Assured Guaranty Corp.

Entity: Operating Company			
Upgrade	**Type**	**Ratings**	**Outlook**
Assured Guaranty Corp. (AGC)	IFSR	AA+ (from AA)	Stable

Methodology

- Financial Guaranty Global Rating Methodology
- ESG Global Rating Methodology

Analytical Contacts

Jack Morrison, Director
+1 (646) 731-2410
jack.morrison@kbra.com

Peter Giacone, Managing Director
+1 (646) 731-2407
peter.giacone@kbra.com

Paul Kwiatkoski, Managing Director
+1 (646) 731-2387
paul.kwiatkoski@kbra.com

Rating Summary: AGC's upgrade reflects its stronger capital position relative to conservative stress scenario losses at a high confidence level as applied across its portfolio. The insured portfolio is substantially smaller since the credit crisis and continues to decline from historical levels. AGC's claims-paying resources have remained largely unchanged as its leverage has decreased and the portfolio has substantially derisked. AGC is a strategically important entity within the Assured platform and has historically been used as the vehicle for portfolio acquisitions.

AGC's exposure to the Commonwealth of Puerto Rico remains a key area of focus for KBRA. While ultimate resolution in Puerto Rico has been elusive, in KBRA's opinion, over the last 12 months favorable momentum has been realized across most credits which has been reflected in KBRA's lower level of stress case losses. All but two insured Puerto Rico credits within AGC's portfolio are now covered by executed plan support agreements representing over 97% of net exposure. AGC has not paid any claims on the remaining credits. While still subject to court certification, the agreements pave the way for an orderly exit from their respective Title III proceedings. However, significant uncertainty remains as ultimate resolution remains susceptible to further political and other execution risks that are largely beyond Assured's control. Should the ultimate recoveries on insured Puerto Rico bonds approach zero, there could be downward pressure on AGC's rating, though KBRA currently views this scenario as unlikely.

KBRA continues to view the COVID-19 pandemic primarily as a liquidity event in the near-term as financial guaranty policies only cover scheduled principal and interest. Economic recovery from the pandemic has exceeded expectations. KBRA observes that the Federal response was highly effective for creditors. Platform-wide, Assured has only paid relatively small first-time insurance claims it believes are due at least in part to credit stress arising specifically from COVID-19 and expects nearly full reimbursement. KBRA acknowledges the increased pressure from pandemic-related economic disruptions, as well as the uncertainty of longer-term impacts, but notes that AGC has maintained strong liquidity and Assured's surveillance/work-out expertise positions the company well to mitigate risk and limit losses.

Insured net par at AGC declined over 3% since KBRA's last review. Global structured finance exposures declined over 15% and now represent approximately 16% of total insured net par. The U.S. public finance segment remained essentially flat. As a result of the merger of Municipal Assurance Corp. (MAC) into Assured Guaranty Municipal Corp. (AGM), AGC reassumed the business which it had originally ceded to MAC at its capitalization. This reassumption of net par exposure (approximately $2.1 billion) is almost entirely investment grade U.S. municipal credits, which KBRA views providing additional low risk diversification to AGC's insured book.

Financial operations have remained stable as leverage ratios hover at historic lows. New business origination remains much lower than prior to the credit crisis, although there are signs of increased activity in certain structured finance sectors as well as international infrastructure. AGC continues to assume select exposures, although KBRA notes the lack of strategic opportunities for the company to acquire sizable legacy books of financial guaranty business to offset run-off of the insured portfolio.

The integration of BlueMountain Capital Management, LLC by AGC's parent company and the rebranding to Assured Investment Management LLC (AssuredIM) was achieved in line with management's expectations. This asset management affiliate has continued to operate as a global manager of CLOs and is leveraging its expertise in corporate credit, asset-backed finance, and municipal sectors. KBRA notes that the execution of AGC's allocation to alternative investments through AssuredIM has been measured and prudent and, at current levels, does not introduce a significant amount of incremental risk to the company's balance sheet strength.

KBRA also reviewed AGC's corporate governance framework, credit and risk management processes and consider them strong and reflective of industry best practices. AGC has a proven management team and a well-developed governance framework.

The Stable Outlook reflects KBRA's conservative stress case loss analysis which incorporates significant deterioration across multiple sectors of AGC's total portfolio relative to current performance, which should contribute to stability if ultimate losses do not approach or exceed these modeled levels.

Key Credit Considerations

The rating was upgraded because of the following key credit considerations:

Credit Positives

- Ability to withstand KBRA's conservative stress case loss assumptions across the insured portfolio.
- The substantial and continued run-off of higher risk components of the portfolio relative to its stable financial position.
- Experienced management team which operates with a mature and high-functioning operating platform supported by strong governance and risk management systems.

