash                                             | —                                    | (62 )            | —                | (16 )             | —                            | (78 )                                      |
| Cash at beginning of period                                             | 0                                    | 67               | 0                | 117               | —                            | 184                                        |
| Cash at end of period                                                   | \$ 0                                 | \$5              | \$0              | \$101             | \$ —                         | \$ 106                                     |



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

Forward Looking Statements

This Form 10-Q contains information that includes or is based upon forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward looking statements give the expectations or forecasts of future events of Assured Guaranty Ltd. ("AGL") and its subsidiaries (collectively, "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:

- 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;
- reduction in the amount of available insurance opportunities and/or in the demand for Assured Guaranty's insurance;
- developments in the world's financial and capital markets that adversely affect obligors' payment rates, Assured Guaranty's loss experience, or its exposure to refinancing risk in transactions (which could result in substantial liquidity claims on its guarantees);
- the possibility that budget 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;
- deterioration in the financial condition of Assured Guaranty's reinsurers, the amount and timing of reinsurance recoverables actually received and the risk that reinsurers may dispute amounts owed to Assured Guaranty under its reinsurance agreements;
- 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 and tax laws, or other governmental actions;
- 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 risks and uncertainties that have not been identified at this time;

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management's response to these factors; and

other risk factors identified in AGL's filings with the U.S. Securities and Exchange Commission (the "SEC").

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-Q, as well as the risk factors included in AGL's 2014 Annual Report on 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-Q 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").

## Available Information

The Company maintains an Internet web site at [www.assuredguaranty.com](http://www.assuredguaranty.com). The Company makes available, free of charge, on its web site (under [assuredguaranty.com/sec-filings](http://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 [assuredguaranty.com/governance](http://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.

The Company routinely posts important information for investors on its web site (under [assuredguaranty.com/company-statements](http://assuredguaranty.com/company-statements) and, more generally, under the Investor Information and Businesses pages). 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.

## 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 Quarterly 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 Quarterly Report should be read in its entirety and in addition to AGL's 2014 Annual Report on Form 10-K.

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Economic Environment

The overall economic environment in the United States ("U.S.") continued improving during the six-month period ended June 30, 2015 ("Six Months 2015"), despite a minor slowdown in growth during the first quarter. Gross domestic product rose at an annualized rate of 2.3% during the three-month period ended June 30, 2015 ("Second Quarter 2015"), after only slightly increasing, at an annualized rate of 0.6%, during the first quarter. Despite small increases in January and May, the unemployment rate continued its general downward trend, reaching 5.3% in June, its lowest monthly level since 2008. U.S. home prices, as measured by the Case-Shiller index, rose in the first several months of the year, continuing the long-term positive trend that emerged at the beginning of 2012; most recently, home prices have begun to stabilize. Based on these mostly positive economic indicators, as well as recent statements and meeting minutes released by the Federal Open Market Committee, the Company believes it is likely there will be an increase in the federal funds rate prior to year-end. During Six Months 2015, the interest rate for a widely followed industry index of 30-year municipal bonds rose by 42 basis points. Overall, the Company believes that U.S. prospects for additional economic recovery and higher interest rates were clouded by somewhat weak global economic performance and geopolitical risk, accompanied by strengthening of the dollar.

In Six Months 2015 as well as the prior calendar year, many municipalities continued taking steps to address their fiscal challenges. A 2014 survey of a sample of local government finance officers showed continued improvement in a majority of their cities' fiscal health during the year. Industry sources report that aggregate state level revenues improved during both 2014 (despite a decline in the second quarter) and Six Months 2015. More generally, stock market gains may have relieved some pressure on underfunded pension plans, but any such gains could be reversed by a change in market conditions, and many state and local governments continue to have difficulty funding pension and other obligations owed to municipal workers. During the last several years, although municipal defaults were rare, a small number of municipalities sought, but did not always obtain, bankruptcy protection. In 2014 and Six Months 2015, fiscal pressure stemming from Puerto Rico's weak economy led to multiple downgrades of the Commonwealth and its related debt to levels well below investment grade. Outside the U.S., the number of new infrastructure financings coming to market, including those appropriate for financial guarantees, remained limited. The European Central Bank continued its program of quantitative easing, which it believes is likely to reduce long-term interest rates and therefore stimulate growth. The wider impact of events in Greece, which recently appeared to narrowly avoid an exit from the euro currency, remains uncertain. In the United Kingdom, the pace of economic growth picked up in Second Quarter 2015, following a brief period of weaker expansion during the first quarter of 2015.

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## Financial Performance of Assured Guaranty

## Financial Results

|                                                     | Second Quarter                          |           | Six Months              |           |
|-----------------------------------------------------|-----------------------------------------|-----------|-------------------------|-----------|
|                                                     | 2015                                    | 2014      | 2015                    | 2014      |
|                                                     | (in millions)                           |           |                         |           |
| Net income (loss)                                   | \$297                                   | \$159     | \$498                   | \$201     |
| Operating income(1)                                 | 278                                     | 101       | 418                     | 233       |
| Net income (loss) per diluted share                 | 1.96                                    | 0.89      | 3.23                    | 1.11      |
| Operating income per share(1)                       | 1.83                                    | 0.56      | 2.71                    | 1.28      |
| Diluted shares(2)                                   | 151.6                                   | 179.5     | 154.1                   | 181.3     |
| Present value of new business production ("PVP")(1) | \$26                                    | \$27      | \$62                    | \$58      |
| Gross par written                                   | 5,581                                   | 2,658     | 8,289                   | 4,527     |
|                                                     | As of June 30, 2015                     |           | As of December 31, 2014 |           |
|                                                     | Amount                                  | Per Share | Amount                  | Per Share |
|                                                     | (in millions, except per share amounts) |           |                         |           |
| Shareholders' equity                                | \$5,806                                 | \$39.16   | \$5,758                 | \$36.37   |
| Operating shareholders' equity(1)                   | 6,011                                   | 40.55     | 5,933                   | 37.48     |
| Adjusted book value(1)                              | 8,701                                   | 58.69     | 8,495                   | 53.66     |
| Common shares outstanding                           | 148.3                                   |           | 158.3                   |           |

(1) Please refer to "—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 and the most directly comparable GAAP financial measure, if available.

(2) Same for GAAP net income and non-GAAP operating income.

## Second Quarter 2015

There are several primary drivers of volatility in net income or loss that are not necessarily indicative of credit impairment or improvement, or ultimate economic gains or losses: changes in credit spreads of insured credit derivative obligations, changes in fair value of assets and liabilities of financial guaranty variable interest entities ("FG VIEs"), CCS and CPS, changes in the Company's own credit spreads, and changes in risk-free rates used to discount expected losses. Changes in credit spreads generally have the most significant effect on the fair value of credit derivatives and FG VIE assets and liabilities. In addition to these non-economic factors, other factors such as: changes in expected losses, the timing of refunding transactions and terminations, realized gains and losses on the investment portfolio (including other-than-temporary impairments), the effects of large settlements and transactions, acquisitions, and the effects of the Company's various loss mitigation strategies, among others, may also have a significant effect on reported net income or loss in a given reporting period.

Net income in Second Quarter 2015 increased to \$297 million from \$159 million in the three-month period ended June 30, 2014 ("Second Quarter 2014"). Non-GAAP operating income in Second Quarter 2015 was \$278 million, compared with \$101 million in Second Quarter 2014. The increases in both net income and operating income were due primarily to (i) bargain purchase gain and settlement of pre-existing relationships from the acquisition of Radian

Asset Assurance Inc. (“Radian Asset Acquisition”), (ii) higher net earned premiums due to refundings and (iii) commutation gains. The Company also recorded higher loss expense in Second Quarter 2015. Second Quarter 2015 includes \$12 million of non-recurring operating expenses related to the Radian Asset Acquisition.

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## Six Months 2015

Net income for Six Months 2015 increased to \$498 million from \$201 million in the six-month period ended June 30, 2014 ("Six Months 2014"). The increase in net income was due primarily to (i) fair value gains on credit derivatives in Six Months 2015 compared to fair value losses in Six Months 2014, (ii) bargain purchase gain and settlement of pre-existing relationships from the Radian Asset Acquisition, (iii) higher net earned premiums due to refundings and (iv) higher commutation gains. The Company also recorded fair value losses on FG VIEs and higher loss expense in Six Months 2015.

Non-GAAP operating income in Six Months 2015 was \$418 million, compared with \$233 million in Six Months 2014. The increase in operating income was due primarily to (i) the bargain purchase gain and settlement of pre-existing relationships from the Radian Asset Acquisition, (ii) higher net earned premiums due to refundings and (iii) higher commutation gains, partially offset by higher loss expense in Six Months 2015.

Please refer to "Key Business Strategies – Capital Management" below for information on the Company's common share repurchases.

## Key Business Strategies

The Company is currently pursuing three primary business strategies, each described in more detail below:

- New business production, acquisitions and commutations
- Capital management
- Loss mitigation

The Company will continue to evaluate its primary business strategies as circumstances warrant.

## New Business Production, Acquisitions and Commutations

The Company believes high-profile defaults by municipal obligors, such as Detroit, Michigan and Stockton, California, both of which filed for protection under chapter 9 of the U.S. Bankruptcy Code, and the deteriorating financial condition of Puerto Rico, 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 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, after a number of years in which the Company was essentially the only financial guarantor, there are now two other guarantors active in one of its markets; the persistently low interest rate environment continues to dampen demand for bond insurance; and market participants may no longer perceive the Company's ratings to be as stable as they did before the financial crisis.

U.S. Municipal Market Data  
Based on Sale Date

| Six Months 2015 |           | Six Months 2014 |           | Year Ended December 31, 2014 |           |
|-----------------|-----------|-----------------|-----------|------------------------------|-----------|
| Par             | Number of | Par             | Number of | Par                          | Number of |

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|                                    |         | issues                                         |         | issues |         | issues |
|------------------------------------|---------|------------------------------------------------|---------|--------|---------|--------|
|                                    |         | (dollars in billions, except number of issues) |         |        |         |        |
| New municipal bonds issued         | \$215.0 | 6,842                                          | \$143.2 | 4,914  | \$314.9 | 10,162 |
| Total insured                      | 14.4    | 1,084                                          | 7.3     | 629    | 18.5    | 1,403  |
| Insured by AGC, AGM and<br>MAC (1) | 8.7     | 594                                            | 3.9     | 298    | 10.7    | 697    |

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(1) Assured Guaranty Corp. ("AGC"), Assured Guaranty Municipal Corp. ("AGM") and Municipal Assurance Corp. ("MAC").

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## Industry Penetration Rates

## U.S. Municipal Market

|                                              | Six Months |      | Year Ended<br>December 31, |
|----------------------------------------------|------------|------|----------------------------|
|                                              | 2015       | 2014 | 2014                       |
| Market penetration par                       | 6.7%       | 5.1% | 5.9%                       |
| Market penetration based on number of issues | 15.8       | 12.8 | 13.8                       |
| % of single A par sold                       | 23.1       | 18.2 | 19.7                       |
| % of single A transactions sold              | 53.1       | 46.4 | 49.3                       |
| % of under \$25 million par sold             | 18.9       | 15.8 | 16.5                       |
| % of under \$25 million transactions sold    | 17.9       | 14.3 | 15.4                       |

Outside the U.S., the Company believes the United Kingdom ("U.K.") currently presents the most new business opportunities for financial guarantees of infrastructure financings, which have typically required such guarantees for capital market access. Assured Guaranty believes it is the only company in the private sector offering such financial guarantees outside the United States.

In general, the Company expects that structured finance opportunities will increase in the future as the global economy recovers, interest rates rise, more issuers return to the capital markets for financings and institutional investors again utilize financial guaranties. The Company considers its involvement in both structured finance and international infrastructure transactions to be beneficial because such transactions diversify both the Company's business opportunities and its risk profile beyond public finance.

## New Business Production

|                             | Second Quarter |         | Six Months |         |
|-----------------------------|----------------|---------|------------|---------|
|                             | 2015           | 2014    | 2015       | 2014    |
|                             | (in millions)  |         |            |         |
| PVP (1):                    |                |         |            |         |
| Public Finance—U.S.         | \$25           | \$16    | \$38       | \$39    |
| Public Finance—non-U.S.     | —              | —       | —          | 7       |
| Structured Finance—U.S.     | 1              | 6       | 19         | 7       |
| Structured Finance—non-U.S. | —              | 5       | 5          | 5       |
| Total PVP                   | \$26           | \$27    | \$62       | \$58    |
| Gross Par Written:          |                |         |            |         |
| Public Finance—U.S.         | \$5,581        | \$2,453 | \$8,022    | \$4,190 |
| Public Finance—non-U.S.     | —              | —       | —          | 128     |
| Structured Finance—U.S.     | —              | 5       | 261        | 9       |
| Structured Finance—non-U.S. | —              | 200     | 6          | 200     |
| Total gross par written     | \$5,581        | \$2,658 | \$8,289    | \$4,527 |

PVP represents the present value of estimated future earnings primarily on new financial guaranty contracts written (1) in the period, before consideration of cessions to reinsurers. PVP and Gross Par Written in the table above are based on close date. See "—Non-GAAP Financial Measures—PVP or Present Value of New Business Production." In the U.S. public finance sector, the Company's PVP, par written and number of issues insured increased in Second Quarter 2015 compared with Second Quarter 2014 due to increased market issuance, higher interest rates with intermittently wider credit spreads, and increased demand for bond insurance. During Second Quarter 2015, Assured Guaranty once again wrote the majority of insured par. The average rating of par written in Second Quarter 2015 was

A-, consistent with Second Quarter 2014. In Six Months 2015, PVP was relatively flat with Six Months 2014 with a different mix of business between U.S and non-U.S.

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Municipal market issuance was \$111 billion in second quarter 2015, compared with \$83 billion in second quarter 2014, representing a 34% increase, and industry-wide insured penetration (based on par) increased to 7.5%, compared with 5.5% in Second Quarter 2014. Municipal issuance in Six Months 2015 was also higher at \$215 million compared with \$143 million in Six Months 2014, a 50% increase. Industry penetration was 6.7% for the Six Months 2015, an increase from 5.1% in Six Months 2014.

### Acquisition of Radian Asset Assurance Inc.

On April 1, 2015 (the "Acquisition Date"), AGC completed the acquisition of Radian Asset Assurance Inc. ("Radian Asset") and merged Radian Asset with and into AGC, with AGC as the surviving company of the merger. The cash purchase price of \$804.5 million paid by AGC to Radian Guaranty Inc. reflected certain adjustments, for corporate overhead and interest payment expenses, to the \$810 million purchase price previously announced. AGC paid the purchase price out of available funds and from the proceeds of a \$200 million note from its parent Assured Guaranty US Holdings Inc. ("AGUS"). On April 14, 2015, AGC repaid the \$200 million note.

In connection with the acquisition, AGC acquired Radian Asset's entire insured portfolio, which resulted in an increase in net par outstanding as of the Acquisition Date of approximately \$13.6 billion, consisting of \$9.4 billion public finance net par outstanding and \$4.2 billion structured finance net par outstanding. The acquisition contributed \$1.40 per share to net income in Second Quarter 2015, including the bargain purchase gain and settlement of pre-existing relationships and quarterly activity. Shareholders' equity per share benefited \$1.04 per share as of the Acquisition Date. The acquisition contributed \$1.55 per share to operating income in Second Quarter 2015, including the bargain purchase gain and settlement of pre-existing relationships and quarterly activity. Operating shareholders' equity per share benefited \$1.26 per share and adjusted book value per share benefited \$3.73 per share as of the Acquisition Date.

### Commutations

In Second Quarter 2015, the Company entered into a commutation agreement in order to reassume a previously ceded book of business. For Six Months 2015, the commutation of ceded business resulted in gains of \$33 million, which were recorded in other income.

### Capital Management

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

On May 6, 2015, in continuation of the Company's capital management strategy of repurchasing its common shares, AGL's Board of Directors approved the repurchase of an incremental \$400 million of common shares. As of August 5, 2015, \$280 million of total capacity remained, on a settlement basis, from all authorizations. In Second Quarter 2015, the Company repurchased a total of 4.7 million common shares for approximately \$133 million at an average price of \$28.13 per share. Year to date through August 5, 2015, including repurchases since June 30, 2015, the Company has repurchased a total of 12.4 million common shares for \$330 million at an average price of \$26.57 per share.

The Company expects the repurchases 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 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, 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. It does not have an expiration date. See Note 18, Shareholders' Equity, of the Financial Statements, for additional information about the Company's repurchases of

its common shares.

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## Summary of Share Repurchases

|                                | Amount                               | Number of<br>Shares | Average price<br>per share |
|--------------------------------|--------------------------------------|---------------------|----------------------------|
|                                | (in millions, except per share data) |                     |                            |
| Second Quarter 2015            | \$ 133                               | 4.7                 | \$28.13                    |
| Six Months 2015                | 285                                  | 10.6                | 26.88                      |
| 2014                           | 590                                  | 24.4                | 24.17                      |
| 2013                           | 264                                  | 12.5                | 21.12                      |
| Cumulative as of June 30, 2015 | \$1,139                              | 47.5                | 23.97                      |

## Accretive Effect of Cumulative Repurchases(1)

|                                | Second Quarter |        | Six Months |        | As of June<br>30, 2015 | As of<br>December 31,<br>2014 |
|--------------------------------|----------------|--------|------------|--------|------------------------|-------------------------------|
|                                | 2015           | 2014   | 2015       | 2014   |                        |                               |
|                                | (per share)    |        |            |        |                        |                               |
| Net income                     | \$0.42         | \$0.07 | \$0.63     | \$0.06 |                        |                               |
| Operating income               | 0.38           | 0.04   | 0.52       | 0.07   |                        |                               |
| Shareholders' equity           |                |        |            |        | \$3.65                 | \$2.56                        |
| Operating shareholders' equity |                |        |            |        | 3.99                   | 2.78                          |
| Adjusted book value            |                |        |            |        | 8.39                   | 5.84                          |

(1) Cumulative repurchases since the beginning of 2013.

In order to reduce leverage, and possibly rating agency capital charges, the Company has mutually agreed with beneficiaries to terminate selected financial guaranty insurance and credit derivative contracts. In particular, the Company has targeted investment grade securities for which claims are not expected but which carry a disproportionately large rating agency capital charge. The Company terminated \$0.5 billion and \$0.3 billion in net par in Second Quarter 2015 and Second Quarter 2014, respectively, and \$0.7 billion and \$1.8 billion in net par in Six Months 2015 and Six Months 2014, respectively, of financial guaranty and credit default swap ("CDS") contracts.

## 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 that its experience, the resources it is prepared to deploy and its authority to speak on behalf of a number of beneficial owners of debt, as well as its ability to provide bond insurance or other contributions as part of a solution, has resulted in more favorable outcomes in distressed public finance situations than would have been the case without its participation, as for example in Detroit, Michigan; Stockton, California; and Jefferson County, Alabama. Currently, the Company is an active participant in discussions with the Commonwealth of Puerto Rico and its advisors and has extended forbearance agreements through September 15, 2015 with respect to Puerto Rico Electric Power Authority ("PREPA"). PREPA and its creditors (including AGM and AGC) continue to negotiate the terms of a potential consensual recovery plan. Since the expiration of relevant confidentiality agreements on July 22, 2015, several competing proposals have been made public. There can be no

assurance that the negotiations will result in agreement on an actual consensual recovery plan. PREPA, during the pendency of the forbearance agreements, has suspended deposits into the debt service fund.

