Assured Guaranty Municipal Corp.

Entity: Holding Company			
Affirmed	**Type**	**Ratings**	**Outlook**
Assured Guaranty US Holdings Inc. (AGUS)	Issuer	A+	Stable
▪ $500 million 3.150% Senior Notes due 2031	Debt	A+	Stable
▪ $400 million 3.600% Senior Notes due 2051	Debt	A+	Stable
Entity: Operating Companies			
Affirmed	**Type**	**Ratings**	**Outlook**
Assured Guaranty Municipal Corp. (AGM)	IFSR	AA+	Stable
Assured Guaranty (Europe) SA (AGE)	IFSR	AA+	Stable
Assured Guaranty UK Limited (AGUK)	IFSR	AA+	Stable

Methodology

- Financial Guaranty Global Rating Methodology
- ESG Global Rating Methodology

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Rating Summary: AGM's rating reflects its substantial claims paying resources, skilled management team and ability to withstand KBRA's conservative stress scenario losses as applied across the company's insured portfolio.

AGM'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 one insured Puerto Rico credit within AGM's portfolio is now covered by executed plan support agreements representing nearly 92% of net exposure. AGM has still not paid any claims on the remaining credit. 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 the ultimate resolution remains susceptible to further political and other execution risks that are largely beyond Assured's control. KBRA incorporates this risk through its Puerto Rico stress case losses on the insured portfolio. Should ultimate recoveries on insured Puerto Rico bonds approach zero, there could be downward pressure on AGM'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 long-term impacts, but notes that AGM has maintained strong liquidity and Assured's surveillance/work-out expertise positions the company well to mitigate risk and limit losses.

Municipal Assurance Corp. (MAC) was an under-utilized and substantially over-capitalized insurance operating subsidiary on the Assured platform. On April 1, 2021, following prior regulatory approval, MAC merged into AGM with AGM as the surviving entity. All existing MAC insurance policies (direct policies written post-2013 after the initial assumption of business from AGM and Assured Guaranty Corp. (AGC)) have become direct insurance obligations of AGM. Business which was ceded to MAC at initial capitalization was assumed back by AGM and AGC, respectively. The insured obligations which became direct insurance obligations of AGM (approximately $11.2 billion of net par) were approximately 99% investment grade U.S. municipal credits, which KBRA views as providing additional low risk diversification to AGM's insured book. The transaction also had a favorable impact on AGM's claims paying resources.

AGM has written primarily U.S. municipal business since the credit crisis and this segment continues to represent most of the insured portfolio (71%). AGM's legacy exposure to structured finance continues to decline, falling by 16% since KBRA's last review. While new business origination remains below pre-credit crisis levels, KBRA observes insured penetration of the municipal market for 2020 and 2021 YTD are at its highest levels since 2009. In combination with the MAC transaction, which increased AGM's net par outstanding, increased new business volumes, primarily in the U.S. municipal sector, continue to offset run-off in the insured portfolio and insured net par outstanding increased 15% since KBRA's last review. This supports leverage ratios which are trending up but remain close to historic lows.

KBRA notes that AGM has had increased production in the healthcare, higher education, and infrastructure segments which generally can be characterized as exhibiting higher risk profiles (and richer pricing) than more traditional sectors, such as general obligation and revenue bonds. While these sectors remain small proportionally to the total insured portfolio, they contribute to higher Monte Carlo simulation stress losses.

The integration of BlueMountain Capital Management, LLC by AGM's parent company and the subsequent rebranding to Assured Investment Management LLC (AssuredIM) was achieved in line with management's expectations. The 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 AGM'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 AGM's corporate governance framework, credit and risk management processes and consider them strong and reflective of industry best practices. AGM 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 AGM'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 affirmed 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; namely structured finance.
- Experienced management team which operates with a mature and high-functioning operating platform supported by strong governance and risk management systems.
- AGUK and AGE benefit from extensive intra-group financial support agreements.
- Municipal market insured penetration is at its highest levels since 2009.