Credit Challenges

- The ultimate level of losses and timing of final resolution in Puerto Rico remains unclear.
- Significant additional expansion of alternative asset strategy within AGC's investment portfolio.
- Ongoing industry trends of narrow credit spreads low interest rates, and constrained market share.

Rating Sensitivities

▪ Developments related to Puerto Rico exposures that materially increase the likelihood of a favorable resolution. ▪ Market factors that include a more favorable interest rate environment, firmer pricing conditions and sustainable profitability.	+
▪ Investment strategy execution that is too aggressive and negatively impacts claims paying ability. ▪ Persistent adverse developments in Puerto Rico which indicate ultimate recoveries approaching zero.	-

KBRA's Stress Loss Treatment by AGC Portfolio Segment ($ in millions)

Portfolio Segment	Net Par (6/30/2021)	Financial Guaranty Stress Losses[1] (Future Value)	Comments
Puerto Rico	$1,117.4	$613.6	3-year debt service moratorium (35% subsequent recovery in years 6-8) followed by severities of 25% to 40% based upon issuer as remaining debt service comes due
Distressed structured finance and other credits	835.1	138.7	Includes RMBS and other distressed credits
Balance of portfolio	18,395.5	442.6	Monte Carlo simulation losses
Totals	$20,348.0	$1,194.9	Aggregrate stress losses incorporated in Bond Insurer Cash Flow Analysis

Historical Leverage

($ millions)	Q2 2021	Q4 2019	Q4 2018	Q4 2017	Q4 2016
NPO	20,975	22,937	26,263	23,914	34,479
CPR	2,716	2,726	2,850	2,920	2,797
NPO/CPR	8x	8x	9x	8x	12x

Source: AGC statutory statements with adjustments for loss mitigation bonds (Q2 2021 only) and financial supplements.

[1] These are stress case loss assumptions that support an overall AA+ rating on the insured portfolio. KBRA is not forecasting this level of losses for AGC.

Rating Determinants (RD)
1. Corporate Assessment
2. Insured Portfolio and Modeling Analysis
3. Claims-Paying Resources and Financial Profile

RD 1: Corporate Assessment

Ownership Structure

AGC is a Maryland domiciled, wholly owned subsidiary of Assured Guaranty US Holdings Inc. (AGUS), which is wholly owned subsidiary of the ultimate parent company Assured Guaranty Ltd. (AGL or Assured).

AGC previously jointly owned Municipal Assurance Corp. (MAC). On April 1, 2021, following prior regulatory approval, MAC merged into AGM with AGM as the surviving entity.

Business Strategy

While currently writing a limited amount of new business within the Assured platform, AGC supports AGL's overall corporate strategy by serving as the primary platform for acquisitions and structured finance transactions, with AGM focused on the U.S and international public finance market. Management views Assured Investment Management (AssuredIM) as complementary to Assured's existing financial guaranty business and a mechanism to diversify its revenue sources. KBRA will continue to closely monitor the Company's progress in building out this platform and any potential impacts on AGC's claims paying resources and/or risk profile from a policyholder perspective. As of June 30, 2021, AssuredIM has nearly $18 billion in assets under management including more than $14 billion in CLOs in North America and Europe.

Assured has also previously deployed funds into smaller alternative investments. KBRA reviews each alternative investment on a case-by-case basis with respect to the funds available to pay claims and applies haircuts in our cash flow analysis to reflect the increased risk and lower liquidity of these assets. KBRA will continue to monitor the company's progress in building out its alternative investment strategy and any potential impacts on AGC's claims paying resources and risk profile.

Corporate Governance

The Board of Directors of AGL is responsible for the corporate governance of all Assured subsidiaries, including AGC, and is responsible for defining the business strategy for the entire organization.

The AGL Board consists of 13 members, and, except for the Chief Executive Officer (CEO), who is a Board member, the Board considers all the other directors as independent according to the listing standards of the New York Stock Exchange. The roles of Chairman and CEO are separate. KBRA notes that all directors have extensive professional backgrounds and appropriate qualifications for the oversight of a financial institution of AGL's size and complexity.

The Board carries out its responsibilities through the operation of seven committees: Audit, Compensation, Environmental and Social Responsibility (ESR), Finance, Nominating and Governance, Risk Oversight, and Executive. The CEO sits only on the Executive Committee, which meets between Board meetings exclusively in the event time sensitive matters arise that require Board deliberation and authority prior to the next scheduled meeting of the full Board.

Risk Management

Assured has an established risk management framework under the supervision of the board's Risk Oversight Committee (ROC). The risk management department is responsible for the oversight of the framework under the supervision of the Chief Risk Officer (CRO) and the Portfolio Risk Management Committee (PRMC). The PRMC is a management level committee that consists of senior executives.