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In an effort to recover losses the Company experienced in its insured U.S. residential mortgage-backed securities ("RMBS") portfolio, the Company pursues providers of representations and warranties ("R&W") by enforcing R&W provisions in contracts, negotiating agreements with R&W providers relating to those provisions and, where appropriate, initiating litigation against R&W providers. The Company's loss mitigation efforts on its U.S. RMBS exposure over the past several years have resulted in R&W providers paying, or agreeing to pay, or terminating insurance protection on future projected losses of, approximately \$4.2 billion (gross of reinsurance) in respect of their R&W liabilities for transactions in which the Company has provided insurance. See Note 6, Expected Loss to be Paid, of the Financial Statements, for a discussion of the R&W settlements the Company has entered into and the litigation proceedings the Company has initiated against R&W providers and other parties.

In addition, the Company has been focused on improving the quality of servicing of the mortgage loans underlying its insured RMBS transactions. As of June 30, 2015, the Company's net insured par of the transactions subject to a servicing transfer was \$2.0 billion and the total net insured par of the transactions subject to a special servicing arrangement was \$2.8 billion. Some transactions benefit from both arrangements, so these amounts are not additive.

The Company is also continuing to purchase attractively priced obligations, including below-investment-grade ("BIG") obligations, 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"). These purchases resulted in a reduction of net expected loss to be paid of \$525 million as of June 30, 2015. The fair value of assets purchased for loss mitigation purposes in our investment portfolio as of June 30, 2015 (excluding the value of the Company's insurance) was \$553 million, with a par of \$1,191 million (including bonds related to FG VIEs of \$82 million in fair value and \$360 million in par).

## Results of Operations

### Estimates and Assumptions

The Company's consolidated financial statements include amounts that are determined using estimates and assumptions. The actual amounts realized could ultimately be materially different from the amounts currently provided for 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, other-than-temporary impairment, 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 of critical importance to understanding its consolidated financial statements. See Part II, Item 8. "Financial Statements and Supplementary Data" of the Company's Annual Report on Form 10-K for a discussion of significant accounting policies and fair value methodologies.

The Company carries a portion of its assets and liabilities at fair value, the majority of which are measured at fair value on a recurring basis. Level 3 assets, consisting primarily of financial guaranty variable interest entities' assets, credit derivative assets, and investments, represented approximately 19% and 18% of total assets measured at fair value on a recurring basis as of June 30, 2015 and December 31, 2014, respectively. All of the Company's liabilities that are measured at fair value are Level 3. See Note 8, Fair Value Measurement, of the Financial Statements for additional information about assets and liabilities classified as Level 3.

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## Consolidated Results of Operations

## Consolidated Results of Operations

|                                                                    | Three Months Ended June 30, |       | Six Months Ended June 30, |       |   |
|--------------------------------------------------------------------|-----------------------------|-------|---------------------------|-------|---|
|                                                                    | 2015                        | 2014  | 2015                      | 2014  |   |
|                                                                    | (in millions)               |       |                           |       |   |
| Revenues:                                                          |                             |       |                           |       |   |
| Net earned premiums                                                | \$219                       | \$136 | \$361                     | \$268 |   |
| Net investment income                                              | 98                          | 96    | 199                       | 199   |   |
| Net realized investment gains (losses)                             | (9                          | ) (8  | ) 7                       | (6    | ) |
| Net change in fair value of credit derivatives:                    |                             |       |                           |       |   |
| Realized gains (losses) and other settlements                      | 8                           | 15    | 29                        | 34    |   |
| Net unrealized gains (losses)                                      | 82                          | 88    | 185                       | (142  | ) |
| Net change in fair value of credit derivatives                     | 90                          | 103   | 214                       | (108  | ) |
| Fair value gains (losses) on committed capital securities ("CCS")  | 23                          | (6    | ) 25                      | (15   | ) |
| Fair value gains (losses) on FG VIEs                               | 5                           | 25    | (2                        | ) 182 |   |
| Bargain purchase gain and settlement of pre-existing relationships | 214                         | —     | 214                       | —     |   |
| Other income (loss)                                                | 55                          | 7     | 46                        | 28    |   |
| Total revenues                                                     | 695                         | 353   | 1,064                     | 548   |   |
| Expenses:                                                          |                             |       |                           |       |   |
| Loss and loss adjustment expenses                                  | 188                         | 57    | 206                       | 98    |   |
| Amortization of deferred acquisition costs                         | 6                           | 3     | 10                        | 8     |   |
| Interest expense                                                   | 26                          | 20    | 51                        | 40    |   |
| Other operating expenses                                           | 66                          | 55    | 122                       | 115   |   |
| Total expenses                                                     | 286                         | 135   | 389                       | 261   |   |
| Income (loss) before provision for income taxes                    | 409                         | 218   | 675                       | 287   |   |
| Provision (benefit) for income taxes                               | 112                         | 59    | 177                       | 86    |   |
| Net income (loss)                                                  | \$297                       | \$159 | \$498                     | \$201 |   |

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## Net Earned Premiums

Net earned premiums increased in Second Quarter 2015 and Six Months 2015 compared with Second Quarter 2014 and Six Months 2014 due primarily to higher accelerations, and the addition of the Radian Asset book of business, offset by the scheduled decline in structured finance par outstanding. At June 30, 2015, \$4.0 billion of net deferred premium revenue remained to be earned over the life of the insurance contracts. The Radian Asset Acquisition increased deferred premium revenue by \$549 million. Scheduled net earned premiums are expected to 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 Note 5, Financial Guaranty Insurance Premiums, of the Financial Statements, for additional information.

## Net Earned Premiums

|                                             | Second Quarter |       | Six Months |       |
|---------------------------------------------|----------------|-------|------------|-------|
|                                             | 2015           | 2014  | 2015       | 2014  |
|                                             | (in millions)  |       |            |       |
| Financial guaranty:                         |                |       |            |       |
| Public finance                              |                |       |            |       |
| Scheduled net earned premiums and accretion | \$89           | \$72  | \$155      | \$144 |
| Accelerations <sup>(1)</sup>                | 96             | 24    | 136        | 43    |
| Total public finance                        | 185            | 96    | 291        | 187   |
| Structured finance <sup>(2)</sup>           |                |       |            |       |
| Scheduled net earned premiums and accretion | 34             | 39    | 68         | 80    |
| Accelerations <sup>(1)</sup>                | —              | 0     | 1          | 0     |
| Total structured finance                    | 34             | 39    | 69         | 80    |
| Other                                       | 0              | 1     | 1          | 1     |
| Total net earned premiums                   | \$219          | \$136 | \$361      | \$268 |

<sup>(1)</sup> Reflects the unscheduled refunding of an insured obligation or the termination of the insurance on an insured obligation.

<sup>(2)</sup> Excludes \$5 million and \$5 million for Second Quarter 2015 and 2014 respectively, and \$10 million and \$22 million for Six Months 2015 and 2014, respectively related to consolidated FG VIEs.

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## Net Investment Income

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.

## Net Investment Income (1)

|                                                                | Second Quarter |      | Six Months |       |
|----------------------------------------------------------------|----------------|------|------------|-------|
|                                                                | 2015           | 2014 | 2015       | 2014  |
|                                                                | (in millions)  |      |            |       |
| Income from fixed-maturity securities managed by third parties | \$85           | \$81 | \$167      | \$161 |
| Income from internally managed securities:                     |                |      |            |       |
| Fixed maturities                                               | 14             | 17   | 29         | 37    |
| Other invested assets                                          | 1              | 0    | 7          | 5     |
| Gross investment income                                        | 100            | 98   | 203        | 203   |
| Investment expenses                                            | (2             | ) (2 | ) (4       | ) (4  |
| Net investment income                                          | \$98           | \$96 | \$199      | \$199 |

(1) Net investment income excludes \$3 million for Second Quarter 2015 and 2014, and \$6 million for Six Months 2015 and 2014, respectively, related to consolidated FG VIEs.

Net investment income increased as additional income from Radian Asset's investment portfolio was partially offset by lower income on certain other risk management assets. The overall pre-tax book yield was 3.55% as of June 30, 2015 and 3.52% as of June 30, 2014, respectively. Excluding the internally managed portfolio, pre-tax book yield was 3.38% as of June 30, 2015 compared with 3.26% as of June 30, 2014.

## Net Realized Investment Gains (Losses)

The table below presents the components of net realized investment gains (losses). See Note 11, Investments and Cash, of the Financial Statements.

## Net Realized Investment Gains (Losses)

|                                               | Second Quarter |        | Six Months |        |
|-----------------------------------------------|----------------|--------|------------|--------|
|                                               | 2015           | 2014   | 2015       | 2014   |
|                                               | (in millions)  |        |            |        |
| Gross realized gains on investment portfolio  | \$10           | \$5    | \$35       | \$14   |
| Gross realized losses on investment portfolio | (7             | ) (1   | ) (9       | ) (3   |
| Other-than-temporary impairment               | (12            | ) (12  | ) (19      | ) (17  |
| Net realized investment gains (losses) (1)    | \$(9           | ) \$(8 | ) \$7      | ) \$(6 |

(1) Excludes realized gains (losses) related to consolidated FG VIEs which were \$1 million for Second Quarter 2015 and Six Months 2015, and \$5 million for Second Quarter 2014 and Six Months 2014.

Gross realized gains for Six Months 2015 on the investment portfolio were due primarily to sales of securities in order to fund the purchase of Radian Asset by AGC. Other-than-temporary-impairments for Second Quarter 2015 and 2014, and for Six Months 2015 and 2014 were primarily attributable to securities purchased for loss mitigation purposes.

Bargain Purchase Gain and Settlement of Pre-existing Relationships

On April 1, 2015, AGC completed the acquisition of Radian Asset Assurance Inc. and merged Radian Asset with and into AGC, with AGC as the surviving company of the merger. In connection with the acquisition, in Second Quarter 2015 and

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Six Months 2015 the Company recognized \$55 million in a bargain purchase gain and \$159 million in settlement of pre-existing relationship.

The excess of the fair value of net assets acquired over the consideration transferred was recorded as a bargain purchase gain in "bargain purchase gain and settlement of pre-existing relationships" in net income. In addition, the Company and Radian Asset had pre-existing reinsurance relationships, which were also effectively settled at fair value on the Acquisition Date. The gain on settlement of these relationships represents the net effect of eliminating the historical assumed and ceded balances that were recorded by AGM, AGC and AGE as well as the effect of eliminating the fair value of ceded and assumed balances acquired from Radian. The bargain purchase resulted from the desire of Radian Group Inc. to focus its business strategy on the mortgage and real estate markets and to monetize its investment in Radian Asset and thereby accelerate its ability to comply with the financial requirements of the final Private Mortgage Insurer Eligibility Requirements. See Note 2, Acquisition of Radian Asset Assurance Inc., of the Financial Statements for additional information.

## Other Income (Loss)

Other income (loss) is comprised of recurring items such as foreign exchange remeasurement gains and losses, ancillary fees on financial guaranty policies such as commitment, consent and processing fees, as well as other revenue items on financial guaranty insurance and reinsurance contracts such as commutation gains on re-assumptions of previously ceded business and non-recurring items.

## Other Income (Loss)

|                                                                                       | Second Quarter |      | Six Months |      |
|---------------------------------------------------------------------------------------|----------------|------|------------|------|
|                                                                                       | 2015           | 2014 | 2015       | 2014 |
|                                                                                       | (in millions)  |      |            |      |
| Foreign exchange gain (loss) on remeasurement of premium receivable and loss reserves | \$13           | \$5  | \$0        | \$6  |
| Commutation gains                                                                     | 33             | 0    | 33         | 19   |
| Other                                                                                 | 9              | 2    | 13         | 3    |
| Total other income (loss)                                                             | \$55           | \$7  | \$46       | \$28 |

In Six Months 2015 and in Six Months 2014, the Company entered into commutation agreements in order to reassume ceded books of business from certain of its reinsurers.

## Losses in the Insured Portfolio

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. Please refer to Note 6, Expected Loss to be Paid, of the Financial Statements, for a discussion of the assumptions and methodologies used in calculating the expected loss to be paid for all contracts. For a discussion of the measurement and recognition accounting policies under GAAP for each type of contract, see the following in Item 8, Financial Statements and Supplementary Data of the Company's Annual Report on Form 10-K:

- Notes 5, 6 and 7 for financial guaranty insurance,
- Note 8 for fair value methodologies for credit derivatives and FG VIE assets and liabilities,
- Note 9 for credit derivatives, and
- Note 10 for consolidated FG VIE.

The discussion of losses that follows encompasses losses on all contracts in the insured portfolio regardless of accounting model, unless otherwise specified. In order to effectively evaluate and manage the economics of the entire insured portfolio, management compiles and analyzes expected loss information for all policies on a consistent basis. That is, management monitors and assigns ratings and calculates expected losses in the same manner for all its exposures. Management also considers contract specific characteristics that affect the estimates of expected loss.

The surveillance process for identifying transactions with expected losses is described in the notes to the consolidated financial statements. More extensive monitoring and intervention is employed for all BIG surveillance categories, with internal credit ratings reviewed quarterly.

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Net expected loss to be paid consists primarily of the present value of future: expected claim payments, expected recoveries from excess spread and other collateral in the transaction structures, cessions to reinsurers, and expected recoveries 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. The effect of changes in discount rates are included in net economic loss development, however, economic loss development attributable to changes in discount rates is not indicative of credit impairment or improvement. Assumptions used in the determination of the net expected loss to be paid such as delinquency, severity, and discount rates and expected timeframes to recovery in the mortgage market were consistent by sector regardless of the accounting model used. The primary drivers of economic loss development are discussed below.

The primary differences between net economic loss development and loss and loss adjustment expenses ("LAE") reported under GAAP are that GAAP (1) considers deferred premium revenue in the calculation of loss reserves and loss expense for financial guaranty insurance contracts, (2) eliminates losses related to FG VIEs and (3) does not include estimated losses on credit derivatives. Loss expense reported in operating income includes losses on credit derivatives and does not eliminate losses on FG VIEs. For financial guaranty insurance contracts, a loss is generally recorded only when expected losses exceed deferred premium revenue. 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 acquired in a business combination generally have the largest deferred premium revenue balances because of the purchase accounting adjustments made at acquisition. Therefore the largest differences between net economic loss development and loss expense relate to these policies. See "–Losses Incurred" below.

## Economic Loss Development (Benefit) (1)

|                                                             | Second Quarter |       | Six Months |       |
|-------------------------------------------------------------|----------------|-------|------------|-------|
|                                                             | 2015           | 2014  | 2015       | 2014  |
|                                                             | (in millions)  |       |            |       |
| Public finance                                              | \$224          | \$77  | \$230      | \$100 |
| Structured finance                                          |                |       |            |       |
| U.S. RMBS before benefit for recoveries for breaches of R&W | (28            | ) (40 | ) (75      | ) (2  |
| Net benefit for recoveries for breaches of R&W              | (4             | ) (19 | ) 47       | (67   |
| U.S. RMBS after benefit for recoveries for breaches of R&W  | (32            | ) (59 | ) (28      | ) (69 |
| Other structured finance                                    | 0              | 5     | (13        | ) 4   |
| Structured finance                                          | (32            | ) (54 | ) (41      | ) (65 |
| Total                                                       | \$192          | \$23  | \$189      | \$35  |

(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.

## Net Expected Loss to be Paid

As of  
June 30, 2015  
(in millions)

As of  
December 31,  
2014

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|                                                             |         |         |   |
|-------------------------------------------------------------|---------|---------|---|
| Public finance                                              | \$657   | \$348   |   |
| Structured finance                                          |         |         |   |
| U.S. RMBS before benefit for recoveries for breaches of R&W | 749     | 901     |   |
| Net benefit for recoveries for breaches of R&W              | (225    | ) (317  | ) |
| U.S. RMBS after benefit for recoveries for breaches of R&W  | 524     | 584     |   |
| Other structured finance                                    | 329     | 237     |   |
| Structured finance                                          | 853     | 821     |   |
| Total                                                       | \$1,510 | \$1,169 |   |

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### Second Quarter 2015 Net Economic Loss Development

Total economic loss development was \$192 million in Second Quarter 2015, due primarily to increases in loss estimates on Puerto Rico exposures, offset in part by a benefit of \$47 million attributable to the increase in risk-free rates used to discount expected losses. The risk-free rates used to discount expected losses ranged from 0.0% to 3.37% as of June 30, 2015 and 0.0% to 2.95% as of December 31, 2014. In addition to economic loss development for Second Quarter 2015, the Company also increased expected losses related to Radian Asset on the Acquisition Date by \$190 million. Please refer to Note 6, Expected Loss to be Paid, of the Financial Statements, for additional information.

**U.S. Public Finance Economic Loss Development:** The net par outstanding for U.S. public finance obligations rated BIG by the Company was \$9.9 billion as of June 30, 2015 compared with \$7.9 billion as of March 31, 2015. The increase in BIG was primarily attributable to the acquisition of Radian Asset's \$2.3 billion BIG U.S. public finance portfolio. The Company projects that its total net expected loss across its troubled U.S. public finance credits as of June 30, 2015 will be \$613 million, compared with \$310 million as of March 31, 2015. Economic loss development in Second Quarter 2015 was \$226 million, which was primarily attributable to Puerto Rico exposures. In addition to economic loss development for Second Quarter 2015, the Company also increased U.S. public finance expected losses related to Radian Asset on the Acquisition Date by \$81 million. See "Insured Portfolio-Exposure to Puerto Rico" below for details about significant developments that have taken place in Puerto Rico.

**U.S. RMBS Economic Loss Development:** The net favorable economic development attributable to U.S. RMBS of \$32 million was primarily due to increased risk-free rates used to discount long dated losses during the quarter.

**Other structured finance:** Economic loss development in this sector was not significant, however, upon the Radian Asset Acquisition, the Company added \$101 million in expected losses related to the acquired Radian Asset portfolio of other structured finance obligations.

### Second Quarter 2014 Net Economic Loss Development

**U.S. Public Finance Economic Loss Development:** The net par outstanding for U.S. public finance obligations rated BIG by the Company was \$8.9 billion as of June 30, 2014 compared with \$9.0 billion as of March 31, 2014. The Company projected that its total future expected net loss across its troubled U.S. public finance credits as of June 30, 2014 would be \$339 million, up from \$281 million as of March 31, 2014. The change during Second Quarter 2014 was primarily attributable to certain Puerto Rico exposures. See Note 4, Outstanding Exposure, and Note 6, Expected Loss to be Paid, of the Financial Statements for further information.

**U.S. RMBS Economic Loss Development:** The net benefit attributable to U.S. RMBS of \$59 million was due primarily to improvements in the underlying exposures, as well as an increase in the benefit for breaches of R&W, offset in part by the effect of lower risk-free rates used to discount reserves. The risk-free rates used to discount expected losses ranged from 0.0% to 3.78% as of June 30, 2014 compared with 0.0% to 3.97% as of March 31, 2014. The effect of changes in discount rates that is included in total economic loss development is not indicative of credit impairment or improvement.

### Six Months 2015 and 2014 Net Economic Loss Development

Economic loss development was \$189 million for Six Months 2015 compared with loss development of a \$35 million for Six Months 2014. The economic loss development in Six Months 2015 is primarily due to higher U.S. public finance sector losses due primarily to Puerto Rico, partially offset by gains from higher risk-free rates used to discount long dated losses. The economic loss development in Six Months 2014 is primarily due to higher U.S. public finance sector losses primarily due to Puerto Rico and Detroit. This was partially offset by lower U.S. RMBS losses in part

due to the settlements of several R&W claims during 2014.

#### Losses Incurred

For transactions accounted for as financial guaranty insurance under GAAP, each transaction's expected loss to be expensed, net of estimated recoveries, is compared with the deferred premium revenue of that transaction. Generally, when the expected loss to be expensed exceeds the deferred premium revenue, a loss is recognized in the income statement for the amount of such excess.

When the Company measures operating income, a non-GAAP financial measure, it calculates the credit derivative and FG VIE losses incurred in a similar manner.

