

# **Assured Guaranty Municipal Corp.**

## **Consolidated Financial Statements**

**December 31, 2022 and 2021**

**ASSURED GUARANTY MUNICIPAL CORP.**

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## Report of Independent Auditors

To the Board of Directors of Assured Guaranty Municipal Corp.

### ***Opinion***

We have audited the accompanying consolidated financial statements of Assured Guaranty Municipal Corp. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, of comprehensive income (loss), of shareholder's equity and of cash flows for the years then ended, 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, 2022 and 2021, and the results of its operations and its cash flows for the years then ended 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 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 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 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 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 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  
March 20, 2023

**Assured Guaranty Municipal Corp.**  
**Consolidated Balance Sheets**  
(dollars in millions except share data)

	As of December 31,	
	2022	2021
<b>Assets</b>		
Investments:		
Fixed-maturity securities, available-for-sale, at fair value, net of allowance for credit loss of \$23 and \$18 (amortized cost of \$4,211 and \$4,259)	\$ 3,839	\$ 4,398
Fixed-maturity securities, trading, at fair value	127	—
Short-term investments, at fair value	456	599
Surplus note of affiliate, held-to-maturity, at amortized cost	300	300
Equity method investments (includes \$592 and \$562, at fair value)	686	695
Other invested assets, at fair value	4	5
<b>Total investments</b>	<b>5,412</b>	<b>5,997</b>
Cash	17	14
Loans receivable from affiliate	163	163
Premiums receivable	1,013	1,074
Ceded unearned premium reserve	668	643
Reinsurance recoverable on unpaid losses	68	98
Salvage and subrogation recoverable	211	528
Financial guaranty variable interest entities' assets (includes \$259 and \$229, at fair value)	314	229
Other assets (includes \$22 and \$11, at fair value)	360	206
<b>Total assets</b>	<b>\$ 8,226</b>	<b>\$ 8,952</b>
<b>Liabilities</b>		
Unearned premium reserve	\$ 3,027	\$ 2,962
Loss and loss adjustment expense reserve	189	384
Reinsurance balances payable, net	312	333
Financial guaranty variable interest entities' liabilities (with recourse of \$384 and \$243, without recourse of \$11 and \$17; includes \$393 and \$260, at fair value)	395	260
Other liabilities (includes \$3 and \$2, at fair value)	277	369
<b>Total liabilities</b>	<b>4,200</b>	<b>4,308</b>
<b>Commitments and contingencies (Note 14)</b>		
<b>Shareholder's equity</b>		
Preferred stock (\$1,000 par value, 5,000.1 shares authorized; no shares issued or outstanding)	—	—
Common stock (\$92,025 par value, 163 shares authorized, issued and outstanding)	15	15
Additional paid-in capital	694	694
Retained earnings	3,452	3,633
Accumulated other comprehensive income (loss), net of tax provision (benefit) of \$(59) and \$18	(346)	86
<b>Total shareholder's equity attributable to Assured Guaranty Municipal Corp.</b>	<b>3,815</b>	<b>4,428</b>
Noncontrolling interests	211	216
<b>Total shareholder's equity</b>	<b>4,026</b>	<b>4,644</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$ 8,226</b>	<b>\$ 8,952</b>

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

**Assured Guaranty Municipal Corp.**  
**Consolidated Statements of Operations**

(in millions)

	Year Ended December 31,	
	2022	2021
<b>Revenues</b>		
Net earned premiums	\$ 220	\$ 239
Net investment income	150	148
Net realized investment gains (losses)	(36)	31
Fair value gains (losses) on committed capital securities	12	(13)
Fair value gains (losses) on financial guaranty variable interest entities	6	19
Foreign exchange gains (losses) on remeasurement	(94)	(18)
Fair value gains (losses) on trading securities	(14)	—
Change in ceded funds held	14	(5)
Other income (loss)	3	(2)
<b>Total revenues</b>	<b>261</b>	<b>399</b>
<b>Expenses</b>		
Loss and loss adjustment expenses (benefit)	(3)	(113)
Employee compensation and benefit expenses	95	84
Write-off of insurance licenses of Municipal Assurance Corp.	—	16
Other expenses	53	49
<b>Total expenses</b>	<b>145</b>	<b>36</b>
<b>Income (loss) before income taxes and equity in earnings (losses) of investees</b>	<b>116</b>	<b>363</b>
Equity in earnings (losses) of investees	(51)	141
<b>Income (loss) before income taxes</b>	<b>65</b>	<b>504</b>
<b>Provision (benefit) for income taxes</b>		
Current	15	60
Deferred	(30)	22
<b>Total provision (benefit) for income taxes</b>	<b>(15)</b>	<b>82</b>
<b>Net income (loss)</b>	<b>80</b>	<b>422</b>
Less: Noncontrolling interests	(5)	19
<b>Net income (loss) attributable to Assured Guaranty Municipal Corp.</b>	<b>\$ 85</b>	<b>\$ 403</b>

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

**Assured Guaranty Municipal Corp.**  
**Consolidated Statements of Comprehensive Income (Loss)**  
(in millions)

	Year Ended December 31,	
	2022	2021
<b>Net income (loss)</b>	<b>\$ 80</b>	<b>\$ 422</b>
Change in net unrealized gains (losses) on:		
Investments with no credit impairment, net of tax provision (benefit) of \$(65) and \$(20)	(381)	(119)
Investments with credit impairment, net of tax provision (benefit) of \$(11) and \$2	(48)	8
Change in net unrealized gains (losses) on investments	(429)	(111)
Change in instrument-specific credit risk on financial guaranty variable interest entities' liabilities with recourse, net of tax	(3)	(1)
<b>Other comprehensive income (loss)</b>	<b>(432)</b>	<b>(112)</b>
<b>Comprehensive income (loss)</b>	<b>(352)</b>	<b>310</b>
Less: Comprehensive income (loss) attributable to noncontrolling interests	(5)	6
<b>Comprehensive income (loss) attributable to Assured Guaranty Municipal Corp.</b>	<b>\$ (347)</b>	<b>\$ 304</b>

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

**Assured Guaranty Municipal Corp.**  
**Consolidated Statements of Shareholder's Equity**  
**Years Ended December 31, 2022 and 2021**  
**(dollars in millions, except share data)**

**Total Shareholder's Equity Attributable to Assured Guaranty Municipal Corp.**

	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Noncontrolling Interests	Shareholder's Equity
<b>As of December 31, 2020</b>	<b>163</b>	<b>\$ 15</b>	<b>\$ 698</b>	<b>\$ 3,521</b>	<b>\$ 185</b>	<b>\$ 4,419</b>	<b>\$ 408</b>	<b>\$ 4,827</b>
Net income	—	—	—	403	—	403	19	422
Dividends	—	—	—	(291)	—	(291)	—	(291)
Other comprehensive loss	—	—	—	—	(99)	(99)	(13)	(112)
Distributions to and purchase of noncontrolling interest from affiliate (Note 1)	—	—	—	—	—	—	(198)	(198)
Other	—	—	(4)	—	—	(4)	—	(4)
<b>As of December 31, 2021</b>	<b>163</b>	<b>15</b>	<b>694</b>	<b>3,633</b>	<b>86</b>	<b>4,428</b>	<b>216</b>	<b>4,644</b>
Net income	—	—	—	85	—	85	(5)	80
Dividends	—	—	—	(266)	—	(266)	—	(266)
Other comprehensive loss	—	—	—	—	(432)	(432)	—	(432)
<b>As of December 31, 2022</b>	<b>163</b>	<b>\$ 15</b>	<b>\$ 694</b>	<b>\$ 3,452</b>	<b>\$ (346)</b>	<b>\$ 3,815</b>	<b>\$ 211</b>	<b>\$ 4,026</b>

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

**Assured Guaranty Municipal Corp.**  
**Consolidated Statements of Cash Flows**  
(in millions)

	Year Ended December 31,	
	2022	2021
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 80	\$ 422
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Provision (benefit) for deferred income taxes	(30)	22
Net realized investment losses (gains)	36	(31)
Equity in (earnings) losses of investees	51	(141)
Write-off of insurance licenses of Municipal Assurance Corp.	—	16
Change in premiums receivable, net of premiums payable	62	17
Change in ceded unearned premium reserve	(25)	15
Change in unearned premium reserve	65	5
Change in loss and loss adjustment expense reserve and salvage and subrogation, net	(974)	(9)
Change in current income taxes	(78)	4
Other	47	14
<b>Net cash flows provided by (used in) operating activities</b>	<b>(766)</b>	<b>334</b>
<b>Cash flows from investing activities:</b>		
Fixed-maturity securities, available-for-sale:		
Purchases	(224)	(825)
Sales	529	316
Maturities and paydowns	476	782
Short-term investments with original maturities of over three months:		
Purchases	(63)	—
Maturities and paydowns	36	19
Net sales (purchases) of short-term investments with original maturities of less than three months	168	(259)
Fixed-maturity securities, trading:		
Sales	83	—
Maturities and paydowns	80	—
Paydowns of financial guaranty variable interest entities' assets	54	48
Purchases of equity method investments - funds managed by Assured Investment Management LLC	(144)	(240)
Distributions from equity method investments - funds managed by Assured Investment Management LLC	107	122
Purchases of other equity method investments	(23)	(20)
Return of capital from other equity method investments	11	8
Other	4	2
<b>Net cash flows provided by (used in) investing activities</b>	<b>\$ 1,094</b>	<b>\$ (47)</b>

*(continued)*

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



**Assured Guaranty Municipal Corp.**  
**Consolidated Statements of Cash Flows, Continued**  
(in millions)

	Year Ended December 31,	
	2022	2021
<b>Cash flows from financing activities:</b>		
Dividends paid to Assured Guaranty Municipal Holdings Inc.	\$ (266)	\$ (291)
Net paydowns of financial guaranty variable interest entities' liabilities	(55)	(42)
Other	(2)	(2)
<b>Net cash flows provided by (used in) financing activities</b>	<b>(323)</b>	<b>(335)</b>
Effect of foreign exchange rate changes	(1)	(1)
Increase (decrease) in cash and restricted cash	4	(49)
Cash and restricted cash at beginning of period	14	63
<b>Cash and restricted cash at end of period</b>	<b>\$ 18</b>	<b>\$ 14</b>
<b>Supplemental cash flow information</b>		
Income taxes paid (received)	\$ 92	\$ 2
<b>Supplemental disclosure of non-cash activities:</b>		
Puerto Rico Salvage (see Note 2):		
Fixed-maturity securities, available-for-sale, received as salvage	\$ 799	\$ —
Fixed-maturity securities, available-for-sale, ceded to a reinsurer	27	—
Fixed-maturity securities, trading, received as salvage	309	—
Fixed-maturity securities, trading, ceded to a reinsurer	6	—
Debt securities of financial guaranty variable interest entities received as salvage	94	—
Contributions to funds managed by Assured Investment Management LLC	221	6
Return of capital from funds managed by Assured Investment Management LLC	221	6
MAC Transaction (see Note 1):		
Fixed-maturity securities transferred to affiliate in consideration of the reassumption of remaining cessions to Municipal Assurance Corp. and the distribution of Municipal Assurance Corp.'s earned surplus	—	166
Short-term investments transferred as consideration for purchase of noncontrolling interest in Municipal Assurance Holdings Inc. and distribution of Municipal Assurance Corp.'s earned surplus	—	65
	<b>As of December 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Reconciliation of cash and restricted cash to the consolidated balance sheets:</b>		
Cash	17	14
Cash of financial guaranty variable interest entities (see Note 7)	1	—
Cash and restricted cash at the end of period	<b>18</b>	<b>14</b>

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

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements**

**1. Business and Basis of Presentation**

**Business**

Assured Guaranty Municipal Corp. (AGM, or together with its subsidiaries, the Company), a New York domiciled insurance company, is a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. (AGMH). AGMH is an indirect, 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 operating subsidiaries, credit protection products to the United States (U.S.) and non-U.S. public finance (including infrastructure) and structured finance markets, as well as asset management services.

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 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.

**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.

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

As of December 31, 2022, AGM owned the following principal subsidiaries:

- 100% of Assured Guaranty UK Limited (AGUK), which was organized in the U.K.
- 99.9999% of Assured Guaranty (Europe) SA (AGE), which was organized in France. AGMH owns the remaining 0.0001%.
- 65% of AG Asset Strategies LLC (AGAS). Assured Guaranty Corp. (AGC), an affiliate of the Company, owns the remaining 35% of AGAS.

AGAS is an investment subsidiary that invests in funds (AssuredIM Funds) managed by its affiliate, Assured Investment Management LLC (AssuredIM LLC) and its investment management affiliates (together with AssuredIM LLC, AssuredIM).

Until April 1, 2021, Municipal Assurance Corp. (MAC) was also a principal insurance subsidiary of AGM. On February 24, 2021, the Company 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, 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 Municipal Assurance Holdings Inc. (MAC Holdings), and (iii) AGM's purchase of AGC's 39.3% interest in MAC Holdings (MAC Transaction). As a result, the Company wrote off the \$16 million carrying value of MAC's licenses in the first quarter of 2021, and recognized the effects of the multi-step process to merge MAC with and into AGM in the second quarter of 2021, based on outstanding balances on April 1, 2021.

The table below presents the effects of the MAC Transaction and the write-off of MAC's licenses.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Effects of the MAC Transaction and Write-Off of MAC's Licenses**  
**Year Ended December 31, 2021**

	<b>Increase (Decrease)</b>
	<b>(in millions)</b>
Fixed-maturity securities	\$ (166)
Short-term investments	10
Cash	(76)
Unearned premium reserve	(24)
Other assets/liabilities, net	(13)
Net income attributable to AGM	\$ —
Additional paid-in capital	(4)
Accumulated other comprehensive income	(1)
Total shareholder's equity attributable to AGM	(5)
Noncontrolling interests (1)	(216)
Total shareholder's equity	\$ (221)
Net par outstanding	\$ (2,128)

(1) The effect of the MAC Transaction on noncontrolling interests includes: (i) \$198 million related to the distributions to AGC and AGM's purchase of AGC's ownership interest in MAC Holdings, (ii) \$10 million of net loss, and (iii) \$8 million of other comprehensive loss.

**Significant Accounting Policies**

The Company revalues assets, liabilities, revenue and expenses denominated in non-U.S. currencies into U.S. dollars using applicable exchange rates. Gains and losses relating to transactions in foreign denominations in those subsidiaries where the functional currency is the U.S. dollar are reported in the consolidated statements of operations.

AGM 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). See Note 12, Related Party Transactions, for additional information.

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

<b>Note Name</b>	<b>Note Number</b>
Expected loss to be paid (recovered)	Note 3
Contracts accounted for as insurance	Note 4
Reinsurance	Note 5
Investments and cash	Note 6
Variable interest entities	Note 7
Fair value measurement	Note 8
Credit facilities	Note 9
Income taxes	Note 10
Leases	Note 13
Commitments and contingencies	Note 14

## **Recent Accounting Standards Adopted**

### ***Reference Rate Reform***

In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides temporary optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this ASU only apply to contracts that reference the London Interbank Offered Rate (LIBOR) or another reference rate that is expected to be discontinued due to reference rate reform.

In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*, to clarify the scope of relief related to ASU 2020-04. In December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, to extend the aforementioned temporary optional expedients and exceptions from December 31, 2022 to December 31, 2024. These ASUs became effective upon their issuance and may be applied for contract modifications that occur from March 12, 2020 through December 31, 2024 (the Reference Rate Transition Period).

The Company adopted the optional relief afforded by ASUs in the third quarter of 2021 on a prospective basis, and the guidance will be followed until the optional relief terminates on December 31, 2024. The Company has identified insurance contracts, derivatives and other financial instruments that are directly or indirectly influenced by LIBOR, and will be applying the accounting relief as relevant contract modifications are made during the Reference Rate Transition Period. There was no impact to the Company's consolidated financial statements upon the initial adoption of these ASUs.

## **2. Outstanding Exposure**

The Company sells credit protection primarily in financial guaranty insurance form. Until 2008, the Company also sold credit protection by issuing policies that guaranteed payment obligations under credit derivatives, primarily 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. In early 2009, regulatory guidelines were issued that limited the terms under which such protection could be sold. The Company has, however, acquired portfolios since 2008 that include financial guaranty contracts in credit derivative form. See Note 8, Fair Value Measurement, for more information.

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, providing reinsurance on a portfolio of insurance or reassuming a portfolio of reinsurance it had previously ceded; 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 7, 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. While AGM has ceased insuring new originations of asset-backed securities, a portfolio of such obligations remains outstanding. AGM's European subsidiaries, AGUK and AGE, provide financial guarantees in the non-U.S.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

public finance market and provide such guarantees in the non-U.S. structured finance market. AGM has acquired portfolios since 2009 that include financial guaranties of structured finance obligations.

**Significant Risk Management Activities**

The Portfolio Risk Management Committee of the Company's indirect parent, AGL, which includes members of Assured Guaranty's senior management and senior risk and surveillance officers, is responsible for enterprise risk management for Assured Guaranty and focuses on measuring and managing insurance credit, market and liquidity risk for Assured Guaranty. This committee establishes Assured Guaranty-wide credit policy for Assured Guaranty's direct and assumed insurance business. It implements specific insurance underwriting procedures and limits for Assured Guaranty and allocates underwriting capacity among AGL's insurance subsidiaries, including the Company. All insurance transactions in new asset classes or new jurisdictions 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 review 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 or surveillance 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 classifies those portions of risks benefiting from reimbursement obligations collateralized by eligible assets held in trust in acceptable reimbursement structures as being the higher of AA or their current internal rating. Unless otherwise noted, ratings disclosed herein on the Company's insured portfolio reflect its internal ratings.