The risk-management department is responsible for providing the PRMC with research and data used to establish, monitor, and reassess policies and procedures on a regular basis. The risk management department is also responsible for the execution of policies established by the PRMC. The PRMC typically meets at least four times a year to review the insured portfolio and market trends. All decisions made by the PRMC are reported to the ROC.

The risk-management department prepares the annual corporate-wide risk appetite statement, which incorporates AGC, and is also responsible for enterprise risk management across Assured.

Surveillance

AGC's surveillance of its insured risk is integrated with the surveillance process for all AGL companies. Surveillance follows a set of priorities that determines how frequently credits are reviewed. Upon review, each credit is assigned to one of six surveillance categories ranging from 1 to 6 that also determines the level of ongoing review. Category 1 and 2 credits are considered performing in accordance with expectations and are generally reviewed on an annual or semi-annual basis. Category 3 generally requires quarterly reviews. At Category 4 the intensity of review increases further and generally requires the creation of a team that includes legal resources. Categories 5 and 6 are considered impaired and require the establishment of loss reserves. These exposures are also monitored by designated Workout Committees.

KBRA views the surveillance reporting process as comprehensive and as providing a robust mechanism to inform senior management about the condition of the insured portfolio.

RD 2: Insured Portfolio and Modeling Analysis

Insured Portfolio

All par numbers shown below are on a statutory basis as of June 30, 2021 and exclude bond purchases. Insured net par at AGC declined approximately 3% since KBRA's last review (insured portfolio as of June 30, 2020). Portfolio run-off continues to exceed new business writings, which includes direct writings and select assumptions of business. With the merger of MAC into AGM, AGC reassumed approximately $2.1 billion of net par. While AGC utilizes reinsurance for portfolio management (29.3% of gross par is ceded), virtually all is ceded to Assured affiliates.

Figure 1

AGC Portfolio			
Par Outstanding - Q2 2021 ($ thousands)			
Assured Guaranty Re Ltd.	$	8,417,295	29.2%
Other		25,500	0.1%
Ceded Par	$	8,442,795	29.3%
Net Par		20,348,007	70.7%
Gross Par	$	28,790,802	100.0%

Source: AGC statutory statements with adjustments for loss mitigation bonds.

The insured portfolio of AGC consists of U.S. public finance, international infrastructure (including international public finance), and structured finance obligations (Figure 2). Legacy public finance exposures continue to represent the bulk of the portfolio. All segments of the insured portfolio decreased since last review, although the U.S. public finance segment benefitted from the MAC merger as the ceded business to MAC was reassumed, which was primarily investment grade U.S. municipal business, with a large proportion of general obligation credits. Across the AGC platform, Assured continues to write global structured finance business which could further shift the portfolio composition over time. Overall, the weighted average internal rating of the total insured portfolio remains A- and reflects a largely unchanged internal rating distribution (Figure 2).

Figure 2

AGC Portfolio					
Net Par Outstanding ($ thousands)					
Segment	**Q2 2021**		**Q2 2020**		**% Chg.**
U.S. Public Finance	$ 12,722,715	62.5%	$ 12,753,319	60.7%	-0.2%
International Infrastructure	4,297,830	21.1%	4,338,008	20.6%	-0.9%
Global Structured Finance	3,327,461	16.4%	3,926,948	18.7%	-15.3%
	$ 20,348,007	100.0%	$ 21,018,276	100.0%	-3.2%

Source: AGC statutory statements with adjustments for loss mitigation bonds.

AGC Portfolio					
Net Par Outstanding ($ thousands)					
Rating [(1)]	**Q2 2021**		**Q2 2020**		**% Chg.**
AAA	$ 1,306,972	6.4%	$ 1,308,475	6.2%	-0.1%
AA	4,441,840	21.8%	4,348,738	20.7%	2.1%
A	5,620,912	27.6%	5,077,977	24.2%	10.7%
BBB	7,099,981	34.9%	7,953,957	37.8%	-10.7%
BIG	1,878,302	9.2%	2,329,127	11.1%	-19.4%
	$ 20,348,007	100.0%	$ 21,018,276	100.0%	-3.2%

Source: AGC statutory statements with adjustments for loss mitigation bonds.
[(1)] Reflects Assured internal rating category.

The portfolio distribution of sectors and ratings are shown below (Figures 3-5). From an overall risk perspective, the portfolio has not experienced a material shift in its credit profile since KBRA's last review. However, the global structured finance segment of the insured portfolio continues to amortize, down over 15% since last review. KBRA will continue to monitor any shifts in the portfolio from a credit-risk perspective from the addition of new business writings and/or portfolio run-off which potentially could affect policyholders over the long-term. Generally, run-off will continue to reduce legacy risk exposures, particularly with the structured finance portion of the portfolio.

