Exhibit 99.2

Assured Guaranty Corp.

Consolidated Financial Statements

December 31, 2023, 2022 and 2021

Assured Guaranty Corp.

Index to Consolidated Financial Statements

December 31, 2023, 2022 and 2021

Report of Independent Auditors

To the Board of Directors of Assured Guaranty Corp.

Opinion

We have audited the accompanying consolidated financial statements of Assured Guaranty Corp. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, of comprehensive income (loss), of shareholder's equity and of cash flows for each of the three years in the period ended December 31, 2023, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

/s/ PricewaterhouseCoopers LLP
New York, New York
April 10, 2024

Assured Guaranty Corp.
Consolidated Balance Sheets
(dollars in thousands except share data)

	As of December 31,	
	2023	2022
Assets		
Investments:		
Fixed-maturity securities, available-for-sale, at fair value, net of allowance for credit loss of $51,048 and $41,512 (amortized cost of $2,013,381 and $2,223,586)	$ 1,888,946	$ 2,092,528
Fixed-maturity securities, trading, at fair value	211,023	175,896
Short-term investments, at fair value	25,160	111,452
Equity method investments	332,271	211,125
Other invested assets, at fair value	790	790
Total investments	2,458,190	2,591,791
Cash	21,874	24,225
Loan receivable from parent	87,500	87,500
Premiums receivable, net of commissions payable	414,083	297,015
Ceded unearned premium reserve	214,151	187,380
Reinsurance recoverable on unpaid losses	158,518	158,641
Salvage and subrogation recoverable	66,782	71,749
Financial guaranty variable interest entities' assets (includes $24,152 and $169,544, at fair value)	71,103	177,681
Other assets (includes $17,330 and $54,384, at fair value)	119,314	242,067
Total assets	**$ 3,611,515**	**$ 3,838,049**
Liabilities		
Unearned premium reserve	$ 761,057	$ 655,404
Loss and loss adjustment expense reserve	112,789	84,112
Reinsurance balances payable, net	137,343	168,026
Note payable to affiliate	300,000	300,000
Credit derivative liabilities, at fair value	48,087	159,498
Financial guaranty variable interest entities' liabilities (with recourse of $245,899 and $393,531, without recourse of $1,911 and $1,916; includes $247,810 and $338,339 at fair value)	247,810	395,447
Other liabilities	122,191	103,965
Total liabilities	**1,729,277**	**1,866,452**
Commitments and contingencies (Note 14)		
Shareholder's equity		
Preferred stock ($1,000 par value, 200,004 shares authorized; no shares issued or outstanding)	—	—
Common stock (2023: 488,927 shares authorized, $1,536.78 par value, 9,761 shares issued and outstanding; 2022: 493,339 shares authorized, $1,058.38 par value, 14,173 shares issued and outstanding)	15,000	15,000
Additional paid-in capital	546,174	742,015
Retained earnings	1,368,452	1,278,108
Accumulated other comprehensive income (loss), net of tax provision (benefit) of $(24,303) and $(28,593)	(47,388)	(63,526)
Total shareholder's equity	**1,882,238**	**1,971,597**
Total liabilities and shareholder's equity	**$ 3,611,515**	**$ 3,838,049**

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

Assured Guaranty Corp.

Consolidated Statements of Operations

(in thousands)

	Year Ended December 31,		
	2023	2022	2021
Revenues			
Net earned premiums	$ 62,799	$ 209,106	$ 85,662
Net investment income	118,898	87,181	90,950
Net realized investment gains (losses)	(12,680)	(15,815)	(5,371)
Fair value gains (losses) on credit derivatives	92,160	(6,976)	(52,047)
Fair value gains (losses) on committed capital securities	(18,322)	12,094	(15,104)
Fair value gains (losses) on financial guaranty variable interest entities	(1,784)	16,033	4,257
Foreign exchange gains (losses) on remeasurement	3,789	(6,413)	(966)
Fair value gains (losses) on trading securities	46,637	(19,793)	—
Commutation gains (losses)	(781)	(174)	7,187
Change in assumed and ceded funds held with affiliates	(8,000)	2,980	(766)
Reversal of litigation accrual	17,000	—	—
Other income (loss)	6,812	3,890	11,692
Total revenues	306,528	282,113	125,494
Expenses			
Loss and loss adjustment expenses (benefit)	22,923	32,109	(59,326)
Interest expense on note payable to affiliate	10,500	10,500	10,500
Employee compensation and benefit expenses	39,196	35,776	35,757
Other expenses	29,701	23,778	27,140
Total expenses	102,320	102,163	14,071
Income (loss) before income taxes and equity in earnings (losses) of investees	204,208	179,950	111,423
Equity in earnings (losses) of investees	29,491	(4,700)	30,062
Income (loss) before income taxes	233,699	175,250	141,485
Provision (benefit) for income taxes			
Current	30,846	2,693	(2,664)
Deferred	11,009	28,610	24,260
Total provision (benefit) for income taxes	41,855	31,303	21,596
Equity in after-tax earnings (loss) of investee	—	—	(3,717)
Net income (loss)	**$ 191,844**	**$ 143,947**	**$ 116,172**

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

Assured Guaranty Corp.

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

	Year Ended December 31,		
	2023	2022	2021
Net income (loss)	**$ 191,844**	**$ 143,947**	**$ 116,172**
Change in net unrealized gains (losses) on:			
Investments with no credit impairment, net of tax provision (benefit) of $2,508, $(45,230) and $(9,786)	9,432	(170,152)	(49,237)
Investments with credit impairment, net of tax provision (benefit) of $1,352, $(8,789) and $(159)	5,087	(33,062)	(599)
Change in net unrealized gains (losses) on investments	14,519	(203,214)	(49,836)
Change in instrument-specific credit risk on financial guaranty variable interest entities' liabilities with recourse, net of tax provision (benefit)	1,619	424	96
Other comprehensive income (loss)	**16,138**	**(202,790)**	**(49,740)**
Comprehensive income (loss)	**$ 207,982**	**$ (58,843)**	**$ 66,432**

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

Assured Guaranty Corp.

Consolidated Statements of Shareholder's Equity

Years Ended December 31, 2023, 2022 and 2021

(in thousands)

	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholder's Equity
As of December 31, 2020	**14,173**	**$ 15,000**	**$ 742,015**	**$ 1,318,989**	**$ 189,004**	**$ 2,265,008**
Net income	—	—	—	116,172	—	116,172
Dividends	—	—	—	(94,100)	—	(94,100)
Other comprehensive loss	—	—	—	—	(49,740)	(49,740)
As of December 31, 2021	**14,173**	**15,000**	**742,015**	**1,341,061**	**139,264**	**2,237,340**
Net income	—	—	—	143,947	—	143,947
Dividends	—	—	—	(206,900)	—	(206,900)
Other comprehensive loss	—	—	—	—	(202,790)	(202,790)
As of December 31, 2022	**14,173**	**15,000**	**742,015**	**1,278,108**	**(63,526)**	**1,971,597**
Net income	—	—	—	191,844	—	191,844
Dividends	—	—	—	(101,500)	—	(101,500)
Common stock repurchases	(4,412)	—	(199,996)	—	—	(199,996)
Other comprehensive income	—	—	—	—	16,138	16,138
Capital contribution	—	—	4,155	—	—	4,155
As of December 31, 2023	**9,761**	**$ 15,000**	**$ 546,174**	**$ 1,368,452**	**$ (47,388)**	**$ 1,882,238**

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

Assured Guaranty Corp.
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31,		
	2023	**2022**	**2021**
Cash flows from operating activities:			
Net income (loss)	$ 191,844	$ 143,947	$ 116,172
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Net amortization of premium (discount) on investments	(32,100)	(5,565)	(10,739)
Provision (benefit) for deferred income taxes	11,009	28,610	24,260
Net realized investment losses (gains)	12,680	15,815	5,371
Fair value losses (gains) on committed capital securities	18,322	(12,094)	15,104
Equity in (earnings) losses of investees	(29,491)	4,700	(26,345)
Fair value losses (gains) on trading securities	(46,637)	19,793	—
Change in premiums receivable, net of premiums and commissions payable	(92,444)	846	(15,362)
Change in ceded unearned premium reserve	(26,771)	5,764	(17,347)
Change in unearned premium reserve	105,653	(140,032)	(1,503)
Change in loss and loss adjustment expense reserve and salvage and subrogation recoverable, net	52,400	(275,636)	(74,662)
Change in deferred ceding commissions, net	(11,178)	(10,817)	1,289
Change in credit derivative assets and liabilities, net	(92,679)	5,565	46,251
Change in current income taxes	30,979	2,510	464
Other	(16,176)	9,562	34,681
Net cash flows provided by (used in) operating activities	**$ 75,411**	**$ (207,032)**	**$ 97,634**
Cash flows from investing activities:			
Fixed-maturity securities, available-for-sale:			
Purchases	$ (127,408)	$ (41,310)	$ (184,066)
Sales	250,801	117,704	59,216
Maturities and paydowns	158,689	140,699	220,375
Net sales (purchases) of short-term investments with original maturities of less than three months	86,292	119,923	(165,766)
Fixed-maturity securities, trading:			
Sales	—	37,281	—
Maturities and paydowns	16,884	7,333	—
Investment in AG Asset Strategies LLC	(87,500)	—	—
Paydowns on financial guaranty variable interest entities' assets	50,214	30,368	13,348
Sales of equity method investments	—	16,407	67,893
Other	(27)	(471)	(3,078)
Net cash flows provided by (used in) investing activities	**$ 347,945**	**$ 427,934**	**$ 7,922**

(continued)

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

Assured Guaranty Corp.
Consolidated Statements of Cash Flows, Continued
(in thousands)

	Year Ended December 31,		
	2023	**2022**	**2021**
Cash flows from financing activities:			
Dividends paid	$ (101,500)	$ (206,900)	$ (94,100)
Net paydowns of financial guaranty variable interest entities' liabilities	(79,083)	(44,902)	(11,825)
Redemption of common stock	(199,996)	—	—
Net cash flows provided by (used in) financing activities	**(380,579)**	**(251,802)**	**(105,925)**
Effect of foreign exchange rate changes	(15)	(70)	(99)
Increase (decrease) in cash and restricted cash	42,762	(30,970)	(468)
Cash and restricted cash at beginning of period	26,064	57,034	57,502
Cash and restricted cash at end of period	**$ 68,826**	**$ 26,064**	**$ 57,034**
Supplemental cash flow information			
Income taxes paid (received)	$ —	$ 211	$ (3,669)
Interest paid on note payable to affiliate	9,002	10,500	10,500
Supplemental disclosure of non-cash activities:			
Interest paid on note payable to affiliate in the form of fixed-maturity security	$ 1,498	$ —	$ —
Puerto Rico Salvage (Note 2):			
Fixed-maturity securities, available-for-sale, received as salvage	1,311	187,843	—
Fixed-maturity securities, trading, received as salvage	—	240,273	—
Debt securities of financial guaranty variable interest entities received as salvage	—	156,514	—
MAC Transaction (Note 1):			
Fixed-maturity securities received from affiliate in consideration of the reassumption of remaining cessions to Municipal Assurance Corp. and the distribution of Municipal Assurance Corp.'s earned surplus	—	—	166,042
Capital contribution from parent	4,155	—	—

	As of December 31,		
	2023	**2022**	**2021**
Reconciliation of cash and restricted cash to the consolidated balance sheets:			
Cash	$ 21,874	$ 24,225	$ 55,603
Restricted cash (included in other assets)	1	596	1,431
Cash of financial guaranty variable interest entities (Note 8)	46,951	1,243	—
Cash and restricted cash at the end of period	$ 68,826	$ 26,064	$ 57,034

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

1. Business and Basis of Presentation

Business

Assured Guaranty Corp. (AGC and, together with its subsidiaries, the Company), a Maryland domiciled insurance company, is an indirect and wholly-owned subsidiary of Assured Guaranty Ltd. (AGL and, together with its subsidiaries, Assured Guaranty). AGL is a Bermuda-based holding company that provides, through its wholly-owned operating subsidiaries, credit protection products to the United States (U.S.) and non-U.S. public finance (including infrastructure) and structured finance markets. Assured Guaranty also participates in the asset management business.

Insurance

The Company applies its credit underwriting judgment, risk management skills and capital markets experience primarily to offer financial guaranty insurance that protects holders of debt instruments and other monetary obligations from defaults in scheduled payments. If an obligor defaults on a scheduled payment due on an obligation, including a scheduled principal or interest payment (collectively, 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 Western Europe.

Assured Guaranty's Asset Management Business

Until July 1, 2023, Assured Guaranty served as an investment advisor to primarily collateralized loan obligations (CLOs) and opportunity funds, through Assured Investment Management LLC (AssuredIM LLC) and its investment management affiliates (together with AssuredIM LLC, AssuredIM). Beginning July 1, 2023, Assured Guaranty participates in the asset management business through its ownership interest in Sound Point Capital Management, LP (Sound Point, LP) and certain of its investment management affiliates (together with Sound Point, LP, Sound Point), as described below.

On July 1, 2023, Assured Guaranty contributed to Sound Point, LP most of its asset management business, other than that conducted by Assured Healthcare Partners LLC (AHP) (AssuredIM Contributed Business), as contemplated by the transaction agreement entered into with Sound Point on April 5, 2023 (Transaction Agreement). Assured Guaranty received, subject to certain potential post-closing adjustments, approximately 30% of the common interests in Sound Point, LP, and certain other interests in Sound Point.

In addition, in accordance with the terms of a letter agreement (Letter Agreement), effective July 1, 2023, AGC and its affiliate, Assured Guaranty Municipal Corp. (AGM) (collectively, the U.S. Insurance Subsidiaries), (i) engaged Sound Point as their sole alternative credit manager, and (ii) transitioned to Sound Point the management of certain existing alternative investments and related commitments. The Letter Agreement also provides that, in the first two years of Sound Point's engagement, the U.S. Insurance Subsidiaries, including through their investment subsidiary AG Asset Strategies LLC (AGAS), would, subject to regulatory approval, make new investments in funds, other vehicles and separately managed accounts managed by Sound Point which, when aggregated with the alternative investments and commitments transitioned from AssuredIM and any reinvestments (collectively, Sound Point Investments), and investments made by other Assured Guaranty affiliates, will total $1 billion. The Letter Agreement contemplates a long-term investment partnership between Sound Point and Assured Guaranty, whereby the U.S. Insurance Subsidiaries have agreed to reinvest all returns of capital from Sound Point Investments for a period of 15 years, until July 1, 2038. Similarly, the Letter Agreement provides for reinvestment by the U.S. Insurance Subsidiaries of all gains and dividends from Sound Point Investments in the first two years of Sound Point's engagement, and reinvestment of half of all such gains and dividends thereafter until July 1, 2033 (the transactions contemplated under the Transaction Agreement and the Letter Agreement, the Sound Point Transaction). On July 1, 2028, the U.S. Insurance Subsidiaries may choose to reduce the amounts invested or required to be reinvested in certain Sound Point Investments under the Letter Agreement, subject to adjustment in Assured Guaranty's portion of its ownership interest in Sound Point. To the extent not required to be reinvested by the Letter Agreement, all proceeds from Sound Point Investments received in accordance with their operative investment documents can be distributed to the U.S. Insurance Subsidiaries. See Note 7, Investments and Cash.

In July 2023, Assured Guaranty sold all of its equity interests in AHP, which manages healthcare funds, to an entity owned and controlled by the managing partner of AHP (AHP Transaction). In connection with the AHP Transaction, AGAS agreed to remain a strategic investor in certain AHP managed funds.

Assets and Liabilities Held For Sale

The Company designated certain assets and liabilities as held for sale in the first quarter of 2023 and currently expects the sale of such assets to be completed in 2024. A disposal group is measured at the lower of carrying amount or fair value less any costs associated with the transaction. The Company assessed the disposal group for impairment and determined no impairment existed as of December 31, 2023. Upon classification of the disposal group as held for sale, the Company ceased depreciating held for sale fixed assets and amortizing held for sale intangibles. Assets held for sale were $27.7 million and liabilities held for sale were $2.4 million as of December 31, 2023 and were reported in “other assets” and “other liabilities,” respectively.

Basis of Presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). In management’s opinion, all material adjustments necessary for a fair statement of the financial condition, results of operations and cash flows of the Company, including its consolidated variable interest entities (VIEs), are reflected in the periods presented and are of a normal, recurring nature. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain prior year balances have been reclassified to conform to the current year’s presentation. All amounts are reported in U.S. dollars.

The consolidated financial statements include the accounts of AGC, its subsidiaries, and its consolidated financial guaranty VIEs (FG VIEs). Intercompany accounts and transactions between and among all consolidated entities have been eliminated.

The Company’s most significant interest in an unconsolidated entity as of December 31, 2023 was a 35% ownership interest in AGAS. AGAS is an investment subsidiary that invests in funds managed by Sound Point, AHP, and, prior to July 1, 2023, AssuredIM.

Prior to April 1, 2021, the Company had a 39.3% ownership interest in Municipal Assurance Holdings Inc. (MAC Holdings), incorporated in Delaware. AGC’s affiliate, AGM, owned the remaining 60.7% of MAC Holdings. MAC Holdings owned 100% of Municipal Assurance Corp. (MAC), a New York domiciled insurance company.

On February 24, 2021, Assured Guaranty received the last regulatory approval required to execute a multi-step transaction to merge MAC with and into AGM, with AGM as the surviving company. The steps leading up to the merger of MAC with and into AGM, with AGM as the surviving company (the MAC Transaction), were effective April 1, 2021, and included (i) the reassumption by AGM and AGC of their respective remaining cessions to MAC, (ii) distributing MAC’s earned surplus to AGM and AGC in accordance with their respective 60.7% and 39.3% direct ownership interests in MAC Holdings, and (iii) AGC’s sale to AGM of its 39.3% interest in MAC Holdings. The Company recognized the effects of the multi-step process in the second quarter of 2021, based on outstanding balances on April 1, 2021.

The table below presents the effects of the MAC Transaction.

Effects of the MAC Transaction
Year Ended December 31, 2021

	Increase (Decrease)
	(in thousands)
Fixed-maturity securities	$ 166,042
Equity method investments - MAC Holdings	(216,451)
Cash	66,778
Ceded unearned premium reserve	(24,422)
Other assets/liabilities, net	(2,105)
Net income	$ (2,100)
Accumulated other comprehensive income	(8,058)
Total shareholder's equity	$ (10,158)
Net par outstanding	$ 2,128,089

Significant Accounting Policies

The Company revalues foreign currency denominated assets, liabilities, revenue and expenses into U.S. dollars using applicable exchange rates prescribed by GAAP. Gains and losses relating to translating transactions in foreign denominations are reported in the consolidated statements of operations.

Other accounting policies are included in the following notes to the consolidated financial statements.

Note Name	Note Number
Expected loss to be paid (recovered)	Note 3
Contracts accounted for as insurance	Note 4
Contracts accounted for as credit derivatives	Note 5
Reinsurance	Note 6
Investments and cash	Note 7
Variable interest entities	Note 8
Fair value measurement	Note 9
Note payable to affiliate and credit facilities	Note 10
Income taxes	Note 11
Related party transactions	Note 13
Commitments and contingencies	Note 14
Shareholder's equity	Note 15

Recent Accounting Standards Not Yet Adopted

In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. The amendments require enhanced annual disclosures regarding the rate reconciliation and income taxes paid. This ASU is effective for fiscal years beginning after December 15, 2024. The Company will apply the amendments in this ASU prospectively to all annual periods beginning after December 15, 2024. The Company is evaluating the effect that the adoption of this ASU may have on its disclosures.

2. Outstanding Exposure

The Company sells credit protection primarily in financial guaranty insurance form. The Company may also sell credit protection by issuing policies that guarantee payment obligations under credit default swaps (CDS). The Company's 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 its financial guaranty insurance contracts.

The Company seeks to limit its exposure to losses by underwriting obligations that it views to be investment grade at inception, although on occasion it may underwrite new issuances that it views to be below-investment-grade (BIG), typically as part of its loss mitigation strategy for existing troubled exposures. The Company also seeks to acquire portfolios of insurance from financial guarantors that are no longer writing new business by acquiring such companies or providing reinsurance on a portfolio of insurance; in such instances, it evaluates the risk characteristics of the target portfolio, which may include some BIG exposures, as a whole in the context of the proposed transaction. The Company diversifies its insured portfolio across sector and geography and, in the structured finance portfolio, generally requires subordination or collateral to protect it from loss. Reinsurance may be used in order to reduce net exposure to certain insured transactions.

Public finance obligations insured by the Company primarily consist of general obligation bonds supported by the taxing powers of U.S. state or municipal governmental authorities, as well as tax-supported bonds, revenue bonds and other obligations supported by covenants from state or municipal governmental authorities or other municipal obligors to impose and collect fees and charges for public services or specific infrastructure projects. The Company 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, healthcare facilities and government office buildings. The Company also includes within public finance obligations similar obligations issued by U.S. and non-U.S. sovereign and sub-sovereign issuers and governmental authorities.

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 8, Variable Interest Entities. Unless otherwise specified, the outstanding par and debt service amounts presented in this note include outstanding exposures on these VIEs whether or not they are consolidated.

Significant Risk Management Activities

The Portfolio Risk Management Committee of the Company's indirect parent, AGL, is responsible for enterprise risk management for Assured Guaranty's insurance business and focuses on measuring and managing credit, market and liquidity risk for Assured Guaranty's insurance business. This committee establishes Assured Guaranty-wide credit policy for Assured Guaranty's direct and assumed insured business. It implements specific underwriting procedures and limits for Assured Guaranty and allocates underwriting capacity among AGL's insurance subsidiaries, including the Company. All transactions in new asset classes or new jurisdictions, or outside AGL's Board-approved risk appetite statement or risk limits, must be approved by this committee.

The Company's risk management committee conducts an in-depth review of the Company's insured portfolio, focusing on varying portions of the portfolio at each meeting. It reviews and may revise internal ratings assigned to the insured transactions and reviews sector reports, monthly product line surveillance reports and compliance reports.

All transactions in the insured portfolio are assigned internal credit ratings by the relevant underwriting committee at inception, and such credit ratings are updated by the relevant risk management committee based on changes in transaction credit quality. As part of the surveillance process, the Company monitors trends and changes in transaction credit quality and recommends such remedial actions as may be necessary or appropriate. The Company also develops strategies to enforce its contractual rights and remedies and to mitigate its losses, engage in negotiation discussions with transaction participants and, when necessary, manage the Company's litigation proceedings.

Surveillance Categories

The Company segregates its insured portfolio into investment grade and BIG surveillance categories to facilitate the appropriate allocation of resources to monitoring and loss mitigation efforts and to aid in establishing the appropriate cycle for periodic review of 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 generally reflect an approach similar to that employed by the rating agencies, except that the Company's internal credit ratings focus on future performance rather than lifetime performance.

The Company monitors its insured portfolio and refreshes its internal credit ratings on individual exposures in quarterly, semi-annual or annual cycles based on the Company's view of the exposure's credit quality, loss potential, volatility and sector. Ratings on exposures in sectors identified as under the most stress or with the most potential volatility are reviewed every quarter, although the Company may also review a rating in response to developments impacting a credit when a ratings review is not scheduled. For assumed exposures, the Company may use the ceding company's credit ratings of transactions where it is impractical for it to assign its own rating.

Exposures identified as BIG are subjected to further review to determine the probability of a loss. See Note 3, Expected Loss to be Paid (Recovered). Surveillance personnel then assign each BIG transaction to one of the three BIG surveillance categories described below based upon whether a future loss is expected and whether a claim has been paid. The Company uses the pre-tax book yield of AGC's investment portfolio to calculate the present value of projected payments and recoveries and determine whether a future loss is expected in order to assign the appropriate BIG surveillance category to a transaction. For financial statement measurement purposes, the Company uses risk-free rates, which are determined each quarter, to calculate the expected loss.

More extensive monitoring and intervention are employed for all BIG surveillance categories, with internal credit ratings reviewed quarterly. For purposes of determining the appropriate surveillance category, the Company expects "future losses" on a transaction when the Company believes there is at least a 50% chance that, on a present value basis, it will in the future pay claims on that transaction that will not be fully reimbursed. The three BIG surveillance categories are:

- BIG Category 1: Below-investment-grade transactions showing sufficient deterioration to make future losses possible, but for which none are currently expected.
- BIG Category 2: Below-investment-grade transactions for which future losses are expected but for which no claims (other than liquidity claims which are claims that the Company expects to be reimbursed within one year) have yet been paid.
- BIG Category 3: Below-investment-grade transactions for which future losses are expected and on which claims (other than liquidity claims) have been paid.

Components of Outstanding Exposure

The Company measures its financial guaranty exposure in terms of (i) gross and net par outstanding and (ii) gross and net debt service.

The Company typically guarantees the payment of debt service when due. Since most of these payments are due in the future, the Company generally uses gross and net par outstanding as a proxy for its financial guaranty exposure. Gross par outstanding generally represents the principal amount of the insured obligation at a point in time. Net par outstanding equals gross par outstanding net of any reinsurance. The Company includes in its par outstanding calculation the impact of any consumer price index inflator to the reporting date as well as, in the case of accreting (zero-coupon) obligations, accretion to the reporting date. Non-U.S. dollar denominated par outstanding is translated at the spot rate at the end of the reporting period.