Credit Challenges

- The ultimate level of losses and timing of final resolution in Puerto Rico remain unclear, although executed plan support agreements demonstrate positive momentum.
- Significant additional expansion of alternative asset strategy within AGM's investment portfolio.
- New business origination which may be concentrated in higher risk sectors of the municipal market.
- 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 AGM Portfolio Segment ($ in millions)

Portfolio Segment	Net Par (6/30/2021)	Financial Guaranty Stress Losses[1] (Future Value)	Comments
Puerto Rico	$1,859.1	$1,002.8	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	1,973.6	386.3	Includes RMBS and other distressed credits
Balance of portfolio	145,781.5	2,445.5	Monte Carlo simulation losses
Totals	$149,614.2	$3,834.6	Aggregrate stress losses incorporated in Bond Insurer Cash Flow Analysis

Historical Leverage

($ millions)	Q2 2021	Q4 2019	Q4 2018	Q4 2017	Q4 2016
NPO	153,985	129,562	115,555	120,504	113,955
CPR	5,058	4,736	4,730	4,644	4,377
NPO/CPR	30x	27x	24x	26x	26x

Source: AGM 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 AGM.

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

AGM is a New York-domiciled, wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. (AGMH), an intermediate holding company and a wholly owned, indirect subsidiary of Assured Guaranty Ltd. (AGL or Assured), a public company listed on the New York Stock Exchange. AGM is the largest operating subsidiary of AGL. AGM owns 100% of the common stock of AGUK and more than 99% of the common stock of AGE. The company facilitates the operations of these subsidiaries through a series of support agreements.

AGM 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

AGM underwrites global public finance and infrastructure transactions and remains the most active writer of new insurance business within the Assured platform. AGUK and AGE are focused on international public finance, including infrastructure transactions across several sectors, and international structured finance. Assured established AGE in France in mid-2019 to address the impact of the withdrawal of the United Kingdom (U.K.) from the European Union (E.U.). Through AGE, Assured will continue to write new business in the European Economic Area (EEA). London-based AGUK, which previously provided financial guarantees in the EEA, will remain the Assured platform that writes new business in the U.K. and certain other non-EEA countries.

Management views AssuredIM as complementary to Assured's existing financial guaranty business and a mechanism to diversify its revenue sources. KBRA will continue to closely monitor Assured's progress in building out this platform and any potential impacts on AGM'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 Assured's progress in building out its alternative investment strategy and any potential impacts on AGM'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 AGM, 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 remain 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.

Both AGM and AGUK also have Boards of Directors. AGM's Board is mainly comprised of senior executive officers, while AGUK's Board includes independent directors as well. In KBRA's view, Assured's corporate governance remains strong.

AGUK and AGE Financial Support Agreements

AGUK and AGE benefit from significant financial support from their parent company, AGM, through co-insurance, quota share and excess of loss reinsurance and a net worth maintenance agreement. These agreements are a significant factor in KBRA's insurance financial strength ratings of AGUK and AGE.

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 AGM, and is also responsible for enterprise risk management across Assured.

Surveillance

AGM'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, exclude bond purchases, and include exposures at AGUK and AGE. Insured net par at AGM increased 15.2% since KBRA's last review (insured portfolio as of June 30, 2020). New business originations, coupled with the MAC merger (MAC's insured portfolio was merged into AGM which increased net par by $11.2 billion), exceeded portfolio run-off. Net par outstanding grew to nearly $150 billion, an increase of nearly $20 billion. This represents a reversal of historical trends where portfolio amortization outpaced new business origination. While AGM utilizes reinsurance for portfolio management (25.1% of gross par is ceded), virtually all is ceded to Assured affiliates. Over the last few years, Assured has strategically reassumed essentially all of its externally ceded business.

Figure 1

AGM Portfolio			
Par Outstanding - Q2 2021 ($ thousands)			
Assured Guaranty Re Ltd.	$	46,904,514	23.5%
Assured Guaranty Corp.		2,799,045	1.4%
Other		381,212	0.2%
Ceded Par	$	50,084,770	25.1%
			0.0%
Net Par		149,614,206	74.9%
Gross Par	$	199,698,976	100.0%

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

The insured portfolio of AGM consists primarily of U.S. public finance and international infrastructure obligations, with a de minimis amount of global structured finance obligations (Figure 2). U.S. public finance exposures remain the bulk of the insured portfolio (nearly 75%). This portion of the portfolio increased over 20% since last review which, in addition to new originations, benefitted from the MAC merger, whose portfolio was comprised of primarily investment grade U.S. municipal exposure, with a large proportion of general obligation credits. Insured structured finance exposure continues to run off. AGM has not written any structured finance business since the beginning of the credit crisis, although AGUK has written a small amount.