Figure 3

U.S. Public Finance					
Net Par Outstanding ($ thousands)					
Disclosure Sector	**Q2 2021**		**Q2 2020**		**% Chg.**
General Obligation	$ 3,116,900	24.5%	$ 2,137,925	16.8%	45.8%
Tax-supported	2,673,947	21.0%	2,849,997	22.3%	-6.2%
Transportation Revenue	2,277,024	17.9%	2,354,453	18.5%	-3.3%
Infrastructure Finance	1,834,836	14.4%	1,966,990	15.4%	-6.7%
Municipal Utility Revenue	1,105,736	8.7%	1,307,244	10.3%	-15.4%
Other Public Finance	584,535	4.6%	899,615	7.1%	-35.0%
Health Care Revenue	345,275	2.7%	422,936	3.3%	-18.4%
Investor Owned Utilities	327,702	2.6%	342,924	2.7%	-4.4%
Education/University	229,885	1.8%	236,372	1.9%	-2.7%
Renewable Energy	125,926	1.0%	128,021	1.0%	-1.6%
Housing Revenue	100,951	0.8%	106,843	0.8%	-5.5%
	$ 12,722,715	100.0%	$ 12,753,319	100.0%	-0.2%

Source: AGC statutory statements with adjustments for loss mitigation bonds.

U.S. Public Finance					
Net Par Outstanding ($ thousands)					
Rating (1)	**Q2 2021**		**Q2 2020**		**% Chg.**
AAA	$ 9,112	0.1%	$ 19,065	0.1%	-52.2%
AA	3,085,878	24.3%	2,617,185	20.5%	17.9%
A	4,559,985	35.8%	3,977,892	31.2%	14.6%
BBB	3,703,363	29.1%	4,473,088	35.1%	-17.2%
BIG	1,364,377	10.7%	1,666,090	13.1%	-18.1%
	$ 12,722,715	100.0%	$ 12,753,319	100.0%	-0.2%

Source: AGC statutory statements with adjustments for loss mitigation bonds.
(1) Reflects Assured internal rating category.

Figure 4

International Infrastructure					
Net Par Outstanding ($ thousands)					
Disclosure Sector	**Q2 2021**		**Q2 2020**		**% Chg.**
Regulated Utilities	$ 1,743,384	40.6%	$ 1,655,077	38.2%	5.3%
Infrastructure Finance	1,331,690	31.0%	1,494,061	34.4%	-10.9%
Pooled Infrastructure	729,635	17.0%	659,585	15.2%	10.6%
Sovereign and Sub-Sovereign	277,582	6.5%	283,175	6.5%	-2.0%
Renewable Energy	215,540	5.0%	246,109	5.7%	-12.4%
	$ 4,297,830	100.0%	$ 4,338,008	100.0%	-0.9%

Source: AGC statutory statements with adjustments for loss mitigation bonds.

International Infrastructure					
Net Par Outstanding ($ thousands)					
Rating (1)	**Q2 2021**		**Q2 2020**		**% Chg.**
AAA	$ 823,507	19.2%	$ 756,482	17.4%	8.9%
AA	165,482	3.9%	188,049	4.3%	-12.0%
A	299,472	7.0%	372,159	8.6%	-19.5%
BBB	2,933,237	68.2%	2,907,084	67.0%	0.9%
BIG	76,131	1.8%	114,235	2.6%	-33.4%
	$ 4,297,830	100.0%	$ 4,338,008	100.0%	-0.9%

Source: AGC statutory statements with adjustments for loss mitigation bonds.
(1) Reflects Assured internal rating category.

Figure 5

Global Structured Finance					
Net Par Outstanding ($ thousands)					
Disclosure Sector	**Q2 2021**		**Q2 2020**		**% Chg.**
Residential Mortgages	$ 1,004,372	30.2%	$ 1,251,187	31.9%	-19.7%
Insurance Securitization	876,922	26.4%	729,132	18.6%	20.3%
Pooled Corporate Obligations	538,329	16.2%	919,518	23.4%	-41.5%
Consumer Receivables	376,015	11.3%	478,089	12.2%	-21.4%
Structured Credit	239,539	7.2%	241,189	6.1%	-0.7%
Other Structured Finance	182,888	5.5%	165,873	4.2%	10.3%
Commercial Mortgage-Backed	94,095	2.8%	62,645	1.6%	50.2%
Commercial Receivables	15,300	0.5%	79,315	2.0%	-80.7%
	$ 3,327,461	100.0%	$ 3,926,948	100.0%	-15.3%

Source: AGC statutory statements with adjustments for loss mitigation bonds.