The Company has, from time to time, purchased securities that it has insured, and for which it had expected losses to be paid, in order to mitigate the economic effect of insured losses (Loss Mitigation Securities). The Company excludes amounts attributable to Loss Mitigation Securities from par and debt service outstanding, and instead reports Loss Mitigation Securities in the investment portfolio. The Company manages such securities as investments and not insurance exposure. As of December 31, 2023 and December 31, 2022, the Company excluded net par outstanding $456.8 million and $479.6 million, respectively, attributable to Loss Mitigation Securities.

Gross debt service outstanding represents the sum of all estimated future debt service payments on the insured obligations, on an undiscounted basis. Net debt service outstanding equals gross debt service outstanding net of any reinsurance. Future debt service payments include the estimated impact of any consumer price index inflator after the reporting date, as well as, in the case of accreting (zero-coupon) obligations, accretion after the reporting date.

The Company calculates its debt service outstanding as follows:

- for insured obligations that are not supported by homogeneous pools of assets (which category includes most of the Company's public finance transactions), as the total estimated contractual future debt service due through maturity, regardless of whether the obligations may be called and regardless of whether, in the case of obligations where principal payments are due when an underlying asset makes a principal payment, the Company believes the obligations will be repaid prior to contractual maturity; and

- for insured obligations that are supported by homogeneous pools of assets that are contractually permitted to prepay principal (which category includes, for example, residential mortgage-backed securities (RMBS)), as the total estimated expected future debt service due on insured obligations through their respective expected terms, which includes the Company's expectations as to whether the obligations may be called and, in the case of obligations where principal payments are due when an underlying asset makes a principal payment, when the Company expects principal payments to be made prior to contractual maturity.

The calculation of debt service requires the use of estimates, which the Company updates periodically, including estimates and assumptions for the expected remaining term of insured obligations supported by homogeneous pools of assets, updated interest rates for floating and variable rate insured obligations, behavior of consumer price indices for obligations with consumer price index inflators, foreign exchange rates and other assumptions based on the characteristics of each insured obligation. Debt service is a measure of the estimated maximum potential exposure to insured obligations before considering the Company's various legal rights to the underlying collateral and other remedies available to it under its financial guaranty contract.

Actual debt service may differ from estimated debt service due to refundings, terminations, negotiated restructurings, prepayments, changes in interest rates on variable rate insured obligations, consumer price index behavior differing from that projected, changes in foreign exchange rates on non-U.S. dollar denominated insured obligations and other factors.

Financial Guaranty Portfolio
Debt Service and Par Outstanding

	As of December 31, 2023		As of December 31, 2022	
	Gross	Net	Gross	Net
	(in thousands)			
Debt Service				
Public finance	$ 50,537,433	$ 41,940,387	$ 36,419,472	$ 28,277,766
Structured finance	8,999,243	4,998,240	7,569,499	4,284,522
Total financial guaranty	$ 59,536,676	$ 46,938,627	$ 43,988,971	$ 32,562,288
Par Outstanding				
Public finance	$ 29,932,482	$ 24,614,698	$ 21,856,348	$ 16,930,889
Structured finance	8,180,668	4,280,844	7,015,934	3,794,153
Total financial guaranty	$ 38,113,150	$ 28,895,542	$ 28,872,282	$ 20,725,042

In addition to amounts shown in the table above, the Company had outstanding commitments to provide guaranties of $1,361.9 million of structured finance gross par as of December 31, 2023. These commitments are contingent on the satisfaction of all conditions set forth in the guaranties 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.

Financial Guaranty Portfolio by Internal Rating
As of December 31, 2023

	Public Finance U.S.		Public Finance Non-U.S.		Structured Finance U.S.		Structured Finance Non-U.S.		Total	
Rating Category	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstandin g	%
	(dollars in thousands)									
AAA	$ 6,596	— %	$ 645,792	13.0 %	$ 531,010	15.5 %	$ 286,406	33.7 %	$ 1,469,804	5.1 %
AA	3,299,755	16.8	362,384	7.3	1,397,149	40.7	81,152	9.6	5,140,440	17.8
A	8,620,094	43.9	1,409,026	28.4	721,241	21.0	468,851	55.2	11,219,212	38.8
BBB	7,316,991	37.2	2,499,006	50.4	451,819	13.2	12,317	1.5	10,280,133	35.6
BIG	409,198	2.1	45,856	0.9	330,899	9.6	—	—	785,953	2.7
Total net par outstanding	$ 19,652,634	100.0 %	$ 4,962,064	100.0 %	$ 3,432,118	100.0 %	$ 848,726	100.0 %	$ 28,895,542	100.0 %

Financial Guaranty Portfolio by Internal Rating
As of December 31, 2022

Rating Category	Public Finance U.S.		Public Finance Non-U.S.		Structured Finance U.S.		Structured Finance Non-U.S.		Total	
	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%
					(dollars in thousands)					
AAA	$ 7,652	0.1 %	$ 615,562	18.6 %	$ 547,570	17.1 %	$ 289,124	49.2 %	$ 1,459,908	7.1 %
AA	2,962,200	21.7	169,187	5.1	1,339,003	41.8	11,456	1.9	4,481,846	21.6
A	5,331,468	39.2	391,520	11.8	620,326	19.3	274,402	46.7	6,617,716	31.9
BBB	4,811,211	35.3	2,077,492	62.6	348,786	10.9	12,954	2.2	7,250,443	35.0
BIG	500,313	3.7	64,284	1.9	350,532	10.9	—	—	915,129	4.4
Total net par outstanding	$ 13,612,844	100.0 %	$ 3,318,045	100.0 %	$ 3,206,217	100.0 %	$ 587,936	100.0 %	$ 20,725,042	100.0 %

The following tables present gross and net par outstanding by sector for the financial guaranty portfolio.

Financial Guaranty Portfolio
Par Outstanding by Sector

Sector	Gross Par Outstanding As of December 31, 2023	Gross Par Outstanding As of December 31, 2022	Net Par Outstanding As of December 31, 2023	Net Par Outstanding As of December 31, 2022
	(in thousands)			
Public finance:				
U.S. public finance:				
General obligation	$ 6,190,526	$ 4,315,227	$ 5,493,797	$ 3,572,690
Transportation	3,973,201	3,346,466	3,391,150	2,768,610
Infrastructure finance	3,777,177	2,040,320	3,241,421	1,763,072
Tax Backed	3,333,519	2,925,518	2,924,178	2,483,477
Municipal utilities	2,796,137	1,624,239	2,532,765	1,355,883
Healthcare	812,932	513,687	789,123	474,660
Higher Education	493,949	425,018	440,322	366,948
Housing revenue	157,622	105,160	138,350	84,771
Renewable Energy	166,240	169,725	118,862	121,353
Investor-owned utilities	131,903	135,002	99,217	101,501
Other public finance	657,508	712,789	483,449	519,879
Total U.S. public finance	22,490,714	16,313,151	19,652,634	13,612,844
Non-U.S. public finance:				
Regulated utilities	4,665,575	3,454,602	2,854,361	1,878,033
Infrastructure finance	1,070,440	730,030	976,628	629,756
Pooled infrastructure	1,133,253	1,080,515	566,626	540,258
Sovereign and sub-sovereign	544,250	231,376	544,250	231,376
Renewable energy	28,250	46,674	20,199	38,622
Total non-U.S. public finance	7,441,768	5,543,197	4,962,064	3,318,045
Total public finance	29,932,482	21,856,348	24,614,698	16,930,889
Structured finance:				
U.S. structured finance:				
Insurance securitizations	4,674,864	3,874,873	1,271,312	1,094,457
Pooled corporate obligations	626,426	620,412	555,799	562,764
RMBS	588,762	640,262	524,819	569,455
Consumer receivables	217,577	304,117	180,808	251,621
Subscription finance facilities	172,051	64,849	142,593	50,452
Other structured finance	916,800	830,355	756,787	677,468
Total U.S. structured finance	7,196,480	6,334,868	3,432,118	3,206,217
Non-U.S. structured finance:				
Subscription finance facilities	419,954	197,367	345,867	153,572
Pooled corporate obligations	402,357	321,755	342,004	273,492
RMBS	152,917	152,655	152,917	152,655
Other structured finance	8,960	9,289	7,938	8,217
Total non-U.S. structured finance	984,188	681,066	848,726	587,936
Total structured finance	8,180,668	7,015,934	4,280,844	3,794,153
Total par outstanding	$ 38,113,150	$ 28,872,282	$ 28,895,542	$ 20,725,042

Expected Amortization of Net Par Outstanding
As of December 31, 2023

	Public Finance	Structured Finance	Total
		(in thousands)	
0 to 5 years	$ 4,352,910	$ 2,042,629	$ 6,395,539
5 to 10 years	5,229,624	913,162	6,142,786
10 to 15 years	4,709,203	506,744	5,215,947
15 to 20 years	3,682,293	475,179	4,157,472
20 years and above	6,640,668	343,130	6,983,798
Total net par outstanding	$ 24,614,698	$ 4,280,844	$ 28,895,542

Actual amortization differs from expected maturities because borrowers may have the right to call or prepay certain obligations, terminations and because of management’s assumptions on structured finance amortization. The expected maturities of structured finance obligations are, in general, shorter than the contractual maturities for such obligations.

Financial Guaranty Portfolio
Components of BIG Net Par Outstanding
As of December 31, 2023

	BIG Net Par Outstanding				Net Par
	BIG 1	BIG 2	BIG 3	Total BIG	Outstanding
			(in thousands)		
Public finance:					
U.S. public finance	$ 116,791	$ 56,536	$ 235,871	$ 409,198	$ 19,652,634
Non-U.S. public finance	45,856	—	—	45,856	4,962,064
Public finance	162,647	56,536	235,871	455,054	24,614,698
Structured finance:					
U.S. RMBS	17,411	19,233	286,212	322,856	524,819
Other structured finance	75	—	7,968	8,043	3,756,025
Structured finance	17,486	19,233	294,180	330,899	4,280,844
Total	$ 180,133	$ 75,769	$ 530,051	$ 785,953	$ 28,895,542

Financial Guaranty Portfolio
Components of BIG Net Par Outstanding
As of December 31, 2022

	BIG Net Par Outstanding				Net Par
	BIG 1	BIG 2	BIG 3	Total BIG	Outstanding
			(in thousands)		
Public finance:					
U.S. public finance	$ 144,701	$ 51,296	$ 304,316	$ 500,313	$ 13,612,844
Non-U.S. public finance	64,284	—	—	64,284	3,318,045
Public finance	208,985	51,296	304,316	564,597	16,930,889
Structured finance:					
U.S. RMBS	12,702	21,252	305,471	339,425	569,455
Other structured finance	—	1,543	9,564	11,107	3,224,698
Structured finance	12,702	22,795	315,035	350,532	3,794,153
Total	$ 221,687	$ 74,091	$ 619,351	$ 915,129	$ 20,725,042

Financial Guaranty Portfolio
BIG Net Par Outstanding and Number of Risks
As of December 31, 2023

	Net Par Outstanding			Number of Risks (2)		
Description	Financial Guaranty Insurance (1)	Credit Derivatives	Total	Financial Guaranty Insurance (1)	Credit Derivatives	Total
	(dollars in thousands)					
BIG 1	$ 166,626	$ 13,507	$ 180,133	40	2	42
BIG 2	67,175	8,594	75,769	7	2	9
BIG 3	506,199	23,852	530,051	92	7	99
Total BIG	$ 740,000	$ 45,953	$ 785,953	139	11	150

Financial Guaranty Portfolio
BIG Net Par Outstanding and Number of Risks
As of December 31, 2022

	Net Par Outstanding			Number of Risks (2)		
Description	Financial Guaranty Insurance (1)	Credit Derivatives	Total	Financial Guaranty Insurance (1)	Credit Derivatives	Total
	(dollars in thousands)					
BIG 1	$ 216,703	$ 4,984	$ 221,687	54	1	55
BIG 2	65,305	8,786	74,091	9	2	11
BIG 3	584,643	34,708	619,351	94	10	104
Total BIG	$ 866,651	$ 48,478	$ 915,129	157	13	170

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(1) Includes FG 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.

When the Company 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 seeks to maintain a diversified portfolio of insured obligations designed to spread its risk across a number of geographic areas.

Geographic Distribution of Net Par Outstanding
As of December 31, 2023

	Number of Risks	Net Par Outstanding	Percent of Total Net Par Outstanding
		(dollars in thousands)	
U.S.:			
U.S. public finance:			
California	356	$ 4,696,746	16.2 %
Texas	503	3,146,549	10.9
New York	218	1,415,477	4.9
New Jersey	59	1,114,199	3.9
Pennsylvania	182	1,008,202	3.5
Illinois	147	978,883	3.4
Florida	81	955,099	3.3
Virginia	18	879,467	3.0
Georgia	26	506,736	1.8
North Carolina	10	476,975	1.6
Other	750	4,474,301	15.5
Total U.S public finance	2,350	19,652,634	68.0
U.S. structured finance (multiple states)	299	3,432,118	11.9
Total U.S.	2,649	23,084,752	79.9
Non-U.S.:			
United Kingdom	102	4,480,945	15.5
Australia	4	174,089	0.6
France	7	165,720	0.6
Italy	6	139,853	0.5
Mexico	2	131,437	0.4
Other	34	718,746	2.5
Total non-U.S.	155	5,810,790	20.1
Total	2,804	$ 28,895,542	100.0 %

Exposure to Puerto Rico

The Company had insured exposure to the general obligation bonds of the Commonwealth of Puerto Rico (Puerto Rico or the Commonwealth) and obligations of various authorities and public corporations of Puerto Rico aggregating $242.5 million net par outstanding as of December 31, 2023 down from $311.7 million as of December 31, 2022. All of the Company's insured exposure to Puerto Rico is rated BIG. As of December 31, 2023, the only remaining outstanding insured Puerto Rico exposure subject to a payment default was the Puerto Rico Electric Power Authority (PREPA). As of December 31, 2023, the Company had approximately $6.6 million of remaining non-defaulting Puerto Rico exposures related primarily to the Municipal Finance Agency (MFA), which are secured by a lien on local tax revenues and remain current on debt service payments.

On June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) was signed into law. PROMESA established a seven-member Financial Oversight and Management Board (the FOMB) with authority to require that balanced budgets and fiscal plans be adopted and implemented by Puerto Rico. Title III of PROMESA provides for a process analogous to a voluntary bankruptcy process under Chapter 9 of the United States Bankruptcy Code.

After over five years of negotiations, a substantial portion of the Company's Puerto Rico exposure was resolved in 2022 in accordance with four orders entered by the United States District Court of the District of Puerto Rico (Federal District Court of Puerto Rico) related to the Company's exposure to all insured Puerto Rico credits experiencing payment default in 2022 except PREPA (2022 Puerto Rico Resolutions). As a result of the 2022 Puerto Rico Resolutions, during 2022 the Company's obligations under its insurance policies covering debt of the Puerto Rico Convention Center District Authority (PRCCDA) and Puerto Rico Infrastructure Authority (PRIFA) were extinguished, and its insurance exposure to Puerto Rico general obligations (GO) bonds, Public Buildings Authority (PBA) bonds and the Puerto Rico Highway and Transportation Authority (PRHTA) bonds was greatly reduced. On August 31, 2023, the Company extinguished its remaining exposure to GO and PBA bonds by satisfying its obligations to insured bondholders holding custody receipts representing interests in legacy insured GO and PBA bonds.

Under the Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, and the Puerto Rico Public Buildings Authority (GO/PBA Plan), the Company received cash, new general obligation bonds (New GO Bonds) and contingent value instruments (CVIs). In connection with the Modified Fifth Amended Title III Plan of Adjustment for PRHTA (HTA Plan) and related arrangements, the Company received cash and new bonds backed by toll revenues (Toll Bonds, and together with the New GO Bonds, New Recovery Bonds) from the PRHTA and CVIs from the Commonwealth. Cash, New Recovery Bonds and CVIs received pursuant to the 2022 Puerto Rico Resolutions are collectively referred to as Plan Consideration.

Upon receipt, Plan Consideration was reported in either cash, investments or FG VIEs' assets as described below.

- Investments and cash. Plan Consideration received in respect of bondholders whose principal of bonds insured by the Company were accelerated and became due and payable under the 2022 Puerto Rico Resolutions, or subsequently matured or extinguished, and the remaining New Recovery Bonds and CVIs were reported as follows: (i) cash, (ii) fixed-maturity, available-for-sale securities (New Recovery Bonds) and (iii) fixed-maturities, trading securities (CVIs). See Note 7, Investments and Cash, for the fair value of the New Recovery Bonds and CVIs remaining as of December 31, 2023.

- FG VIEs' assets. Plan Consideration received in respect of insured bondholders who elected to receive custody receipts that represent an interest in custodial trusts that hold the legacy insurance policy plus Plan Consideration that constitute distributions under the HTA Plan or the GO/PBA Plan were reported in FG VIEs' assets at the time of the receipt. The Company's insurance policy continues to guarantee principal and interest coming due on the legacy insured bonds in accordance with the terms of such insurance policy on the originally scheduled legacy bond interest and principal payment dates to the extent that distributions of Plan Consideration are insufficient to pay or prepay such amounts. On August 31, 2023, after notice to certain holders of custody receipts representing interests in legacy insured GO, PBA and HTA bonds, the Company satisfied its obligations under such legacy insured bonds with respect to $70.8 million gross par outstanding as of August 31, 2023, and the custodial trusts released to AGC New Recovery Bonds and CVIs with a fair value totaling $43.0 million as of August 31, 2023. On December 28, 2023, all remaining Toll Bonds were redeemed for cash. See Note 8, Variable Interest Entities.

The Company has sold a portion of New Recovery Bonds and CVIs it received, and may sell in the future any New Recovery Bonds or CVIs it continues to hold. The fair value of any New Recovery Bonds and CVIs that the Company retains will fluctuate from their date of acquisition. Any gains or losses on sales of New Recovery Bonds and CVIs in the investment portfolio are reported as realized gains and losses on investments and fair value gains (losses) on trading securities, respectively, rather than loss and loss adjustment expense (LAE).

The CVIs are intended to provide creditors with additional recoveries tied to the outperformance of the Puerto Rico 5.5% Sales and Use Tax receipts against May 2020 certified fiscal plan projections, subject to annual and lifetime caps. As of December 31, 2023, all of the CVIs are reported in fixed-maturity securities, trading.

The Company is continuing its efforts to resolve the one remaining Puerto Rico insured exposure that is in payment default, PREPA. Economic, political and legal developments, including inflation and increases in the cost of petroleum products, may impact any resolution of the Company's PREPA insured exposure and the value of any remaining consideration received in connection with the 2022 Puerto Rico Resolutions or any future resolutions of the Company's PREPA insured exposures. The impact of developments relating to Puerto Rico during any quarter or year could be material to the Company's results of operations and shareholders' equity.

Puerto Rico Par and Debt Service Schedules

The following tables show the Company's insured exposure to general obligation bonds of Puerto Rico and various obligations of its related authorities and public corporations.

Puerto Rico
Gross Par and Gross Debt Service Outstanding

	Gross Par Outstanding		Gross Debt Service Outstanding	
	As of December 31,		As of December 31,	
	2023	2022	2023	2022
	(in thousands)			
Exposure to Puerto Rico	$ 365,504	$ 448,103	$ 571,089	$ 700,448

Puerto Rico
Net Par Outstanding

	As of December 31,	
	2023	2022
	(in thousands)	
Defaulted Puerto Rico Exposures		
PREPA	$ 67,613	$ 68,882
Total Defaulted	67,613	68,882
Resolved Puerto Rico Exposures (1)		
PRHTA (Transportation revenue)	157,051	183,012
PRHTA (Highway revenue)	11,207	29,207
Commonwealth of Puerto Rico - GO	—	19,038
PBA	—	4,177
Total Resolved	168,258	235,434
Other Puerto Rico Exposures (2)		
MFA	5,670	6,180
Puerto Rico Aqueduct and Sewer Authority and the University of Puerto Rico	922	1,245
Total Other	6,592	7,425
Total net exposure to Puerto Rico	**$ 242,463**	**$ 311,741**

(1) Resolved pursuant to the 2022 Puerto Rico Resolutions. In January 2024, $36.8 million of the remaining PRHTA net par was paid down. The remaining liabilities are payable in full by AGC under its financial guaranty policy and are no longer dependent on the credit of PRHTA.

(2) All debt service on these insured exposures have been paid to date without any insurance claim being made on the Company.

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 payment of interest and principal when those amounts are scheduled to be paid and cannot be required to pay on an accelerated basis, although in certain circumstances it may elect to do so. In the event that obligors default on their obligations, the Company would only be required to pay the shortfall between the debt service 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 December 31, 2023

	Scheduled Net Par Amortization	Scheduled Net Debt Service Amortization
	(in thousands)	
2024 (January 1 - March 31)	$ —	$ 6,095
2024 (April 1 - June 30)	—	52
2024 (July 1 - September 30)	2,034	8,170
2024 (October 1 - December 31)	—	52
Subtotal 2024	2,034	14,369
2025	1,776	14,033
2026	20,886	33,067
2027	18,358	29,517
2028	17,777	28,138
2029-2033	16,962	63,002
2034-2038	107,315	132,889
2039-2041	57,355	62,695
Total	$ 242,463	$ 377,710

PREPA

As of December 31, 2023, the Company had $67.6 million insured net par outstanding of PREPA obligations. The Company believes that the PREPA bonds are secured by a lien on the revenues of the electric system.

On April 8, 2022, Judge Laura Taylor Swain of the Federal District Court of Puerto Rico issued an order appointing as members of a PREPA mediation team U.S. Bankruptcy Judges Shelley Chapman (lead mediator), Robert Drain and Brendan Shannon. Judge Swain also entered a separate order establishing the terms and conditions of mediation, including that the mediation would terminate on June 1, 2022. Judge Swain has since extended the term of such mediation several times, most recently on April 2, 2024 extending the term to September 30, 2024. The FOMB filed an initial plan of adjustment and disclosure statement for PREPA with the Federal District Court of Puerto Rico on December 16, 2022.

On March 22, 2023, the Federal District Court of Puerto Rico held that the PREPA bondholders had perfected liens only in revenues that had been deposited in the sinking fund established under the PREPA trust agreement and related funds over which the bond trustee had control but did not have a lien in future revenues until deposited in those funds. The Federal District Court of Puerto Rico also held, however, that PREPA bondholders do have recourse under the PREPA trust agreement in the form of an unsecured net revenue claim. At that time, the Federal District Court of Puerto Rico declined to value the unsecured net revenue claim or the method for its determination. The ultimate value of the claim, according to the Federal District Court of Puerto Rico, should be determined through a claim estimation proceeding.

On June 6-8, 2023, the Federal District Court of Puerto Rico held a claim estimation proceeding and, on June 26, 2023, issued an opinion and order estimating the unsecured net revenue claim to be $2.4 billion as of July 3, 2017. This estimate included a determination that PREPA's discounted cash flows, using the FOMB's base-case incremental net revenues over a 100-year collection period and a discount rate of 7%, would be $3.0 billion, and should be reduced by an additional 20% for collection risk. PREPA bondholders had sought an unsecured net revenue claim of approximately $8.5 billion.

On November 17, 2023, the Federal District Court of Puerto Rico approved the supplemental disclosure statement (Supplemental Disclosure Statement) supporting the PREPA plan of adjustment filed by the FOMB (as amended or modified from time to time). On December 29, 2023, FOMB filed with the Federal District Court of Puerto Rico its most recent plan of adjustment for PREPA, the Fourth Amended Title III Plan of Adjustment (FOMB PREPA Plan). The Supplemental Disclosure Statement and the FOMB PREPA Plan are based on the last revised PREPA fiscal plan certified by the FOMB on June 23, 2023 (2023 PREPA Fiscal Plan).

On November 28, 2023, the Federal District Court of Puerto Rico finally adjudicated all claims and counterclaims in the PREPA lien challenge adversary proceeding. On November 30, 2023, the Company filed a notice of appeal with the United States Court of Appeals for the First Circuit (First Circuit) for portions of the March 22, 2023 decision, including the lien scope ruling and the need for a claim estimation proceeding, as well as the June 26, 2023 claim estimation ruling. On January 29, 2024, the First Circuit heard oral arguments for the Company's appeals.

The FOMB PREPA Plan would split bondholders into two groups: one that would settle litigation regarding whether creditor repayment is limited to existing accounts, and another group that would continue litigating whether bondholders are secured by PREPA's current and future revenue collections. The FOMB PREPA Plan also would further split settling bondholders into two sub-groups: one consisting of certain original settling bondholders that would receive an enhanced recovery (compared to non-settling bondholders) plus other supporting creditor payments, while the second settling sub-group would receive only the enhanced recovery. The FOMB asserts that, other than for pension claims, PREPA's debt capacity is $2.5 billion, of which approximately $1.4 billion is allocated to settling creditors. The remaining $1.1 billion is allocated to (i) non-settling bondholders, and (ii) general unsecured creditors. The most recent revised FOMB PREPA Plan provides for reduced payments to bondholders since lower projected PREPA revenues are included in the 2023 PREPA Fiscal Plan than had been previously anticipated. The FOMB PREPA Plan estimates that non-settling bondholders will receive a recovery of 12.5% of their allowed unsecured net revenue claim. The Company is opposed to the FOMB PREPA Plan and has joined with a group of non-settling bondholders that continue to litigate whether creditor repayments will include future revenue collections.