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.

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), for additional information. 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 AGM'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:

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

- 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.

**Impact of COVID-19 Pandemic**

The emergence and continuation of COVID-19 and reactions to it, including various intermittent closures and capacity and travel restrictions, have had a profound effect on the global economy and financial markets. The ultimate size, depth, course and duration of the pandemic, and the effectiveness, acceptance, and distribution of vaccines and therapeutics for it, remain unknown, and the governmental and private responses to the pandemic continue to evolve. Due to the nature of the Company's business, COVID-19 and its global impact, directly and indirectly affected certain sectors in the insured portfolio.

Shortly after the pandemic reached the U.S. through early 2021 the Company's surveillance department conducted supplemental periodic surveillance procedures to monitor the impact on its insured portfolio of COVID-19 and governmental and private responses to COVID-19, with emphasis on state and local governments and entities that were already experiencing significant budget deficits and pension funding and revenue shortfalls, as well as obligations supported by revenue streams most impacted by various intermittent closures and capacity and travel restrictions or an economic downturn. Given significant federal funding to state and local governments in 2021 and the performance it observed, the Company's surveillance department has reduced these supplemental procedures. However, the Company is still monitoring those sectors it identified as most at risk for any developments related to COVID-19. The Company has paid only relatively small insurance claims it believes are due at least in part to credit stress arising specifically from COVID-19, and projects nearly full reimbursement of these claims.

**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. Foreign 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, because the Company manages such securities as investments and not insurance exposure. As of December 31, 2022 and December 31, 2021, the Company excluded from net par outstanding \$531 million and \$466 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 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

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

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, 2022		As of December 31, 2021	
	Gross	Net	Gross	Net
	(in millions)			
<b>Debt Service</b>				
Public finance	\$ 329,883	\$ 248,941	\$ 322,192	\$ 242,698
Structured finance	3,198	2,493	3,670	3,179
Total financial guaranty	<u>\$ 333,081</u>	<u>\$ 251,434</u>	<u>\$ 325,862</u>	<u>\$ 245,877</u>
<b>Par Outstanding</b>				
Public finance	\$ 205,859	\$ 154,787	\$ 205,658	\$ 153,574
Structured finance	2,672	2,021	3,107	2,645
Total financial guaranty	<u>\$ 208,531</u>	<u>\$ 156,808</u>	<u>\$ 208,765</u>	<u>\$ 156,219</u>

In addition to amounts shown in the table above, the Company had outstanding commitments to provide guaranties of \$220 million of public finance direct gross par and \$89 million of structured finance direct gross par as of December 31, 2022. These commitments are contingent on the satisfaction of all conditions set forth in them and may expire unused or be canceled at the counterparty's request. Therefore, the total commitment amount does not necessarily reflect actual future guaranteed amounts.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**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 millions)										
AAA	\$ 163	0.1 %	\$ 738	2.3 %	\$ 315	17.9 %	\$ 146	56.6 %	\$ 1,362	0.8 %
AA	9,678	7.9	3,022	9.5	746	42.3	2	0.8	13,448	8.6
A	67,551	54.9	7,687	24.1	21	1.2	22	8.5	75,281	48.0
BBB	43,210	35.2	19,501	61.3	54	3.0	88	34.1	62,853	40.1
BIG	2,356	1.9	881	2.8	627	35.6	—	—	3,864	2.5
Total net par outstanding	<u>\$ 122,958</u>	<u>100.0 %</u>	<u>\$ 31,829</u>	<u>100.0 %</u>	<u>\$ 1,763</u>	<u>100.0 %</u>	<u>\$ 258</u>	<u>100.0 %</u>	<u>\$ 156,808</u>	<u>100.0 %</u>

**Financial Guaranty Portfolio by Internal Rating**  
**As of December 31, 2021**

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 millions)										
AAA	\$ 201	0.2 %	\$ 704	2.0 %	\$ 365	15.4 %	\$ 156	58.2 %	\$ 1,426	0.9 %
AA	9,615	8.1	3,643	10.3	948	39.9	2	0.8	14,208	9.1
A	64,002	54.2	9,152	25.8	91	3.8	3	1.1	73,248	46.9
BBB	41,611	35.2	21,437	60.6	125	5.2	107	39.9	63,280	40.5
BIG	2,736	2.3	473	1.3	848	35.7	—	—	4,057	2.6
Total net par outstanding	<u>\$ 118,165</u>	<u>100.0 %</u>	<u>\$ 35,409</u>	<u>100.0 %</u>	<u>\$ 2,377</u>	<u>100.0 %</u>	<u>\$ 268</u>	<u>100.0 %</u>	<u>\$ 156,219</u>	<u>100.0 %</u>



**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Financial Guaranty Portfolio**  
**Par Outstanding by Sector**

Sector	Gross Par Outstanding		Net Par Outstanding	
	As of December 31,		As of December 31,	
	2022	2021	2022	2021
	(in millions)			
<b>Public finance:</b>				
U.S. public finance:				
General obligation	\$ 68,409	\$ 69,075	\$ 49,895	\$ 49,738
Tax backed	31,429	32,472	23,017	23,561
Municipal utilities	25,262	24,166	19,165	18,276
Transportation	16,758	14,004	12,820	10,740
Healthcare	11,098	9,309	8,917	7,547
Higher education	6,829	6,525	4,955	4,679
Infrastructure finance	4,140	3,320	3,250	2,633
Housing revenue	854	889	685	715
Renewable energy	10	20	6	12
Other public finance	355	371	248	264
Total U.S. public finance	165,144	160,151	122,958	118,165
Non-U.S. public finance:				
Infrastructure finance	13,455	15,495	11,215	12,259
Regulated utilities	15,589	16,682	10,723	11,787
Sovereign and sub-sovereign	9,625	10,997	8,257	9,476
Renewable energy	2,046	2,333	1,634	1,887
Total non-U.S. public finance	40,715	45,507	31,829	35,409
Total public finance	205,859	205,658	154,787	153,574
<b>Structured finance:</b>				
U.S. structured finance:				
RMBS	1,338	1,642	1,267	1,561
Financial products	453	770	453	770
Other structured finance	172	129	43	46
Total U.S. structured finance	1,963	2,541	1,763	2,377
Non-U.S. structured finance:				
RMBS	142	180	103	130
Pooled corporate obligations	250	264	38	40
Other structured finance	317	122	117	98
Total non-U.S. structured finance	709	566	258	268
Total structured finance	2,672	3,107	2,021	2,645
Total par outstanding	\$ 208,531	\$ 208,765	\$ 156,808	\$ 156,219

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Expected Amortization of Net Par Outstanding**  
**As of December 31, 2022**

	Public Finance	Structured Finance	Total
	(in millions)		
0 to 5 years	\$ 31,983	\$ 1,086	\$ 33,069
5 to 10 years	33,204	602	33,806
10 to 15 years	27,804	306	28,110
15 to 20 years	21,653	25	21,678
20 years and above	40,143	2	40,145
Total net par outstanding	<u>\$ 154,787</u>	<u>\$ 2,021</u>	<u>\$ 156,808</u>

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, considerably shorter than the contractual maturities for such obligations.

**Components of BIG Net Par Outstanding**  
**As of December 31, 2022**

	BIG Net Par Outstanding				Net Par Outstanding
	BIG 1	BIG 2	BIG 3	Total BIG	
	(in millions)				
<b>Public finance:</b>					
U.S. public finance	\$ 1,673	\$ 37	\$ 646	\$ 2,356	\$ 122,958
Non-U.S. public finance	881	—	—	881	31,829
Public finance	2,554	37	646	3,237	154,787
<b>Structured finance:</b>					
U.S. RMBS	2	13	596	611	1,267
Other structured finance	—	—	16	16	754
Structured finance	2	13	612	627	2,021
Total	<u>\$ 2,556</u>	<u>\$ 50</u>	<u>\$ 1,258</u>	<u>\$ 3,864</u>	<u>\$ 156,808</u>

**Components of BIG Net Par Outstanding**  
**As of December 31, 2021**

	BIG Net Par Outstanding				Net Par Outstanding
	BIG 1	BIG 2	BIG 3	Total BIG	
	(in millions)				
<b>Public finance:</b>					
U.S. public finance	\$ 1,062	\$ 42	\$ 1,632	\$ 2,736	\$ 118,165
Non-U.S. public finance	437	—	36	473	35,409
Public finance	1,499	42	1,668	3,209	153,574
<b>Structured finance:</b>					
U.S. RMBS	95	—	734	829	1,561
Other structured finance	—	—	19	19	1,084
Structured finance	95	—	753	848	2,645
Total	<u>\$ 1,594</u>	<u>\$ 42</u>	<u>\$ 2,421</u>	<u>\$ 4,057</u>	<u>\$ 156,219</u>

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

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, 2022**

	<u>Number of Risks</u>	<u>Net Par Outstanding</u> (dollars in millions)	<u>Percent of Total Net Par Outstanding</u>
<b>U.S.:</b>			
U.S. public finance			
California	1,119	\$ 23,755	15.1 %
Texas	981	12,652	8.1
Pennsylvania	522	11,942	7.6
New York	533	11,421	7.3
Illinois	457	8,804	5.6
New Jersey	251	6,433	4.1
Florida	176	5,311	3.4
Michigan	213	3,601	2.3
Louisiana	127	3,557	2.3
Alabama	230	2,703	1.7
Other	1,658	32,779	20.9
Total U.S public finance	6,267	122,958	78.4
U.S. structured finance (multiple states)	112	1,763	1.1
Total U.S.	6,379	124,721	79.5
<b>Non-U.S.:</b>			
United Kingdom	267	24,259	15.4
Canada	5	1,506	1.0
Spain	7	1,252	0.8
France	6	1,189	0.8
Australia	4	1,077	0.7
Other	32	2,804	1.8
Total non-U.S.	321	32,087	20.5
<b>Total</b>	<b>6,700</b>	<b>\$ 156,808</b>	<b>100.0 %</b>

**Exposure to Puerto Rico**

The Company had insured exposure to obligations of various authorities and public corporations of the Commonwealth of Puerto Rico (Puerto Rico or the Commonwealth) as well as its general obligation bonds aggregating \$737 million net par outstanding as of December 31, 2022, a decrease of \$1,048 million from the \$1,785 million net par outstanding as of December 31, 2021. Of that \$737 million net par outstanding, \$694 million was rated BIG while the remainder was rated AA because it relates to second-to-pay policies on obligations insured by AGC, an affiliate of the Company. The Company has paid claims as a result of payment defaults on all of its BIG Puerto Rico exposures except the Municipal Finance Agency (MFA).

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 (Bankruptcy Code).

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

After over five years of negotiations, in 2022 a substantial portion of the Company's Puerto Rico exposure was resolved in accordance with two orders entered by the United States District Court of the District of Puerto Rico (Federal District Court of Puerto Rico):

- On January 18, 2022, the Federal District Court of Puerto Rico, acting under Title III of PROMESA, entered an order and judgment confirming 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).
- On October 12, 2022, the Federal District Court of Puerto Rico, acting under Title III of PROMESA, entered an order and judgment confirming the Modified Fifth Amended Title III Plan of Adjustment (HTA Plan) of the Puerto Rico Highways and Transportation Authority (PRHTA).

As a result of the consummation on March 15, 2022 of the GO/PBA Plan and the consummation on December 6, 2022 of the HTA Plan (together, the 2022 Puerto Rico Resolutions), including claim payments made by the Company under the 2022 Puerto Rico Resolutions, the Company's obligations under its insurance policies covering its insurance exposure to Puerto Rico GO, PBA and PRHTA was greatly reduced.

The effect on the consolidated financial statements of the 2022 Puerto Rico Resolutions was a reduction in net par outstanding of \$1,007 million. The Company received cash, new general obligation bonds (under the GO/PBA Plan) (New GO Bonds) and new bonds backed by toll revenues (under the HTA Plan) (Toll Bonds, and together with the New GO Bonds, New Recovery Bonds) and contingent value instruments (CVIs). The New Recovery Bonds and CVIs were reported as either available-for-sale or trading fixed-maturities in either the investment portfolio or FG VIE assets. The portion of the assets that are reported in FG VIE assets relate to the portion of the GO, PBA and PRHTA insured obligations for which bondholders elected to receive custody receipts as described below.

The Company is continuing its efforts to resolve the one remaining Puerto Rico insured exposure that is in payment default, the Puerto Rico Electric Power Authority (PREPA).

Economic, political and legal developments, including inflation, increases in the cost of petroleum products and developments related to the COVID-19 pandemic, may impact any resolution of the Company's PREPA insured exposure and the value of the consideration the Company has 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***

All Puerto Rico exposures are internally rated BIG, except PBA and PRHTA (Transportation revenue) second-to-pay policies on affiliate exposures which are rated AA based on the obligation of the Company's affiliate to pay under its insurance policy if the obligor fails to pay. 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,	
	2022	2021	2022	2021
	(in millions)			
Exposure to Puerto Rico	\$ 946	\$ 2,496	\$ 1,205	\$ 3,525

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Puerto Rico**  
**Net Par Outstanding**

	As of December 31,	
	2022	2021
	(in millions)	
<b>Resolved Puerto Rico Exposures</b>		
PRHTA (Transportation revenue)	\$ 7	\$ 154
PRHTA (Transportation revenue) (Second-to-pay policies on affiliate exposure)	42	79
PRHTA (Transportation revenue) (1) total	49	233
PRHTA (Highway revenue) (1)	140	381
Commonwealth of Puerto Rico - GO (2)	—	574
PBA (Second-to-pay policies on affiliate exposure) (2)	1	2
<b>Total Resolved</b>	190	1,190
<b>Other Puerto Rico Exposures</b>		
PREPA (3)	446	469
MFA (4)	101	126
<b>Total Other</b>	547	595
<b>Total net exposure to Puerto Rico</b>	<b>\$ 737</b>	<b>\$ 1,785</b>

- (1) Resolved on December 6, 2022, pursuant to the Modified Fifth Amended Title III Plan of Adjustment of the Puerto Rico Highways and Transportation Authority.
- (2) Resolved on March 15, 2022, pursuant to the Modified Eighth Amended Title III 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.
- (3) This exposure is in payment default.
- (4) All debt service on this insured exposure has 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 rated BIG by the Company. 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.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Amortization Schedule of Puerto Rico**  
**BIG Net Par Outstanding and Net Debt Service Outstanding**  
**As of December 31, 2022**

	Scheduled BIG Net Par Amortization	Scheduled BIG Net Debt Service Amortization
	(in millions)	
2023 (January 1 - March 31)	\$ —	\$ 15
2023 (April 1 - June 30)	—	2
2023 (July 1 - September 30)	89	104
2023 (October 1 - December 31)	—	2
Subtotal 2023	89	123
2024	80	109
2025	66	91
2026	86	107
2027	71	89
2028-2032	216	270
2033-2037	86	98
Total	<u>\$ 694</u>	<u>\$ 887</u>

**PREPA**

As of December 31, 2022, the Company had \$446 million insured net par outstanding of PREPA obligations. The PREPA obligations are secured by a lien on the revenues of the electric system. On May 3, 2019, AGM and AGC entered into a restructuring support agreement with PREPA and other stakeholders, including a group of uninsured PREPA bondholders, the Commonwealth and the FOMB (PREPA RSA). This agreement was terminated by Puerto Rico on March 8, 2022.

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 January 26, 2023 extending the term to April 28, 2023. On September 29, 2022, Judge Swain ordered the FOMB to file a plan of adjustment and disclosure statement by December 1, 2022 and set a schedule for litigating bondholders' lien status. After receiving an extension from Judge Swain, the FOMB initially filed a plan of adjustment and disclosure statement for PREPA with the Federal District Court of Puerto Rico on December 16, 2022, and filed an amended version on February 9, 2023 (FOMB PREPA Plan). The FOMB PREPA Plan would split bondholders into two groups: one that would settle litigation and agree that creditor repayment is limited to existing accounts, and another group that would continue litigating that bondholders have a right to PREPA's future revenue collections. The FOMB PREPA Plan provides for lower recoveries to bondholders than did previous agreements the FOMB reached with bondholders. Dueling summary judgment motions were made in respect of the bondholders' lien status by the FOMB and by the PREPA bondholders on October 24, 2022. As of February 28, 2023, the Federal District Court of Puerto Rico had not issued any decisions on the motions for summary judgment on the bondholders' lien status. The Federal District Court of Puerto Rico approved the FOMB disclosure statement on February 28, 2023, which allows bondholder solicitation on the FOMB PREPA Plan to begin.

The last revised fiscal plan for PREPA was certified by the FOMB on June 28, 2022.

**Puerto Rico GO and PBA**

As of December 31, 2022, the Company had \$1 million insured net par outstanding of PBA bonds, consisting of second-to-pay exposure.

