

A photograph of a construction worker in silhouette, wearing a hard hat and safety harness, walking across a steel truss bridge. The worker is holding a tool or equipment. The background shows the sky and the structural elements of the bridge.

## Financial Supplement

**Municipal Assurance Holdings Inc.**

June 30, 2016

# Municipal Assurance Holdings Inc.

## June 30, 2016

### Financial Supplement

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This financial supplement should be read in conjunction with documents filed by Assured Guaranty Ltd. ("AGL" and, together with its subsidiaries, "Assured Guaranty") with the Securities and Exchange Commission ("SEC"), including its Annual Report on Form 10-K for the year ended December 31, 2015 and its Quarterly Report on Form 10-Q for the quarterly periods ended March 31, 2016 and June 30, 2016.

Some amounts in this financial supplement may not add due to rounding.

#### **Cautionary Statement Regarding Forward Looking Statements:**

Any forward looking statements made in this supplement reflect the current views of Assured Guaranty with respect to future events and financial performance and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements involve risks and uncertainties that may cause actual results to differ materially from those set forth in these statements. Assured Guaranty's forward looking statements could be affected by many events. These events include (1) rating agency action, including a ratings downgrade, a change in outlook, the placement of ratings on watch for downgrade, or a change in rating criteria, at any time, of AGL or any of its subsidiaries, and/or of any securities AGL or any of its subsidiaries have issued, and/or of transactions that AGL's subsidiaries have insured; (2) reduction in the amount of available insurance opportunities and/or in the demand for Assured Guaranty's insurance; (3) developments in the world's financial and capital markets that adversely affect obligors' payment rates, Assured Guaranty's loss experience, or its exposure to refinancing risk in transactions (which could result in substantial liquidity claims on its guarantees); (4) the possibility that budget or pension shortfalls or other factors will result in credit losses or impairments on obligations of state, territorial and local governments and their related authorities and public corporations that Assured Guaranty insures or reinsures; (5) the failure of Assured Guaranty to realize loss recoveries that are assumed in its expected loss estimates; (6) deterioration in the financial condition of Assured Guaranty's reinsurers, the amount and timing of reinsurance recoverables actually received and the risk that reinsurers may dispute amounts owed to Assured Guaranty under its reinsurance agreements; (7) increased competition, including from new entrants into the financial guaranty industry; (8) rating agency action on obligors, including sovereign debtors, resulting in a reduction in the value of securities in Assured Guaranty's investment portfolio and in collateral posted by and to Assured Guaranty; (9) the inability of Assured Guaranty to access external sources of capital on acceptable terms; (10) changes in the world's credit markets, segments thereof, interest rates or general economic conditions; (11) the impact of market volatility on the mark-to-market of Assured Guaranty's contracts written in credit default swap form; (12) changes in applicable accounting policies or practices; (13) changes in applicable laws or regulations, including insurance, bankruptcy and tax laws, or other governmental actions; (14) the impact of changes in the world's economy and credit and currency markets and in applicable laws or regulations relating to the decision of the United Kingdom to exit the European Union; (15) difficulties with the execution of Assured Guaranty's business strategy; (16) loss of key personnel; (17) the effects of mergers, acquisitions and divestitures; (18) natural or man-made catastrophes; (19) other risks and uncertainties that have not been identified at this time; (20) management's response to these factors; and (21) other risk factors identified in AGL's filings with the SEC. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the dates on which they are made. Assured Guaranty undertakes no obligation to update publicly or review any forward looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

# Municipal Assurance Holdings Inc.

## Selected Financial Highlights

(dollars in millions)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
<b>Net income (loss)</b>	\$ 37	\$ 29	\$ 60	\$ 52
Operating income <sup>(2)</sup>	28	29	51	52
<b>Effect of refundings and terminations, net on:</b>				
<b>Net earned premiums</b>	\$ 20	\$ 19	\$ 32	\$ 31
<b>Net income effect</b>	13	12	21	20
<b>Effective tax rate on net income</b>	29.0%	25.1%	27.4%	24.2%
Effective tax rate on operating income <sup>(4)</sup>	26.8	25.1	25.9	24.2
<b>Return on equity (ROE) calculations <sup>(1)(5)</sup>:</b>				
<b>GAAP ROE</b>	17.2%	12.7%	14.2%	11.7%
ROE, excluding unrealized gain (loss) on investment portfolio	18.1	13.3	14.9	12.2
Operating ROE	13.6	13.3	12.6	12.2
<b>New business:</b>				
<b>Gross written premiums (GWP)</b>	\$ 1.2	\$ 0.6	\$ 1.2	\$ 0.4
Present value of new business production (PVP) <sup>(2)</sup>	1.4	0.9	1.8	1.5
Gross par written	363	426	456	594

	As of	
	June 30, 2016	December 31, 2015
<b>Shareholder's equity</b>	\$ 724	\$ 960
Operating shareholder's equity <sup>(2)</sup>	683	923
Adjusted book value <sup>(2)</sup>	921	1,205
<b>Other Information</b>		
Net debt service outstanding	\$ 91,490	\$ 104,498
Net par outstanding	65,841	73,483
Claims-paying resources <sup>(3)</sup>	1,439	1,844

1) Quarterly ROE calculations represent annualized returns.