The confirmation hearing for the FOMB PREPA Plan occurred in March 2024. At the end of the hearing, Judge Swain stated that she was taking the matter under advisement and gave no indication of timing for an opinion or order.

PRHTA

As of December 31, 2023, the Company had $168.3 million of insured net par outstanding of legacy PRHTA bonds: $157.1 million insured net par outstanding of PRHTA (transportation revenue) bonds and $11.2 million insured net par outstanding of PRHTA (highway revenue) bonds. This net par outstanding primarily represents the Company's exposure in respect of legacy insured PRHTA bondholders who elected to receive custody receipts that represent an interest in the legacy insurance policy plus Plan Consideration.

In the fourth quarter of 2023, all of the Toll Bonds in the trusts established as part of the 2022 Puerto Rico Resolutions (Puerto Rico Trusts) were called, resulting in cash proceeds of $41.2 million. Such cash proceeds comprise the vast majority of the assets in the Puerto Rico Trusts as of December 31, 2023. In January 2024, such proceeds were used to pay down a portion of the liabilities of the Puerto Rico Trusts. The remaining liabilities of the Puerto Rico Trusts are payable in full by AGC under its financial guaranty policy and are no longer dependent on the credit of PRHTA.

Puerto Rico Litigation

Currently, there are numerous legal actions relating to the default by the Commonwealth and certain of its instrumentalities on debt service payments, and related matters, and the Company is a party to a number of them. The Company has taken legal action, and may take additional legal action in the future, to enforce its rights with respect to the remaining Puerto Rico obligations it still insures. In addition, the Commonwealth, the FOMB and others have taken legal action naming the Company as party.

Certain legal actions involving the Company and relating to the Commonwealth, PRCCDA, PRIFA or PRHTA, were resolved on March 15, 2022, and all remaining legal actions involving the Company and relating to PRHTA were resolved on December 6, 2022 in connection with the consummation of the 2022 Puerto Rico Resolutions. There remains one active proceeding related to PREPA, while there are a number of unresolved proceedings involving the Company and relating to the default by the Commonwealth or its instrumentalities that remain stayed pending the Federal District Court of Puerto Rico's determination on the PREPA plan of adjustment.

The remaining active proceeding was initiated by the FOMB in the Federal District Court of Puerto Rico on July 1, 2019 against U.S. Bank National Association, as trustee for PREPA's bonds, objecting to and challenging the validity, enforceability, and extent of prepetition security interests securing those bonds and seeking other relief. On September 30, 2022, the FOMB filed an amended complaint against the trustee (i) objecting to and challenging the validity, enforceability, and extent of prepetition security interests securing PREPA's bonds and (ii) arguing that PREPA bondholders' recourse was limited to certain deposit accounts held by the trustee. On October 7, 2022, the court approved a stipulation permitting AGM and AGC to intervene as defendants. Summary judgment motions were filed by plaintiffs and defendants on October 24, 2022. On March 22, 2023, the Federal District Court of Puerto Rico granted in part and denied in part each party's cross-motions for summary judgment. The Federal District Court of Puerto Rico found that the PREPA bondholders had perfected liens only in revenues that had been deposited in the sinking fund established under the PREPA trust agreement and related funds over which the bond trustee had control. The Federal District Court of Puerto Rico also held that the PREPA bondholders do have recourse under the trust agreement in the form of an unsecured net revenue claim. In a June 26, 2023 opinion, the court estimated the PREPA bondholders' allowed unsecured net revenue claim to be $2.4 billion, which the court calculated by largely adopting the conclusions in the FOMB's expert report. On May 3, 2023, the court denied PREPA bondholders' request to certify their interlocutory appeal of the finding that the PREPA bondholders had perfected liens only in revenues that had been deposited in the sinking fund established under the PREPA trust agreement and related funds over which the bond trustee had control. On May 15, 2023, the FOMB filed its motion to dismiss the Trustee's and bondholders' counterclaims, which was granted by the court on November 28, 2023. AGM and AGC filed a notice of appeal on November 30, 2023. On January 29, 2024, the First Circuit heard oral arguments for the Company's appeals.

The unresolved proceedings initiated in the Federal District Court of Puerto Rico involving the Company and relating to the default by the Commonwealth or its instrumentalities that remain stayed pending the Federal District Court of Puerto Rico's determination on the PREPA plan of adjustment are:

- AGM and AGC motion to compel the FOMB to certify the PREPA restructuring support agreement executed in May 2019 (PREPA RSA) for implementation under Title VI of PROMESA.

- AGM and AGC motion to dismiss PREPA's Title III Bankruptcy proceeding or, in the alternative, to lift the PROMESA automatic stay to allow for the appointment of a receiver.

- Adversary complaint by certain fuel line lenders of PREPA against AGM and AGC, among other parties, including various PREPA bondholders and bond insurers, seeking, among other things, declarations that there is no valid lien securing the PREPA bonds unless and until such lenders are paid in full, as well as orders subordinating the PREPA bondholders' lien and claims to such lenders' claims, and declaring the PREPA RSA null and void.

- AGM and AGC motion to intervene in lawsuit by the retirement system for PREPA employees against, among others, the FOMB, PREPA, the Commonwealth, and the trustee for PREPA bondholders seeking, among other things, declarations that there is no valid lien securing the PREPA bonds other than on amounts in the sinking funds, and order subordinating the PREPA bondholders' lien and claim to the PREPA employees' claims.

3. Expected Loss to be Paid (Recovered)

Accounting Policy

Net expected loss to be paid (recovered) is equal to the present value of expected future cash outflows for loss and LAE payments, net of (i) inflows for expected salvage, subrogation and other recoveries; (ii) excess spread on underlying collateral, as applicable; and (iii) amounts ceded to reinsurers. Cash flows are discounted at current risk-free rates. The Company updates the discount rates each quarter and reflects the effect of such changes in economic loss development.

Expected cash outflows and inflows are probability weighted cash flows that reflect management's assumptions about the likelihood of all possible outcomes based on all information available to the Company. Those assumptions consider the relevant facts and circumstances and are consistent with the information tracked and monitored through the Company's surveillance and risk management functions. Expected loss to be paid (recovered) is important in that it represents the present value of amounts that the Company expects to pay or recover in future periods for all contracts.

Insured obligations with expected losses that were purchased by the Company are referred to as Loss Mitigation Securities and are recorded in the investment portfolio at fair value, excluding the value of the Company's insurance. Concurrently, the Company reduces any related expected loss to be paid (recovered). For Loss Mitigation Securities, the difference between the purchase price of the insured obligation and the fair value excluding the value of the Company's insurance (on the date of acquisition) is treated as a paid loss. See Note 7, Investments and Cash, and Note 9, Fair Value Measurement.

Similarly, in cases where issuers of insured obligations elected (or where an issuer and the Company negotiated) to deliver the underlying collateral, insured obligation, or a new security to the Company, expected loss to be paid (recovered) is reduced and the asset received is prospectively accounted for under the applicable guidance for that instrument.

Economic loss development represents the change in net expected loss to be paid (recovered) attributable to the effects of changes in the economic performance of insured transactions, changes in assumptions based on observed market trends, changes in discount rates, accretion of discount and the economic effects of loss mitigation efforts.

In order to effectively evaluate and manage the economics and liquidity of the entire insured portfolio, management assigns ratings and calculates expected loss to be paid (recovered), on contract-by-contract basis, in the same manner for all its exposures regardless of form or differing accounting models. The exposure reported in Note 2, Outstanding Exposure, includes policies accounted for under various accounting models depending on the characteristics of the contract and the Company's control rights. The three models are: (1) insurance, as described in Note 4, Contracts Accounted for as Insurance; (2) derivatives, as described in Note 5, Contracts Accounted for as Credit Derivatives, and Note 9, Fair Value Measurement; and (3) FG VIE consolidation, as described in Note 8, Variable Interest Entities. The Company has paid and expects to pay future losses and/or recover past losses on policies which fall under each of these accounting models. This note provides information regarding expected claim payments to be made and/or recovered under all contracts in the insured portfolio.

Loss Estimation Process

The Company's loss reserve committee estimates expected loss to be paid (recovered) for all contracts by reviewing analyses that consider various scenarios with corresponding probabilities assigned to them. Depending upon the characteristics of the risk, the Company's view of the potential size of any loss and the information available to the Company, that analysis may be based upon individually developed cash flow models, internal credit rating assessments, sector-driven loss severity assumptions and/or judgmental assessments. In the case of its assumed business, the Company may conduct its own analysis as just described or, depending on the Company's view of the potential size of any loss and the information available to the Company, the Company may use loss estimates provided by ceding insurers. Each quarter, the Company's loss reserve committee reviews and refreshes its loss projection assumptions, scenarios and the probabilities it assigns to those scenarios based on developments during the period and its view of future performance.

The financial guaranties issued by the Company insure the credit performance of the guaranteed obligations over an extended period of time, in some cases over 30 years, and in most circumstances the Company has no right to cancel such financial guaranties. As a result, the Company's estimate of ultimate loss on a policy is subject to significant uncertainty over the life of the insured transaction. Credit performance can be affected by economic, fiscal and financial market developments over the life of most contracts.

The Company does not use traditional actuarial approaches to determine its estimates of expected losses. The determination of expected loss to be paid (recovered) is an inherently subjective process involving numerous estimates, assumptions and judgments by management, using both internal and external data sources with regard to frequency and severity of loss, economic projections, governmental actions, legal developments, negotiations, recovery rates, delinquency and prepayment rates, timing of cash flows, and other factors that affect credit performance. These estimates, assumptions and judgments, and the factors on which they are based, may change materially over a reporting period, and have a material effect on the Company's financial statements. Each quarter, the Company may revise its scenarios and update its assumptions, including the probability weightings of its scenarios, based on public as well as nonpublic information obtained through its surveillance and loss mitigation activities.

Changes over a reporting period in the Company's loss estimates for public finance obligations supported by specified revenue streams, such as revenue bonds issued by toll road authorities, municipal utilities or airport authorities, generally will be influenced by factors impacting their revenue levels, such as changes in demand; changing demographics; and other economic factors, especially if the obligations do not benefit from financial support from other tax revenues or governmental authorities. Changes over a reporting period in the Company's loss estimates for its tax-supported and general obligation public finance transactions generally will be influenced by factors impacting the public issuer's ability and willingness to pay, such as changes in the economy and population of the relevant area; changes in the issuer's ability or willingness to raise taxes, decrease spending or receive federal assistance; new legislation; rating agency actions that affect the issuer's ability to refinance maturing obligations or issue new debt at a reasonable cost; changes in the priority or amount of pensions and other obligations owed to workers; developments in restructuring or settlement negotiations; and other political and economic factors. Changes in loss estimates may also be affected by the Company's loss mitigation efforts and other variables.

Changes in the Company's loss estimates for structured finance transactions generally will be influenced by factors impacting the performance of the assets supporting those transactions. For example, changes over a reporting period in the Company's loss estimates for its RMBS transactions may be influenced by factors such as the level and timing of loan defaults experienced, changes in housing prices, results from the Company's loss mitigation activities; and other variables.

Net economic loss development (benefit) over a reporting period may be attributable to a number of interrelated factors such as changes in discount rates, improvement or deterioration of transaction performance, changes in charge-offs, loss mitigation activity, changes to projected default curves, changes in severity rates, and outcome of disputed issues. Actual losses will ultimately depend on future events, transaction performance or other factors that are difficult to predict. As a result, the Company's current projections of certain losses may be subject to considerable uncertainty and may not reflect the Company's ultimate claims paid.

In some instances, the terms of the Company's policy or the terms of certain workout orders and resolutions give it the option to pay principal losses that have been recognized in the transaction but which it is not yet required to pay, thereby reducing the amount of guaranteed interest due in the future. The Company has sometimes exercised this option, which results in an acceleration of cash outflows but reduces overall losses paid.

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

	Net Expected Loss to be Paid (Recovered)		Net Economic Loss Development (Benefit)		
	As of December 31,		Year Ended December 31,		
Accounting Model	2023	2022	2023	2022	2021
			(in thousands)		
Insurance (see Notes 4 and 6)	$ (12,491)	$ (42,908)	$ 16,464	$ (106,777)	$ (111,128)
FG VIEs (see Note 8) (1)	183,064	229,004	(6,162)	(1,474)	(7,234)
Credit derivatives (see Note 5)	1,347	2,683	1,049	3,610	12,523
Total	$ 171,920	$ 188,779	$ 11,351	$ (104,641)	$ (105,839)

(1) The net expected loss to be paid for FG VIEs primarily relates to Puerto Rico Trusts that were consolidated.

The following tables present a roll forward of net expected loss to be paid (recovered) for all contracts, which are accounted for under one of the following accounting models: insurance, derivative and FG VIE. The Company used risk-free rates for U.S. dollar denominated obligations, that ranged from 3.79% to 5.40% with a weighted average of 4.06% as of December 31, 2023 and 3.82% to 4.69% with a weighted average of 4.04% as of December 31, 2022. Net expected losses to be paid for U.S. dollar denominated transactions represented approximately 99.7% and 99.4% of the total as of December 31, 2023 and December 31, 2022, respectively.

Net Expected Loss to be Paid (Recovered) Roll Forward

	Year Ended December 31,		
	2023	2022	2021
		(in thousands)	
Net expected loss to be paid (recovered), beginning of period	$ 188,779	$ 175,428	$ 237,528
Economic loss development (benefit) due to:			
Accretion of discount	6,729	7,883	3,747
Changes in discount rates	165	(59,301)	(15,007)
Changes in timing and assumptions	4,457	(53,223)	(94,579)
Total economic loss development (benefit)	11,351	(104,641)	(105,839)
Net (paid) recovered losses (1)	(28,210)	117,992	43,739
Net expected loss to be paid (recovered), end of period	$ 171,920	$ 188,779	$ 175,428

(1) Net (paid) recovered losses in 2023 include extinguishment of certain GO, PBA and HTA insured exposure. Net (paid) recovered losses in 2022 include the net amounts received pursuant to the 2022 Puerto Rico Resolutions, as described in Note 2, Outstanding Exposure.

Net Expected Loss to be Paid (Recovered)
Roll Forward by Sector

	Year Ended December 31, 2023			
Sector	Net Expected Loss to be Paid (Recovered) as of December 31, 2022	Net Economic Loss Development (Benefit)	Net (Paid) Recovered Losses(1)	Net Expected Loss to be Paid (Recovered) as of December 31, 2023
	(in thousands)			
Public finance:				
U.S. public finance	$ 187,961	$ 17,255	$ (36,584)	$ 168,632
Non-U.S. public finance	1,050	(583)	—	467
Public finance	189,011	16,672	(36,584)	169,099
Structured finance:				
U.S. RMBS	58,352	2,497	(2,181)	58,668
Other structured finance	(58,584)	(7,818)	10,555	(55,847)
Structured finance	(232)	(5,321)	8,374	2,821
Total	$ 188,779	$ 11,351	$ (28,210)	$ 171,920

	Year Ended December 31, 2022			
Sector	Net Expected Loss to be Paid (Recovered) as of December 31, 2021	Net Economic Loss Development (Benefit)	Net (Paid) Recovered Losses(1)	Net Expected Loss to be Paid (Recovered) as of December 31, 2022
	(in thousands)			
Public finance:				
U.S. public finance	$ 149,471	$ (64,119)	$ 102,609	$ 187,961
Non-U.S. public finance	1,696	(643)	(3)	1,050
Public finance	151,167	(64,762)	102,606	189,011
Structured finance:				
U.S. RMBS	64,757	(24,927)	18,522	58,352
Other structured finance	(40,496)	(14,952)	(3,136)	(58,584)
Structured finance	24,261	(39,879)	15,386	(232)
Total	$ 175,428	$ (104,641)	$ 117,992	$ 188,779

	Year Ended December 31, 2021			
Sector	Net Expected Loss to be Paid (Recovered) as of December 31, 2020	Net Economic Loss Development (Benefit)	Net (Paid) Recovered Losses(1)	Net Expected Loss to be Paid (Recovered) as of December 31, 2021
	(in thousands)			
Public finance:				
U.S. public finance	$ 199,041	$ (77,357)	$ 27,787	$ 149,471
Non-U.S. public finance	3,122	(1,419)	(7)	1,696
Public finance	202,163	(78,776)	27,780	151,167
Structured finance:				
U.S. RMBS	73,701	(31,220)	22,276	64,757
Other structured finance	(38,336)	4,157	(6,317)	(40,496)
Structured finance	35,365	(27,063)	15,959	24,261
Total	$ 237,528	$ (105,839)	$ 43,739	$ 175,428

(1) Net of ceded paid losses, whether or not such amounts have been settled with reinsurers. Ceded paid losses are typically settled 45 days after the end of the reporting period. Such amounts are recorded as reinsurance recoverable on paid losses in "other assets."

The tables above include (i) net LAE paid of $6.2 million, $15.3 million and $17.2 million for the years ended December 31, 2023, 2022 and 2021, respectively; and (ii) net expected LAE to be paid of $4.3 million as of December 31, 2023 and $1.2 million as of December 31, 2022.

Public Finance

The largest component of public finance net expected losses to be paid (recovered) and net economic loss development (benefit) are U.S. exposures, including Puerto Rico exposures, which are discussed in Note 2, Outstanding Exposure.

U.S. RMBS Loss Projections

The Company projects losses on its insured U.S. RMBS on a transaction-by-transaction basis by projecting the performance of the underlying pool of mortgages over time and then applying the structural features (e.g., payment priorities and tranching) of the RMBS and any expected representation and warranty recoveries/payables to the projected performance of the collateral over time. The resulting projected claim payments or reimbursements are then discounted using risk-free rates.

The further behind mortgage borrowers fall in making payments, the more likely it is that they 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 behind on payments and have not fallen two or more payments behind in the last two years (generally considered performing borrowers) have demonstrated an ability and willingness to pay through challenging economic periods, and as a result are viewed as less likely to default than delinquent borrowers or those that have experienced delinquency recently. Performing borrowers that eventually default will also need to progress through delinquency categories before any defaults occur. The Company projects how many of the currently performing loans will default and when they will default, by first converting the projected near term defaults of delinquent borrowers derived from liquidation rates into a vector of conditional default rates (CDR), then projecting how the CDR will develop over time. Loans that are defaulted pursuant to the CDR after the near-term liquidation of currently delinquent loans represent defaults of currently performing loans and projected re-performing loans. The CDR is the outstanding principal amount of defaulted loans liquidated in the current month divided by the remaining outstanding amount of the whole pool of loans (collateral pool balance). The collateral pool balance decreases over time as a result of scheduled principal payments, partial and whole principal prepayments, and defaults.

In order to derive collateral pool losses from the collateral pool defaults it has projected, the Company applies a loss severity. The loss severity is the amount of loss the transaction experiences on a defaulted loan after the application of net proceeds from the disposal of the underlying property. The Company projects loss severities by sector and vintage based on its experience to date. The Company continues to update its evaluation of these loss severities as new information becomes available.

The Company 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.

Each period the Company reviews the assumptions it uses to make RMBS loss projections with consideration of updates on 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. To the extent it observes changes, it makes a judgment as to whether those changes are normal fluctuations or part of a more prolonged trend. The assumptions that the Company uses to project RMBS losses are shown in the sections below.

Net Economic Loss Development (Benefit)
U.S. RMBS

	Year Ended December 31,		
	2023	2022	2021
		(in thousands)	
First lien U.S. RMBS	$ 408	$ (7,863)	$ (5,371)
Second lien U.S. RMBS	2,089	(17,064)	(25,849)

First Lien U.S. RMBS Loss Projections: Alt-A, Prime, Option ARM and Subprime

The majority of projected losses in first lien U.S. RMBS transactions are expected to come from non-performing mortgage loans (those that are or have recently been two or more payments behind, have been modified, are in foreclosure, or have been foreclosed upon). Changes in the amount of non-performing loans from the amount projected in the previous period are one of the primary drivers of loss projections in this portfolio. In order to project the number of defaults arising from these delinquent and foreclosed loans, the Company applies a liquidation rate assumption to loans in each of various non-performing categories. The Company arrived at its liquidation rates based on data purchased from a third-party provider and assumptions about how delays in the foreclosure process and loan modifications may ultimately affect the rate at which loans are liquidated. Each quarter the Company reviews recent data and (if necessary) adjusts its liquidation rates based on its observations. The following table shows liquidation assumptions for various non-performing and re-performing categories.

First Lien U.S. RMBS Liquidation Rates

	As of December 31, 2023	As of December 31, 2022
	Range	Range
Current but recently delinquent	20%	20%
30 – 59 Days Delinquent	30% – 35%	30% – 35%
60 – 89 Days Delinquent	40% – 45%	40% – 45%
90+ Days Delinquent	45% – 60%	45% – 60%
Bankruptcy	40% – 50%	40% – 50%
Foreclosure	55% – 65%	55% – 65%
Real Estate Owned	100%	100%

While the Company uses the liquidation rates above to project defaults of non-performing loans (including current loans that were recently modified or delinquent), it projects defaults on presently current loans by applying a CDR curve. The start of that CDR curve 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, results in the projection of the defaults that are expected to emerge from the various delinquency categories. The CDR thus calculated individually on the delinquent collateral pool for each RMBS is then used as the starting point for the CDR curve used to project defaults of the presently performing loans.

In the most heavily weighted scenario (the base scenario), after the 36-month CDR plateau period, each transaction's CDR is projected to improve over 12 months to a final CDR of 5% of the CDR plateau. In the base scenario, the Company assumes the final CDR will be reached one year after the 36-month CDR plateau period. Under the Company's methodology, defaults projected to occur in the first 36 months represent defaults that can be attributed to loans that were recently modified or delinquent, 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 re-perform.

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. The Company assumes in the base scenario that recent (still historically elevated) loss severities will improve after loans with accumulated delinquencies and foreclosure cost are liquidated. The Company is assuming in the base scenario that the recent levels generally will continue for another 18 months. The Company determines its initial loss severity based on actual recent experience. Each quarter the Company reviews available data and (if necessary) adjusts its severities based on its observations. The Company then assumes that loss severities begin returning to levels consistent with underwriting assumptions beginning after the initial 18-month period, declining to 40% in the base scenario over 2.5 years.

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 (recovered) for individual transactions for vintage 2004 - 2008 first lien U.S. RMBS.

Key Assumptions in Base Scenario Expected Loss Estimates
First Lien U.S. RMBS

	As of December 31, 2023		As of December 31, 2022	
	Range	Weighted Average	Range	Weighted Average
Alt-A and Prime:				
CDR plateau	1.4% - 5.8%	3.1%	1.6% - 8.8%	4.7%
Final CDR	0.1% - 0.3%	0.2%	0.1% - 0.4%	0.2%
Initial loss severity	50%		50%	
Option ARM:				
CDR plateau	0.0% - 4.5%	2.8%	2.0% - 7.7%	5.5%
Final CDR	0.0% - 0.2%	0.1%	0.1% - 0.4%	0.3%
Initial loss severity	50%		50%	
Subprime:				
CDR plateau	2.1% - 9.3%	4.5%	2.8% - 9.4%	4.8%
Final CDR	0.1% - 0.5%	0.2%	0.1% - 0.5%	0.2%
Initial loss severity	50%		50%	

The rate at which the principal amount of loans is voluntarily prepaid may impact both the amount of losses projected (since that amount is a function of the CDR, the loss severity and the loan balance over time) as well as the amount of excess spread (the amount by which the interest paid by the borrowers on the underlying loan exceeds the amount of interest owed on the insured obligations). The assumption for the voluntary conditional prepayment rate (CPR) follows a pattern similar to that of the CDR. The current level of voluntary prepayments is assumed to continue for the plateau period before gradually increasing over 12 months to the final CPR, which is assumed to be 15% in the base scenario. For transactions where the initial CPR is higher than the final CPR, the initial CPR is held constant and the final CPR is not used. These CPR assumptions are the same as those the Company used for December 31, 2022.

The Company incorporates a recovery assumption into its reserving model to reflect observed trends in recoveries of deferred principal balances of modified first lien loans that had been previously written off. For transactions where the Company has detailed loan information, the Company assumes, in the base scenario, that 30% of the deferred loan balances will eventually be recovered upon sale of the collateral or refinancing of the loans. In the first quarter of 2023, in light of volatility in interest rates, the mortgage market and home prices, the Company began incorporating higher (a 50% recovery rate) and lower (a 10% recovery rate) levels into the least and most stressful scenarios, which widened the range of possible outcomes but had a minimal effect on the weighted average recovery, which at the time was 20%. Additionally, in the third quarter of 2023, due to home prices reaching all time highs, the Company increased its scenario based recovery assumptions such that the weighted average recovery percentage increased from 20% to approximately 30%. The effect of these updated assumptions on expected losses was a benefit of $1.8 million in 2023.

In estimating expected losses, the Company modeled and probability weighted sensitivities for first lien U.S. RMBS transactions by varying its assumptions of how fast a recovery is expected to occur. One of the variables used to model sensitivities was how quickly the CDR returned to its modeled equilibrium, which was defined as 5% of the CDR plateau. The Company also stressed CPR and the speed of recovery of loss severity rates. The Company probability weighted a total of five scenarios as of December 31, 2023 and December 31, 2022.

Certain transactions benefit from excess spread when they are supported by large portions of fixed rate assets (either originally fixed or modified to be fixed) but have insured floating rate debt linked to the Secured Overnight Finance Rate (SOFR). An increase in projected SOFR decreases excess spread, while lower SOFR projections result in higher excess spread.