Under the GO/PBA Plan and in connection with its direct exposure the Company received cash, new general obligation bonds and CVIs (in aggregate, GO/PBA Plan Consideration) (including amounts received in connection with the second election described further below, but excluding amounts received in connection with second-to-pay exposures):

- \$229 million in cash, net of ceded reinsurance,

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

- \$282 million of New GO Bonds (see Note 6, Investments and Cash and Note 7, Variable Interest Entities, for additional information), which represents the face value of current interest bonds and the maturity value of capital appreciation bonds, net of outbound reinsurance (\$488 million gross of outbound reinsurance), and
- \$116 million of CVIs (see Note 6, Investments and Cash and Note 7, Variable Interest Entities, for additional information), which represents the original notional value, net of outbound reinsurance (\$204 million gross of outbound reinsurance).

The CVIs are intended to provide creditors with additional recoveries tied to the outperformance of the Puerto Rico 5.5% Sales and Use Tax (SUT) receipts against May 2020 certified fiscal plan projections, subject to annual and lifetime caps. The notional amount of a CVI represents the sum of the maximum distributions the holder could receive under the CVI, subject to the cumulative and annual caps, if the SUT sufficiently exceeds 2020 certified fiscal plan projections, without any discount for time.

The Company has sold most of the New GO Bonds and CVIs it received on March 15, 2022, and may sell in the future any New GO Bonds or CVIs it continues to hold. The fair value of any New GO Bonds or CVIs the Company retains will fluctuate. Any gains or losses on sales of New GO Bonds and CVIs in the investment portfolio were and will be 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).

In August 2021, the Company exercised certain elections under the GO/PBA Plan that impact the timing of payments under its insurance policies. In accordance with the terms of the GO/PBA Plan, the payment of the principal of all GO bonds and PBA bonds insured by the Company was accelerated against the Commonwealth and became due and payable as of March 15, 2022. Insured holders of noncallable insured bonds covered by the GO/PBA Plan (representing \$14 million of net par outstanding as of December 31, 2021) were permitted to elect either: (i) to receive on March 15, 2022, 100% of the then outstanding principal amount of insured bonds plus accrued interest; or (ii) to receive custody receipts that represent an interest in the legacy insurance policy plus GO/PBA Plan Consideration that constitute distributions under the GO/PBA Plan. For those who made the second election, distributions of GO/PBA Plan Consideration are immediately 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 GO/PBA 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, 2022, the net insured par outstanding under the legacy GO and PBA insurance policies was \$1 million, and constituted all of the Company's remaining net par exposure to the GO and PBA bonds it had insured.

***PRHTA***

As of December 31, 2022, the Company had \$189 million of insured net par outstanding of PRHTA bonds: \$49 million insured net par outstanding of PRHTA (transportation revenue) bonds and \$140 million insured net par outstanding of PRHTA (highway revenue) bonds.

In connection with the resolution of its PRHTA exposures pursuant to both the HTA Plan and the GO/PBA Plan the Company received cash, new bonds backed by toll revenue and CVIs (in aggregate, HTA Plan Consideration and, together with GO/PBA Plan Consideration, Plan Consideration) (including amounts received in connection with the election described further below, but excluding amounts received in connection with second-to-pay exposures):

- \$148 million of cash (\$188 million gross of ceded reinsurance),
- \$498 million of Toll Bonds (see Note 6, Investments and Cash, and Note 7, Variable Interest Entities, for additional information), which represents the face value of current interest bonds and the maturity value of capital appreciation bonds and convertible capital appreciation bonds (\$634 million gross of reinsurance), and
- \$222 million of CVI (see Note 6, Investments and Cash, for additional information), which represents the original notional value (\$292 million gross of ceded reinsurance).

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

The HTA Plan, similar to the GO/PBA Plan, provided an option for holders of noncallable bonds insured by the Company to elect to receive custody receipts that represent an interest in the legacy insurance policy plus Toll Bonds, and insured bondholders representing \$174 million net par outstanding as of December 31, 2022 elected this option. 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 HTA Plan Consideration are insufficient to pay or prepay such amounts.

***Other Puerto Rico Exposures***

*MFA.* As of December 31, 2022, the Company had \$101 million insured net par outstanding of bonds which are secured by a lien on local tax revenues.

***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 Puerto Rico obligations which the Company insures. In addition, the Commonwealth, the FOMB and others have taken legal action naming the Company as party.

A number of legal actions involving the Company and relating to Puerto Rico Convention Center District Authority and Puerto Rico Infrastructure Financing Authority, as well as claims related to the clawback of certain excise taxes and revenues pledged to secure bonds issued by PRHTA, were resolved on March 15, 2022 in connection with the consummation of the 2022 Puerto Rico Resolutions. All other proceedings remain stayed pending the Court's determination on plans of adjustment or other proceedings related to PRHTA and PREPA.

*Remaining Stayed Proceedings.* The following Puerto Rico proceedings in which the Company is involved remain stayed:

- On June 26, 2017, AGM and AGC filed a complaint in the Federal District Court of Puerto Rico to compel the FOMB to certify the PREPA RSA for implementation under Title VI of PROMESA. On July 21, 2017, considering its PREPA Title III petition on July 2, 2017, the FOMB filed a notice of stay under PROMESA.
- On July 18, 2017, AGM and AGC filed a motion for relief in the Federal District Court of Puerto Rico from the automatic stay filed in the PREPA Title III Bankruptcy proceeding. The court denied the motion on September 14, 2017, but on August 8, 2018, the United States Court of Appeals for the First Circuit vacated and remanded the court's decision. On October 3, 2018, AGM and AGC, together with other bond insurers, filed a motion with the court to lift the automatic stay to commence an action against PREPA for the appointment of a receiver.
- On May 20, 2019, the FOMB and the Official Committee of Unsecured Creditors filed an adversary complaint in the Federal District Court of Puerto Rico challenging the validity, enforceability, and extent of security interests in PRHTA revenues. On July 24, 2019, Judge Swain announced a court-imposed stay of a series of adversary proceedings and contested matters, which include this proceeding, through November 30, 2019, with a mandatory mediation element; Judge Swain extended the stay through December 31, 2019, and subsequently extended the stay again pending further order of the court on the understanding that these issues will be resolved in other proceedings. On October 12, 2022, the court entered an order and judgment confirming the amended plan of adjustment for PRHTA filed by the FOMB with the court on September 6, 2022 (HTA Confirmation Order). The HTA Confirmation Order provides that this adversary proceeding must be dismissed with prejudice within five business days of the HTA Confirmation Order becoming a final order, which should occur after all appeals of the HTA Confirmation Order have been resolved.



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**Notes to Consolidated Financial Statements, Continued**

- On September 30, 2019, certain parties that either had advanced funds to PREPA for the purchase of fuel or had succeeded to such claims (Fuel Line Lenders) filed an amended adversary complaint against the FOMB and other parties, including AGC and AGM, seeking subordination of PREPA bondholder claims to Fuel Line Lenders' claims. On November 12, 2019, AGC and AGM filed a motion to dismiss the amended adversary complaint. The FOMB filed a status report on May 15, 2020 regarding PREPA's financial condition and its request for approval of the PREPA RSA settlement, in which it requested that it be permitted to file an updated report by July 31, 2020, that all proceedings related to the approval of the PREPA RSA settlement continue to be adjourned, and that the hearing in this adversary proceeding scheduled for June 3, 2020 be adjourned. On May 22, 2020, the Federal District Court of Puerto Rico issued an order to that effect. On September 29, 2022, the court entered an order terminating the motion to dismiss without prejudice, and indicating that the issues in the adversary proceeding will only be addressed, if necessary, after issues related to security and recourse of the PREPA bonds have been resolved or, if necessary, in connection with the confirmation of a plan of adjustment for PREPA.
- On October 30, 2019, the retirement system for PREPA employees (SREAEE) filed an amended adversary complaint in the Federal District Court of Puerto Rico against the FOMB and other parties, seeking subordination of PREPA bondholder claims to SREAEE claims. On November 7, 2019, the court granted a motion to intervene by AGC and AGM. On November 13, 2019, AGC and AGM filed a motion to dismiss the amended adversary complaint. The FOMB filed a status report on May 15, 2020 regarding PREPA's financial condition and its request for approval of the PREPA RSA settlement, in which it requested that it be permitted to file an updated report by July 31, 2020, that all proceedings related to the approval of the PREPA RSA settlement continue to be adjourned, and that the hearing in this adversary proceeding scheduled for June 3, 2020 be adjourned. On May 22, 2020, the Federal District Court of Puerto Rico issued an order to that effect. On September 29, 2022, the court entered an order terminating the motion to dismiss without prejudice, and indicating that the issues in the adversary proceeding will only be addressed, if necessary, after issues related to security and recourse of the PREPA bonds have been resolved or, if necessary, in connection with the confirmation of a plan of adjustment for PREPA.
- On January 16, 2020, the FOMB, on behalf of the PRHTA, brought an adversary proceeding in the Federal District Court of Puerto Rico against AGM and AGC and other insurers of PRHTA bonds, objecting to the bond insurers claims in the PRHTA Title III proceedings and seeking to disallow such claims. Considering the plan support agreement, on May 25, 2021, Judge Swain stayed the participation of AGM and AGC. On October 12, 2022, the court entered the HTA Confirmation Order, which provides that this adversary proceeding must be dismissed with prejudice within five business days of the HTA Confirmation Order becoming a final order, which should occur after all appeals of the HTA Confirmation Order have been resolved.
- On July 1, 2019, the FOMB initiated an adversary proceeding 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.

### **3. Expected Loss to be Paid (Recovered)**

#### **Accounting Policy**

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; and (ii) excess spread on underlying collateral, as applicable. 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. Net expected loss to be paid (recovered) is net of amounts ceded to reinsurers. The Company's net expected loss to be paid (recovered) incorporates management's probability weighted scenarios.

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 risk-management activities. 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.

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**Notes to Consolidated Financial Statements, Continued**

In circumstances where the Company purchased its own insured obligations that had expected losses, and in cases where issuers of insured obligations elected or the Company and an issuer mutually agreed as part of a negotiation 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. 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. 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 6, Investments and Cash and Note 8, Fair Value Measurement.

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) in the same manner for all its exposures regardless of form or differing accounting models. The insured portfolio includes policies accounted for under various accounting models depending on the characteristics of the contract and the Company's control rights. The three primary models are: (1) insurance, as described in Note 4, Contracts Accounted for as Insurance, (2) derivatives, as described in Note 8, Fair Value Measurement, and (3) FG VIE consolidation, as described in Note 7, 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. There was no expected loss to be paid (recovered) for credit derivative contracts as of December 31, 2022 and 2021.

#### **Loss Estimation Process**

The Company's loss reserve committees estimate 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 nature of the risk, the Company's view of the potential size of any loss and the information available to the Company, that analysis may be based upon individually developed cash flow models, internal credit rating assessments, sector-driven loss severity assumptions and/or judgmental assessments. The Company monitors the performance of its transactions with expected losses and each quarter the Company's loss reserve committees review and refresh their loss projection assumptions, scenarios and the probabilities they assign to those scenarios based on actual developments during the period and their view of future performance.

The financial guaranties issued by the Company insure the credit performance of the guaranteed obligations over an extended period of time, in some cases over 30 years, and in most circumstances the Company has no right to cancel such financial guaranties. As a result, the Company's estimate of ultimate loss on a policy is subject to significant uncertainty over the life of the insured transaction. Credit performance can be adversely affected by economic, fiscal and financial market variability over the 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, severity of loss, economic projections, governmental actions, negotiations, recovery rates, delinquency and prepayment rates (with respect to RMBS), 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 information 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

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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.

Changes to estimates of net expected loss to be paid (recovered) and 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, charge-offs, loss mitigation activity, changes to projected default curves, severity rates, and dispute resolution. 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 losses may be subject to considerable volatility 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 uses cash but reduces projected future losses.

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

Accounting Model	Net Expected Loss to be Paid (Recovered)		Net Economic Loss Development (Benefit)	
	As of December 31,		Year Ended December 31,	
	2022	2021	2022	2021
	(in millions)			
Insurance (see Notes 4 and 5)	\$ 22	\$ (1)	\$ (3)	\$ (135)
FG VIEs (see Note 7)	84 (1)	49	(14)	(12)
Total	\$ 106	\$ 48	\$ (17)	\$ (147)

(1) The increase in expected loss to be paid for FG VIEs primarily relates to trusts established as part of the 2022 Puerto Rico Resolutions (Puerto Rico Trusts) that were consolidated as a result of the 2022 Puerto Rico Resolutions. Prior to the 2022 Puerto Rico Resolutions, all Puerto Rico exposures were accounted for as insurance.

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 3.82% to 4.69% with a weighted average of 4.14% as of December 31, 2022 and 0.00% to 1.98% with a weighted average of 1.23% as of December 31, 2021. Expected losses to be paid were \$99 million and \$7 million for U.S. dollar denominated transactions and non-U.S. dollar denominated transactions, respectively, as of December 31, 2022. Expected losses to be paid were \$40 million and \$8 million for U.S. dollar denominated transactions and non-U.S. dollar denominated transactions, respectively, as of December 31, 2021. The Company used risk-free rates for non-U.S. dollar denominated obligations that ranged from 1.76% to 4.00% with a weighted average of 3.47% as of December 31, 2022 and 0.00% to 1.20% with a weighted average of 0.41% as of December 31, 2021.

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**Notes to Consolidated Financial Statements, Continued**

**Net Expected Loss to be Paid (Recovered)**  
**Roll Forward**

	Year Ended December 31,	
	2022	2021
	(in millions)	
Net expected loss to be paid (recovered), beginning of period	\$ 48	\$ 94
Economic loss development (benefit) due to:		
Accretion of discount	3	1
Changes in discount rates	(25)	(3)
Changes in timing and assumptions	5	(145)
Total economic loss development (benefit)	(17)	(147)
Net (paid) recovered losses (1)	75	101
Net expected loss to be paid (recovered), end of period	<u>\$ 106</u>	<u>\$ 48</u>

(1) Net (paid) recovered losses in 2022 include the net amounts received pursuant to the Puerto Rico Resolutions, as described in Note 2, Outstanding Exposure.

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

Sector	Year Ended December 31, 2022			
	Net Expected Loss to be Paid (Recovered) as of December 31, 2021	Economic Loss Development (Benefit)	Net (Paid) Recovered Losses (1)	Net Expected Loss to be Paid (Recovered) as of December 31, 2022
	(in millions)			
<b>Public finance:</b>				
U.S. public finance	\$ (47)	\$ 76	\$ 58	\$ 87
Non-U.S. public finance	9	(1)	(1)	7
Public finance	(38)	75	57	94
<b>Structured finance:</b>				
U.S. RMBS	81	(91)	17	7
Other structured finance	5	(1)	1	5
Structured finance	86	(92)	18	12
<b>Total</b>	<u>\$ 48</u>	<u>\$ (17)</u>	<u>\$ 75</u>	<u>\$ 106</u>

Sector	Year Ended December 31, 2021			
	Net Expected Loss to be Paid (Recovered) as of December 31, 2020	Economic Loss Development (Benefit)	Net (Paid) Recovered Losses (1)	Net Expected Loss to be Paid (Recovered) as of December 31, 2021
	(in millions)			
<b>Public finance:</b>				
U.S. public finance	\$ (8)	\$ (71)	\$ 32	\$ (47)
Non-U.S. public finance	29	(18)	(2)	9
Public finance	21	(89)	30	(38)
<b>Structured finance:</b>				
U.S. RMBS	66	(57)	72	81
Other structured finance	7	(1)	(1)	5
Structured finance	73	(58)	71	86
<b>Total</b>	<u>\$ 94</u>	<u>\$ (147)</u>	<u>\$ 101</u>	<u>\$ 48</u>

(1) Net of ceded paid losses, whether or not such amounts have been settled with reinsurers.

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**Notes to Consolidated Financial Statements, Continued**

The tables above include: (a) net LAE paid of \$11 million and \$10 million for the years ended December 31, 2022 and 2021, respectively; and (b) net expected LAE to be paid of \$6 million and \$8 million as of December 31, 2022 and December 31, 2021.