2) Please refer to the explanation of Non-GAAP Financial Measures set forth at the end of this Financial Supplement.

3) See page 6 for additional detail on claims-paying resources.

4) Represents the ratio of non-GAAP operating provision for income taxes to operating income before income taxes. See page 3 for GAAP pre-tax income and tax expense and page 4 for non-GAAP pretax and tax components.

5) See page 4 for additional information on calculation.

**Municipal Assurance Holdings Inc.**  
Consolidated Balance Sheets (unaudited)  
(dollars in millions)

	As of:	
	June 30, 2016	December 31, 2015
<b>Assets:</b>		
Investment portfolio:		
Fixed-maturity securities, available-for-sale, at fair value	\$ 1,149	\$ 1,519
Short-term investments, at fair value	4	2
Total investment portfolio	1,153	1,521
Cash	1	2
Premiums receivable	3	3
Ceded unearned premium reserve	5	—
Intangible assets	16	16
Accrued investment income	13	18
Other assets	0	1
<b>Total assets</b>	<b>\$ 1,191</b>	<b>\$ 1,561</b>
<b>Liabilities and shareholders' equity:</b>		
<b>Liabilities:</b>		
Unearned premium reserve	\$ 373	\$ 435
Loss and loss adjustment expense reserve	0	0
Premiums payable	4	—
Current income tax payable	36	17
Deferred tax liability, net	45	37
Note payable to affiliate	—	100
Payables to affiliates	6	8
Other liabilities	3	4
<b>Total liabilities</b>	<b>467</b>	<b>601</b>
<b>Shareholders' equity:</b>		
Common stock and additional paid-in capital	683	693
Retained earnings	—	230
Accumulated other comprehensive income	41	37
<b>Total shareholders' equity</b>	<b>724</b>	<b>960</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,191</b>	<b>\$ 1,561</b>

**Municipal Assurance Holdings Inc.**  
Consolidated Statements of Operations (unaudited)  
(dollars in millions)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
<b>Revenues:</b>				
Net earned premiums	\$ 34	\$ 35	\$ 61	\$ 62
Net investment income	10	9	20	19
Net realized investment gains (losses)	14	0	14	0
Other income	0	0	0	0
<b>Total revenues</b>	<b>58</b>	<b>44</b>	<b>95</b>	<b>81</b>
<b>Expenses:</b>				
Loss and loss adjustment expenses	0	0	0	0
Interest expense	1	1	2	2
Other operating expenses	5	4	10	9
<b>Total expenses</b>	<b>6</b>	<b>5</b>	<b>12</b>	<b>11</b>
<b>Income (loss) before income taxes</b>	<b>52</b>	<b>39</b>	<b>83</b>	<b>70</b>
Provision (benefit) for income taxes	15	10	23	18
<b>Net income (loss)</b>	<b>\$ 37</b>	<b>\$ 29</b>	<b>\$ 60</b>	<b>\$ 52</b>

**Municipal Assurance Holdings Inc.**  
**Selected Financial Highlights Non-GAAP Reconciliations**  
(dollars in millions)

**Operating income reconciliation:**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
<b>Net income (loss)</b>	<b>\$ 37</b>	<b>\$ 29</b>	<b>60</b>	<b>52</b>
Less pre-tax adjustments:				
Realized gains (losses) on investments	14	0	14	0
Total pre-tax adjustments	14	0	14	0
Less tax effect on pre-tax adjustments	(5)	0	(5)	0
<b>Operating income</b>	<b>\$ 28</b>	<b>\$ 29</b>	<b>\$ 51</b>	<b>\$ 52</b>

**ROE Reconciliation and Calculation**

	As of					
	June 30, 2016	March 31, 2016	December 31, 2015	June 30, 2015	March 31, 2015	December 31, 2014
<b>Shareholders' equity</b>	<b>\$ 724</b>	<b>\$ 990</b>	<b>\$ 960</b>	<b>\$ 906</b>	<b>\$ 890</b>	<b>\$ 862</b>
Unrealized gain (loss) on investment portfolio, pre-tax	65	67	57	48	67	59
Less: tax effect	24	23	20	17	23	20
Unrealized gain (loss) on investment portfolio, after-tax	41	44	37	31	44	39
Shareholders' equity, excluding unrealized gain (loss) on investment portfolio	\$ 683	\$ 946	\$ 923	\$ 875	\$ 846	\$ 823
Operating shareholders' equity	\$ 683	\$ 946	\$ 923	\$ 875	\$ 846	\$ 823

  

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
<b>Net income (loss)</b>	<b>\$ 37</b>	<b>\$ 29</b>	<b>\$ 60</b>	<b>\$ 52</b>
Operating income	28	29	51	52
<b>Average shareholders' equity</b>	<b>\$ 857</b>	<b>\$ 898</b>	<b>\$ 842</b>	<b>\$ 884</b>
Average shareholders' equity, excluding unrealized gain (loss) on investment portfolio	815	861	803	849
Average operating shareholders' equity	815	861	803	849
<b>GAAP ROE <sup>(1)</sup></b>	<b>17.2%</b>	<b>12.7%</b>	<b>14.2%</b>	<b>11.7%</b>
ROE, excluding unrealized gain (loss) on investment portfolio <sup>(1)</sup>	18.1	13.3	14.9	12.2
Operating ROE <sup>(1)</sup>	13.6	13.3	12.6	12.2

1) Quarterly ROE calculations represent annualized returns.