The Company used a similar approach to establish its scenarios as of December 31, 2023 as it used as of December 31, 2022, increasing and decreasing the periods of stress from those used in the base scenario except as described above with regards to the increase in deferred principal recoveries. In the Company's most stressful scenario where 10% of deferred principal balances are assumed to be recovered, loss severities were assumed to rise and then recover over nine years and the initial ramp-down of the CDR was assumed to occur over 16 months, expected loss to be paid would increase from current projections by approximately $9.6 million for all first lien U.S. RMBS transactions. In the Company's least stressful scenario where 50% of deferred principal balances are assumed to be recovered, the CDR plateau was six months shorter (30 months, effectively assuming that liquidation rates would improve) and the CDR recovery was more pronounced (including an initial ramp-down of the CDR over eight months), expected loss to be paid would decrease from current projections by approximately $5.9 million for all first lien U.S. RMBS transactions.

Second Lien U.S. RMBS Loss Projections

Second lien U.S. RMBS transactions include both home equity lines of credit (HELOC) and closed end second lien mortgages. The Company believes the primary variable affecting its expected losses in second lien RMBS transactions is the amount and timing of future losses or recoveries in the collateral pool supporting the transactions (including recoveries from previously charged-off loans). Expected losses are also a function of the structure of the transaction, the prepayment speeds of the collateral, the interest rate environment, and assumptions about loss severity.

The Company estimates the amount of loans that will default over the next several years by first calculating expected liquidation rates for delinquent loans, and applying liquidation rates to currently delinquent loans in order to arrive at an expected dollar amount of defaults from currently delinquent collateral (plateau period defaults).

Similar to the methodology applied to first lien U.S. RMBS transactions, the Company then calculates a CDR that will cause the targeted amount of liquidations to occur during the plateau period.

For the base scenario, the CDR plateau is held constant for 36 months. Once the plateau period ends, the CDR is assumed to trend down in uniform increments for one year to its final long-term steady state CDR (5% of original plateau).

HELOC loans generally permitted the borrower to pay only interest for an initial period (often ten years) and, after that period, require the borrower to make both the monthly interest payment and a monthly principal payment. This causes the borrower's total monthly payment to increase, sometimes substantially, at the end of the initial interest-only period. A substantial number of loans in the Company's insured transactions had been modified to extend the interest-only period to 15 years. The majority of the modified loans had reset to fully amortizing by the end of 2022, and most of the remaining loans will reset over the next several years.

The Company has observed the performance of the modified loans that have finally reset to full amortization (which represent the majority of extended loans), and noted low levels of delinquency, even with substantial increases in monthly payments. This observed performance lowers the level of uncertainty regarding this modified cohort as the remainder continue to reset.

When a second lien loan defaults, there is generally a low recovery. The Company assumed, as of December 31, 2023 and December 31, 2022, that it will generally recover 2% of future defaulting collateral at the time of charge-off, with additional amounts of post charge-off recoveries projected to come in over time. A second lien on the borrower's home may be retained in the Company's second lien transactions after the loan is charged off and the loss applied to the transaction, particularly in cases where the holder of the first lien has not foreclosed. If the second lien is retained and the value of the home increases, the servicer may be able to use the second lien to increase recoveries, either by arranging for the borrower to resume payments or by realizing value upon the sale of the underlying real estate. The Company evaluates its assumptions quarterly based on actual recoveries of charged-off loans observed from period to period and reasonable expectations of future recoveries. In instances where the Company is able to obtain information on the lien status of charged-off loans, it assumes there will be a certain level of future recoveries of the balance of the charged-off loans where the second lien is still intact. The Company's base scenario recovery assumption for charged-off loans is 40% (up from 30% in December 31, 2022), as shown in the table below, based on observed trends, and reasonable expectations of future recoveries. Such recoveries are assumed to be received evenly over the next five years. In the first quarter of 2023, in light of volatility in interest rates, the mortgage market and home prices, as with the first lien deferred principal balances detailed earlier, the Company also expanded the range of potential recoveries as a percentage of charged off loan balances. In the third quarter of 2023, this range was further expanded to represent a potential for greater future recoveries due to home prices reaching new record highs. The assumptions as of December 31, 2023 ranged from a 10% recovery of charged-off loan balances in the most stressful scenario to an 80% recovery in the least stressful scenario. The effect of these updated assumptions on expected loss to be paid (recovered) was a benefit of $7.1 million in 2023.

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 scenario, an average CPR (based on experience of the past year) 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 second lien U.S. RMBS transactions (in the base scenario), which is lower than the historical average but reflects the Company's continued uncertainty about the projected performance of the borrowers in these transactions. For transactions where the initial CPR is higher than the final CPR, the initial CPR is held constant and the final CPR is not used. This pattern is consistent with how the Company modeled the CPR as of December 31, 2022. To the extent that prepayments differ from projected levels the Company's projected excess spread and losses could materially change.

In estimating expected losses, the Company modeled and probability weighted five scenarios, each with a different CDR curve applicable to the period preceding the return to the long-term steady state CDR. The Company believes that the level of the elevated CDR and the length of time it will persist and the ultimate prepayment rate are the primary drivers of the amount of losses the collateral will likely suffer.

The following table shows the range as well as the average, weighted by net par outstanding, for key assumptions used in the calculation of expected loss to be paid (recovered) for individual transactions for vintage 2004 - 2008 HELOCs.

Key Assumptions in Base Scenario Expected Loss Estimates
HELOCs

	As of December 31, 2023		As of December 31, 2022	
	Range	Weighted Average	Range	Weighted Average
CDR plateau	0.0% - 6.8%	3.1%	2.0% - 8.4%	3.9%
Final CDR trended down to	0.0% - 0.3%	0.2%	0.1% - 0.4%	0.2%
Liquidation rates:				
Current but recently delinquent	20%		20%	
30 – 59 Days Delinquent	30		30	
60 – 89 Days Delinquent	40		40	
90+ Days Delinquent	60		60	
Bankruptcy	55		55	
Foreclosure	55		55	
Real Estate Owned	100		100	
Loss severity on future defaults	98%		98%	
Projected future recoveries on previously charged-off loans	40%		30%	

The Company continues to evaluate the assumptions affecting its modeling results. The Company believes the most important driver of its projected second lien U.S. RMBS losses is the performance of its HELOC transactions.

The Company modeled scenarios with a longer period of elevated defaults and others with a shorter period of elevated defaults. In the Company's most stressful scenario, assuming 10% recoveries on charged-off loans, increasing the CDR plateau to 42 months and increasing the ramp-down by four months to 16 months (for a total stress period of 58 months) would decrease the expected recovery by approximately $16.2 million for HELOC transactions. On the other hand, in the Company's least stressful scenario, assuming 80% recoveries on charged-off loans, reducing the CDR plateau to 30 months and decreasing the length of the CDR ramp-down to eight months (for a total stress period of 38 months), and lowering the ultimate prepayment rate to 10% would increase the expected recovery by approximately $21.8 million for HELOC transactions.

Structured Finance Excluding U.S. RMBS

The Company projected that its total net expected recovery across its troubled structured finance exposures excluding U.S. RMBS as of December 31, 2023 was $55.8 million, which was primarily attributable to a financial guaranty life insurance transaction. The BIG net par outstanding in this sector was $8.0 million consisting of a life insurance transaction, consumer receivable transactions and other structured finance transactions.

Recovery Litigation and Dispute Resolution

In the ordinary course of its business, the Company is involved in litigation or other dispute resolution with third parties to recover insurance losses paid or return benefits received in prior periods or prevent or reduce losses in the future. The impact, if any, of these and other proceedings on the amount of recoveries the Company ultimately receives and losses it pays in the future is uncertain, and the impact of any one or more of these proceedings during any quarter or year could be material to the Company's financial statements.

The Company has asserted claims in a number of legal proceedings in connection with its exposure to Puerto Rico. See Note 2, Outstanding Exposure, for a discussion of the Company's exposure to Puerto Rico and related recovery litigation being pursued by the Company.

4. Contracts Accounted for as Insurance

The portfolio of outstanding exposures discussed in Note 2, Outstanding Exposure, and Note 3, Expected Loss to be Paid (Recovered), includes contracts that are accounted for as insurance contracts, derivatives and consolidated FG VIEs. Amounts presented in this note relate only to contracts accounted for as insurance, unless otherwise specified. See Note 5, Contracts Accounted for as Credit Derivatives, for amounts related to CDS and Note 8, Variable Interest Entities, for amounts related to consolidated FG VIEs.

Premiums

Accounting Policy

Financial guaranty contracts that meet the scope exception under derivative accounting guidance are subject to industry specific accounting guidance for financial guaranty insurance.

Premiums receivable represent the present value of contractual or expected future premium collections discounted using risk free rates. Unearned premium reserve represents deferred premium revenue, less claim payments made (net of recoveries received) that have not yet been recognized in the statement of operations (i.e.,contra-paid). The following discussion relates to the deferred premium revenue component of the unearned premium reserve, while the contra-paid is discussed below under "Losses and Recoveries."

The amount of deferred premium revenue at contract inception is determined as follows:

- For premiums received upfront on financial guaranty insurance contracts that were originally underwritten by the Company, deferred premium revenue is equal to the amount of cash received. Upfront premiums typically relate to public finance transactions.

- For premiums received in installments on financial guaranty insurance contracts that were originally underwritten by the Company, deferred premium revenue is calculated as the present value (discounted at risk free rates) of either (i) contractual premiums due; or (ii) in cases where the underlying collateral is composed of homogeneous pools of assets, the expected premiums to be collected over the life of the contract. To be considered a homogeneous pool of assets, prepayments must be contractually allowable, the amount of prepayments must be probable, and the timing and amount of prepayments must be reasonably estimable. Installment premiums typically relate to structured finance (e.g., securitized debt) and infrastructure transactions, where the insurance premium rate is determined at the inception of the contract but the insured par is subject to prepayment throughout the life of the transaction.

- For financial guaranty insurance contracts acquired in a business combination, deferred premium revenue is equal to the fair value of the Company's stand-ready obligation portion of the insurance contract at the date of acquisition based on what a hypothetical similarly rated financial guaranty insurer would have charged for the contract at that date (not the discounted future cash flows under the insurance contract). The amount of deferred premium revenue may differ significantly from cash collections primarily due to fair value adjustments recorded in connection with a business combination.

When the Company adjusts prepayment assumptions for expected premium collections for obligations backed by homogeneous pools of contractually prepayable assets, an adjustment is recorded to the deferred premium revenue, with a corresponding adjustment to premiums receivable. Premiums receivable are discounted at the risk-free rate at inception and such discount rate is updated only when changes to prepayment assumptions are made that change the expected date of final maturity. Accretion of the discount on premiums receivable is reported in “net earned premiums.”

The Company recognizes deferred premium revenue as earned premium over the contractual period or expected period of the contract in proportion to the amount of insurance protection provided. As premium revenue is recognized, a corresponding decrease to the deferred premium revenue is recorded. The amount of insurance protection provided is a function of the insured par amount outstanding. Accordingly, the proportionate share of premium revenue recognized in a given reporting period is a constant rate calculated based on the relationship between the insured par amounts outstanding in the reporting period compared with the sum of each of the insured par amounts outstanding for all periods. When an insured financial obligation is retired before its maturity, the financial guaranty insurance contract is extinguished, and any nonrefundable deferred premium revenue related to that contract is accelerated and recognized as premium revenue. Any unamortized acquisition costs are expensed. The Company assesses the need for an allowance for credit loss on premiums receivables each reporting period.

For assumed reinsurance contracts, net earned premiums reported in the consolidated statements of operations are calculated based upon data received from ceding companies; however, some ceding companies report premium data between 30 and 90 days after the end of the reporting period. The Company estimates net earned premiums for the lag period. Differences between such estimates and actual amounts are recorded in the period in which the actual amounts are determined. When installment premiums are related to assumed reinsurance contracts, the Company assesses the credit quality and available liquidity of the ceding companies and the impact of any potential regulatory constraints to determine the collectability of such amounts.

Ceded unearned premium reserve is recorded as an asset. Direct, assumed and ceded earned premiums are presented together as net earned premiums in the statement of operations. See Note 6, Reinsurance, for a breakout of direct, assumed and ceded premiums.

Any premiums related to FG VIEs are eliminated in consolidation.

Insurance Contracts’ Premium Information

Net Earned Premiums

	Year Ended December 31,		
	2023	2022	2021
		(in thousands)	
Scheduled net earned premiums	$ 52,604	$ 57,501	$ 71,163
Accelerations from refundings and terminations (1)	5,879	149,127	10,776
Accretion of discount on net premiums receivable	4,316	2,478	3,723
Net earned premiums	$ 62,799	$ 209,106	$ 85,662

(1) 2022 accelerations include $139.0 million related to 2022 Puerto Rico Resolutions. See Note 2, Outstanding Exposure, for additional information.

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

	Year Ended December 31,		
	2023	2022	2021
		(in thousands)	
Beginning of year	$ 297,015	$ 302,427	$ 269,756
Gross written premiums on new business, net of commissions	163,223	55,806	95,358
Gross premiums received, net of commissions	(59,196)	(45,991)	(59,318)
Adjustments:			
Changes in the expected term	1,732	(9,404)	(4,760)
Accretion of discount, net of commissions on assumed business	7,942	3,512	2,292
Foreign exchange gain (loss) on remeasurement	4,790	(8,890)	(1,092)
Other	(1,423)	(445)	191
December 31,	$ 414,083	$ 297,015	$ 302,427

Approximately 25% and 26% of gross premiums receivable, net of commissions payable at December 31, 2023 and December 31, 2022, respectively, are denominated in currencies other than the U.S. dollar, primarily the pound sterling.

The timing and cumulative amount of actual collections and net earned premiums may differ from those of expected collections and of expected net earned premiums in the table below due to factors such as foreign exchange rate fluctuations, counterparty collectability issues, accelerations, commutations, restructurings, changes in the consumer price indices, changes in expected lives and new business.

Financial Guaranty Insurance Expected Future Premium Collections and Earnings

	As of December 31, 2023	
	Future Gross Premiums to be Collected (1)	Future Net Premiums to be Earned (2)
	(in thousands)	
2024 (January 1 – March 31)	$ 33,661	$ 13,726
2024 (April 1 – June 30)	11,533	13,673
2024 (July 1 – September 30)	10,539	13,508
2024 (October 1 – December 31)	15,402	13,080
Subtotal 2024	71,135	53,987
2025	38,874	48,767
2026	36,681	44,527
2027	34,618	40,913
2028	32,579	37,613
2029-2033	130,672	146,737
2034-2038	66,303	85,761
2039-2043	44,823	43,210
After 2043	44,976	47,739
Total	$ 500,661	549,254
Future accretion		60,916
Total future net earned premiums		$ 610,170

(1) Net of assumed commissions payable.
(2) Net of reinsurance.

Selected Information for Financial Guaranty Insurance Policies with Premiums Paid in Installments

	As of December 31,	
	2023	2022
	(dollars in thousands)	
Premiums receivable, net of commissions payable	$ 414,083	$ 297,015
Deferred premium revenue	543,550	436,911
Weighted-average risk-free rate used to discount premiums	2.6 %	2.1 %
Weighted-average period of premiums receivable (in years)	8.8	9.1

Policy Acquisition Costs

Accounting Policy

Policy acquisition costs that are directly related and essential to successful insurance contract acquisition, as well as ceding commission income and expense on ceded and assumed reinsurance contracts, are deferred and reported net.

Deferred policy acquisition costs include the cost of underwriting personnel attributable to successful underwriting efforts. The Company conducts an annual time study, which requires the use of judgment, to estimate the amount of costs to be deferred.

Ceding commission expense on assumed reinsurance contracts and ceding commission income on ceded reinsurance contracts that are associated with premiums received in installments are calculated at their contractually defined commission rates, discounted consistent with premiums receivable for all future periods, and included in deferred acquisition costs (DAC), with a corresponding offset to net premiums receivable or reinsurance balances payable.

DAC is amortized in proportion to net earned premiums. Amortization of deferred policy acquisition costs and ceding commissions includes the accretion of discount on ceding commission receivable and payable. When an insured obligation is retired early, the remaining related DAC is expensed at that time.

Costs incurred for soliciting potential customers, market research, training, administration, unsuccessful acquisition efforts and product development as well as overhead costs are charged to expense as incurred.

Policy Acquisition Costs

Roll Forward of Deferred Ceding Commissions, Net of DAC (1)

	Year Ended December 31,		
	2023	2022	2021
		(in thousands)	
Beginning of year	$ (12,399)	$ (23,216)	$ (21,927)
Deferrals	11,222	10,345	(2,107)
Amortization (2)	(44)	754	818
Other	—	(282)	—
December 31,	$ (1,221)	$ (12,399)	$ (23,216)

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(1) The balances are included in “other liabilities” in the consolidated balance sheets.
(2) Included in “other expenses” in the consolidated statements of operations.

Losses and Recoveries

Accounting Policies

Loss and LAE Reserve

Loss and LAE reserve reported on the balance sheet relates only to direct and assumed reinsurance contracts that are accounted for as insurance, substantially all of which are financial guaranty insurance contracts. The portion of any contract’s reserve that is ceded to a reinsurer is reported as “reinsurance recoverable on unpaid losses.” Any loss and LAE reserves related to FG VIEs are eliminated upon consolidation. Any expected losses to be paid (recovered) on credit derivatives are reflected in the fair value of credit derivatives.

Under financial guaranty insurance accounting, the sum of unearned premium reserve and loss and LAE reserve represents the Company's stand-ready obligation. A loss and LAE reserve for a financial guaranty insurance contract is recorded only to the extent, and for the amount, that expected loss to be paid plus contra-paid (total losses) exceed the deferred premium revenue, on a contract-by-contract basis. As a result, the Company has expected loss to be paid that has not yet been expensed. Such amounts will be recognized in future periods as deferred premium revenue amortizes into income.

When a claim or LAE payment is made on a contract, the Company first reduces any recorded loss and LAE reserve. To the extent there is insufficient loss and LAE reserve on a contract, then such claim payment is recorded as "contra-paid," which reduces the unearned premium reserve. The contra-paid is recognized in "loss and loss adjustment expenses (benefit)" in the consolidated statement of operations when and for the amount that total losses exceed the remaining deferred premium revenue on the insurance contract. "Loss and loss adjustment expenses (benefit)" in the consolidated statement of operations is presented net of cessions to reinsurers.

Salvage and Subrogation Recoverable

Expected losses to be paid are reduced when a claim payment (or estimated future claim payment) entitles the Company to cash flows associated with salvage and subrogation rights from the underlying collateral of, or other recoveries relating to, an insured exposure. Such reduction in expected loss to be paid can result in one of the following: (i) a reduction in the corresponding loss and LAE reserve with a benefit to the consolidated statement of operations; (ii) no effect on the consolidated balance sheet or statements of operations, if total loss is not in excess of deferred premium revenue; or (iii) the recording of a salvage asset with a benefit to the consolidated statements of operations if the transaction is in a net recovery position at the reporting date. The ceded component of salvage and subrogation recoverable is reported in "reinsurance balances payable, net."

Expected Loss to be Expensed

Expected loss to be expensed represents past or expected future financial guaranty insurance net claim payments that have not yet been expensed. Such amounts will be expensed in future periods as deferred premium revenue amortizes into income. Expected loss to be expensed is the Company's projection of incurred losses that will be recognized in future periods, excluding accretion of discount.

Insurance Contracts' Loss Information

Loss and LAE reserve and salvage and subrogation recoverable are discounted at risk-free rates for U.S. dollar denominated financial guaranty insurance obligations that ranged from 3.79% to 5.40% with a weighted average of 4.19% as of December 31, 2023 and 3.82% to 4.69% with a weighted average of 4.12% as of December 31, 2022.

The following tables provide information on net reserve (salvage), which includes loss and LAE reserves and salvage and subrogation recoverable, both net of reinsurance.

Net Reserve (Salvage) by Sector

Sector	As of December 31, 2023	As of December 31, 2022
	(in thousands)	
Public finance:		
U.S. public finance	$ (32,892)	$ (60,113)
Non-U.S. public finance	(1)	4
Public finance	(32,893)	(60,109)
Structured finance:		
U.S. RMBS	(13,288)	(19,057)
Other structured finance	(56,488)	(58,482)
Structured finance	(69,776)	(77,539)
Total	$ (102,669)	$ (137,648)

Components of Net Reserve (Salvage)

	As of December 31,	
	2023	2022
	(in thousands)	
Loss and LAE reserve	$ 112,789	$ 84,112
Reinsurance recoverable on unpaid losses	(158,518)	(158,641)
Other payables	17	10
Loss and LAE reserve, net	(45,712)	(74,519)
Salvage and subrogation recoverable	(66,782)	(71,749)
Salvage and subrogation reinsurance payable (1)	9,939	8,685
Other recoverables	(114)	(65)
Salvage and subrogation recoverable, net	(56,957)	(63,129)
Net reserve (salvage)	$ (102,669)	$ (137,648)

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(1) Reported as a component of "reinsurance balances payable, net" on the consolidated balance sheets.

The table below provides a reconciliation of net expected loss to be paid (recovered) for financial guaranty insurance contracts to net expected loss to be expensed. Expected loss to be paid (recovered) for financial guaranty insurance contracts differs from expected loss to be expensed due to: (i) the contra-paid, which represents the claim payments made and recoveries received that have not yet been recognized in the statements of operations; (ii) salvage and subrogation recoverable for transactions that are in a net recovery position where the Company has not yet received recoveries on claims previously paid (and therefore recognized in income but not yet received); and (iii) loss reserves that have already been established (and therefore expensed but not yet paid).

Reconciliation of Net Expected Loss to be Paid (Recovered) to Net Expected Loss to be Expensed
Financial Guaranty Insurance Contracts

	As of December 31, 2023
	(in thousands)
Net expected loss to be paid (recovered) - financial guaranty insurance	$ (12,796)
Contra-paid, net	2,348
Salvage and subrogation recoverable, net and other recoverable, net	56,940
Loss and LAE reserve - financial guaranty insurance contracts, net of reinsurance	46,034
Net expected loss to be expensed (present value)	$ 92,526

The following table provides a schedule of the expected timing of net expected losses to be expensed. The amount and timing of actual loss and LAE may differ from the estimates shown below due to factors such as accelerations, commutations, changes in expected lives and updates to loss estimates. This table excludes amounts related to FG VIEs, which are eliminated in consolidation.

Net Expected Loss to be Expensed
Financial Guaranty Insurance Contracts

	As of December 31, 2023
	(in thousands)
2024 (January 1 - March 31)	$ 1,382
2024 (April 1 - June 30)	1,365
2024 (July 1 - September 30)	1,364
2024 (October 1 - December 31)	1,405
Subtotal 2024	5,516
2025	5,498
2026	9,384
2027	9,486
2028	8,810
2029-2033	33,900
2034-2038	19,053
2039-2043	479
After 2043	400
Net expected loss to be expensed (present value)	92,526
Future accretion	39,925
Total expected future loss and LAE	$ 132,451

The following table presents the loss and LAE (benefit) reported in the consolidated statements of operations by sector for insurance contracts. Amounts presented are net of reinsurance.

Loss and LAE (Benefit) by Sector

	Year Ended December 31,		
Sector	2023	2022	2021
		(in thousands)	
Public finance:			
U.S. public finance	$ 21,536	$ 62,810	$ (32,644)
Non-U.S. public finance	(5)	(4)	(4)
Public finance	21,531	62,806	(32,648)
Structured finance:			
U.S. RMBS	11,769	(16,239)	(18,856)
Other structured finance	(10,377)	(14,458)	(7,822)
Structured finance	1,392	(30,697)	(26,678)
Loss and LAE (benefit)	$ 22,923	$ 32,109	$ (59,326)

The following tables provide information on financial guaranty insurance contracts categorized as BIG.