Global Structured Finance					
Net Par Outstanding ($ thousands)					
Rating (1)	**Q2 2021**		**Q2 2020**		**% Chg.**
AAA	$ 474,353	14.3%	$ 532,929	13.6%	-11.0%
AA	1,190,480	35.8%	1,543,504	39.3%	-22.9%
A	761,454	22.9%	727,927	18.5%	4.6%
BBB	463,380	13.9%	573,786	14.6%	-19.2%
BIG	437,793	13.2%	548,802	14.0%	-20.2%
	$ 3,327,461	100.0%	$ 3,926,948	100.0%	-15.3%

Source: AGC statutory statements with adjustments for loss mitigation bonds.
(1) Reflects Assured internal rating category.

Portfolio Stress Analysis

In order to develop stress case losses across AGC's entire portfolio ($20.3 billion) KBRA utilized a (i) Monte Carlo simulation and (ii) deterministic analysis for the (a) Puerto Rico exposures, (b) RMBS, and (c) distressed structured finance and other exposures. Each of these approaches is discussed further below.

Monte Carlo Simulation Model

The model uses the assigned rating and sector of each insured credit to simulate default and severity performance over the remaining life of the portfolio. KBRA's public finance and structured finance analysts assessed AGC's internal ratings by sector and made various adjustments. In this process, KBRA selected a cross-section of credits to review from various sectors within AGC's insured portfolio. To conduct these reviews, KBRA obtained AGC's internal surveillance reports for each credit and supplemented them with independent information sources.

The Monte Carlo model produces a series of 100,000 paths where each path assesses the probability of future defaults for each credit in each year of its remaining life. If a credit defaults, a sector-specific severity assumption is applied against the amount of debt outstanding at that point in time to calculate loss amount. The model generates 100,000 paths to produce a broad distribution of results utilized by KBRA to develop a stress scenario analysis. For AGC, the aggregate of all annual loss payments at the 97.90% confidence level, or that level associated with a AA+ rating, was $443 million over the life of the portfolio on a future value basis.

The total loss amounts produced by the Monte Carlo model also incorporates, in KBRA's opinion, conservative assumptions for refunding activity in AGC's insured municipal portfolio.

Puerto Rico

KBRA applied a discrete stress scenario to AGC's Puerto Rico net par exposure. The stress scenario was adjusted to reflect the execution of planned support agreements for various credits but continues to conservatively incorporate a debt service payment moratorium and loss severity assumptions to reflect the significant amount of uncertainty that remains. The stress case assumes a complete moratorium on all debt service payments by the Commonwealth and all of its bond issuing entities for a period of three years (i.e., AGC pays 100% of scheduled principal and interest). Previous KBRA stress case scenarios assumed an 8-year moratorium. At the end of the moratorium period and continuing for all subsequent years through maturity of each Puerto Rico exposure, loss severity assumptions are applied to each Commonwealth issuer ranging from 25% to 40% as remaining debt service comes due. For all claim payments made by AGC during the moratorium period, KBRA continues to assume that AGC receives recoveries of 35% (65% severity) beginning in year 6. Under these revised scenario assumptions, total stress case loss amounts to $614 million billion.

KBRA also analyzed the impact of substantially higher severity assumptions on AGC's claims-paying resources, and these greater levels of losses did not have a rating impact, all things equal, in KBRA's view. However, should ultimate recoveries approach zero, there could be downward pressure on the rating, although KBRA currently views this scenario as unlikely. Ultimate losses at levels consistent with settlement amounts under the current plan support agreements would have a significant positive impact on KBRA's assessment of AGC's capital position.

Residential Mortgage Backed Securities and Other Distressed Credits

For RMBS exposures KBRA obtained transaction detail at the CUSIP and insured tranche level from the company which represented the individual insured positions outstanding as of June 30, 2021. KBRA estimated loan level losses by assuming stressful economic conditions including property value declines of 40%. KBRA's analysis incorporated residential loan level losses on insured tranches based on waterfall provisions as well as projected subrogation recoveries

In addition, KBRA estimated discrete losses for a small number of other defaulted or severely impaired credits. In the financial analysis, combined net outflows for RMBS and other distressed credits totaled approximately $139 million on a future value basis.

Bond Insurer Cash Flow Analysis

KBRA performs a cash flow analysis which incorporates projected financial results over a 35-year forecast period under assumed stress scenario conditions. KBRA then evaluates the outputs of the cash flow analysis from both a present and future value perspective to develop a comprehensive view of an insurer's overall financial strength.

The analysis starting point is AGC's Claims Paying Resources (defined in the "Claims Paying Resources" section below) which reflects the Company's beginning base of available invested assets. The analysis assumes that assets earn interest at AGC's current yield levels, with some downward adjustment by KBRA based on tenor and average rating. This adjustment is intended to capture credit, interest rate and liquidity risks. The analysis also incorporates the Company's estimate of future installment premiums with a haircut by KBRA of 10%. For operating expenses, KBRA assumes the Company goes into run off immediately and, after some initial increases, expenses are assumed to decline sharply.