**Municipal Assurance Holdings Inc.**  
**Operating Shareholders' Equity and Adjusted Book Value**  
(dollars in millions)

	<b>As of</b>	
	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Reconciliation of shareholders' equity to adjusted book value:</b>		
<b>Shareholders' equity</b>	<b>\$ 724</b>	<b>\$ 960</b>
Less pre-tax adjustments:		
Unrealized gain (loss) on investment portfolio	65	57
Taxes	(24)	(20)
Operating shareholders' equity	683	923
Pre-tax adjustments:		
Plus: Net unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed	366	434
Taxes	(128)	(152)
Adjusted book value	<u>\$ 921</u>	<u>\$ 1,205</u>

Please refer to the explanation of Non-GAAP Financial Measures set forth at the end of this Financial Supplement.

**Municipal Assurance Holdings Inc.**  
**Claims-Paying Resources of Municipal Assurance Corp.<sup>(1)</sup>**  
(dollars in millions)

	<b>As of:</b>	
	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Claims-paying resources</b>		
Policyholders' surplus	\$ 379	\$ 730
Contingency reserve	298	282
<b>Qualified statutory capital</b>	<b>677</b>	<b>1,012</b>
Unearned premium reserve	400	469
<b>Total policyholders' surplus and reserves</b>	<b>1,077</b>	<b>1,481</b>
Present value of installment premium	2	3
Excess of loss reinsurance facility <sup>(2)</sup>	360	360
<b>Total claims-paying resources</b>	<b>\$ 1,439</b>	<b>\$ 1,844</b>
 Net par outstanding <sup>(3)</sup>	 \$ 52,001	 \$ 61,805
Net debt service outstanding <sup>(3)</sup>	76,721	92,048
 <b>Ratios:</b>		
Net par outstanding to qualified statutory capital	77:1	61:1
Capital ratio <sup>(4)</sup>	113:1	91:1
Financial resources ratio <sup>(5)</sup>	53:1	50:1

1) Municipal Assurance Corp. (MAC) is a 100% owned subsidiary of Municipal Assurance Holdings Inc..

2) Represents an aggregate \$360 million excess-of-loss reinsurance facility for the benefit of Assured Guaranty Corp. (AGC), Assured Guaranty Municipal Corp (AGM) and MAC, which became effective January 1, 2016. The facility terminates on January 1, 2018, unless AGC, AGM and MAC choose to extend it.

3) Net par outstanding and net debt service outstanding are presented on a statutory basis.

4) The capital ratio is calculated by dividing net debt service outstanding by qualified statutory capital.

5) The financial resources ratio is calculated by dividing net debt service outstanding by total claims-paying resources.



# Municipal Assurance Holdings Inc.

## New Business Production (dollars in millions)

### Reconciliation of PVP to GWP for the Three Months Ended June 30, 2016 and June 30, 2015

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015
<b>U.S. Public Finance:</b>		
PVP	\$ 1.4	\$ 0.9
Less: PVP of non-financial guaranty insurance	—	—
Less: Financial guaranty installment premium PVP	—	—
Plus: Installment GWP and other GAAP adjustments <sup>(1)</sup>	(0.2)	(0.3)
<b>Total GWP</b>	<b>\$ 1.2</b>	<b>\$ 0.6</b>
<b>Gross par written</b>	<b>\$ 363</b>	<b>\$ 426</b>

### Reconciliation of PVP to GWP for the Six Months Ended June 30, 2016 and June 30, 2015

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
<b>U.S. Public Finance:</b>		
PVP	\$ 1.8	\$ 1.5
Less: PVP of non-financial guaranty insurance	—	—
Less: Financial guaranty installment premium PVP	—	—
Plus: Installment GWP and other GAAP adjustments <sup>(1)</sup>	(0.6)	(1.1)
<b>Total GWP</b>	<b>\$ 1.2</b>	<b>\$ 0.4</b>
<b>Gross par written</b>	<b>\$ 456</b>	<b>\$ 594</b>

1) Includes present value of GWP adjustments on existing installment policies due to changes in assumptions.

Please refer to the explanation of Non-GAAP Financial Measures set forth at the end of this Financial Supplement.