Financial Guaranty Insurance
BIG Transaction Loss Summary
As of December 31, 2023

	Gross				
	BIG 1	BIG 2	BIG 3	Total BIG	Net Total BIG
	(dollars in thousands)				
Number of risks (1)	40	7	92	139	139
Remaining weighted-average period (in years)	8.4	9.9	10.1	9.7	9.6
Outstanding exposure:					
Par	$ 181,230	$ 85,193	$ 671,384	$ 937,807	$ 740,000
Interest	86,728	42,800	361,048	490,576	396,885
Total (2)	$ 267,958	$ 127,993	$ 1,032,432	$ 1,428,383	$ 1,136,885
Expected cash outflows (inflows)	$ 18,639	$ 22,591	$ 617,265	$ 658,495	$ 420,538
Potential recoveries (3)	(60,009)	(8,083)	(397,418)	(465,510)	(393,409)
Subtotal	(41,370)	14,508	219,847	192,985	27,129
Discount	7,876	(3,068)	(59,572)	(54,764)	(39,925)
Expected losses to be paid (recovered)	$ (33,494)	$ 11,440	$ 160,275	$ 138,221	$ (12,796)
Deferred premium revenue	$ 8,011	$ 2,124	$ 106,075	$ 116,210	$ 113,609
Reserves (salvage)	$ (37,279)	$ 10,125	$ 72,671	$ 45,517	$ (102,974)

Financial Guaranty Insurance
BIG Transaction Loss Summary
As of December 31, 2022

	Gross				
	BIG 1	BIG 2	BIG 3	Total BIG	Net Total BIG
	(dollars in thousands)				
Number of risks (1)	54	9	94	157	157
Remaining weighted-average period (in years)	7.9	9.4	10.3	9.6	9.3
Outstanding exposure:					
Par	$ 235,038	$ 84,067	$ 763,761	$ 1,082,866	$ 866,651
Interest	110,917	32,375	388,059	531,351	424,668
Total (2)	$ 345,955	$ 116,442	$ 1,151,820	$ 1,614,217	$ 1,291,319
Expected cash outflows (inflows)	$ 12,353	$ 25,108	$ 656,421	$ 693,882	$ 415,524
Potential recoveries (3)	(57,146)	(9,409)	(456,226)	(522,781)	(434,915)
Subtotal	(44,793)	15,699	200,195	171,101	(19,391)
Discount	6,089	(3,910)	(63,247)	(61,068)	(23,822)
Expected losses to be paid (recovered)	$ (38,704)	$ 11,789	$ 136,948	$ 110,033	$ (43,213)
Deferred premium revenue	$ 13,111	$ 2,340	$ 118,719	$ 134,170	$ 130,714
Reserves (salvage)	$ (43,677)	$ 10,014	$ 45,585	$ 11,922	$ (137,953)

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(1) A risk represents the aggregate of the financial guaranty policies that share the same revenue source for purposes of making debt service payments.
(2) Includes amounts related to FG VIEs.
(3) Represents expected inflows from future payments by obligors pursuant to restructuring agreements, settlements, excess spread on any underlying collateral and other estimated recoveries. Potential recoveries also include recoveries on certain investment grade credits, related mainly to exposures that were previously BIG and for which claims have been paid in the past.

5. Contracts Accounted for as Credit Derivatives

Amounts presented in this note relate only to contracts accounted for as derivatives, which are primarily CDS, and also include interest rate swaps.

The Company's credit derivatives are generally governed by International Swaps and Derivatives Association, Inc. documentation and have certain characteristics that differ from financial guaranty insurance contracts. For example, the Company's control rights with respect to a reference obligation under a CDS 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. In certain credit derivative transactions, the Company also specifically agreed to pay if the obligor were to become bankrupt or if the reference obligation were restructured. Furthermore, in certain credit derivative transactions the Company may be required to make a payment due to an event that is unrelated to the performance of the obligation referenced in the credit derivative. If events of default or termination events specified in the credit derivative documentation were to occur, the non-defaulting or the non-affected party, which may be either the Company or the counterparty, depending upon the circumstances, may decide to terminate a credit derivative prior to maturity. In that case, the Company may be required to make a termination payment to its swap counterparty upon such termination. Absent such an event of default or termination event, the Company may not unilaterally terminate a credit derivative contract; however, the Company on occasion has mutually agreed with various counterparties to terminate certain CDS transactions.

Accounting Policy

Credit derivatives are recorded at fair value and changes in fair value are reported in "Fair value gains (losses) on credit derivatives" in the consolidated statement of operations. The fair value of credit derivatives is determined on a contract-by-contract basis and presented as either credit derivative assets reported in "other assets" or "credit derivative liabilities" in the consolidated balance sheets. See Note 9, Fair Value Measurement, for a discussion on the fair value methodology for credit derivatives.

Credit Derivatives Net Par Outstanding and Fair Value

The components of the Company's credit derivative net par outstanding by sector are presented in the table below. The estimated remaining weighted average life of credit derivatives was 13.0 years and 13.6 years as of December 31, 2023 and December 31, 2022, respectively.

Credit Derivatives (1)

	As of December 31, 2023		As of December 31, 2022	
Sector	Net Par Outstanding	Net Fair Value Asset (Liability)	Net Par Outstanding	Net Fair Value Asset (Liability)
	(in thousands)			
U.S. public finance	$ 935,689	$ (11,654)	$ 948,516	$ (74,777)
Non-U.S. public finance	741,246	(10,953)	725,054	(30,207)
U.S. structured finance	296,886	(12,662)	315,119	(21,223)
Non-U.S. structured finance	127,310	(2,038)	120,830	(3,779)
Total	$ 2,101,131	$ (37,307)	$ 2,109,519	$ (129,986)

(1) Expected loss to be paid was $1.3 million as of December 31, 2023 and $2.7 million as of December 31, 2022.

Fair Value Gains (Losses) on Credit Derivatives

	Year Ended December 31,		
	2023	2022	2021
	(in thousands)		
Realized gains (losses) and other settlements	$ (396)	$ (2,307)	$ (4,880)
Net unrealized gains (losses)	92,556	(4,669)	(47,167)
Fair value gains (losses) on credit derivatives	$ 92,160	$ (6,976)	$ (52,047)

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 change in fair value of each transaction may vary considerably. The fair value of credit derivative contracts generally also reflects the Company's own credit cost based on the price to purchase credit protection on AGC. The Company determines its own credit risk primarily based on quoted CDS prices traded on the Company at each balance sheet date.

CDS Spread on AGC (in basis points)

	As of December 31,		
	2023	2022	2021
Five-year CDS spread	66	63	49
One-year CDS spread	23	26	16

Fair Value of Credit Derivative Assets (Liabilities)
and Effect of AGC Credit Spread

	As of December 31,	
	2023	2022
	(in thousands)	
Fair value of credit derivatives before effect of AGC credit spread	$ (57,289)	$ (165,104)
Plus: Effect of AGC credit spread	19,982	35,118
Net fair value of credit derivatives	$ (37,307)	$ (129,986)

The fair value of CDS contracts as of December 31, 2023, before considering the benefit applicable to AGC's credit spread, is a direct result of the relatively wider credit spreads under current market conditions compared to those at the time of underwriting for certain underlying credits with longer tenor.

6. Reinsurance

The Company assumes portions of insured risks (Assumed Business) and cedes portions of exposure it has insured (Ceded Business) in exchange for premiums, net of any ceding commissions.

The Company has Assumed Business from three affiliated companies, AGM, Assured Guaranty UK Limited (AGUK) and Assured Guaranty (Europe) SA (AGE), as well as from several non-affiliated companies, primarily other monoline financial guaranty companies that currently are in runoff and no longer actively writing new business (Legacy Financial Guarantors). See Note 13, Related Party Transactions, for a more detailed description of the Company's Assumed Business from affiliates. The Company, if required, secures its reinsurance obligations to these Legacy Financial Guarantors, typically by depositing in trust assets with a market value equal to its assumed liabilities calculated on a U.S. statutory basis.

The Company has Ceded Business to affiliated and non-affiliated companies to limit its exposure to risk. See Note 13, Related Party Transactions, for a description of business the Company cedes to affiliated companies. The Company remains primarily liable for all risks it directly underwrites and is required to pay all gross claims. It then seeks reimbursement from the reinsurer for its proportionate share of claims. The Company may be exposed to risk for this exposure if it were required to pay the gross claims and not be able to collect ceded claims from an assuming company experiencing financial distress. The Company's ceded contracts generally allow the Company to recapture Ceded Business after certain triggering events, such as reinsurer downgrades.

Accounting Policy

For business assumed and ceded, the accounting model of the underlying direct financial guaranty contract dictates the accounting model used for the reinsurance contract (except for those eliminated as FG VIEs). For any assumed or ceded financial guaranty insurance premiums and losses, the accounting models described in Note 4, Contracts Accounted for as Insurance, are followed. For any assumed or ceded credit derivative contracts, the accounting model in Note 5, Contracts Accounted for as Credit Derivatives, is followed.

Effect of Reinsurance

The following table presents the components of premiums and losses reported in the consolidated statements of operations attributable to the Assumed and Ceded Businesses. See Note 13, Related Party Transactions, for balances with affiliates.

Components of Premiums Written, Premiums Earned and Loss and LAE (Benefit)

	Year Ended December 31,		
	2023	2022	2021
		(in thousands)	
Premiums Written:			
Direct	$ 57,964	$ 38,505	$ 54,397
Assumed	126,149	17,358	40,806
Ceded (1)	(47,107)	(12,365)	(5,850)
Net	$ 137,006	$ 43,498	$ 89,353
Premiums Earned:			
Direct	$ 51,319	$ 176,398	$ 66,261
Assumed	35,772	52,177	39,830
Ceded (1)	(24,292)	(19,469)	(20,429)
Net	$ 62,799	$ 209,106	$ 85,662
Loss and LAE (benefit):			
Direct (2)	$ 32,991	$ 28,744	$ (85,172)
Assumed	15,239	4,640	9,710
Ceded (1)	(25,307)	(1,275)	16,136
Net	$ 22,923	$ 32,109	$ (59,326)

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(1) Ceded amounts mainly consist of cessions to affiliates. The 2021 ceded premiums written includes the effect of the MAC Transaction, see Note 1, Business and Basis of Presentation.

(2) See Note 3, Expected Loss to be Paid (Recovered), for additional information on the economic loss development (benefit).

In addition to the items presented in the table above, the Company records the effect of assumed and ceded credit derivative exposures in "fair value gains (losses) on credit derivatives" in the consolidated statements of operations. These amounts were losses of $17.6 million in 2023, gains of $4.9 million in 2022 and gains of $9.2 million in 2021.

Change in assumed and ceded funds held relates primarily to the assumed and ceded portion of net realized investment gains (losses) and fair value gains (losses) on trading securities associated with salvage received in the form of investments from the 2022 Puerto Rico Resolutions.

Ceded Reinsurance (1)

	As of December 31, 2023		As of December 31, 2022	
	Affiliated Reinsurers	Non-Affiliated Reinsurers	Affiliated Reinsurers	Non-Affiliated Reinsurers
		(in thousands)		
Ceded premium payable, net of commissions	$ 127,242	$ —	$ 102,618	$ —
Ceded expected loss to be recovered	151,254	71	153,719	71
Reinsurance recoverable on ceded paid losses	1,142	(1)	3,428	—
Ceded unearned premium reserve	212,538	1,613	185,670	1,710
Ceded paid loss payable	—	—	22,934	181
Ceded par outstanding (2)	9,192,108	25,500	8,121,740	25,500

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(1) There was no collateral posted by non-affiliated reinsurers as of December 31, 2023 and December 31, 2022. The total collateral posted by affiliated reinsurers was $186.5 million and $196.1 million as of December 31, 2023 and December 31, 2022, respectively.

(2) Of the total par ceded to a non-affiliated reinsurer, none is rated BIG as of either December 31, 2023 or December 31, 2022. Of the total par ceded to affiliates, $205.9 million and $224.8 million is rated BIG as of December 31, 2023 and December 31, 2022, respectively.

In accordance with U.S. statutory accounting requirements and U.S. insurance laws and regulations, in order for the Company to receive credit for liabilities ceded to reinsurers domiciled outside of the U.S., such reinsurers must secure their liabilities to the Company. These reinsurers are required to post collateral for the benefit of the Company in an amount at least equal to the sum of their ceded unearned premium reserve, loss reserves and contingency reserves all calculated on a statutory basis of accounting. In addition, certain authorized reinsurers post collateral on terms negotiated with the Company.

Commutations of Previously Ceded Business

In the second quarter of 2021, in connection with the MAC Transaction, the Company reassumed $2.1 billion in net par of its remaining cessions to MAC. This commutation resulted in an increase of net unearned premium reserve of $24.4 million and a commutation gain of $7.3 million in 2021. See Note 1, Business and Basis of Presentation, for a description of the merger of MAC with and into AGM, with AGM as the surviving company, effective April 1, 2021.

7. Investments and Cash

Accounting Policy

All fixed-maturity securities are reported on a trade date-basis, measured at fair value and classified as either trading or available-for-sale. Changes in fair value on trading fixed-maturity securities are reported as a component of net income, while unrealized gains and losses on available-for-sale fixed-maturity securities are reported in accumulated other comprehensive income (AOCI). Loss Mitigation Securities, which are a component of available-for-sale fixed-maturity securities, are accounted for based on their underlying investment type, excluding the effects of the Company's insurance.

Short-term investments, which are investments with a maturity of less than one year at the time of purchase, are carried at fair value and include amounts deposited in certain money market funds.

The Company has an equity method investment in AGAS, and prior to April 1, 2021, an equity method investment in MAC Holdings. For investees that are pass-through entities, changes in the value of equity method investments are reported in the consolidated statements of operations in "equity in earnings of investees." For other investees, changes in these values are reported in "equity in after-tax earnings (loss) of investee." The Company classifies distributions received from equity method investments using the cumulative earnings approach in the consolidated statements of cash flows. Under the cumulative earnings approach, distributions received up to the amount of cumulative equity in earnings recognized are treated as returns on investment within operating cash flows and those in excess of that amount are treated as returns of investment within investing cash flows.

Cash consists of cash on hand and demand deposits. See Note 8, Variable Interest Entities, for cash for consolidated VIEs.

Net investment income primarily includes the income earned on fixed-maturity securities and short-term investments, including amortization of premiums and accretion of discounts. For mortgage backed securities and any other securities for which there is prepayment risk, prepayment assumptions are evaluated quarterly and revised as necessary. For securities other than purchased credit deteriorated (PCD) securities, any necessary adjustments due to changes in effective yields and expected maturities are recognized in net investment income using the retrospective method. PCD securities are defined as financial assets that, as of the date of acquisition, have experienced a more-than-insignificant deterioration in credit quality since origination.

Realized gains and losses on sales of available-for-sale fixed-maturity securities and credit losses are reported in the consolidated statement of operations. Net realized investment gains (losses) include sales of investments, which are determined using the specific identification method, reductions to amortized cost of available-for-sale investments that have been written down due to the Company's intent to sell them or it being more-likely-than-not that the Company will be required to sell them, and the change in allowance for credit losses (including accretion) as discussed below.

For all fixed-maturity securities that were originally purchased with credit deterioration, accrued interest is not separately presented, but rather is a component of the amortized cost of the instrument. For all other available-for-sale securities, a separate amount for accrued interest is reported in "other assets."

Credit Losses

For an available-for-sale fixed-maturity security that has experienced a decline in fair value below its amortized cost due to credit related factors, an allowance is established for the difference between the estimated recoverable value and amortized cost with a corresponding charge to net realized investment gains (losses) in the consolidated statement of operations. The estimated recoverable value is the present value of cash flows expected to be collected. The allowance for credit losses is limited to the difference between amortized cost and fair value. Any difference between the security's fair value and its amortized cost that is not associated with credit related factors is presented as a component of AOCI.

When estimating future cash flows for fixed-maturity securities, management considers the historical performance of underlying assets and available market information as well as bond-specific considerations. In addition, the process of estimating future cash flows includes, but is not limited to, the following critical inputs, which vary by security type:

- the extent to which fair value is less than amortized cost;
- credit ratings;
- any adverse conditions specifically related to the security, industry, and/or geographic area;
- changes in the financial condition of the issuer, or underlying loan obligors;
- general economic and political factors;
- remaining payment terms of the security;
- prepayment speeds;
- expected defaults; and
- the value of any embedded credit enhancements.

The assessment of whether a credit loss exists is performed each reporting period.

The allowance for credit losses and the corresponding charge to net realized investment gains (losses) may be reversed if conditions change. However, the allowance for credit losses is never reduced below zero. When the Company determines that all or a portion of a fixed-maturity security is uncollectible, the uncollectible amortized cost amount is written off with a corresponding reduction to the allowance for credit losses. If cash flows that were previously written off are collected, the recovery is recognized in "net realized investment gains (losses)."

An allowance for credit losses is established upon initial recognition for available-for-sale PCD securities. On the date of acquisition the amortized cost of PCD securities is equal to the purchase price plus the allowance for credit losses, with no credit loss expense recognized in the consolidated statements of operations. After the date of acquisition, deterioration or improvement in credit will result in an increase (or decrease) to the allowance and an offsetting credit loss expense (or benefit). To measure this, the Company performs a discounted cash flow analysis. For PCD securities that are also beneficial interests, favorable or adverse changes in expected cash flows are recognized as a change in the allowance for credit losses. Changes in expected cash flows that are not captured through the allowance are reflected as a prospective adjustment to the security's yield within net investment income.

The Company has elected to not measure credit losses on its accrued interest receivable and instead write off accrued interest when it is six-months past due or on the date it is deemed uncollectible, if earlier. All write-offs of accrued interest are recorded as a reduction to net investment income in the consolidated statements of operations.

For impaired securities that (i) the Company intends to sell, or (ii) it is more-likely-than-not that the Company will be required to sell before recovering its amortized cost, the amortized cost is written down to fair value with a corresponding charge to net realized investment gains (losses). No allowance is established in these situations and any previously recorded allowance is reversed. The new cost basis is not adjusted for subsequent increases in estimated fair value.

The Company monitors its equity method investments for indicators of other-than-temporary declines in fair value on an ongoing basis. If such a decline occurs, an impairment charge is recorded, measured as the difference between the carrying value and the estimated fair value.

Investment Portfolio

The majority of the investment portfolio comprises investment grade fixed-maturity securities managed by three outside managers. The Company has established investment guidelines for these investment managers regarding credit quality, exposure to a particular sector and exposure to a particular obligor within a sector.

The remainder of the investment portfolio primarily consists of: (i) an equity method investment in AGAS; (ii) Loss Mitigation Securities; (iii) CVIs and New Recovery Bonds received in connection with the 2022 Puerto Rico Resolutions; and (iv) short-term investments.

Investment Portfolio
Carrying Value

	As of December 31,	
	2023	2022
	(in thousands)	
Fixed-maturity securities, available-for-sale (1):		
Externally managed (2)	$ 1,403,034	$ 1,538,422
Loss Mitigation Securities	281,928	306,096
Puerto Rico New Recovery Bonds (3) (5)	12,957	62,927
Other (4)	191,027	185,083
Fixed-maturity securities, trading - Puerto Rico CVIs (3)	211,023	175,896
Short-term investments	25,160	111,452
Equity method investment - AGAS	332,271	211,125
Other invested assets	790	790
Total	$ 2,458,190	$ 2,591,791

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(1) 17.5% and 16.4% of fixed-maturity securities were rated BIG, as of December 31, 2023 and December 31, 2022, respectively, consisting primarily of Loss Mitigation Securities. 3.0% and 5.1% were not rated as of December 31, 2023 and December 31, 2022, respectively.
(2) As of December 31, 2023 and December 31, 2022, amounts include $27.0 million and $25.2 million, respectively, of CLOs that had been managed internally by AssuredIM under an investment management agreement until such CLOs transitioned to a third-party manager in June 2023.
(3) These securities are not rated.
(4) As of December 31, 2023 and December 31, 2022, amounts include $86.7 million and $91.0 million, respectively, of investment grade municipal bonds that had been managed by AssuredIM under an investment management agreement until June 2023. In connection with the Sound Point Transaction, the Company retained management of the strategy internally. In February 2024, responsibility for the Company’s investment grade municipal securities strategy was transitioned to a third-party asset manager.
(5) In the fourth quarter of 2023, the majority of the New Recovery Bonds were called. See Note 2, Outstanding Exposure.

AGM and AGC are authorized to invest up to $750.0 million, plus previously distributed gains of $108.2 million for the total of $858.2 million as of December 31, 2023 in alternative investments through their jointly owned investment subsidiary AGAS. AGC is authorized for $262.5 million of this aggregate amount. As of December 31, 2023, AGAS commitments to Sound Point and AHP funds were $775.2 million (of which $534.3 million was funded with a new asset value (NAV) of $571.3 million). This capital was committed to several funds, each dedicated to a single strategy, including CLOs, asset-based finance and healthcare structured capital. As of December 31, 2022, the NAV of AGAS’ interest in AssuredIM Funds was $569.3 million. AGC’s 35% ownership interest in AGAS was $332.3 million and $211.1 million as of December 31, 2023 and December 31, 2022, respectively, reported in “equity method investments” in the consolidated balance sheets. See Note 13, Related Party Transactions, for a description of AGAS ownership.

Accrued investment income was $19.5 million and $21.1 million as of December 31, 2023 and December 31, 2022, respectively. In 2023, 2022 and 2021, the Company did not write off any accrued investment income.

Available-for-Sale Fixed-Maturity Securities by Security Type
As of December 31, 2023

Security Type	Percent of Total (1)	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
			(dollars in thousands)			
Obligations of state and political subdivisions	55 %	$1,100,189	$ (13,465)	$ 21,174	$ (34,576)	$1,073,322
U.S. government and agencies	—	6,966	—	4	(394)	6,576
Corporate securities (2)	21	413,577	(2,234)	1,749	(36,323)	376,769
Mortgage-backed securities (3):						
RMBS	1	19,409	(1,981)	465	(1,448)	16,445
Commercial mortgage-backed securities (CMBS)	1	26,764	—	—	(1,215)	25,549
Asset-backed securities:						
CLOs	3	62,397	—	81	(518)	61,960
Other	19	384,079	(33,368)	439	(22,825)	328,325
Total available-for-sale fixed-maturity securities	100 %	$2,013,381	$ (51,048)	$ 23,912	$ (97,299)	$1,888,946

Available-for-Sale Fixed-Maturity Securities by Security Type
As of December 31, 2022

Security Type	Percent of Total (1)	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
			(dollars in thousands)			
Obligations of state and political subdivisions	59 %	$1,318,569	$ (13,348)	$ 18,763	$ (51,957)	$1,272,027
U.S. government and agencies	1	23,895	—	—	(656)	23,239
Corporate securities (2)	19	405,139	(2,231)	—	(49,796)	353,112
Mortgage-backed securities (3):						
RMBS	1	17,298	(1,411)	611	(1,611)	14,887
CMBS	1	27,980	—	1	(1,651)	26,330
Asset-backed securities:						
CLOs	3	64,475	—	15	(2,463)	62,027
Other	16	366,230	(24,522)	22,079	(22,881)	340,906
Total available-for-sale fixed-maturity securities	100 %	$2,223,586	$ (41,512)	$ 41,469	$ (131,015)	$2,092,528

(1) Based on amortized cost.
(2) Includes securities issued by taxable universities and hospitals.
(3) U.S. government-agency obligations were approximately 28% of mortgage backed securities as of December 31, 2023 and 24% as of December 31, 2022, based on fair value.

Gross Unrealized Loss by Length of Time for Available-for-Sale Fixed-Maturity Securities for Which a Credit Loss was Not Recorded As of December 31, 2023

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(dollars in thousands)					
Obligations of state and political subdivisions	$ 215,946	$ (1,168)	$ 438,672	$ (32,243)	$ 654,618	$ (33,411)
U.S. government and agencies	—	—	6,416	(394)	6,416	(394)
Corporate securities	7,134	(60)	238,779	(21,451)	245,913	(21,511)
Mortgage-backed securities:						
RMBS	—	—	10,639	(800)	10,639	(800)
CMBS	—	—	25,539	(1,215)	25,539	(1,215)
Asset-backed securities:						
CLOs	—	—	51,410	(518)	51,410	(518)
Other	—	—	5,493	(252)	5,493	(252)
Total	$ 223,080	$ (1,228)	$ 776,948	$ (56,873)	$ 1,000,028	$ (58,101)
Number of securities (1)		89		368		456

Gross Unrealized Loss by Length of Time for Available-for-Sale Fixed-Maturity Securities for Which a Credit Loss was Not Recorded As of December 31, 2022

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(dollars in thousands)					
Obligations of state and political subdivisions	$ 664,269	$ (31,907)	$ 109,848	$ (17,478)	$ 774,117	$ (49,385)
U.S. government and agencies	17,140	(42)	6,099	(614)	23,239	(656)
Corporate securities	212,508	(14,685)	64,032	(15,239)	276,540	(29,924)
Mortgage-backed securities:						
RMBS	6,970	(455)	3,193	(448)	10,163	(903)
CMBS	26,161	(1,651)	—	—	26,161	(1,651)
Asset-backed securities:						
CLOs	45,655	(1,487)	15,323	(976)	60,978	(2,463)
Other	5,808	(397)	—	—	5,808	(397)
Total	$ 978,511	$ (50,624)	$ 198,495	$ (34,755)	$ 1,177,006	$ (85,379)
Number of securities		441		122		556

(1) The number of securities does not add across because lots consisting of the same securities have been purchased at different times and appear in both categories above (i.e., less than 12 months and 12 months or more). If a security appears in both categories, it is counted only once in the total column.

The Company considered the credit quality, cash flows, interest rate movements, ability to hold a security to recovery and intent to sell a security in determining whether a security had a credit loss. The Company has determined that the unrealized losses recorded as of December 31, 2023 and December 31, 2022 were primarily related to higher interest rates rather than credit quality. As of December 31, 2023, the Company did not intend to and was not required, to sell investments in an unrealized loss position prior to expected recovery in value. As of December 31, 2023, of the securities in an unrealized loss position for which an allowance for credit loss was not recorded, 97 securities had unrealized losses in excess of 10% of their carrying value, whereas as of December 31, 2022, 149 securities had unrealized losses in excess of 10% of their carrying value. The total unrealized loss for these securities was $33.9 million as of December 31, 2023 and $51.5 million as of December 31, 2022.

