Assured Guaranty Corp.

(an indirect wholly-owned subsidiary of Assured Guaranty Ltd.)
Statutory Financial Statements
December 31, 2022 and 2021

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Report of Independent Auditors

To the Board of Directors of Assured Guaranty Corp.

Opinions

We have audited the accompanying statutory financial statements of Assured Guaranty Corp. (the "Company"), which comprise the statutory statements of admitted assets, liabilities and surplus as of December 31, 2022 and 2021, and the related statutory statements of income, of changes in surplus, and of cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

Unmodified Opinion on Statutory Basis of Accounting

In our opinion, the accompanying financial statements present fairly, in all material respects, the admitted assets, liabilities and surplus 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 the accounting practices prescribed or permitted by the Maryland Insurance Administration described in Note 2.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the accompanying financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2022 and 2021, or the results of its operations or its cash flows for the years then ended.

Basis for Opinions

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 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 opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 to the financial statements, the financial statements are prepared by the Company on the basis of the accounting practices prescribed or permitted by the Maryland Insurance Administration, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the statutory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the Maryland Insurance Administration. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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 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 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.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental Summary Investment Schedule and Supplemental Investment Risks Interrogatories and Supplemental Schedule of Reinsurance Disclosures (collectively referred to as the "supplemental schedules") of the Company as of December 31, 2022 and for the year then ended are presented to comply with the National Association of Insurance Commissioners' Annual Statement Instructions and Accounting Practices and Procedures Manual and for purposes of additional analysis and are not a required part of the financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

New York, New York
May 25, 2023

Assured Guaranty Corp.
Statutory Statements of Admitted Assets, Liabilities and Surplus
(in thousands of dollars, except share and per share amounts)

	As of December 31,	
	2022	2021
Admitted assets		
Cash and invested assets		
Bonds (fair value of $2,011,478 and $2,308,622)	$ 2,055,728	$ 2,118,089
Stocks, on the equity basis	790	1,136
Real estate	22,151	23,685
Cash ($24,575 in 2022; $50,052 in 2021) and cash equivalents ($111,451 in 2022; $231,134 in 2021)	136,027	281,186
Loans receivable from affiliate	87,500	87,500
Other invested assets	211,125	224,093
Receivables for securities sold	3,339	25
Total cash and invested assets	2,516,660	2,735,714
Premiums receivable, net of commissions payable	11,018	10,739
Accrued investment income	20,245	19,960
Funds held by or deposited with reinsurers	1,665	1,299
Net deferred tax asset	42,040	46,110
Other assets	(17,693)	59,976
Total admitted assets	**$ 2,573,935**	**$ 2,873,798**
Liabilities and surplus to policyholders		
Liabilities		
Unearned premium reserves	$ 311,137	$ 336,011
Contingency reserves	346,940	348,062
Reserves (recoverables) for losses and loss adjustment expenses	(49,346)	7,072
Current federal income taxes payable	3,224	711
Ceded premium balances payable	7,617	8,393
Funds held for reinsurers	8,896	45,202
Payable to parent, subsidiaries and affiliates	23,165	22,519
Accrued expenses and other liabilities	6,224	36,001
Total liabilities	**657,857**	**803,971**
Surplus to policyholders		
Preferred stock ($1,000 par value, 200,004 shares authorized; no shares issued or outstanding)	—	—
Common stock (493,339 shares authorized, 14,173 shares issued and outstanding, with par value of $1,058)	15,000	15,000
Surplus notes	300,000	300,000
Paid-in surplus	623,306	623,306
Unassigned surplus	977,772	1,131,521
Total surplus to policyholders	**1,916,078**	**2,069,827**
Total liabilities and surplus to policyholders	**$ 2,573,935**	**$ 2,873,798**

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

Assured Guaranty Corp.
Statutory Statements of Income
(in thousands)

	Year Ended December 31,	
	2022	**2021**
Written:		
Direct premiums written	$ 27,458	$ 32,569
Assumed premiums written	29,363	40,876
Ceded premiums written	(15,801)	14,472
Net premiums written	41,020	87,917
Revenues:		
Net premiums earned	61,614	54,500
Expenses:		
Loss benefit	(2,071)	(73,675)
Loss adjustment expenses	4,997	22,774
Other underwriting expenses	60,692	60,131
Total underwriting expenses	63,618	9,230
Net underwriting gain (loss)	**(2,004)**	**45,270**
Investment income:		
Net investment income	97,207	211,220
Net realized capital gains (losses) (net of tax provision (benefit) of $(456) and $227)	(34,784)	14,068
Net investment gain	62,423	225,288
Other income	4,570	10,140
Income after capital gains tax and before federal income taxes	**64,989**	**280,698**
Income tax (provision) benefit	(3,283)	1,257
Net income	**$ 61,706**	**$ 281,955**

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

Assured Guaranty Corp.
Statutory Statements of Changes in Surplus
Years Ended December 31, 2022 and 2021
(in thousands)

	Common Stock	Surplus Note	Paid-in Surplus	Unassigned (Deficit) Surplus	Total Surplus to Policyholders
Balance at December 31, 2020	$ 15,000	$ 300,000	$ 623,306	$ 778,471	$ 1,716,777
Change in contingency reserve	—	—	—	197,434	197,434
Change in non-admitted assets	—	—	—	22,909	22,909
Change in net unrealized capital gains	—	—	—	(26,481)	(26,481)
Change in net deferred income tax	—	—	—	(29,490)	(29,490)
Change in foreign exchange adjustment	—	—	—	878	878
Dividends to stockholder	—	—	—	(94,100)	(94,100)
Net income	—	—	—	281,955	281,955
Other	—	—	—	(55)	(55)
Balance at December 31, 2021	15,000	300,000	623,306	1,131,521	2,069,827
Change in contingency reserve	—	—	—	1,121	1,121
Change in non-admitted assets	—	—	—	7,350	7,350
Change in net unrealized capital gains	—	—	—	(15,315)	(15,315)
Change in net deferred income tax	—	—	—	(5,993)	(5,993)
Change in foreign exchange adjustment	—	—	—	4,282	4,282
Dividends to stockholder	—	—	—	(206,900)	(206,900)
Net income	—	—	—	61,706	61,706
Balance at December 31, 2022	$ 15,000	$ 300,000	$ 623,306	$ 977,772	$ 1,916,078

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

Assured Guaranty Corp.
Statutory Statements of Cash Flows
(in thousands)

	Year Ended December 31,	
	2022	2021
Cash from operations		
Premiums collected, net of reinsurance	$ 39,571	$ 54,812
Losses (paid) recovered	(218,941)	43,843
Underwriting and loss adjustment expenses paid	(71,311)	(80,569)
Net investment income received	85,078	73,535
Federal income tax paid	(314)	(100)
Other income (paid) received	(3,529)	6,889
Net cash provided by (used for) operations	**(169,446)**	**98,410**
Cash from investments		
Proceeds from investments sold, matured, or repaid		
Bonds	238,369	276,033
Stocks	—	66,893
Other invested assets	9,206	1
Miscellaneous proceeds	—	—
Total investments proceeds	247,575	342,927
Cost of investments acquired		
Bonds	(15,903)	(169,861)
Miscellaneous applications	(263)	(736)
Total investments acquired	(16,166)	(170,597)
Net cash provided by investments	**231,409**	**172,330**
Cash from financing and miscellaneous sources		
Dividends paid to stockholders	(206,900)	(94,100)
Other cash applied	(222)	—
Net cash used for financing and miscellaneous sources	**(207,122)**	**(94,100)**
Net change in cash, cash equivalents and short-term investments	(145,159)	176,640
Cash, cash equivalents and short-term investments:		
Beginning of year	281,186	104,546
End of year	**$ 136,027**	**$ 281,186**
Supplemental disclosure of cash flow information for non-cash transactions		
Bonds received for dividends	$ —	$ 130,475
Bonds received for reassumption of unearned premiums	—	29,971
Bonds received for return of capital	—	7,267
Bonds received as salvage	188,893	—
Accrued interest paid on bonds received as salvage	3,406	—

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

1. Organization and Ownership

Assured Guaranty Corp. ("AGC", or the "Company") is a Maryland domiciled insurance company organized in 1985 and licensed in 52 jurisdictions. AGC is a direct, wholly-owned subsidiary of Assured Guaranty US Holdings Inc. ("AGUS" or the "Parent"). AGUS is a direct, 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 international public finance (including infrastructure) and structured finance markets, as well as asset management services.

AGC owns 35% of AG Asset Strategies LLC ("AGAS"). AGAS is a Delaware limited liability company formed for the purpose of making certain investments on behalf of the Company and one of its affiliates. AGAS invests in funds managed by its asset management affiliates. See Note 6, Investments — Investment in AGAS and Note 14, Subsequent Events.

Until April 1, 2021, AGC had a 39.3% ownership interest in the outstanding shares of Municipal Assurance Holdings Inc. ("MAC Holdings"). MAC Holdings was a Delaware company formed to hold all of the outstanding shares of Municipal Assurance Corp. ("MAC"), a New York domiciled insurance company, that offered insurance and reinsurance on bonds issued by U.S. state or municipal governmental authorities. Effective April 1, 2021, AGC sold its ownership interest in MAC Holdings to Assured Guaranty Municipal Corp. ("AGM"), and MAC was merged into AGM. See Note 10, Related Party Transactions.

Business

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 and structured 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.

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 territorial 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 and backed by pools of assets having an ascertainable cash flow or market value or other specialized financial obligations.

The Company also enters into ceded reinsurance contracts, which are substantially all with affiliated reinsurers, in order to reduce the net potential loss on ceded business to levels within the Company's risk tolerance, and reduce rating agency capital charges. See Note 9, Reinsurance.

2. Significant Accounting Policies

Basis of Presentation

The accompanying statutory financial statements have been prepared in conformity with insurance accounting practices prescribed or permitted by the Maryland Insurance Administration ("MIA"). These statutory accounting practices ("SAP") differ in certain material respects from accounting principles generally accepted in the United States of America ("GAAP").

The MIA recognizes only statutory accounting practices prescribed or permitted by the state of Maryland for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under the Maryland Insurance Code. The National Association of Insurance Commissioners' ("NAIC") *Accounting Practices and Procedures Manual* has been adopted as a component of prescribed practices by the MIA. The MIA has the right to permit other specific practices that deviate from prescribed practices; however, the Company has no permitted practices.

The preparation of financial statements in conformity with accounting practices prescribed or permitted by the MIA requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the Company's statutory statements of admitted assets, liabilities and surplus and the reported amounts of revenues and expenses in the statutory statements of income and changes in surplus. Such estimates and assumptions include, but are not limited to, losses and loss adjustment expenses ("LAE"), the determination of other-than-temporary impairments ("OTTI"), taxes, premium revenue recognition and fair value of financial instruments. Actual results may differ from those estimates.

The Company's significant accounting policies are outlined as follows:

Insurance Contracts

Revenue Recognition

Premiums charged in connection with the issuance of the Company's guarantees are received either upfront at contract inception and/or in installments over the life of the covered risk and are recorded as premiums written when due. Upfront premiums are earned based on the proportion of principal and interest due during the period. Installment premiums are earned on a monthly pro-rata basis over the installment period. In addition, when an insured issue is retired early, is called by the issuer or is, in substance, paid in advance through a refunding, the remaining unearned premium is earned at that time.

Unearned premium reserves, net of ceded unearned premium reserves, represent the unearned portion of upfront and installment premiums written. Unearned premium reserves denominated in foreign currency are revalued at the spot rate as of the balance sheet date and the unrealized gain or loss is recognized in surplus.

In connection with certain of its insured transactions, the Company may collect consent, termination, waiver and other fees. These fees are earned when services are rendered and the fees are due.

Reserves for Losses and LAE

Reserves for losses and LAE are determined from individual case estimates, based on probability weighted cash flows, and loss reports. Such liabilities are based on assumptions and estimates and the ultimate liability may differ from the amount provided. The assumptions for making such estimates and for establishing the resulting liabilities are periodically reviewed and any adjustments are reflected in the period determined.

Financial guaranty case reserves are established when there is significant credit deterioration on specific insured obligations, and the obligations are either in default or are determined to have a 50% or more likelihood of default, not necessarily upon non-payment of principal or interest by an insured. Financial guaranty case reserves were discounted at a rate approximating the pre-tax book yield on the Company's investment portfolio of 3.5% in 2022. In 2021, a 4.0% discount rate was used. Expected recoveries of claim payments are reported net in reserves for losses and LAE and loss (benefit) incurred.

Expenses Associated with Acquiring New Insurance Business

Expenses incurred in connection with acquiring new insurance business are charged to operations as incurred.

Ceding Commission Income

Ceding commission income that offsets the acquisition cost of business ceded is recorded as a reduction to other underwriting expenses. For ceding commissions that the Company receives that exceed the acquisition cost of business ceded, the Company establishes a liability that is amortized over the term of the reinsurance agreement in proportion to the amount of coverage provided under the reinsurance contract.