***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 (i.e., 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. A 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 makes a judgment as to whether to change the assumptions it uses to make RMBS loss projections based on its observation during the period of the performance of its insured transactions (including early-stage delinquencies, late-stage delinquencies and loss severity) as well as the residential property market and economy in general, and, to the extent it observes changes, it makes a judgment as to whether those changes are normal fluctuations or part of a trend. 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,	
	2022	2021
	(in millions)	
First lien U.S. RMBS	\$ (24)	\$ 7
Second lien U.S. RMBS	(67)	(64)

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

*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 determine the number of defaults resulting from these delinquent and foreclosed loans, the Company applies a liquidation rate assumption to loans in each of various non-performing categories. The Company arrived at its liquidation rates based on data purchased from a third-party provider and assumptions about how delays in the foreclosure process and loan modifications may ultimately affect the rate at which loans are liquidated. Each 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,	
	2022	2021
<b>Current but recently delinquent</b>		
Alt-A and Prime	20%	20%
Option ARM	20%	20%
Subprime	20%	20%
<b>30 - 59 Days Delinquent</b>		
Alt-A and Prime	35%	35%
Option ARM	35%	35%
Subprime	30%	30%
<b>60 - 89 Days Delinquent</b>		
Alt-A and Prime	40%	40%
Option ARM	45%	45%
Subprime	40%	40%
<b>90 + Days Delinquent</b>		
Alt-A and Prime	55%	55%
Option ARM	60%	60%
Subprime	45%	45%
<b>Bankruptcy</b>		
Alt-A and Prime	45%	45%
Option ARM	50%	50%
Subprime	40%	40%
<b>Foreclosure</b>		
Alt-A and Prime	60%	60%
Option ARM	65%	65%
Subprime	55%	55%
<b>Real Estate Owned</b>		
All	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, would be sufficient to produce approximately the amount of defaults that were calculated to emerge from the various delinquency categories. The CDR thus calculated individually on the delinquent collateral pool for each RMBS is then used as the starting point for the CDR curve used to project defaults of the presently performing loans.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

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 plateau CDR. In the base scenario, the Company assumes the final CDR will be reached 1 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, 2022		As of December 31, 2021	
	Range	Weighted Average	Range	Weighted Average
<b>Alt-A and Prime</b>				
Plateau CDR	2.5% - 11.5%	5.4%	3.1% - 11.6%	6.3%
Final CDR	0.1% - 0.6%	0.3%	0.2% - 0.6%	0.3%
Initial loss severity:				
2005 and prior	50%		60%	
2006	50%		60%	
2007+	50%		60%	
<b>Option ARM</b>				
Plateau CDR	2.3% - 5.4%	4.0%	3.3% - 6.3%	5.0%
Final CDR	0.1% - 0.3%	0.2%	0.2% - 0.3%	0.2%
Initial loss severity:				
2005 and prior	50%		60%	
2006	50%		60%	
2007+	50%		60%	
<b>Subprime</b>				
Plateau CDR	4.1% - 7.7%	5.9%	3.8% - 8.6%	6.5%
Final CDR	0.2% - 0.4%	0.3%	0.2% - 0.4%	0.3%
Initial loss severity:				
2005 and prior	50%		60%	
2006	50%		60%	
2007+	50%		60%	

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

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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, 2021.

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 that 20% of the deferred loan balances will eventually be recovered upon sale of the collateral or refinancing of the loans.

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 plateau CDR. 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, 2022 and December 31, 2021.

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 LIBOR. An increase in projected LIBOR decreases excess spread, while lower LIBOR results in higher excess spread. ICE Benchmark Administration (IBA) and the Financial Conduct Authority have announced that LIBOR will be discontinued after June 30, 2023. The Company believes that the reference to LIBOR in such floating rate RMBS debt will be replaced, by operation of law in accordance with federal legislation enacted in March 2022, with a rate based on the Secured Overnight Finance Rate (SOFR).

The Company used a similar approach to establish its pessimistic and optimistic scenarios as of December 31, 2022 as it used as of December 31, 2021, increasing and decreasing the periods of stress from those used in the base scenario. In the Company's most stressful scenario where 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 million for all first lien U.S. RMBS transactions.

In the Company's least stressful scenario where 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 \$7 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 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.

Prior to the third quarter of 2022, for the base scenario, the CDR (the plateau CDR) was held constant for six months. Once the plateau period had ended, the CDR was assumed to gradually trend down in uniform increments to its final long-term steady state CDR. (The long-term steady state CDR was calculated as the constant CDR that would have yielded the amount of losses originally expected at underwriting, subject to a floor.) In the base case scenario, the time over which the CDR trended down to its final CDR was 28 months. Therefore, the total stress period for second lien transactions was 34 months.

The Company has observed lower than expected default rates and longer liquidation timelines due to significant home price appreciation and special servicing activity which now favors modifications and foreclosure actions rather than charge-offs at 180 days delinquent. In the third quarter of 2022, the Company extended the time over which a portion of the delinquent loans default from six months to 36 months in the base scenario (conforming to the methodology used for first lien U.S. RMBS



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**Notes to Consolidated Financial Statements, Continued**

transactions). After the plateau period, as with first lien U.S. RMBS transactions, the CDR trends down over one year to 5% of the plateau CDR. These changes in the shape of the CDR curve result in a longer period of stress defaults (48 months in the base scenario), but at lower default levels leading to lower overall levels of expected losses.

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.

Recently, 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, 2022 and December 31, 2021, 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 recovery assumption for charged-off loans is 30%, 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. If the recovery rate decreases to 20%, expected loss to be paid would increase from current projections by approximately \$25 million. If the recovery rate increases to 40%, expected loss to be paid would decrease from current projections by approximately \$25 million.

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, 2021. To the extent that prepayments differ from projected levels it could materially change the Company's projected excess spread and losses.

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.

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**Notes to Consolidated Financial Statements, Continued**

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**

	<b>HELOCs</b>			
	<b>As of December 31, 2022</b>		<b>As of December 31, 2021</b>	
	<b>Range</b>	<b>Weighted Average</b>	<b>Range</b>	<b>Weighted Average</b>
Plateau CDR	0.4% - 4.4%	3.4%	12.3% - 33.2%	16.8%
Final CDR trended down to	0.0% - 0.2%	0.2%	1.0%	
<b>Liquidation rates:</b>				
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	30%		30%	

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

The Company updated its assumptions related to the CDR plateau and ramp-down during the third quarter of 2022. The Company's base scenario assumed a 36-month CDR plateau and a 12-month ramp-down (for a total stress period of 48 months), compared to a six-month CDR plateau and a 28-month ramp-down (for a total stress period of 34 months). 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, 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 \$1 million for HELOC transactions. On the other hand, in the Company's least stressful scenario, 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 \$1 million for HELOC 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 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 8, Fair Value Measurement, for information related to credit derivatives and Note 7, Variable Interest Entities for amounts that are accounted for as consolidated FG VIEs.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Premiums**

***Accounting Policy***

Financial guaranty contracts that meet the scope exception under derivative accounting guidance are subject to industry specific guidance for financial guaranty insurance. The accounting for contracts that fall under the financial guaranty insurance definition is consistent whether contracts are written on a direct basis, assumed from another financial guarantor, ceded to another insurer, or acquired in a business combination.

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 (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 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 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 and not the actual 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 or expected premium collections for obligations backed by homogeneous pools of 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. The Company assesses the need for an allowance for credit loss on premiums receivables each reporting period.

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 5, Reinsurance, for a breakout of direct, assumed and ceded premiums.

Any premiums related to FG VIEs are eliminated upon consolidation.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Insurance Contracts' Premium Information**

**Net Earned Premiums**

	Year Ended December 31,	
	2022	2021
	(in millions)	
Scheduled net earned premiums	\$ 169	\$ 187
Accelerations from refundings and terminations (1)	35	32
Accretion of discount on net premiums receivable	16	20
Net earned premiums	<u>\$ 220</u>	<u>\$ 239</u>

(1) 2022 accelerations include \$10 million related to the 2022 Puerto Rico Resolutions. See Note 2, Outstanding Exposure, for additional information.

**Gross Premium Receivable  
Roll Forward**

	Year Ended December 31,	
	2022	2021
	(in millions)	
Beginning of year	\$ 1,074	\$ 1,094
Gross written premiums on new business	337	290
Gross premiums received	(316)	(297)
Adjustments:		
Changes in the expected term	2	(21)
Accretion of discount	20	25
Foreign exchange gain (loss) on remeasurement	(104)	(21)
Expected recovery of premiums previously written off	—	4
December 31,	<u>\$ 1,013</u>	<u>\$ 1,074</u>

Approximately 89% and 92% of gross premiums receivable at December 31, 2022 and December 31, 2021, respectively, are denominated in currencies other than the U.S. dollar, primarily the pound sterling and euro.

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 index, changes in expected lives and new business.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Expected Future Premium Collections and Earnings**

	As of December 31, 2022	
	Future Gross Premiums to be Collected	Future Net Premiums to be Earned (1)
	(in millions)	
2023 (January 1 – March 31)	\$ 31	\$ 44
2023 (April 1 – June 30)	25	44
2023 (July 1 – September 30)	19	44
2023 (October 1 – December 31)	23	43
Subtotal 2023	98	175
2024	67	164
2025	65	154
2026	63	145
2027	60	135
2028-2032	253	570
2033-2037	189	404
2038-2042	135	257
After 2042	320	372
Total (1)	<u>\$ 1,250</u>	<u>2,376</u>
Future accretion		177
Total future net earned premiums		<u>\$ 2,553</u>

(1) Net of reinsurance.

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

	As of December 31,	
	2022	2021
	(dollars in millions)	
Premiums receivable	\$ 1,013	\$ 1,074
Deferred premium revenue	1,246	1,222
Weighted-average risk-free rate used to discount premiums	1.7 %	1.5 %
Weighted-average period of premiums receivable (in years)	14.0	13.6

**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 reinsurance contracts, are deferred and reported net.

Capitalized 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 judgement, 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.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

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.

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

	Year Ended December 31,	
	2022	2021
	(in millions)	
Beginning of year	\$ (58)	\$ (71)
Deferrals	(6)	4
Amortization (2)	7	9
December 31,	\$ (57)	\$ (58)

- (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 contracts that are accounted for as insurance, all of which are financial guaranty insurance contracts. The corresponding reserve ceded to reinsurers 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. At contract inception, the entire stand-ready obligation is represented entirely by unearned premium reserve. Unearned premium reserve is deferred premium revenue, less claim payments contra-paid. 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, it 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*

When the Company becomes entitled to the cash flow from the underlying collateral of, or other recoveries in relation to, an insured exposure under salvage and subrogation rights as a result of a claim payment or estimated future claim payment, it reduces the expected loss to be paid on the contract. 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

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

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 reserves and salvage are discounted at risk-free rates for U.S. dollar denominated financial guaranty insurance obligations that ranged from 3.82% to 4.69% with a weighted average of 4.18% as of December 31, 2022 and 0.00% to 1.98% with a weighted average of 1.23% as of December 31, 2021.

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**

<b>Sector</b>	<b>As of December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>(in millions)</b>	
<b>Public finance:</b>		
U.S. public finance	\$ 8	\$ (64)
Non-U.S. public finance	1	1
Public finance	9	(63)
<b>Structured finance:</b>		
U.S. RMBS	(55)	(10)
Other structured finance	4	5
Structured finance	(51)	(5)
<b>Total</b>	<b>\$ (42)</b>	<b>\$ (68)</b>

**Components of Net Reserve (Salvage)**

	<b>As of December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>(in millions)</b>	
Loss and LAE reserve	\$ 189	\$ 384
Reinsurance recoverable on unpaid losses	(68)	(98)
Loss and LAE reserve, net	121	286
Salvage and subrogation recoverable	(211)	(528)
Salvage and subrogation reinsurance payable (1)	48	174
Salvage and subrogation recoverable, net	(163)	(354)
<b>Net reserve (salvage)</b>	<b>\$ (42)</b>	<b>\$ (68)</b>

(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).

**Assured Guaranty Municipal Corp.  
Notes to Consolidated Financial Statements, Continued**

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

	<b>As of December 31, 2022</b>
	<b>(in millions)</b>
Net expected loss to be paid (recovered) - financial guaranty insurance	\$ 22
Contra-paid, net	17
Salvage and subrogation recoverable, net	163
Loss and LAE reserve financial guaranty insurance contracts, net of reinsurance	(121)
Net expected loss to be expensed (present value)	\$ 81

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**

	<b>As of December 31, 2022</b>
	<b>(in millions)</b>
2023 (January 1 – March 31)	\$ 2
2023 (April 1 – June 30)	2
2023 (July 1 – September 30)	2
2023 (October 1 – December 31)	1
Subtotal 2023	7
2024	5
2025	6
2026	7
2027	5
2028-2032	21
2033-2037	15
2038-2042	6
After 2042	9
Net expected loss to be expensed	81
Future accretion	2
Total expected future loss and LAE	\$ 83



**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

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**

Sector	Year Ended December 31,	
	2022	2021
(in millions)		
<b>Public finance:</b>		
U.S. public finance	\$ 66	\$ (65)
Non-U.S. public finance	—	(7)
Public finance	66	(72)
<b>Structured finance:</b>		
U.S. RMBS	(68)	(40)
Other structured finance	(1)	(1)
Structured finance	(69)	(41)
Loss and LAE (benefit)	<u>\$ (3)</u>	<u>\$ (113)</u>

In each of the years presented, the primary component of U.S. public finance loss and LAE (benefit) was Puerto Rico exposures.

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

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

	Gross				Net Total BIG
	BIG 1	BIG 2	BIG 3	Total BIG	
(dollars in millions)					
Number of risks (1)	73	2	40	115	115
Remaining weighted-average period (in years)	11.5	8.1	6.1	9.8	9.8
<b>Outstanding exposure:</b>					
Par	\$ 3,085	\$ 50	\$ 1,548	\$ 4,683	\$ 3,864
Interest	2,035	30	474	2,539	2,133
Total (2)	<u>\$ 5,120</u>	<u>\$ 80</u>	<u>\$ 2,022</u>	<u>\$ 7,222</u>	<u>\$ 5,997</u>
Expected cash outflows (inflows)	\$ 115	\$ 80	\$ 1,075	\$ 1,270	\$ 990
Potential recoveries (3)	(239)	(69)	(914)	(1,222)	(966)
Subtotal	(124)	11	161	48	24
Discount	29	(4)	(21)	4	(2)
Expected losses to be paid (recovered)	<u>\$ (95)</u>	<u>\$ 7</u>	<u>\$ 140</u>	<u>\$ 52</u>	<u>\$ 22</u>
Deferred premium revenue	\$ 158	\$ 12	\$ 50	\$ 220	\$ 197
Reserves (salvage)	\$ (133)	\$ 1	\$ 110	\$ (22)	\$ (42)

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Financial Guaranty Insurance**  
**BIG Transaction Loss Summary**  
**As of December 31, 2021**

	Gross				Net Total BIG
	BIG 1	BIG 2	BIG 3	Total BIG	
	(dollars in millions)				
Number of risks (1)	75	1	44	120	120
Remaining weighted-average period (in years)	7.4	7.2	7.9	7.7	7.6
Outstanding exposure:					
Par	\$ 2,114	\$ 42	\$ 3,226	\$ 5,382	\$ 4,057
Interest	847	22	1,196	2,065	1,519
Total (2)	<u>\$ 2,961</u>	<u>\$ 64</u>	<u>\$ 4,422</u>	<u>\$ 7,447</u>	<u>\$ 5,576</u>
Expected cash outflows (inflows)	\$ 88	\$ 3	\$ 2,911	\$ 3,002	\$ 2,205
Potential recoveries (3)	(380)	—	(2,661)	(3,041)	(2,178)
Subtotal	(292)	3	250	(39)	27
Discount	17	—	(43)	(26)	(28)
Expected losses to be paid (recovered)	<u>\$ (275)</u>	<u>\$ 3</u>	<u>\$ 207</u>	<u>\$ (65)</u>	<u>\$ (1)</u>
Deferred premium revenue	\$ 70	\$ 1	\$ 93	\$ 164	\$ 142
Reserves (salvage)	\$ (290)	\$ 2	\$ 144	\$ (144)	\$ (68)

- (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. Reinsurance

The Company cedes portions of exposure it has insured (Ceded Business) in exchange for premiums, net of any ceding commissions. The Company has Ceded Business to affiliated and non-affiliated companies to limit its exposure to risk. See Note 12, 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 financial guaranty 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 ceded credit derivative contracts, the accounting model in Note 8, Fair Value Measurement, is followed.

### Effect of Reinsurance

The following table presents the components of premiums and losses reported in the consolidated statements of operations and the contribution of the Company's Assumed and Ceded Businesses. See Note 12, Related Party Transactions, for balances with affiliates.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Effect of Reinsurance on Premiums Written, Premiums Earned and Loss and LAE (Benefit)**

	Year Ended December 31,	
	2022	2021
(in millions)		
<b>Premiums Written:</b>		
Direct	\$ 339	\$ 301
Assumed (1)	—	(32)
Ceded (2)	(93)	(61)
Net	<u>\$ 246</u>	<u>\$ 208</u>
<b>Premiums Earned:</b>		
Direct	\$ 291	\$ 318
Assumed	—	1
Ceded (2)	(71)	(80)
Net	<u>\$ 220</u>	<u>\$ 239</u>
<b>Loss and LAE (benefit):</b>		
Direct (3)	\$ 4	\$ (123)
Ceded (2)	(7)	10
Net	<u>\$ (3)</u>	<u>\$ (113)</u>

- (1) Negative assumed amounts in 2021 are due to AGC's reassumption of the book of business that was previously ceded to MAC. See Note 1, Business and Basis of Presentation, for a description of the MAC Transaction.
- (2) Ceded amounts mainly consist of cessions to affiliates.
- (3) See Note 3, Expected Loss to be Paid (Recovered), for additional information on the economic loss development (benefit).

Change in ceded funds held relates primarily to the 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, 2022		As of December 31, 2021	
	Affiliated Reinsurers	Non-Affiliated Reinsurers	Affiliated Reinsurers	Non-Affiliated Reinsurers
(in millions)				
Ceded premium payable, net of commissions	\$ 156	\$ 3	\$ 154	\$ 4
Ceded expected loss to be recovered (paid)	30	—	(52)	(12)
Reinsurance recoverable on ceded paid losses	68	—	1	—
Ceded unearned premium reserve	663	5	637	6
Ceded paid loss payable	105	—	1	—
Ceded par outstanding (2)	51,569	154	52,204	342

- (1) The total collateral posted by all affiliated and non-affiliated reinsurers required to post, or that had agreed to post, collateral as of December 31, 2022 and December 31, 2021 was approximately \$723 million and \$752 million, respectively. The collateral excludes amounts posted by AGM for the benefit of AGUK and AGE.
- (2) Of the total par ceded to BIG rated reinsurers, \$16 million and \$66 million is rated BIG as of December 31, 2022 and December 31, 2021, respectively. Of the total par ceded to affiliates, \$803 million and \$1,270 million is rated BIG as of December 31, 2022 and December 31, 2021, respectively.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

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.