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Expected loss to be paid, as discussed above under "Losses in the Insured Portfolio," is an important liquidity measure in that it provides the present value of amounts that the Company expects to pay or recover in future periods. Expected loss to be expensed is important because it presents the Company's projection of incurred losses that will be recognized in future periods as deferred premium revenue amortizes into income on financial guaranty insurance policies. Expected loss to be paid for FG VIEs pursuant to AGC's and AGM's financial guaranty policies is calculated in a manner consistent with financial guaranty insurance contracts, but eliminated in consolidation under GAAP.

The following tables present the loss and LAE recorded in the consolidated statements of operations by sector for non-derivative contracts and the loss expense recorded under non-GAAP operating income, respectively. Amounts presented are net of reinsurance. Changes in risk free rates used to discount losses affect both economic development and loss expense, however the effect of changes in discount rates are not indicative of actual credit impairment or improvement in the period.

Loss and LAE Reported  
on the Consolidated Statements of Operations

|                                                       | Second Quarter |       | Six Months |       |
|-------------------------------------------------------|----------------|-------|------------|-------|
|                                                       | 2015           | 2014  | 2015       | 2014  |
|                                                       | (in millions)  |       |            |       |
| Public finance                                        | \$197          | \$82  | \$215      | \$109 |
| Structured finance                                    |                |       |            |       |
| U.S. RMBS                                             | (9             | ) (21 | ) (2       | ) (22 |
| Other structured finance                              | 2              | 4     | 0          | 18    |
| Structured finance                                    | (7             | ) (17 | ) (2       | ) (4  |
| Total insurance contracts before FG VIE consolidation | 190            | 65    | 213        | 105   |
| Effect of consolidating FG VIEs                       | (2             | ) (8  | ) (7       | ) (7  |
| Total loss and LAE                                    | \$188          | \$57  | \$206      | \$98  |

Loss Expense Reported in  
Non-GAAP Operating Income

|                          | Second Quarter |       | Six Months |       |
|--------------------------|----------------|-------|------------|-------|
|                          | 2015           | 2014  | 2015       | 2014  |
|                          | (in millions)  |       |            |       |
| Public finance           | \$195          | \$81  | \$213      | \$107 |
| Structured finance       |                |       |            |       |
| U.S. RMBS                | (15            | ) (39 | ) (12      | ) (34 |
| Other structured finance | 0              | 4     | (9         | ) 5   |
| Structured finance       | (15            | ) (35 | ) (21      | ) (29 |
| Total                    | \$180          | \$46  | \$192      | \$78  |

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to Non-GAAP Loss Expense

|                                           | Second Quarter |       | Six Months |       |
|-------------------------------------------|----------------|-------|------------|-------|
|                                           | 2015           | 2014  | 2015       | 2014  |
|                                           | (in millions)  |       |            |       |
| Loss and LAE                              | \$188          | \$57  | \$206      | \$98  |
| Credit derivative loss expense            | (9             | ) (18 | ) (21      | ) (26 |
| FG VIE loss expense                       | 1              | 7     | 7          | 6     |
| Loss expense included in operating income | \$180          | \$46  | \$192      | \$78  |

In Second Quarter 2015, losses incurred primarily were due to Puerto Rico exposures, partially offset by a benefit for the increase in risk-free rates used to discount expected losses. In Six Months 2015, losses incurred primarily were due to increased loss estimates on Puerto Rico exposures, partially offset by a benefit in student loans and insured trust preferred securities (“TruPS”) transactions. Changes in risk-free rates used to discount losses had a material effect on loss expense in Second Quarter 2015 and Six Months 2015. See Note 6, Expected Loss to be Paid, of the Financial Statements, for additional information.

In Second Quarter 2014, losses incurred were due primarily to U.S. public finance exposures, mainly related to developments in the Company's Puerto Rico exposures. In Six Months 2014, losses incurred were due primarily to U.S. public finance exposures, mainly related to developments in the Company's Puerto Rico and Detroit exposures.

For financial guaranty contracts accounted for as insurance, the amounts reported in the GAAP financial statements may only reflect a portion of the current period's economic development and may also include a portion of prior-period economic development. The difference between economic loss development on financial guaranty insurance contracts and loss and LAE recognized in GAAP income is essentially loss development and accretion for financial guaranty insurance contracts that is, or was previously, absorbed in unearned premium reserve, which have not yet been recognized in income.

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The table below presents the expected timing of loss recognition for insurance contracts on both a reported GAAP net income and non-GAAP operating income basis.

Financial Guaranty Insurance  
Net Expected Loss to be Expensed  
As of June 30, 2015

|                                    | In GAAP<br>Reported<br>Income<br>(in millions) | In Non-GAAP<br>Operating<br>Income (1) |
|------------------------------------|------------------------------------------------|----------------------------------------|
| 2015 (July 1 – September 30)       | \$12                                           | \$15                                   |
| 2015 (October 1 – December 31)     | 12                                             | 16                                     |
| 2016                               | 40                                             | 129                                    |
| 2017                               | 33                                             | 46                                     |
| 2018                               | 30                                             | 38                                     |
| 2019                               | 29                                             | 35                                     |
| 2020-2024                          | 106                                            | 124                                    |
| 2025-2029                          | 77                                             | 86                                     |
| 2030-2034                          | 55                                             | 64                                     |
| After 2034                         | 27                                             | 34                                     |
| Net expected loss to be expensed   | 421                                            | 587                                    |
| Discount                           | 494                                            | 531                                    |
| Total expected future loss and LAE | \$915                                          | \$1,118                                |

(1) Net expected loss to be expensed for GAAP reported income is different than operating income, a non-GAAP financial measure, by the amount related to consolidated FG VIEs and credit derivatives.

### Net Change in Fair Value of Credit Derivatives

Changes in the fair value of credit derivatives occur primarily because of changes in interest rates, credit spreads, notional amounts, credit ratings of the referenced entities, expected terms, realized gains (losses) and other settlements, and the issuing company's own credit rating and credit spreads, and other market factors. With considerable 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. Expected losses to be paid in respect of contracts accounted for as credit derivatives are included in the discussion above "—Losses in the Insured Portfolio."

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 June 30, 2015, market

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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 Note 8, Fair Value Measurement, of the Financial Statements for additional information.

## Net Change in Fair Value of Credit Derivatives Gain (Loss)

|                                                                                                 | Second Quarter |        | Six Months |         |
|-------------------------------------------------------------------------------------------------|----------------|--------|------------|---------|
|                                                                                                 | 2015           | 2014   | 2015       | 2014    |
|                                                                                                 | (in millions)  |        |            |         |
| Realized gains on credit derivatives (1)                                                        | \$ 15          | \$ 21  | \$ 38      | \$ 41   |
| Net credit derivative losses (paid and payable) recovered and recoverable and other settlements | (7             | ) (6   | ) (9       | ) (7    |
| Realized gains (losses) and other settlements on credit derivatives                             | 8              | 15     | 29         | 34      |
| Net change in unrealized gains (losses) on credit derivatives:                                  |                |        |            |         |
| Pooled corporate obligations                                                                    | 7              | 64     | 24         | 6       |
| U.S. RMBS                                                                                       | 62             | 5      | 137        | (135    |
| Commercial mortgage-backed securities ("CMBS")                                                  | 4              | 2      | 4          | 2       |
| Other                                                                                           | 9              | 17     | 20         | (15     |
| Net change in unrealized gains (losses) on credit derivatives                                   | 82             | 88     | 185        | (142    |
| Net change in fair value of credit derivatives                                                  | \$ 90          | \$ 103 | \$ 214     | \$ (108 |

(1) Includes realized gain due to terminations of CDS contracts of \$1.8 million and \$0.5 million for Second Quarter 2015 and Second Quarter 2014, respectively, and \$12.6 million and \$0.7 million for Six Months 2015 and Six Months 2014, respectively. Net par of \$0.5 billion and \$0.2 billion were terminated in Second Quarter 2015 and Second Quarter 2014, respectively, and \$0.6 billion and \$1.3 billion for Six Months 2015 and Six Months 2014, respectively. CDS terminations in Six Months 2015 reflect a payment received from the resolution of a dispute related to a termination of CDS in 2008.

During Second Quarter 2015, unrealized fair value gains were generated primarily in the U.S. RMBS prime first lien and Option ARM and subprime sectors, and in TruPS within pooled corporate transactions, due to tighter implied net spreads. The tighter implied net spreads were primarily a result of the increased cost to buy protection on AGC and AGM (which management refers to as the CDS spread on AGC and AGM), particularly for the one year and five year CDS spread.

During Six Months 2015, unrealized fair value gains were generated primarily in the U.S. RMBS prime first lien and Option ARM and subprime sectors, and in TruPS within pooled corporate transactions, due to tighter implied net spreads. The tighter implied net spreads were primarily a result of the increased cost to buy protection on AGC and AGM, particularly for the one year and five year CDS spread. In addition, during Six Months 2015, the Company refined its methodology to address a U.S. RMBS transaction where the Company now expects recoveries. This refinement resulted in approximately \$49 million in fair value gains in Six Months 2015.

During Second Quarter 2014, unrealized fair value gains were generated primarily in the pooled corporate obligations and Other sectors due to tighter implied net spreads. The tighter implied net spreads were primarily a result of the increased cost to buy protection in AGC's and AGM's name, as the market cost of AGC's and AGM's credit protection increased during the period, with the change in the one year CDS spread having the largest impact. These transactions were pricing at or above their floor levels (or the minimum rate at which the Company would consider assuming these risks based on historical experience); therefore when the cost of purchasing CDS protection on AGC and AGM, which management refers to as the CDS spread on AGC and AGM, increased the implied spreads that the Company would

expect to receive on these transactions decreased.

During Six Months 2014, unrealized fair value losses were generated primarily in the U.S. RMBS prime first lien, Alt-A, and Option ARM sectors, due to wider implied net spreads. The wider implied net spreads were primarily a result of the decreased cost to buy protection in AGC's name as the market cost of AGC's credit protection decreased significantly during the period. These transactions were pricing above their floor levels; therefore when the cost of purchasing CDS protection on AGC decreased, the implied spreads that the Company would expect to receive on these transactions increased. The cost of

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AGM's credit protection also decreased during Six Months 2014, but did not lead to significant fair value losses, as the majority of AGM policies continue to price at floor levels.

## Five-Year CDS Spread

on AGC and AGM

Quoted price of CDS contract (in basis points)

|     | As of<br>June 30,<br>2015 | As of<br>March 31,<br>2015 | As of<br>December<br>31, 2014 | As of<br>June 30,<br>2014 | As of<br>March 31,<br>2014 | As of<br>December<br>31, 2013 |
|-----|---------------------------|----------------------------|-------------------------------|---------------------------|----------------------------|-------------------------------|
| AGC | 390                       | 317                        | 323                           | 327                       | 291                        | 460                           |
| AGM | 410                       | 341                        | 325                           | 346                       | 305                        | 525                           |

## One-Year CDS Spread

on AGC and AGM

Quoted price of CDS contract (in basis points)

|     | As of<br>June 30,<br>2015 | As of<br>March 31,<br>2015 | As of<br>December<br>31, 2014 | As of<br>June 30,<br>2014 | As of<br>March 31,<br>2014 | As of<br>December<br>31, 2013 |
|-----|---------------------------|----------------------------|-------------------------------|---------------------------|----------------------------|-------------------------------|
| AGC | 120                       | 60                         | 80                            | 85                        | 55                         | 185                           |
| AGM | 125                       | 80                         | 85                            | 115                       | 70                         | 220                           |

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

|                                                                | Second Quarter<br>2015      2014<br>(in millions) |        | Six Months<br>2015      2014 |          |
|----------------------------------------------------------------|---------------------------------------------------|--------|------------------------------|----------|
| Change in unrealized gains (losses) of credit derivatives:     |                                                   |        |                              |          |
| Before considering implication of the Company's credit spreads | \$(20                                             | ) \$15 | \$91                         | \$422    |
| Resulting from change in the Company's credit spreads          | 102                                               | 73     | 94                           | (564 )   |
| After considering implication of the Company's credit spreads  | \$82                                              | \$88   | \$185                        | \$(142 ) |

Management believes that the trading level of AGC's and AGM's credit spreads is due to the correlation between AGC's and AGM's risk profile, the current risk profile of the broader financial markets, and to increased demand for credit protection against AGC and AGM as the result of its financial guaranty volume, as well as the overall lack of liquidity in the CDS market. Offsetting the benefit attributable to AGC's and AGM's credit spread were higher credit spreads in the fixed income security markets relative to pre-financial crisis levels. The higher credit spreads in the fixed income security market are due to the lack of liquidity in the high-yield collateralized debt obligations ("CDO"), trust preferred securities CDO ("TruPS CDOs"), and collateralized loan obligation ("CLO") markets as well as continuing market concerns over the 2005-2007 vintages of RMBS.

## Interest Expense

For Second Quarter 2015 and Six Months 2015, interest expense increased due to the issuance in June 2014 of 5.0% Senior Notes due 2024. See Note 16, Long-Term Debt and Credit Facilities, of the Financial Statements.

Other Operating Expenses

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Other operating expenses increased in both Second Quarter 2015 and Six Months 2015 compared to the corresponding periods in prior year due primarily to \$12 million in expenses related to the Radian Asset Acquisition. These expenses were primarily driven by the fees paid to the Company's legal and financial advisors and to the Company's independent auditor.

## Provision for Income Tax

## Provision for Income Taxes and Effective Tax Rates

|                                            | Second Quarter |        | Six Months |        |   |
|--------------------------------------------|----------------|--------|------------|--------|---|
|                                            | 2015           | 2014   | 2015       | 2014   |   |
|                                            | (in millions)  |        |            |        |   |
| Total provision (benefit) for income taxes | \$112          | \$59   | \$177      | \$86   |   |
| Effective tax rate                         | 27.5           | % 27.2 | % 26.2     | % 30.0 | % |

The Company's 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 35%, U.K. subsidiaries taxed at the U.K. blended marginal corporate tax rate of 20.25% unless subject to U.S. tax by election or as a U.S. controlled foreign corporation, 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 Company's overall corporate effective tax rate fluctuates based on the distribution of taxable income across these jurisdictions. In each of the periods presented, the portion of taxable income from each jurisdiction varied. The non-taxable book-to-tax differences were consistent as compared to the prior period, except for bargain purchase gain that was not recognized for tax purposes.

## Financial Guaranty Variable Interest Entities

As of June 30, 2015 and December 31, 2014, the Company consolidated 37 and 40 VIEs, respectively. The table below presents the effects on reported GAAP income resulting from consolidating these FG VIEs and eliminating their related insurance and investment accounts and, in total, represents a difference between GAAP reported net income and non-GAAP operating income attributable to FG VIEs. The consolidation of FG VIEs has a significant effect on net income and shareholders' equity due to (1) changes in fair value gains (losses) on FG VIE assets and liabilities, (2) the eliminations of premiums and losses related to the AGC and AGM FG VIE liabilities with recourse and (3) the elimination of investment balances related to the Company's purchase of AGC and AGM insured FG VIE debt. Upon consolidation of a FG VIE, the related insurance and, if applicable, the related investment balances, are considered intercompany transactions and therefore eliminated. See "—Non-GAAP Financial Measures—Operating Income" below and Note 10, Consolidated Variable Interest Entities, of the Financial Statements for more details.

## Effect of Consolidating FG VIEs on Net Income (Loss)

|                                        | Second Quarter |        | Six Months |         |   |
|----------------------------------------|----------------|--------|------------|---------|---|
|                                        | 2015           | 2014   | 2015       | 2014    |   |
|                                        | (in millions)  |        |            |         |   |
| Net earned premiums                    | \$(5           | ) \$(5 | ) \$(10    | ) \$(22 | ) |
| Net investment income                  | (3             | ) (3   | ) (6       | ) (6    | ) |
| Net realized investment gains (losses) | 3              | (5     | ) 3        | (5      | ) |
| Fair value gains (losses) on FG VIEs   | 5              | 25     | (2         | ) 182   |   |
| Bargain purchase gain                  | 2              | —      | 2          | —       |   |
| Other income (loss)                    | 0              | 0      | 0          | (2      | ) |
| Loss and LAE                           | 2              | 8      | 7          | 7       |   |

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|                                 |     |      |      |         |
|---------------------------------|-----|------|------|---------|
| Effect on net income before tax | 4   | 20   | (6   | ) 154   |
| Less: tax provision (benefit)   | 1   | 7    | (3   | ) 54    |
| Effect on net income (loss)     | \$3 | \$13 | \$(3 | ) \$100 |

Fair value gains (losses) on FG VIEs represent the net change in fair value on the consolidated FG VIEs' assets and liabilities. During Second Quarter 2015, the Company recorded a pre-tax net fair value gain on consolidated FG VIEs of \$5

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million. The primary driver of the gain was mark-to-market gains due to price appreciation on the FG VIE assets during the quarter resulting from improvements in the underlying collateral. During Six Months 2015, the Company recorded a pre-tax net fair value loss on consolidated FG VIEs of \$2 million. The primary driver of the loss was a pre-tax loss of \$26 million on the consolidation of one new FG VIE which was partially offset by net mark-to-market gains due to price appreciation on the FG VIE assets resulting from improvements in the underlying collateral.

During Second Quarter 2014, the Company recorded a pre-tax net fair value gain of consolidated FG VIEs of \$25 million. The primary driver of this gain was price appreciation on the Company's FG VIE assets during the quarter resulting from improvements in the underlying collateral, as well as large principal paydowns made on the Company's FG VIEs. During Six Months 2014, the Company recorded a pre-tax net fair value gain of consolidated FG VIEs of \$182 million. The primary driver of this gain, \$120 million, was a result of the deconsolidation of seven VIEs. There was an additional gain of \$37 million resulting from the Company exercising its option to accelerate two second lien RMBS VIEs. These two VIEs were treated as maturities during the period.

## Non-GAAP Financial Measures

To reflect the key financial measures management analyzes in evaluating the Company's operations and progress towards long-term goals, the Company discusses both measures determined in accordance with GAAP and measures not promulgated in accordance with GAAP ("non-GAAP financial measures"). Although the financial measures identified as non-GAAP should not be considered substitutes for GAAP measures, management considers them key performance indicators and employs them as well as other factors in determining compensation. Non-GAAP financial measures, therefore, provide investors with important information about the key financial measures management utilizes in measuring its business. The primary limitation of non-GAAP financial measures is the potential lack of comparability to those of other companies, which may define non-GAAP measures differently because there is limited literature with respect to such measures. Three of the primary non-GAAP financial measures analyzed by the Company's senior management are: operating income, adjusted book value and PVP.

Management and the board of directors utilize non-GAAP financial measures in evaluating the Company's financial performance. By providing these non-GAAP financial measures, the Company gives investors, analysts and financial news reporters access to the same information that management reviews internally. In addition, Assured Guaranty's presentation of non-GAAP financial measures is consistent with how analysts calculate their estimates of Assured Guaranty's financial results in their research reports on Assured Guaranty and with how investors, analysts and the financial news media evaluate Assured Guaranty's financial results.

The following paragraphs define each non-GAAP financial measure and describe why it is useful. A reconciliation of the non-GAAP financial measure and the most directly comparable GAAP financial measure, is also presented below.

### Operating Income

Management believes that operating income is a useful measure because it clarifies the understanding of the underwriting results of the Company's financial guaranty business, and also includes financing costs and net investment income, and enables investors and analysts to evaluate the Company's financial results as compared with the consensus analyst estimates distributed publicly by financial databases. Operating income is defined as net income (loss) attributable to AGL, as reported under GAAP, adjusted for the following:

- 1) Elimination of the after-tax 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. Trends in the underlying profitability of the Company's business can be more clearly identified without the fluctuating effects of these transactions.