Contingency Reserves

The Company is required to establish contingency reserves, which may be net of reinsurance so long as the applicable reinsurance agreement requires the reinsurer to maintain contingency reserves in an amount equal to the Company's deduction from its own net contingency reserves due to such reinsurance. The reserve amount is established by a charge to surplus equal to the greater of 50% of premiums written for each category of insured obligation or a designated percent of principal guaranteed for that category. These amounts are provided each quarter as either 1/60th or 1/80th of the total required for each category, less permitted reductions.

For the purpose of calculating contributions to its contingency reserves, the Company categorizes each of its policies into 10 categories of guaranties as set forth in SAP based on the type of obligation insured by the policy.

Once the reserve is calculated, as described above, it is incrementally recognized in the financial statements over a prescribed time period based on the type of business. The reserve provisions described above are released each quarter in the same amounts as they were set up, once the 60- or 80-quarter provision period has been reached. Reduction in the contingency reserves may also be recognized under certain stipulated conditions, subject to the approval or non-objection of the MIA, such as when losses incurred exceed a specified percentage of earned premium in a period or when the reserves are instead proven to be excessive in relation to outstanding obligations.

With respect to the regular, quarterly contributions to contingency reserves required by the applicable Maryland laws and regulations, such laws and regulations permit the discontinuation of such quarterly contributions to a company's contingency reserves when such company's aggregate contingency reserves for a particular line of business (i.e., municipal or non-municipal) exceed the sum of the company's outstanding principal for each specified category of obligations within the particular line of business multiplied by the specified contingency reserve factor for each such category. In accordance with such laws and regulations, and with the approval of the MIA, AGC ceased making quarterly contributions to its contingency reserves for both municipal and non-municipal business beginning in the fourth quarter of 2014. Such cessations are expected to continue for as long as AGC satisfies the foregoing condition for its applicable lines of business.

In 2013, AGC sought and obtained approval from the MIA to (i) reassume all of the outstanding contingency reserves that it was then ceding to its affiliate, Assured Guaranty Re Ltd. ("AG Re"), and (ii) cease ceding future contingency reserves to AG Re in respect of both new and existing business. Accordingly, AGC currently does not cede any outstanding contingency reserves to AG Re, but, instead, maintains as part of its own net contingency reserves such reserves that it otherwise could cede to AG Re based on AG Re's assumed share of its outstanding business.

From time to time, the Company has obtained approval or non-objection from the MIA to release contingency reserves based on losses or because the accumulated contingency reserve is deemed excessive in relation to the insurer's outstanding insured obligations.

Investments, Cash and Cash Equivalents

Cash equivalents and short-term investments, with the exception of money market mutual funds, are stated at amortized cost and have maturities within one year of purchase date. Money market mutual funds are accounted for at fair value, which approximates amortized cost.

Investments in long-term bonds with an NAIC designation of 1 or 2 are stated at cost, adjusted for amortization of premium, accretion of discount and OTTI ("amortized cost"). Amortization and accretion are calculated using the constant yield method. Bonds and loan-backed securities with NAIC designations of 3 through 6 are stated at the lower of amortized cost or fair value.

For bonds and loan-backed securities purchased at a price below par value, discounts are accreted over the remaining term of the security. For bonds that have call dates and loan-backed securities purchased at a price above par value, premiums are amortized on a yield-to-worst basis. For bonds

purchased at a premium that do not have call features, such premiums are amortized over the remaining term of the security.

In circumstances where the Company has 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 fixed income security to the Company, loss reserves are 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, upon acquisition, are recorded in the investment portfolio at fair value excluding the value of the Company's insurance. In subsequent periods, loss mitigation securities are recorded based upon their NAIC designation, as described above, excluding the value of the Company's insurance. The Company does not reduce its par and debt service outstanding related to loss mitigation securities under SAP.

When calculating the accretion of any discount or amortization of any premium in a given period, changes in the estimated cash flows from the original purchase assumptions are accounted for using the prospective method for loss mitigation securities and for securities with OTTI. For all other securities, changes in the estimated cash flows from the original purchase assumptions are accounted for using the retrospective method.

Net realized capital gains and losses on the sale of investments are determined on the basis of the specific identification method and are included in the Statement of Income. Realized gains from economic transfers of investments to certain related parties are deferred and not recognized until an arms-length transaction with an independent third party gives rise to the appropriate recognition of a gain.

Net investment income includes interest received and change in accrued interest on investments (including loans to affiliates), dividends from equity investments and the amortization of premiums and accretion of discounts using the constant yield method. Accrued investment income that is deemed uncollectible is charged against net investment income in the period such determination is made, while accrued investment income greater than 90 days past due is non-admitted and charged directly to surplus. Net investment income is reduced by investment management expenses and interest expense on surplus notes.

If management intends to sell the security or if management believes it is more likely than not such securities will be required to be sold prior to recovery of the carrying value, the entire amount of the unrealized loss (i.e., difference between fair value and amortized cost) is recognized as a realized loss.

The Company has a formal review process for securities for which the fair value is less than amortized cost to determine whether such a decline in fair value is other-than-temporary. Factors considered when assessing impairment include:

- a decline in the market value of a security by 20% or more below amortized cost for a continuous period of at least six months;

- a decline in the market value of a security for a continuous period of 12 months;

- recent credit downgrades of the applicable security or the issuer by rating agencies;
- the financial condition of the applicable issuer;
- whether loss of investment principal is anticipated;
- whether scheduled interest payments are past due; and
- whether the Company has the ability and intent to hold the security for a sufficient period of time to allow for anticipated recoveries in amortized cost.

Based on this assessment, for bonds, other than loan-backed and structured securities, if the Company believes that either (a) the investment's fair value will not recover to an amount equal to its amortized cost or (b) the Company does not have the ability and intent to hold the investment to maturity or for a sufficient period to allow its fair value to recover to an amount at least equal to its amortized cost, the Company will determine the decline to be other-than-temporary. In this case, the Company will write down the carrying value of the investment to its fair value and record a realized loss in the Statement of Income.

For loan-backed and structured securities, the Company assesses the ability to recover the amortized cost by comparing the net present value of projected future cash flows with the amortized cost of the security. The net present value is calculated by discounting the Company's estimate of projected future cash flows at the effective interest rate implicit in the loan-backed or structured security. For loan-backed and structured securities where the Company has no intent to sell or it is more likely than not such securities will not be sold prior to recovery, and the net present value is less than the amortized cost, an OTTI is recorded for the difference between the amortized cost and the higher of (1) fair value or (2) net present value of cash flows.

The assessment of a decline in value includes management's current assessment of the factors noted above. If that assessment changes in the future, the Company may ultimately record a loss after having originally concluded that the decline in value was temporary.

Real estate held for the production of income, which the Company received due to its loss mitigation rights under a financial guaranty insurance contract, is held at its depreciated cost. The cost basis was determined based on an independent third-party appraisal at the date of the contribution, and a 2020 appraisal supports the Company's ability to admit the related asset. The cost of property, other than land, is being depreciated over periods not greater than 25 years.

The Company has an investment in a promissory note issued by AGUS (see Note 10, Related Party Transactions), which is carried at face value.

Other invested assets consists of a limited liability company, which is carried based on the GAAP equity of the entity. The change in unrealized gains and losses in the limited liability company is reflected directly in unassigned surplus.

Non-Admitted Assets

The following assets are the primary components of non-admitted assets charged directly to surplus in accordance with SAP: net deferred tax asset, prepaid expenses and uncollected premiums.

Surplus Notes Issued

Surplus notes are recorded as equity and reported as part of surplus. Each payment of principal and interest is recorded only upon approval of the MIA.

Income Taxes

The income tax provision and benefit consists of an amount for taxes currently payable/receivable. The Company was taxed at the U.S. marginal corporate income tax rate of 21%. Deferred income tax assets and liabilities are established, subject to the limitations discussed below, for the temporary differences between the financial statement carrying amounts and tax basis of assets and liabilities using enacted rates in effect for the year in which the differences are expected to reverse.

The amount of deferred tax assets ("DTA") that may be admitted is generally limited to the lesser of those assets the Company expects to realize within three years of the balance sheet date or fifteen percent of the Company's adjusted surplus, provided the following ratio is greater than 115%:

- The numerator is equal to surplus to policyholders less those DTAs the Company expects to realize within three years plus contingency reserves ("ExDTA Surplus").

- The denominator is equal to the required amount of minimum aggregate capital required to be maintained under the applicable NAIC model law or state variation thereof based on the risk characteristics and the amount of insurance in force ("Aggregate Risk Capital").

This realization period and surplus percentage are subject to change based on the amount of adjusted surplus. The change in net deferred income tax is recognized as a separate component of changes in the unassigned surplus.

Litigation

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.

Variances between SAP and GAAP

SAP differ in certain significant respects from GAAP. The principal differences between SAP and GAAP for the Company are as follows:

	SAP	**GAAP**
Premiums receivable, net of commissions payable, and ceded premium balances payable	Includes only those amounts currently due under the insurance contract.	Includes the present value of the contractual or expected premiums to be collected or paid over the period of the contract. Excludes premiums for insured credit derivatives.
Installment premiums	Earned on a pro-rata basis over the installment period.	Earned in proportion to the insurance protection provided. Excludes premiums for insured credit derivatives.
Upfront premiums	Earned upon expiration of risk.	Earned in proportion to the insurance protection provided. Excludes premiums for insured credit derivatives.
Refundings	Premium recognition may be accelerated when transactions are economically defeased.	Premium recognition is accelerated when transactions are legally defeased.
Foreign-denominated unearned premium reserves	Remeasured at balance sheet date exchange rates.	Measured at historical exchange rates.
Reserves for losses	Case reserves are established when there is significant credit deterioration on specific insured obligations, and the obligations are either in default or are determined to have a 50% or more likelihood of default, with probability weighted estimates that are discounted at a rate approximating the pre-tax book yield on the Company's investment portfolio and recorded without consideration of the unearned premium reserve.	Expected losses reflect a probability weighted estimate of all possible outcomes, discounted at a risk free rate at the end of each reporting period, and are recorded only to the extent and for the amount that they exceed unearned premium reserve.
Acquisition costs	Charged to expense as incurred.	Expensed over the period that the related premiums are earned.
Ceding commission Income	Earned immediately except for amounts in excess of acquisition cost, which are deferred and recognized in proportion to coverage provided under the reinsurance agreement.	Capitalized, similar to acquisition costs, and earned over the life of the reinsurance agreement.
Insured credit derivatives	Accounted for as insurance contracts, as described above.	Accounted for as derivative contracts and measured at fair value.
Policies of Variable Interest Entities ("VIEs")	Accounted for as insurance contracts as described above.	Where the Company is considered the primary beneficiary, the policy is eliminated and the VIE is consolidated.

Contingency reserves	Established according to applicable insurance laws.	There is no requirement to establish contingency reserves.
Bonds	Reported at values prescribed by the NAIC, which is either amortized cost or the lower of amortized cost or fair value.	Classified as available-for-sale or trading securities and carried at fair value.
Investment impairments	Recognized as OTTI and written down to fair value or the present value of cash flows with a realized loss recognized through income.	The portion of impairment related to credit losses is recorded as an allowance for credit losses with an offset to realized losses, and any portion unrelated to credit losses is recognized through AOCI. The GAAP allowance for credit losses can be reversed for subsequent increases in expected cash flows.
Investments in subsidiaries	Carried on the balance sheet on the equity basis, to the extent admissible.	Consolidated with the parent.
Surplus notes	Recognized as surplus and each payment of principal and interest is recorded only upon approval of the insurance regulator.	Recognized as liabilities with periodic accrual of interest.
Non-admitted assets	Certain assets are designated as non-admitted assets and charged directly to statutory surplus.	There are no requirements to reflect any assets as non-admitted assets.
Committed capital securities	Not recognized until put options are exercised.	Accounted for as derivative contracts and measured at fair value.
Deferred tax assets	The amount of deferred tax assets that may be admitted is subject to an adjusted surplus threshold and is generally limited to the lesser of those assets the Company expects to realize within three years of the balance sheet date or fifteen percent of the Company’s adjusted surplus.	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.

The GAAP consolidated shareholder’s equity attributable to AGC was $1,972 million and $2,237 million as of December 31, 2022 and 2021, respectively. The GAAP consolidated net income attributable to AGC was $144 million and $116 million for the years ended December 31, 2022 and 2021, respectively.

3. Insurance in Force

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 Assured Guaranty'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, which 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 below-investment-grade ("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 for 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 are generally reflective of 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 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 the credit when a ratings review is not scheduled. For assumed exposures, the Company also use the ceding company's credit ratings of transactions where it is impractical for it to assign its own rating. The Company provides surveillance for exposures assumed from Syncora Guarantee Inc., so for those exposures the Company assigns its own rating.

Exposures identified as BIG are subjected to further review to determine the probability of a loss. Surveillance personnel then assign each BIG transaction to the appropriate BIG surveillance category based upon whether a future loss is expected and whether a claim has been paid. 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. For surveillance purposes, the Company calculates present value using a discount rate of 3.5% (which is the rate based on the approximate pre-tax book yield of the Company's investment portfolio that is also used for calculating the loss reserves for financial statement purposes).