## **6. Investments and Cash**

### **Accounting Policy**

Fixed-maturity debt securities are classified as either available-for-sale or trading. All fixed-maturity securities are measured at fair value and reported on a trade-date basis. Unrealized gains and losses on available-for-sale fixed-maturity debt securities that are not associated with credit related factors are reported as a component of accumulated other comprehensive income (AOCI), net of deferred income taxes. Loss Mitigation Securities, which are a component of fixed-maturity debt securities, are accounted for based on their underlying investment type, excluding the effects of the Company's insurance. Realized gains and losses on sales of available-for-sale fixed-maturity debt securities and credit losses are reported as a component of net income. Changes in fair value on trading fixed-maturity debt securities are reported as a component of net income.

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

The surplus note issued by AGC to AGM is classified as held-to-maturity and carried at amortized cost. See Note 12, Related Party Transactions, for more information.

Equity method investments consist of the Company's investments in AssuredIM Funds and other alternative investments. The Company reports its interest in the earnings of equity method investments in "equity in earnings (losses) of investees" in the consolidated statement of operations. Certain equity method investments are reported on a lag because information is not received on a timely basis. 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. All distributions from equity method investments for which the Company elected the fair value option (FVO) are classified as investing activities.

Cash consists of cash on hand and demand deposits.

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 financial assets that, as of the date of acquisition, have experienced a more-than-insignificant deterioration in credit quality since origination, as determined by the Company's assessment.

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).

For all 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 fixed-maturity securities classified as available-for-sale for which a decline in the fair value below the amortized cost is due to credit related factors, an allowance is established for the difference between the estimated recoverable value and

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

amortized cost with a corresponding charge to net realized investment gains (losses). The estimated recoverable value is the present value of cash flows expected to be collected, as determined by management. The allowance for credit losses is limited to the difference between amortized cost and fair value. The difference between fair value and 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 length of time an instrument has been impaired or the effect of changes in foreign exchange rates are not considered in the Company's assessment of credit loss. 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, respectively, 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 writes 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 securities the Company intends to sell the amortized cost is written down to fair value with a corresponding charge to net realized investment gains (losses) if (1) it is more-likely-than-not that the Company will be required to sell before recovery of its amortized cost, and (2) the fair value of the security is below amortized cost. 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.

### **Investment Portfolio**

The investment portfolio consists of both externally and internally managed portfolios. The investment portfolio is managed primarily by three outside managers and AssuredIM. The Company has established investment guidelines for its 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 includes: (i) New Recovery Bonds and CVIs received in connection with the consummation of the 2022 Puerto Rico Resolutions; (ii) Loss Mitigation Securities; (iii) certain fixed-maturity and short-term securities; (iv) equity method investments; and (v) surplus note of affiliate. Equity method investments consist of generally less liquid alternative investments including AssuredIM Funds, an investment in renewable and clean energy and private equity

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

funds. The Company had unfunded commitments of \$78 million as of December 31, 2022 related to certain of the Company's alternative investments, other than AssuredIM Funds.

**Investment Portfolio**  
**Carrying Value**

	As of December 31,	
	2022	2021
	(in millions)	
Fixed-maturity securities, available-for-sale (1):		
Externally managed	\$ 2,828	\$ 3,636
Loss Mitigation Securities and other	296	341
AssuredIM managed	420	421
Fixed-maturity securities - Puerto Rico New Recovery Bonds (2)	295	—
Fixed-maturity securities, trading - Puerto Rico, CVIs (2)	127	—
Short-term investments (3)	456	599
AGC surplus note	300	300
Equity method investments:		
AssuredIM Funds	569	543
Other	117	152
Other invested assets (internally managed)	4	5
<b>Total</b>	<b>\$ 5,412</b>	<b>\$ 5,997</b>

- (1) 4.7% and 4.9% of fixed-maturity securities were rated BIG as of December 31, 2022 and December 31, 2021, respectively, consisting primarily of Loss Mitigation Securities. 8.1% and 0.3% were not rated, as of December 31, 2022 and December 31, 2021, respectively.
- (2) These securities are not rated.
- (3) Weighted average credit rating of AAA as of both December 31, 2022 and December 31, 2021, based on the lower of the Moody's Investors Service, Inc. (Moody's) and S&P Global Ratings, a division of Standard & Poor's Financial Services LLC (S&P) classifications.

AGM and AGC are authorized to invest up to \$750 million in the aggregate in AssuredIM Funds through their jointly owned investment subsidiary AGAS. AGM is authorized for \$487.5 million of this aggregate amount. Adding inception-to-date distributed gains, AGM and AGC may invest a total of up to \$810 million in AssuredIM Funds through AGAS. As of December 31, 2022, AGAS had total commitments to AssuredIM Funds of \$755 million of which \$536 million represented net invested capital and \$219 million was undrawn. This capital was committed to several funds, each dedicated to a single strategy, including collateralized loan obligations (CLOs), asset-based finance and healthcare. See Note 12, Related Party Transactions, for a description of AGAS ownership.

Accrued interest income on investments and loans receivable from affiliate was \$41 million and \$40 million as of December 31, 2022 and December 31, 2021, respectively. In 2022 and 2021, the Company did not write off any accrued investment income.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**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	Weighted Average Credit Rating (2)
(dollars in millions)							
Obligations of state and political subdivisions	45 %	\$ 1,881	\$ —	\$ 13	\$ (63)	\$ 1,831	A-
U.S. government securities	2	69	—	—	(7)	62	AA+
Corporate securities (3)	32	1,362	(3)	1	(194)	1,166	A+
Mortgage-backed securities (4):							
RMBS	6	257	(18)	1	(52)	188	BB-
Commercial mortgage-backed securities (CMBS)	3	115	—	—	(4)	111	AAA
Asset-backed securities:							
CLOs	8	359	—	—	(18)	341	A+
Other	1	47	(2)	—	(3)	42	B
Non-U.S. government securities	3	121	—	—	(23)	98	AA-
Total available-for-sale fixed-maturity securities	<u>100 %</u>	<u>\$ 4,211</u>	<u>\$ (23)</u>	<u>\$ 15</u>	<u>\$ (364)</u>	<u>\$ 3,839</u>	<u>A</u>

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Available-for-Sale Fixed-Maturity Securities by Security Type**  
**As of December 31, 2021**

Security Type	Percent of Total (1)	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Weighted Average Credit Rating (2)
(dollars in millions)							
Obligations of state and political subdivisions	41 %	\$ 1,759	\$ —	\$ 125	\$ (1)	\$ 1,883	AA-
U.S. government securities	2	72	—	3	(2)	73	AA+
Corporate securities (3)	34	1,460	(1)	55	(18)	1,496	A
Mortgage-backed securities (4):							
RMBS	6	260	(17)	9	(23)	229	BB
CMBS	4	160	—	6	—	166	AAA
Asset-backed securities							
CLOs	9	365	—	1	—	366	A+
Other	1	50	—	—	—	50	B+
Non-U.S. government securities	3	133	—	4	(2)	135	AA-
<b>Total available-for-sale fixed-maturity securities</b>	<b>100 %</b>	<b>\$ 4,259</b>	<b>\$ (18)</b>	<b>\$ 203</b>	<b>\$ (46)</b>	<b>\$ 4,398</b>	<b>A+</b>

(1) Based on amortized cost.

(2) Ratings represent the lower of the Moody's and S&P classifications, except for Loss Mitigation Securities and certain other securities, which use internal ratings classifications. The Company's portfolio primarily consists of high-quality, liquid instruments. New Recovery Bonds received in connection with the consummation of the 2022 Puerto Rico Resolutions are not rated.

(3) Includes securities issued by taxable universities and hospitals.

(4) U.S. government-agency obligations were approximately 7% of mortgage-backed securities as of both December 31, 2022 and December 31, 2021 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, 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 millions)						
Obligations of state and political subdivisions	\$ 924	\$ (35)	\$ 81	\$ (27)	\$ 1,005	\$ (62)
U.S. government securities	11	—	39	(7)	50	(7)
Corporate securities	649	(58)	370	(104)	1,019	(162)
Mortgage-backed securities:						
RMBS	16	(1)	1	—	17	(1)
CMBS	111	(5)	—	—	111	(5)
Asset-backed securities						
CLOs	128	(6)	208	(12)	336	(18)
Other	12	(1)	—	—	12	(1)
Non-U.S. government securities	65	(10)	30	(13)	95	(23)
<b>Total</b>	<b>\$ 1,916</b>	<b>\$ (116)</b>	<b>\$ 729</b>	<b>\$ (163)</b>	<b>\$ 2,645</b>	<b>\$ (279)</b>
Number of securities (1)		<u>711</u>		<u>322</u>		<u>1,011</u>



**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**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, 2021**

	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 millions)					
Obligations of state and political subdivisions	\$ 53	\$ (1)	\$ —	\$ —	\$ 53	\$ (1)
U.S. government securities	26	\$ (1)	\$ 19	\$ (1)	45	(2)
Corporate securities	320	(11)	36	(4)	356	(15)
Mortgage-backed securities:						
RMBS	1	—	—	—	1	—
Asset-backed securities						
CLOs	190	—	—	—	190	—
Non-U.S. government securities	24	(1)	8	(1)	32	(2)
Total	\$ 614	\$ (14)	\$ 63	\$ (6)	\$ 677	\$ (20)
Number of securities (1)		264		19		281

(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, 2022 and December 31, 2021 were not related to credit quality, and in the case of 2022, were primarily attributable to rising interest rates. As of December 31, 2022, 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, 2022, of the securities in an unrealized loss position for which an allowance for credit loss was not recorded, 372 securities had unrealized losses in excess of 10% of their carrying value, whereas as of December 31, 2021, 14 securities had unrealized losses in excess of 10% of their carrying value. The total unrealized loss for these securities was \$218 million as of December 31, 2022 and \$4 million as of December 31, 2021.

The amortized cost and estimated fair value of available-for-sale fixed-maturity securities by contractual maturity as of December 31, 2022 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, 2022**

	Amortized Cost	Estimated Fair Value
	(in millions)	
Due within one year	\$ 207	\$ 200
Due after one year through five years	1,049	937
Due after five years through 10 years	883	834
Due after 10 years	1,700	1,569
Mortgage-backed securities:		
RMBS	257	188
CMBS	115	111
Total	\$ 4,211	\$ 3,839

Based on fair value, investments and other assets that are placed on deposit to fulfill state licensing requirements, or otherwise pledged or restricted totaled \$7 million and \$9 million, as of December 31, 2022 and December 31, 2021, respectively. In addition, the total collateral funded into a reinsurance trust or similar accounts by AGM for the benefit of

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

AGUK and AGE was approximately \$222 million as of December 31, 2022 and \$246 million as of December 31, 2021, based on fair value.

No material investments of the Company were non-income producing during the twelve months period ending December 31, 2022. There were no investments that were non-income producing during the twelve months period ending December 31, 2021.

**Income from Investments**

Net investment income is a function of the yield that the Company earns on available-for-sale fixed-maturity securities and short-term investments, and the size of such portfolio. The investment yield is a function of market interest rates at the time of investment as well as the type, credit quality and maturity of the securities in this portfolio.

Puerto Rico CVIs in the investment portfolio are classified as trading. Equity in earnings (losses) of investees represents the Company's interest in the earnings of its equity method investments.

**Income from Investments**

	Year Ended December 31,	
	2022	2021
	(in millions)	
Investment income		
Externally managed	\$ 88	\$ 100
Loss Mitigation Securities and other	31	24
Managed by AssuredIM (1)	18	12
Interest income on surplus note and loans from affiliate	16	16
Investment income	153	152
Investment expenses	(3)	(4)
Net investment income	\$ 150	\$ 148
Fair value gains (losses) on trading securities (2)	\$ (14)	\$ —
Equity in earnings (losses) of investees	\$ (51)	\$ 141

- (1) Represents interest income on a portfolio of CLOs and municipal bonds managed by AssuredIM under an investment management agreement.
- (2) Fair value losses on trading securities pertaining to securities still held as of December 31, 2022 were \$10 million for 2022.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**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,	
	2022	2021
	(in millions)	
Gross realized gains on sales of available-for-sale securities	\$ 3	\$ 17
Gross realized losses on sales of available-for-sale securities (1)	(34)	(2)
Net foreign currency gains (losses)	(4)	2
Change in the allowance for credit losses and intent to sell	(3)	—
Other net realized gains (losses)	2	14
Net realized investment gains (losses)	<u>\$ (36)</u>	<u>\$ 31</u>

- (1) Gross realized losses on sales of available-for-sale securities in 2022 related primarily to sales of New Recovery Bonds received as part of the 2022 Puerto Rico Resolutions. See Note 5, Reinsurance, for additional information on the ceded portion of such gains and losses.

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,	
	2022	2021
	(in millions)	
Balance, beginning of period	\$ 18	\$ 60
Additions for securities for which credit losses were not previously recognized	4	1
Additions for purchases of securities accounted for as purchased financial assets with credit deterioration	2	—
Additions (reductions) for securities for which credit losses were previously recognized	(1)	(1)
Reductions for securities sold and other settlements	—	(42)
Balance, end of period	<u>\$ 23</u>	<u>\$ 18</u>

The Company recorded \$3 million in credit loss expense for the year ended December 31, 2022. During 2022, the Company purchased a Loss Mitigation Security with a fair value of \$22 million that was accounted for as a PCD security. At acquisition, this security had an unpaid principal on remaining collateral of \$31 million, an allowance for credit losses of \$2 million, and a non-credit related discount of \$7 million. The Company did not purchase any other securities with credit deterioration during the periods presented. As of December 31, 2022 and 2021, the majority of allowance for credit losses relates to Loss Mitigation Securities.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Equity in Earnings (Losses) of Investees**

**Equity in Earnings (Losses) of Investees**

	Year Ended December 31,	
	2022	2021
	(in millions)	
AssuredIM Funds	\$ (10)	\$ 80
Other	(41)	61
Total equity in earnings (losses) of investees (1)	<u>\$ (51)</u>	<u>\$ 141</u>

(1) Includes \$(10) million and \$86 million for the year ended December 31, 2022 and 2021, respectively, related to fair value gains (losses) on investments at FVO using net asset value (NAV) as a practical expedient.

Dividends received from equity method investments were \$10 million and \$14 million for the years ended December 31, 2022 and 2021, respectively.

The table below presents summarized financial information for equity method investments that meet, in aggregate, the requirements for reporting summarized disclosures. Amounts in the table below represent amounts reported in the consolidated financial statements as of December 31, 2022 and 2021 and for the years ended December 31, 2022 and 2021. The financial statements for the majority of these equity method investments are reported on a lag.

**Balance Sheet Data**

	As of December 31,	
	2022	2021
	(in millions)	
AssuredIM Funds	\$ 901	\$ 817
Other	672	1,355
Total assets	<u>\$ 1,573</u>	<u>\$ 2,172</u>
AssuredIM Funds	\$ 216	\$ 110
Other	68	324
Total liabilities	<u>\$ 284</u>	<u>\$ 434</u>
AssuredIM Funds	\$ 685	\$ 707
Other	604	1,031
Total equity	<u>\$ 1,289</u>	<u>\$ 1,738</u>

**Statement of Operations Data**

	Year Ended December 31,	
	2022	2021
	(in millions)	
AssuredIM Funds	\$ 35	\$ 161
Other	(332)	482
Total revenues	<u>\$ (297)</u>	<u>\$ 643</u>
AssuredIM Funds	\$ 23	\$ 10
Other	32	37
Total expenses	<u>\$ 55</u>	<u>\$ 47</u>
AssuredIM Funds	\$ 12	\$ 151
Other	(364)	445
Net income (loss)	<u>\$ (352)</u>	<u>\$ 596</u>

## **7. Variable Interest Entities**

### **Accounting Policy**

For entities determined to be a VIE, and for 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 an entity and continuously reassesses whether it is the primary beneficiary. 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 and entities under common control. 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 of the entity that could potentially be significant to the VIE 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 structured finance FG VIEs, the Company elected the 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 FG VIE assets and liabilities as the carrying amount transition method was not practical. To allow for consistency in the accounting for its consolidated structured finance FG VIE assets and liabilities, the Company elected the FVO for structured finance FG VIEs that it has subsequently consolidated. For the Puerto Rico Trusts described below, the assets primarily include fixed-maturity debt securities that are carried at fair value and the Company elected the FVO for the Puerto Rico Trusts' liabilities in order to simplify the accounting for these instruments.

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 and certain trust certificates in the Puerto Rico Trusts, which are reported 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 certain trust certificates 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.