As AGM continues to write new international infrastructure business across its non-U.S. platform, this segment of the insured portfolio may increase proportionally depending on the volume of U.S. municipal writings. Exposures within this segment tend to be long-dated and amortize more slowly than typical U.S. municipal credits. 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

AGM Portfolio					
Net Par Outstanding ($ thousands)					
Segment	**Q2 2021**		**Q2 2020**		**% Chg.**
U.S. Public Finance	$ 111,170,502	74.3%	$ 91,802,720	70.7%	21.1%
International Infrastructure	36,497,098	24.4%	35,722,237	27.5%	2.2%
Global Structured Finance	1,946,606	1.3%	2,319,765	1.8%	-16.1%
	$ 149,614,206	100.0%	$ 129,844,722	100.0%	15.2%

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

AGM Portfolio					
Net Par Outstanding ($ thousands)					
Rating [1]	**Q2 2021**		**Q2 2020**		**% Chg.**
AAA	$ 1,630,239	1.1%	$ 1,575,754	1.2%	3.5%
AA	13,921,087	9.3%	12,055,923	9.3%	15.5%
A	68,391,485	45.7%	57,948,204	44.6%	18.0%
BBB	61,564,540	41.1%	54,135,973	41.7%	13.7%
BIG	4,106,855	2.7%	4,128,867	3.2%	-0.5%
	$ 149,614,206	100.0%	$ 129,844,722	100.0%	15.2%

Source: AGM 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). As new business originations continue to include more health care and infrastructure exposures, the overall risk profile of the insured portfolio continues to moderately increase. While these sectors generally exhibit more risk than a traditional G.O or tax-backed obligations, they represent a relatively small component of AGM's overall public finance portfolio. The addition of the low-risk, investment grade municipal credits to AGM's portfolio as a result of the MAC merger helps to mitigate this risk in the near-term.

The international infrastructure segment decreased nearly 4% since last review. While this is a new business focus for AGM across its non-U.S. platform, originations typically materialize over a longer period. 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 mitigate legacy risks, particularly within 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	$ 47,232,700	42.5%	$ 36,519,674	39.8%	29.3%
Tax-supported	23,089,829	20.8%	20,495,032	22.3%	12.7%
Municipal Utility Revenue	16,903,497	15.2%	14,507,943	15.8%	16.5%
Transportation Revenue	9,129,457	8.2%	8,743,881	9.5%	4.4%
Health Care Revenue	7,013,810	6.3%	5,608,709	6.1%	25.1%
Education/University	4,059,081	3.7%	3,078,588	3.4%	31.8%
Infrastructure Finance	2,616,778	2.4%	1,586,207	1.7%	65.0%
Housing Revenue	777,651	0.7%	852,898	0.9%	-8.8%
Other Public Finance	313,258	0.3%	369,658	0.4%	-15.3%
Investor Owned Utilities	22,320	0.0%	23,175	0.0%	-3.7%
Renewable Energy	12,120	0.0%	16,956	0.0%	-28.5%
	$111,170,502	100.0%	$ 91,802,720	100.0%	21.1%

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

U.S. Public Finance					
Net Par Outstanding ($ thousands)					
Rating [1]	**Q2 2021**		**Q2 2020**		**% Chg.**
AAA	$ 229,387	0.2%	$ 106,681	0.1%	115.0%
AA	9,708,565	8.7%	7,603,833	8.3%	27.7%
A	59,341,572	53.4%	49,112,849	53.5%	20.8%
BBB	39,066,454	35.1%	32,524,785	35.4%	20.1%
BIG	2,824,524	2.5%	2,454,571	2.7%	15.1%
	$ 111,170,502	100.0%	$ 91,802,720	100.0%	21.1%

Source: AGM 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.**
Infrastructure Finance	$ 12,625,016	34.6%	$ 12,741,918	35.7%	-0.9%
Regulated Utilities	11,875,331	32.5%	11,795,435	33.0%	0.7%
Sovereign and sub-sovereign	10,031,784	27.5%	9,640,800	27.0%	4.1%
Renewable Energy	1,964,967	5.4%	1,544,085	4.3%	27.3%
	$ 36,497,098	100.0%	$ 35,722,237	100.0%	2.2%