The amortized cost and estimated fair value of available-for-sale fixed-maturity securities by contractual maturity as of December 31, 2023 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 Available-for-Sale Fixed-Maturity Securities by Contractual Maturity
As of December 31, 2023

	Amortized Cost	Estimated Fair Value
	(in thousands)	
Due within one year	$ 43,429	$ 42,979
Due after one year through five years	263,398	257,688
Due after five years through 10 years	567,348	536,649
Due after 10 years	1,093,033	1,009,636
Mortgage-backed securities:		
RMBS	19,409	16,445
CMBS	26,764	25,549
Total	$ 2,013,381	$ 1,888,946

Based on fair value, fixed-maturity securities, short-term investments and cash that are either held in trust for the benefit of third party ceding insurers in accordance with statutory requirements, placed on deposit to fulfill state licensing requirements, or otherwise pledged or restricted totaled $97.0 million as of December 31, 2023 and $90.6 million, as of December 31, 2022. In addition, the total collateral required to be funded into a reinsurance trust account by AGC for the benefit of AGUK and AGE was $291.7 million as of December 31, 2023 and $294.9 million as of December 31, 2022, based on fair value.

No material investments of the Company were non-income producing during the twelve-month periods ending December 31, 2023 and December 31, 2022.

Income from Investments

The components of income derived from the investment portfolio are presented in the following tables.

Income from Investments

	Year Ended December 31,		
	2023	2022	2021
		(in thousands)	
Investment income:			
Fixed-maturity securities, available-for-sale:			
Externally managed (1)	$ 54,158	$ 53,533	$ 55,815
Loss Mitigation Securities	39,292	15,427	18,399
Puerto Rico, New Recovery Bonds	3,982	2,163	—
Other (2)	9,921	10,791	15,338
Short-term investments	9,816	3,750	(18)
Interest income on loan receivable from parent	3,063	3,063	3,063
Investment income	120,232	88,727	92,597
Investment expenses	(1,334)	(1,546)	(1,647)
Net investment income	$ 118,898	$ 87,181	$ 90,950
Fair value gains (losses) on trading securities (3)	$ 46,637	$ (19,793)	$ —
Equity in earnings (losses) of investees			
AGAS	$ 29,491	$ (4,700)	$ 27,119
Other	—	—	2,943
Equity in earnings (losses) of investees	$ 29,491	$ (4,700)	$ 30,062

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(1) Includes income on the portion of the CLO portfolio that was managed by AssuredIM prior to July 1, 2023.
(2) Includes income on the portion of the municipal bond portfolio that was managed by AssuredIM prior to July 1, 2023.
(3) Fair value gains on trading securities pertaining to securities still held as of December 31, 2023 were $19.9 million for 2023. Fair value losses on trading securities pertaining to securities still held as of December 31, 2022 were $18.6 million for 2022.

Equity Method Investments

On April 1, 2021, as part of the MAC Transaction discussed in Note 1, Business and Basis of Presentation, AGC recognized a return of capital from MAC Holdings of $131.5 million and then AGC sold its interest in MAC Holdings to its affiliate, AGM, for $66.9 million. In addition, the Company received $0.5 million of dividends from other equity method investments in 2021.

Equity in after-tax earnings (loss) of investee was primarily attributable to MAC Holdings and was $(3.7) million in 2021. See Note 1, Business and Basis of Presentation, for MAC's merger with and into AGM and AGM purchasing AGC's interest in MAC Holdings.

Realized Investment Gains (Losses)

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

Net Realized Investment Gains (Losses)

	Year Ended December 31, 2023	2022	2021
	(in thousands)		
Gross realized gains on sales of available-for-sale securities	$ 3,578	$ 453	$ 1,622
Gross realized losses on sales of available-for-sale securities	(5,130)	(6,869)	(966)
Change in the allowance for credit losses and intent to sell (1)	(10,392)	(17,431)	(6,630)
Other net realized gains (losses)	(736)	8,032	603
Net realized investment gains (losses)	$ (12,680)	$ (15,815)	$ (5,371)

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(1) Change in allowance for credit losses for all periods was primarily related to Loss Mitigation Securities.

The following table presents the roll forward of allowance for the credit losses on available-for-sale fixed-maturity securities.

Roll Forward of Allowance for Credit Losses
for Available-for-Sale Fixed-Maturity Securities

	Year Ended December 31, 2023	2022	2021
	(in thousands)		
Balance, beginning of period	$ 41,512	$ 24,081	$ 17,707
Additions for securities for which credit losses were not previously recognized	405	2,759	2,945
Additions (reductions) for securities for which credit losses were previously recognized	9,203	14,672	3,490
Reductions for securities sold and other settlements	(72)	—	(61)
Balance, end of period	$ 51,048	$ 41,512	$ 24,081

The Company did not purchase any securities with credit deterioration during the periods presented. Most of the Company’s securities with credit deterioration are Loss Mitigation Securities.

8. Variable Interest Entities

Accounting Policy

The types of entities that the Company assesses for consolidation principally include financial guaranty VIEs which include entities whose debt obligations the Company insures in its financial guaranty business and Puerto Rico Trusts. For entities determined to be a VIE, and in which the Company has a variable interest, the Company assesses whether it is the primary beneficiary of the VIE at the time it becomes involved with the entity and performs this assessment quarterly. In determining whether it is the primary beneficiary, the Company considers all facts and circumstances, including an evaluation of economic interests in the VIE held directly and indirectly through related parties. The Company is the primary beneficiary of a VIE when it has both: (i) the power to direct the activities of a VIE that most significantly impact the entity’s economic performance; and (ii) the obligation to absorb losses (or the right to receive benefits) from the entity that could potentially be significant to the VIE.

If the Company concludes that it is the primary beneficiary of the VIE, it consolidates the VIE in the Company’s consolidated financial statements. If, as part of its continual reassessment of the primary beneficiary determination, the Company concludes that it is no longer the primary beneficiary of a VIE, the Company deconsolidates the VIE and recognizes the impact of that change on the consolidated financial statements.

For FG VIEs other than the Puerto Rico Trusts, the Company elected the fair value option (FVO) for all assets and liabilities. Upon initial adoption of the accounting guidance for VIEs in 2010, the Company elected to fair value its structured finance and other FG VIEs' assets and liabilities as the carrying amount transition method was not practical. To allow for consistency in the accounting for the assets and liabilities of its consolidated FG VIEs other than the Puerto Rico Trusts, the Company elected the FVO.

The consolidated Puerto Rico Trusts described below primarily include (i) cash or fixed-maturity debt securities that are carried at fair value and classified as either available-for-sale or trading securities similar to the fixed-maturity debt securities received pursuant to the 2022 Puerto Rico Resolutions and reported in the investment portfolio, and (ii) Puerto Rico Trust liabilities for which the Company elected the FVO in order to more closely mirror the fair value measurement of the Puerto Rico Trust liabilities to the fair value measurement of the Puerto Rico Trust assets.

The change in fair value of FG VIEs' assets and liabilities is reported in "fair value gains (losses) on FG VIEs" in the consolidated statement of operations, except for (i) the change in fair value attributable to change in instrument-specific credit risk (ISCR) on FG VIEs' liabilities, and (ii) unrealized gains and losses on the New Recovery Bonds in the Puerto Rico Trusts, which are both reported in other comprehensive income (OCI). Interest income and interest expense are derived from the trustee reports and also included in "fair value gains (losses) on FG VIEs." Investment income on the New Recovery Bonds and changes in fair value on the CVIs in the Puerto Rico Trusts are all reported in "fair value gains (losses) on FG VIEs" on the consolidated statement of operations, as applicable.

For those FG VIE liabilities with recourse to the Company, the portion of the inception-to-date change in fair value attributable to ISCR is calculated by holding all current period assumptions constant for each security and isolating the effect of the change in the Company's CDS spread from the most recent date of consolidation to the current period. In general, if the Company's CDS spread tightens, more value will be assigned to the Company's credit; however, if the Company's CDS spread widens, less value is assigned to the Company's credit.

The Company has limited contractual rights to obtain the financial records of its consolidated structured finance and other FG VIEs. The structured finance and other FG VIEs do not prepare separate GAAP financial statements; therefore, the Company compiles the FG VIE GAAP financial information based on trustee reports prepared by and received from third parties. Such trustee reports are not available to the Company in time for quarterly reporting and therefore FG VIEs other than the Puerto Rico Trusts are reported on a one quarter lag. As a result of the lag, cash and short-term investments do not reflect cash outflows (due to claim payments made by the Company) to the holders of the FG VIEs' debt until the subsequent reporting period.

The cash flows generated by the FG VIEs' assets, except for interest income, are classified as cash flows from investing activities. Paydowns of FG VIEs' liabilities are supported by the cash flows generated by FG VIEs' assets, and for liabilities with recourse, possibly claim payments made by AGC under its financial guaranty insurance contracts. Paydowns of FG VIEs' liabilities both with and without recourse are classified as cash flows used in financing activities. Interest income, interest expense and other expenses of the FG VIEs' assets and liabilities are classified as operating cash flows. Claim payments made by AGC under the financial guaranty contracts issued to the FG VIEs are eliminated upon consolidation. Therefore, such claim payments are treated as paydowns of the FG VIEs' liabilities and as a financing activity as opposed to an operating activity of AGC.

The Company's exposure provided through its financial guaranties with respect to debt obligations of FG VIEs is included within net par outstanding in Note 2, Outstanding Exposure.

FG VIEs

Structured Finance and Other FG VIEs

AGC provides financial guaranties with respect to debt obligations of special purpose entities, including VIEs but does not act as the servicer or collateral manager for any VIE obligations it guarantees. The transaction structure generally provides certain financial protection 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), 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, AGC's financial guaranty insurance policy only covers a senior layer of losses experienced by multiple obligations issued by the VIEs. The first loss exposure with respect to the assets is either retained by the seller or sold off in the form of equity or mezzanine debt to other investors. In the case of excess spread, the financial assets contributed to VIEs, generate interest income that is in excess of the interest payments on the debt issued by the VIE. Such excess spread is typically distributed through the transaction's cash flow waterfall and may be used to create additional credit enhancement, applied to redeem debt issued by the VIE (thereby, creating additional overcollateralization), or distributed to equity or other investors in the transaction.

AGC is not primarily liable for the debt obligations issued by the structured finance and other FG VIEs (which excludes the Puerto Rico Trusts described below) 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. AGC's creditors do not have any rights with regard to the collateral supporting the debt issued by the structured finance and other FG VIEs. Proceeds from sales, maturities, prepayments and interest from such underlying collateral may only be used to pay debt service on structured finance and other FG VIEs' liabilities.

As part of the terms of its financial guaranty contracts, AGC, under its insurance contract, obtains certain protective rights with respect to the VIE that give AGC additional controls over a VIE. These protective rights are triggered by the occurrence of certain events, such as failure to be in compliance with a covenant due to poor deal performance or a deterioration in a servicer's or collateral manager's financial condition. At deal inception, AGC typically is not deemed to control the VIE; however, once a trigger event occurs, AGC's control of the VIE typically increases. AGC continuously evaluates its power to direct the activities that most significantly impact the economic performance of VIEs that have debt obligations insured by AGC and, accordingly, where AGC is obligated to absorb VIE losses or receive benefits that could potentially be significant to the VIE. AGC 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 transaction's servicer or collateral manager, which are characteristics specific to AGC's financial guaranty contracts. If the protective rights that could make AGC the control party have not been triggered, then the VIE is not consolidated. If AGC is deemed to no longer have those protective rights, the VIE is deconsolidated.

The structured finance and other FG VIEs' liabilities that are guaranteed by AGC are considered to be with recourse, because they guarantee the payment of principal and interest regardless of the performance of the related FG VIEs' assets. The structured finance and other FG VIEs' liabilities that are not guaranteed by AGC are considered to be without recourse, because the payment of principal and interest of these liabilities is wholly dependent on the performance of the FG VIEs' assets.

Number of Consolidated Structured Finance and Other FG VIEs

	Year Ended December 31,		
	2023	2022	2021
Beginning of year	7	6	6
Consolidated	—	2	—
Deconsolidated	(1)	(1)	—
December 31	6	7	6

Puerto Rico Trusts

With respect to certain insured securities covered by the 2022 Puerto Rico Resolutions, insured bondholders were permitted to elect to receive custody receipts that represent an interest in the legacy insurance policy plus cash, New Recovery Bonds and/or CVIs that constitute distributions under the 2022 Puerto Rico Resolutions. At least one separate custodial trust was set up for each legacy insured bond, and the trusts are deconsolidated when their liabilities are paid off. For those who made the election above, distributions of Plan Consideration are passed through to insured bondholders under the custody receipts to the extent of any cash or proceeds of new securities held in the custodial trust and are applied to make payments and/or prepayments of amounts due under the legacy insured bonds. The Company's insurance policy continues to guarantee principal and interest coming due on the legacy insured bonds in accordance with the terms of such insurance policy on the originally scheduled legacy bond interest and principal payment dates to the extent that distributions of Plan Consideration are insufficient to pay or prepay such amounts after giving effect to the distributions described in the immediately preceding sentence. In the case of insured bondholders who elected to receive custody receipts, the Company retains the right to satisfy its obligations under the insurance policy with respect to the related legacy insured bonds at any time thereafter, with 30 days' notice, by paying 100% of the then outstanding principal amount of insured bonds plus accrued interest.

As of December 31, 2023, substantially all of the securities in the Puerto Rico Trusts had been called, and the assets in the Puerto Rico Trusts consisted primarily of cash. In January 2024, such cash proceeds were used to pay down a portion of the liabilities of the Puerto Rico Trusts. The remaining liabilities of the Puerto Rico Trusts will be paid by AGC under its financial guaranty policy and are no longer dependent on the credit of PRHTA. As of December 31, 2023 and December 31, 2022, the

Company consolidated 12 and 22 custodial trusts, respectively, established as part of the 2022 Puerto Rico Resolutions discussed in Note 2, Outstanding Exposure, Exposure to Puerto Rico.

As of December 31, 2022, New Recovery Bonds in the Puerto Rico Trusts had an amortized cost and fair value of $134.4 million and $133.4 million, respectively. CVIs had $4.6 million fair value. As of December 31, 2022, 14 securities in the Puerto Rico Trusts were in a gross unrealized loss position totaling $3.6 million and had a fair value of $75.6 million, all of which were in a continuous unrealized loss position for less than 12 months. The Company considered the credit quality, cash flows, interest rate movements, ability to hold a security to recovery and intent to sell a security in determining whether a security had a credit loss. The Company has determined that the unrealized losses recorded as of December 31, 2022 were primarily attributable to the change in interest rates, rather than credit quality. The Company did not intend to and was not required to sell these investments prior to an expected recovery in value. As of December 31, 2022, of the securities in an unrealized loss position for which an allowance for credit loss was not recorded, eight securities had unrealized losses in excess of 10% of their carrying value. The total unrealized loss for these securities was $2.9 million.

Components of FG VIEs' Assets and Liabilities

Net fair value gains and losses on FG VIEs are expected to reverse to zero by the maturity of the FG VIEs' debt, except for net premiums received and net claims paid by AGC under the financial guaranty insurance contracts. The Company's estimate of expected loss to be paid (recovered) for FG VIEs is included in Note 3, Expected Loss to be Paid (Recovered).

The table below shows the carrying value of FG VIEs' assets and liabilities segregated by type of collateral.

Consolidated FG VIEs by Type of Collateral

	As of December 31,	
	2023	2022
	(in thousands)	
FG VIEs' assets:		
U.S. RMBS first lien	$ 9,421	$ 11,249
U.S. RMBS second lien	13,201	13,730
Puerto Rico Trusts' assets (includes $1,530 and $137,935 at fair value) (1)	48,481	146,072
Other	—	6,630
Total FG VIEs' assets	$ 71,103	$ 177,681
FG VIEs' liabilities with recourse:		
U.S. RMBS first lien	$ 7,421	$ 9,318
U.S. RMBS second lien	3,507	3,923
Puerto Rico Trusts' liabilities (includes $234,971 and $315,742 at fair value) (2)	234,971	372,850
Other	—	7,440
Total FG VIEs' liabilities with recourse	$ 245,899	$ 393,531
FG VIEs' liabilities without recourse:		
U.S. RMBS first lien	$ 1,911	$ 1,916
Total FG VIEs' liabilities without recourse	$ 1,911	$ 1,916

(1) Includes $47.0 million and $1.2 million of cash as of December 31, 2023 and December 21, 2022, respectively. As of December 31, 2022, includes $6.2 million of receivables for unsettled trades.
(2) As of December 31, 2022, includes $57.1 million of payables for unsettled trades.

The change in the ISCR of the FG VIEs' assets for which the Company elected the FVO (FG VIEs' assets at FVO) held as of December 31, 2023, 2022 and 2021 that was reported in the consolidated statements of operations for 2023, 2022 and 2021 were gains of $1.4 million, $0.8 million and $1.1 million, respectively. The ISCR amount is determined by using expected cash flows at the original date of consolidation, discounted at the effective yield, less current expected cash flows discounted at that same original effective yield.

The inception-to-date change in fair value of the FG VIEs' liabilities with recourse (all of which are measured at fair value under the FVO) attributable to the ISCR is calculated by holding all current period assumptions constant for each security and isolating the effect of the change in the Company's CDS spread from the most recent date of consolidation to the current period.

Selected Information for FG VIEs' Assets and Liabilities
Measured under the FVO

	As of December 31,	
	2023	2022
	(in thousands)	
Excess of unpaid principal over fair value of:		
FG VIEs' assets	$ 23,019	$ 25,450
FG VIEs' liabilities with recourse	(260)	(4,646)
FG VIEs' liabilities without recourse	687	735
Unpaid principal balance for FG VIEs' assets that were 90 days or more past due	3,121	3,849
Unpaid principal for FG VIEs' liabilities with recourse (1)	245,639	331,777

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(1) FG VIEs' liabilities with recourse will mature at various dates ranging from 2024 through 2041.

Other Consolidated VIEs

In certain instances where the Company consolidates a VIE that was established as part of a loss mitigation negotiated settlement that results in the termination of the obligations under the original financial guaranty insurance or insured credit derivative contract, the Company classifies the assets and liabilities of that VIE in the line items that most accurately reflect the nature of such assets and liabilities, as opposed to within FG VIEs' assets and FG VIEs' liabilities. The total assets and liabilities of such VIE were assets of $92.4 million and liabilities of $6.8 million as of December 31, 2023 and assets of $85.9 million and liabilities of $12.5 million as of December 31, 2022, which were reported in "investments" and "credit derivative liabilities" on the consolidated balance sheets.

Non-Consolidated VIEs

As described in Note 2, Outstanding Exposure, the Company monitors all policies in the insured portfolio. Of the approximately four thousand policies monitored as of December 31, 2023, approximately three thousand policies are not within the scope of FASB Accounting Standards Codification (ASC) 810 because these financial guaranties relate to the debt obligations of governmental organizations or financing entities established by a governmental organization. The majority of the remaining policies involve transactions where the Company is not deemed to currently have control over the FG VIEs' most significant activities. As of December 31, 2023 and 2022, the Company identified 61 and 81 policies, respectively, that contain provisions and experienced events that may trigger consolidation.

9. Fair Value Measurement

Accounting Policy

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 or transfer 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 (i) 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 (ii) discounted cash flows, using a third party's proprietary pricing models. In addition to market information, when applicable, the models also incorporate transaction details, such as the instrument's maturity, and contractual features that reduce the Company's credit exposure (e.g., collateral rights).

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 transparency for certain products changes, the Company may refine its methodologies and assumptions. During 2023, 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 valuation methods produce fair values that may not be indicative of net realizable value or future fair values. The use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a materially different estimate of fair value at the reporting date.

The categorization within the fair value hierarchy is determined based on whether the inputs to valuation techniques used to measure fair value are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Company estimates of market assumptions. The fair value hierarchy prioritizes model inputs into three broad levels, with Level 1 being the highest and Level 3 the lowest. The categorization, of an asset or liability, within the 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 (i) determined using pricing models, discounted cash flow methodologies or similar techniques and (ii) 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.

There was a transfer of a fixed-maturity security in the investment portfolio from Level 3 to Level 2 during 2023. There was also a transfer of fixed-maturity securities in the investment and FG VIE portfolios from Level 2 to Level 3 during 2023. There were no other transfers from or into Level 3 during the periods presented.

Carried at Fair Value

Fixed-Maturity Securities

The fair value of fixed-maturity securities is generally based on prices received from third party pricing services or alternative pricing sources that provide reasonable levels of price transparency. The pricing services prepare estimates of fair value using their pricing models, which take into account: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, industry and economic events and sector groupings. Additional valuation factors that can be taken into account are nominal spreads and liquidity adjustments. The pricing services evaluate each asset class based on relevant market and credit information, perceived market movements, and sector news.

In many cases, benchmark yields have proven to be more reliable indicators of the market for a security, as compared to reported trades for infrequently traded securities and distressed transactions. The extent of the use of each input is dependent on the asset class and the market conditions. The valuation of fixed-maturity securities is more subjective when markets are less liquid due to the lack of market based inputs.

As of December 31, 2023, the Company used models to price 54 securities. All Level 3 securities were priced with the assistance of independent third parties. 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 based on an analysis of collateral attributes, historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); home price appreciation/depreciation rates based on macroeconomic forecasts and recent trading activity. The yield used to discount the projected cash flows is determined by reviewing various attributes of the security including collateral type, weighted average life, sensitivity to losses, vintage, and convexity, in conjunction with market data on comparable securities. Significant changes to any of these inputs could have materially changed the expected timing of cash flows within these securities, which could have significantly affected the fair value of the securities.

Short-Term Investments

Short-term investments that are traded in active markets are classified as Level 1 as their value is based on quoted market prices. Securities such as discount notes are classified as Level 2 because these securities are typically not actively traded due to their approaching maturity and, as such, their cost approximates fair value.

Other Assets

Committed Capital Securities (CCS)

The fair value of CCS, which is reported in "other assets" on the consolidated balance sheets, represents the difference between the present value of the remaining expected put option premium payments under AGC's CCS agreement, and the estimated present value that the Company would hypothetically have to pay currently for a comparable security (see Note 10, Note Payable to Affiliate and Credit Facilities). The change in fair value of the AGC CCS is reported in "fair value gains (losses) on CCS" in the consolidated statements of operations. The estimated current cost of the Company's CCS is based on several factors, including AGC CDS spreads, Assured Guaranty's publicly traded debt and an estimation of the securities' remaining term. The AGC CCS are classified as Level 3.

Contracts Accounted for as Credit Derivatives

The Company's credit derivatives primarily consist of insured CDS contracts, and also include interest rate swaps that qualify as derivatives under GAAP, and require fair value measurement with changes in fair value reported in the consolidated statements of operations. The Company did not enter into CDS contracts with the intent to trade these contracts. Additionally, the Company may not unilaterally terminate a CDS contract, absent an event of default or termination event that entitles the Company to terminate such contract. However, for certain CDS transactions, the Company has mutually negotiated with various counterparties to terminate such transactions. In transactions where the counterparty does not have the right to terminate, such transactions were generally terminated for an amount that approximated the present value of future premiums (or for a negotiated amount), rather than fair value.

The terms of the Company's CDS contracts differ from more standardized credit derivative contracts sold by companies outside the financial guaranty industry. The non-standard terms generally include the absence of collateral support agreements or immediate settlement provisions. In addition, the Company employs relatively high attachment points and does not exit derivatives it sells, except under specific circumstances such as mutually negotiated agreements with counterparties. Management considers the non-standard terms of the Company's credit derivative contracts in determining the fair value of these contracts.

Due to the lack of quoted prices and other observable inputs for its instruments or for similar instruments, the Company determines the fair value of its credit derivative contracts primarily through internally developed, proprietary models that use both observable and unobservable market data inputs. There is no established market where financial guaranty insured credit derivatives are actively traded; therefore, management has determined that the exit market for the Company's credit derivatives is a hypothetical one based on its entry market. These contracts are classified as Level 3 in the fair value hierarchy as there are multiple unobservable inputs deemed significant to the valuation model, most importantly the Company's estimate of the value of the non-standard terms and conditions of its credit derivative contracts and how the Company's own credit spread affects the pricing of its transactions.

The fair value of the Company's credit derivative contracts generally represents the difference between the present value of remaining premiums the Company expects to receive and the estimated present value of premiums that a financial guarantor of comparable credit-worthiness would hypothetically charge at the reporting date for the same protection. The fair value of the Company's credit derivatives depends on a number of factors, including notional amount of the contract, expected term, credit spreads, changes in interest rates, the credit ratings of referenced entities, the Company's own credit risk and remaining contractual cash flows. The expected remaining contractual premium cash flows are the most readily observable inputs since they are based on the CDS contractual terms. Credit spreads capture the effect of recovery rates and performance of underlying assets of these contracts, among other factors. Consistent with previous years, market conditions at December 31, 2023 were such that market prices of the Company's CDS contracts were not available.

Assumptions and Inputs

The various inputs and assumptions that are key to the measurement of the Company's fair value for CDS contracts are as follows: the gross spread, the allocation of gross spread among the bank profit, net spread and hedge cost, and the weighted average life (which is based on debt service schedules). The Company obtains published gross spreads on its outstanding contracts from third-party market data sources (e.g., dealer spread tables for the collateral similar to assets within the Company's transactions), as well as collateral-specific spreads provided by or obtained from market sources. The bank profit represents the profit originator, usually an investment bank, realizes for structuring and funding the transaction; the net spread represents the premiums paid to the Company for the Company's credit protection provided; and the hedge cost represents the cost of CDS protection purchased by the originator to hedge its counterparty credit risk exposure to the Company.