More extensive monitoring and intervention are employed for all BIG surveillance categories, with internal credit ratings reviewed quarterly.

The three BIG categories are:

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.

Components of Outstanding Exposure

The Company's policies insure the scheduled payments of principal and interest on public finance and structured finance obligations. The gross amount of debt service was $44.5 billion at December 31, 2022 and $45.3 billion at December 31, 2021. The net amount of debt service was $32.9 billion at December 31, 2022 and $32.9 billion at December 31, 2021.

The Company seeks to limit its exposure to losses from writing financial guaranties by underwriting obligations that are investment grade at inception, diversifying its portfolio and maintaining rigorous collateral requirements on structured finance obligations, as well as through reinsurance. 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 or the terms to maturity 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.

Contractual Terms to Maturity of Par Outstanding of Insured Obligations

Terms to Maturity	At December 31, 2022					
	Gross Par Outstanding		Ceded Par Outstanding		Net Par Outstanding	
	Public Finance	Structured Finance	Public Finance	Structured Finance	Public Finance	Structured Finance
			(in millions)			
0 to 5 years	$ 2,616	$ 1,086	$ 691	$ 191	$ 1,925	895
5 to 10 years	3,228	2,119	584	1,080	2,644	1,039
10 to 15 years	4,435	2,001	1,190	937	3,245	1,064
15 to 20 years	4,979	1,373	1,502	794	3,477	579
20 years and above	6,321	1,058	899	484	5,422	574
Total	$ 21,579	$ 7,637	$ 4,866	$ 3,486	$ 16,713	$ 4,151

The gross, ceded and net par outstanding of insured obligations in the public finance insured portfolio includes the following amounts by type of issue and the structured finance insured portfolio includes the following amounts by type of collateral in the table below.

Summary of Insured Portfolio

Types of Issues	At December 31,					
	Gross Par Outstanding		Ceded Par Outstanding		Net Par Outstanding	
	2022	2021	2022	2021	2022	2021
Public Finance			(in millions)			
U.S.:						
General obligation	$ 4,269	$ 4,182	$ 732	$ 811	$ 3,537	$ 3,371
Transportation	3,133	3,067	530	598	2,603	2,469
Tax backed	2,919	3,726	441	589	2,478	3,137
Infrastructure finance	2,040	2,136	277	305	1,763	1,831
Municipal utilities	1,624	1,509	268	313	1,356	1,196
Healthcare	513	387	39	62	474	325
Higher education	415	418	58	74	357	344
Housing	105	110	21	21	84	89
Other public finance	1,018	1,348	275	346	743	1,002
Total public finance-U.S.	16,036	16,883	2,641	3,119	13,395	13,764
Public finance-non-U.S.	5,543	6,386	2,225	2,536	3,318	3,850
Total public finance	21,579	23,269	4,866	5,655	16,713	17,614
Structured Finance						
U.S.:						
Life insurance transactions	$ 4,219	$ 3,690	$ 3,045	$ 2,659	$ 1,174	$ 1,031
Residential mortgages	1,021	1,166	71	94	950	1,072
Pooled corporate	534	432	58	42	476	390
Consumer receivables	304	400	52	70	252	330
Other structured finance	861	655	162	130	699	525
Total structured finance-	6,939	6,343	3,388	2,995	3,551	3,348
Structured finance-non-U.S.	698	620	98	75	600	545
Total structured finance	7,637	6,963	3,486	3,070	4,151	3,893
Total insured portfolio	$ 29,216	$ 30,232	$ 8,352	$ 8,725	$ 20,864	$ 21,507

The following table sets forth the net financial guaranty par outstanding by internal rating:

	December 31, 2022		December 31, 2021	
Ratings[1]	Net Par Outstanding	% of Net Par Outstanding	Net Par Outstanding	% of Net Par Outstanding
	(dollars in millions)			
AAA	$ 1,409	6.8 %	$ 1,406	6.5 %
AA	4,426	21.2	4,539	21.1
A	6,420	30.8	6,074	28.3
BBB	7,218	34.6	7,268	33.8
BIG	1,391	6.6	2,220	10.3
Total net par outstanding	$ 20,864	100.0 %	$ 21,507	100.0 %

(1) Represents the Company's internal rating. The Company's ratings scale is similar to that used by the rating agencies discussed in Note 1.

In its structured finance business, the Company considers geographic concentration as a factor in underwriting insurance covering securitizations of pools of such assets as residential mortgages or consumer receivables. However, after the initial issuance of an insurance policy relating to such securitizations, the geographic concentration of the underlying assets may not remain fixed over the life of the policy. In addition, in writing insurance for other types of structured finance obligations, such as securities primarily backed by government or corporate debt, geographic concentration is not deemed by the Company to be significant, given other more relevant measures of diversification, such as issuer or industry diversification.

The Company seeks to maintain a diversified portfolio of insured public finance obligations designed to spread its risk across a number of geographic areas. The following table sets forth those states in which municipalities located therein issued an aggregate of 2% or more of the Company's net par amount outstanding of insured public finance securities:

Public Finance Insured Portfolio by Location of Exposure

	At December 31, 2022		
	Net Par Amount Outstanding	% of Total Net Par Amount Outstanding	Ceded Par Amount Outstanding
	(dollars in millions)		
Domestic obligations			
California	$ 4,340	26.0 %	$ 786
Texas	1,562	9.3	300
New Jersey	997	6.0	109
Virginia	731	4.4	222
New York	688	4.1	144
Illinois	684	4.1	132
Florida	658	3.9	142
Pennsylvania	500	3.0	35
All other U.S. locations	3,235	19.3	771
Subtotal	13,395	80.1	2,641
International obligations	3,318	19.9	2,225
Total	$ 16,713	100.0 %	$ 4,866

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 $312 million net par outstanding as of December 31, 2022, a decrease of $753 million from the $1.1 billion net par outstanding as of December 31, 2021. All of the Company's insured exposure to Puerto Rico is rated BIG. The Company has paid claims as a result of payment defaults on all of its outstanding Puerto Rico exposures except the Municipal Finance Agency ("MFA"), the Puerto Rico Aqueduct and Sewer Authority ("PRASA") and the University of Puerto Rico ("U of PR"), which have made their debt service payments on time.

On June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") was signed into law. PROMESA established seven-member financial oversight and management board ("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").

Currently there are numerous legal actions relating to the default by the Commonwealth and certain of its entities on debt service payments, and related matters, and the Company is a party to a number of them. See Note 14, Liabilities, Contingencies and Assessments.

After over five years of negotiations, in 2022, a substantial portion of the Company's Puerto Rico exposure was resolved in accordance with four orders entered by the 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 January 20, 2022, the Federal District Court of Puerto Rico, acting under Title VI of PROMESA, entered an order under Title VI of PROMESA ("PRCCDA Modification") modifying the debt of the Puerto Rico Convention Center District Authority ("PRCCDA").

- On January 20, 2022, the Federal District Court of Puerto Rico, acting under Title VI of PROMESA, entered another order under Title VI of PROMESA ("PRIFA Modification") modifying certain debt of the Puerto Rico Infrastructure Financing Authority ("PRIFA").

- 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 each of the GO/PBA Plan, PRCCDA Modification and PRIFA Modification 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 debt of the PRCCDA and PRIFA were extinguished, and its insurance exposure to Puerto Rico GO, PBA and PRHTA was greatly reduced.

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.

PREPA

As of December 31, 2022, the Company had $69 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 ("RSA") 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 April 24, 2023 extending the term to July 28, 2023. 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 regarding whether that creditor repayment is limited to existing accounts, and another group that would continue litigating that bondholders have a right to PREPA'S current and future revenue collections. The FOMB PREPA Plan provides for lower recoveries to bondholders than did previous agreements the FOMB reached with bondholders. The Federal District Court of Puerto Rico approved the PREPA disclosure statement on February 28, 2023, which allows bondholder solicitation on the FOMB PREPA Plan to begin.

On March 22, 2023, the Federal District Court of Puerto Rico found that the PREPA bondholders had perfected liens only in revenues that had been deposited in the sinking fund established under the PREPA trust agreement and related funds over which the bond trustee had control. The Federal District Court of Puerto Rico also held, however, that PREPA bondholders do have recourse under the PREPA trust agreement in the form of an unsecured net revenue claim. The Federal District Court of Puerto Rico declined to value the amount of the claim but defined it as the value of the net revenues that would have, under the waterfall provisions of the PREPA trust agreement and applicable nonbankruptcy law, become collateral upon being deposited in the sinking fund and payable to PREPA bondholders over the remaining terms of the bonds. The ultimate value of the claim, according to the Federal District Court of Puerto Rico should be determined through a claim estimations proceeding.

On April 13, 2023, the Federal District Court of Puerto Rico issued an order regarding proposed procedures to estimate the value of the unsecured net revenue claim, pursuant to which the court established a discovery briefing and expert report schedule, indicated that a hearing would be held the week of June 5, 2023, and stated that it expected and directed the parties to engage in good faith mediation.

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 remaining $19 million of insured net par outstanding of GO bonds and $4 million of insured net par outstanding of PBA bonds.

Under the GO/PBA Plan and in connection with its direct exposure the Company received, and in connection with its assumed reinsurance exposure the Company has received, and will receive, its proportionate share of, cash, new general obligation bonds and CVIs (in aggregate, "GO/PBA Plan Consideration") (excluding amounts received in connection with the second election described further below and amounts received in connection with second-to-pay exposures):

- $144 million in cash, net of ceded reinsurance (and excluding $17 million of custodial trusts),
- $130 million of new general obligation bonds ("New GO Bonds"), which represents the face value of current interest bonds and the maturity value of capital appreciation bonds, net of ceded reinsurance (and excluding $20 million of custodial trusts), and
- $62 million of contingent value instruments ("CVI"), which represents the original notional value, net of ceded reinsurance (and excluding $9 million of custodial trusts).

The assets received within the custodial trusts, in connection with the second election, are excluded in the above amounts given that they are accounted for as insurance under NAIC SAP. Under GAAP, the custodial trusts are consolidated.

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 value of the CVIs is reported as a component of salvage recoverable. 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 it received on March 15, 2022, and may sell in the future any new recovery bonds it continues to hold. The fair value of any New GO Bonds the Company retains will fluctuate. Any gains or losses on sales of New GO Bonds relative to their values on March 15, 2022 were and will be reported as realized gains and losses on investments rather than incurred loss and LAE. Any changes in value of CVIs will be reported as losses incurred.

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 $65 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 $23 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 $212 million of insured net par outstanding of PRHTA bonds: $183 million insured net par outstanding of PRHTA (transportation revenue) bonds and $29 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, and in connection with its assumed reinsurance exposure the Company has received, and will receive, its proportionate share of, cash, new bonds backed by toll revenue and CVIs (in aggregate, HTA Plan Consideration and, together with GO/PBA Plan Consideration, Plan Consideration) (excluding amounts received in connection with the election described further below and amounts received in connection with second-to-pay exposures):

- $73 million in cash, net of ceded reinsurance,
- $138 million of new bonds backed by toll revenue (“Toll Bonds”), which represents the face value of current interest bonds and the maturity value of capital appreciation bonds and convertible capital appreciation bonds (and excluding $78 million of custodial trusts), and
- $332 million of CVIs, which represents the original notional value, net of ceded reinsurance.

The assets received within the custodial trusts, in connection with the second election, are excluded in the above amounts given that they are accounted for as insurance under NAIC SAP. Under GAAP, the custodial trusts are consolidated.

The Company has sold a portion of those Toll Bonds, and may sell in the future any Toll Bonds it continues to hold. The fair value of any Toll Bonds (relative to their values on December 6, 2022) that the Company retains will fluctuate. Any gains or losses on sales of Toll Bonds relative to their values were and will be reported as realized gains and losses on investments rather than incurred loss and LAE. Any changes in value of CVIs will be reported as losses incurred.

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 $212 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.

PRCCDA and PRIFA

As of December 31, 2022, the Company had no insured net par outstanding of PRCCDA or PRIFA obligations remaining. Under the PRCCDA Modification and the PRIFA Modification, on March 15, 2022, the Company received an aggregate of $47 million in cash (net of ceded reinsurance) and $98 million in notional amount of CVIs (net of ceded reinsurance).

Other Puerto Rico Exposures

All debt service payments for the Company’s remaining Puerto Rico exposures of $8 million insured net par outstanding have been made in full by the obligors as of the date of this filing. These exposures consist primarily of $6 million net par outstanding of MFA bonds, which are secured by a lien on local tax revenues.

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	$ 448	$ 1,280	$ 700	$ 1,987

Puerto Rico
Net Par Outstanding

	As of December 31,	
	2022	2021
	(in millions)	
Resolved Puerto Rico Exposures		
PRHTA (Transportation revenue) (1)	$ 183	$ 467
PRHTA (Highway revenue) (1)	29	51
Commonwealth of Puerto Rico - GO (2)	19	170
PBA (2)	4	121
PRCCDA (3)	—	152
PRIFA (3)	—	15
Total Resolved	235	976
Other Puerto Rico Exposures		
PREPA (4)	69	70
MFA (5)	6	16
PRASA and U of PR (5)	2	2
Total Other	77	88
Total net exposure to Puerto Rico	**$ 312**	**$ 1,064**

(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) Modified on March 15, 2022, pursuant to an order of the Federal District Court of Puerto Rico acting under Title VI of PROMESA.
(4) This exposure is in payment default.
(5) All debt service on these insured exposures have 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. The Company guarantees payments 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.