# Municipal Assurance Holdings Inc.

Gross Par Written  
(dollars in millions)

## Gross Par Written by Asset Type

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	Gross Par Written	Avg. Internal Rating	Gross Par Written	Avg. Internal Rating
<b>Sector:</b>				
<b>U.S. public finance</b>				
Direct:				
General obligation	\$ 329	A-	\$ 422	A-
Municipal utilities	18	BBB+	18	BBB+
Tax backed	16	A	16	A
Total direct	<u>\$ 363</u>	A-	<u>\$ 456</u>	A-
<b>Total U.S. public finance gross par written</b>	<u><b>\$ 363</b></u>	A-	<u><b>\$ 456</b></u>	A-

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
Gross debt service written	\$	468		587

Please refer to the Glossary for a description of internal ratings and sectors.

**Municipal Assurance Holdings Inc.**  
**Available-for-Sale Investment Portfolio and Cash**  
**As of June 30, 2016**  
(dollars in millions)

	<b>Amortized Cost</b>	<b>Pre-Tax Book Yield</b>	<b>After-Tax Book Yield</b>	<b>Fair Value</b>	<b>Annualized Investment Income <sup>(1)</sup></b>
<b>Investment portfolio, available-for-sale:</b>					
Fixed-maturity securities:					
Obligations of states and political subdivisions	\$ 832	2.85 %	2.68 %	\$ 878	\$ 24
Insured obligations of state and political subdivisions <sup>(2)</sup>	138	3.34 %	3.16 %	151	5
U.S. Treasury securities and obligations of U.S. government agencies	15	2.63 %	1.71 %	17	0
Agency obligations	7	1.25 %	0.81 %	7	0
Corporate securities	55	2.75 %	1.79 %	57	1
Mortgage-backed securities (MBS):					
Residential MBS (RMBS)	12	2.81 %	1.82 %	12	—
Commercial MBS (CMBS)	25	3.21 %	2.08 %	27	1
Total fixed-maturity securities	1,084	2.90 %	2.65 %	1,149	31
Short-term investments	4	0.26 %	0.17 %	4	—
Cash <sup>(3)</sup>	1	— %	— %	1	—
<b>Total</b>	<b>\$ 1,089</b>	<b>2.89%</b>	<b>2.64%</b>	<b>\$ 1,154</b>	<b>\$ 31</b>

**Ratings <sup>(4)</sup>:**

	<b>Fair Value</b>	<b>% of Portfolio</b>
U.S. Treasury securities and obligations of U.S. government agencies	\$ 17	1.5 %
Agency obligations	7	0.6
AAA/Aaa	95	8.3
AA/Aa	843	73.4
A/A	180	15.7
BBB	7	0.5
<b>Total fixed-maturity securities, available-for-sale</b>	<b>\$ 1,149</b>	<b>100.0%</b>

**Duration of fixed-maturity securities and short-term investments (in years):**

**4.2**

**Average ratings of fixed-maturity securities and short-term investments**

**AA**

- 1) Represents annualized investment income based on amortized cost and pre-tax book yields.
- 2) Reflects obligations of state and local political subdivisions that have been insured by other financial guarantors. The underlying ratings of these bonds, after giving effect to the lower of the rating assigned by Standard & Poor's Ratings Services (S&P) or Moody's Investors Service, Inc. (Moody's), average A+.
- 3) Cash is not included in the yield calculation.
- 4) Ratings are represented by the lower of the Moody's and S&P classifications.

**Municipal Assurance Holdings Inc.**  
Estimated Net Exposure Amortization<sup>(1)</sup> and Estimated Future Net Premium  
(dollars in millions)

	Estimated Net Debt Service Amortization	Estimated Ending Net Debt Service Outstanding	Financial Guaranty Insurance		
			Expected PV Net Earned Premiums	Accretion of Discount	Future Net Premiums Earned
2016 (as of June 30)		\$ 91,490			
2016 Q3	\$ 3,817	87,673	\$ 14	\$ 0	\$ 14
2016 Q4	3,148	84,525	13	0	13
2017	11,735	72,790	46	0	46
2018	9,369	63,421	39	0	39
2019	6,867	56,554	31	0	31
2020	4,977	51,577	28	0	28
2016-2020	39,913	51,577	171	0	171
2021-2025	21,179	30,398	101	1	102
2026-2030	14,950	15,448	55	0	55
2031-2035	8,615	6,833	28	0	28
After 2035	6,833	—	13	0	13
<b>Total</b>	<b>\$ 91,490</b>		<b>\$ 368</b>	<b>\$ 1</b>	<b>\$ 369</b>

- 1) Represents the future expected amortization of current debt service outstanding (principal and interest), assuming no advance refundings, as of June 30, 2016. Actual amortization differs from expected maturities because borrowers may have the right to call or prepay guaranteed obligations.

