

## **Assured Guaranty Statement on Climate Change**

Assured Guaranty Ltd. (together with its subsidiaries, Assured Guaranty or the Company) recognizes that addressing and adapting to climate change remains a top priority and global objective. The scientific community, including the Intergovernmental Panel on Climate Change (IPCC) <sup>1 2</sup>, the U.S. Global Change Research Program <sup>3</sup>, and the proceedings of the UN Climate Change Conference of the Parties (COP) <sup>4</sup>, provide clear consensus that climate change will have widespread impacts on human and natural systems.

Specific potential long-term effects of climate change in the United States include <sup>3 4</sup>:

- Higher temperatures
- Higher precipitation
- More droughts and heat waves
- Stronger and more intense hurricanes
- Sea level rise of 1-4 feet by the year 2100

According to the IPCC, global temperatures have already increased at least 1.0°C compared to pre-industrial levels. Climate-related risks to health, livelihoods, food security, water supply, human security, and economic growth are projected to increase with global warming of 1.5°C and become even more severe with a 2°C of increase. More broadly, climate change creates new risks and exacerbates existing vulnerabilities in communities across the globe, challenging human health and safety as well as economic growth.

We believe mitigating the effects of climate change is an important task that will require collaboration between the public and private sector. Though the full effects of climate change may not be felt for some time, recent events, trends and research propel us to address its potential impact on our business and develop a risk management strategy.

### **Managing Climate Change Risk at Assured Guaranty**

While climate change has the potential to impact both of our business segments, the greatest effect likely would be in the financial guaranty business.

#### *Financial Guaranty Risk*

Assured Guaranty provides irrevocable financial guarantees primarily for municipal and infrastructure debt with typical maturities of 30 years. Assured Guaranty is obligated to make timely payments of principal and interest coming due to bondholders if the issuer fails to do so. Our insurance policies are irrevocable and non-cancellable.

Cities, counties, states and other issuers of municipal and infrastructure bonds may be affected by more frequent and severe weather events. Scientific research, including the Fourth National Climate Assessment, finds that:

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

While these forecasts maintain a fair amount of uncertainty, we analyze climate change risk in both the underwriting of new transactions and the monitoring of existing transactions in our insurance portfolio.

#### *Understanding Assured Guaranty’s Underwriting Risk to Climate Change*

Assured Guaranty is familiar with the occurrence and impact of event-driven catastrophic natural events such as large hurricanes, severe flooding, and wildfires on its insured portfolio. Typically, our insured transactions have embedded protections that mitigate our exposure to these events, such as property and casualty insurance, cash reserves, and government assistance to support the impacted municipality or infrastructure project during such period of stress. Further, our business targets facilities and projects, such as schools and hospitals, that are essential to their communities and therefore more likely to receive support and be rebuilt. While we recognize that future weather events may be more extreme and frequent, our extensive historical experience in analyzing credits gives us a reasonable basis to assess if such events will materially impact issuers’ ability to make their required debt service payments on our insured debt.

Over time, the livability of certain regions issuing bonds insured by the Company may be adversely affected by long-term shifts in climate patterns. The expense municipalities will incur as they reinforce infrastructure to address climate risk, such as new sea walls, levees, retention ponds, roads utilities, and bridges, will vary according to geographic location and the nature of the mitigation efforts needed. Likewise, the financial burden among federal, state and municipal governments also will vary. Further, unmitigated effects eventually could lead to changing demographic patterns that alter the financial health of impacted municipalities.

Policy, legal, and regulatory changes will be needed to reduce carbon emissions and lessen the impacts of climate change, thereby resulting in transition risk. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organizations. Certain sectors of the Company’s business, most notably public power and retail gas and electric transactions may be vulnerable to such risk.

#### *Underwriting Guidelines for New Exposures*

Assured Guaranty monitors developments regarding climate change, particularly as they relate to public finance and infrastructure, and incorporates them into its underwriting program. This program includes criteria that assess the potential negative impact climate change could have on each proposed obligor’s ability to pay debt service as well as the potential that a transaction could exacerbate climate change. Assured Guaranty continually updates its climate change review process to enhance and refine the criteria as more information becomes available and maintains relationships with industry experts to learn more about how this risk may impact our business.