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

	Scheduled Net Par Amortization	Scheduled Net Debt Service Amortization
	(in millions)	
2023 (January 1 - March 31)	$ —	$ 8
2023 (April 1 - June 30)	—	—
2023 (July 1 - September 30)	5	13
2023 (October 1 - December 31)	—	—
Subtotal 2023	5	21
2024	2	18
2025	10	26
2026	29	44
2027	22	35
2028-2032	76	130
2033-2037	109	141
2038-2042	59	68
Total	$ 312	$ 483

Ratings Impact on Financial Guaranty Business

A downgrade of AGC may result in increased claims under financial guaranties issued by the Company if counterparties exercise contractual rights triggered by the downgrade against insured obligors, and the insured obligors are unable to pay.

For example, with respect to variable rate demand obligations ("VRDOs") for which a bank has agreed to provide a liquidity facility, a downgrade of AGC may provide the bank with the right to give notice to bondholders that the bank will terminate the liquidity facility, causing the bondholders to tender their bonds to the bank. Bonds held by the bank accrue interest at a "bank bond rate" that is higher than the rate otherwise borne by the bond (typically the prime rate plus 2.00% — 3.00%, and capped at the lesser of 25% and the maximum legal limit). In the event the bank holds such bonds for longer than a specified period of time, usually 90-180 days, the bank has the right to demand accelerated repayment of bond principal, usually through payment of equal installments over a period of not less than five years. In the event that a municipal obligor is unable to pay interest accruing at the bank bond rate or to pay principal during the shortened amortization period, a claim could be submitted to AGC under its financial guaranty policy. As of December 31, 2022, AGC had insured approximately $209 million net par of VRDOs, of which approximately $15 million of net par constituted VRDOs issued by municipal obligors rated BBB– or lower pursuant to the Company's internal rating. The specific terms relating to the rating levels that trigger the bank's termination right, and whether it is triggered by a downgrade by one rating

agency or a downgrade by all rating agencies then rating the insurer, vary depending on the transaction.

4. Insurance Premiums

Premium Summary

The components of net premiums written and earned, including premiums assumed from and ceded to other insurers and reinsurers, are set forth in the following table:

	Years Ended December 31,			
	2022		2021	
(in thousands)	Written	Earned	Written	Earned
Direct	$ 27,458	$ 60,961	$ 32,569	$ 53,659
Assumed	29,363	22,148	40,876	24,825
Ceded [(1)]	(15,801)	(21,495)	14,472	(23,984)
Total	$ 41,020	$ 61,614	$ 87,917	$ 54,500

(1) The positive ceded written in 2021 is due to reassuming unearned premiums in the MAC Transaction. See Note 10, Related Party Transactions.

The gross unearned premium reserves on an undiscounted basis for the entire book of business that would have been reported had all installment premiums been received at inception would have been $755.8 million as of December 31, 2022.

The schedule of gross premiums (undiscounted) expected to be collected under all installment contracts is as follows:

Period	(in thousands)
1st Quarter 2023	$ 8,276
2nd Quarter 2023	7,680
3rd Quarter 2023	7,954
4th Quarter 2023	6,474
2024	28,737
2025	28,017
2026	27,110
2027	25,014
2028 – 2032	105,484
2033 – 2037	58,705
2038 – 2042	36,445
2043 and thereafter	37,693
TOTAL	$ 377,589

Roll forward of the expected gross future premiums (undiscounted), (in thousands):

Expected future premiums – beginning of year – 2022	$ 381,892
Less: premium payments received for existing installment contracts	24,181
Add: expected premium payments for new installment contracts	53,853
Add: adjustments to the expected future premium payments	(33,975)
Expected future premiums – end of year – 2022	$ 377,589

The net unearned premium reserves on non-installment contracts that was recognized as earned premium on an accelerated basis was $25.2 million and $16.2 million for the years ended December 31, 2022 and 2021, respectively. Such accelerations are recognized when an insured issue is retired early, is called by the issuer, or is in substance paid in advance through a refunding accomplished by placing U.S. Government securities in escrow.

Schedule of expected gross future earned premium revenue on non-installment contracts as of December 31, 2022:

Period	(in thousands)	
1st Quarter 2023	$	3,197
2nd Quarter 2023		2,812
3rd Quarter 2023		5,754
4th Quarter 2023		4,006
2024		15,172
2025		17,502
2026		16,810
2027		18,415
2028 – 2032		87,162
2033 – 2037		73,302
2038 – 2042		57,133
2043 and thereafter		63,764
TOTAL	$	365,029

5. Losses and Loss Adjustment Expenses

The following table provides a reconciliation of the beginning and ending reserve balances for reserves for losses and LAE, net of reinsurance recoverable, for 2022 and 2021:

		2022		2021
		(in thousands)		
Balance at January 1 (net of ceded balances of $107,235 and $57,153)	$	7,072	$	13,542
Losses and loss adjustment expenses incurred (benefit) related to:				
Current year		9		51
Prior years		2,917		(50,952)
Losses and loss adjustment expenses received (paid) related to:				
Current year		—		(13)
Prior years		(59,344)		44,446
Foreign exchange rate fluctuations		—		(2)
Balance at December 31 (net of ceded balances of $122,411 and $107,235)	$	(49,346)	$	7,072

The amount of discount taken was approximately $80.8 million and $128.9 million at December 31, 2022 and 2021, respectively.

Net Reserve Summary [1]

(in thousands)	December 31, 2022	December 31, 2021
Public finance	$ 32,761	$ 99,205
Structured finance - RMBS	65,234	48,306
Structured finance - other	(147,341)	(140,439)
Total	$ (49,346)	$ 7,072

(1) Amounts in a negative position represent deals in a net recoverable position.

The aggregate amount of U.S. subprime related net losses recovered in 2022 were $2.1 million and net losses recovered in 2021 were $1.7 million. The aggregate amount of U.S. subprime net losses incurred in 2022 were $20.1 million and the net losses incurred in 2021 were $10.0 million. The aggregate amount of net loss reserves on U.S. subprime business were $85.3 million and $63.1 million as of December 31, 2022 and 2021, respectively. IBNR reserves are not required for financial guaranty insurance.

Reserves for losses and LAE at December 31, 2022 and 2021, net of anticipated salvage and subrogation, on an undiscounted basis, were $31.5 million and $136.0 million, respectively.

Selected U.S. Public Finance Transactions

The Company insured general obligation bonds of Puerto Rico and various obligations of its related authorities and public corporations aggregating $312 million net par as of December 31, 2022, all of which is BIG. For additional information regarding the Company's Puerto Rico exposure, see "Exposure to Puerto Rico" in Note 3, Insurance in Force.

The Company had loss and LAE reserves across its troubled U.S. public finance exposures as of December 31, 2022, including those mentioned above, of $32.8 million compared to $99.2 million as of December 31, 2021. The Company's loss and LAE reserves incorporate management's probability weighted estimates of possible scenarios. Each quarter, the Company may revise its scenarios, update assumptions and/or shift probability weightings of its scenarios based on public information as well as nonpublic information obtained through its surveillance and loss mitigation activities. Management assesses the possible implications of such information on each insured obligation, considering the unique characteristics of each transaction.

The decrease was attributable to loss and LAE payments of $72.0 million offset by loss and LAE incurred of $5.6 million (both of which are primarily due to Puerto Rico exposures). The loss development attributable to the Company's Puerto Rico exposures reflects adjustments the Company made to the assumptions and weightings it uses in its scenarios based on the public information summarized in Note 11, Commitments and Contingencies, as well as nonpublic information related to its loss mitigation activities during the periods presented.

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 ("R&W") recoveries/payables to the projected performance of the collateral over time. The resulting projected claim payments or reimbursements are then discounted using a rate of 3.5% in 2022 and 4.0% in 2021.

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 a rate that approximates the pre-tax book yield on the Company's investment portfolio. 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. In 2022, there was an incurred loss of $23 million for first lien U.S. RMBS and a benefit of $17 million for second lien U.S. RMBS. The assumptions that the Company uses to project RMBS losses are shown in the sections below.

First Lien U.S. RMBS Loss Projections: Alt-A, Prime, Option ARM, and Subprime

The majority of projected losses in first lien 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 Liquidation Rates

	As of December 31, 2022	As of December 31, 2021
Current but recently delinquent	20%	20%
30 - 59 Days Delinquent		
Alt-A and Prime	35	35
Option ARM	35	35
Subprime	30	30
60 - 89 Days Delinquent		
Alt-A and Prime	40	40
Option ARM	45	45
Subprime	40	40
90+ Days Delinquent		
Alt-A and Prime	55	55
Option ARM	60	60
Subprime	45	45
Bankruptcy		
Alt-A and Prime	45	45
Option ARM	50	50
Subprime	40	40
Foreclosure		
Alt-A and Prime	60	60
Option ARM	65	65
Subprime	55	55
Real Estate Owned		
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 was 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.

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 loss reserves for individual transactions for vintage 2004 - 2008 first lien U.S. RMBS.

Key Assumptions in Base Case Loss Reserve Estimates
First Lien U.S. RMBS

	As of December 31, 2022		As of December 31, 2021	
	Range	Weighted Average	Range	Weighted Average
Alt A and Prime				
Plateau CDR	1.6% - 8.8%	4.7%	0.9% -10.6%	5.5%
Final CDR	0.1% - 0.4%	0.2%	0.0% - 0.5%	0.3%
Initial loss severity:				
2005 and prior	50.0%		60.0%	
2006	50.0%		60.0%	
2007+	50.0%		60.0%	
Option ARM				
Plateau CDR	2.0% - 7.7%	5.5%	1.8% - 11.9%	8.3%
Final CDR	0.1% - 0.4%	0.3%	0.1% - 0.6%	0.4%
Initial loss severity:				
2005 and prior	50.0%		60.0%	
2006	50.0%		60.0%	
2007+	50.0%		60.0%	
Subprime				
Plateau CDR	2.8% - 9.4%	4.8%	2.9% - 10.0%	4.9%
Final CDR	0.1% - 0.5%	0.2%	0.1% - 0.5%	0.2%
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 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 loss reserves, 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.

Total loss and LAE reserves on all first lien U.S. RMBS were $91 million and $61 million as of December 31, 2022 and December 31, 2021, respectively. The increase was primarily attributable to lower excess spread stemming from an increase in forward London Interbank Offered Rate ("LIBOR").

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. LIBOR increased in 2022, and so decreased excess spread. The ICE Benchmark Administration ("IBA") and the Financial Conduct Authority have announced that LIBOR will be discontinued after June 30, 2023. The Company believes that, in 2023, 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, loss reserves would increase from current projections by approximately $3.7 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), loss reserves would decrease from current projections by approximately $0.4 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 loss reserves 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). Loss reserves 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 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. Approximately 80% 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%, loss reserves would increase from current projections by approximately $9 million. If the recovery rate increases to 40%, loss reserves would decrease from current projections by approximately $9 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 loss reserves, 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.

The following table shows the range as well as the average, weighted by net par outstanding, for key assumptions used in the calculation of loss reserves for individual transactions for vintage 2004 - 2008 HELOCs.

Key Assumptions in Base Case Loss Reserve Estimates

HELOCs

	As of December 31, 2022		As of December 31, 2021	
	Range	Weighted Average	Range	Weighted Average
Plateau CDR	2.0% - 8.4%	3.9%	6.5% - 28.9%	15.1%
Final CDR trended down to	0.1% - 0.4%	0.2%	1.0%	
Liquidation rates:				
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 for 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. Total net expected recoverables for all second lien U.S. RMBS were $27 million as of December 31, 2022, and $20 million as of December 31, 2021. After giving effect to recoveries received of $9 million in 2022, the economic benefit was primarily attributable to improved performance in certain transactions, updated assumptions related to the CDR curve and higher recoveries for charged-off loans.

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 increase the expected recovery by approximately $0.3 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 decrease the expected recovery by approximately $0.4 million for HELOC transactions.

Structured Finance - Other

The Company also had exposure to troubled life insurance transactions with BIG net par of $86 million as of December 31, 2022. The loss and LAE reserves (recoverables) on these transactions were $(63.4) million and $(45.6) million at December 31, 2022 and 2021, respectively. In addition, the Company recorded a salvage recoverable related to certain trust preferred securities collateralized debt obligations ("TruPS CDOs").

Toxic Waste Cleanup, Asbestos and Environmental Exposure

The Company has not written any policies which have been identified as having the potential for the existence of a liability due to toxic waste cleanup, asbestos or environmental losses.

Claim Liability

The Company used a rate of 3.5% at December 31, 2022 and 4.0% at December 31, 2021 to discount the claim liability.