The inception-to-date change in fair value of the FG VIEs' liabilities with recourse 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. 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 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 FG VIEs. The structured finance 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 until approximately 30 days after the end of any given period. The time required to perform adequate reconciliations and analyses of the information in these trustee reports results in a one quarter lag in reporting the structured finance FG VIEs' activities. As a result of the lag in reporting structured finance FG VIEs, cash and short-term investments do not reflect cash outflows to the holders of the debt issued by the structured finance FG VIEs for claim payments made by the Company's insurance subsidiaries to the consolidated structured finance FG VIEs 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 AGM 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 AGM under the financial guaranty contracts issued to the FG VIEs are eliminated upon consolidation and therefore such claim payments are treated as paydowns of FG VIEs' liabilities and as a financing activity as opposed to an operating activity of AGM.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

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 FG VIEs***

AGM 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, AGM'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.

AGM is not primarily liable for the debt obligations issued by the structured finance 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. AGM's creditors do not have any rights with regard to the collateral supporting the debt issued by the structured finance FG VIEs. Proceeds from sales, maturities, prepayments and interest from such underlying collateral may only be used to pay debt service on structured finance FG VIEs' liabilities.

As part of the terms of its financial guaranty contracts, AGM, under its insurance contract, obtains certain protective rights with respect to the VIE that give AGM 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 or collateral manager's financial condition. At deal inception, AGM typically is not deemed to control the VIE; however, once a trigger event occurs, AGM's control of the VIE typically increases. AGM continuously evaluates its power to direct the activities that most significantly impact the economic performance of VIEs that have debt obligations insured by AGM and, accordingly, where AGM is obligated to absorb VIE losses or receive benefits that could potentially be significant to the VIE. AGM 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 AGM's financial guaranty contracts. If the protective rights that could make AGM the control party have not been triggered, then the VIE is not consolidated. If AGM is deemed to no longer have those protective rights, the VIE is deconsolidated.

The structured finance FG VIEs' liabilities that are guaranteed by AGM 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 FG VIEs' liabilities that are not guaranteed by AGM 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 FG VIEs**

	<b>Year Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
Beginning of year	19	19
Consolidated	—	1
Deconsolidated	(1)	(1)
December 31	<u>18</u>	<u>19</u>

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

***Puerto Rico Trusts***

As of December 31, 2022, the Company consolidated 23 custodial trusts established as part of the 2022 Puerto Rico Resolutions (Puerto Rico Trusts) discussed in Note 2, Outstanding Exposure, Exposure to Puerto Rico. During 2022, the Company consolidated 24 and deconsolidated one 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 as each is paid off.) For those who made this election, distributions of Plan Consideration are immediately 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. The Company consolidated the Puerto Rico Trusts as it is deemed to be the primary beneficiary given its power to collapse these trusts.

The assets within the Puerto Rico Trusts include New Recovery Bonds and certain trust certificates classified as available-for-sale securities (\$86 million fair value and \$85 million amortized cost as of December 31, 2022). As of December 31, 2022, the available-for-sale securities had gross unrealized gains of \$1.7 million and gross unrealized losses of \$327 thousand.

The amortized cost and estimated fair value of available-for-sale New Recovery Bonds and certain trust certificates by contractual maturity as of December 31, 2022 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.

**New Recovery Bonds and Certain Trust Certificates in FG VIEs' Assets**  
**Distribution by Contractual Maturity**  
**As of December 31, 2022**

	Amortized Cost	Estimated Fair Value
	(in millions)	
Due within one year	\$ —	\$ —
Due after one year through five years	1	1
Due after five years through 10 years	14	14
Due after 10 years	70	71
Total	<u>\$ 85</u>	<u>\$ 86</u>

***Components of FG VIE Assets and Liabilities***

Net fair value gains and losses on FG VIEs are expected to reverse to zero by maturity of the FG VIEs' debt, except for net premiums received and net claims paid by AGM 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).

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

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,	
	2022	2021
	(in millions)	
<b>FG VIEs' assets:</b>		
U.S. RMBS first lien	\$ 156	\$ 206
U.S. RMBS second lien	17	23
Puerto Rico Trusts' assets (1)	141	—
<b>Total FG VIEs' assets</b>	<b>\$ 314</b>	<b>\$ 229</b>
<b>FG VIEs' liabilities with recourse:</b>		
U.S. RMBS first lien	\$ 167	\$ 215
U.S. RMBS second lien	20	28
Puerto Rico Trusts' liabilities (includes \$195 at fair value)	197	—
<b>Total FG VIEs' liabilities with recourse</b>	<b>\$ 384</b>	<b>\$ 243</b>
<b>FG VIEs' liabilities without recourse:</b>		
U.S. RMBS first lien	\$ 11	\$ 17
<b>Total FG VIEs' liabilities without recourse</b>	<b>\$ 11</b>	<b>\$ 17</b>

(1) Includes \$86 million, at fair value, of New Recovery Bonds and certain trust certificates and \$54 million of receivables for unsettled trades. Includes \$1 million of cash.

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, 2022 and 2021 that was reported in the consolidated statements of operations for 2022 and 2021 were gains of \$9 million and \$13 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,	
	2022	2021
	(in millions)	
<b>Excess of unpaid principal over fair value of:</b>		
FG VIEs' assets	\$ 239	\$ 230
FG VIEs' liabilities with recourse	10	9
FG VIEs' liabilities without recourse	15	15
Unpaid principal balance for FG VIEs' assets that were 90 days or more past due	30	46
Unpaid principal for FG VIEs' liabilities with recourse (1)	392	252

(1) FG VIEs' liabilities with recourse will mature at various dates ranging from 2023 through 2038.



**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Non-Consolidated VIEs**

As described in Note 2, Outstanding Exposure, the Company monitors all policies in the insured portfolio. Of the approximately 13.7 thousand policies monitored as of December 31, 2022, approximately 13.2 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. With respect to structured finance FG VIEs, as of December 31, 2022 and 2021, the Company identified 55 and 47 policies, respectively, that contain provisions and experienced events that may trigger consolidation. See above for information on VIEs that were consolidated based on management's assessment of these potential triggers or events.

The Company's investments in AssuredIM Funds are mostly VIEs in which it holds a significant variable interest. The Company's maximum exposure to potential loss related to AssuredIM Funds is its carrying value of \$569 million as of December 31, 2022. See Note 6, Investments and Cash, for summarized financial information of AssuredIM Funds and unfunded commitments.

**8. 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 price). The price represents the price available in the principal market for the asset or liability. If there is no principal market, then the price is based on a hypothetical market that maximizes the value received for an asset or minimizes the amount paid for a liability (i.e., the most advantageous market).

Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on either internally developed models that primarily use, as inputs, market-based or independently sourced market parameters, including but not limited to yield curves, interest rates and debt prices or with the assistance of an independent third-party using a discounted cash flow approach and the third party's proprietary pricing models. In addition to market information, models also incorporate transaction details, such as maturity of the instrument and contractual features designed to reduce the Company's credit exposure, such as collateral rights as applicable.

Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, the Company's creditworthiness and constraints on liquidity. As markets and products develop and the pricing for certain products becomes more or less transparent, the Company may refine its methodologies and assumptions. During 2022, 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. An asset's or liability's categorization 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.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

Level 3—Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

There were no 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 with 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.

Benchmark yields have in many cases taken priority over reported trades for securities that trade less frequently or those that are distressed trades, and therefore may not be indicative of the market. The extent of the use of each input is dependent on the asset class and the market conditions. 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, 2022, the Company used models to price 140 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 on the basis of an analysis of collateral attributes, historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); home price 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 is a significant factor in determining 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.

***Equity Method Investments***

Equity method investments primarily include investments in AssuredIM Funds and a distressed opportunities fund managed by a third-party asset manager for which the Company elected the fair value option using NAV, as a practical expedient. Accordingly, these equity method investments are excluded from the fair value hierarchy. The Company has elected to account for its investments in the AssuredIM Funds at fair value option, as the performance of these investments is directly correlated to the change in fair value of the AssuredIM Funds' underlying investments.

***Other Assets***

***Committed Capital Securities (CCS)***

The fair value of AGM Committed Preferred Trust Securities (the AGM CPS), which is reported in "other assets" on the consolidated balance sheets, represents the difference between the present value of remaining expected put option premium payments under AGM CPS agreements, and the estimated present value that the Company would hypothetically have to pay currently for a comparable security (see Note 9, Credit Facilities). The change in fair value of the AGM CPS are reported in "fair value gains (losses) on committed capital securities" in the consolidated statements of operations. The estimated current

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

cost of the AGM CPS is based on several factors, including AGM CDS spreads, LIBOR curve projections, Assured Guaranty's publicly traded debt and the term the securities are estimated to remain outstanding. The AGM CPS 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, which require fair value measurement with changes in fair value reported in the consolidated statements of operations.

Credit derivative transactions are governed by International Swaps and Derivative Association 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 credit derivative may be more limited than when the Company issues a financial guaranty insurance contract. In addition, there are more circumstances under which the Company may be obligated to make payments. Similar to a financial guaranty insurance contract, the Company would be obligated to pay if the obligor failed to make a scheduled payment of principal or interest in full. In certain transactions the Company also specifically agreed to pay if the obligor were to become bankrupt or if the reference obligation were restructured. Furthermore, the Company may be required to make a payment due to an event that is unrelated to the performance of the obligation referenced in the credit derivative. If events of default or termination events specified in the credit derivative documentation were to occur, the non-defaulting or the non-affected party, which may be either the Company or the counterparty, depending upon the circumstances, may decide to terminate a credit derivative prior to maturity. In that case, the Company may be required to make a termination payment to its swap counterparty upon such termination. The Company did not enter into CDS contracts with the intent to trade these contracts and the Company may not unilaterally terminate a CDS contract absent an event of default or termination event that entitles the Company to terminate such contracts; however, the Company has mutually agreed with various counterparties to terminate certain CDS 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 at 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 mutual 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. 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 and the credit ratings of referenced entities.

As of December 31, 2022 and December 31, 2021, the net par outstanding of credit derivatives (which was all investment grade) was \$183 million and \$514 million, respectively, and the fair value of credit derivatives was a liability of \$3 million and \$1 million, respectively. The change in fair value of credit derivatives recorded in "other income (loss)" was a loss of \$1 million in 2022 and gain of \$3 million in 2021. The estimated remaining weighted average life of credit derivatives was 5.8 years and 6.5 years at December 31, 2022 and December 31, 2021, respectively.

***FG VIEs' Assets and Liabilities***

FG VIEs include Puerto Rico Trusts and structured finance FG VIEs. Assets in the Puerto Rico Trusts, which consist of New Recovery Bonds and certain trust certificates, are 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 certain trust certificates in the Puerto Rico Trusts. For structured finance FG VIEs' assets and liabilities, the Company elected the FVO and they are classified as Level 3. The Company records the fair value of structured finance FG VIEs' assets and liabilities based on modeled prices, which are generally determined with the

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

assistance of an independent third party, based on a discounted cash flow approach. The Company records the fair value of Puerto Rico Trusts' liabilities based on quoted prices.

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 the transaction. 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 could lead to a 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 third party 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 which is a significant factor in determining the implied benefit of the Company's insurance policy guaranteeing 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 into the future typically could lead 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.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

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, 2022**

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
	(in millions)			
<b>Assets:</b>				
Investments:				
Fixed-maturity securities, available-for-sale				
Obligations of state and political subdivisions	\$ —	\$ 1,829	\$ 2	\$ 1,831
U.S. government securities	—	62	—	62
Corporate securities	—	1,166	—	1,166
Mortgage-backed securities:				
RMBS	—	18	170	188
CMBS	—	111	—	111
Asset-backed securities	—	12	371	383
Non-U.S. government securities	—	98	—	98
Total fixed-maturity securities, available-for-sale	—	3,296	543	3,839
Fixed-maturity securities, trading	—	127	—	127
Short-term investments	417	39	—	456
Other invested assets (1)	—	—	4	4
FG VIEs' assets	—	86	173	259
Other assets	—	—	22	22
<b>Total assets carried at fair value (2)</b>	<b>\$ 417</b>	<b>\$ 3,548</b>	<b>\$ 742</b>	<b>\$ 4,707</b>
<b>Liabilities:</b>				
FG VIEs' liabilities (3)	\$ —	\$ —	\$ 393	\$ 393
Other liabilities	—	—	3	3
<b>Total liabilities carried at fair value</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 396</b>	<b>\$ 396</b>

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Fair Value Hierarchy of Financial Instruments Carried at Fair Value**  
**As of December 31, 2021**

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
(in millions)				
<b>Assets:</b>				
Investments:				
Fixed-maturity securities, available-for-sale				
Obligations of state and political subdivisions	\$ —	\$ 1,881	\$ 2	\$ 1,883
U.S. government securities	—	73	—	73
Corporate securities	—	1,496	—	1,496
Mortgage-backed securities:				
RMBS	—	26	203	229
CMBS	—	166	—	166
Asset-backed securities	—	17	399	416
Non-U.S. government securities	—	135	—	135
Total fixed-maturity securities, available-for-sale	—	3,794	604	4,398
Short-term investments	599	—	—	599
Other invested assets (1)	—	—	5	5
FG VIEs' assets	—	—	229	229
Other assets	—	—	11	11
<b>Total assets carried at fair value (2)</b>	<b>\$ 599</b>	<b>\$ 3,794</b>	<b>\$ 849</b>	<b>\$ 5,242</b>
<b>Liabilities:</b>				
FG VIEs' liabilities (3)	\$ —	\$ —	\$ 260	\$ 260
Other liabilities	—	—	2	2
<b>Total liabilities carried at fair value</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 262</b>	<b>\$ 262</b>

- (1) Includes Level 3 mortgage loans that are recorded at fair value on a non-recurring basis.
- (2) Excludes \$592 million and \$562 million of equity method investments measured at fair value under the FVO using the NAV as a practical expedient as of December 31, 2022 and December 31, 2021, respectively.
- (3) Includes FG VIEs' liabilities, at fair value with recourse of \$382 million and \$243 million as of December 31, 2022 and December 31, 2021, respectively, and without recourse of \$11 million and \$17 million as of December 31, 2022 and December 31, 2021, respectively.

**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, 2022 and 2021.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

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

	<u>Fixed-Maturity Securities, Available-for-Sale</u>				Credit Derivative Asset (Liability), net (5)	FG VIEs' (Liabilities) (7)	
	Obligations of State and Political Subdivisions	RMBS	Asset- Backed Securities	FG VIEs' Assets (in millions)			Other (6)
Fair value as of December 31, 2021	\$ 2	\$ 203	\$ 399	\$ 229	\$ 13	\$ (1)	\$ (260)
Total pre-tax realized and unrealized gains (losses) recorded in:							
Net income (loss)	—	15 <sup>(1)</sup>	1 <sup>(1)</sup>	(12) <sup>(4)</sup>	12 <sup>(3)</sup>	(1) <sup>(2)</sup>	26 <sup>(4)</sup>
Other comprehensive income (loss)	1	(34)	(21)	—	(1)	—	(4)
Purchases	—	22	35	—	—	—	—
Sales	—	—	(7)	—	—	—	—
Settlements	(1)	(36)	(36)	(44)	—	(1)	55
Consolidations	—	—	—	—	—	—	(210)
Fair value as of December 31, 2022	<u>\$ 2</u>	<u>\$ 170</u>	<u>\$ 371</u>	<u>\$ 173</u>	<u>\$ 24</u>	<u>\$ (3)</u>	<u>\$ (393)</u>
Change in unrealized gains (losses) related to financial instruments held as of December 31, 2022 included in:							
Earnings				<u>\$ (12) <sup>(4)</sup></u>	<u>\$ 12 <sup>(3)</sup></u>	<u>\$ (2) <sup>(2)</sup></u>	<u>\$ 32 <sup>(4)</sup></u>
OCI	<u>\$ 1</u>	<u>\$ (30)</u>	<u>\$ (20)</u>	<u>\$ —</u>	<u>\$ (1)</u>		<u>\$ (4)</u>

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Roll Forward of Level 3 Assets and Liabilities  
at Fair Value on a Recurring Basis  
Year Ended December 31, 2021**

	Fixed-Maturity Securities, Available-for-Sale						Credit Derivative Asset (Liability), net (5)	FG VIEs' (Liabilities) (7)
	Obligations of State and Political Subdivisions	Corporate Securities	RMBS	Asset- Backed Securities	FG VIEs' Assets	Other (6)		
	(in millions)							
Fair value as of December 31, 2020	\$ 33	\$ 30	\$ 240	\$ 468	\$ 257	\$ 25	\$ (4)	\$ (295)
Total pre-tax realized and unrealized gains (losses) recorded in:								
Net income (loss)	17 (1)	2 (1)	16 (1)	2 (1)	20 (4)	(12) (3)	3 (2)	(6) (4)
Other comprehensive income (loss)	(6)	16	(2)	(1)	—	—	—	(1)
Purchases	—	—	—	268	—	—	—	—
Sales	(41)	(48)	—	(108)	—	—	—	—
Settlements	(1)	—	(51)	(230)	(48)	—	—	42
Fair value as of December 31, 2021	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ 203</u>	<u>\$ 399</u>	<u>\$ 229</u>	<u>\$ 13</u>	<u>\$ (1)</u>	<u>\$ (260)</u>
Change in unrealized gains (losses) related to financial instruments held as of December 31, 2021 included in:								
Earnings					<u>\$ 22</u> (4)	<u>\$ (12)</u> (3)	<u>\$ 2</u> (2)	<u>\$ (4)</u> (4)
OCI	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$ (1)</u>		<u>\$ —</u>		<u>\$ (1)</u>