The primary sources of information used to determine gross spread and the fair value for CDS contracts include:

- Actual collateral specific credit spreads (if up-to-date and reliable market-based spreads are available).
- Transactions priced or closed during a specific quarter within a specific asset class and specific rating.
- Credit spreads interpolated based upon market indices adjusted to reflect the non-standard terms of the Company's CDS contracts.
- Credit spreads extrapolated based upon transactions of similar asset classes, similar ratings, and similar time to maturity.
- Information provided by the counterparty of the CDS.

The rates used to discount future expected premium cash flows ranged from 3.26% to 4.81% at December 31, 2023 and 2.78% to 5.08% at December 31, 2022.

The premium the Company receives is referred to as the "net spread." The Company's pricing model considers not only how credit spreads on its insured risks affect pricing, but also how the Company's own credit spread affects the pricing of its transactions. The Company's own credit risk is factored into the determination of net spread based on the quoted market price for credit protection bought on AGC, as reflected by quoted market prices on CDS contracts referencing AGC. The Company obtains the quoted price of CDS contracts traded on AGC from market data sources published by third parties. The cost to acquire CDS protection referencing AGC affects the amount of spread on CDS transactions that the Company retains and, hence, their fair value. As the cost to acquire CDS protection referencing AGC increases, the amount of premium the Company retains on a transaction generally decreases.

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, because 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.

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. Approximately 7.6%, based on fair value, of the Company's CDS contracts were fair valued using this minimum premium as of December 31, 2023. As of December 31, 2022, the use of the minimum premium did not have an effect on fair value.

A credit derivative liability on protection sold is the result of contractual cash inflows on in-force transactions that are lower than what a hypothetical financial guarantor could receive if it sold protection on the same risk as of the reporting date. If the Company were able to freely exchange these contracts (i.e., assuming its contracts did not contain proscriptions on transfer and there was a viable exchange market), it would realize a loss representing the difference between the lower contractual premiums to which it is entitled and the current market premiums for a similar contract. The Company determines the fair value of its CDS contracts by applying the difference between the current net spread and the contractual net spread for the remaining duration of each contract to the notional value of such contract and then discounting such amounts using the applicable discount rate corresponding to the weighted average remaining life of the contract.

Strengths and Weaknesses of Model

The Company's credit derivative valuation model, like any financial model, has certain strengths and weaknesses.

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

- The model takes into account the transaction structure and the key drivers of market value.
- The model maximizes the use of market-driven inputs whenever they are available.
- The model is a consistent approach to valuing positions.

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

- There is no exit market or any actual exit transactions; therefore, the Company's exit market is a hypothetical one based on the Company's entry market.
- There is a very limited market in which to validate the reasonableness of the fair values developed by the Company's model.
- The markets for the inputs to the model are highly illiquid, which impacts their reliability.
- 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.

FG VIEs' Assets and Liabilities

FG VIEs include Puerto Rico Trusts and structured finance and other FG VIEs. As of December 31, 2023, assets in the Puerto Rico Trusts, consisted of one fixed-maturity debt security classified as Level 3. As of December 31, 2022, assets in the Puerto Rico Trusts, consisted primarily of New Recovery Bonds and CVIs classified as Level 2. The Company elected the FVO for the Puerto Rico Trusts' liabilities and they are classified as Level 3. See " - Fixed Maturity Securities" above for a description of the fair value methodology for the New Recovery Bonds and CVIs in the Puerto Rico Trusts. Structured finance and other FG VIEs' assets and liabilities are carried at fair value under the FVO and are classified as Level 3.

The fair value of the residential mortgage loan FG VIEs' assets is generally sensitive to changes in estimated prepayment speeds; estimated default rates (determined on the basis of an analysis of collateral attributes such as: historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); yields implied by market prices for similar securities; and, as applicable, house price depreciation/appreciation rates based on macroeconomic forecasts. Significant changes to some of these inputs could have materially changed the fair value of the FG VIEs' assets and the implied collateral losses within these transactions. In general, the fair value of the FG VIEs' assets is most sensitive to changes in the projected collateral losses, where an increase in collateral losses typically leads to a potential decrease in the fair value of FG VIEs' assets, while a decrease in collateral losses typically leads to an increase in the fair value of FG VIEs' assets.

The prices of the assets and liabilities of the FG VIEs are generally determined with the assistance of an independent third party, based on a discounted cash flow approach. The third-party pricing service utilizes an internal model to determine an appropriate yield at which to discount the cash flows of the security, by factoring in collateral types, weighted-average lives, and other structural attributes specific to the security being priced. The expected yield is further calibrated by utilizing algorithms designed to aggregate market color, received by the independent third-party, on comparable bonds.

The models used to price the FG VIEs' liabilities (other than the liabilities of the Puerto Rico Trusts) generally apply the same inputs used in determining fair value of FG VIEs' assets. For those liabilities insured by the Company, the benefit of the Company's insurance policy guaranteeing the timely payment of debt service is also taken into account. The liabilities of the Puerto Rico Trusts are priced based on the value of the assets in the Puerto Rico Trusts including the value of the insurance subsidiaries' financial guaranty policies.

Significant changes to any of the inputs described above could materially change the timing of expected losses within an insured transaction. This is a significant factor in determining the implied benefit of the Company's insurance policy which guarantees the timely payment of principal and interest for the insured tranches of debt issued by the FG VIEs. In general, extending the timing of expected loss payments by the Company typically leads to a decrease in the value of the Company's insurance and a decrease in the fair value of the Company's FG VIEs' liabilities with recourse, while a shortening of the timing of expected loss payments by the Company typically could lead to an increase in the value of the Company's insurance and an increase in the fair value of the Company's FG VIEs' liabilities with recourse.

Amounts recorded at fair value in the Company's financial statements are presented in the tables below.

Fair Value Hierarchy of Financial Instruments Carried at Fair Value
As of December 31, 2023

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets:				
Fixed-maturity securities, available-for-sale:				
Obligations of state and political subdivisions	$ —	$ 1,067,236	$ 6,086	$ 1,073,322
U.S. government and agencies	—	6,576	—	6,576
Corporate securities	—	376,769	—	376,769
Mortgage-backed securities:				
RMBS	—	11,264	5,181	16,445
CMBS	—	25,549	—	25,549
Asset-backed securities	—	5,493	384,792	390,285
Total fixed-maturity securities, available-for-sale	—	1,492,887	396,059	1,888,946
Fixed-maturity securities, trading	—	211,023	—	211,023
Short-term investments	25,160	—	—	25,160
Other invested assets	—	—	790	790
FG VIEs' assets	—	—	24,152	24,152
Other assets (1)	—	—	17,330	17,330
Total assets carried at fair value	$ 25,160	$ 1,703,910	$ 438,331	$ 2,167,401
Liabilities:				
Credit derivative liabilities	$ —	$ —	$ 48,087	$ 48,087
FG VIEs' liabilities (2)	—	—	247,810	247,810
Total liabilities carried at fair value	$ —	$ —	$ 295,897	$ 295,897

Fair Value Hierarchy of Financial Instruments Carried at Fair Value
As of December 31, 2022

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets:				
Fixed-maturity securities, available-for-sale:				
Obligations of state and political subdivisions	$ —	$ 1,227,007	$ 45,020	$ 1,272,027
U.S. government and agencies	—	23,239	—	23,239
Corporate securities	—	353,112	—	353,112
Mortgage-backed securities:				
RMBS	—	8,738	6,149	14,887
CMBS	—	26,330	—	26,330
Asset-backed securities	—	5,808	397,125	402,933
Total fixed-maturity securities, available-for-sale	—	1,644,234	448,294	2,092,528
Fixed-maturity securities, trading	—	175,896	—	175,896
Short-term investments	111,452	—	—	111,452
Other invested assets	—	—	790	790
FG VIEs' assets	—	137,935	31,609	169,544
Other assets (1)	—	—	54,384	54,384
Total assets carried at fair value	$ 111,452	$ 1,958,065	$ 535,077	$ 2,604,594
Liabilities:				
Credit derivative liabilities	$ —	$ —	$ 159,498	$ 159,498
FG VIEs' liabilities (2)	—	—	338,339	338,339
Total liabilities carried at fair value	$ —	$ —	$ 497,837	$ 497,837

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(1) Includes credit derivative assets and CCS.
(2) Includes FG VIEs' liabilities, at fair value with recourse of $245.9 million and $336.4 million as of December 31, 2023 and December 31, 2022, respectively, and without recourse of $1.9 million as of both December 31, 2023 and December 31, 2022.

Changes in Level 3 Fair Value Measurements

The tables below present a roll forward of the Company's Level 3 financial instruments carried at fair value on a recurring basis during the years ended December 31, 2023 and 2022.

Roll Forward of Level 3 Assets (Liabilities)
at Fair Value on a Recurring Basis
Year Ended December 31, 2023

	Fixed-Maturity Securities, Available-for-Sale						
	Obligations of State and Political Subdivisions	RMBS	Asset-Backed Securities	FG VIEs' Assets	Other (6)	Credit Derivative Liability, net (4)	FG VIEs' Liabilities (7)
				(in thousands)			
Fair value as of December 31, 2022	$ 45,020	$ 6,149	$ 397,125	$ 31,609	$ 25,662	$ (129,986)	$ (338,339)
Total pre-tax realized and unrealized gains (losses) recorded in							
Net income (loss)	(2,462) (1)	(26) (1)	30,128 (1)	5,440 (2)	(18,322) (3)	92,160 (5)	1,784 (2)
Other comprehensive income (loss)	442	10	(19,718)	—	—	—	2,132
Purchases	—	—	575	—	—	—	—
Settlements	203	(952)	(23,318)	(7,512)	—	519	79,083
Consolidations	—	—	—	—	—	—	—
Deconsolidations	—	—	—	(6,915)	—	—	7,530
Transfers into Level 3	3,302	—	—	1,530	—	—	—
Transfers in out of Level 3	(40,419)	—	—	—	—	—	—
Fair value as of December 31, 2023	$ 6,086	$ 5,181	$ 384,792	$ 24,152	$ 7,340	$ (37,307)	$ (247,810)
Change in unrealized gains (losses) related to financial instruments held as of December 31, 2023 included in:							
Earnings				$ 1,388 (2)	$ (18,322) (3)	$ 92,557 (5)	$ 616 (2)
OCI	$ 441	$ (22)	$ (2,186)				$ 2,049

Roll Forward of Level 3 Assets (Liabilities)
at Fair Value on a Recurring Basis
Year Ended December 31, 2022

	Fixed-Maturity Securities, Available-for-Sale						
	Obligations of State and Political Subdivisions	RMBS	Asset-Backed Securities	FG VIEs' Assets	Other (6)	Credit Derivative Liability, net (4)	FG VIEs' Liabilities (7)
				(in thousands)			
Fair value as of December 31, 2021	$ 69,391	$ 9,226	$ 437,211	$ 30,586	$ 13,914	$ (124,421)	$ (28,495)
Total pre-tax realized and unrealized gains (losses) recorded in							
Net income (loss)	715 (1)	410 (1)	4,028 (1)	8,990 (2)	11,748 (3)	(6,976) (5)	5,599 (2)
Other comprehensive income (loss)	(12,109)	(1,456)	(25,383)	—	—	—	537
Purchases	—	—	8,065	—	—	—	—
Sales	—	—	(6,030)	—	—	—	—
Settlements	(12,977)	(2,031)	(20,766)	(14,657)	—	1,411	44,902
Consolidations	—	—	—	21,726	—	—	(376,252)
Deconsolidations	—	—	—	(15,036)	—	—	15,370
Fair value as of December 31, 2022	$ 45,020	$ 6,149	$ 397,125	$ 31,609	$ 25,662	$ (129,986)	$ (338,339)
Change in unrealized gains (losses) related to financial instruments held as of December 31, 2022 included in:							
Earnings				$ 8,784 (2)	$ 11,748 (3)	$ (6,136) (5)	$ 27,937 (2)
OCI	$ (12,856)	$ (1,350)	$ (24,342)				$ 537

(1) Included in "net realized investment gains (losses)" and "net investment income."
(2) Included in "fair value gains (losses) on FG VIEs."
(3) Reported in "fair value gains (losses) on CCS" and "other income (loss)."
(4) Represents the net position of credit derivatives. Credit derivative assets (reported in "other assets") and credit derivative liabilities (presented as a separate line item) are shown as either assets or liabilities in the consolidated balance sheets based on net exposure by transaction.
(5) Reported in "fair value gains (losses) on credit derivatives."
(6) Includes CCS and other invested assets.
(7) Includes FG VIEs' liabilities with recourse and FG VIEs' liabilities without recourse.

Level 3 Fair Value Disclosures

Quantitative Information About Level 3 Fair Value Inputs
As of December 31, 2023

Financial Instrument Description (1)	Fair Value Assets (Liabilities) (in thousands)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Investments: (2):				
Fixed-maturity securities, available-for-sale:				
Obligations of state and political subdivisions	$ 6,086	Yield	7.4 % - 22.5%	7.8%
RMBS	5,181	CPR	2.3 % - 15.0%	5.4%
		CDR	1.5 % - 18.8%	12.0%
		Loss severity	50.0 % - 125.0%	89.5%
		Yield	8.3 % - 10.5%	9.6%
Asset-backed securities:				
CLOs	61,960	Discount Margin	1.1 % - 3.1%	2.1%
Others	322,832	Yield	6.2 % - 11.7%	7.9%
FG VIEs' assets	24,152	CPR	1.8 % - 11.1%	6.7%
		CDR	1.3 % - 19.3%	15.4%
		Loss severity	75.0 % - 100.0%	94.6%
		Yield	5.5 % - 10.0%	9.1%
Other assets	6,550	Implied yield	8.4%	
		Term (years)	10 years	
Credit derivative liabilities, net	(37,307)	Hedge cost (in basis points (bps))	10.2 % - 26.5%	15.5%
		Bank profit (in bps)	105.6 - 302.6	153.1
		Internal floor	10.0	
		Internal credit rating	AAA - CCC	A
FG VIEs' liabilities	(247,810)	CPR	1.8 % - 11.1%	6.7%
		CDR	1.3 % - 19.3%	15.4%
		Loss severity	75.0 % - 100.0%	94.6%
		Yield	5.1 % - 8.0%	5.3%

(1) Discounted cash flow is used as the primary valuation technique for all financial instruments listed in this table.
(2) Excludes an investment recorded in "other invested assets" with a fair value of $0.8 million.

Quantitative Information About Level 3 Fair Value Inputs
As of December 31, 2022

Financial Instrument Description (1)	Fair Value Assets (Liabilities) (in thousands)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Investments: (2):				
Fixed-maturity securities, available-for-sale:				
Obligations of state and political subdivisions	$ 45,020	Yield	7.4 % - 8.6%	7.7%
RMBS	6,149	CPR	3.8 % - 16.1%	13.2%
		CDR	1.5 % - 12.0%	8.3%
		Loss severity	50.0 % - 125.0%	89.5%
		Yield	8.4 % - 10.2%	9.6%
Asset-backed securities:				
Life insurance transactions	311,491	Yield	11.3%	
CLO	62,027	Discount Margin	1.9 % - 3.9%	2.7%
Others	23,607	Yield	7.4 % - 12.9%	12.8%
FG VIEs' assets	31,609	CPR	3.9 % - 20.4%	9.3%
		CDR	1.3 % - 12.0%	8.8%
		Loss severity	75.0 % - 100.0%	81.6%
		Yield	8.1 % - 9.4%	6.1%
Other assets	24,872	Implied yield	8.4%	
		Term (years)	10 years	
Credit derivative liabilities, net	(129,986)	Hedge cost (in bps)	11.5 % - 25.2%	15.7%
		Bank profit (in bps)	51.0 - 270.5	118.4
		Internal credit rating	AAA - CCC	AA
FG VIEs' liabilities	(338,339)	CPR	3.9 % - 20.4%	1.5%
		CDR	1.3 % - 12.0%	1.4%
		Loss severity	75.0 % - 100.0%	12.8%
		Yield	4.8 % - 8.1%	5.6%

(1) Discounted cash flow is used as the primary valuation technique for all financial instruments listed in this table.
(2) Excludes an investment recorded in "other invested assets" with a fair value of $0.8 million.

Not Carried at Fair Value

Financial Guaranty Insurance Contracts

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 include pricing assumptions management has observed for portfolio transfers, commutations, and acquisitions that have occurred in the financial guaranty market, and also includes adjustments for stressed losses, ceding commissions and return on capital. The Company classified the fair value of financial guaranty insurance contracts as Level 3.

Loan Receivable from Parent

The fair value of the loan receivable from parent was determined by calculating the effect of changes in yield adjusted for a credit factor at the end of each reporting period. The fair value measurement of the loans receivable was classified as Level 3.

Note Payable to Affiliate

The fair value of the Company's note payable to AGM is determined by calculating the effect of changes in yield adjusted for a credit factor at the end of each reporting period. The fair value measurement of the note payable to AGM was classified as Level 3.

The carrying amount and estimated fair value of the Company's financial instruments not carried at fair value are presented in the following table.

Fair Value of Financial Instruments Not Carried at Fair Value

	As of December 31, 2023		As of December 31, 2022	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in thousands)			
Assets (liabilities):				
Loan receivable from parent	$ 87,500	$ 84,400	$ 87,500	$ 83,439
FG VIEs' assets	—	—	6,894	6,894
Other assets (including other invested assets)	19,651	19,651	24,404	24,404
Financial guaranty insurance contracts (1)	(150,146)	(49,872)	(125,234)	(59,567)
FG VIEs' liabilities	—	—	(57,108)	(57,108)
Note payable to affiliate	(300,000)	(282,101)	(300,000)	(278,559)

(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.

10. Note Payable to Affiliate and Credit Facilities

Accounting Policy

The note payable to affiliate was recorded at its principal amount. There was no discount or premium at the time of issuance of the note.

Note Payable to Affiliate

On December 18, 2009, AGC issued a surplus note with a principal amount of $300 million to AGM. This note payable to its affiliate carries a simple interest rate of 3.5% per annum and matures on December 31, 2029. Principal is payable at the option of AGC prior to the final maturity of the note in 2029 and interest is payable on the note annually in arrears as of December 31st of each year, commencing December 31, 2010. Payments of principal and interest are subject to AGC having policyholders' surplus in excess of statutory minimum requirements after such payment and to prior written approval by the Maryland Insurance Administration (MIA). AGC has paid all scheduled due and accrued interest on the surplus note since issuance.

Committed Capital Securities

AGC is party to an arrangement that enables it to access, at its discretion, up to $200 million of capital, at any time, and has the right to use such capital for any purpose, including to pay claims.

The arrangement entails four custodial trusts (Woodbourne Capital Trust I, II, III and IV), each of which issued $50 million face amount of "committed capital securities" and invested the proceeds of that issuance in eligible assets that would enable the trust to have the cash necessary to respond to AGC's exercise, of a put option.

The put option consists of a right that AGC has, pursuant to separate put agreements that AGC entered into with each of the trusts, to issue to each trust $50 million of non-cumulative redeemable perpetual preferred stock, in exchange for an equivalent amount of cash (i.e., an aggregate of $200 million for AGC). When AGC exercises its put option, the relevant trust(s) must liquidate the portfolio of high-quality, liquid assets that it currently maintains and use the liquidation proceeds to purchase AGC preferred stock, as applicable.

The put agreements have no scheduled termination date or maturity, but may be terminated upon the occurrence of certain specified events.

None of the events that would give rise to a termination of the put agreements have occurred. Accordingly, AGC currently has the ability to exercise put options to raise up to $200 million of capital at any time.

11. Income Taxes

AGC files its U.S. federal tax return as a part of the consolidated group for Assured Guaranty US Holdings Inc. (AGUS), its direct parent holding company. Each member of the AGUS consolidated tax group is part of a tax sharing agreement and pays or receives its proportionate share of the consolidated regular federal tax liability for the group as if each company filed on a separate return basis.

Accounting Policy

The provision for income taxes consists of an amount for taxes currently payable and an amount for deferred taxes. Deferred income taxes are provided for temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities, using enacted rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded to reduce the deferred tax asset to an amount that is more likely than not to be realized.

Non-interest-bearing tax and loss bonds are purchased in the amount of the tax benefit that results from deducting statutory basis contingency reserves as provided under Internal Revenue Code Section 832(e). The Company records the purchase of tax and loss bonds in deferred taxes.

The Company recognizes tax benefits only if a tax position is “more likely than not” to prevail.

Deferred and current tax assets and liabilities are reported in “other assets” or “other liabilities” on the consolidated balance sheets.

Tax Assets (Liabilities)

Deferred and Current Tax Assets (Liabilities)

	As of December 31,	
	2023	2022
	(in thousands)	
Net deferred tax assets (liabilities)	$ 31,772	$ 49,491
Net current tax assets (liabilities)	(34,207)	(3,228)

Components of Net Deferred Tax Assets (Liabilities)

	As of December 31,	
	2023	2022
	(in thousands)	
Deferred tax assets:		
Net operating loss	$ 23,317	$ 54,517
FG VIEs	45,852	—
Unearned premium reserves, net	16,389	12,106
Net unrealized investment losses	24,392	28,398
Depreciation	35,173	24,247
Unrealized losses on credit derivatives, net	—	7,631
Other	18	3,432
Total deferred tax assets	145,141	130,331
Deferred tax liabilities:		
Loss and LAE reserve	27,428	54,890
Investments	70,239	15,088
FG VIEs	—	3,891
Unrealized gains on credit derivatives, net	10,342	—
Other	5,360	6,971
Total deferred tax liabilities	113,369	80,840
Net deferred tax assets (liabilities)	$ 31,772	$ 49,491

As part of the acquisition of CIFG Holding Inc. (CIFGH, and together with its subsidiaries, CIFG), the Company acquired $189 million of net operating losses (NOL). The NOL has been limited under the Code Section 382 due to a change in control as a result of the acquisition. As of December 31, 2023,the Company had gross deferred tax assets of approximately $23.3 million for federal NOL carryforwards which will begin to expire in 2033.

Valuation Allowance

The Company has no valuation allowance as of both December 31, 2023 and 2022. There were no changes in the valuation allowance during 2023, 2022 and 2021.

The Company came to the conclusion that it is more likely than not that the deferred tax assets will be fully realized after weighing all positive and negative evidence available as required under GAAP. The positive evidence that was considered included the cumulative income the Company has earned over the last three years, and the significant unearned premium income to be included in taxable income. The positive evidence outweighs any negative evidence that exists. As such, the Company believes that no valuation allowance is necessary in connection with the remaining deferred tax assets. The Company will continue to analyze the need for a valuation allowance on a quarterly basis.

Changes in market conditions during 2023 and 2022, including rising interest rates, resulted in the recording of deferred tax assets related to net unrealized tax capital losses. When assessing recoverability of these deferred tax assets, the Company considers the ability and intent to hold the underlying securities to recovery in value, if necessary, as well as other factors as noted above. As of December 31, 2023, based on all available evidence, including capital loss carryback capacity, the Company concluded that the deferred tax assets related to the unrealized tax capital losses on the available-for-sale securities portfolios are, more likely than not, expected to be realized.

Provision for Income Taxes

The effective tax rates reflect the proportion of income recognized by AGC and each of its subsidiaries, with AGC taxed at the U.S. marginal corporate income tax rate of 21%.

A reconciliation of the difference between the provision for income taxes and the expected tax provision at statutory rates in taxable jurisdictions is presented below.

Effective Tax Rate Reconciliation

	Year Ended December 31, 2023	2022	2021
		(in thousands)	
Expected tax provision (benefit)	$ 49,077	$ 36,803	$ 29,712
Tax-exempt interest	(5,730)	(4,711)	(6,787)
Other	(1,492)	(789)	(1,329)
Total provision (benefit) for income taxes	$ 41,855	$ 31,303	$ 21,596
Effective tax rate	17.9 %	17.9 %	15.3 %

The expected tax provision (benefit) is calculated as the sum of pre-tax income multiplied by the statutory tax rate of the jurisdiction by which it will be taxed.

Audits

As of December 31, 2023, AGUS had open tax years with the U.S. Internal Revenue Service (IRS) for 2018 forward and is currently under audit for the 2018 and 2019 tax years.

Uncertain Tax Positions

During the years ended December 31, 2023, 2022 and 2021, there were no unrecognized tax benefits. There were no accruals for the payment of interest and penalties related to income taxes as of each of December 31, 2023, 2022 and 2021.

12. Insurance Company Regulatory Requirements

The following table summarizes the policyholder’s surplus and net income amounts reported to the MIA for AGC. The discussion that follows describes the basis of accounting and differences to GAAP.

Insurance Regulatory Amounts Reported

	Policyholders’ Surplus As of December 31,		Net Income (Loss) Year Ended December 31,		
	2023	2022	2023	2022	2021
			(in thousands)		
AGC (1)	$ 1,650,573	$ 1,916,078	$ 79,419	$ 61,706	$ 281,955

(1) Policyholders’ surplus is net of contingency reserves of $419.6 million and $346.9 million as of December 31, 2023 and December 31, 2022, respectively.

Basis of Regulatory Financial Reporting

The Company's ability to pay dividends depends, among other things, upon its financial condition, results of operations, cash requirements, compliance with rating agency requirements, and is also subject to restrictions contained in the insurance laws and related regulations of its state of domicile and other states. Financial statements prepared in accordance with accounting practices prescribed or permitted by local insurance regulatory authorities differ in certain respects from GAAP.