Significant components of the change in the claim liability for financial guaranty insurance for the period:

(in thousands)	Year Ended December 31, 2022
Accretion of discount	$ 543
Changes of timing estimates	2,436
New reserves for defaults of insured contracts	9
Recoveries on claim payments on prior year reserves	(59,344)
TOTAL	$ (56,356)

The Company incurred loss adjustment expenses of $6.4 million in 2022 on its direct portfolio. The reserve for unpaid loss adjustment expenses on the direct portfolio was $1.7 million at December 31, 2022.

Schedule of BIG insured financial obligations as of December 31, 2022 and 2021:

2022	Surveillance Categories			
	BIG 1	BIG 2	BIG 3	Total
	(dollars in thousands)			
Number of risks	55	11	104	170
Remaining weighted-average period (in years)	7.9	7.8	9.2	8.9
Gross insured contractual payments outstanding:				
Par	$ 241,499	$ 119,769	$ 1,524,598	$ 1,885,866
Interest	112,444	39,746	650,308	802,498
Total	$ 353,943	$ 159,515	$ 2,174,906	$ 2,688,364
Gross claim liability	$ 7,622	$ 25,108	$ 1,110,234	$ 1,142,964
Less: gross potential recoveries - subrogation	210,432	9,409	737,696	957,537
Less: ceded claim liability (recovery)	(11,180)	2,514	162,933	154,267
Less: discount, net	(5,615)	3,352	83,074	80,811
Net liability reported in the balance sheet	$ (186,015)	$ 9,833	$ 126,531	$ (49,651)
Net unearned premium revenue	$ 6,427	$ 818	$ 40,751	$ 47,996
Reinsurance recoverables	$ (858)	$ —	$ (18,622)	$ (19,480)

2021	Surveillance Categories			
	BIG 1	BIG 2	BIG 3	Total
	(dollars in thousands)			
Number of risks	58	14	110	182
Remaining weighted-average period (in years)	6.5	10.9	10.6	10.2
Gross insured contractual payments outstanding:				
Par	$ 287,194	$ 137,189	$ 2,377,012	$ 2,801,395
Interest	108,715	18,659	801,288	928,662
Total	$ 395,909	$ 155,848	$ 3,178,300	$ 3,730,057
Gross claim liability	$ 21,571	$ 23,914	$ 2,011,688	$ 2,057,173
Less: gross potential recoveries - subrogation	452,872	9,038	1,304,842	1,766,752
Less: ceded claim liability (recovery)	(25,434)	2,657	177,655	154,878
Less: discount, net	(11,186)	2,435	137,660	128,909
Net liability reported in the balance sheet	$ (394,681)	$ 9,784	$ 391,531	$ 6,634
Net unearned premium reserve	$ 5,595	$ 857	$ 56,592	$ 63,044
Reinsurance recoverables	$ (162)	$ —	$ 668	$ 506

6. Investments

As of December 31, 2022, the majority of the investment portfolio is managed by three outside managers and its affiliate, Assured Investment Management LLC ("AssuredIM"). The Company has established detailed guidelines regarding credit quality, exposure to a particular sector and exposure to a particular obligor within a sector. The externally managed portfolio must maintain a minimum average rating of A+/A1/A+ by S&P, Moody's or Fitch Ratings Inc., respectively.

The sources of investment income are shown below.

(in thousands)	2022	2021
Bonds	$ 90,720	$ 89,415
Stocks	—	128,652
Short-term investments, cash and cash equivalents	3,750	—
Real estate	5,486	5,568
Interest received on promissory note	3,063	3,063
Other	11,412	1,732
Interest paid on surplus note	(10,500)	(10,500)
Depreciation on real estate	(1,796)	(1,735)
Investment expenses	(4,928)	(4,975)
Net investment income	$ 97,207	$ 211,220

The following summarizes the Company's bond and short-term investment portfolio at December 31, 2022 and 2021:

(in thousands) 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Governments	$ 27,044	$ 1	$ (1,011)	$ 26,034
U.S. State, Territories and Possessions (Direct and Guaranteed)	199,830	821	(4,720)	195,931
U.S. Political subdivisions of States, Territories and Possessions (Direct and Guaranteed)	148,259	375	(5,705)	142,929
U.S. Special Revenue & Special Assessment Obligations and all Governments and Their Political Subdivisions	893,871	19,587	(24,053)	889,405
Industrial and miscellaneous	786,724	24,946	(54,491)	757,179
Total	$ 2,055,728	$ 45,730	$ (89,980)	$ 2,011,478

(in thousands) 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Governments	$ 29,396	$ 305	$ (204)	$ 29,497
U.S. State, Territories and Possessions (Direct and Guaranteed)	198,682	21,768	(97)	220,353
U.S. Political subdivisions of States, Territories and Possessions (Direct and Guaranteed)	157,825	12,131	(92)	169,864
U.S. Special Revenue & Special Assessment Obligations and all Governments and Their Political Subdivisions	900,900	101,439	(172)	1,002,167
Industrial and miscellaneous	831,286	58,272	(2,817)	886,741
Total	$ 2,118,089	$ 193,915	$ (3,382)	$ 2,308,622

At December 31, 2022 and 2021, the Company held loss mitigation securities of $323 million and $362 million, respectively, in its investment portfolio.

The following table summarizes, for all securities in an unrealized loss position as of December 31, 2022 and 2021, the aggregate fair value and unrealized loss by length of time the amounts have continuously been in an unrealized loss position.

(dollars in thousands)	Less than 12 Months		12 Months or more		Total	
2022	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Governments	$ 17,625	$ (82)	$ 8,241	$ (929)	$ 25,866	$ (1,011)
U.S. State, Territories and Possessions (Direct and Guaranteed)	63,330	(2,748)	21,939	(1,972)	85,269	(4,720)
U.S. Political subdivisions of States, Territories and Possessions (Direct and Guaranteed)	67,368	(3,554)	11,568	(2,151)	78,936	(5,705)
U.S. Special Revenue & Special Assessment Obligations and all Governments and Their Political Subdivisions	409,944	(14,617)	66,005	(9,436)	475,949	(24,053)
Industrial and miscellaneous	274,417	(21,049)	138,669	(33,442)	413,086	(54,491)
Total	$ 832,684	$ (42,050)	$ 246,422	$ (47,930)	$ 1,079,106	$ (89,980)
Number of securities		408		139		541

(dollars in thousands)	Less than 12 Months		12 Months or more		Total	
2021	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Governments	$ 3,078	$ (32)	$ 6,573	$ (172)	$ 9,651	$ (204)
U.S. State, Territories and Possessions (Direct and Guaranteed)	10,760	(97)	—	—	10,760	(97)
U.S. Political subdivisions of States, Territories and Possessions (Direct and Guaranteed)	5,582	(92)	—	—	5,582	(92)
U.S. Special Revenue & Special Assessment Obligations and all Governments and Their Political Subdivisions	25,173	(172)	—	—	25,173	(172)
Industrial and miscellaneous	65,536	(835)	30,235	(1,982)	95,771	(2,817)
Total	$ 110,129	$ (1,228)	$ 36,808	$ (2,154)	$ 146,937	$ (3,382)
Number of securities		51		20		71

At December 31, 2022, there were 139 securities that were in an unrealized loss position for a continuous twelve-month period or longer. 259 securities had unrealized losses in which the book value exceeded market value by more than 5%.

Management has determined that the gross unrealized losses on fixed-income securities at December 31, 2022 were not credit related. The Company intends to hold these securities for a sufficient period of time to allow for anticipated recoveries of their carrying value. Changes in interest rates affect the fair value of the Company's fixed maturity portfolio. As interest rates fall, the fair value of fixed-maturity securities generally increases and as interest rates rise, the fair value of fixed-maturity securities generally decreases. The Company's portfolio of fixed-maturity securities primarily consists of high quality liquid instruments.

The amortized cost and estimated fair value of bonds at December 31, 2022 and 2021, by contractual maturity, are shown below. Actual maturities could differ from contractual maturities because borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Distribution of Bonds by Contractual Maturity

	At December 31,			
	2022		2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Due in one year or less	$ 41,770	$ 41,481	$ 5,710	$ 6,066
Due after one year through five years	296,365	288,182	288,986	303,142
Due after five years through ten years	552,578	527,734	559,688	602,481
Due after ten years	1,165,015	1,154,081	1,263,705	1,396,933
Total	$ 2,055,728	$ 2,011,478	$ 2,118,089	$ 2,308,622

Proceeds from the sales of long-term bonds were $117.7 million in 2022, and there were no sales of short-term investments or cash equivalents. In 2021, proceeds consist of $59.9 million of proceeds on sales of long-term bonds, and there were no sales of short-term investments or cash equivalents.

Gross gains on long-term bonds of $2.7 million and $2.5 million and gross losses on long-term bonds of $4.9 million and $1.5 million were realized on those disposals in 2022 and 2021, respectively. Gross gains of $38.8 million were deferred on the transfers of assets to capitalize MAC in 2013, the balance of which was $4.3 million at December 31, 2022. In 2022 and 2021, respectively, $0.4 million and $3.3 million of these deferred gains were recognized. In 2021, $14.0 million of gains were recognized from the sale of AGC's interest in MAC Holdings.

The Company recognized $40.2 million and $476 thousand of OTTI for the years ended December 31, 2022 and 2021, respectively. The OTTI recognized in 2022 was primarily related to securities that were purchased for loss mitigation. The OTTI recognized in 2021 related to securities that were purchased for loss mitigation and securities that were designated as intent to sell.

Following is a summary of components of net realized gains (losses) for the years ended:

Net Realized Gains and Losses

(in thousands)	2022	2021
Gross realized gains	$ 2,725	$ 2,548
Gross realized losses	(4,895)	(1,466)
OTTI:		
Intent to sell	—	(196)
Credit losses	(40,263)	(280)
Other realized gains		
Disposal of MAC Holdings	—	14,042
Other	7,193	(353)
Net realized investment gains (losses) before tax	$ (35,240)	$ 14,295

The following table presents the roll forward of the credit losses of fixed maturity securities for which the Company has recognized OTTI as a realized loss in the Statement of Income.

Roll Forward of Credit Losses in the Investment Portfolio

(in thousands)	2022	2021
Balance, beginning of period	$ 88,696	$ 90,536
Additions for which an OTTI was not previously recognized	4,597	—
Additions for which an OTTI was previously recognized	34,668	281
Reductions for securities sold during the period	(2,895)	(2,121)
Balance, end of period	$ 125,066	$ 88,696

Loan-Backed and Structured Securities

Prepayment assumptions for loan backed and structured securities were obtained from publicly available sources and internal models.

The Company had no loan-backed securities with current year OTTI due to either the intent to sell the securities or the inability or lack of intent to retain for the time sufficient to recover the amortized cost basis.

The following table summarizes OTTI recorded in the current year for loan-backed and structured securities which the Company still owns at the end of the respective quarters recorded based on the fact that the present value of projected cash flows expected to be collected was less than the amortized cost of the securities (in thousands):

CUSIP	Amortized Cost Before Other-Than-Temporary Impairment	Present Value of Projected Cash Flows	Other-Than-Temporary Impairment	Amortized Cost After Other-Than-Temporary Impairment	Fair Value @ Time of OTTI	Date of Financial Statement Where Reported
68401N-AE-1	$ 1,929,874	$ 1,846,778	$ 83,096	$ 1,846,778	$ 1,239,134	03/31/2022
000759-DG-2	615,811	611,511	4,300	611,511	540,786	03/31/2022
68401N-AE-1	1,860,142	1,779,475	80,667	1,779,475	1,076,492	06/30/2022
68401N-AE-1	1,786,680	1,646,722	139,958	1,646,722	869,350	09/30/2022
872227-AH-6	2,171,079	2,165,619	5,461	2,165,619	2,146,944	12/31/2022
68401N-AE-1	1,649,879	1,460,486	189,393	1,460,486	777,464	12/31/2022
			$ 502,875			

(1) As indicated in the Investments section of Note 2, Significant Accounting Policies, if the present value of expected cash flows is lower than the fair value of the security, only the difference between the fair value and the amortized cost is recognized as a realized loss and the security is written down to its fair value.

The following summarizes gross unrealized investment losses on loan-backed and structured securities for which OTTI has not been recognized as a realized loss categorized by the length of time that securities have continuously been in an unrealized loss position.

The aggregate amount of unrealized losses (in thousands):

	Less than 12 months	12 Months or More
Residential mortgage-backed securities	$ (396)	$ (1,020)
Commercial mortgage-backed securities	(1,651)	—
Other loan backed & structured securities	(1,503)	(1,443)
Total	$ (3,550)	$ (2,463)

The aggregate related fair value of securities with unrealized losses (in thousands):

	Less than 12 months	12 Months or More
Residential mortgage-backed securities	$ 7,195	$ 3,047
Commercial mortgage-backed securities	26,161	—
Other loan backed & structured securities	41,010	27,454
Total	$ 74,366	$ 30,501

All loan-backed and structured securities in an unrealized loss position were reviewed to determine whether an OTTI should be recognized. For those securities in an unrealized loss position at December 31, 2022, the Company has not made a decision to sell any such securities and does not intend to sell such securities. The Company has evaluated its cash flow requirements and believes that its liquidity is adequate and it will not be required to sell these securities before recovery of their amortized cost basis. The Company has determined that the unrealized losses recorded were not related to credit quality.