### *Surveillance of Existing Exposures*

Global warming may impact our existing insured exposures. The surveillance review protocol for our insured portfolio includes consideration of climate change risk factors, such as exposure to extreme weather events, geographic locations prone to flooding or wildfires, potential rise in sea levels, and compliance with environmental regulations, for their potential impact on debt service payments. Our surveillance process benefits from broad access to our obligors, including the ability to perform site visits and engage with issuers.

### **Climate Change Opportunities**

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

Climate change is likely to lead to weather events that are more extreme than historical precedents, threatening essential infrastructure such as, highways, water treatment facilities and the power grid. In some parts of the United States including New York, Portland, Chicago and Southeast Florida, city and state planners are now required to plan for these more extreme events.<sup>5</sup> In 2018, 28 major US cities reported 240 climate resilience projects, totaling \$47 billion. We believe that municipal bond insurance has an important role to play in helping cities, counties and states issue debt at more affordable rates to finance the massive infrastructure improvements that may be required as climate change continues to create more severe weather events.

In 2019 and 2020, Assured Guaranty issued financial guarantees covering bonds supported by portfolios of photovoltaic solar plants located in southwest Spain, demonstrating our ability to assist renewable energy producers to achieve affordable debt issuances, in the U.S. and abroad.

### **Assured Guaranty's Carbon Footprint**

The Company has instituted a program to measure, manage and report, on an enterprise-wide basis, its GHG emissions and set targets for minimizing such emissions. Pursuant to the Greenhouse Gas Protocol World Resources Institute (WRI)/World Business Council for Sustainable Development (WBCSD), the Company collects and analyzes internal data annually for its Scope 1, Scope 2 and certain key Scope 3 GHG emissions. The Company's methodology and results are reviewed by an independent third party, which conducts a limited assurance review in accordance with ISO 14064-3 International Standards.

### **Other Potential Impacts of Climate Change**

Please refer to our [Environmental Policy](#) for a description of how environmental issues are addressed in our investment portfolio, asset management and business operations.

### **Governance of Climate Change Risk**

In 2019, the Assured Guaranty Ltd. Board of Directors established an Environmental and Social Responsibility Committee that oversees the Company's strategies, policies, and practices regarding environmental and social responsibility issues, including the review of climate change risks and opportunities. At the insurance company level, we also formed environmental risk working groups

composed of senior members of the Company's credit, underwriting and risk management departments, to review the impact of climate change risk on the Company, including the development of objective risk measures and methodology needed to evaluate the financial impact of climate change on obligors in its insured portfolio on both aggregate and individual risk levels.

- 
- <sup>1</sup> IPCC, 2014: *Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change* [Core Writing Team, R.K. Pachauri and L.A. Meyer (eds.)]. IPCC, Geneva, Switzerland, 151 pp.
  - <sup>2</sup> IPCC, 2018: Summary for Policymakers. In: *Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty* [Masson-Delmotte, V., P. Zhai, H.-O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J.B.R. Matthews, Y. Chen, X. Zhou, M.I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, and T. Waterfield (eds.)]. In Press.
  - <sup>3</sup> USGCRP, 2014: Melillo, Jerry M., Terese (T.C.) Richmond, and Gary W. Yohe, Eds., 2014: *Climate Change Impacts in the United States: The Third National Climate Assessment*. U.S. Global Change Research Program, 841 pp. doi:10.7930/J0Z31WJ2.
  - <sup>4</sup> COP26: The Glasgow Climate Pact: [COP26-Presidency-Outcomes-The-Climate-Pact.pdf \(ukcop26.org\)](https://www.ukcop26.org/COP26-Presidency-Outcomes-The-Climate-Pact.pdf)
  - <sup>5</sup> Chester, Mikhail, et al. "How Cities Are Upgrading Infrastructure to Prepare for Climate Change." Smithsonian.com, Smithsonian Institution, 22 Oct. 2018, [www.smithsonianmag.com/innovation/how-cities-are-upgrading-infrastructure-prepare-climate-change-180970600/](https://www.smithsonianmag.com/innovation/how-cities-are-upgrading-infrastructure-prepare-climate-change-180970600/).