For AGC, the stress scenario losses (all on a future value basis) were the sum of (i) the aggregate annual losses generated from the tail distribution of the Monte Carlo simulation model of $433 million, (ii) Puerto Rico losses of $614 million, and (iii) distressed structured finance and other credit outflows of $139 million. Within the run-off scenario, KBRA also incorporated an estimate of the financial risk to AGC associated with the litigation with Lehman Brothers International (Europe) (LBIE) which is currently awaiting trial.

KBRA utilizes cash flow analysis to evaluate the ability of a financial guarantor to pay projected claims and expenses over time on a future value basis. AGC is able to pay all claims and other expenses in this analysis with a substantial asset balance remaining at the end of the 35-year forecast period.

KBRA also considers the Stress Capital Balance (SCB) which provides a present value measure of capital adequacy. Based on KBRA's stress scenario assumptions, AGC achieves a SCB in the range of $1.4-1.6 billion. In KBRA's opinion, these results are consistent with an insurance financial strength rating of AA+. The increase in SCB from last review reflects AGC's capital position relative to decreased portfolio risk and KBRA stress losses.

RD 3: Claims-Paying Resources and Financial Profile

Claims-Paying Resources

KBRA defines claims-paying resources as the sum of unearned premium reserves, loss and loss adjustment reserves, contingency reserves, and policyholder's surplus.

At June 30, 2021, AGC's claims paying resources totaled $2.7 billion (Figure 6). AGC's balance sheet benefited from the reassumption of business from MAC due to its merger into AGM. Leverage remained flat as a modest increase in net par from year end 2020 was offset by an increase in CPR. It is KBRA's expectation that AGC's leverage will remain well below historical highs.

Figure 6

Select AGC Statutory Balance Sheet Data						
$ Thousands	**6/30/2021**	**12/31/2020**	**12/31/2019**	**12/31/2018**	**12/31/2017**	**12/31/2016**
Claims paying resources:						
Unearned premium reserves	$331,247	$303,470	$356,718	$390,892	$256,135	$355,808
Loss & LAE reserves	65,892	13,542	151,195	236,480	134,889	128,060
Contingency reserve	593,846	545,495	545,609	550,190	553,941	670,089
Policyholder surplus	1,725,035	1,716,777	1,775,111	1,792,961	2,073,166	1,895,577
Adjustments*	-	(117,917)	(102,792)	(120,297)	(97,763)	(252,447)
Total claims paying resources (KBRA definition)	**$2,716,020**	**$2,461,368**	**$2,725,841**	**$2,850,225**	**$2,920,369**	**$2,797,086**
Net statutory par outstanding (NPO)	$20,974,816	$19,948,000	$22,937,000	$26,263,000	$23,914,000	$34,479,000
Net statutory debt service outstanding (NDSO)	$32,125,286	$29,966,000	$35,172,000	$39,473,000	$36,018,000	$51,233,000
Leverage: NPO/Claims paying resources (X)	**8x**	**8x**	**8x**	**9x**	**8x**	**12x**
Leverage: NDSO/Claims paying resources (X)	**12x**	**12x**	**13x**	**14x**	**12x**	**18x**

Note: Unearned premium reserves exclude deferred ceding commission.

Source: AGC statutory statements and financial supplements with adjustments for loss mitigation bonds.

** Reflects investment in MAC, assets in AGC's executive retirement fund (through 2016), COLI (through 2016), and fair value of Stockton office building (2015 & 2016).*

Balance Sheet

AGC's balance sheet has remained relatively stable over the last several years.