Real Estate

At December 31, 2022, the Company did not have any real estate held for sale. The Company has one investment in real estate, which is an office building at 400 Main Street in Stockton, California.

The following table shows restricted assets (including pledged) summarized by restricted asset category (in thousands).

	Gross (Admitted & Nonadmitted) Restricted									Percentage	
	Current Year										
	1	2	3	4	5	6	7	8	9	10	11
Restricted Asset Category	Total General Account (G/A)	G/A Supporting Protected Cell Acct Activity	Total Protected Cell Acct. Restricted Assets	Protected Cell Acct. Assets Support G/A Activity	Total (1 plus 3)	Total From Prior Year	Increase/ (Decrease) (5 minus 6)	Total Non-admitted Restricted	Total Admitted Restricted (5 minus 8)	Gross (Admitted & Non-admitted) Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
On deposit with states	$ 5,993	$ —	$ —	$ —	$ 5,993	$ 5,876	$ 117	$ —	$ 5,993	0.2 %	0.2 %
Collateral pledged for reinsurance	295,413	—	—	—	295,413	310,613	(15,200)	—	295,413	11.4 %	11.5 %
Total restricted assets	$ 301,406	$ —	$ —	$ —	$ 301,406	$ 316,489	$ (15,083)	$ —	$ 301,406	11.6 %	11.7 %

Under certain agreements, the Company is required to post eligible securities as collateral. The need to post collateral under these agreements is generally based on fair value assessments in excess of contractual thresholds. The portfolio also includes securities held in trust to secure AGC's reinsurance obligations to certain of its affiliates. The fair value of the Company's pledged securities totaled $295 million as of December 31, 2022, with corresponding book/adjusted carrying value of $295 million.

The Company does not own investments that are unrated but current on principal and interest (denoted as 5GI investments) as of December 31, 2022.

The Company did not sell any securities short in 2022.

The Company had no prepayment penalties and acceleration fee income.

The Company has no subsidiary, controlled and affiliated ("SCA") entities subject to Sub-1 or Sub-2 filing requirements.

SCA Loss Tracking

The Company does not have an investment in an SCA for which the share of losses in the SCA exceeds the investment in the SCA.

Investment in AGAS

On October 18, 2019, AGM, AGC and MAC (collectively, 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 10, Related Party Transactions. 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. As of May 25, 2023, such additional amounts had not been contributed to AGAS. On December 16, 2022, AGM, AGC, and AGAS amended the Subscription Agreement to extend its term by one year from December 31, 2022 to December 31, 2023.

Investment in Insurance SCAs

The Company does not have an investment in an insurance SCA.

Investment in RMBS Securities with Subprime Exposure

Direct exposure through investments in subprime mortgage loans at December 31, 2022 is shown below.

(in thousands)	Actual Cost	Book Value	Fair Value	OTTI Losses Recognized
Residential mortgage-backed securities	$ 3,733	$ 3,760	$ 3,355	$ (1,970)
Structured securities	517	515	435	(45)
Total	$ 4,250	$ 4,275	$ 3,790	$ (2,015)

7. Federal Income Taxes

The components of the net Deferred Tax Asset ("DTA")/Deferred Tax Liability ("DTL") at December 31 are as follows:

(in thousands)		12/31/2022			12/31/2021		
	Description	(1) Ordinary	(2) Capital	(3) (Col 1+2) Total	(4) Ordinary	(5) Capital	(6) (Col 4+5) Total
(a)	Gross deferred tax assets	$ 117,622	$ 1,993	$ 119,615	$ 107,174	$ 4,767	$ 111,941
(b)	Statutory valuation allowance	—	—	—	—	—	—
(c)	Adjusted gross deferred tax assets (a - b)	117,622	1,993	119,615	107,174	4,767	111,941
(d)	Deferred tax asset nonadmitted	11,762	1,993	13,755	10,911	4,767	15,678
(e)	Subtotal net admitted deferred tax asset (c - d)	105,860	—	105,860	96,263	—	96,263
(f)	Deferred tax liabilities	63,820	—	63,820	50,153	—	50,153
(g)	Net admitted deferred tax asset/net deferred tax liability (e - f)	$ 42,040	$ —	$ 42,040	$ 46,110	$ —	$ 46,110

	(in thousands) Description	Change (7) (Col 1-4) Ordinary	(8) (Col 2-5) Capital	(9) (Col 7+8) Total
(a)	Gross deferred tax assets	$ 10,448	$ (2,774)	$ 7,674
(b)	Statutory valuation allowance	—	—	—
(c)	Adjusted gross deferred tax assets (a - b)	10,448	(2,774)	7,674
(d)	Deferred tax asset nonadmitted	851	(2,774)	(1,923)
(e)	Subtotal net admitted deferred tax asset (c - d)	9,597	—	9,597
(f)	Deferred tax liabilities	13,667	—	13,667
(g)	Net admitted deferred tax asset/net deferred tax liability (e - f)	$ (4,070)	$ —	$ (4,070)

Admission Calculation Components SSAP No. 101

	(in thousands)	12/31/2022			12/31/2021		
	Description	(1) Ordinary	(2) Capital	(3) (Col 1+2) Total	(4) Ordinary	(5) Capital	(6) (Col 4+5) Total
(a)	Federal Income Taxes Paid in Prior Years Recoverable Through Loss Carrybacks	$ 535	$ —	$ 535	$ 326	$ —	$ 326
(b)	Adjusted Gross Deferred Tax Assets Expected to be Realized (Excluding the Amt of Deferred Tax Assets from (a) above) After Application of the Threshold Limitation. (Lesser of (b)1 and (b)2 Below)	41,505	—	41,505	45,784	—	45,784
	1 Adjusted Gross Deferred Tax Assets Expected to be Realized following the Balance Sheet Date	41,505	—	41,505	45,784	—	45,784
	2 Adjusted Gross Deferred Tax Assets Allowed per Limitation	xxx	xxx	276,543	xxx	xxx	306,014
(c)	Adjusted Gross Deferred Tax Assets (Excluding the Amount of Deferred Tax Assets from (a) and (b) above) offset by Gross Deferred Tax Liabilities	63,820	—	63,820	50,153	—	50,153
(d)	Deferred Tax Assets Admitted as the result of Application of SSAP #101 Total (a + b + c)	$ 105,860	$ —	$ 105,860	$ 96,263	$ —	$ 96,263

(in thousands)		CHANGE	
Description	**(7) (Col 1-4) Ordinary**	**(8) (Col 2-5) Capital**	**(9) (Col 7+8) Total**
(a) Federal Income Taxes Paid in Prior Years Recoverable Through Loss Carrybacks	$ 209	$ —	$ 209
(b) Adjusted Gross Deferred Tax Assets Expected to be Realized (Excluding the Amt of Deferred Tax Assets from (a) above) After Application of the Threshold Limitation. (Lesser of (b)1 and (b)2 Below)	(4,279)	—	(4,279)
1 Adjusted Gross Deferred Tax Assets Expected to be Realized following the Balance Sheet Date	(4,279)	—	(4,279)
2 Adjusted Gross Deferred Tax Assets Allowed per Limitation	xxx	xxx	(29,471)
(c) Adjusted Gross Deferred Tax Assets (Excluding the Amount of Deferred Tax Assets from (a) and (b) above) offset by Gross Deferred Tax Liabilities	13,667	—	13,667
(d) Deferred Tax Assets Admitted as the result of Application of SSAP #101 Total (a + b + c)	$ 9,597	$ —	$ 9,597

(dollars in thousands)	**2022**	**2021**
(a) Ratio Percentage Used to Determine Recovery Period and Threshold Limitation Amount	1,117 %	1,206 %
(b) Amount of Adjusted Capital and Surplus Used to Determine Recovery Period and Threshold Limitation in (b)2 above (in thousands)	$ 1,843,618	$ 2,040,091

There is no impact of tax planning strategies on the Company. The Company's tax planning strategies do not include the use of reinsurance.

There are no temporary differences for which a DTL has not been established.

Current income tax provisions consist of the following major components:

(in thousands)	**(1) 12/31/2022**	**(2) 12/31/2021**	**(3) (Col 1 - 2) Change**
1. Current Income Taxes			
(a) Federal	$ —	$ 326	$ (326)
(b) Foreign	—	—	—
(c) Subtotal (1a+1b)	—	326	(326)
(d) Federal Income Tax on Capital Gains	(456)	227	(683)
(e) Utilization of capital loss carry-forwards	—	—	—
(f) Other	3,283	(1,583)	4,866
(g) Federal and foreign income taxes incurred (1c+1d+1e+1f)	2,827	(1,030)	3,857
2. Deferred Tax Assets			
(a) Ordinary			
(1) Unpaid Losses & LAE	—	—	—
(2) Unearned premium reserve	4,976	4,967	9
(3) Policyholders reserve	—	—	—
(4) Investments	24,780	14,751	10,029
(5) Deferred acquisition costs	—	—	—
(6) Policyholder dividends accrual	—	—	—
(7) Fixed assets	27,040	18,119	8,921
(8) Deferred compensation and benefits accrual	2,067	1,856	211

(9)	Pension accrual	—	—	—
(10)	Receivables - nonadmitted	2,920	3,156	(236)
(11)	Net operating loss ("NOL") carry-forward	25,436	27,556	(2,120)
	Net operating loss - standalone carry-forward	29,081	35,772	(6,691)
(12)	Tax credit carry-forward	—	—	—
(13)	Other	1,322	997	325
	(99) Subtotal (sum of 2a1 through 2a13)	117,622	107,174	10,448
(b)	Statutory valuation allowance adjustment	—	—	—
(c)	Nonadmitted	11,762	10,911	851
(d)	Admitted ordinary deferred tax assets (2a99 - 2b - 2c)	105,860	96,263	9,597
(e)	Capital			
(1)	Investments	—	—	—
(2)	Other Than Temporary Impairment	1,993	4,767	(2,774)
(3)	Real estate	—	—	—
(4)	Other	—	—	—
	(99) Subtotal (2e1+2e2+2e3+2e4)	1,993	4,767	(2,774)
(f)	Statutory valuation allowance adjustment	—	—	—
(g)	Nonadmitted	1,993	4,767	(2,774)
(h)	Admitted capital DTAs (2e99 - 2f - 2g)	—	—	—
(i)	Admitted deferred tax assets (2d + 2h)	105,860	96,263	9,597
3.	**Deferred Tax Liabilities**			
(a)	Ordinary			
(1)	Investments	25,576	26,569	(993)
(2)	Fixed Assets	—	—	—
(3)	Deferred and uncollected premium	—	—	—
(4)	Policyholders reserves	37,315	23,258	14,057
(5)	Other	929	326	603
	(99) Subtotal (3a1+3a2+3a3+3a4+3a5)	63,820	50,153	13,667
(b)	Capital			
(1)	Investments	—	—	—
(2)	Unrealized losses	—	—	—
(3)	Other	—	—	—
	(99) Subtotal (3b1+3b2+3b3)	—	—	—
(c)	Deferred tax liabilities (3a99 + 3b99)	63,820	50,153	13,667
4.	**Net deferred tax assets/liabilities (2i - 3c)**	$ 42,040	$ 46,110	$ (4,070)

The change in net deferred income taxes is composed of the following (this analysis is exclusive of nonadmitted DTAs as the change in nonadmitted assets is reported separately from the change in net deferred income taxes in the statutory statements of changes in surplus):

(in thousands)	(1) 12/31/2022	(2) 12/31/2021	(3) (Col 1 - 2) Change
Total deferred tax assets	$ 119,615	$ 111,941	$ 7,674
Total deferred tax liabilities	63,820	50,153	13,667
Net deferred tax assets/liabilities	55,795	61,788	(5,993)
Statutory valuation allowance	—	—	—
Net deferred tax assets/ liabilities after valuation allowance	$ 55,795	$ 61,788	(5,993)
Tax effect of unrealized gains/(losses)			899
Statutory valuation allowance on unrealized			—
Change in net deferred income tax [(expense)/benefit]			$ (5,094)

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing this difference are as follows (in thousands):

Description	Amount	Tax Effect	Effective Tax Rate
Income before taxes	$ 64,533	$ 13,552	21.00 %
Tax-exempt interest	(22,435)	(4,712)	(7.30)
Effect of true-ups from tax return filings	(1,077)	(226)	(0.35)
Base Erosion and Anti-Abuse Tax (“BEAT”)	1,598	336	0.52
Other	(4,898)	(1,029)	(1.59)
Total	$ 37,721	$ 7,921	12.28 %
Federal income taxes incurred expense/(benefit)		$ 2,827	4.38 %
Change in net deferred income tax charge/(benefit)		5,094	7.90
Total statutory income taxes		$ 7,921	12.28 %

At December 31, 2022, the Company had $12 million in capital loss carryforwards and no AMT credit carryforwards.