2) Elimination of the after-tax non-credit impairment unrealized fair value gains (losses) on credit derivatives, which is the amount 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. Additionally, such adjustments present all financial guaranty contracts on a more consistent basis of accounting, whether or not they are subject to derivative accounting rules.

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3) Elimination of the after-tax fair value gains (losses) on the Company's CCS. Such amounts 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.

4) Elimination of the after-tax foreign exchange gains (losses) on remeasurement of net premium receivables and loss and LAE reserves. Long-dated receivables constitute a significant portion of the net premium receivable balance and represent the present value of future contractual or expected collections. 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.

5) Elimination of the effects of consolidating FG VIEs in order to present all financial guaranty contracts on a more consistent basis of accounting, whether or not GAAP requires consolidation. GAAP requires the Company to consolidate certain VIEs that have issued debt obligations insured by the Company even though the Company does not own such VIEs.

#### Reconciliation of Net Income (Loss) to Operating Income

|                                                                                                   | Second Quarter |        | Six Months |        |   |
|---------------------------------------------------------------------------------------------------|----------------|--------|------------|--------|---|
|                                                                                                   | 2015           | 2014   | 2015       | 2014   |   |
|                                                                                                   | (in millions)  |        |            |        |   |
| Net income (loss)                                                                                 | \$297          | \$159  | \$498      | \$201  |   |
| Less after-tax adjustments:                                                                       |                |        |            |        |   |
| Realized gains (losses) on investments                                                            | (8             | ) (2   | ) 1        | (3     | ) |
| Non-credit impairment unrealized fair value gains (losses) on credit derivatives                  | 0              | 47     | 66         | (124   | ) |
| Fair value gains (losses) on CCS                                                                  | 15             | (5     | ) 16       | (10    | ) |
| Foreign exchange gains (losses) on remeasurement of premiums receivable and loss and LAE reserves | 9              | 5      | 0          | 5      |   |
| Effect of consolidating FG VIEs                                                                   | 3              | 13     | (3         | ) 100  |   |
| Operating income                                                                                  | \$278          | \$101  | \$418      | \$233  |   |
| Effective tax rate on operating income                                                            | 25.4           | % 25.6 | % 24.3     | % 26.2 | % |

#### Adjusted Book Value and Operating Shareholders' Equity

Management also uses adjusted book value to measure the intrinsic value of the Company, excluding franchise value. Growth in adjusted book value per share is one of the key financial measures used in determining the amount of certain long-term compensation to management and employees and used by rating agencies and investors.

Management believes that operating shareholders' equity is a useful measure because it presents the equity of the Company with all financial guaranty contracts accounted for on a more consistent basis and excludes fair value adjustments that are not expected to result in economic gain or loss. Many investors, analysts and financial news reporters use operating shareholders' equity 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 operating shareholders' equity to evaluate the Company's capital adequacy. Operating shareholders' equity is the basis of the calculation of adjusted book value (see below). Operating

shareholders' equity is defined as shareholders' equity attributable to Assured Guaranty Ltd., as reported under GAAP, adjusted for the following:

- 1) Elimination of the effects of consolidating FG VIEs in order to present all financial guaranty contracts on a more consistent basis of accounting, whether or not GAAP requires consolidation. GAAP requires the Company to consolidate certain VIEs that have issued debt obligations insured by the Company even though the Company does not own such VIEs.

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- 2) Elimination of the after-tax non-credit impairment unrealized fair value gains (losses) on credit derivatives, which is the amount 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.
- 3) Elimination of the after-tax fair value gains (losses) on the Company's CCS. Such amounts 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.
- 4) Elimination of the after-tax 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.

Management believes that adjusted book value is a useful measure because it enables an evaluation of the net present value of the Company's in-force premiums and revenues in addition to operating shareholders' equity. The premiums and revenues included in adjusted book value will be earned in future periods, but actual earnings may differ materially from the estimated amounts used in determining current adjusted book value due to changes in foreign exchange rates, prepayment speeds, terminations, credit defaults and other factors. Many investors, analysts and financial news reporters use adjusted book value to evaluate AGL's share price and as the basis of their decision to recommend, buy or sell the AGL common shares. Adjusted book value is operating shareholders' equity, as defined above, further adjusted for the following:

- 1) Elimination of after-tax 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 after-tax net present value of estimated net future credit derivative revenue. See below.
- 3) Addition of the after-tax value of the unearned premium reserve 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.

Net Present Value of Estimated Net Future Credit Derivative Revenue

Management believes that this amount is a useful measure because it enables an evaluation of the value of future estimated credit derivative revenue. There is no corresponding GAAP financial measure. This amount represents the present value of estimated future revenue from the Company's credit derivative in-force book of business, net of reinsurance, ceding commissions and premium taxes, for contracts without expected economic losses, and is discounted at 6%. Estimated net future credit derivative 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.

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to Adjusted Book Value

|                                                                                                              | As of June 30, 2015                             |           | As of December 31, 2014 |           |
|--------------------------------------------------------------------------------------------------------------|-------------------------------------------------|-----------|-------------------------|-----------|
|                                                                                                              | Total                                           | Per Share | Total                   | Per Share |
|                                                                                                              | (dollars in millions, except per share amounts) |           |                         |           |
| Shareholders' equity                                                                                         | \$5,806                                         | \$39.16   | \$5,758                 | \$36.37   |
| Less after-tax adjustments:                                                                                  |                                                 |           |                         |           |
| Effect of consolidating FG VIEs                                                                              | (40)                                            | ) (0.27   | ) (44                   | ) (0.28   |
| Non-credit impairment unrealized fair value gains (losses) on credit derivatives                             | (447)                                           | ) (3.02   | ) (527                  | ) (3.33   |
| Fair value gains (losses) on CCS                                                                             | 39                                              | 0.26      | 23                      | 0.14      |
| Unrealized gain (loss) on investment portfolio excluding foreign exchange effect                             | 243                                             | 1.64      | 373                     | 2.36      |
| Operating shareholders' equity                                                                               | 6,011                                           | 40.55     | 5,933                   | 37.48     |
| After-tax adjustments:                                                                                       |                                                 |           |                         |           |
| Less: Deferred acquisition costs                                                                             | 150                                             | 1.01      | 156                     | 0.99      |
| Plus: Net present value of estimated net future credit derivative revenue                                    | 155                                             | 1.04      | 109                     | 0.69      |
| Plus: Net unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed | 2,685                                           | 18.11     | 2,609                   | 16.48     |
| Adjusted book value                                                                                          | \$8,701                                         | \$58.69   | \$8,495                 | \$53.66   |

Shareholder's equity, operating shareholders' equity and adjusted book value all increased since December 31, 2014 due mainly to the Radian Asset Acquisition and positive income, partially offset by share repurchases and dividends. Operating shareholders' equity per share and adjusted book value per share also benefited from the repurchase of 10.6 million common shares through June 30, 2015.

## 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 GAAP gross premiums written and the net credit derivative premiums received and receivable portion of net realized gains and other settlements on credit derivatives ("Credit Derivative Revenues") do not adequately measure. PVP in respect of financial guaranty 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, in each case, discounted at 6%. For purposes of the PVP calculation, management discounts estimated future installment premiums on insurance contracts at 6%, while under GAAP, these amounts are discounted at a risk free rate. Additionally, under 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 net earned or written premiums and Credit Derivative Revenues 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.



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## Reconciliation of PVP to Gross Written Premiums

|                                                                     | Second Quarter |      | Six Months |      |
|---------------------------------------------------------------------|----------------|------|------------|------|
|                                                                     | 2015           | 2014 | 2015       | 2014 |
|                                                                     | (in millions)  |      |            |      |
| Total PVP                                                           | \$26           | \$27 | \$62       | \$58 |
| Less: PVP of non-financial guaranty insurance                       | —              | —    | 6          | —    |
| PVP of financial guaranty insurance                                 | 26             | 27   | 56         | 58   |
| Less: Financial guaranty installment premium PVP                    | 1              | 11   | 18         | 21   |
| Total: Financial guaranty upfront gross written premiums            | 25             | 16   | 38         | 37   |
| Plus: Installment gross written premiums and other GAAP adjustments | (3             | ) 1  | 16         | 10   |
| Total gross written premiums                                        | 22             | 17   | 54         | 47   |

## Insured Portfolio

The following tables present the insured portfolio by asset class 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 excludes amounts attributable to loss mitigation securities (unless otherwise indicated) from par and principal and interest ("Debt Service") outstanding because it manages such securities as investments not insurance exposures.

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## Net Par Outstanding and Average Internal Rating by Sector

| Sector                                                  | As of June 30, 2015                          |             | As of December 31, 2014 |             |
|---------------------------------------------------------|----------------------------------------------|-------------|-------------------------|-------------|
|                                                         | Net Par Outstanding<br>(dollars in millions) | Avg. Rating | Net Par Outstanding     | Avg. Rating |
| Public finance:                                         |                                              |             |                         |             |
| U.S.:                                                   |                                              |             |                         |             |
| General obligation                                      | \$135,967                                    | A           | \$140,276               | A           |
| Tax backed                                              | 60,982                                       | A           | 62,525                  | A           |
| Municipal utilities                                     | 49,567                                       | A           | 52,090                  | A           |
| Transportation                                          | 26,070                                       | A           | 27,823                  | A           |
| Healthcare                                              | 15,886                                       | A           | 14,848                  | A           |
| Higher education                                        | 12,673                                       | A           | 13,099                  | A           |
| Infrastructure finance                                  | 4,312                                        | BBB         | 4,181                   | BBB         |
| Housing                                                 | 2,373                                        | A           | 2,779                   | A+          |
| Investor-owned utilities                                | 951                                          | A-          | 944                     | A-          |
| Other public finance—U.S.                               | 3,401                                        | A           | 3,558                   | A           |
| Total public finance—U.S.                               | 312,182                                      | A           | 322,123                 | A           |
| Non-U.S.:                                               |                                              |             |                         |             |
| Infrastructure finance                                  | 13,111                                       | BBB         | 12,808                  | BBB         |
| Regulated utilities                                     | 11,651                                       | BBB+        | 10,914                  | BBB+        |
| Pooled infrastructure                                   | 2,368                                        | AA          | 2,420                   | AA          |
| Other public finance                                    | 5,189                                        | A           | 5,217                   | A           |
| Total public finance—non-U.S.                           | 32,319                                       | BBB+        | 31,359                  | BBB+        |
| Total public finance                                    | 344,501                                      | A           | 353,482                 | A           |
| Structured finance:                                     |                                              |             |                         |             |
| U.S.:                                                   |                                              |             |                         |             |
| Pooled corporate obligations                            | 19,456                                       | AA+         | 20,646                  | AAA         |
| RMBS                                                    | 8,928                                        | BBB-        | 9,417                   | BBB-        |
| Insurance securitizations                               | 3,383                                        | A-          | 3,433                   | A-          |
| Consumer receivables                                    | 2,129                                        | A-          | 2,099                   | BBB+        |
| Financial products                                      | 2,014                                        | AA-         | 2,276                   | AA-         |
| CMBS and other commercial real estate related exposures | 1,749                                        | AA          | 1,957                   | AAA         |
| Commercial receivables                                  | 488                                          | BBB+        | 560                     | BBB+        |
| Structured credit                                       | 71                                           | BBB         | 69                      | BB          |
| Other structured finance—U.S.                           | 688                                          | AA          | 714                     | AA          |
| Total structured finance—U.S.                           | 38,906                                       | A+          | 41,171                  | AA-         |
| Non-U.S.:                                               |                                              |             |                         |             |
| Pooled corporate obligations                            | 4,638                                        | AA          | 6,604                   | AA+         |
| Commercial receivables                                  | 871                                          | BBB         | 944                     | BBB         |
| RMBS                                                    | 745                                          | A           | 794                     | A           |
| Structured credit                                       | 7                                            | BBB+        | 9                       | BBB+        |
| Other structured finance                                | 716                                          | AA          | 725                     | AA          |
| Total structured finance—non-U.S.                       | 6,977                                        | AA-         | 9,076                   | AA          |
| Total structured finance                                | 45,883                                       | AA-         | 50,247                  | AA-         |
| Total net par outstanding                               | \$390,384                                    | A           | \$403,729               | A           |



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The following tables set forth the Company's net financial guaranty portfolio by internal rating.

## Financial Guaranty Portfolio by Internal Rating (2)

As of June 30, 2015

| Rating<br>Category                     | Public Finance<br>U.S. |       |   | Public Finance<br>Non-U.S. |       |   | Structured Finance<br>U.S |       |   | Structured Finance<br>Non-U.S |       |   | Total                  |       |   |
|----------------------------------------|------------------------|-------|---|----------------------------|-------|---|---------------------------|-------|---|-------------------------------|-------|---|------------------------|-------|---|
|                                        | Net Par<br>Outstanding |       |   | Net Par<br>Outstanding     |       |   | Net Par<br>Outstanding    |       |   | Net Par<br>Outstanding        |       |   | Net Par<br>Outstanding |       |   |
|                                        | %                      |       |   | %                          |       |   | %                         |       |   | %                             |       |   | %                      |       |   |
|                                        | (dollars in millions)  |       |   |                            |       |   |                           |       |   |                               |       |   |                        |       |   |
| AAA                                    | \$3,280                | 1.1   | % | \$695                      | 2.1   | % | \$17,619                  | 45.3  | % | \$3,715                       | 53.2  | % | \$25,309               | 6.5   | % |
| AA                                     | 80,550                 | 25.8  |   | 2,735                      | 8.5   |   | 8,628                     | 22.2  |   | 395                           | 5.7   |   | 92,308                 | 23.6  |   |
| A                                      | 171,633                | 55.0  |   | 7,627                      | 23.6  |   | 2,684                     | 6.9   |   | 378                           | 5.4   |   | 182,322                | 46.7  |   |
| BBB                                    | 46,822                 | 15.0  |   | 19,651                     | 60.8  |   | 1,797                     | 4.6   |   | 1,771                         | 25.4  |   | 70,041                 | 17.9  |   |
| BIG                                    | 9,897                  | 3.1   |   | 1,611                      | 5.0   |   | 8,178                     | 21.0  |   | 718                           | 10.3  |   | 20,404                 | 5.3   |   |
| Total net<br>par<br>outstanding<br>(1) | \$312,182              | 100.0 | % | \$32,319                   | 100.0 | % | \$38,906                  | 100.0 | % | \$6,977                       | 100.0 | % | \$390,384              | 100.0 | % |

(1) Excludes 1.2 billion of loss mitigation securities insured and held by the Company as of June 30, 2015, which are primarily in the BIG category.

(2) The June 30, 2015 amounts include 13.1 billion of net par acquired from Radian Asset.

## Financial Guaranty Portfolio by Internal Rating

As of December 31, 2014

| Rating<br>Category                     | Public Finance<br>U.S.   |       |   | Public Finance<br>Non-U.S. |       |   | Structured Finance<br>U.S |       |   | Structured Finance<br>Non-U.S |       |   | Total                    |       |   |
|----------------------------------------|--------------------------|-------|---|----------------------------|-------|---|---------------------------|-------|---|-------------------------------|-------|---|--------------------------|-------|---|
|                                        | Net Par<br>Outstanding % |       |   | Net Par<br>Outstanding %   |       |   | Net Par<br>Outstanding %  |       |   | Net Par<br>Outstanding %      |       |   | Net Par<br>Outstanding % |       |   |
|                                        | (dollars in millions)    |       |   |                            |       |   |                           |       |   |                               |       |   |                          |       |   |
| AAA                                    | \$4,082                  | 1.3   | % | \$615                      | 2.0   | % | \$20,037                  | 48.7  | % | \$5,409                       | 59.6  | % | \$30,143                 | 7.5   | % |
| AA                                     | 90,464                   | 28.1  |   | 2,785                      | 8.9   |   | 8,213                     | 19.9  |   | 503                           | 5.5   |   | 101,965                  | 25.3  |   |
| A                                      | 176,298                  | 54.7  |   | 7,192                      | 22.9  |   | 2,940                     | 7.1   |   | 445                           | 4.9   |   | 186,875                  | 46.3  |   |
| BBB                                    | 43,429                   | 13.5  |   | 19,363                     | 61.7  |   | 1,795                     | 4.4   |   | 1,912                         | 21.1  |   | 66,499                   | 16.4  |   |
| BIG                                    | 7,850                    | 2.4   |   | 1,404                      | 4.5   |   | 8,186                     | 19.9  |   | 807                           | 8.9   |   | 18,247                   | 4.5   |   |
| Total net<br>par<br>outstanding<br>(1) | \$322,123                | 100.0 | % | \$31,359                   | 100.0 | % | \$41,171                  | 100.0 | % | \$9,076                       | 100.0 | % | \$403,729                | 100.0 | % |

(1) Excludes 1.3 billion of loss mitigation securities insured and held by the Company as of December 31, 2014, which are primarily in the BIG category.

Exposure to Puerto Rico

The Company insures general obligation bonds of the Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations aggregating \$5.4 billion net par as of June 30, 2015, all of which are rated BIG. In Second Quarter 2015, the Company's Puerto Rico exposures increased due to (1) the Radian Asset Acquisition, which increased net par by \$422 million, and (2) a commutation of previously ceded Puerto Rico exposures.

Puerto Rico has experienced significant general fund budget deficits in recent years. These deficits have been covered primarily with the net proceeds of bond issuances, interim financings provided by Government Development Bank for Puerto Rico ("GDB") and, in some cases, one-time revenue measures or expense adjustment measures. In addition to high debt levels, Puerto Rico faces a challenging economic environment.

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In June 2014, the Puerto Rico legislature passed the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Recovery Act") in order to provide a legislative framework for certain public corporations experiencing severe financial stress to restructure their debt, including Puerto Rico Highway and Transportation Authority ("PRHTA") and PREPA. Subsequently, the Commonwealth stated PREPA might need to seek relief under the Recovery Act due to liquidity constraints. Investors in bonds issued by PREPA filed suit in the United States District Court for the District of Puerto Rico challenging the Recovery Act. On February 6, 2015, the U.S. District Court for the District of Puerto Rico ruled the Recovery Act is preempted by the U.S. Bankruptcy Code and is therefore void; on July 6, 2015, the U.S. Court of Appeals for the First Circuit upheld that ruling. In addition, the Commonwealth's Resident Commissioner has introduced a bill to the U.S. Congress that, if passed, would enable the Commonwealth to authorize one or more of its public corporations to restructure their debts under chapter 9 of the U.S. Bankruptcy Code if they were to become insolvent. The passage of the Recovery Act, its subsequent invalidation, and the introduction of legislation that would enable the Commonwealth to authorize chapter 9 protection for its public corporations have resulted in uncertainty among investors about the rights of creditors of the Commonwealth and its related authorities and public corporations.

On June 28, 2015, Governor García Padilla of Puerto Rico publicly stated that the Commonwealth's public debt, considering the current level of activity, is unpayable and that a comprehensive debt restructuring may be necessary. On June 29, 2015 a report commissioned by the Commonwealth and authored by former World Bank Chief Economist and former Deputy Director of the International Monetary Fund Dr. Anne Krueger and economists Dr. Ranjit Teja and Dr. Andrew Wolfe and calling for debt restructuring of all Puerto Rico bonds was released ("Krueger Report"). The Governor recently formed a task force to prepare a five-year stability plan and start broad debt negotiation discussions.

On August 3, 2015, Puerto Rico Public Finance Corporation ("PFC"), a subsidiary of the GDB, failed to make most of an approximately \$58 million debt service payment because the Commonwealth's legislature did not appropriate funds for payment. The Company does not insure any obligations of the PFC. Also on August 3, 2015, the Commonwealth announced that it had temporarily suspended its monthly deposits to the general obligation redemption fund.