AGC is a Maryland domiciled insurance company. AGC prepares statutory financial statements in accordance with accounting practices prescribed or permitted by the National Association of Insurance Commissioners (NAIC) and the MIA. Prescribed statutory accounting practices (SAP) are set forth in the NAIC Accounting Practices and Procedures Manual. The Company has no permitted accounting practices on a statutory basis.

GAAP differs in certain significant respects from the U.S. insurance companies’ SAP prescribed or permitted by insurance regulatory authorities. The principal differences result from the SAP listed below.

- Upfront premiums are earned upon expiration of risk and installment premiums are earned on a pro-rata basis over the installment period, rather than in proportion to the amount of insurance protection provided under GAAP. The timing of premium accelerations may also differ between SAP and GAAP. Under GAAP, premiums are accelerated only upon the legal defeasance of an insured obligation, whereas statutory premiums may be accelerated earlier if an insured obligation is economically defeased prior to legal defeasance.

- Acquisition costs are charged to expense as incurred rather than expensed over the period that the related premiums are earned under GAAP. Ceding commission income is earned immediately except for amounts in excess of acquisition costs, which are deferred, rather than fully deferred under GAAP.
- A contingency reserve is established according to applicable insurance laws, whereas no such reserve is required under GAAP.
- Certain assets designated as "non-admitted assets" are charged directly to statutory surplus, rather than reflected as assets under GAAP.
- Investments in subsidiaries are carried on the balance sheet on the equity basis, to the extent admissible, rather than consolidated with the parent under GAAP.
- The amount of admitted deferred tax assets are subject to an adjusted surplus threshold and subject to a limitation calculated in accordance with SAP. Under GAAP there is no non-admitted asset determination, rather a valuation allowance is recorded to reduce the deferred tax asset to an amount that is more likely than not to be realized.
- Insured credit derivatives are accounted for as insurance contracts rather than accounted for as derivative contracts that are measured at fair value under GAAP.
- Bonds are reported at either amortized cost or the lower of amortized cost or fair value, rather than classified as available-for-sale or trading securities and carried at fair value under GAAP.
- The impairment model for fixed-maturity securities classified as available-for-sale under GAAP differs from the statutory impairment model. Under SAP, fixed-maturity securities that have been determined to be other-than-temporarily impaired, are written down to fair value or the present value of cash flows. Under GAAP, an allowance for credit losses is established, and can be reversed for subsequent increases in expected cash flows.
- Insured obligations of VIEs, where the Company is deemed the primary beneficiary, are accounted for as insurance contracts. Under GAAP, such VIEs are consolidated and any transactions with the Company are eliminated.
- Surplus notes are recognized as surplus and each payment of principal and interest is recorded only upon approval of the insurance regulator rather than as liabilities with periodic accrual of interest under GAAP.
- Acquisitions are accounted for as either statutory purchases or statutory mergers, rather than under the purchase method under GAAP.
- Losses are discounted at pre-tax book yields, and recorded when there is a significant credit deterioration on specific insured obligations and the obligations are in default or a default is probable. Under GAAP, expected losses are discounted at the risk free rate at the end of each reporting period and are recorded only to the extent they exceed deferred premium revenue.
- The present value of contractual or expected installment premiums and commissions are not recorded on the balance sheet as they are under GAAP.
- The put options in CCS are not accounted for as derivatives as they are under GAAP.
- Non-USD denominated unearned premiums reserve is remeasured at current exchange rates. rather than carried at historical rates under GAAP.

Dividend Restrictions and Capital Requirements

Under Maryland's insurance law, AGC may, with prior notice to the Maryland Insurance Administration Commissioner, pay an ordinary dividend in an amount that, together with all dividends paid in the prior 12 months, does not exceed the lesser of 10% of its policyholders' surplus (as of the prior December 31) or 100% of its adjusted net investment income during that period. The maximum amount available during 2024 for AGC to distribute as ordinary dividends is approximately $117.0 million. Of such $117.0 million, approximately $35.1 million is estimated to be available for distribution in the first quarter of 2024.

The Company paid dividends of $101.5 million, $206.9 million and $94.1 million to AGUS during the years ended December 31, 2023, 2022 and 2021, respectively.

Stock Redemptions

In 2023, AGC redeemed 4,412 of its common stock for $200.0 million. Pursuant to an amendment to AGC's Charter, the par value of AGC's remaining shares of common stock issued and outstanding was increased in order to maintain AGC's total common stock at or above $15 million as is required under the laws of the various jurisdictions for the Company to be licensed as a financial guaranty insurer.

13. Related Party Transactions

Accounting Policy

The Company follows ASC 850, "Related Party Transactions," for the identification and disclosure of related party transactions. Pursuant to ASC 850, related parties include: (i) the Company's affiliates; (ii) entities for which investments in their equity securities would be required, absent the election of the FVO to be accounted for by the equity method; (iii) trusts for the benefit of employees, such as pension and profit sharing trusts that are managed by or under the trusteeship of management; (iv) the Company's principal owners; (v) the Company's management; (vi) other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests; and (vii) other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

Related party amounts and transactions disclosed in this note include transactions with "Related Persons" as defined in Item 404 of Securities and Exchange Commission's Regulation S-K as well as "related parties" as defined in ASC 850.

AGC participates in AGL's long term incentive plans. AGL follows the fair value recognition provisions for share based compensation expense. The Company is allocated its proportionate share of all compensation expense based on time studies conducted annually, in accordance with the Amended and Restated Service Agreement (the Group Service Agreement).

Guaranties or Contingencies for Related Parties

AGC had issued financial guaranty policies guaranteeing the obligations of its affiliate, AG Financial Products Inc. (AGFP), to various third-party beneficiaries under credit default swap agreements. Pursuant to its financial guaranty policy, AGC is obligated to pay the beneficiary named in the policy, upon receipt of a claim as contemplated thereby, amounts that become due for payment by AGFP in the event of a payment default by AGFP under the applicable credit default swap agreement. AGC may have a payment obligation to the beneficiary so long as there are outstanding transactions between AGFP and the beneficiary under the International Swaps and Derivative Association, Inc. master agreement entered into by the parties. Pursuant to its financial guaranty policy, AGC is fully subrogated to the rights of the beneficiary to the extent of payment by AGC under such policy. The financial guaranty policies are non-cancelable for any reason, including by reason of non-payment of premium.

In consideration of the issuance of the financial guaranty policy, AGFP agrees to pay AGC premium pursuant to a premium agreement. Pursuant to the premium agreement, AGFP also agrees to pay the fees and expenses of AGC in connection with the issuance of the financial guaranty insurance policy and the performance of its obligations under such policy. Under such premium agreement, AGC is fully subrogated to AGFP's rights (including its right to receive payments) under the underlying agreement to the extent that AGC makes payments pursuant to the financial guaranty policy.

Reinsurance and Support Agreements

AGC's Support Agreements in Respect of AGUK

AGC and AGUK implemented in 2021 a co-guarantee structure pursuant to which (i) AGUK directly guarantees a specified portion of the obligations issued in a particular non-public finance transaction rather than guaranteeing 100% of the issued obligations; (ii) AGC directly guarantees the balance of the guaranteed obligations; and (iii) AGC also provides a second-to-pay guarantee for AGUK's portion of the guaranteed obligations (Non-Public Finance Co-Guarantee Structure). The current co-guarantee split for non-public finance business, is 15% AGUK and 85% AGC.

Separate and apart from the Non-Public Finance Co-Guarantee Structure, AGC provides support to AGUK through a quota share reinsurance agreement (the AGC Reinsurance Agreement) pursuant to which AGC generally reinsures 90% - 100% of certain legacy policies that are currently part of AGUK's insured portfolio. The AGC Reinsurance Agreement has no application to new business written by AGUK. The AGC Reinsurance Agreement imposes a collateral requirement on AGC pursuant to which AGC's required collateral is 102% of the sum of AGC's assumed share of the following for the legacy policies described above: (a) AGUK's unearned premium reserve (net of AGUK's reinsurance premium payable to AGM); (b) AGUK's provisions for unpaid losses and allocated loss adjustment expenses (net of any salvage recoverable), and (c) any unexpired risk provisions of AGUK, in each case (a) - (c) as calculated by AGUK in accordance with generally accepted accounting practice in the U.K. (UK GAAP). AGC also posts as collateral its share of AGUK-guaranteed (originally Assured Guaranty (UK) plc-guaranteed) triple-X insurance bonds that have been purchased by AGC for loss mitigation.

AGC's Support Agreements in Respect of AGE

Effective July 1, 2021, AGC and AGE entered into a Non-Public Finance Business Reinsurance Agreement pursuant to which AGC provides AGE with 90% proportional reinsurance for any non-public finance business written by AGE.

Also, as part of a contingency plan implemented by the Assured Guaranty group in relation to the U.K.'s departure from the Europe Union, policies written by AGUK that partially or exclusively cover risks in the European Economic Area (EEA) (the EEA Policies) were transferred effective October 1, 2020 to AGE, pursuant to an insurance business transfer scheme in accordance with Part VII of the Financial Services and Markets Act 2000 (the Brexit Part VII Transfer). AGC is party to a quota share reinsurance agreement with AGE (Transferred Business Reinsurance Agreement) pursuant to which AGC provides AGE with the same reinsurance on the transferred EEA Policies as AGC previously provided to Assured Guaranty (UK) plc prior to the Brexit Part VII Transfer.

AGC secures its quota share reinsurance obligations to AGE under the agreements described above by depositing collateral in accounts maintained by an EEA financial institution and pledging such accounts to AGE under French law. The measure of AGC's required collateral for AGE is generally the same as the measure of its collateral for AGUK, except that AGE's is determined in accordance with French (versus U.K.) GAAP.

Management, Service Contracts or Cost Sharing Arrangements

The Company and various of its affiliates are parties to the Third Amended and Restated Service Agreement, effective as of January 1, 2020 (as amended, the Group Service Agreement). The Company's affiliate, AG US Group Services Inc. (AG Services), a Delaware corporation, acts as the payroll company and employer for U.S. personnel, and the central, dedicated service provider within the Assured Guaranty group. Under the Group Service Agreement, AG Services' employees make available to its Bermuda, U.S., U.K. and French affiliates, as applicable, equipment, insurance, reinsurance and such other services, including actuarial, marketing, underwriting, claims handling, surveillance, legal, corporate secretarial, information technology, human resources, accounting, tax, financial reporting and investment planning services. In addition, under the Group Service Agreement the Company makes available to its affiliates the use of certain equipment and office space leased by its New York affiliate, AGM. Expenses under the Group Service Agreement are allocated directly where appropriate and, where not appropriate, based upon an allocation of employee time and corresponding office overhead. The agreement provides for pre-funding by affiliates who are the largest consumers of group services and inter-company allocation of expenses. The agreement also provides for quarterly settlements and an express right of offset with regard to amounts owing between parties under the Group Service Agreement and other agreements between such parties.

AGC and Assured Guaranty Finance Overseas Ltd. (AGFOL) are parties to an arranging agreement pursuant to which AGFOL introduces non-public finance transactions to AGC so that AGC may consider whether it would provide a financial guarantee for a proposed transaction together with AGUK under their co-insurance structure. The arranging agreement provides for the payment of fees by AGC to AGFOL on a cost basis, except with respect to U.K. office rent and overhead, which is on a cost plus basis.

The Company and various of its affiliates entered into a Service Agreement with AssuredIM, effective as of June 1, 2020 (the Service Agreement). Pursuant to such Service Agreement, AssuredIM provided services including, but not limited to, general corporate strategy, risk management, systems, information technology, human resources, finance, legal, marketing, and administration services. In exchange for the services provided by AssuredIM under the Service Agreement, the Company paid a fee equal to its allocation of AssuredIM employee time and corresponding costs and expenses. The Service Agreement was terminated on July 1, 2023.

The following table summarizes the allocated expenses from affiliated companies under the expense sharing agreements.

Expenses Allocated From Affiliated Companies

	Year Ended December 31,		
	2023	2022	2021
		(in thousands)	
Affiliated companies:			
AG Services	$ 51,074	$ 45,186	$ 47,373
AGFOL	356	418	—
AssuredIM	680	1,178	1,707
Total	$ 52,110	$ 46,782	$ 49,080

The following table summarizes the amounts due to (from) affiliated companies primarily under the expense sharing agreements.

Amounts Due To (From) Affiliated Companies

	As of December 31,	
	2023	2022
	(in thousands)	
Affiliated companies:		
AG Services	$ 22,477	$ 17,950
AGM	2,213	3,131
AssuredIM	—	792
AGL	—	871
Other	522	123
Total	$ 25,212	$ 22,867

Note Payable to Affiliate

See Note 10, Note Payable to Affiliate and Credit Facilities.

Reinsurance Agreements

The Company cedes business to and assumes business from affiliated entities under certain reinsurance agreements, including as described above under the header “Reinsurance and Support Agreements”. In addition, effective July 1, 2021, AGC and AGM entered into a reinsurance treaty pursuant to which AGM will cede to AGC a minimum 10% quota share of each policy written or assumed by AGM insuring public finance business. The Company also routinely cedes a proportionate share of new business to Assured Guaranty Re. Ltd (AG Re) under a whole account quota share reinsurance agreement effective January 1, 2007, amended as of October 1, 2010. The proportionate share cessions to AG Re range from 15% to 40%. See below for material related party reinsurance balances.

The following table summarizes the affiliated components of each balance sheet item, where applicable.

	As of December 31,			
	2023		2022	
	AGM, AGUK and AGE	AG Re	AGM, AGUK and AGE	AG Re
	(in thousands)			
Assets:				
Premiums receivable, net of commissions payable	$ 67,914	$ —	$ 32,794	$ —
Ceded unearned premium reserve	—	212,538	—	185,670
Reinsurance recoverable on unpaid losses	—	158,447	—	158,570
Salvage and subrogation recoverable	25,838	—	26,298	—
Net credit derivative assets (liabilities) (1)	(13)	9,985	(53)	28,770
Other assets				
Assumed funds held	12,002	—	16,510	—
Reinsurance recoverable on paid losses	5,923	1,142	63,467	3,428
Liabilities:				
Unearned premium reserve	169,813	—	105,492	—
Loss and loss adjustment expense reserve	39,516	—	40,133	—
Reinsurance balances payable, net				
Ceded premium payable, net of ceding commission	—	127,242	—	102,618
Ceded salvage and subrogation recoverable	—	9,939	—	8,685
Reinsurance loss payable	162	—	33,606	22,934
Other liabilities				
Ceded funds held	—	56,335	—	45,384
Deferred ceding commissions	(37,198)	61,188	(20,819)	53,509
Other information:				
Assumed par outstanding	12,773,463	—	6,283,463	—
Ceded par outstanding	—	9,192,108	—	8,121,740

(1) Represents a net asset or liability position based on counterparty exposure.

The following table summarizes the affiliated components of each statement of operations item, where applicable.

	Year Ended December 31,		
	2023	2022	2021
		(in thousands)	
Revenues:			
Net earned premiums			
AG Re	$ (24,194)	$ (19,372)	$ (19,501)
AGM, AGUK and AGE	16,438	33,092	14,845
MAC	—	—	(830)
Fair value gains (losses) on credit derivatives			
AG Re	(18,718)	1,859	9,049
AGM, AGUK and AGE	40	1,847	(1,354)
AGFP	681	711	2,003
Foreign exchange gains (losses) on remeasurement			
AG Re	(965)	2,539	217
AGM, AGUK and AGE	1,814	(1,539)	(351)
Commutation gains (losses)			
AGM, AGUK and AGE	(781)	(174)	(73)
MAC	—	—	7,260
Change in assumed and ceded funds held with affiliates			
AG Re	(13,787)	4,045	(1,322)
AGM, AGUK and AGE	5,787	(1,065)	556
Other income (loss)			
AG Re	(707)	(407)	(398)
AGM, AGUK and AGE	88	224	298
Expenses:			
Loss and LAE (recoveries)			
AG Re	(25,308)	(1,583)	16,132
AGM and AGUK	7,418	9,487	10,553
MAC	—	—	4
Other expenses			
Commissions incurred (earned)			
AG Re	(6,930)	(5,580)	(5,670)
AGM, AGUK and AGE	3,101	1,530	1,616

Loan Receivable from Parent

Accounting Policy

The loan receivable from parent was recorded at its principal amount. There was no discount or premium at the time of issuance of the loan.

Loan to Assured Guaranty US Holdings Inc.

On October 1, 2019 AGC made a 10 year, 3.5% interest rate inter-company loan to AGUS totaling $87.5 million to fund the acquisition of BlueMountain Capital Management, LLC and the related capital contributions. The Company recognized $3.1 million of interest income for each of the years ended December 31, 2023, 2022 and 2021. Interest is payable by AGUS annually in arrears on each anniversary of the note, commencing on October 1, 2020. Interest accrues daily and is computed on a basis of a 360 day year from October 1, 2019 until the date on which the principal amount is paid in full. AGUS will pay 20% of the original principal amount of each note on the sixth, seventh, eighth, and ninth anniversaries. The remaining 20% of the original principal amount and all accrued and unpaid interest will be paid on the maturity date. AGUS has the right to prepay the principal amount of the notes in whole or in part at any time, or from time to time, without payment of any premium or penalty.

Investment Management Expenses

A portion of the Company's invested assets is managed by investment managers, including Wellington Management Company, LLP (together with its affiliates, Wellington), which is a related party to AGL, and, prior to July 1, 2023, AssuredIM. See Note 7, Investments and Cash, for additional information. The investment management expenses from transactions with these related parties for the years ended December 31, 2023, 2022 and 2021 were $0.6 million, $0.7 million and $0.8 million, respectively.

AGAS Ownership and MAC Transaction

AGM, AGC and MAC (together with AGM and AGC, the "U.S. Insurers") initially capitalized AGAS with $500 million of cash ($275 million from AGM, $175 million from AGC and $50 million from MAC). On April 1, 2021, MAC merged with and into AGM, with AGM as the surviving company, as described in Note 1, Business and Basis of Presentation. Accordingly, AGM, as MAC's legal successor, acquired MAC's ownership interests in AGAS, such that on and after the effective date of the merger, the members and owners of AGAS are AGM (65%) and AGC (35%). In 2023, the U.S. Insurers contributed to AGAS, in proportion to their existing ownership interests in AGAS, an additional $250 million in the aggregate (i.e., $162.5 million (65%) by AGM and $87.5 million (35%) by AGC).

14. 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, 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 or liquidity in that particular quarter or year.

In addition, in the ordinary course of their respective businesses, the Company and its affiliates are involved in litigation with third parties to recover insurance losses paid in prior periods or prevent or reduce losses in the future. For example, the Company is involved in a number of legal actions in the Federal District Court of Puerto Rico to enforce or defend its rights with respect to the obligations it insures of Puerto Rico and various of its related authorities and public corporations. See the "Exposure to Puerto Rico" section of Note 2, Outstanding Exposure, for a description of such actions. The impact, if any, of these and other proceedings on the amount of recoveries the Company receives and losses it pays in the future is uncertain, and the impact of 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. In the first quarter of 2023, the Company reduced its previously recorded accrual of $17.0 million to zero in connection with developments in litigation.

The Company also receives subpoenas and interrogatories from regulators from time to time.

Accounting Policy

The Company establishes accruals for litigation and regulatory matters to the extent it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. Additionally, it discloses such amounts if material to the financial position of the Company. 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 would be disclosed below. The Company reviews relevant information with respect to its litigation and regulatory matters on a quarterly basis and updates its accruals, disclosures and estimates of reasonably possible loss based on such reviews.

Litigation

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 CDS. AGC acts as the credit support provider of AGFP under these CDS. LBIE's complaint, which was filed in the Supreme Court of the State of New York (the Court), asserted a claim for breach of the implied covenant of good faith and fair dealing based on AGFP's termination in December

2008 of nine credit derivative transactions between LBIE and AGFP and asserted claims for breach of contract and breach of the implied covenant of good faith and fair dealing based on AGFP's termination in July 2009 of 28 other credit derivative transactions between LBIE and AGFP and AGFP's calculation of the termination payment in connection with those 28 other credit derivative transactions. Following defaults by LBIE, AGFP had terminated the transactions in question in compliance with the agreement between AGFP and LBIE, and properly calculated that LBIE owes AGFP approximately $4 million for the claims which were dismissed (as described below) and approximately $21 million in connection with the termination of the other credit derivative transactions, whereas LBIE asserted in the complaint that AGFP owes LBIE a termination payment of approximately $1.4 billion. On March 15, 2013, the Court granted AGFP's motion to dismiss in respect of the count relating to the nine credit derivative transactions and narrowed LBIE's claim with respect to the 28 other credit derivative transactions. Following a bench trial, on March 8, 2023, the Court rendered its decision and found in favor of AGFP. On June 30, 2023, the clerk entered judgment in favor of AGFP in the amount of approximately $54 million plus post-judgment simple interest at an annual rate of 8%. On July 1, 2023, AGFP moved the Court to award it approximately $58 million for attorneys' fees and expenses AGFP incurred through March 2023. The parties reached a confidential settlement with respect to this motion for attorneys' fees, and AGFP withdrew the motion without prejudice on October 30, 2023. On September 22, 2023, LBIE appealed the Court's post-trial decision to the New York Appellate Division's First Judicial Department (Appellate Division). Briefing on the appeal was completed on January 12, 2024, and oral argument on the appeal was heard on February 21, 2024. On March 14, 2024, the Appellate Division affirmed the Court's judgment. The Company did not accrue in its financial statements for the judgment it was awarded or the attorneys' fees it sought.

15. Shareholder's Equity

Other Comprehensive Income

The following tables present the changes in each component of AOCI and the effect of reclassifications out of AOCI into the respective lines in the consolidated statements of operations.

Changes in Accumulated Other Comprehensive Income (Loss) by Component
Year Ended December 31, 2023

	Net Unrealized Gains (Losses) on Investments with:		ISCR on FG VIEs' Liabilities with Recourse	Total AOCI
	No Credit Impairment	Credit Impairment		
	(in thousands)			
Balance, December 31, 2022	$ (26,265)	$ (36,053)	$ (1,208)	$ (63,526)
Other comprehensive income (loss) before reclassifications	7,024	(2,522)	2,291	6,793
Less: Amounts reclassified from AOCI to:				
Net realized investment gains (losses)	(3,048)	(9,632)	—	(12,680)
Fair value gains (losses) on FG VIEs	—	—	851	851
Total before tax	(3,048)	(9,632)	851	(11,829)
Tax (provision) benefit	640	2,023	(179)	2,484
Total amount reclassified from AOCI, net of tax	(2,408)	(7,609)	672	(9,345)
Other comprehensive income (loss)	9,432	5,087	1,619	16,138
Balance, December 31, 2023	$ (16,833)	$ (30,966)	$ 411	$ (47,388)

**Changes in Accumulated Other Comprehensive Income (Loss) by Component
Year Ended December 31, 2022**

	Net Unrealized Gains (Losses) on Investments with: No Credit Impairment	Net Unrealized Gains (Losses) on Investments with: Credit Impairment	ISCR on FG VIEs' Liabilities with Recourse	Total AOCI
	(in thousands)			
Balance, December 31, 2021	$ 143,887	$ (2,991)	$ (1,632)	$ 139,264
Other comprehensive income (loss) before reclassifications	(174,571)	(46,820)	57	(221,334)
Less: Amounts reclassified from AOCI to:				
Net realized investment gains (losses)	(5,594)	(17,415)	—	(23,009)
Fair value gains (losses) on FG VIEs	—	—	(464)	(464)
Total before tax	(5,594)	(17,415)	(464)	(23,473)
Tax (provision) benefit	1,175	3,657	97	4,929
Total amount reclassified from AOCI, net of tax	(4,419)	(13,758)	(367)	(18,544)
Other comprehensive income (loss)	(170,152)	(33,062)	424	(202,790)
Balance, December 31, 2022	$ (26,265)	$ (36,053)	$ (1,208)	$ (63,526)

**Changes in Accumulated Other Comprehensive Income (Loss) by Component
Year Ended December 31, 2021**

	Net Unrealized Gains (Losses) on Investments with: No Credit Impairment	Net Unrealized Gains (Losses) on Investments with: Credit Impairment	ISCR on FG VIEs' Liabilities with Recourse	Total
	(in thousands)			
Balance, December 31, 2020	$ 193,124	$ (2,392)	$ (1,728)	$ 189,004
Other comprehensive income (loss) before reclassifications	(48,194)	(5,885)	(422)	(54,501)
Less: Amounts reclassified from AOCI to:				
Net realized investment gains (losses)	1,320	(6,691)	—	(5,371)
Fair value gains (losses) on FG VIEs	—	—	(656)	(656)
Total before tax	1,320	(6,691)	(656)	(6,027)
Tax (provision) benefit	(277)	1,405	138	1,266
Total amount reclassified from AOCI, net of tax	1,043	(5,286)	(518)	(4,761)
Other comprehensive income (loss)	(49,237)	(599)	96	(49,740)
Balance, December 31, 2021	$ 143,887	$ (2,991)	$ (1,632)	$ 139,264

Share Repurchases

Accounting Policy

The Company records share repurchases as a reduction to "common stock" and "additional paid-in capital". Once additional paid-in capital has been exhausted, share repurchases are recorded as a reduction to common stock and retained earnings.

16. Subsequent Events

Subsequent events have been considered and disclosed if material through April 10, 2024, the date on which these financial statements were issued.