**Municipal Assurance Holdings Inc.**  
Expected Amortization of Net Par Outstanding  
(dollars in millions)

**U.S. Public Finance**

	<b>Estimated Net Par Amortization</b>	<b>Estimated Ending Net Par Outstanding</b>
2016 (as of June 30)		\$ 65,841
2016 Q3	\$ 3,057	62,784
2016 Q4	2,413	60,371
2017	9,074	51,297
2018	7,074	44,223
2019	4,842	39,381
2020	3,127	36,254
2016-2020	29,587	36,254
2021-2025	13,905	22,349
2026-2030	10,588	11,761
2031-2035	6,314	5,447
After 2035	5,447	—
<b>Total U.S. public finance</b>	<b>\$ 65,841</b>	

**Municipal Assurance Holdings Inc.**  
Financial Guaranty Profile (1 of 3)  
(dollars in millions)

**Net Par Outstanding and Average Rating by Asset Type**

	June 30, 2016		December 31, 2015	
	Net Par Outstanding	Avg. Internal Rating	Net Par Outstanding	Avg. Internal Rating
<b>U.S. public finance:</b>				
General obligation	\$ 38,943	A	\$ 43,357	A+
Municipal utilities	10,448	A	11,702	A+
Tax backed	9,587	A+	10,773	A+
Transportation	2,903	A	3,135	A
Higher education	2,902	A	3,238	A
Housing	293	A+	448	A+
Other public finance	765	A	830	A
<b>Total U.S. public finance</b>	<b>\$ 65,841</b>	<b>A</b>	<b>\$ 73,483</b>	<b>A+</b>

Please refer to the Glossary for an explanation of the presentation of net par outstanding and the Company's internal rating approach, and of the various sectors.

# Municipal Assurance Holdings Inc.

## Financial Guaranty Profile (2 of 3)

As of June 30, 2016

(dollars in millions)

### Distribution by Ratings of U.S. Public Finance Financial Guaranty Portfolio

Ratings:	Net Par Outstanding	% of Total
AAA	\$ 1,079	1.6 %
AA	19,226	29.2
A	35,980	54.6
BBB	9,244	14.1
Below Investment Grade ("BIG")	312 <sup>(1)</sup>	0.5
<b>Total net par outstanding</b>	<b>\$ 65,841</b>	<b>100.0%</b>

1) Includes 14 revenue sources, in the BB and B categories, all from the general obligation, transportation revenue, tax, and municipal utility sectors. The largest exposure was \$66 million in the general obligation sector, no other individual revenue source exceeds \$50 million.

Please refer to the Glossary for an explanation of the presentation of net par outstanding and the Company's internal rating approach, and of the various sectors.

# Municipal Assurance Holdings Inc.

## Financial Guaranty Profile (3 of 3)

As of June 30, 2016

(dollars in millions)

### Geographic Distribution of U.S. Public Finance Financial Guaranty Portfolio

	Net Par Outstanding	% of Total
<b>U.S. public finance:</b>		
California	\$ 11,347	17.2 %
Texas	7,053	10.7
Pennsylvania	4,997	7.6
Illinois	4,230	6.4
New York	3,833	5.8
Florida	2,770	4.2
New Jersey	2,538	3.9
Michigan	2,521	3.8
Ohio	2,203	3.3
Indiana	1,797	2.7
Other states	22,552	34.4
<b>Total U.S. public finance net par outstanding</b>	<b>\$ 65,841</b>	<b>100.0%</b>

Please refer to the Glossary for an explanation of the presentation of net par outstanding and of the various sectors.



# Municipal Assurance Holdings Inc.

## Largest Exposures by Sector

As of June 30, 2016

(dollars in millions)

### 50 Largest U.S. Public Finance Exposures by Revenue Source

Credit names:	Net Par Outstanding	Internal Rating
Harris County, Texas	\$ 164	AA+
New York City Transitional Finance Authority	153	AAA
Garden State Preservation Trust, New Jersey Open Space & Farmland	152	AA
Utah Transit Authority (Sales Tax)	152	AA+
San Diego Community College District, California	144	AA+
San Bernardino County, California	142	A+
Desert Community College District, California	133	AA
Regional Transportation District, Colorado	125	AA
Truckee Meadows Water Authority, Nevada	124	A+
Corona-Norco Unified School District, California	123	AA-
Riverside, California	122	A+
Rancho Santiago Community College District, California	121	AA
Alaska (State of)	121	AA
Indianapolis Local Public Improvement Bond Bank	121	AA
Massachusetts (Commonwealth of) Water Resources	120	AA
Miami-Dade County, Florida	119	A+
Grossmont-Cuyamaca Community College District, California	119	AA-
Michigan (State of) Grant Anticipation Demand Notes	118	A+
Los Angeles, California Unified School District	117	AA-
Metropolitan Atlanta Rapid Transit Authority, Georgia	117	AAA
Wayne State Board of Governors, Michigan	116	AA-
Dade County Sales Tax, Florida	115	AA-
Pima County, Arizona Sewer	115	A+
Dekalb County, Georgia Water and Sewerage	114	A+
Orange County Schools, Florida	114	A+
Chicago, Illinois Water	111	A-
Kansas (State of)	110	A+
Seattle Water, Washington	110	AA
Massachusetts (Commonwealth of)	108	AA
District of Columbia Water and Sewer Authority Public Utility Bonds	107	A+
Maryland Transportation Authority	107	A+
Alameda County, California	106	AA-
Texas Medical Center Central Heating & Cooling Services Corp (TECO)	106	AA-
Washington (State of)	106	AA
Escondido Union High School District, California	105	A+
Will County Community Unit School District No. 365-U (Valley View), Illinois	105	AA-
Tennessee State School Bond Authority	105	AA-
San Diego Unified School District, California	104	AA
University of Cincinnati	103	A+
Regional Transportation Authority, Illinois Sales Tax	101	AA-
Community Unit School District No. 200 (Wheaton-Warrenville), Illinois	101	A+
Fresno (City of) Sewer System, California	101	A+
Orange County Sanitary District Certificates of Participation	100	AA
Richmond, Virginia Public Utility	99	AA-
North Carolina (State of)	98	AA+
Alabama (State of)	98	AA
Wisconsin (State of)	97	A+
Humble Independent School District, Texas	96	AA-
Memphis, Tennessee	96	AA
North Texas Tollway Authority	91	A
<b>Total top 50 U.S. public finance exposures</b>	<b>\$ 5,752</b>	