Standard & Poor's Ratings Services ("S&P"), Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings have lowered the credit rating of the Commonwealth's bonds and on certain of its public corporations several times over the past approximately two years, and the Commonwealth has disclosed its liquidity has been adversely affected by rating agency downgrades and by the limited market access for its debt, and also noted it has relied on short-term financings and interim loans from the GDB and other private lenders, which reliance has constrained its liquidity and increased its near-term refinancing risk.

## PREPA

As of June 30, 2015, the Company insured \$818 million net par of PREPA obligations, which was reduced to \$744 million by a payment made on July 1, 2015. In August 2014, PREPA entered into forbearance agreements with the GDB, its bank lenders, and bondholders and financial guaranty insurers (including AGM and AGC) that hold or guarantee more than 60% of PREPA's outstanding bonds, in order to address its near-term liquidity issues. Creditors, including AGM and AGC, agreed not to exercise available rights and remedies until March 31, 2015, and the bank lenders agreed to extend the maturity of two revolving lines of credit to the same date. PREPA agreed it would continue to make principal and interest payments on its outstanding bonds, and interest payments on its lines of credit. It also agreed it would develop a five year business plan and a recovery program in respect of its operations; a preliminary business plan was released in December 2014. Subsequently, the parties extended these forbearance agreements several times, and they now expire on September 15, 2015.

On July 1, 2015, PREPA made full payment of the \$416 million of principal and interest due on its bonds, including bonds insured by AGM and AGC. However, that payment was conditioned on and facilitated by AGM and AGC agreeing, also on July 1, to purchase a portion of \$131 million of interest-bearing bonds to help replenish certain of the operating funds PREPA used to make the \$416 million of principal and interest payments. On July 31, 2015, AGM and AGC purchased \$74 million aggregate principal amount of those bonds.

PREPA and its creditors (including AGM and AGC) continue to negotiate the terms of a potential consensual recovery plan. Since the expiration of relevant confidentiality agreements on July 22, 2015, several competing proposals have been made public. There can be no assurance that the negotiations will result in agreement on an actual consensual recovery plan. PREPA, during the pendency of the forbearance agreements, has suspended deposits into its debt service fund.

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PRHTA

As of June 30, 2015, the Company insured \$934 million net par of PRHTA (Transportation revenue) bonds and \$376 million net par of PRHTA (Highway revenue) bonds. In March 2015, legislation was passed in the Commonwealth that, among other things, provided for an increase in oil taxes that would benefit PRHTA, the transfer out of PRHTA of certain deficit-producing transit facilities, and a statutory lien on revenues at PRHTA, subject to certain conditions, including the issuance of at least \$1.0 billion of bonds by the Puerto Rico Infrastructure Finance Authority ("PRIFA"). That legislative package would have supported proposals involving the GDB and PRIFA that contemplated PRIFA issuing up to \$2.95 billion of bonds and a series of potential actions that would have, among other things, strengthened PRHTA. However, the Governor's statement in late June 2015 that a comprehensive debt restructuring may be necessary has created uncertainty around this effort, and published reports suggest that there may not be a market for the debt issuance by PRIFA that was contemplated as part of a series of actions that would have strengthened PRHTA. In addition, because certain revenues supporting PRHTA are subject to a prior constitutional claim of the Commonwealth, the increased financial difficulties of the Commonwealth itself has increased the uncertainty regarding the full and timely receipt by PRHTA of such revenues.

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Net Exposure to Puerto Rico  
As of June 30, 2015

|                                                              | Net Par Outstanding |              |              |              | Total Net   |             |          |
|--------------------------------------------------------------|---------------------|--------------|--------------|--------------|-------------|-------------|----------|
|                                                              | AGM                 | AGC          | AG Re (1)    | Eliminations | Par         | Gross Par   | Internal |
|                                                              | Consolidated        | Consolidated | Consolidated | (2)          | Outstanding | Outstanding | Rating   |
|                                                              | (in millions)       |              |              |              | (4) (5)     |             |          |
| Exposures Previously Subject to the Voided Recovery Act(3):  |                     |              |              |              |             |             |          |
| PRHTA (Transportation revenue)                               | \$ 303              | \$ 482       | \$ 229       | \$ (80       | ) \$ 934    | \$ 961      | CCC-     |
| PREPA                                                        | 488                 | 74           | 256          | —            | 818         | 1,015       | CC       |
| Puerto Rico Aqueduct and Sewer Authority                     | —                   | 307          | 96           | —            | 403         | 403         | CCC      |
| PRHTA (Highway revenue)                                      | 221                 | 103          | 52           | —            | 376         | 582         | CCC      |
| Puerto Rico Convention Center District Authority             | —                   | 87           | 87           | —            | 174         | 174         | CCC-     |
| Total                                                        | 1,012               | 1,053        | 720          | (80          | ) 2,705     | 3,135       |          |
| Exposures Not Previously Subject to the Voided Recovery Act: |                     |              |              |              |             |             |          |
| Commonwealth of Puerto Rico - General Obligation Bonds       | 754                 | 484          | 506          | —            | 1,744       | 1,889       | CCC      |
| Puerto Rico Municipal Finance Agency                         | 237                 | 75           | 132          | —            | 444         | 656         | CCC-     |
| Puerto Rico Sales Tax Financing Corporation                  | 261                 | —            | 8            | —            | 269         | 269         | CCC+     |
| Puerto Rico Public Buildings Authority                       | 18                  | 157          | 41           | —            | 216         | 221         | CCC      |
| GDB                                                          | —                   | 33           | —            | —            | 33          | 33          | CCC      |
| PRIFA                                                        | —                   | 10           | 8            | —            | 18          | 18          | CCC-     |
| University of Puerto Rico                                    | —                   | 1            | —            | —            | 1           | 1           | CCC-     |
| Total                                                        | 1,270               | 760          | 695          | —            | 2,725       | 3,087       |          |
| Total net exposure to Puerto Rico                            | \$ 2,282            | \$ 1,813     | \$ 1,415     | \$ (80       | ) \$ 5,430  | \$ 6,222    |          |

(1) Assured Guaranty Re Ltd.

(2) 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.

On February 6, 2015, the U.S. District Court for the District of Puerto Rico ruled that the Recovery Act is preempted by the U.S. Bankruptcy Code and is therefore void, and on July 6, 2015, the U.S. Court of Appeals for the First Circuit upheld that ruling.

In Second Quarter 2015, the Company's Puerto Rico exposures increased due to (1) the Radian Asset acquisition, (4) which increased net par outstanding by \$422 million, of which \$22 million was for PREPA and \$169 million for PRHTA, and (2) a commutation of previously ceded Puerto Rico exposures.

- (5) In July 2015, various Puerto Rico issuers made payment on \$293 million of par scheduled to be paid; of that amount, \$74 million and \$31 million of par was paid by PREPA and PRHTA, respectively.

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The following table shows 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.

## Amortization Schedule

of Net Par Outstanding of Puerto Rico

As of June 30, 2015

|                                                                                                                                                                                              | Scheduled Net Par Amortization |              |      |      |      |      |      |      |      |      |      |               |               |               |               |               | Total |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|--------------|------|------|------|------|------|------|------|------|------|---------------|---------------|---------------|---------------|---------------|-------|
|                                                                                                                                                                                              | 2015<br>(3Q)                   | 2015<br>(4Q) | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025<br>-2029 | 2030<br>-2034 | 2035<br>-2039 | 2040<br>-2044 | 2045<br>-2047 |       |
|                                                                                                                                                                                              | (in millions)                  |              |      |      |      |      |      |      |      |      |      |               |               |               |               |               |       |
| Exposures<br>Previously<br>Subject to the<br>Voided<br>Recovery Act:<br>PRHTA<br>(Transportation<br>revenue)                                                                                 | \$25                           | \$0          | \$32 | \$36 | \$42 | \$28 | \$23 | \$18 | \$19 | \$21 | \$1  | \$148         | \$166         | \$293         | \$82          | \$—           | \$934 |
| PREPA                                                                                                                                                                                        | 75                             | 0            | 20   | 5    | 4    | 25   | 42   | 22   | 22   | 81   | 78   | 319           | 121           | 4             | —             | —             | 818   |
| Puerto Rico<br>Aqueduct and<br>Sewer<br>Authority<br>PRHTA<br>(Highway<br>revenue)                                                                                                           | 14                             | —            | 15   | —    | —    | —    | —    | —    | —    | —    | 2    | 109           | —             | 2             | 15            | 246           | 403   |
| Puerto Rico<br>Convention<br>Center District<br>Authority                                                                                                                                    | 6                              | —            | 20   | 10   | 10   | 21   | 22   | 26   | 6    | 8    | 8    | 24            | 142           | 73            | —             | —             | 376   |
| Total                                                                                                                                                                                        | 11                             | —            | 11   | —    | —    | —    | —    | —    | —    | —    | —    | 19            | 76            | 57            | —             | —             | 174   |
|                                                                                                                                                                                              | 131                            | 0            | 98   | 51   | 56   | 74   | 87   | 66   | 47   | 110  | 89   | 619           | 505           | 429           | 97            | 246           | 2,705 |
| Exposures Not<br>Previously<br>Subject to the<br>Voided<br>Recovery Act:<br>Commonwealth<br>of Puerto Rico -<br>General<br>Obligation<br>Bonds<br>Puerto Rico<br>Municipal<br>Finance Agency | 124                            | 0            | 142  | 95   | 75   | 82   | 137  | 16   | 37   | 15   | 73   | 286           | 397           | 265           | —             | —             | 1,744 |
|                                                                                                                                                                                              | 57                             | —            | 55   | 47   | 47   | 44   | 37   | 33   | 33   | 16   | 12   | 59            | 4             | —             | —             | —             | 444   |
|                                                                                                                                                                                              | (1)                            | 0            | (1)  | (1)  | (1)  | (1)  | (1)  | (2)  | (2)  | 1    | 0    | (10)          | 34            | (1)           | 255           | —             | 269   |

|                   |       |      |       |       |       |       |       |       |       |       |       |         |       |       |       |       |         |
|-------------------|-------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------|-------|-------|-------|-------|---------|
| Puerto Rico       |       |      |       |       |       |       |       |       |       |       |       |         |       |       |       |       |         |
| Sales Tax         |       |      |       |       |       |       |       |       |       |       |       |         |       |       |       |       |         |
| Financing         |       |      |       |       |       |       |       |       |       |       |       |         |       |       |       |       |         |
| Corporation       |       |      |       |       |       |       |       |       |       |       |       |         |       |       |       |       |         |
| Puerto Rico       |       |      |       |       |       |       |       |       |       |       |       |         |       |       |       |       |         |
| Public            |       |      |       |       |       |       |       |       |       |       |       |         |       |       |       |       |         |
| Buildings         | 27    | —    | 8     | 30    | —     | 5     | 10    | 13    | 0     | 7     | 0     | 60      | 39    | 17    | —     | —     | 216     |
| Authority         |       |      |       |       |       |       |       |       |       |       |       |         |       |       |       |       |         |
| GDB               | —     | 33   | —     | —     | —     | —     | —     | —     | —     | —     | —     | —       | —     | —     | —     | —     | 33      |
| PRIFA             | —     | —    | —     | —     | 2     | —     | —     | —     | —     | 2     | —     | —       | —     | 2     | 12    | —     | 18      |
| University of     |       |      |       |       |       |       |       |       |       |       |       |         |       |       |       |       |         |
| Puerto Rico       | 0     | —    | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0       | 1     | —     | —     | —     | 1       |
| Total             | 207   | 33   | 204   | 171   | 123   | 130   | 183   | 60    | 68    | 41    | 85    | 395     | 475   | 283   | 267   | —     | 2,725   |
| Total net par for |       |      |       |       |       |       |       |       |       |       |       |         |       |       |       |       |         |
| Puerto Rico       | \$338 | \$33 | \$302 | \$222 | \$179 | \$204 | \$270 | \$126 | \$115 | \$151 | \$174 | \$1,014 | \$980 | \$712 | \$364 | \$246 | \$5,430 |

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Amortization Schedule  
of Net Debt Service Outstanding of Puerto Rico  
As of June 30, 2015

|                                                                                                                                                | Scheduled Net Debt Service Amortization |              |      |      |      |      |      |      |      |      |      |               |               |               |               |               |         | Total |
|------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|--------------|------|------|------|------|------|------|------|------|------|---------------|---------------|---------------|---------------|---------------|---------|-------|
|                                                                                                                                                | 2015<br>(3Q)                            | 2015<br>(4Q) | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025<br>-2029 | 2030<br>-2034 | 2035<br>-2039 | 2040<br>-2044 | 2045<br>-2047 |         |       |
| (in millions)                                                                                                                                  |                                         |              |      |      |      |      |      |      |      |      |      |               |               |               |               |               |         |       |
| Exposures<br>Previously<br>Subject to the<br>Voided<br>Recovery Act:<br>PRHTA<br>(Transportation<br>revenue)                                   | \$49                                    | \$—          | \$80 | \$82 | \$86 | \$69 | \$63 | \$57 | \$57 | \$58 | \$37 | \$314         | \$294         | \$354         | \$89          | \$—           | \$1,689 |       |
| PREPA                                                                                                                                          | 92                                      | 2            | 55   | 38   | 37   | 58   | 74   | 52   | 50   | 109  | 102  | 389           | 136           | 5             | —             | —             | 1,199   |       |
| Puerto Rico<br>Aqueduct and<br>Sewer<br>Authority<br>PRHTA<br>(Highway<br>revenue)                                                             | 25                                      | —            | 35   | 19   | 19   | 19   | 19   | 19   | 19   | 19   | 21   | 191           | 68            | 70            | 82            | 272           | 897     |       |
| Puerto Rico<br>Convention<br>Center District<br>Authority                                                                                      | 17                                      | —            | 40   | 29   | 29   | 39   | 39   | 42   | 20   | 21   | 20   | 86            | 186           | 78            | —             | —             | 646     |       |
| Total                                                                                                                                          | 15                                      | —            | 19   | 7    | 7    | 7    | 7    | 7    | 7    | 7    | 7    | 52            | 103           | 60            | —             | —             | 305     |       |
| Total                                                                                                                                          | 198                                     | 2            | 229  | 175  | 178  | 192  | 202  | 177  | 153  | 214  | 187  | 1,032         | 787           | 567           | 171           | 272           | 4,736   |       |
|                                                                                                                                                |                                         |              |      |      |      |      |      |      |      |      |      |               |               |               |               |               |         |       |
| Exposures Not<br>Previously<br>Subject to the<br>Voided<br>Recovery Act:<br>Commonwealth<br>of Puerto Rico -<br>General<br>Obligation<br>Bonds | 168                                     | 1            | 226  | 172  | 146  | 150  | 201  | 73   | 93   | 69   | 127  | 506           | 547           | 295           | —             | —             | 2,774   |       |
| Puerto Rico<br>Municipal<br>Finance Agency                                                                                                     | 68                                      | —            | 74   | 64   | 62   | 56   | 47   | 40   | 39   | 21   | 16   | 68            | 4             | —             | —             | —             | 559     |       |
| Puerto Rico<br>Sales Tax<br>Financing<br>Corporation                                                                                           | 6                                       | —            | 13   | 13   | 13   | 13   | 13   | 13   | 13   | 16   | 15   | 64            | 107           | 64            | 283           | —             | 646     |       |
| Puerto Rico<br>Public                                                                                                                          | 33                                      | —            | 18   | 39   | 8    | 12   | 18   | 20   | 6    | 14   | 6    | 82            | 50            | 18            | —             | —             | 324     |       |

|                |       |      |       |       |       |       |       |       |       |       |       |         |         |       |       |       |         |
|----------------|-------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------|---------|-------|-------|-------|---------|
| Buildings      |       |      |       |       |       |       |       |       |       |       |       |         |         |       |       |       |         |
| Authority      |       |      |       |       |       |       |       |       |       |       |       |         |         |       |       |       |         |
| GDB            | 1     | 34   | —     | —     | —     | —     | —     | —     | —     | —     | —     | —       | —       | —     | —     | —     | 35      |
| PRIFA          | 0     | —    | 1     | 1     | 3     | 1     | 1     | 1     | 1     | 3     | 1     | 3       | 3       | 5     | 13    | —     | 37      |
| University of  |       |      |       |       |       |       |       |       |       |       |       |         |         |       |       |       |         |
| Puerto Rico    | 0     | 0    | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0     | 0       | 1       | —     | —     | —     | 1       |
| Total          | 276   | 35   | 332   | 289   | 232   | 232   | 280   | 147   | 152   | 123   | 165   | 723     | 712     | 382   | 296   | —     | 4,376   |
| Total net debt |       |      |       |       |       |       |       |       |       |       |       |         |         |       |       |       |         |
| service for    | \$474 | \$37 | \$561 | \$464 | \$410 | \$424 | \$482 | \$324 | \$305 | \$337 | \$352 | \$1,755 | \$1,499 | \$949 | \$467 | \$272 | \$9,112 |
| Puerto Rico    |       |      |       |       |       |       |       |       |       |       |       |         |         |       |       |       |         |

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## Exposure to Residential Mortgage-Backed Securities

The tables below provide information on the risk ratings and certain other risk characteristics of the Company's financial guaranty insurance and credit derivative RMBS exposures as of June 30, 2015. U.S. RMBS exposures represent 2% of the total net par outstanding, and BIG U.S. RMBS represent 26% of total BIG net par outstanding. See Note 6, Expected Loss to be Paid, of the Financial Statements, for a discussion of expected losses to be paid on U.S. RMBS exposures.

## Distribution of U.S. RMBS by Rating and Type of Exposure as of June 30, 2015

| Ratings:        | Prime First Lien      | Closed-End Second Lien | Home Equity Lines of Credit | Alt-A First Lien | Option ARMs | Subprime First Lien | Total Net Par Outstanding |
|-----------------|-----------------------|------------------------|-----------------------------|------------------|-------------|---------------------|---------------------------|
|                 | (dollars in millions) |                        |                             |                  |             |                     |                           |
| AAA             | \$10                  | \$—                    | \$0                         | \$294            | \$47        | \$1,409             | \$1,760                   |
| AA              | 108                   | 77                     | 51                          | 341              | 108         | 805                 | 1,491                     |
| A               | 6                     | 0                      | —                           | —                | 18          | 39                  | 64                        |
| BBB             | 38                    | —                      | 57                          | 13               | 4           | 109                 | 221                       |
| BIG             | 336                   | 131                    | 1,459                       | 1,750            | 160         | 1,557               | 5,393                     |
| Total exposures | \$498                 | \$208                  | \$1,567                     | \$2,397          | \$338       | \$3,919             | \$8,928                   |

## Distribution of U.S. RMBS by Year Insured and Type of Exposure as of June 30, 2015

| Year insured:   | Prime First Lien | Closed End Second Lien | Home Equity Lines of Credit | Alt-A First Lien | Option ARM | Subprime First Lien | Total Net Par Outstanding |
|-----------------|------------------|------------------------|-----------------------------|------------------|------------|---------------------|---------------------------|
|                 | (in millions)    |                        |                             |                  |            |                     |                           |
| 2004 and prior  | \$64             | \$0                    | \$132                       | \$62             | \$19       | \$1,122             | \$1,400                   |
| 2005            | 143              | —                      | 396                         | 491              | 39         | 189                 | 1,258                     |
| 2006            | 92               | 52                     | 459                         | 275              | 43         | 842                 | 1,762                     |
| 2007            | 199              | 156                    | 581                         | 1,189            | 201        | 1,697               | 4,023                     |
| 2008            | —                | —                      | —                           | 379              | 36         | 70                  | 485                       |
| Total exposures | \$498            | \$208                  | \$1,567                     | \$2,397          | \$338      | \$3,919             | \$8,928                   |

## Exposures by Reinsurer

Ceded par outstanding represents the portion of insured risk ceded to other reinsurers. Under these relationships, the Company cedes a portion of its insured risk in exchange for a premium paid to the reinsurer. 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. A number of the financial guaranty insurers to which the Company has ceded par have experienced financial distress and as a result have been downgraded by the rating agencies. In addition, state insurance regulators have intervened with respect to some of these insurers.