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

International Infrastructure					
Net Par Outstanding ($ thousands)					
Rating [1]	**Q2 2021**		**Q2 2020**		**% Chg.**
AAA	$ 917,938	2.5%	$ 948,156	2.7%	-3.2%
AA	4,024,131	11.0%	4,228,399	11.8%	-4.8%
A	8,980,103	24.6%	8,692,216	24.3%	3.3%
BBB	22,197,540	60.8%	21,204,174	59.4%	4.7%
BIG	377,386	1.0%	649,292	1.8%	-41.9%
	$ 36,497,098	100.0%	$ 35,722,237	100.0%	2.2%

Source: AGM 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	$ 1,853,927	95.2%	$ 2,149,866	92.7%	-13.8%
Other Structured Finance	51,517	2.6%	120,433	5.2%	-57.2%
Consumer Receivables	37,171	1.9%	45,441	2.0%	-18.2%
Insurance Securitization	3,990	0.2%	4,026	0.2%	-0.9%
	$ 1,946,606	100.0%	$ 2,319,765	100.0%	-16.1%

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

Global Structured Finance					
Net Par Outstanding ($ thousands)					
Rating [(1)]	**Q2 2021**		**Q2 2020**		**% Chg.**
AAA	$ 482,914	24.8%	$ 520,917	22.5%	-7.3%
AA	188,391	9.7%	223,691	9.6%	-15.8%
A	69,810	3.6%	143,139	6.2%	-51.2%
BBB	300,546	15.4%	407,014	17.5%	-26.2%
BIG	904,945	46.5%	1,025,004	44.2%	-11.7%
	$ 1,946,606	100.0%	$ 2,319,765	100.0%	-16.1%

Source: AGM 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 AGM's entire portfolio ($149.6 billion) KBRA utilized a (i) Monte Carlo simulation and (ii) deterministic analysis for the (a) Puerto Rico exposures, (b) RMBS, and (c) distressed credits. 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 AGM'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 AGM's insured portfolio. To conduct these reviews, KBRA obtained AGM'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 AGM, the aggregate of all annual loss payments at the 97.90% confidence level, or that level associated with a AA+ rating, was $2,446 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 AGM's insured municipal portfolio.

Puerto Rico
KBRA applied a discrete stress scenario to AGM'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., AGM 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 AGM during the moratorium period, KBRA continues to assume that AGM receives recoveries of 35% (65% severity) beginning in year 6. Under these revised scenario assumptions, total stress case loss amounts to $1.0 billion.

KBRA also analyzed the impact of substantially higher severity assumptions on AGM'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 AGM'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 $386 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 AGM'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 AGM'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 AGM, the stress scenario losses (all on a future value basis) were the sum of (i) the aggregate annual losses generated in the loss profile KBRA developed from the tail distribution of the Monte Carlo simulation model of $2,446 million, (ii) Puerto Rico losses of $1,003 million, and (iii) distressed structured finance and other credit outflows of $386 million. KBRA notes the increase in stress losses from the Monte Carlo simulation reflects the impact of changes in the overall risk profile of the insured portfolio as the Company has modestly increased its exposure to health care and other sectors as overall net par outstanding has increased.

KBRA utilizes the cash flow analysis to evaluate the ability of a financial guarantor to pay projected claims and expenses over time on a future value basis. AGM is able to pay all claims and other expenses in this analysis with a significant 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, AGM achieves a SCB in the range of $1.7-1.9 billion, an increase from last review reflecting AGM's increased capital position relative to risk and KBRA's stress losses. In KBRA's opinion, these results are consistent with an insurance financial strength rating of AA+.

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. For AGM, KBRA deducts certain investments in affiliates, namely the surplus notes of AGC, because KBRA views these assets as deeply subordinate.

At June 30, 2021, AGM's claims paying resources exceeded $5.0 billion (Figure 6). AGM's balance sheet benefited from the MAC merger which increased claims paying resources. Leverage increased modestly to 30x as the insured portfolio also increased. All things equal, as new business originations outpace portfolio amortization, AGM's leverage may increase in the future. However, it is KBRA's expectation that leverage will remain well below historical highs.