Please refer to the Glossary for an explanation of net par outstanding, internal ratings and sectors.

# Municipal Assurance Holdings Inc.

## Summary of Statutory Financial and Statistical Data of Municipal Assurance Corp. (dollars in millions)

	As of and for Six Months Ended June 30,				Year Ended December 31,			
	2016	2015	2014	2013	2016	2015	2014	2013
<b>Statutory Data</b>								
Policyholders' surplus	\$ 379	\$ 730	\$ 612	\$ 514				
Contingency reserve	298	282	300	320				
<b>Qualified statutory capital</b>	<b>677</b>	<b>1,012</b>	<b>912</b>	<b>834</b>				
Unearned premium reserve	400	469	591	671				
<b>Total policyholders' surplus and reserves</b>	<b>1,077</b>	<b>1,481</b>	<b>1,503</b>	<b>1,505</b>				
Present value of installment premium	2	3	4	5				
Excess of loss reinsurance facility	360	360	450	—				
<b>Total claims-paying resources</b>	<b>\$ 1,439</b>	<b>\$ 1,844</b>	<b>\$ 1,957</b>	<b>\$ 1,510</b>				
<b>Other Financial Information (Statutory Basis)</b>								
Net debt service outstanding (end of period)	\$ 76,721	\$ 92,048	\$ 123,198	\$ 144,672				
Gross debt service outstanding (end of period)	76,721	92,048	123,198	144,672				
Net par outstanding (end of period)	52,001	61,805	82,322	96,141				
Gross par outstanding (end of period)	52,001	61,805	82,322	96,141				
Ratios:								
Net par outstanding to qualified statutory capital	77:1	61:1	90:1	115:1				
Capital ratio <sup>(1)</sup>	113:1	91:1	135:1	173:1				
Financial resources ratio <sup>(1)</sup>	53:1	50:1	63:1	96:1				

1) See page 6 for additional detail on claims-paying resources.

Please refer to the Glossary for an explanation of the presentation of net debt service and net par outstanding and of the various sectors.

## Glossary

### ***Net Par Outstanding and Internal Ratings***

Net par outstanding is insured par exposure net of reinsurance cessions.

Internal Rating utilizes the Company's ratings scale, which is similar to that used by the nationally recognized statistical rating organizations except that the Company's internal credit ratings focus on future performance rather than lifetime performance; internal credit ratings may differ from those assigned by such rating agencies.

Statutory Net Par and Net Debt Service Outstanding. Under statutory accounting, net par and net debt service outstanding would be reduced both when an outstanding issue is legally defeased (i.e., an issuer has legally discharged its obligations with respect to a municipal security by satisfying conditions set forth in defeasance provisions contained in transaction documents and is no longer responsible for the payment of debt service with respect to such obligations) and when such issue is economically defeased (i.e., transaction documents for a municipal security do not contain defeasance provisions but the issuer establishes an escrow account with United States (U.S.) government securities in amounts sufficient to pay the refunded bonds when due; the refunded bonds are not considered paid and continue to be outstanding under the transaction documents and the issuer remains responsible to pay debt service when due to the extent monies on deposit in the escrow account are insufficient for such purpose).

### ***Sectors***

Below are brief descriptions of selected types of public finance obligations that the Company insures and reinsures. For a more complete description, please refer to Assured Guaranty Ltd.'s Annual Report on Form 10-K for the year ended December 31, 2015.

#### ***Public Finance:***

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

Tax-Backed Bonds are obligations that are supported by the issuer from specific and discrete sources of taxation. They include tax-backed revenue bonds, general fund obligations and lease revenue bonds. Tax-backed obligations may be secured by a lien on specific pledged tax revenues, such as a gasoline or excise tax, or incrementally from growth in property tax revenue associated with growth in property values. These obligations also include obligations secured by special assessments levied against property owners and often benefit from issuer covenants to enforce collections of such assessments and to foreclose on delinquent properties. Lease revenue bonds typically are general fund obligations of a municipality or other governmental authority that are subject to annual appropriation or abatement; projects financed and subject to such lease payments ordinarily include real estate or equipment serving an essential public purpose. Bonds in this category also include moral obligations of municipalities or governmental authorities.

Municipal Utility Bonds are obligations of all forms of municipal utilities, including electric, water and sewer utilities and resource recovery revenue bonds. These utilities may be organized in various forms, including municipal enterprise systems, authorities or joint action agencies.