Assumed par outstanding represents the amount of par assumed by the Company from other monolines. 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.

In addition to assumed and ceded reinsurance arrangements, the Company may also have exposure to financial guaranty insurers in "second-to-pay" transactions, where the Company provides insurance on an obligation that is already insured by another financial guarantor. In that case, if the underlying obligor and the financial guarantor both fail to pay an amount scheduled to be paid, the Company would be obligated to pay. The Company underwrites these transactions based on

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the underlying obligation, without regard to the financial obligor. See Note 14, Reinsurance and Other Monoline Exposures, of the Financial Statements

## Exposure by Reinsurer

| Reinsurer                                                    | Ratings at<br>August 5, 2015   |                            | Par Outstanding (1)<br>As of June 30, 2015 |                                                 |                            |
|--------------------------------------------------------------|--------------------------------|----------------------------|--------------------------------------------|-------------------------------------------------|----------------------------|
|                                                              | Moody's<br>Reinsurer<br>Rating | S&P<br>Reinsurer<br>Rating | Ceded Par<br>Outstanding                   | Second-to-<br>Pay Insured<br>Par<br>Outstanding | Assumed Par<br>Outstanding |
| (dollars in millions)                                        |                                |                            |                                            |                                                 |                            |
| American Overseas Reinsurance Company Limited (f/k/a Ram Re) | WR (2)                         | WR                         | \$6,006                                    | \$—                                             | \$30                       |
| Tokio Marine & Nichido Fire Insurance Co., Ltd.              | Aa3 (3)                        | AA- (3)                    | 4,768                                      | —                                               | —                          |
| Syncora Guarantee Inc.                                       | WR                             | WR                         | 3,671                                      | 1,612                                           | 160                        |
| Mitsui Sumitomo Insurance Co. Ltd.                           | A1                             | A+ (3)                     | 1,927                                      | —                                               | —                          |
| ACA Financial Guaranty Corp.                                 | NR (4)                         | WR                         | 745                                        | 19                                              | —                          |
| Ambac Assurance Corporation                                  | WR                             | WR                         | 117                                        | 4,725                                           | 12,320                     |
| Swiss Reinsurance Co.                                        | Aa3                            | AA-                        | 25                                         | —                                               | —                          |
| National Public Finance Guarantee Corporation (5)            | A3                             | AA-                        | —                                          | 5,680                                           | 5,391                      |
| MBIA                                                         | (6)                            | (6)                        | —                                          | 2,704                                           | 469                        |
| Financial Guaranty Insurance Co.                             | WR                             | WR                         | —                                          | 1,797                                           | 690                        |
| Ambac Assurance Corp. Segregated Account                     | NR                             | NR                         | —                                          | 100                                             | 903                        |
| CIFG Assurance North America Inc.                            | WR                             | WR                         | —                                          | 102                                             | 3,914                      |
| Other                                                        | Various                        | Various                    | 196                                        | 853                                             | 138                        |
| Total                                                        |                                |                            | \$17,455                                   | \$17,592                                        | \$24,015                   |

(1) Includes par related to insured credit derivatives.

(2) Represents “Withdrawn Rating.”

(3) The Company benefits from trust arrangements that satisfy the triple-A credit requirement of S&P and/or Moody's.

(4) Represents “Not Rated.”

(5) National Public Finance Guarantee Corporation is rated AA+ by Kroll Bond Rating Agency.

(6) MBIA includes subsidiaries MBIA Insurance Corp. rated B by S&P and B2 by Moody's and MBIA U.K. Insurance Ltd. rated B by S&P and Ba2 by Moody's.

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## Ceded Par Outstanding by Reinsurer and Credit Rating

As of June 30, 2015

| Reinsurer                                                    | Internal Credit Rating |         |         |         |         | Total    |
|--------------------------------------------------------------|------------------------|---------|---------|---------|---------|----------|
|                                                              | AAA                    | AA      | A       | BBB     | BIG     |          |
|                                                              | (in millions)          |         |         |         |         |          |
| American Overseas Reinsurance Company Limited (f/k/a Ram Re) | \$520                  | \$2,069 | \$1,862 | \$1,069 | \$486   | \$6,006  |
| Tokio Marine & Nichido Fire Insurance Co., Ltd.              | 659                    | 719     | 1,449   | 1,190   | 751     | 4,768    |
| Syncora Guarantee Inc.                                       | —                      | 276     | 481     | 2,173   | 741     | 3,671    |
| Mitsui Sumitomo Insurance Co. Ltd.                           | 132                    | 585     | 730     | 292     | 188     | 1,927    |
| ACA Financial Guaranty Corp.                                 | —                      | 457     | 277     | 11      | —       | 745      |
| Swiss Reinsurance Co.                                        | —                      | —       | 0       | 25      | —       | 25       |
| Ambac Assurance Corporation                                  | —                      | —       | 117     | —       | —       | 117      |
| Other                                                        | 53                     | 76      | 56      | 11      | —       | 196      |
| Total                                                        | \$1,364                | \$4,182 | \$4,972 | \$4,771 | \$2,166 | \$17,455 |

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. All of the unauthorized reinsurers in the table above 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 in the table above post collateral on terms negotiated with the Company. Collateral may be in the form of letters of credit or trust accounts. The total collateral posted by all non-affiliated reinsurers as of June 30, 2015 is approximately \$445 million.

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## Second-to-Pay

## Insured Par Outstanding by Internal Rating

As of June 30, 2015(1)

|                                                        | Public Finance |         |         |         |       | Structured Finance |         |       |       |       |          |
|--------------------------------------------------------|----------------|---------|---------|---------|-------|--------------------|---------|-------|-------|-------|----------|
|                                                        | AAA            | AA      | A       | BBB     | BIG   | AAA                | AA      | A     | BBB   | BIG   | Total    |
|                                                        | (in millions)  |         |         |         |       |                    |         |       |       |       |          |
| Syncora<br>Guarantee Inc.                              | \$—            | \$45    | \$326   | \$767   | \$350 | \$80               | \$—     | \$—   | \$—   | \$44  | \$1,612  |
| ACA Financial<br>Guaranty Corp.                        | —              | —       | —       | 1       | 18    | —                  | —       | —     | —     | —     | 19       |
| Ambac<br>Assurance<br>Corporation                      | 10             | 1,285   | 2,243   | 845     | 54    | 1                  | —       | 60    | 219   | 8     | 4,725    |
| National<br>Public Finance<br>Guarantee<br>Corporation | 70             | 1,966   | 3,620   | —       | —     | —                  | —       | 24    | —     | —     | 5,680    |
| MBIA<br>Financial<br>Guaranty<br>Insurance Co.         | —              | 65      | 270     | 431     | —     | —                  | 1,200   | 19    | 239   | 480   | 2,704    |
| Ambac<br>Assurance<br>Corp.                            | —              | 77      | 874     | 271     | 338   | 177                | —       | 22    | —     | 38    | 1,797    |
| Segregated<br>Account<br>CIFG                          | —              | —       | —       | —       | —     | —                  | 28      | —     | —     | 72    | 100      |
| Assurance<br>North America<br>Inc.                     | —              | 4       | 51      | 22      | 25    | —                  | —       | —     | —     | —     | 102      |
| Other                                                  | —              | 853     | —       | —       | —     | —                  | —       | —     | —     | —     | 853      |
| Total                                                  | \$80           | \$4,295 | \$7,384 | \$2,337 | \$785 | \$258              | \$1,228 | \$125 | \$458 | \$642 | \$17,592 |

(1) Assured Guaranty's internal rating.

## Selected European Exposure

Several European countries have experienced significant economic, fiscal and / or political strains such that the likelihood of default on obligations with a nexus to those countries may be higher than the Company anticipated when such factors did not exist. The Company has identified those European countries where it has exposure and where it believes heightened uncertainties exist to be: Hungary, Italy, Portugal and Spain (the "Selected European Countries"). The Company selected these European countries based on its view that their credit fundamentals have weakened as a result of the global financial crisis, as well as on published reports identifying countries that may be experiencing reduced demand for their sovereign debt in the current environment. The Company has in the past included Greece on the list, but the Company no longer has any meaningful exposure to Greece.



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## Direct Economic Exposure to the Selected European Countries

The Company's direct economic exposure to the Selected European Countries (based on par for financial guaranty contracts and notional amount for financial guaranty contracts accounted for as derivatives) is shown in the following tables, both gross and net of ceded reinsurance:

Gross Direct Economic Exposure  
to Selected European Countries(1)  
As of June 30, 2015

|                                            | Hungary<br>(in millions) | Italy   | Portugal | Spain | Total   |
|--------------------------------------------|--------------------------|---------|----------|-------|---------|
| Sovereign and sub-sovereign exposure:      |                          |         |          |       |         |
| Non-infrastructure public finance (2)      | \$—                      | \$1,066 | \$97     | \$352 | \$1,515 |
| Infrastructure finance                     | 294                      | 11      | 11       | 127   | 443     |
| Total sovereign and sub-sovereign exposure | 294                      | 1,077   | 108      | 479   | 1,958   |
| Non-sovereign exposure:                    |                          |         |          |       |         |
| Regulated utilities                        | —                        | 241     | —        | —     | 241     |
| RMBS and other structured finance          | 181                      | 292     | —        | 13    | 486     |
| Total non-sovereign exposure               | 181                      | 533     | —        | 13    | 727     |
| Total                                      | \$475                    | \$1,610 | \$108    | \$492 | \$2,685 |
| Total BIG                                  | \$403                    | \$—     | \$108    | \$492 | \$1,003 |

Net Direct Economic Exposure  
to Selected European Countries(1)  
As of June 30, 2015

|                                            | Hungary<br>(in millions) | Italy   | Portugal | Spain | Total   |
|--------------------------------------------|--------------------------|---------|----------|-------|---------|
| Sovereign and sub-sovereign exposure:      |                          |         |          |       |         |
| Non-infrastructure public finance (2)      | \$—                      | \$813   | \$90     | \$257 | \$1,160 |
| Infrastructure finance                     | 291                      | 11      | 11       | 126   | 439     |
| Total sovereign and sub-sovereign exposure | 291                      | 824     | 101      | 383   | 1,599   |
| Non-sovereign exposure:                    |                          |         |          |       |         |
| Regulated utilities                        | —                        | 226     | —        | —     | 226     |
| RMBS and other structured finance          | 175                      | 256     | —        | 13    | 444     |
| Total non-sovereign exposure               | 175                      | 482     | —        | 13    | 670     |
| Total                                      | \$466                    | \$1,306 | \$101    | \$396 | \$2,269 |
| Total BIG (See Note 6)                     | \$397                    | \$—     | \$101    | \$396 | \$894   |

While the Company's exposures are shown in U.S. dollars, the obligations the Company insures are in various currencies, primarily Euros. One of the residential mortgage-backed securities included in the table above includes residential mortgages in both Italy and Germany, and only the portion of the transaction equal to the portion of the original mortgage pool in Italian mortgages is shown in the tables.

(2) The exposure shown in the "Non-infrastructure public finance" category is from transactions backed by receivable payments from sub-sovereigns in Italy, Spain and Portugal.



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The tables above include the par amount of financial guaranty contracts accounted for as derivatives of \$113 million with a fair value of \$4 million, net of reinsurance. The Company's credit derivative transactions are governed by International Swaps and Derivatives Association, Inc. ("ISDA") documentation, and the Company is required to make a loss payment on them only upon the occurrence of one or more defined credit events with respect to the referenced securities or loans.

### Indirect Exposure to Selected European Countries

The Company considers economic exposure to a Selected European Country to be indirect when that exposure relates to only a small portion of an insured transaction that otherwise is not related to that Selected European Country, and the Company has excluded its indirect exposure to the Selected European Countries from the exposure tables above. The Company has such indirect exposure to Selected European Countries through insurance it provides on pooled corporate and commercial receivables transactions.

The Company's pooled corporate obligations with indirect exposure to Selected European Countries are highly diversified in terms of obligors and, except in the case of TruPS CDOs or transactions backed by perpetual preferred securities, highly diversified in terms of industry. Most pooled corporate obligations are structured to limit exposure to any given obligor and any given non-U.S. country or region and generally benefit from embedded credit enhancement which allows a transaction a certain level of losses in the underlying collateral without causing the Company to pay a claim. The Company's commercial receivable transactions with indirect exposure to Selected European Countries are rail car lease transactions and aircraft lease transactions where some of the lessees have a nexus with the Selected European Countries. Like the pooled corporate transactions, the commercial receivable transactions generally benefit from embedded credit enhancement which allows a transaction a certain level of losses in the underlying collateral without causing the Company to pay a claim.

The Company calculates indirect exposure to a country by multiplying the par amount of a transaction insured by the Company times the percent of the relevant collateral pool reported as having a nexus to the country. On that basis, the Company has calculated exposure of \$332 million to Selected European Countries (plus Greece) in transactions with \$5.2 billion of net par outstanding. The indirect exposure to credits with a nexus to Greece is \$10 million across several highly rated pooled corporate obligations with net par outstanding of \$404 million.

### Liquidity and Capital Resources

#### Liquidity Requirements and Sources

#### AGL and its Holding Company Subsidiaries

The liquidity of AGL, AGUS and Assured Guaranty Municipal Holdings Inc. ("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 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 "—Insurance Company Regulatory Restrictions" below for a discussion of the dividend restrictions of its insurance company subsidiaries.



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Significant Cash Flow Items

|                                              | Second Quarter |        | Six Months |        |
|----------------------------------------------|----------------|--------|------------|--------|
|                                              | 2015           | 2014   | 2015       | 2014   |
|                                              | (in millions)  |        |            |        |
| Dividends paid by AGC to AGUS                | \$ 15          | \$ 15  | \$ 35      | \$ 15  |
| Dividends paid by AGM to AGMH                | 40             | 45     | 106        | 45     |
| Dividends paid by AG Re to AGL               | 35             | 20     | 85         | 82     |
| Dividends paid by other subsidiaries of AGMH | —              | 10     | —          | 10     |
| Repayment of surplus note by AGM to AGMH     | —              | —      | 25         | 25     |
| Dividends paid to AGL shareholders           | (18            | ) (20  | ) (37      | ) (40  |
| Repurchases of common shares(1)              | (133           | ) (177 | ) (285     | ) (212 |
| Interest paid                                | (41            | ) (28  | ) (48      | ) (35  |
| Proceeds from issuance of long-term debt     | —              | 496    | —          | 496    |
| Issuance of note by AGUS to AGC(2)           | —              | —      | (200       | ) —    |
| Repayment of note by AGC to AGUS(2)          | 200            | —      | 200        | —      |

(1) On May 6, 2015, in continuation of the Company's capital management strategy of repurchasing its common shares, the Company's Board of Directors approved the repurchase of an incremental \$400 million of common shares. As of June 30, 2015 and August 5, 2015, on a settlement date basis, the remaining authorization for share repurchases was \$325 million and \$280 million, respectively.

(2) On March 31, 2015, AGUS, as lender, provided \$200 million to AGC, as borrower, from available funds to help fund the purchase of Radian Asset. AGC repaid that loan in full on April 14, 2015.

## Dividends 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, 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 and AGM, and to AG Re, are described under Note 12, Insurance Company Regulatory Requirements of the Financial Statements.

Under New York insurance law, AGM may only pay dividends out of "earned surplus", which is the portion of a 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 appreciation of assets. AGM may 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, does not exceed the lesser of 10% of its policyholders' surplus (as of the 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 2015 for AGM to distribute as dividends without regulatory approval is estimated to be approximately \$218 million, of which approximately \$57 million is estimated to be available for distribution in the third quarter of 2015.

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 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 2015 for AGC to distribute as ordinary dividends will be approximately \$90 million, of which approximately \$16 million is available for distribution in the third quarter of 2015.

• MAC is a New York domiciled insurance company subject to the same dividend limitations described above for AGM. The Company does not currently anticipate that MAC will distribute any dividends.

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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 Bermuda Monetary Authority ("Authority"). Separately, dividends are paid out of an insurer's statutory surplus and cannot exceed that surplus. Further, annual dividends cannot exceed 25% of total statutory capital and surplus as set out in its previous year's financial statements, which is \$279 million, without AG Re certifying to the Authority that it will continue to meet required margins. Based on the foregoing limitations, in 2015 AG Re has the capacity to (i) make capital distributions in an aggregate amount up to \$127 million without the prior approval of the Authority and (ii) declare and pay dividends in an aggregate amount up to the limit of its outstanding statutory surplus, which is \$271 million. 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 June 30, 2015, AG Re had unencumbered assets of approximately \$566 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.

### 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.

On June 20, 2014, AGUS issued \$500 million of 5.0% Senior Notes due 2014. The notes are guaranteed by AGL. The net proceeds of the notes were used for general corporate purposes, including the purchase of AGL common shares.

### Intercompany Loans and Guarantees

On March 30, 2015, AGUS loaned \$200 million to AGC to facilitate the acquisition of Radian Asset on April 1, 2015. AGC repaid the loan in full on April 14, 2015.

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 up to \$225 million in the aggregate from AGUS for general corporate purposes. Such commitment terminates on October 25, 2018 (the "loan termination date"). The unpaid principal amount of each loan will bear interest at a fixed rate equal to 100% of the then applicable Federal short-term or mid-term interest rate, as the case may be, as determined under Internal Revenue Code Sec. 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 by the third anniversary of the loan termination date. No amounts are currently outstanding under the credit facility.

In addition, in 2012 AGUS borrowed \$90 million from its affiliate Assured Guaranty Re Overseas Ltd. to fund the acquisition of MAC. That loan remained outstanding as of June 30, 2015.

Furthermore, AGL 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 June 30, 2015, AGL had \$145 million in cash and short-term investments. AGUS and AGMH had a total of \$29 million in cash, short-term investments and other invested assets. In addition, the Company's U.S. holding companies have \$65 million in fixed-maturity securities with weighted average duration of 0.4 years. In April 2015, the \$200 million intercompany loan from from AGUS to AGC was repaid.

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## Insurance Company Subsidiaries

Liquidity of the insurance company subsidiaries is primarily used to pay for:

- operating expenses,
- claims on the insured portfolio,
- posting of collateral in connection with credit derivatives and reinsurance transactions,
- reinsurance premiums,
- dividends to AGL, AGUS and/or AGMH, as applicable,
- principal of and, where applicable, interest on surplus notes, and
- capital investments in their own subsidiaries, where appropriate.

Management believes that its 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.

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.

## Claims (Paid) Recovered

|                                                             | Second Quarter |          | Six Months |          |
|-------------------------------------------------------------|----------------|----------|------------|----------|
|                                                             | 2015           | 2014     | 2015       | 2014     |
|                                                             | (in millions)  |          |            |          |
| Public finance                                              | \$ (4          | ) \$ (24 | ) \$ (6    | ) \$ (30 |
| Structured finance:                                         |                |          |            |          |
| U.S. RMBS before benefit for recoveries for breaches of R&W | (44            | ) (34    | ) (83      | ) (76    |
| Net benefit for recoveries for breaches of R&W              | 26             | 89       | 47         | 128      |
| U.S. RMBS after benefit for recoveries for breaches of R&W  | (18            | ) 55     | (36        | ) 52     |
| Other structured finance                                    | (4             | ) (3     | ) 4        | (4       |
| Structured finance                                          | (22            | ) 52     | (32        | ) 48     |
| Claims (paid) recovered, net of reinsurance(1)              | \$ (26         | ) \$ 28  | \$ (38     | ) \$ 18  |

(1) Includes \$6 million paid and \$6 million paid for consolidated FG VIEs for Second Quarter 2015 and 2014, respectively, and \$12 million paid and \$7 million paid for consolidated FG VIEs for Six Months 2015 and 2014,

respectively.