Figure 7

AGC Statutory Balance Sheet						
$ Thousands	**6/30/2021**	**12/31/2020**	**12/31/2019**	**12/31/2018**	**12/31/2017**	**12/31/2016**
Bonds	$2,251,952	$2,043,893	$2,311,507	$2,659,415	$2,644,907	$2,503,995
Stocks (includes Investments in Affiliates)	1,246	119,295	104,274	121,848	99,470	355,500
Cash & short term investments	134,929	104,546	118,943	151,554	96,403	123,320
Derivatives, receivables, other invested assets	323,203	306,845	293,087	28,220	30,220	37,353
Total cash and invested assets, net admitted	**$2,711,329**	**$2,574,579**	**$2,827,811**	**$2,961,038**	**$2,871,000**	**$3,020,167**
Investment income due and accrued	22,769	21,150	22,783	23,378	22,770	20,769
Deferred tax asset	59,471	50,972	46,448	61,363	26,860	106,256
Receivable from parent	536	582	2,760	2,827	14,404	56,041
Other assets	9,906	17,202	27,241	32,876	191,677	68,737
Total Assets, net admitted	**$2,804,011**	**$2,664,486**	**$2,927,044**	**$3,081,482**	**$3,126,710**	**$3,271,971**
Loss and LAE Reserves	65,892	13,542	151,195	236,480	134,889	128,060
Unearned Premium Reserve	331,247	303,470	356,718	390,892	256,135	355,808
Contingency reserve	593,846	545,495	545,609	550,190	553,941	670,089
Other liabilities	87,991	85,201	98,411	110,960	108,578	222,438
Total Liabilities	**$1,078,976**	**$947,708**	**$1,151,933**	**$1,288,521**	**$1,053,543**	**$1,376,394**
Common capital stock	15,000	15,000	15,000	15,000	15,000	15,000
Surplus Notes	300,000	300,000	300,000	300,000	300,000	300,000
Gross paid-in and contributed surplus	623,306	623,306	623,306	723,287	923,296	923,296
Unassigned Funds	786,729	778,471	836,805	754,673	834,870	657,281
Policyholder Surplus	**$1,725,035**	**$1,716,777**	**$1,775,111**	**$1,792,961**	**$2,073,166**	**$1,895,577**
Total Liabilities and Policyholder Surplus	**$2,804,011**	**$2,664,486**	**$2,927,044**	**$3,081,482**	**$3,126,710**	**$3,271,971**
Cash & short term assets/Total assets (%)	4.8%	3.9%	4.1%	4.9%	3.1%	3.8%
Bonds/Total assets (%)	80.3%	76.7%	79.0%	86.3%	84.6%	76.5%

Source: AGC Statutory Statements

† As previously reported by AGC. Amounts do not reflect impact of Radian and CIFG acquisitions.

Investments

AGC has a high-quality investment portfolio comprised primarily of fixed income securities with an average rating of A- (publicly available ratings, except internal ratings for loss mitigation purchases) and a duration of 5.3 years. Some of AGC's investments are deployed in AssuredIM funds, CLOs and separately-managed accounts while most of the portfolio remains invested in high-quality fixed income securities. Portfolio yields are elevated reflecting the impact of loss mitigation bonds. KBRA notes the expansion of the Company's investment strategy to deploy more of AGC's unearned premium reserve into higher volatility assets and will continue to monitor the risk profile of the portfolio in the context of overall claims paying strength.

Figure 8

AGC Investment Portfolio Composition (6/30/2021)			
$ Millions	**Amortized**		**Pre-tax**
Sector	**Cost**	**% of portfolio**	**Book Yields***
U.S. State and Political Subdivisions	$1,394	55%	3.63%
U.S Agency Obligations	34	1%	2.24%
Corporate Securities	450	18%	3.12%
RMBS	33	1%	5.08%
CMBS	30	1%	3.53%
CLOs	80	3%	1.89%
Other ABS	368	15%	6.06%
Total Fixed Maturities	**2,388**	**95%**	**3.85%**
Short term investments and cash	136	5%	0.02%
Grand Total	**$2,524**	**100%**	**3.74%**

Note: cash excluded from total yield calculations.
Source: AGC financial supplement

Income Statement

AGC reported statutory net income of $126.4 million for the first six months of 2021. The company continues to generate an adequate stream of earnings from the run-off of its insured portfolio and consistent investment income. Net income has periodically been bolstered by strategic acquisitions in the past, such as the Syncora transaction in 2018 which drove the premium growth. A portion of the investment gain in 2021 is a result of the MAC merger and the dissolution of AGC's ownership interest.

Expense ratios remain high which is reflective of the low level of new business production. As AGC seeks to opportunistically increase new business, particularly within international infrastructure, top line revenues may fluctuate as transactions are characterized by longer lead times and uneven premium volumes.

Figure 9

Select AGC Statutory Income Data						
$ Thousands	**6/30/2021**	**12/31/2020**	**12/31/2019**	**12/31/2018**	**12/31/2017**	**12/31/2016**
Gross Premiums Written (GPW)	$26,418	$35,247	$54,182	$283,020	$32,434	$72,522
Net Premiums Written	50,490	21,694	34,068	217,637	21,621	58,065
Net premiums Earned (NPE)	22,958	76,692	69,234	81,009	123,308	180,205
Loss & loss adjustment expenses (L&LAE)	62,652	25,506	(21,784)	15,282	139,372	68,597
Other underwriting expenses	29,346	55,874	58,336	62,511	61,405	87,961
Total losses & operating expenses	91,997	81,380	36,552	77,792	200,777	156,558
Net underwriting gain (loss)	(69,040)	(4,688)	32,682	3,216	(77,469)	23,647
Net investment gain	191,712	69,009	169,881	93,111	66,828	115,320
Other income, net gain (loss)	4,277	5,793	13,270	6,104	17,443	17,550
Earnings Before Taxes	126,950	70,114	215,833	102,431	6,802	156,517
Net Income (Loss)	$126,395	$73,075	$225,868	($4,927)	$219,137	$107,611
Dividends Paid	$37,000	$166,000	$122,700	$132,700	$107,200	$78,600
Expense ratio (Underwriting exp. / GPW)	111.1%	158.5%	107.7%	22.1%	189.3%	121.3%
Loss ratio (L&LAE / NPE)	272.9%	33.3%	-31.5%	18.9%	113.0%	38.1%
Combined ratio	384.0%	191.8%	76.2%	41.0%	302.3%	159.4%
Return on Surplus (ROS) Pre-tax basis *	14.5%	4.0%	12.1%	5.3%	0.3%	9.6%
Return on Surplus (ROS) After-tax basis *	14.4%	4.2%	12.7%	-0.3%	11.0%	6.6%