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



**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Level 3 Fair Value Disclosures**

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

Financial Instrument Description (1)	Fair Value Assets (Liabilities) (in millions)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
<b>Investments (2):</b>				
Fixed-maturity securities, available-for-sale:				
Obligations of state and political subdivisions	\$ 2	Yield	13.5%	
RMBS	170	CPR	3.9 % - 12.8%	7.6%
		CDR	3.1 % - 12.0%	5.6%
		Loss severity	55.0 % - 100.0%	81.5%
		Yield	7.5 % - 11.3%	8.9%
Asset-backed securities:				
Life insurance transaction	31	Yield	11.3%	
CLOs	340	Discount margin	1.8 % - 4.1%	3.1%
FG VIEs' assets	173	CPR	0.9 % - 21.9%	13.4%
		CDR	2.5 % - 41.0%	7.4%
		Loss severity	45.0 % - 100.0%	80.9%
		Yield	6.7 % - 10.9%	7.7%
Other assets	22	Implied Yield	7.7%	
		Term (years)	10 years	
Credit derivative liabilities, net	(3)	Internal credit rating	AA - BBB+	A-
FG VIEs' liabilities	(393)	CPR	0.9 % - 21.9%	9.4%
		CDR	2.5 % - 41.0%	5.2%
		Loss severity	45.0 % - 100.0%	56.8%
		Yield	4.8 % - 10.9%	6.1%

- (1) Discounted cash flow is used as the primary valuation technique for all financial instruments listed in this table.  
(2) Excludes several investments reported in "other invested assets" with fair value of \$4 million.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Quantitative Information About Level 3 Fair Value Inputs**  
**As of December 31, 2021**

Financial Instrument Description (1)	Fair Value Assets (Liabilities) (in millions)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
<b>Investments (2):</b>				
Fixed-maturity securities, available-for-sale:				
Obligations of state and political subdivisions	\$ 2	Yield	7.2%	
RMBS	203	CPR	2.4 % - 20.0%	9.2%
		CDR	1.8 % - 12.0%	5.6%
		Loss severity	55.0 % - 100.0%	84.1%
		Yield	3.8 % - 5.0%	4.4%
Asset-backed securities:				
Life insurance transactions	33	Yield	5.0%	
CLOs	366	Discount margin	0.0 % - 2.9%	1.9%
FG VIEs' assets	229	CPR	0.9 % - 24.5%	13.6%
		CDR	1.4 % - 26.9%	7.3%
		Loss severity	45.0 % - 100.0%	80.2%
		Yield	1.4 % - 8.0%	4.6%
Other assets	10	Implied Yield	2.7%	
		Term (years)	10 years	
Credit derivative liabilities, net	(1)	Internal credit rating	AA - BBB	A-
FG VIEs' liabilities	(260)	CPR	0.9 % - 24.5%	13.6%
		CDR	1.4 % - 26.9%	7.3%
		Loss severity	45.0 % - 100.0%	80.2%
		Yield	1.4 % - 8.0%	3.8%

- (1) Discounted cash flow is used as the primary valuation technique for all financial instruments listed in this table.  
(2) Excludes several investments reported in "other invested assets" with fair value of \$5 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 may 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.

***AGC Surplus Note***

The fair value of the surplus note issued by AGC to AGM 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 surplus note was classified as Level 3.

***Loans Receivable from Affiliate***

The fair value of the loans receivable from affiliate 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.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

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, 2022		As of December 31, 2021	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in millions)			
<b>Assets (liabilities):</b>				
AGC surplus note	\$ 300	\$ 279	\$ 300	\$ 334
Loans receivable from affiliate	163	155	163	179
Financial guaranty variable interest entities' assets	54	54	—	—
Other assets (including other invested assets) (1)	44	45	41	42
Financial guaranty insurance contracts (2)	(1,500)	(345)	(1,335)	(947)
Financial guaranty variable interest entities' liabilities	(2)	(2)	—	—
Other liabilities (3)	—	—	(2)	(2)

(1) Includes accrued interest and receivables for securities sold. Carrying value approximates fair value.

(2) 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.

(3) Includes payables for securities purchased and notes payable. Carrying value approximates fair value.

**9. Credit Facilities**

**Committed Capital Securities**

AGM has entered into put agreements with four separate custodial trusts allowing AGM to issue an aggregate of \$200 million of non-cumulative redeemable perpetual preferred securities to the trusts in exchange for cash. Each custodial trust was created for the primary purpose of issuing \$50 million face amount of AGM CPS, investing the proceeds in high-quality assets and entering into put options with AGM. The Company does not consider itself to be the primary beneficiary of the trusts and the trusts are not consolidated in the Company's financial statements.

The trusts provide AGM access to new equity capital at its sole discretion through the exercise of the put options. Upon AGM's exercise of its put option, the relevant trust will liquidate its portfolio of eligible assets and use the proceeds to purchase the AGM preferred stock. AGM may use the proceeds from its sale of preferred stock to the trusts for any purpose, including the payment of claims. The put agreements have no scheduled termination date or maturity. However, each put agreement will terminate if (subject to certain grace periods) specified events occur. AGM continues to have the ability to exercise its put options and cause the related trusts to purchase its preferred stock.

Prior to 2007, the amounts paid on the AGM CPS were established through an auction process. All of those auctions failed in 2007, and the rates paid on the AGM CPS increased to their maximum. The annualized rate on the AGM CPS is one-month LIBOR plus 200 basis points.

See Note 8, Fair Value Measurement, –Other Assets–Committed Capital Securities, for a discussion of the fair value measurement of the CCS.

**Short-Term Loan Facility**

On February 3, 2022, the Company entered into a secured short-term loan facility with a major financial institution to partially fund gross payments in connection with the resolution of a portion of its Puerto Rico exposures. See Note 2, Outstanding Exposure. The short-term loan facility permitted the Company to borrow up to \$470 million for up to thirty days and up to \$150 million for up to six months. The Company borrowed \$400 million on March 14, 2022 and repaid it in full, with interest at 1.10% on March 16, 2022. The ability of the Company to borrow under the facility has expired.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**10. Income Taxes**

The Company files its U.S. federal tax return as a part of the consolidated group for Assured Guaranty US Holdings Inc. (AGUS), an indirect 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. The Company’s U.K. and French subsidiaries are subject to income taxes imposed by U.K. and French authorities, respectively, and file applicable tax returns.

**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.

The Company elected to account for tax associated with Global Intangible Low-Taxed Income as a current-period expense when incurred.

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,	
	2022	2021
	(in millions)	
Net deferred tax assets (liabilities)	\$ 60	\$ (46)
Net current tax assets (liabilities)	54	(24)

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Components of Net Deferred Tax Assets (Liabilities)**

	As of December 31,	
	2022	2021
	(in millions)	
<b>Deferred tax assets:</b>		
Investments	\$ 12	\$ —
Net unrealized investment losses	48	—
Foreign tax credit (FTC)	5	24
Rent	16	17
Depreciation	8	11
Loss and LAE reserve	—	6
FG VIEs	6	4
Unearned premium reserves, net	13	7
Deferred balances related to non-U.S. affiliates	14	—
Other	5	1
<b>Total deferred tax assets</b>	<b>127</b>	<b>70</b>
<b>Deferred tax liabilities:</b>		
Net unrealized investment gains	—	29
Investments	—	13
Deferred ceding commission	19	20
Lease	14	16
Loss and LAE reserve	18	—
Deferred compensation	6	6
Unrealized gain on CCS	5	2
Other	—	6
<b>Total deferred tax liabilities</b>	<b>62</b>	<b>92</b>
Less: Valuation allowance	5	24
<b>Net deferred tax assets (liabilities)</b>	<b>\$ 60</b>	<b>\$ (46)</b>

***Valuation Allowance***

During 2022, the Company recorded a return to provision adjustment, which included the utilization of \$5 million in foreign tax credits, thereby reducing the Company's foreign tax credits (FTC) from \$24 million as of December 31, 2021 to \$5 million as of December 31, 2022. FTCs were established under the 2017 Tax Cuts and Jobs Act (TCJA) for use against regular tax in future years, and will expire in 2027. In analyzing the future realizability of FTCs, the Company notes limitations on future foreign source income due to overall foreign losses as negative evidence. After reviewing positive and negative evidence, the Company came to the conclusion that it is more likely than not that the remaining FTC of \$5 million will not be utilized, and therefore maintained a valuation allowance with respect to this tax attribute, resulting in a decrease in the valuation allowance from \$24 million as of December 31, 2021 to \$5 million as of December 31, 2022. There were no changes in the valuation allowance during 2021.

The Company came to the conclusion that it is more likely than not that the remaining 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 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, 2022, based on all available evidence, including capital loss carryback capacity, the Company

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

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 AGM and each of its operating subsidiaries, with U.S. entities taxed at the U.S. marginal corporate income tax rate of 21%, a U.K. subsidiary taxed at the U.K. marginal corporate tax rate of 19%, and the French subsidiary taxed at the French marginal corporate tax rate of 25% in 2022 and 27.5% in 2021. The Company's overall effective tax rate fluctuates based on the distribution of income across jurisdictions.

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,	
	2022	2021
	(in millions)	
Expected tax provision (benefit)	\$ 14	\$ 104
Tax-exempt interest	(8)	(11)
Foreign taxes	(3)	—
Taxes on reinsurance	—	(2)
Return to provision adjustment	(19)	(5)
Other	1	(4)
Total provision (benefit) for income taxes	<u>\$ (15)</u>	<u>\$ 82</u>
Effective tax rate	(22.2)%	16.2 %

The expected tax provision (benefit) is calculated as the sum of pre-tax income in each jurisdiction multiplied by the statutory tax rate of the jurisdiction by which it will be taxed. Where there is a pre-tax loss in one jurisdiction and pre-tax income in another, the total combined expected tax rate may be higher or lower than any of the individual statutory rates.

The following tables present pre-tax income and revenue by jurisdiction.

**Pre-tax Income (Loss) by Tax Jurisdiction**

	Year Ended December 31,	
	2022	2021
	(in millions)	
U.S.	\$ 105	\$ 487
U.K.	(24)	25
France	(16)	(8)
Total	<u>\$ 65</u>	<u>\$ 504</u>

**Revenue by Tax Jurisdiction**

	Year Ended December 31,	
	2022	2021
	(in millions)	
U.S.	\$ 281	\$ 362
U.K.	(12)	40
France	(8)	(3)
Total	<u>\$ 261</u>	<u>\$ 399</u>

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

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Audits**

As of December 31, 2022, 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. In September 2022, His Majesty's Revenue & Customs completed a business risk review of Assured Guaranty that commenced in July 2022 and assigned a low-risk rating for corporate taxes in the U.K. The Company's French subsidiary is not currently under examination and has open tax years of 2019 forward.

**11. Insurance Company Regulatory Requirements**

The following table summarizes the policyholder's surplus and net income amounts reported to the New York State Department of Financial Services (NYDFS) by AGM. The discussion that follows describes the basis of accounting and differences to GAAP.

**Insurance Regulatory Amounts Reported**

	Policyholders' Surplus		Net Income (Loss)	
	As of December 31,		Year Ended December 31,	
	2022	2021	2022	2021
	(in millions)			
AGM (1) (2)	\$ 2,747	\$ 3,053	\$ 163	\$ 352

- (1) Until April 1, 2021, AGM owned 60.7% of MAC Holdings, the parent of financial guaranty insurer MAC. AGC owned the remaining 39.3% of MAC Holdings. On April 1, 2021, Assured Guaranty executed a multi-step transaction to merge MAC with and into AGM, with AGM as the surviving company. See Note 1, Business and Basis of Presentation.
- (2) Policyholders' surplus is net of contingency reserves of \$855 million and \$877 million as of December 31, 2022 and December 31, 2021, respectively.

**Basis of Regulatory Financial Reporting**

**United States**

AGM'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.

AGM prepares statutory financial statements in accordance with accounting practices prescribed or permitted by the National Association of Insurance Commissioners (NAIC) and NYDFS. Prescribed statutory accounting practices (SAP) are set forth in the NAIC Accounting Practices and Procedures Manual. AGM has no permitted accounting practices on a statutory basis.

GAAP differs in certain significant respects from the U.S. insurance companies' statutory accounting practices prescribed or permitted by insurance regulatory authorities. The principal differences result from the statutory accounting practices 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 statutory 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.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

- 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 statutory accounting principles. 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 debt securities classified as available-for-sale under GAAP differs from the statutory impairment model. Under SAP, debt 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.
- 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 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.
- Foreign denominated unearned premiums reserve is remeasured at current exchange rates. rather than carried at historical rates under GAAP.

***United Kingdom***

AGUK prepares its Solvency and Financial Condition Report and other required regulatory financial reports based on Prudential Regulation Authority and Solvency II Regulations (Solvency II). As of December 31, 2022 AGUK’s Own Funds were an estimated £592 million (or \$716 million). As of December 31, 2021 AGUK’s Own Funds were £591 million (or \$800 million).

***France***

AGE prepares its Solvency and Financial Condition Report and other required regulatory financial reports based on Autorité de Contrôle Prudentiel et de Résolution (ACPR) regulations and Solvency II. As of December 31, 2022 AGE’s Own Funds were an estimated €52 million (or \$56 million). As of December 31, 2021 AGE’s Own Funds were €58 million (or \$66 million).



## **Dividend Restrictions and Capital Requirements**

### ***United States***

Under the New York insurance law, AGM may only pay dividends out of "earned surplus," which is the portion of an insurer's surplus that represents the net earnings, gains or profits (after deduction of all losses) that have not been distributed to the insurer's shareholders as dividends, transferred to stated capital or capital surplus, or applied to other purposes permitted by law, but does not include unrealized appreciation of assets. AGM may pay dividends without the prior approval of the New York State Department of Financial Services Superintendent (New York Superintendent) in an amount that, together with all dividends declared or distributed by it during the preceding 12 months, does not exceed the lesser of 10% of its policyholders' surplus (as of its last annual or quarterly statement filed with the New York Superintendent) or 100% of its adjusted net investment income during that period.

The maximum amount available during 2023 for AGM to distribute as dividends without regulatory approval is estimated to be approximately \$209 million. Of such \$209 million, \$40 million is estimated to be available for distribution in the first quarter of 2023.

### ***United Kingdom***

U.K. company law prohibits AGUK from declaring a dividend to its shareholders unless it has "profits available for distribution." The determination of whether a company has profits available for distribution is based on its accumulated realized profits less its accumulated realized losses. While the U.K. insurance regulatory laws impose no statutory restrictions on a general insurer's ability to declare a dividend, the Prudential Regulation Authority's capital requirements may in practice act as a restriction on dividends for AGUK.

### ***France***

French company law prohibits AGE from declaring a dividend to its shareholders unless it has "profits and /or reserves available for distribution." The determination of whether a company has profits available for distribution is based on its accumulated realized profits less its accumulated realized losses. While French law imposes no statutory restrictions on an insurer's ability to declare a dividend, the ACPR's capital requirements may, in practice, act as a restriction on dividends for AGE.

## ***Dividend Restrictions and Capital Requirements***

The Company paid dividends of \$266 million and \$291 million to AGMH during the years ended December 31, 2022 and 2021, respectively.

## **12. Related Party Transactions**

### **Support of AGUK and AGE**

AGM provides support to its subsidiaries, AGUK and AGE, through reinsurance and other agreements.

### ***AGM Support of AGUK***

AGM and AGUK implemented in 2011 a co-guarantee structure pursuant to which (i) AGUK directly guarantees a specified portion of the public finance obligations issued in a particular transaction rather than guaranteeing 100% of the issued obligations; (ii) AGM directly guarantees the balance of the guaranteed public finance obligations; and (iii) AGM also provides a second-to-pay guarantee for AGUK's portion of the guaranteed public finance obligations (Public Finance Co-Guarantee Structure). The current co-guarantee split for public finance business, which has been in effect since October 2018, is 15% AGUK and 85% AGM.

Separate and apart from the Public Finance Co-Guarantee Structure, AGM provides support to AGUK through a quota share and excess of loss reinsurance agreement (Reinsurance Agreement) and a net worth maintenance agreement (Net Worth Agreement). Under the quota share cover of the Reinsurance Agreement, AGM reinsures approximately 95-99% of AGUK's retention (after cessions to other reinsurers) of most of the outstanding financial guaranties that AGUK wrote prior to the implementation of the Public Finance Co-Guarantee Structure in 2011.

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**Notes to Consolidated Financial Statements, Continued**

The quota share cover of the Reinsurance Agreement also obligates AGM to reinsure 85% of municipal, utility, project finance or infrastructure risks or similar business that AGUK writes from and after October 2018 without utilizing the Public Finance co-guarantee structure. Currently, there is no such outstanding business at AGUK.

AGM secures its quota share reinsurance obligations to AGUK under the Reinsurance Agreement by posting collateral in trust equal to 102% of the sum of AGM's assumed share of the following in respect of the reinsured AGUK policies: (i) AGUK's unearned premium reserve (net of AGUK's reinsurance premium payable to AGM); (ii) AGUK's provisions for unpaid losses and allocated LAE (net of any salvage recoverable); and (iii) any unexpired risk provisions of AGUK, in each case (i) - (iii) as calculated by AGUK in accordance with generally accepted accounting practice in the U.K. (UK GAAP).