The Company has insured exposure of approximately \$3.1 billion to infrastructure transactions with refinancing risk as to which the Company may need to make claim payments that it did not anticipate paying when the policies were issued. Although the Company may not experience ultimate loss on a particular transaction, the aggregate amount of the claim payments may be substantial and reimbursement may not occur for an extended time, if at all. These transactions generally involve long-term infrastructure projects that were financed by bonds that mature prior to the expiration of the project concession. The Company expected the cash flows from these projects to be sufficient to repay all of the debt over the life of

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the project concession, but also expected the debt to be refinanced in the market at or prior to its maturity. If the issuer is unable to refinance the debt due to market conditions, the Company may have to pay a claim when the debt matures, and then recover its payment from cash flows produced by the project in the future. The Company generally projects that in most scenarios it will be fully reimbursed for such payments. However, the recovery of the payments is uncertain and may take from 10 to 35 years, depending on the transaction and the performance of the underlying collateral. The Company estimates total claims for the two largest transactions with significant refinancing risk, assuming no refinancing, and based on certain performance assumptions could be \$1.9 billion on a gross basis; such claims would be payable from 2017 through 2022.

In addition, the Company has net par exposure of \$5.4 billion to the Commonwealth of Puerto Rico, all of which are BIG. Puerto Rico has experienced significant general fund budget deficits in recent years. These deficits have been covered primarily with the net proceeds of bond issuances, with interim financings provided by GDB and, in some cases, with one-time revenue measures or expense adjustment measures. In addition to high debt levels, Puerto Rico faces a challenging economic environment. Information regarding the Company's exposure to the Commonwealth of Puerto Rico and its related authorities and public corporations is set forth in "Insured Portfolio-Exposure to Puerto Rico" above.

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 basis and to replicate the terms of a traditional financial guaranty insurance policy. Some contracts the Company entered into as the credit protection seller, however, utilize standard ISDA settlement mechanics of cash settlement (i.e., a process to value the loss of market value of a reference obligation) or physical settlement (i.e., delivery of the reference obligation against payment of principal by the protection seller) in the event of a "credit event," as defined in the relevant contract. Cash settlement or physical settlement generally requires the payment of a larger amount, prior to the maturity of the reference obligation, than would settlement on a "pay-as-you-go" basis, under which the Company would be required to pay scheduled interest shortfalls during the term of the reference obligation and scheduled principal shortfall only at the final maturity of the reference obligation. As of June 30, 2015, the Company posted approximately \$330 million to secure obligations under its CDS exposure. Of that amount, approximately \$310 million related to \$5.1 billion in CDS gross par insured where the amount of required collateral is capped and the remaining \$20 million related to \$0.2 billion in CDS gross par insured where the amount of required collateral is based on movements in the mark-to-market valuation of the underlying exposure.

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## Consolidated Cash Flows

## Consolidated Cash Flow Summary

|                                                                                                                          | Second Quarter |       | Six Months |       |
|--------------------------------------------------------------------------------------------------------------------------|----------------|-------|------------|-------|
|                                                                                                                          | 2015           | 2014  | 2015       | 2014  |
|                                                                                                                          | (in millions)  |       |            |       |
| Net cash flows provided by (used in) operating activities before effects of trading securities and FG VIEs consolidation | \$56           | \$90  | \$64       | \$115 |
| (Purchases) sales of trading securities, net                                                                             | 11             | (16)  | 8          | 68    |
| Effect of FG VIEs consolidation                                                                                          | 15             | 47    | 33         | 39    |
| Net cash flows provided by (used in) operating activities - reported                                                     | 82             | 121   | 105        | 222   |
| Net cash flows provided by (used in) investing activities before effects of FG VIEs consolidation                        | (726)          | (488) | 254        | (501) |
| Effect of FG VIEs consolidation                                                                                          | 24             | (16)  | 45         | 272   |
| Net cash flows provided by (used in) investing activities - reported                                                     | (702)          | (504) | 299        | (229) |
| Net cash flows provided by (used in) financing activities before effects of FG VIEs consolidation                        | (153)          | 299   | (326)      | 238   |
| Effect of FG VIEs consolidation                                                                                          | (39)           | (30)  | (78)       | (311) |
| Net cash flows provided by (used in) financing activities - reported (1)                                                 | (192)          | 269   | (404)      | (73)  |
| Effect of exchange rate changes                                                                                          | 2              | 1     | 0          | 2     |
| Cash at beginning of period                                                                                              | 885            | 219   | 75         | 184   |
| Total cash at the end of the period                                                                                      | \$75           | \$106 | \$75       | \$106 |

(1) Claims paid on consolidated FG VIEs are presented in the consolidated cash flow statements as a component of paydowns on FG VIE liabilities in financing activities as opposed to operating activities.

Excluding net cash flows from purchases and sales of the trading portfolio and the effect of consolidating FG VIEs, cash inflows from operating activities decreased in Six Months 2015 compared with Six Months 2014 due primarily to higher claim payments in 2015 due to higher proceeds from R&W settlements in 2014 and interest, offset in part by higher investment income and lower taxes.

Investing activities were primarily net sales (purchases) of fixed-maturity and short-term investment securities. In first quarter 2015, the Company sold securities to fund the acquisition of Radian Asset by AGC. In Second Quarter 2015 the Company paid \$800. net of cash acquired, to acquire Radian Asset. Investing cash flows in Six Months 2015 and Six Months 2014 include inflows of \$70 million and \$315 million for FG VIEs, respectively.

Financing activities consisted primarily of paydowns of FG VIE liabilities and share repurchases. Financing cash flows in Six Months 2015 and Six Months 2014 include outflows of \$78 million and \$311 million for FG VIEs, respectively. Share repurchases in Second Quarter 2015 and 2014 were \$285 million and \$212 million, respectively. In addition, 2014 amounts include net proceeds of \$496 million from issuance of long-term debt. From July 1, 2015 through August 5, 2015, the Company repurchased an additional 1.8 million shares for \$45 million. As of August 5, 2015, \$280 million of total capacity remained, on a settlement basis, from all authorizations. For more information about the Company's share repurchase authorization and the amounts it repurchased in 2015, see Note 18, Shareholders' Equity, of the Financial Statements.

## Commitments and Contingencies

### Leases

AGL and its subsidiaries lease office space and certain other items. Future cash payments associated with contractual obligations pursuant to operating leases for office space have not materially changed since December 31, 2014.

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## Long-Term Debt Obligations

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<br>June 30 | As of<br>December<br>31, | Second Quarter |      | Six Months |      |
|                                                     | 2015             | 2014                     | 2015           | 2014 | 2015       | 2014 |
|                                                     | (in millions)    |                          |                |      |            |      |
| AGUS:                                               |                  |                          |                |      |            |      |
| 7.0% Senior Notes(1)                                | \$200            | \$200                    | \$7            | \$7  | \$7        | \$7  |
| 5.0% Senior Notes(1)                                | 500              | 500                      | 13             | —    | 13         | —    |
| Series A Enhanced Junior Subordinated Debentures(2) | 150              | 150                      | 5              | 5    | 5          | 5    |
| Total AGUS                                          | 850              | 850                      | 25             | 12   | 25         | 12   |
| AGMH(3):                                            |                  |                          |                |      |            |      |
| 67/8% QUIBS(1)                                      | 100              | 100                      | 1              | 1    | 3          | 3    |
| 6.25% Notes(1)                                      | 230              | 230                      | 3              | 3    | 7          | 7    |
| 5.60% Notes(1)                                      | 100              | 100                      | 2              | 2    | 3          | 3    |
| Junior Subordinated Debentures(2)                   | 300              | 300                      | 10             | 10   | 10         | 10   |
| Total AGMH                                          | 730              | 730                      | 16             | 16   | 23         | 23   |
| AGM(3):                                             |                  |                          |                |      |            |      |
| AGM Notes Payable                                   | 14               | 16                       | 0              | 0    | 0          | 1    |
| Total AGM                                           | 14               | 16                       | 0              | 0    | 0          | 1    |
| Total                                               | \$1,594          | \$1,596                  | \$41           | \$28 | \$48       | \$36 |

(1) AGL fully and unconditionally guarantees these obligations

(2) Guaranteed by AGL on a junior subordinated basis.

(3) Principal amounts vary from carrying amounts due primarily to acquisition method fair value adjustments at the AGMH acquisition date, which are accreted or amortized into interest expense over the remaining terms of these obligations.

7.0% Senior Notes issued by AGUS. On May 18, 2004, AGUS issued \$200 million of 7.0% senior notes due 2034 for net proceeds of \$197 million. Although the coupon on the Senior Notes is 7.0%, the effective rate is approximately 6.4%, taking into account the effect of a cash flow hedge.

5.0% Senior Notes issued by AGUS. On June 20, 2014, AGUS issued \$500 million of 5.0% Senior Notes due 2024 for net proceeds of \$495 million. The notes are guaranteed by AGL. The net proceeds from the sale of the notes were used for general corporate purposes, including the purchase of common shares of AGL.

Series A Enhanced Junior Subordinated Debentures issued by AGUS. On December 20, 2006, AGUS issued \$150 million of Debentures due 2066. The Debentures pay a fixed 6.40% rate of interest until December 15, 2016, and

thereafter pay a floating rate of interest, reset quarterly, at a rate equal to three month London Interbank Offered Rate ("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.

6 7/8% QUIBS issued by AGMH. On December 19, 2001, AGMH issued \$100 million face amount of 6 7/8% QUIBS due December 15, 2101, which are callable without premium or penalty.

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6.25% Notes issued by AGMH. On November 26, 2002, AGMH issued \$230 million face amount of 6.25% Notes due November 1, 2102, which are callable without premium or penalty in whole or in part.

5.60% Notes issued by AGMH. On July 31, 2003, AGMH issued \$100 million face amount of 5.60% Notes due July 15, 2103, which are callable without premium or penalty in whole or in part.

Junior Subordinated Debentures issued by AGMH. 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 6.40%. 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 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.

Recourse Credit Facility

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. The liquidity risk to AGM related to the strip policy portion of the leveraged lease business is mitigated by the strip coverage facility described below.

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. 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 \$1.2 billion as of June 30, 2015. 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. It is difficult to determine the probability that AGM will have to pay strip provider claims or the likely aggregate amount of such claims. At June 30, 2015, approximately \$1.4 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.

On July 1, 2009, AGM and Dexia Crédit Local S.A., acting through its New York Branch (“Dexia Crédit Local (NY)”), entered into a credit facility (the “Strip Coverage Facility”). Under the Strip Coverage Facility, Dexia Crédit Local (NY) agreed to make loans to AGM to finance all draws made by lessors on AGM strip policies that were outstanding as of November 13, 2008, up to the commitment amount. The commitment amount of the Strip Coverage Facility was \$1 billion at closing of the Company's acquisition of AGMH. AGM has reduced the maximum commitment amount from time to time, after taking into account its experience with its exposure to leveraged lease transactions. Most recently, as of June 30, 2014, AGM

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reduced the maximum commitment amount to \$495 million and agreed with Dexia Crédit Local (NY) that the commitment amount would no longer amortize on a scheduled monthly basis.

Fundings under this facility are subject to certain conditions precedent, and their repayment is collateralized by a security interest that AGM granted to Dexia Crédit Local (NY) in amounts that AGM recovers – from the tax-exempt entity, or from asset sale proceeds – following its payment of strip policy claims. On June 30, 2014, AGM and Dexia Crédit Local (NY) agreed to shorten the duration of the facility. Accordingly, the Strip Coverage Facility will terminate upon the earliest to occur of an AGM change of control, the reduction of the commitment amount to \$0 in accordance with the terms of the facility, and June 30, 2024 (rather than the original maturity date of January 31, 2042).

The Strip Coverage Facility's financial covenants require that AGM and its subsidiaries maintain:

- a maximum debt-to-capital ratio of 30%; and

a minimum net worth of 75% of consolidated net worth as of July 1, 2009, plus, beginning June 30, 2015 and on each anniversary of such date, an amount equal to the product of (i) 25% of the aggregate consolidated net income (or loss) for the period beginning July 2, 2009 and ending on June 30, 2014 and (ii) a fraction, the numerator of which is the commitment amount as of the relevant calculation date and the denominator of which is \$1 billion.

The Company was in compliance with all financial covenants as of June 30, 2015.

The Strip Coverage Facility contains restrictions on AGM, including, among other things, in respect of its ability to incur debt, permit liens, pay dividends or make distributions, dissolve or become party to a merger or consolidation. Most of these restrictions are subject to exceptions. The Strip Coverage Facility has customary events of default, including (subject to certain materiality thresholds and grace periods) payment default, bankruptcy or insolvency proceedings and cross-default to other debt agreements.

As of June 30, 2015, no amounts were outstanding under this facility, nor have there been any borrowings during the life of this facility.

## Committed Capital Securities

Each of AGC and AGM have issued \$200 million of CCS pursuant to transactions in which AGC CCS or AGM's Committed Preferred Trust Securities (the "AGM CPS"), as applicable, were issued by custodial trusts created for the primary purpose of issuing such securities, investing the proceeds in high-quality assets and providing put options to AGC or AGM, as applicable. The put options allow AGC and AGM to issue non-cumulative redeemable perpetual preferred securities to the trusts in exchange for cash. For both AGC and AGM, four initial trusts were created, each with an initial aggregate face amount of \$50 million. The Company does not consider itself to be the primary beneficiary of the trusts for either the AGC or AGM committed capital securities and the trusts are not consolidated in Assured Guaranty's financial statements.

The trusts provide AGC and AGM access to new 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 such sale of its 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.

AGC Committed Capital Securities. AGC entered into separate put agreements with four custodial trusts with respect to its committed capital securities in April 2005. The AGC put options have not been exercised through the date of this filing. Initially, all of AGC committed capital securities were issued to a special purpose pass-through trust (the "Pass-Through Trust"). The Pass-Through Trust was dissolved in April 2008 and the AGC committed capital securities were distributed to the holders of the Pass-Through Trust's securities. Neither the Pass-Through Trust nor the custodial trusts are consolidated in the Company's financial statements. Income distributions on the Pass-Through Trust securities and committed capital securities were equal to an annualized rate of one-month LIBOR plus 110 basis points for all periods ending on or prior to April 8, 2008. Following dissolution of the Pass-Through Trust, distributions on the AGC committed capital securities are determined pursuant to an auction process. On April 7, 2008 this auction process failed, thereby increasing the annualized rate on the AGC committed capital securities to one-month LIBOR plus 250 basis points. Distributions on the AGC preferred stock will be

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determined pursuant to the same process. AGC continues to have the ability to exercise its put option and cause the related trusts to purchase AGC Preferred Stock.

AGM Committed Capital Securities. AGM entered into separate put agreements with four custodial trusts with respect to its committed capital securities in June 2003. The AGM put options have not been exercised through the date of this filing. AGM pays a floating put premium to the trusts, which represents the difference between the commercial paper yield and the winning auction rate (plus all fees and expenses of the trust). If an auction does not attract sufficient clearing bids, however, the auction rate is subject to a maximum rate of one-month LIBOR plus 200 basis points for the next succeeding distribution period. Beginning in August 2007, the AGM committed capital securities required the maximum rate for each of the relevant trusts. AGM continues to have the ability to exercise its put option and cause the related trusts to purchase AGM Preferred Stock.

## 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.

## Fixed-Maturity Securities and Short-Term Investments

The Company's fixed-maturity securities and short-term investments had a duration of 5.2 years as of June 30, 2015 and 5.0 years as of December 31, 2014. 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 Note 11, Investments and Cash, of the Financial Statements.

Fixed-Maturity Securities and Short-Term Investments  
by Security Type

|                                                 | As of June 30, 2015 |                         | As of December 31, 2014 |                         |
|-------------------------------------------------|---------------------|-------------------------|-------------------------|-------------------------|
|                                                 | Amortized<br>Cost   | Estimated<br>Fair Value | Amortized<br>Cost       | Estimated<br>Fair Value |
|                                                 | (in millions)       |                         |                         |                         |
| Fixed-maturity securities:                      |                     |                         |                         |                         |
| Obligations of state and political subdivisions | \$5,736             | \$5,986                 | \$5,416                 | \$5,795                 |
| U.S. government and agencies                    | 459                 | 486                     | 635                     | 665                     |
| Corporate securities                            | 1,415               | 1,442                   | 1,320                   | 1,368                   |
| Mortgage-backed securities(1):                  |                     |                         |                         |                         |
| RMBS                                            | 1,313               | 1,329                   | 1,255                   | 1,285                   |
| CMBS                                            | 588                 | 601                     | 639                     | 659                     |
| Asset-backed securities                         | 416                 | 431                     | 411                     | 417                     |
| Foreign government securities                   | 302                 | 307                     | 296                     | 302                     |
| Total fixed-maturity securities                 | 10,229              | 10,582                  | 9,972                   | 10,491                  |
| Short-term investments                          | 834                 | 834                     | 767                     | 767                     |
| Total fixed-maturity and short-term investments | \$11,063            | \$11,416                | \$10,739                | \$11,258                |

(1) Government-agency obligations were approximately 53% of mortgage backed securities as of June 30, 2015 and 44% as of December 31, 2014, based on fair value.



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The following tables summarize, for all fixed-maturity securities in an unrealized loss position as of June 30, 2015 and December 31, 2014, 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 June 30, 2015

|                                                           | 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           | \$1,142               | \$(28)          | ) \$4             | \$0             | \$1,146    | \$(28)          |
| U.S. government and agencies                              | 95                    | (1)             | ) 12              | 0               | 107        | (1)             |
| Corporate securities                                      | 390                   | (11)            | ) 92              | (4)             | ) 482      | (15)            |
| Mortgage-backed securities:                               |                       |                 |                   |                 |            |                 |
| RMBS                                                      | 457                   | (8)             | ) 79              | (14)            | ) 536      | (22)            |
| CMBS                                                      | 96                    | (1)             | ) 2               | 0               | 98         | (1)             |
| Asset-backed securities                                   | 7                     | 0               | —                 | —               | 7          | 0               |
| Foreign government securities                             | 98                    | (2)             | ) —               | —               | 98         | (2)             |
| Total                                                     | \$2,285               | \$(51)          | ) \$189           | \$(18)          | ) \$2,474  | \$(69)          |
| Number of securities(1)                                   |                       | 527             |                   | 26              |            | 550             |
| Number of securities with other-than-temporary impairment |                       | 4               |                   | 4               |            | 8               |

## Fixed-Maturity Securities

## Gross Unrealized Loss by Length of Time

As of December 31, 2014

|                                                           | 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           | \$64                  | \$0             | \$25              | \$(1)           | ) \$89     | \$(1)           |
| U.S. government and agencies                              | 139                   | 0               | 68                | (1)             | ) 207      | (1)             |
| Corporate securities                                      | 189                   | (3)             | ) 104             | (2)             | ) 293      | (5)             |
| Mortgage-backed securities:                               |                       |                 |                   |                 |            |                 |
| RMBS                                                      | 205                   | (3)             | ) 159             | (18)            | ) 364      | (21)            |
| CMBS                                                      | 36                    | 0               | 19                | 0               | 55         | 0               |
| Asset-backed securities                                   | 56                    | (2)             | ) 18              | (1)             | ) 74       | (3)             |
| Foreign government securities                             | 108                   | (2)             | ) 0               | 0               | 108        | (2)             |
| Total                                                     | \$797                 | \$(10)          | ) \$393           | \$(23)          | ) \$1,190  | \$(33)          |
| Number of securities(1)                                   |                       | 125             |                   | 82              |            | 198             |
| Number of securities with other-than-temporary impairment |                       | 3               |                   | 7               |            | 10              |

The number of securities does not add across because lots of the same securities have been purchased at different (1) 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 June 30, 2015, two securities had an unrealized loss greater than 10% of book value. The total unrealized loss for these securities as of June 30, 2015 was \$12 million. The Company has determined that the unrealized losses recorded as of June 30, 2015 are yield related and not the result of other-than-temporary impairment.