Figure 6

Select AGM Statutory Balance Sheet Data						
$ Thousands	**6/30/2021**	**12/31/2020(1)**	**12/31/2019**	**12/31/2018**	**12/31/2017**	**12/31/2016**
Claims paying resources:						
Unearned premium reserves	$1,708,822	$1,708,453	$1,438,692	$1,251,420	$1,234,445	$1,155,247
Loss & LAE reserves	13,112	62,598	195,267	518,180	634,308	410,519
Contingency reserve	947,301	1,011,916	868,912	912,907	972,016	1,073,839
Policyholder surplus	2,943,273	2,762,885	2,691,407	2,533,492	2,253,871	2,321,005
Adjustments*	(300,000)	(300,000)	(458,764)	(485,800)	(450,997)	(583,399)
Total claims paying resources (KBRA definition)	**$5,312,508**	**$5,245,852**	**$4,735,514**	**$4,730,198**	**$4,643,642**	**$4,377,212**
Net statutory par outstanding (NPO)	$150,113,000	$136,115,000	$129,562,000	$115,555,000	$120,504,000	$113,955,000
Net statutory debt service outstanding (NDSO)	$238,626,000	$219,534,000	$212,011,000	$183,075,000	$191,884,000	$175,688,000
Leverage: NPO/Claims paying resources (X)	**28x**	**26x**	**27x**	**24x**	**26x**	**26x**
Leverage: NDSO/Claims paying resources (X)	**45x**	**42x**	**45x**	**39x**	**41x**	**40x**

Note: Unearned premium reserves exclude deferred ceding commission.

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

(1) Restated for MAC merger transaction.

** Reflects investments in subsidiaries and AGC surplus note.*

Balance Sheet

AGM's balance sheet has remained relatively stable over the last several years with only minor changes in key asset and liability categories. Assets benefited favorably from the MAC merger.

Figure 7

AGM Statutory Balance Sheet						
$ Thousands	**6/30/2021**	**12/31/2020[1]**	**12/31/2019**	**12/31/2018**	**12/31/2017**	**12/31/2016**
Bonds	$3,445,413	$3,637,998	$3,157,778	$3,757,648	$3,866,923	$4,074,774
Stocks (includes Investments in Affiliates)	1,121,614	1,117,499	1,174,696	1,127,050	899,863	539,194
Cash & short term investments	225,595	243,829	160,350	176,054	212,022	127,000
Other invested assets and receivables	962,829	907,259	814,052	362,634	393,478	371,616
Total cash and invested assets, net admitted	**$5,755,452**	**$5,906,585**	**$5,306,876**	**$5,423,386**	**$5,372,286**	**$5,112,584**
Investment income due and accrued	36,399	35,401	32,004	36,497	40,411	38,981
Deferred tax asset	24,296	23,512	20,780	24,773	50,418	156,992
Other assets	23,505	28,100	43,214	27,815	16,495	24,965
Total Assets, net admitted	**$5,839,652**	**$5,993,598**	**$5,402,873**	**$5,512,471**	**$5,479,610**	**$5,333,522**
Loss and LAE Reserves	13,112	62,598	195,267	518,180	634,308	410,519
Unearned Premium Reserve	1,708,822	1,708,453	1,438,692	1,251,420	1,234,445	1,155,247
Contingency reserve	947,301	1,011,916	868,912	912,907	972,016	1,073,839
Other liabilities	227,144	447,746	208,595	296,473	384,971	372,911
Total Liabilities	**$2,896,379**	**$3,230,713**	**$2,711,467**	**$2,978,979**	**$3,225,739**	**$3,012,517**
Common capital stock	15,000	15,000	15,000	15,000	15,000	15,000
Surplus Notes	-	-	-	-	-	-
Gross paid-in and contributed surplus	376,363	376,363	376,363	376,363	376,363	477,205
Unassigned Funds	2,551,910	2,371,522	2,300,044	2,142,129	1,862,508	1,828,800
Policyholder Surplus	**$2,943,273**	**$2,762,885**	**$2,691,407**	**$2,533,492**	**$2,253,871**	**$2,321,005**
Total Liabilities and Policyholder Surplus	**$5,839,652**	**$5,993,598**	**$5,402,873**	**$5,512,471**	**$5,479,610**	**$5,333,522**
Cash & short term assets/Total assets (%)	3.9%	4.1%	3.0%	3.2%	3.9%	2.4%
Bonds/Total assets (%)	59.0%	60.7%	58.4%	68.2%	70.6%	76.4%

Source: AGM Statutory Statements

(1) Restated for MAC merger transaction.