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

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

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

Other Public Finance primarily includes government insured student loans, government-sponsored project finance and structured municipal transactions, which includes excess of loss reinsurance on portfolios of municipal credits.

## Non-GAAP Financial Measures

The Company discloses both financial measures determined in accordance with accounting principles generally accepted in the United States of America (GAAP) and financial measures not determined in accordance with GAAP (non-GAAP financial measures).

Financial measures identified as non-GAAP should not be considered substitutes for GAAP financial measures. The primary limitation of non-GAAP financial measures is the potential lack of comparability to financial measures of other companies, which may define non-GAAP financial measures differently than Assured Guaranty.

Assured Guaranty's management and AGL's Board of Directors use non-GAAP financial measures, as well as GAAP financial measures and other factors, to evaluate Assured Guaranty's results of operations, financial condition and progress towards long-term goals. By disclosing non-GAAP financial measures, Assured Guaranty gives investors, analysts and financial news reporters access to some of the same information that management and AGL's Board of Directors review internally. Assured Guaranty believes its presentation of non-GAAP financial measures is consistent with how analysts calculate their estimates of Assured Guaranty's financial results in their research reports on Assured Guaranty and with how investors, analysts and the financial news media evaluate Assured Guaranty's financial results.

Many investors, analysts and financial news reporters use operating shareholders' equity as the principal financial measure for valuing AGL's current share price or projected share price and also as the basis of their decision to recommend, buy or sell AGL's common shares. Many of Assured Guaranty's fixed income investors also use operating shareholders' equity to evaluate the Assured Guaranty's capital adequacy. Many investors, analysts and financial news reporters also use adjusted book value to evaluate AGL's share price and as the basis of their decision to recommend, buy or sell the AGL common shares. Operating income enables investors and analysts to evaluate Assured Guaranty's financial results as compared with the consensus analyst estimates distributed publicly by financial databases. Two non-GAAP financial measures, growth in adjusted book value per share and operating income, are key measures used to help determine compensation.

The following paragraphs define each non-GAAP financial measure disclosed by the Company and describe why it is useful. A reconciliation of the non-GAAP financial measure and the most directly comparable GAAP financial measure is presented within this financial supplement.

**Operating Income:** Management believes that operating income is a useful measure because it presents the results of operations of the Company with all financial guaranty contracts accounted for on a consistent basis and excludes fair value adjustments that are not expected to result in economic gain or loss, which clarifies the understanding of the underwriting results and financial condition of the Company. Operating income is defined as net income (loss) attributable to the Company, as reported under GAAP, adjusted for the following:

- 1) Elimination of realized gains (losses) on the Company's investments, except for gains and losses on securities classified as trading. The timing of realized gains and losses, which depends largely on market credit cycles, can vary considerably across periods. The timing of sales is largely subject to the Company's discretion and influenced by market opportunities, as well as the Company's tax and capital profile.
- 2) Elimination of non-credit-impairment unrealized fair value gains (losses) on credit derivatives, which is the amount in excess of the present value of the expected estimated economic credit losses, and non-economic payments. Such fair value adjustments are heavily affected by, and in part fluctuate with, changes in market interest rates, credit spreads and other market factors and are not expected to result in an economic gain or loss. Additionally, this adjustment presents all financial guaranty contracts on a more consistent basis of accounting, whether or not they are subject to derivative accounting rules.
- 3) Elimination of fair value gains (losses) on the Company's CCS. Such amounts are heavily affected by, and in part fluctuate with, changes in market interest rates, credit spreads and other market factors and are not expected to result in an economic gain or loss.
- 4) Elimination of foreign exchange gains (losses) on remeasurement of net premium receivables and loss and LAE reserves. Long-dated receivables and loss and LAE reserves represent the present value of future contractual or expected cash flows. Therefore, the current period's foreign exchange remeasurement gains (losses) are not necessarily indicative of the total foreign exchange gains (losses) that the Company will ultimately recognize.
- 5) Elimination of the effects of consolidating FG VIEs. GAAP requires the Company to consolidate certain VIEs that have issued debt obligations insured by the Company even though the Company does not own such VIEs. This adjustment presents all financial guaranty contracts on a more consistent basis of accounting, whether or not GAAP requires consolidation.
- 6) Elimination of the tax effects related to the above adjustments, which are determined by applying the statutory tax rate in each of the jurisdictions that generate these adjustments.