Source: AGC statutory statements
** Return on Surplus was annualized for 6/30/2021.*

Dividends

The distribution of dividends from AGC is governed by Maryland insurance law. In KBRA's opinion, relative to corresponding dividend restrictions within New York insurance law, Maryland insurance regulations are marginally less proscriptive. For example, insurers that report negative unassigned funds may still pay dividends under Maryland insurance regulation but may not do so under New York insurance law. However, Maryland requirements do provide significant limits on the flow of dividends from an insurer. Specifically, ordinary dividends cannot exceed the lower of (i) 10% of policyholder's surplus or (ii) 100% of net investment income, excluding realized gains. With respect to the latter restriction based on investment income, Maryland insurance law grants insurers additional dividend capacity to the extent that dividends paid in the prior three years are less than the cumulative net investment income over the period, excluding realized gains.

The maximum amount distributable from AGC to AGUS as ordinary dividends in 2021 is approximately $94 million, of which $37 million was paid in the first six months of 2021.

Woodbourne Capital Trusts

In April 2005, AGC established a Pass Through Trust that issued $200 million of short term, floating rate securities (Pass Through Securities) and four Custodial Trusts ("Trusts") which each received from AGC $50 million of Committed Capital Securities (CCS). The Trusts invested the $200 million of transaction proceeds in highly rated commercial paper. AGC entered into an agreement with the Trusts whereby it retains the right to deliver its Preferred Stock to the Trusts in exchange for cash up to the $200 million held in the Custodial Trust.

Upon a failed auction in 2008, the CCS were distributed to the holders of the Pass Through Securities. The Trusts remain in place and continue to invest in highly rated commercial paper. The agreement also remains in place and has no scheduled maturity. AGC is obligated to pay a fee at an amount that, together with interest earnings on the commercial paper invested in the Trusts, equals the maximum contractual rate on the CCS of LIBOR plus 250 basis points.

Given the very liquid investments in the Trusts and the associated robust funding mechanism, KBRA includes $200 million of capital support from the Trusts in its financial analysis of AGC.

ESG Management

KBRA's ratings incorporate all material credit factors including those that relate to Environmental, Social and Governance (ESG) factors. KBRA captures the impact of ESG factors in the same manner as all other credit-relevant factors. KBRA does not deploy ESG scores, but instead analyzes ESG factors through the lens of how company management plans for and manages relevant ESG risks and opportunities. More information on KBRA's approach to ESG can be found here. KBRA believes stakeholder perspectives and emerging disclosure requirements will remain prominent components of (re)insurer approaches to ESG.

Environmental Factors

Assured provides financial guaranty insurance policies for financial obligations issued by many U.S. and international entities, many of whom are facing increased exposure to environmental issues, such as climate risk. If the monitoring of the asset portfolio risk tolerances and exposures is mismanaged, it could have detrimental financial consequences for Assured. On the insurance segment, Assured's underwriting and surveillance processes includes an environmental assessment/review. Assured's Environmental Policy, established in February 2020, is instrumental organization-wide in guiding its actions and strategies pertaining to insurance, investments, operations, and employees. KBRA factors this into its credit analysis of Assured as part of its portfolio stress analysis.

Social Factors

As a financial guarantor, Assured's business strives to lower the cost of borrowing for its clients, frequently local, state, sub-sovereign, and sovereign governments which purchase a financial guaranty policy as part of a sale of debt securities into the capital markets. The issuance of debt by these entities is often to fund projects and capital improvements which benefit their various stakeholders. As an organization, Assured maintains a board level Environmental & Social Responsibility Committee which recently approved a Diversity & Inclusion Policy.

Governance Factors

Assured has in place robust controls and risk mitigation strategies as part of its ERM framework which pertains to all material risks companywide, including insured credit risks. Further, as Assured relies on digital technology to conduct business, an emphasis on cybersecurity remains key. Employees are annually provided with mandated cybersecurity training and phishing exercises to promote best practices. KBRA factors this into its credit analysis as part of its corporate assessment.