There is no income tax expense for 2022 and 2021 that is available for recoupment in the event of future net losses.

The Company did not have any protective tax deposits admitted under IRC §6603.

The Company does not have any tax loss contingencies for which it is reasonably possible that the total liability will significantly increase within twelve months of the reporting date.

The Company does not have any Repatriation Transition Tax owed under the Tax Cut and Jobs Act.

The Company’s federal income tax return is consolidated with the following entities:

Assured Guaranty US Holdings Inc.	Assured Guaranty Municipal Holdings Inc.
Assured Guaranty Municipal Corp.	FSA Portfolio Management Inc.
AG Financial Products Inc.	Transaction Services Corporation
AG Analytics Inc.	AG US Group Services Inc.

Each company, as a member of its respective consolidated tax return group, pays its proportionate share of the consolidated tax burden for its group as if each company filed on a separate return

basis. Current credit for net separate company losses used in consolidation are reimbursed by the parent as the separate company earns income to utilize such losses on a separate company basis.

At December 31, 2022, the Company had $1.4 billion in NOL carryforwards, of which $1.2 billion is subject to limitation under §382 of the Internal Revenue Code due to the ownership change that occurred in 2016. The NOL will begin to expire in 2029.

Origination Year	Remaining NOL	Expiration Date
(in thousands)		
2009	$ 958,235	2029
2010	209,497	2030
2013	66,674	2033
2014	132,303	2034
Remaining NOL before Limitation	1,366,709	
IRS Section 382 Limitation	1,245,583	
Remaining NOL after Limitation	$ 121,126	

In addition to the above-mentioned Section 382 NOLs, the Company had $139 million of stand-alone NOL carryforwards available to use against its stand-alone income per the Company's tax sharing agreement at December 31, 2022.

8. Capital, Surplus and Dividend Restrictions

Under Maryland's insurance law, AGC may, with prior notice to the Maryland Commissioner of Insurance (the "Commissioner"), pay an ordinary dividend that, together with all dividends paid in the prior 12 months, does not exceed the lesser of (a) 10% of its policyholders' surplus (as of the prior December 31) or (b) 100% of its adjusted net investment income during that period. A dividend or distribution to a stockholder in excess of this limitation would constitute an "extraordinary dividend", which must be paid out of "earned surplus" and be reported to, and approved by, the Commissioner prior to payment. "Earned surplus" is that portion of the company's surplus that represents the net earnings, gains or profits (after deduction of all losses) that have not been distributed to shareholders as dividends or transferred to stated capital or capital surplus, or applied to other purposes permitted by law, but does not include unrealized capital gains and appreciation of assets. The maximum amount available during 2023 for AGC to distribute as ordinary dividends, after giving effect to dividends paid in the prior twelve months, will be approximately $101.6 million, of which $19.6 million was distributed on March 24, 2023.

The Company declared and paid dividends of $207 million and $94.1 million in 2022 and 2021, respectively. These dividends were ordinary and did not require regulatory approval. The Company paid dividends to its Parent of $125 million on March 24, 2022, $24 million on June 28, 2022, $16 million on September 30, 2022, and $42 million on December 23, 2022.

On December 18, 2009, the Company issued a $300 million surplus note to its affiliate, AGM, which was outstanding as of December 31, 2022. This note is interest bearing at a rate of 3.5% per annum. Principal of the surplus note is payable on December 31, 2029 or sooner at the option of the Company, subject to prior approval of the MIA and compliance with the conditions to such payments as contained in the laws of the State of Maryland. The Company paid interest on this note to AGM of $10.5 million on each of December 29, 2022, and December 29, 2021.

Under the Maryland insurance law, the Company is required at all times to maintain minimum paid-in capital stock of $500 thousand and a minimum surplus of $500 thousand.

Release of Contingency Reserves

From time to time, the Company has obtained approval or non-objection from the MIA to release contingency reserves based on losses or because the accumulated contingency reserves are deemed excessive in relation to the insurer's outstanding insured obligations. In 2022 and 2021, on the latter basis, AGC obtained MIA approval or non-objection for contingency reserve releases of approximately $2 million and $246 million, respectively.

Unrealized Gains and Losses in Surplus

The portion of unassigned funds (surplus) represented by cumulative unrealized gains is $20.2 million.

9. Reinsurance

The Company obtains reinsurance to increase its policy-writing capacity on both an aggregate-risk and a single-risk basis; to meet rating agency, internal and state insurance regulatory limits; to diversify risk; to reduce the need for additional capital; and to strengthen financial ratios. Reinsurance does not relieve the Company of its obligations to policyholders. The Company reinsures portions of its risks with affiliated (see Note 10 for more information) and unaffiliated reinsurers under primarily quota share treaties and on a facultative basis.

Amounts of ceded and assumed business were as follows:

Summary of Reinsurance

	At December 31,	
(in thousands)	2022	2021
Unearned premium reserve ceded	$ 67,044	$ 74,833
Unearned premium reserve assumed	207,539	204,234
Premium balances in course of collection, net		
Ceded payable	7,617	8,393
Assumed receivable	11,306	11,672
Losses and LAE reserve ceded	122,411	107,235
Losses and LAE (recoverable) reserve assumed	87,959	(30,356)
Ceded funds held liability	8,896	45,202
Assumed funds held asset	1,665	1,299
Par outstanding ceded	8,351,869	8,725,134
Par outstanding assumed	12,663,865	12,050,767

	Year Ended December 31,	
(in thousands)	2022	2021
Premiums written ceded [1]	$ 15,801	$ (14,472)
Premiums written assumed	29,363	40,876
Ceding commission income	5,623	5,018
Assumed commission expense	7,343	4,522
Premiums earned ceded	21,495	23,984
Premiums earned assumed	22,148	24,825
Losses and LAE incurred ceded	31,680	25,237
Losses and LAE benefit assumed	16,316	(6,335)

(1) The negative premiums written ceded in 2021 is due to reassuming unearned premiums in the MAC Transaction. See Note 10, Related Party Transactions.

Return Commission

In addition to recovering the unearned premium reserves, the maximum amount of return commission which would have been due to reinsurers if all ceded reinsurance were canceled was $19.0 million and $21.3 million as of December 31, 2022 and 2021, respectively.

In addition to the return of the unearned premium reserves, the maximum amount of return commission which would have been due to the Company if all assumed reinsurance were canceled was $17.2 million and $13.3 million as of December 31, 2022 and 2021, respectively.

Ratings Impact on Assumed and Ceded Business

The Company assumes exposure ("Assumed Business") and may cede portions of exposure it has insured ("Ceded Business") in exchange for premiums, net of ceding commissions. The Company historically entered into ceded reinsurance contracts in order to obtain greater business diversification and reduce the net potential loss from large risks.

The Company assumes business from affiliated and non-affiliated companies, including other monoline financial guaranty companies that currently are in runoff and no longer actively writing new business ("Legacy Monoline Insurers"). The Company, if required, secures its reinsurance obligations to these Legacy Monoline Insurers, typically by depositing in trust assets with a market value equal to its assumed liabilities calculated on a U.S. statutory basis. The Company currently secures its reinsurance obligations to Assured Guaranty UK Limited ("AGUK") by depositing assets in trust with a market value determined by a methodology agreed with the ceding company and accepted by the Prudential Regulation Authority.

As of December 31, 2022, the majority of the Company's Assumed Business from Legacy Monoline Insurers consists of business that AGC assumed in the Syncora Guaranty Inc. Transaction effective as of June 1, 2018, pursuant to which AGC (among other things) assumed, generally on a 100% quota share basis, substantially all of SGI's insured portfolio. The reinsured portfolio consists predominantly of public finance and infrastructure obligations that met Assured Guaranty's new business underwriting criteria at the inception of the transaction. The balance of the Company's Assumed Business mainly consists of business that the Company assumed prior to the 2008-2009 financial crisis from affiliates and Legacy Monoline Insurers.

The Company's facultative and treaty agreements are generally subject to termination at the option of the ceding company:

- if the Company fails to meet certain financial and regulatory criteria,
- if the Company fails to maintain a specified minimum financial strength rating, or
- upon certain changes of control of the Company.

Upon termination due to one of the above events, the Company typically would be required to return to the ceding company unearned premiums (net of ceding commissions) and loss reserves, calculated by the ceding company in accordance with the accounting rules governing it, attributable to the assumed business (plus, in certain cases, an additional required amount), after which the Company would be released from liability with respect to such business.

As of December 31, 2022, if each non-affiliated and affiliated company ceding business to AGC had a right to recapture such business, and chose to exercise such right, the aggregate amount that AGC could be required to pay to all non-affiliated and affiliated companies would be approximately $234 million and $89 million, respectively.

The Company has ceded financial guaranty business to affiliated and non-affiliated companies to limit its exposure to risk. 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.

In the event that any or all of the reinsuring companies are unable to meet their obligations, or contest such obligations, the Company may be unable to recover amounts due. 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 in an amount equal to their statutory unearned premium, loss and contingency reserves associated with the ceded business. The Company requires collateral from reinsurers primarily to (a) receive statutory credit for the reinsurance, (b) provide liquidity to the Company in the event of claims on the reinsured exposures, and (c) enhance rating agency credit for the reinsurance. The amount of collateral pledged by the reinsuring companies at December 31, 2022, was $196.1 million, consisting primarily of trust accounts.

10. Related Party Transactions

The Company made dividend payments of $207 million in 2022 to AGUS.

Sale of MAC Holdings to AGM and Dividends from MAC Holdings

Until April 1, 2021, AGM owned 60.7% of Municipal Assurance Holdings, Inc. ("MAC Holdings"), the parent of financial guaranty insurer Municipal Assurance Corp. ("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. The steps leading up to the Merger of MAC with and into AGM, 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 MAC Holdings, and

(iii) AGM's purchase of AGC's 39.3% interest in MAC Holdings for $66.9 million in cash.

The Merger of MAC with and into AGM, including the steps above leading up to the Merger, are collectively referred to as the "MAC Transaction."

The MAC Transaction increased AGC's policyholders' surplus by $34.2 million as shown in the table below (in thousands):

	Increase (decrease) in Policyholders' Surplus
Investments other than subsidiaries	$ 167,713
Investments in subsidiaries	(118,176)
Cash, cash equivalents and short-term investments	66,778
Unearned premiums	(31,695)
Contingency reserves	(48,132)
Current federal income tax payable	(2,239)
Total	$ 34,249

The Company received dividends totaling $129 million from MAC Holdings in 2021.

Surplus Notes

In 2009, the Company issued a surplus note to AGM (see Note 8).

Promissory Note

On October 1, 2019, AGM and AGC made 10-year, 3.5% interest rate inter-company loans to AGUS totaling $250 million ($162.5 million from AGM and $87.5 million from AGC), recorded as loans receivable from affiliate. AGC recognized $3.1 million in interest income on this note in each of 2022 and 2021.

Reinsurance Transactions

The Company assumes and cedes business with its affiliated entities, AGM, AGUK, Assured Guaranty (Europe) SA ("AGE"), AG Re and Assured Guaranty Re Overseas Ltd. ("AGRO"), under certain reinsurance agreements. The amounts included in the financial statements resulting from reinsurance transactions with affiliates are shown in the following table. The ceded and assumed amounts with affiliated entities are included in the reinsurance balances disclosed in Note 9.

Amounts Reported for Related Party Reinsurance Transactions

	At December 31,	
(in thousands)	2022	2021
Unearned premiums reserve ceded	$ 64,906	$ 72,696
Unearned premiums reserve assumed	58,301	40,792
Premium balances in course of collection, net		
Ceded payable	7,617	8,393
Assumed receivable	10,634	9,617
Losses and LAE reserve ceded	122,340	107,049
Losses and LAE recoverable assumed	5,917	(47,148)
Ceded funds held liability	8,896	45,202
Assumed funds held asset	1,665	1,299
Par outstanding ceded	8,326,369	8,699,634
Par outstanding assumed	6,625,248	4,711,209

	Year Ended December 31,	
(in thousands)	2022	2021
Premiums written ceded	$ 15,801	$ (14,472)
Premiums written assumed	27,799	16,004
Premiums earned ceded	21,495	23,984
Premiums earned assumed	8,287	6,700
Ceding commission income	5,596	4,994
Assumed commission expense	7,271	4,440
Loss and LAE incurred ceded	31,988	25,237
Loss and LAE benefit assumed	637	(10,110)

AGFP Guarantees

The Company has issued financial guaranty insurance policies guaranteeing the obligations of its affiliate, AG Financial Products Inc. (“AGFP”), to various third-party beneficiaries under CDS agreements. Pursuant to its financial guaranty insurance policy, the Company is obligated to pay the beneficiary named in the policy, upon receipt of a claim as contemplated thereby, amounts that become due for payment by AGFP in the event of a payment default by AGFP under the applicable CDS agreement. The Company may have a payment obligation to the beneficiary so long as there are outstanding transactions between AGFP and the beneficiary under the ISDA master agreement entered into by the parties. Pursuant to its financial guaranty insurance policy, the Company is fully subrogated to the rights of the beneficiary to the extent of payment by the Company under such policy. The financial guaranty insurance policies are non-cancelable for any reason, including by reason of non-payment of premium.