**Operating Shareholders' Equity:** Management believes that operating shareholders' equity is a useful measure because it presents the equity of AGL with all financial guaranty contracts accounted for on a consistent basis and excludes fair value adjustments that are not expected to result in economic gain or loss, which clarifies the understanding of the underwriting results and financial condition of Assured Guaranty. Operating shareholders' equity is the basis of the calculation of adjusted book value (see below). Operating shareholders' equity is defined as shareholders' equity attributable to the Company, as reported under GAAP, adjusted for the following:

## Non-GAAP Financial Measures (continued)

- 1) Elimination of the effects of consolidating FG VIEs in order to present all financial guaranty contracts on a more consistent basis of accounting, whether or not GAAP requires consolidation. GAAP requires the Company to consolidate certain VIEs that have issued debt obligations insured by the Company even though the Company does not own such VIEs.
- 2) Elimination of non-credit-impairment unrealized fair value gains (losses) on credit derivatives, which is the amount in excess of the present value of the expected estimated economic credit losses, and non-economic payments. Such fair value adjustments are heavily affected by, and in part fluctuate with, changes in market interest rates, credit spreads and other market factors and are not expected to result in an economic gain or loss.
- 3) Elimination of fair value gains (losses) on the Company's CCS. Such amounts are heavily affected by, and in part fluctuate with, changes in market interest rates, credit spreads and other market factors and are not expected to result in an economic gain or loss.
- 4) Elimination of unrealized gains (losses) on the Company's investments that are recorded as a component of accumulated other comprehensive income (AOCI) (excluding foreign exchange remeasurement). The AOCI component of the fair value adjustment on the investment portfolio is not deemed economic because the Company generally holds these investments to maturity and therefore should not recognize an economic gain or loss.
- 5) Elimination of the tax asset or liability related to the above adjustments, which are determined by applying the statutory tax rate in each of the jurisdictions that generate these adjustments.

**Adjusted Book Value:** Management uses adjusted book value to measure the intrinsic value of Assured Guaranty, excluding franchise value. Growth in adjusted book value per share is one of the key financial measures used in determining the amount of certain long term compensation to Assured Guaranty's management and employees and used by rating agencies and investors. Management believes that adjusted book value is a useful measure because it enables an evaluation of the net present value of Assured Guaranty's in-force premiums and revenues net of expected losses. Adjusted book value is operating shareholders' equity, as defined above, further adjusted for the following:

- 1) Elimination of deferred acquisition costs, net. These amounts represent net deferred expenses that have already been paid or accrued and will be expensed in future accounting periods.
- 2) Addition of the net present value of estimated net future credit derivative revenue. See below.
- 3) Addition of the deferred premium revenue on financial guaranty contracts in excess of expected loss to be expensed, net of reinsurance. This amount represents the expected future net earned premiums, net of expected losses to be expensed, which are not reflected in GAAP equity.
- 4) Elimination of the tax asset or liability related to the above adjustments, which are determined by applying the statutory tax rate in each of the jurisdictions that generate these adjustments.

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

**Operating Return on Equity (Operating ROE):** Operating ROE represents operating income for a specified period divided by the average of operating shareholders' equity at the beginning and the end of that period. Management believes that operating ROE is a useful measure to evaluate Assured Guaranty's return on invested capital. Many investors, analysts and members of the financial news media use operating ROE to evaluate AGL's share price and as the basis of their decision to recommend, buy or sell the AGL common shares. Quarterly and year-to-date operating ROE are calculated on an annualized basis. Operating ROE is one of the key financial measures used in determining the amount of certain long-term compensation to Assured Guaranty's management and employees and used by rating agencies and investors.

**Net Present Value of Estimated Net Future Credit Derivative Revenue:** Management believes that this amount is a useful measure because it enables an evaluation of the value of future estimated credit derivative revenue. There is no corresponding GAAP financial measure. This amount represents the present value of estimated future revenue from the Company's credit derivative in-force book of business, net of reinsurance, ceding commissions and premium taxes, for contracts without expected economic losses, and is discounted at 6%. Estimated net future credit derivative revenue may change from period to period due to changes in foreign exchange rates, prepayment speeds, terminations, credit defaults or other factors that affect par outstanding or the ultimate maturity of an obligation.

## Non-GAAP Financial Measures (continued)

**PVP or Present Value of New Business Production:** Management believes that PVP is a useful measure because it enables the evaluation of the value of new business production for the Company by taking into account the value of estimated future installment premiums on all new contracts underwritten in a reporting period as well as premium supplements and additional installment premium on existing contracts as to which the issuer has the right to call the insured obligation but has not exercised such right, whether in insurance or credit derivative contract form, which GAAP gross written premiums and the net credit derivative premiums received and receivable portion of net realized gains and other settlements on credit derivatives (Credit Derivative Revenues) do not adequately measure. PVP in respect of financial guaranty contracts written in a specified period is defined as gross upfront and installment premiums received and the present value of gross estimated future installment premiums, in each case, discounted at 6%. For purposes of the PVP calculation, management discounts estimated future installment premiums on insurance contracts at 6%, while under GAAP, these amounts are discounted at a risk free rate. Additionally, under GAAP, management records future installment premiums on financial guaranty insurance contracts covering non-homogeneous pools of assets based on the contractual term of the transaction, whereas for PVP purposes, management records an estimate of the future installment premiums the Company expects to receive, which may be based upon a shorter period of time than the contractual term of the transaction. Actual future net earned or written premiums and Credit Derivative Revenues may differ from PVP due to factors including, but not limited to, changes in foreign exchange rates, prepayment speeds, terminations, credit defaults, or other factors that affect par outstanding or the ultimate maturity of an obligation.

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