Investments

The investment portfolio is dominated by high quality municipal and corporate bonds, with a smaller portion of lower quality RMBS and other structured finance bonds acquired by AGM as part of its loss mitigation strategy. As of June 30, 2021, the duration of the portfolio was 4.1 years. Some of AGM's investments have been deployed in AssuredIM managed funds, CLOs and/or separately-managed accounts while most of the portfolio will remains invested in high-quality fixed income securities. KBRA notes the expansion of AGM's investment strategy to deploy more of AGM'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

AGM Investment Portfolio Composition (6/30/2021)			
$ Millions	**Amortized**		**Pre-tax**
Sector	**Cost**	**% of portfolio**	**Book Yields***
U.S. State and Political Subdivisions	$1,899	39%	3.40%
U.S. Government	71	1%	1.71%
Corporate Securities	1,441	29%	2.16%
RMBS	289	6%	5.14%
CMBS	163	3%	3.42%
CLOs	422	9%	2.36%
Other ABS	52	1%	4.74%
Non-U.S. Government	168	3%	1.09%
Total Fixed Maturities	**$4,505**	**91%**	**2.92%**
Short term investments and cash	422	9%	0.01%
Grand Total	**$4,927**	**100%**	**2.69%**

Note: cash excluded from total yield calculations.

Source: AGM financial supplement

Income Statement

AGM reported statutory net income of $130.4 million for the first six months of 2021. The company continues to generate a steady stream of earnings from the run-off of its insured portfolio, increased portfolio writings, and consistent investment income. The increase in investment income for 2020 shown below reflects the MAC transaction.

Figure 9

Select AGM Statutory Income Data						
$ Thousands	**6/30/2021**	**12/31/2020(1)**	**12/31/2019**	**12/31/2018**	**12/31/2017**	**12/31/2016**
Gross Premiums Written (GPW)	$139,449	$391,728	$244,506	$254,775	$332,742	$219,959
Net Premiums Written	114,948	315,803	317,012	187,681	261,821	143,477
Net premiums Earned (NPE)	84,283	203,383	140,699	156,686	202,426	295,799
Loss & loss adjustment expenses (L&LAE)	(33,224)	(28,613)	(62,869)	44,607	332,228	103,022
Other underwriting expenses	58,813	92,019	101,486	90,246	114,922	84,226
Total losses & operating expenses	25,589	63,406	38,617	134,852	447,150	187,248
Net underwriting gain (loss)	58,694	139,977	102,082	21,833	(244,724)	108,551
Net investment gain	90,850	269,086	219,802	142,397	181,756	155,488
Other income, net gain (loss)	(8,236)	14,523	13,315	39,785	299,990	29,055
Earnings Before Taxes	141,308	423,587	335,198	204,015	237,022	293,095
Net Income (Loss)	$130,445	$398,309	$311,783	$172,207	$152,389	$190,726
Dividends Paid	$210,637	$274,624	$220,000	$170,500	$196,000	$246,600
Expense ratio (Underwriting exp. / GPW)	42.2%	23.5%	41.5%	35.4%	34.5%	38.3%
Loss ratio (L&LAE / NPE)	-39.4%	-14.1%	-44.7%	28.5%	164.1%	34.8%
Combined ratio	2.8%	9.4%	-3.2%	63.9%	198.7%	73.1%
Return on Surplus (ROS) Pre-tax basis *	10.0%	15.5%	12.8%	8.5%	10.4%	12.3%
Return on Surplus (ROS) After-tax basis *	9.3%	14.6%	11.9%	7.2%	6.7%	8.0%

Source: AGM statutory statements

(1) Restated for MAC merger transaction.