Under the excess of loss cover of the Reinsurance Agreement, AGM is obligated to pay AGUK quarterly the amount (if any) by which (i) the sum of (a) AGUK's incurred losses, calculated in accordance with UK GAAP as reported by AGUK in its financial returns filed with the Prudential Regulation Authority (PRA); and (b) AGUK's paid losses and LAE, in both cases net of all other performing reinsurance (including the reinsurance provided by AGM under the quota share cover of the Reinsurance Agreement), exceeds (ii) an amount equal to (a) AGUK's capital resources under U.K. law minus (b) 110% of the greatest of the amounts as may be required by the PRA as a condition for maintaining AGUK's authorization to carry on a financial guarantee business in the U.K. The purpose of this excess of loss cover is to ensure that AGUK maintains capital resources equal to at least 110% of the most stringent amount of capital that it may be required to maintain as a condition to carrying on a financial guarantee business in the U.K.

AGUK may terminate the Reinsurance Agreement (i.e., both its quota share and excess of loss covers) upon the occurrence of any of the following events: (i) AGM's rating by Moody's falls below "Aa3" or its rating by S&P falls below "AA-" (and AGM fails to restore such rating(s) within a prescribed period of time); (ii) AGM's insolvency, failure to maintain the minimum capital required under the laws of AGM's domiciliary jurisdiction, filing a petition in bankruptcy, going into liquidation or rehabilitation or having a receiver appointed; or (iii) AGM's failure to maintain its required collateral described above.

Under the Net Worth Agreement, AGM is obligated to make capital contributions to AGUK in amounts sufficient to ensure that AGUK maintains capital resources equal to 110% of the greatest of the amounts as may be required by the PRA as a condition of AGUK maintaining its authorization to carry on a financial guarantee business in the U.K., provided that such contributions (i) do not exceed 35% of AGM's policyholders' surplus as determined by the laws of the State of New York, and (ii) are in compliance with a provision of the New York Insurance Law requiring notice to, or approval by, the NYDFS for transactions between affiliates that exceed certain thresholds. The Net Worth Agreement obligates AGM to provide AGUK with support similar to that which AGM also provides AGUK under the excess of loss cover of the Reinsurance Agreement, except the latter is meant to protect against erosion of AGUK's capital resources due to insurance and/or reinsurance losses in AGUK's insured portfolio, while the former is meant to protect against an erosion of AGUK's capital resources for other reasons (e.g., poor investment performance, origination expenses exceeding premium). Given this purpose, the Net Worth Agreement clarifies that any amounts due thereunder must take into account all amounts paid, or reasonably expected to be paid, under the Reinsurance Agreement. The Net Worth Agreement also includes termination provisions substantially similar to those in the Reinsurance Agreement. AGM has never been required to make any contributions to AGUK's capital under the current Net Worth Agreement.

***AGM Support of AGE***

AGM has in place with AGE similar reinsurance and capital support agreements as are in place with AGUK. AGM's agreements with AGE generally apply to all AGE policies that insure public finance business in European Economic Area (EEA) jurisdictions. The agreements consist of:

(i) a quota share reinsurance agreement between AGE and AGM pursuant to which AGM provides the same reinsurance to AGE in respect of business that was transferred to AGE by AGUK pursuant to Part VII of the Financial Services and Markets Act 2000 (FSMA) (Part VII Transfer) effective October 1, 2020 as AGM provided to AGUK prior to such transfer;

(ii) a second quota share reinsurance agreement whereby AGM provides AGE with 90% proportional reinsurance for:

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**Notes to Consolidated Financial Statements, Continued**

- a. certain business transferred to AGE pursuant to the Part VII Transfer that was not reinsured by AGM when such business was part of AGUK's insured portfolio (varying portions of AGM's assumption of this business are retroceded by AGM to Assured Guaranty Re Ltd. (AG Re) under a quota share facultative reinsurance agreement effective October 1, 2020);
- b. certain business originally written by AGUK pursuant to the co-insurance arrangement described above, but which was novated to, and 100% guaranteed by, AGE in connection with the Part VII Transfer; and
- c. any new public finance business written by AGE; and

(iii) an excess of loss reinsurance agreement, similar to the excess of loss cover of AGM's Reinsurance Agreement with AGUK, pursuant to which AGM is obligated, effectively, to ensure that AGE maintains capital resources equal to at least 110% of the most stringent amount of capital that AGE may be required to maintain as a condition of its authorization to carry on a financial guarantee business in France.

AGM 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 AGM'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.

AGM also has in place with AGE a net worth maintenance agreement that is similar to AGM's Net Worth Agreement with AGUK - i.e., the former obligates AGM to ensure that AGE maintains capital resources at least equal to 110% of its most stringent capital requirement for maintaining its authorization to carry on a financial guarantee business in France.

***Other Group Support of AGUK and AGE***

In addition to AGM, two other AGL group members, AGC and AG Re, also provide reinsurance support to AGUK and AGE for certain legacy business that was insured prior to 2009 by AGUK. Some of this business continues to reside at AGUK, while some of it was transferred to AGE in October 2020 pursuant to the Part VII Transfer. In addition, effective July 1, 2021, (i) 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, and (ii) AGC and AGUK implemented a co-guarantee structure for non-public finance business that, other than the covered business, is identical to the AGM/AGUK Public Finance Co-Guarantee Structure (Non-Public Finance Co-Guarantee Structure). The co-guarantee split for non-public finance business is 15% AGUK and 85% AGC.

AGC, with respect to its reinsurance of both legacy business transferred to AGE and new non-public finance business written by AGE, and AG Re, with respect to its reinsurance of the legacy business transferred to AGE, secure their reinsurance in essentially the same manner as AGM secures its reinsurance of AGUK and AGE - i.e., AGC and AG Re pledge collateral equal to their assumed UK GAAP liabilities for AGUK and equal to their assumed French GAAP liabilities for AGE.

**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 the Company. See Note 13, Leases, for additional information. 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.

AGUK and AGE are parties to a services agreement with Assured Guaranty (UK) Services Limited (AG UK Services) pursuant to which AG UK Services provides professional insurance executives and administrative and clerical personnel who are experienced in the management of insurance operations similar to AGUK's and AGE's operations. Under such agreement,

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**Notes to Consolidated Financial Statements, Continued**

AGUK and AGE pay a fee equal to the costs incurred by AG UK Services in providing the services of those individuals plus a mark-up.

AGM and Assured Guaranty Finance Overseas Ltd. (AGFOL) are parties to an arranging agreement pursuant to which AGFOL introduces public finance and infrastructure finance transactions to AGM so that AGM may consider whether it would provide a financial guarantee for a proposed transaction together with AGE under their co-insurance structure. The arranging agreement provides for the payment of fees by AGM 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 provides 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 will pay a fee equal to its allocation of AssuredIM employee time and corresponding costs and expenses.

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

**Expenses Allocated From (To) Affiliated Companies**

	Year Ended December 31,	
	2022	2021
(in millions)		
Affiliated companies:		
AG Services	\$ 115	\$ 104
AG UK Services	10	10
AGFOL	7	7
AGL	—	2
AssuredIM	1	1
Other	(7)	(7)
Total	<u>\$ 126</u>	<u>\$ 117</u>

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

**Amounts Due To (From) Affiliated Companies**

	As of December 31,	
	2022	2021
(in millions)		
Affiliated companies:		
AG Services	\$ 55	\$ 54
AG UK Services	6	6
AGFOL	5	4
AGL	3	3
AssuredIM	1	(4)
AGUS	—	(24)
AGC	(3)	(3)
Total	<u>\$ 67</u>	<u>\$ 36</u>

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**Notes to Consolidated Financial Statements, Continued**

**Reinsurance Agreements**

The Company cedes business to affiliated entities under certain reinsurance agreements, including as described above under the header “Support of AGUK and AGE”. In addition to the cessions described above, the Company routinely cedes proportionate shares of its new business to AG Re and AGC under whole account quota share reinsurance agreements effective October 1, 2010 and July 1, 2021, respectively. The proportionate share cessions to AG Re range from 15% to 40%; the proportionate share cessions to AGC are typically 10%. 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,			
	2022		2021	
	AGC	AG Re	AGC	AG Re
	(in millions)			
<b>Assets:</b>				
Ceded unearned premium reserve	\$ 89	\$ 574	\$ 62	\$ 575
Reinsurance recoverable on unpaid losses	47	21	49	47
Other assets (1)	34	35	1	2
<b>Liabilities:</b>				
Reinsurance balances payable, net				
Ceded premium payable, net of ceding commission	33	123	26	128
Ceded salvage and subrogation recoverable	27	20	95	63
Ceded paid loss payable	63	42	—	1
Other liabilities				
Ceded funds held	17	20	1	48
Deferred ceding commissions	18	157	10	152
<b>Other information:</b>				
Exposure				
Ceded par outstanding	6,265	45,304	4,367	47,837

- (1) Consists of reinsurance recoverable on paid losses, net credit derivative assets and profit commission receivable. The following table summarizes the affiliated components of each statement of operations item, where applicable.

	Year Ended December 31,			
	2022		2021	
	AGC	AG Re	AGC	AG Re
	(in millions)			
<b>Revenues:</b>				
Net earned premiums	\$ (10)	\$ (60)	\$ (6)	\$ (72)
Foreign exchange gains (losses) on remeasurement	2	10	—	4
Change in ceded funds held	1	13	(1)	(4)
Other income (loss) (1)	(2)	1	(6)	(1)
<b>Expenses:</b>				
Loss and LAE (recoveries)	4	(10)	6	24
Other expenses				
Commissions incurred (earned)	(1)	(16)	(1)	(19)

- (1) Consists of profit commission income, net change in fair value of credit derivatives, commutation gains (losses) and loss mitigation recoveries.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Surplus Note of Affiliate**

On December 18, 2009, AGC issued a surplus note with a principal amount of \$300 million to AGM. This note carried a simple interest rate of 5.0% 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 31 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. On April 11, 2016, the surplus note agreement was amended to reduce the simple interest rate to 3.5% per annum effective January 1, 2016. AGM recognized and received approximately \$11 million of interest income in both 2022 and 2021. AGC made no principal payments on the surplus note in 2022 or 2021.

**Loans Receivable from Affiliate**

*Accounting Policy*

The loans receivable from affiliate were recorded at their principal amounts. There was no discount or premium at the time of issuance of the loans.

*Loans to Assured Guaranty US Holdings Inc.*

On October 1, 2019 AGM and MAC (which, as described below under "AGAS Ownership", was merged into AGM) made 10 year, 3.5% interest rate inter-company loans to AGUS totaling \$162.5 million to fund the acquisition of BlueMountain Capital Management, LLC and the related capital contributions. The Company recognized \$6 million of interest income in both 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, some of which are related parties to AGL, and AssuredIM. See Note 6, Investments and Cash, for additional information. The investment management expenses from transactions with these related parties were \$2 million in both 2022 and 2021.

**AGAS Ownership and MAC Transaction**

On October 18, 2019, 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 March 11, 2021, the U.S. Insurers entered into a Subscription Agreement with AGAS, pursuant to which the U.S. Insurers will contribute to AGAS, in proportion to their existing ownership interests in AGAS, up to an additional \$250 million in the aggregate (i.e., \$87.5 million (35%) by AGC, \$137.5 million (55%) by AGM and \$25 million (10%) by MAC), over a nearly two-year period (through December 31, 2022). Subsequently, 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%). Additionally, AGM, as MAC's legal successor, succeeded to MAC's obligations under the Subscription Agreement.

**13. Leases**

The Company is party to various non-cancelable lease agreements, all of which are operating leases. The majority of the leases relate to approximately 155,500 square feet of office space in New York City, which expire in 2032. Subject to certain conditions, the Company has an option to renew a portion of this leased space for an additional five years at a fair market rent. The Company also has leases for additional office space in other locations which expire at various dates through 2029. Under the Group Service Agreement the Company makes available to its affiliates the use of certain equipment and office space leased by the Company. A portion of the lease expense is allocated and charged to affiliates.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Accounting Policy**

The Company determines if an arrangement is a lease at inception. For operating leases with an original term of more than 12 months, where the Company is the lessee, it recognizes a right-of-use (ROU) asset in “other assets” and a lease liability in “other liabilities” on the consolidated balance sheets. An ROU asset represents the Company’s right to use an underlying asset for the lease term, and a lease liability represents the Company’s obligation to make lease payments arising from the lease. At the inception of a lease, the total fixed payments under a lease agreement are discounted utilizing an incremental borrowing rate that represents the Company’s collateralized borrowing rate. The rate is determined based on the lease term as of the lease commencement date. Some of the Company’s leases include renewal options, which are not included in the lease terms unless the Company is reasonably certain it will exercise the option.

The Company elected the practical expedient to account for all lease components and their associated non-lease components (i.e., common area maintenance, real estate taxes, building insurance, etc.) as a single lease component and include all fixed payments in the measurement of ROU assets and lease liabilities. Operating lease expense is recognized on a straight-line basis over the lease term. Costs related to variable lease and non-lease components for the Company’s leases are expensed in the period incurred.

The Company assesses ROU assets for impairment when certain events occur or when there are changes in circumstances including potential alternative uses. If circumstances require an ROU asset to be tested for possible impairment, and the carrying value of the ROU asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value and reported in “other expenses” in the consolidated statement of operations.

**Lease Assets and Liabilities**

As of December 31, 2022, the ROU asset and lease liability was \$79 million and \$101 million, respectively. As of December 31, 2021, the ROU asset and lease liability was \$87 million and \$111 million, respectively. The weighted average remaining lease term as of December 31, 2022 and December 31, 2021 was 9.2 years and 10.1 years, respectively. The Company used a weighted average discount rate of 2.6% and 2.6% as of December 31, 2022 and December 31, 2021, respectively.

**Lease Expense and Other Information**

	Year Ended December 31,	
	2022	2021
	(in millions)	
Lease costs (1)	\$ 8	\$ 7
Cash paid for amounts included in the measurement of lease liabilities	12	9
ROU assets obtained in exchange for new operating lease liabilities	—	32

(1) Variable and short-term lease costs are de minimis.

**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

**Future Minimum Rental Payments**  
**Operating Leases**

Year	As of December 31, 2022 (in millions)
2023	\$ 13
2024	12
2025	12
2026	12
2027	12
Thereafter	53
Total lease payments	114
Less: Imputed interest	13
Total lease liabilities	\$ 101

**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 a 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 for 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 "Exposure to Puerto Rico - Puerto Rico Litigation" 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.

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 and 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 is disclosed. 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.

**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 on the respective lines in the consolidated statements of operations. Prior to the combination of certain of its European subsidiaries, two of those subsidiaries had a functional currency other than the U.S. dollar. Gains and losses relating to translating foreign functional currency financial statements for U.S. GAAP reporting were recorded as cumulative translation adjustment in OCI. Upon the merger of these European subsidiaries with and into AGUK, which has a functional currency of U.S. Dollars, no further changes to the cumulative translation adjustment are recorded.



**Assured Guaranty Municipal Corp.**  
**Notes to Consolidated Financial Statements, Continued**

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

	Net Unrealized Gains (Losses) on Investments with:		ISCR on FG VIEs' Liabilities with Recourse	Cumulative Translation Adjustment	Total AOCI
	No Credit Impairment	Credit Impairment			
	(in millions)				
Balance, December 31, 2021	\$ 150	\$ (20)	\$ (19)	\$ (25)	\$ 86
Other comprehensive income (loss) before reclassifications	(410)	(51)	(5)	—	(466)
Less: Amounts reclassified from AOCI to:					
Net realized investment gains (losses)	(35)	(3)	—	—	(38)
Fair value gains (losses) on FG VIEs	—	—	(2)	—	(2)
Total before tax	(35)	(3)	(2)	—	(40)
Tax (provision) benefit	6	—	—	—	6
Total amount reclassified from AOCI, net of tax	(29)	(3)	(2)	—	(34)
Other comprehensive income (loss)	(381)	(48)	(3)	—	(432)
Balance, December 31, 2022	<u>\$ (231)</u>	<u>\$ (68)</u>	<u>\$ (22)</u>	<u>\$ (25)</u>	<u>\$ (346)</u>

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

	Net Unrealized Gains (Losses) on Investments with:		ISCR on FG VIEs' Liabilities with Recourse	Cumulative Translation Adjustment	Total AOCI
	No Credit Impairment	Credit Impairment			
	(in millions)				
Balance, December 31, 2020	\$ 256	\$ (28)	\$ (18)	\$ (25)	\$ 185
Other comprehensive income (loss) before reclassifications	(94)	8	(3)	—	(89)
Less: Amounts reclassified from AOCI to:					
Net realized investment gains (losses)	31	—	—	—	31
Fair value gains (losses) on FG VIEs	—	—	(3)	—	(3)
Total before tax	31	—	(3)	—	28
Tax (provision) benefit	(6)	—	1	—	(5)
Total amount reclassified from AOCI, net of tax	25	—	(2)	—	23
Other comprehensive income (loss)	(119)	8	(1)	—	(112)
Less: Other comprehensive income (loss) attributable to noncontrolling interest	(13)	—	—	—	(13)
Balance, December 31, 2021	<u>\$ 150</u>	<u>\$ (20)</u>	<u>\$ (19)</u>	<u>\$ (25)</u>	<u>\$ 86</u>

**16. Subsequent Events**

Subsequent events have been considered and disclosed if material through March 20, 2023, the date on which these financial statements were issued.