

## Assured Guaranty Statement on Climate Change

As a global citizen, Assured Guaranty Ltd. (together with its subsidiaries, Assured Guaranty) recognizes that climate change is an area of growing concern. There is a clear consensus within the scientific community that climate change has caused, and will continue to cause, widespread impacts on human and natural systems.<sup>1</sup>

Assured Guaranty is reviewing the scientific literature with great interest. The most recent and comprehensive demonstration of the growing scientific consensus concerning the existence, causes and potential consequences of climate change can be found in the Fifth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) published on November 2, 2014 and available at <https://www.ipcc.ch/report/ar5/syr/>. According to the IPCC, human activities have already caused 1.0°C of global warming above pre-industrial levels and:

Climate-related risks to health, livelihoods, food security, water supply, human security, and economic growth are projected to increase with global warming of 1.5°C and increase further with 2°C.<sup>2</sup>

Furthermore, according to the Fourth National Climate Assessment issued by the U.S. Global Change Research Program published in November 23, 2018 (available at <https://nca2018.globalchange.gov/>):

Climate change creates new risks and exacerbates existing vulnerabilities in communities across the United States, presenting growing challenges to human health and safety, quality of life, and the rate of economic growth.<sup>3</sup>

The Fourth National Climate Assessment, as well as the previous Third National Climate Assessment<sup>4</sup> (published May 6, 2014 and available at <https://nca2014.globalchange.gov/report>) also issued by the U.S. Global Change Research Program, listed some of the potential long-term effects of global climate change in the United States, including:

- Temperatures will continue to rise
- Recent trend towards increased heavy precipitation events will continue
- More droughts and heat waves
- Hurricanes will become stronger and more intense
- Sea level rise of 1-4 feet by the year 2100

We believe that finding solutions to mitigate the effects of climate change is an important task that will require policies and collaboration between the public and private sector. Assured Guaranty, as a financial guaranty insurer, is committed to doing its part to incorporate climate change risks in its business planning and operations.

### Insurance Risk Management

Cities, counties, states and other issuers of municipal and infrastructure bonds are affected by severe weather events, which have become more frequent as global temperatures increased. The Fourth National Climate Assessment finds that:

More frequent and intense extreme weather and climate-related events, as well as changes in average climate conditions, are expected to continue to damage infrastructure, ecosystems, and social systems that provide essential benefits to communities.<sup>5</sup>

While the forecasts considered above serve as illustrations of the types of potential consequences of climate change, it is important to keep in mind the tremendous uncertainty underlying the forecasts. Nonetheless, we consider these risks in both our underwriting of new risks and our monitoring of existing risks in our insurance portfolio.

#### *Underwriting Guidelines for New Exposures*

We insure municipal debt throughout the US with maturities of up to 30 years. Since our exposures are frequently very long dated, we integrate environmental considerations into our credit underwriting process as described in our [Environmental Policy](#).

#### *Surveillance of Existing Exposures*

Consequences of global warming can also impact existing exposures. We consider the susceptibility of transactions that we have insured to climate change related impacts on an ongoing basis when we assign to these exposures, and regularly update, internal ratings. Upon the occurrence of an extreme weather event, our Surveillance team reviews the impact of the event on the ability of issuers and projects located in affected regions to meet debt service obligations. For example, in 2017 alone there were three major hurricanes, Harvey, Florence and Maria, that had devastating impacts on Texas, Florida, Puerto Rico and the Virgin Islands. In each of 2017 and 2018 there have been several large wildfires across the state of California. Our Surveillance team reviewed the capacity for each of the insured exposures in these areas to meet their debt service obligations to determine if any internal rating downgrades or other remedial steps were warranted.

### **Investment Risk Management**

As a financial services company, Assured Guaranty is also exposed to climate change-related risks that may affect our large investment portfolio. Our [Environmental Policy](#) sets forth our approach to managing potential risks and opportunities in relation to the assets in which we have invested that may arise as a result of climate change.

### **Other Risks of Climate Change**

Although Assured Guaranty is not a significant direct emitter of greenhouse gases [GHGs], we recognize that the reduction of GHG emissions is everyone's responsibility. Assured Guaranty takes that responsibility seriously, and we have undertaken a number of initiatives to reduce our impact on the environment, which are summarized in our [Environmental Policy](#).

### **Climate Change Opportunities**

#### *Use of Municipal and Infrastructure Financings to Address Climate Change Related Risks*

Even as climate change poses risk, increased knowledge and understanding of climate change may give rise to a number of opportunities for Assured Guaranty. We insure municipal debt that can be used by cities, counties and states to prepare for, and mitigate the impacts of, climate change-related events.

Existing infrastructure is typically designed to operate effectively based on historical extreme events. Climate change is likely to lead to weather events that are more extreme than historical precedents, threatening

highways, water treatment facilities and the power grid. In some parts of the United States including New York, Portland, Chicago and Southeast Florida, city and state planners are now required to plan for these more extreme events.<sup>6</sup> We believe that municipal bond insurance has an important role to play in helping cities, counties and states issue debt at more affordable rates to finance the massive infrastructure improvements that may be required as climate change continues to create more extreme weather events.

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<sup>1</sup> IPCC Climate Change 2014 Synthesis Report – Summary for Policymakers

<sup>2</sup> IPCC Climate Change Global Warming of 1.5°C – Summary for Policymakers

<sup>3</sup> USGCRP, 2018: *Impacts, Risks, and Adaptation in the United States: Fourth National Climate Assessment, Volume II* [Reidmiller, D.R., C.W. Avery, D.R. Easterling, K.E. Kunkel, K.L.M. Lewis, T.K. Maycock, and B.C. Stewart (eds.)]. U.S. Global Change Research Program, Washington, DC, USA, 1515 pp. doi: 10.7930/NCA4.2018.

<sup>4</sup> Melillo, Jerry M., Terese (T.C.) Richmond, and Gary W. Yohe, Eds., 2014: *Highlights of Climate Change Impacts in the United States: The Third National Climate Assessment*. U.S. Global Change Research Program, 148 pp.

<sup>5</sup> IPCC Climate Change Global Warming of 1.5°C – Summary for Policymakers

<sup>6</sup> Chester, Mikhail, et al. “How Cities Are Upgrading Infrastructure to Prepare for Climate Change.” Smithsonian.com, Smithsonian Institution, 22 Oct. 2018, [www.smithsonianmag.com/innovation/how-cities-are-upgrading-infrastructure-prepare-climate-change-180970600/](https://www.smithsonianmag.com/innovation/how-cities-are-upgrading-infrastructure-prepare-climate-change-180970600/).