** Return on Surplus was annualized for 6/30/2021.*

AGUK Financial Position

As of December 31, 2020, AGUK reported shareholder's funds of £701.7 million, a decrease of approximately £80 million from year-end 2019. Claims paying resources at year-end 2020 decreased by approximately £230 million to £1.2 billion. As gross par outstanding decreased by £6 billion, gross par leverage declined to 14x, which KBRA views as low. Unearned premium balances are high due the large upfront premium that is typical for international infrastructure transactions. Due to the high level of reinsurance on the portfolio, AGUK has reported negligible net earnings over the last several years.

Figure 10

Assured Guaranty UK Limited (formerly Assured Guaranty (Europe) plc) Summary Balance Sheet Data					
£ Thousands	**12/31/2020**	**12/31/2019**	**12/31/2018**	**12/31/2017**	**12/31/2016**
Total Assets	£1,543,722	£1,855,132	£1,877,475	£1,318,460	£1,025,846
Claims paying resources:					
Provision for unearned premium	£522,877	£670,141	£665,701	£395,683	£422,271
Technical provisions	34,824	39,918	43,626	16,241	21,028
Shareholder's funds	701,659	781,057	770,983	553,836	205,519
Total claims paying resources (KBRA definition)	£1,259,360	£1,491,116	£1,480,310	£965,760	£648,818
Gross par outstanding (GPO)	17,800,000	23,800,000	23,600,000	14,000,000	14,600,000
Net par outstanding (NPO)	8,100,000	10,400,000	10,000,000	500,000	300,000
Leverage: GPO/Claims paying resources (X)	**14x**	**16x**	**16x**	**14x**	**23x**
Leverage: NPO/Claims paying resources (X)	**6x**	**7x**	**7x**	**1x**	**0x**

Source: AGE financial statements. Prepared in accordance with UK GAAP.

Dividends

AGM's ability to pay dividends is subject to statutory limitations imposed by New York insurance law, which provides that a New York financial guaranty insurer generally cannot pay a dividend except out of the portion of the insurer's earned surplus that represents the net earnings, gains or profits which that insurer has not otherwise utilized. Additionally, without regulatory approval, a New York financial guaranty insurer may not pay dividends in aggregate during any 12-month period in excess of the lesser of 10% of its surplus and 100% of its adjusted net investment income for such 12-month period. As of June 30, 2021, the maximum amount distributable from AGM as ordinary dividends in 2021 is approximately $294 million, of which $82 million was paid in the first six months of 2021.

AGUK is authorized by the Prudential Regulatory Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA). The PRA assesses AGUK's capital adequacy within the European Solvency II framework which specifies that insurers are subject to a Solvency Capital Requirement (SCR) which is calculated based on standardized formulas to determine the capital necessary to support the risks underwritten by the company. Through active dialogue with the company, the PRA provides feedback and guidance on any management plans to augment or reduce AGUK's capital resources. In general, AGUK may pay dividends to its parent company, AGM, provided such actions do not reduce its capital base below the sum of its SCR plus an additional margin determined by AGUK.

Sutton Capital Trusts

In June 2003, AGM established four Custodial Trusts (the Trusts) which issued an aggregate of $200 million of preferred trust securities. The proceeds of the issuance were invested in highly rated commercial paper. AGM entered into an agreement with the Trusts whereby it is entitled in its sole discretion to deliver Preferred Stock to the Trusts in exchange for cash up to the $200 million held in the Trusts.

In light of 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 AGM.

Holding Company

Assured Guaranty US Holdings Inc. (AGUS), along with Assured Guaranty Municipal Holdings Inc. (AGMH) are U.S. holding companies under the publicly traded parent company, AGL. At year-end 2020, KBRA estimates total debt to capital was approximately 20% and interest coverage was nearly 10 times. Inclusive of two senior note issuances in 2021, AGUS has approximately $2.0 billion of long-term debt outstanding, including $1.7 billion of long-term notes and $280 million of intercompany loans. The net proceeds from the two current year debt issuances were largely used to retire existing AGL guaranteed debt. KBRA anticipates these ratios will remain consistent with the current rating level.

The primary source of liquidity at AGUS is dividends from its U.S. insurance operating subsidies, AGM and AGC. Further, excess fee income from AssuredIM may provide an additional source of funding to cover debt service. Funds in excess of debt service requirements and tax restrictions at AGUS are upstreamed via dividends to AGL.

The three-notch issuer rating on AGUS reflects structural subordination, regulatory restrictions, and overall financial flexibility.

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.