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 consists primarily 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 June 30, 2015

|                                       | Amortized<br>Cost<br>(in millions) | Estimated<br>Fair Value |
|---------------------------------------|------------------------------------|-------------------------|
| Due within one year                   | \$217                              | \$220                   |
| Due after one year through five years | 1,660                              | 1,717                   |
| Due after five years through 10 years | 2,200                              | 2,299                   |
| Due after 10 years                    | 4,251                              | 4,416                   |
| Mortgage-backed securities:           |                                    |                         |
| RMBS                                  | 1,313                              | 1,329                   |
| CMBS                                  | 588                                | 601                     |
| Total                                 | \$10,229                           | \$10,582                |

The following table summarizes the ratings distributions of the Company's investment portfolio as of June 30, 2015 and December 31, 2014. Ratings reflect the lower of the 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<br>June 30, 2015 |   | As of<br>December 31,<br>2014 |   |
|-----------|------------------------|---|-------------------------------|---|
| AAA       | 12.6                   | % | 14.0                          | % |
| AA        | 59.3                   |   | 60.3                          |   |
| A         | 21.1                   |   | 17.9                          |   |
| BBB       | 0.4                    |   | 0.5                           |   |
| BIG(1)    | 6.3                    |   | 7.3                           |   |
| Not rated | 0.3                    |   | —                             |   |
| Total     | 100.0                  | % | 100.0                         | % |

- (1) Comprised primarily of loss mitigation and other risk management assets. See Note 11, Investments and Cash, of the Financial Statements.

The investment portfolio and miscellaneous other assets/liabilities contain securities and cash that are either held in trust for the benefit of third party reinsurers in accordance with statutory requirements, placed on deposit to fulfill state licensing requirements, or otherwise restricted in the amount of \$300 million and \$236 million as of June 30, 2015 and December 31, 2014, respectively, based on fair value. The investment portfolio also contains securities that are held in trust by

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certain AGL subsidiaries for the benefit of other AGL subsidiaries in accordance with statutory and regulatory requirements in the amount of \$1,541 million and \$1,395 million as of June 30, 2015 and December 31, 2014, respectively, based on fair value.

The fair value of the Company's pledged securities to secure its obligations under its CDS exposure totaled \$330 million and \$376 million as of June 30, 2015 and December 31, 2014, respectively.

### Liquidity Arrangements with respect to AGMH's former Financial Products Business

AGMH's former financial products segment had been in the business of borrowing funds through the issuance of guaranteed investment contracts ("GICs") and medium term notes and reinvesting the proceeds in investments that met AGMH's investment criteria. The financial products business also included the equity payment undertaking agreement portion of the leveraged lease business, as described further below in "—Leveraged Lease Business."

### The GIC Business

Until November 2008, AGMH, through its financial products business, offered GICs to municipalities and other market participants. The GICs were issued through AGMH's non-insurance subsidiaries (the "GIC Issuers") FSA Capital Management Services LLC, FSA Capital Markets Services LLC and FSA Capital Markets Services (Caymans) Ltd. In return for an initial payment, each GIC entitles its holder to receive the return of the holder's invested principal plus interest at a specified rate, and to withdraw principal from the GIC as permitted by its terms. AGM insures the GIC Issuer's payment obligations on all GICs issued by the applicable GIC Issuer.

The proceeds of GICs issued by the GIC Issuers were loaned to AGMH's former subsidiary FSA Asset Management LLC ("FSAM"). FSAM in turn invested these funds in fixed-income obligations (primarily residential mortgage-backed securities, but also short-term investments, securities issued or guaranteed by U.S. government sponsored agencies, taxable municipal bonds, securities issued by utilities, infrastructure-related securities, collateralized debt obligations, other asset-backed securities and foreign currency denominated securities) (the "FSAM assets").

Prior to the completion of the Company's acquisition of AGMH from Dexia Holdings Inc., AGMH sold its ownership interest in the GIC Issuers and FSAM to Dexia Holdings Inc. Even though AGMH no longer owns the GIC Issuers or FSAM, AGM's guarantees of the GICs remain in place, and must remain in place until each GIC is terminated.

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 guarantees. Some of those agreements have since terminated or expired, or been modified. In addition to the surviving agreements described below, AGM benefits from a guaranty jointly and severally issued by Dexia SA and Dexia Crédit Local S.A. to AGM that guarantees the payment obligations of AGM under its policies related to the GIC business, and an indemnification agreement between AGM, Dexia SA and Dexia Crédit Local S.A. that protects AGM from other losses arising out of or as a result of the GIC business.

To support the payment obligations of FSAM and the GIC Issuers, each of Dexia SA and Dexia Crédit Local S.A. are party to an ISDA Master Agreement, including an associated schedule, confirmation and credit support annex (the "Non-Guaranteed Put Contract"), the economic effect of which is that Dexia SA and Dexia Crédit Local S.A. jointly and severally guarantee (i) the scheduled payments of interest and principal in relation to a specified portfolio of FSAM assets, (ii) the obligation of certain Dexia affiliates to provide liquidity or liquid collateral under committed liquidity

lending facilities, and (iii) the obligation to make certain payments in the event of an insolvency of Dexia S.A. Pursuant to the Non-Guaranteed Put Contract, FSAM may put an amount of FSAM assets to Dexia SA and Dexia Crédit Local S.A. in exchange for funds. The amount that could be put varies depending on the type of trigger event in question. In an asset default scenario, the amount payable generally covers at least the amount of the losses on the FSAM assets (by non-payment, writedown or realized loss). For other trigger events, the amount payable generally is at least the amount due and unpaid under the committed liquidity facilities, the principal amount of the FSAM assets, and the outstanding principal balance of the GICs. Dexia S.A. and Dexia Crédit Local S.A. also benefit from certain grace periods and procedural rights under the Non-Guaranteed Put Contract. To secure the Non-Guaranteed Put Contract, Dexia SA and Dexia Crédit Local S.A. will, pursuant to the credit support annex thereto, post eligible highly liquid collateral having an aggregate value (subject to agreed reductions) equal to at least the excess of (i) the aggregate principal amount of all outstanding GICs over (ii) the aggregate mark-to-market value of FSAM's assets. The agreed-to advance rates applicable to the value of FSAM assets range from 98% to 82% for obligations backed by the full faith and credit of the United States, sovereign obligations of the U.K., Germany, the Netherlands, France or Belgium, obligations guaranteed by the Federal Deposit Insurance Corporation (FDIC) and for mortgage securities issued or guaranteed

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by U.S. sponsored agencies, and range from 75% to 0% for the other FSAM assets. As of June 30, 2015, approximately 29.3% of the FSAM assets (measured by aggregate principal balance) was in cash or were obligations backed by the full faith and credit of the United States.

As of June 30, 2015, the aggregate accreted GIC balance was approximately \$1.9 billion, compared with approximately \$10.2 billion as of December 31, 2009. As of June 30, 2015, and with respect to the FSAM assets, the aggregate accreted principal was approximately \$3.0 billion, the aggregate market value was approximately \$2.8 billion and the aggregate market value after agreed reductions was approximately \$2.0 billion. Cash and positive derivative value exceeded the negative derivative values and other projected costs by approximately \$63 million. Accordingly, as of June 30, 2015, the aggregate fair value of the assets supporting the GIC business plus cash and positive derivative value exceeded by nearly \$1.0 billion the aggregate principal amount of all outstanding GICs and certain other business and hedging costs of the GIC business. Even after applying the agreed upon reductions to the fair value of the assets, the aggregate fair value of the assets supporting the GIC business plus cash and positive derivative value exceeded the aggregate principal amount of all outstanding GICs and certain other business and hedging costs of the GIC business, so, no posting of collateral was required under the credit support annex applicable to the primary put contract. Under the terms of that credit support annex, the collateral posting is recalculated on a weekly basis according to the formula set forth in the credit support annex, and a collateral posting is required whenever the collateralization levels tested by the formula are not satisfied, subject to a threshold of \$5 million.

To provide additional support, a Dexia affiliate provides a liquidity commitment to lend against the FSAM assets, generally until the GICs have been paid in full. The liquidity commitment comprises an amended and restated revolving credit agreement (the “Guaranteed Liquidity Facility”), amended most recently on July 27, 2015, pursuant to which Dexia Crédit Local S.A. commits to provide funds to FSAM. As a result of agreed reductions and GIC amortization as of June 30, 2015 the commitment totaled \$3.5 billion, of which approximately \$1.0 billion was drawn. On August 3, 2015, giving effect to the most recent amendment, the commitment totaled \$1.5 billion, of which approximately \$0.9 billion was drawn. Also on July 27, 2015, FSAM and Dexia Crédit Local S.A. terminated a master repurchase agreement pursuant to which Dexia Crédit Local S.A. had provided up to \$3.5 billion of funds in exchange for the transfer by FSAM to Dexia Crédit Local S.A. of FSAM securities that are not eligible to satisfy collateralization obligations of the GIC Issuers under the GICs. As of June 30, 2015, no amounts were outstanding under that master repurchase agreement.

Despite the execution of the Non-Guaranteed Put Contract and the Guaranteed Liquidity Facility, and the significant portion of FSAM assets comprised of highly liquid securities backed by the full faith and credit of the United States, AGM remains subject to the risk that Dexia SA and its affiliates may not make payments or securities available (i) on a timely basis, which is referred to as “liquidity risk,” or (ii) at all, which is referred to as “credit risk,” because of the risk of default. Even if the Dexia entities have sufficient assets to pay all amounts when due, concerns regarding Dexia’s financial condition or willingness to comply with their obligations could cause one or more rating agencies to view negatively the ability or willingness of Dexia SA and its affiliates to perform under their various agreements and could negatively affect AGM’s ratings.

If Dexia SA or its affiliates do not fulfill the contractual obligations, the GIC issuers may not have the financial ability to pay upon the withdrawal of GIC funds or post collateral or make other payments in respect of the GICs, thereby resulting in claims upon the AGM financial guaranty insurance policies. If AGM is required to pay a claim due to a failure of the GIC issuers to pay amounts in respect of the GICs, AGM is subject to the risk that the GICs will not be paid from funds received from Dexia SA and its affiliates before it is required to make payment under its financial guaranty policies or that it will not receive the guaranty payment at all.

One situation in which AGM may be required to pay claims in respect of AGMH's former financial products business if Dexia SA and its affiliates do not comply with their obligations is following a downgrade of the financial strength

rating of AGM. Most of the GICs insured by AGM allow for the withdrawal of GIC funds in the event of a downgrade of AGM, unless the relevant GIC issuer posts collateral or otherwise enhances its credit. 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, with no right of the GIC issuer to avoid such withdrawal by posting collateral or otherwise enhancing its credit. Each GIC contract stipulates the thresholds below which the GIC issuer must post eligible collateral, along with the types of securities eligible for posting and the collateralization percentage applicable to each security type. These collateralization percentages range from 100% of the GIC balance for cash posted as collateral to, typically, 108% for asset-backed securities. There are expected to be sufficient eligible and liquid assets within the GIC business to satisfy any withdrawal and collateral posting obligations that would be expected to arise as a result of potential future rating action affecting AGM.

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### The Medium Term Notes Business

In connection with the acquisition of AGMH, Dexia Crédit Local S.A. agreed to fund, on behalf of AGM, 100% of all policy claims made under financial guaranty insurance policies issued by AGM in relation to the medium term notes issuance program of FSA Global Funding Limited. Such agreement is set out in a Separation Agreement, dated as of July 1, 2009, between Dexia Crédit Local S.A., AGM, FSA Global Funding and Premier International Funding Co., and in a funding guaranty and a reimbursement guaranty that Dexia Crédit Local S.A. issued for the benefit of AGM. Under the funding guaranty, Dexia Crédit Local S.A. guarantees to pay to or on behalf of AGM amounts equal to the payments required to be made under policies issued by AGM relating to the medium term notes business. Under the reimbursement guaranty, Dexia Crédit Local S.A. guarantees to pay reimbursement amounts to AGM for payments it makes following a claim for payment under an obligation insured by a policy it has issued. Notwithstanding Dexia Crédit Local S.A.'s obligation to fund 100% of all policy claims under those policies, AGM has a separate obligation to remit to Dexia Crédit Local S.A. a certain percentage (ranging from 0% to 25%) of those policy claims. AGM, the Company and related parties are also protected against losses arising out of or as a result of the medium term note business through an indemnification agreement with Dexia Crédit Local S.A. As of June 30, 2015, FSA Global Funding Limited had approximately \$1.0 billion of medium term notes outstanding.

### Leveraged Lease Business

Under the Strip Coverage Facility entered into in connection with the acquisition of AGMH, Dexia Credit Local (NY) agreed to make loans to AGM to finance all draws made by lessors on certain AGM strip policies issued in connection with the leveraged lease business. AGM may request advances under the Strip Coverage Facility without any explicit limit on the number of loan requests, provided that the aggregate principal amount of loans outstanding as of the date of the request may not exceed the commitment amount. The leveraged lease business, the AGM strip policies and the Strip Coverage Facility (including the commitment amount) are described further under "Commitments and Contingencies-Recourse Credit Facility" above.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for an updated sensitivity analysis for credit derivatives and expected losses on contracts accounted for as insurance. There were no material changes in market risk since December 31, 2014.

## ITEM 4. CONTROLS AND PROCEDURES

Assured Guaranty's management, with the participation of AGL's President and Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are effective in recording, processing, summarizing and reporting, within the time periods specified in the Commission's rules and forms, information required to be disclosed by AGL in the reports that it files or submits under the Exchange Act and ensuring that such information is accumulated and communicated to management, including the President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of June 30, 2015. Based on their evaluation as of June 30, 2015 covered by this Form 10-Q, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective.

On April 1, 2015 the Company acquired Radian Asset. See Note 2 to the unaudited consolidated financial statements in Item 1. The Company has extended its Section 404 compliance program under the Sarbanes-Oxley Act of 2002 and the applicable rules and regulations under such Act to include Radian Asset. The Company has integrated Radian Asset's financial data into the Company's existing systems, processes and related controls, and introduced new processes and controls to accommodate the business combination accounting and financial consolidation of Radian Asset during the Company's quarter ended June 30, 2015.

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### PART II. OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

The Company is subject to legal proceedings and claims, as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 and in Note 15 to the Consolidated Financial Statements, Commitments and Contingencies – Legal Proceedings. During the three months ended June 30, 2015, the following developments occurred in respect of the Company's legal proceedings:

On November 28, 2011, Lehman Brothers International (Europe) (in administration) (“LBIE”) sued AGFP, an affiliate of AGC which in the past had provided credit protection to counterparties under credit default swaps. AGC acts as the credit support provider of AGFP under these credit default swaps. LBIE’s complaint, which was filed in the Supreme Court of the State of New York, alleged that AGFP improperly terminated nine credit derivative transactions between LBIE and AGFP and improperly calculated the termination payment in connection with the termination of 28 other credit derivative transactions between LBIE and AGFP. Following defaults by LBIE, AGFP properly terminated the transactions in question in compliance with the requirements of the agreement between AGFP and LBIE, and calculated the termination payment. 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. On February 3, 2012, AGFP filed a motion to dismiss certain of the counts in the complaint, and on March 15, 2013, the court granted AGFP's motion to dismiss the count relating to improper termination of the nine credit derivative transactions and denied AGFP's motion to dismiss the count relating to the remaining transactions. In their April 10, 2015 report to LBIE’s unsecured creditors, LBIE’s administrators disclosed that LBIE's valuation expert has calculated LBIE's damages in the 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. Discovery has been ongoing and motions for summary judgment are due in October 2015. Notwithstanding the range calculated by LBIE's valuation expert, the Company cannot reasonably estimate the possible loss, if any, that may arise from this lawsuit.

On May 28, 2014, Houston Casualty Company Europe, Seguros y Reseguros, S.A. (“HCCE”) notified Radian Asset that it was demanding arbitration against Radian Asset in connection with housing cooperative losses presented to Radian Asset by HCCE under several years of quota-share surety reinsurance contracts. HCCE claims AGC, as successor to Radian Asset, is required to pay to it, as ceding company, among other amounts, its share of certain current and future housing cooperative losses, together with certain fees, expenses and costs relating thereto. HCCE has presented approximately €15 million in claims to AGC through June 30, 2015 and is still in the process of settling additional similar claims. Based on the experience to date, AGC estimates HCCE may submit additional claims of approximately €3.1 million under the reinsurance contracts. AGC is disputing the claims and intends to assert its defenses in the arbitration. The reinsurance contracts provide for arbitration in Madrid and are governed by Spanish law. Arbitration proceedings may commence in 2015.

#### ITEM 1A. RISK FACTORS

Please refer to “Risk Factors” under Part I, “Item 1A. Risk Factors” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. There have been no material changes to the risk factors disclosed in such Annual Report on Form 10-K during the three months ended June 30, 2015.



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## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Issuer's Purchases of Equity Securities

The following table reflects purchases of AGL common shares made by the Company during Second Quarter 2015.

| Period             | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>Per Share | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Program<br>(1) | Maximum Number<br>(or Approximate<br>Dollar Value)<br>of Shares that<br>May Yet Be<br>Purchased<br>Under the Program(2) |
|--------------------|-------------------------------------------|------------------------------------|----------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| April 1 - April 30 | 1,736,939                                 | \$27.52                            | 1,736,939                                                                              | \$ 10,440,744                                                                                                           |
| May 1 - May 31     | 1,295,992                                 | \$27.98                            | 1,295,992                                                                              | \$ 374,184,247                                                                                                          |
| June 1 - June 30   | 1,704,457                                 | \$28.86                            | 1,704,457                                                                              | \$ 325,000,035                                                                                                          |
| Total              | 4,737,388                                 | \$28.13                            | 4,737,388                                                                              |                                                                                                                         |

After giving effect to repurchases from January 1, 2015 through August 5, 2015, the Company has repurchased a total of 12.4 million common shares for approximately \$330 million, excluding commissions, at an average price (1) of \$26.57 per share. On May 6, 2015, the Company's board of directors approved an incremental \$400 million share repurchase authorization. As of August 5, 2015, \$280 million of total capacity remained, on a settlement basis, from all authorizations.

(2) Excludes commissions.

## ITEM 6. EXHIBITS.

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

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SIGNATURES

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

ASSURED GUARANTY LTD.  
(Registrant)

Dated August 6, 2015

By: /s/ ROBERT A. BAIENSON

Robert A. Bailenson  
Chief Financial Officer (Principal Financial and  
Accounting Officer and Duly Authorized Officer)

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EXHIBIT INDEX

| Exhibit Number | Description of Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1           | Certification of CEO Pursuant to Exchange Act Rules 13A-14 and 15D-14, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 31.2           | Certification of CFO Pursuant to Exchange Act Rules 13A-14 and 15D-14, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 32.1           | Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 32.2           | Certification of CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 101.1          | The following financial information from Assured Guaranty Ltd.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 formatted in XBRL: (i) Consolidated Balance Sheets at June 30, 2015 and December 31, 2014; (ii) Consolidated Statements of Operations for the Three and Six Months ended June 30, 2015 and 2014; (iii) Consolidated Statements of Comprehensive Income for the Three and Six Months ended June 30, 2015 and 2014 (iv) Consolidated Statement of Shareholders' Equity for the Six Months ended June 30, 2015; (v) Consolidated Statements of Cash Flows for the Six Months ended June 30, 2015 and 2014; and (vi) Notes to Consolidated Financial Statements. |

\* Management contract or compensatory plan