In consideration of the issuance of the financial guaranty insurance policy, AGFP agrees to pay the Company premium pursuant to a premium agreement. Pursuant to the premium agreement, AGFP also agrees to pay the fees and expenses of the Company in connection with the issuance of the financial guaranty insurance policy and the performance of its obligations under such policy. Under such premium agreement, the Company is fully subrogated to AGFP's rights (including its right to receive payments) under the underlying agreement to the extent that the Company makes payments pursuant to the financial guaranty insurance policy.

Reinsurance and Support Agreements

AGM

Effective July 1, 2021, AGC and AGM entered into a reinsurance treaty pursuant to which AGM will cede to AGC a minimum 10% quota share of each policy written or assumed by AGM insuring transactions involving municipal, utility, project finance, infrastructure, or similar business (together, "Public Finance").

AGC provides support to its affiliates, AGUK and AGE, through reinsurance agreements.

AGUK

Effective July 1, 2021, AGC and AGUK implemented a co-guarantee structure for non-Public Finance business pursuant to which (i) AGUK directly guarantees a specified portion of the non-Public Finance obligations issued in a particular transaction rather than guaranteeing 100% of the issued obligations, (ii) AGC directly guarantees the balance of the guaranteed non-Public Finance obligations, and (iii) AGC also provides a second-to-pay guarantee for AGUK's portion of the guaranteed non-Public Finance obligations. The co-guarantee split for non-Public Finance Business is 15% AGUK and 85% AGC.

AGC also provides support to AGUK through a quota share reinsurance agreement (the "AGC Reinsurance Agreement") pursuant to which AGC generally reinsures 90% - 100% of certain policies that are currently part of AGUK's insured portfolio but were originally written by either Assured Guaranty (UK) plc ("AG UK plc") or CIFG (Europe) S.A. ("CIFGE"), both former wholly owned subsidiaries of AGC prior to their merger with and into AGUK in 2018. The AGC Reinsurance Agreement has no application to new business written by AGUK. The AGC Reinsurance Agreement imposes a collateral requirement on AGC pursuant to which AGC's required collateral is 102% of the sum of AGC's assumed share of the following for the legacy AG UK plc and CIFGE policies described above: (a) AGUK's unearned premium reserve (net of AGUK's reinsurance premium payable to AGM); (b) AGUK's provisions for unpaid losses and allocated loss adjustment expenses (net of any salvage recoverable), and (c) any unexpired risk provisions of AGUK, in each case (a) - (c) as calculated by AGUK in accordance with U.K. GAAP. AGC also posts as collateral its share of AGUK-guaranteed (originally AG UK plc-guaranteed) triple-X insurance bonds that have been purchased by AGC for loss mitigation.

AGE

As part of a contingency plan implemented by the Assured Guaranty group in relation to the United Kingdom's departure from the Europe Union, policies written by AGUK that partially or exclusively cover risks in the EEA (the "EEA Policies") were transferred effective October 1, 2020, to AGE, pursuant to an insurance business transfer scheme in accordance with Part VII of the Financial Services and Markets Act 2000 (the "BREXIT Part VII Transfer"). AGC is party to a quota share reinsurance agreement with AGE pursuant to which AGC provides AGE with the same reinsurance on the EEA Policies as AGC previously provided to AGUK prior to the BREXIT Part VII Transfer.

Effective July 1, 2021, AGC entered into a reinsurance agreement with AGE pursuant to which AGE will cede to AGC 90% of each policy written or assumed by AGE insuring non-Public Finance business.

Assured Guaranty Finance Overseas Ltd. ("AGFOL")

Effective July 1, 2021, AGC entered into an arranging agreement with AGFOL that would enable AGC to participate as an 85% co-guarantor of non-Public Finance business transactions originated by AGUK.

Expense Sharing Agreements

The Company and various of its affiliates are parties to the Third Amended and Restated Service Agreement, effective as 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 all 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. and U.K. 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 and its affiliates enjoy the use of certain equipment and office space leased by its New York affiliate, AGM. 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.

Under the Group Service Agreement, the total payments made by the Company to AG Services were \$45.2 million and \$47.4 million in 2022 and 2021, respectively.

AGC and Assured Guaranty Finance Overseas Ltd. ("AGFOL") are parties to an arranging agreement pursuant to which AGFOL introduces structured finance, corporate and other similar, non-government-backed financial transactions to AGC so that AGC may consider whether it would provide a financial guarantee for a proposed transaction together with AGUK under their co-insurance structure. The arranging agreement provides for the payment of fees by AGC to AGFOL

on a cost basis, except with respect to the U.K. office rent and overhead, which is on a cost-plus basis. The total payments made by the Company to AGFOL were $418 thousand and none in 2022 and 2021, respectively.

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. Under the Service Agreement, the total payments made by the Company to AssuredIM were $1.2 million in 2022 and $1.7 million in 2021.

Investment Management Agreement

On May 8, 2020, AGC entered into an Investment Management Agreement with its affiliate, Assured Investment Management LLC ("AssuredIM"), formerly known as BlueMountain Capital Management, LLC, an investment manager organized under the laws of Delaware. AGC's parent company, AGUS, owns 100% of the membership interests in AssuredIM. Pursuant to such Investment Management Agreement, AssuredIM provides investment services to the AG US Insurers with respect to two specific asset classes: (i) U.S. municipal bonds, and (ii) collateralized loan obligations. As of December 31, 2022, AssuredIM was managing a total of $126 million book value under this Investment Management Agreement for AGC. The terms of such Investment Management Agreement are modeled upon the existing investment management agreements that the Company has in place with current non-affiliated investment managers. AGC incurred fees pursuant to the Investment Management Agreement of $148 thousand and $153 thousand in 2022 and 2021, respectively.

Investments in MAC Holdings and AGAS

As of December 31, 2020, AGC owned 39.3% of MAC Holdings which was recorded in common stock. Effective April 1, 2021, AGC sold its share of MAC Holdings to AGM.

AGC owns 35% of AGAS. As of December 31, 2022, the admitted value for AGAS was $211.1 million and is recorded in other invested assets. See Note 6, Investments — Investment in AGAS.

11. Commitments and Contingencies

Leases

Rental expense was $1.7 million and $1.9 million in the years ended December 31, 2022 and 2021, respectively. These amounts are after allocations to affiliates under the Expense Sharing Agreement (see Note 10) and includes allocations from rental agreements paid by AGM.

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 its business, the Company is 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 of 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. 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.

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 would be disclosed below. 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. In the first quarter of 2023, the Company reduced its previously recorded gross accrual of $20 million ($17 million net of ceded reinsurance) to zero in connection with developments in litigation.

Litigation

On November 28, 2011, Lehman Brothers International (Europe) (in administration) ("LBIE") sued AG Financial Products Inc. ("AGFP"), an affiliate of AGC which in the past had provided credit protection to counterparties under CDS. AGC acts as the credit support provider of AGFP under these CDS. LBIE's complaint, which was filed in the Supreme Court of the State of New York (the "Court"), asserted a claim for breach of the implied covenant of good faith and fair dealing based on AGFP's termination in December 2008 of nine credit derivative transactions between LBIE and AGFP and asserted claims for breach of contract and breach of the implied covenant of good faith and fair dealing based on AGFP's termination in July 2008 of 28 other credit derivative transactions between LBIE and AGFP and AGFP's calculation of the termination payment in connection with those 28 other credit derivative transactions. Following defaults by LBIE, AGFP properly terminated the transactions in question in compliance with the agreement between AGFP and LBIE, and calculated the termination payment properly. AGFP has calculated that LBIE owes AGFP approximately $4 million for the claims which were dismissed (as described below) and approximately $21 million in connection with the termination of the other credit derivative

transactions, whereas LBIE asserted in the complaint that AGFP owes LBIE a termination payment of approximately $1.4 billion. AGFP filed a motion to dismiss the claims for breach of the implied covenant of good faith in LBIE's complaint, and on March 15, 2013, the Court granted AGFP's motion to dismiss in respect of the count relating to the nine credit derivative transactions and narrowed LBIE's claim with respect to the 28 other credit derivative transactions. LBIE's administrators disclosed in an April 10, 2015 report to LBIE's unsecured creditors that LBIE's valuation expert has calculated LBIE's claim for damages in aggregate for the 28 transactions to range between a minimum of approximately $200 million and a maximum of approximately $500 million, depending on what adjustment, if any, is made for AGFP's credit risk. In addition, LBIE sought prejudgment interest from the time of termination onwards. A bench trial before Supreme Court Justice Melissa A. Crane was held from October 18 through November 19, 2021. On March 8, 2023, Justice Crane rendered her decision and found in favor of AGFP on LBIE's remaining claim and AGFP's counterclaims for the amounts it calculated LBIE owed to it (as described above). Following further briefing and argument regarding the form of judgment, the Court issued an order on May 17, 2023, holding that AGFP is entitled to interest on its damages award at a rate of 8% simple and directing the clerk to enter judgment in favor of AGFP. The Company continues to evaluate developments related to this case including any issues associated with a potential appeal by the plaintiff.

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 the Commonwealth, PRCCDA and PRIFA, 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, and all remaining legal actions involving the Company and relating to PRHTA were resolved on December 6, 2022, which together comprised the consummation of the 2022 Puerto Rico Resolutions. Except for one proceeding related to PREPA, all proceedings involving the Company and relating to the default by the Commonwealth or its instrumentalities remain stayed pending the Federal District Court of Puerto Rico's determination on plans of adjustment or other proceedings.

The following Puerto Rico proceeding in which the Company is involved is no longer stayed:

- 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. Summary judgment motions were filed by plaintiffs and defendants on October 24, 2022. As noted above, on March 22, 2023, the Federal District Court of Puerto Rico granted in part

and denied in part each party's cross-motions for summary judgment. The Federal District Court of Puerto Rico found that the PREPA bondholders had perfected liens only in revenues that had been deposited in the sinking fund established under the PREPA trust agreement and related funds over which the bond trustee had control. The Federal District Court of Puerto Rico also held that the PREPA bondholders do have recourse under the trust agreement in the form of an unsecured net revenue claim, but declined to value the unsecured net revenue claim. On April 13, 2023, the court issued an order proposing procedures to estimate the value of the unsecured net revenue claim, pursuant to which the court established a discovery and expert report schedule, and directed the parties to engage in good faith mediation. An estimation hearing is scheduled for June 6 and 7, 2023. On May 3, 2023, the Federal District Court of Puerto Rico denied PREPA bondholders' request to certify their interlocutory appeal of the finding that the PREPA bondholders had perfected liens only in revenues that had been deposited in the sinking fund established under the PREPA trust agreement and related funds over which the bond trustee had control. Unless mediation or a confirmed plan of adjustment leads to an acceptable outcome, the Company is likely to appeal portions of the decision, including the lien scope ruling and necessity of any claim estimation proceeding, upon final adjudication by the Court.

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. Following termination of mediation without a resolution and the filing of a motion to dismiss PREPA's Title III case or to lift the automatic stay to allow for the appointment of a receiver, the court effectively stayed this matter until termination of the plan confirmation process.

- 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. Relatedly, 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. These matters are currently stayed. 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"), and 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 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. 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. 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.

For a discussion of the Company's exposure to Puerto Rico related to the litigation described above, please see Note 3, Insurance in Force - Exposure to Puerto Rico.

12. Committed Capital Securities and Short-Term Loan Facility

Committed Capital Securities

AGC has entered into put agreements with four separate custodial trusts allowing AGC 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 committed capital securities ("CCS"), investing the proceeds in high-quality assets and entering into put options with AGC.

The trusts provide AGC access to new equity capital at its sole discretion through the exercise of the put options. Upon AGC's exercise of its put option, the relevant trust will liquidate its portfolio of eligible assets and use the proceeds to purchase the AGC preferred stock. AGC 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. AGC continues to have the ability to exercise its put options and cause the related trusts to purchase its preferred stock.

Prior to 2008, the amounts paid on the CCS were established through an auction process. All of those auctions failed in 2008, and the rates paid on the CCS increased to their maximum. The annualized rate on the AGC CCS is one-month LIBOR plus 250 basis points.

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 3, Insurance in Force. The short-term loan facility permitted the Company to borrow up to $80 million for up to thirty days and would have borne interest at 1.10% per annum. There were no drawings under this facility. The ability of the Company to borrow under the facility has expired.

13. Fair Values of Financial Instruments

Fair Value Hierarchy

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 as follows, with Level 1 being the highest and Level 3 the lowest. An asset's or liability's categorization 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.

- 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.

The following fair value hierarchy table presents information about the Company's assets measured at fair value as of December 31, 2022 and 2021.

December 31, 2022

Type of Financial Instrument	Level 1	Level 2	Level 3	Total
(in thousands)				
Bonds				
Industrial and miscellaneous	$ —	$ —	$ 311,492	$ 311,492
U.S. states, territories and possessions	—	6,722	—	6,722
U.S. special revenue	—	31,731	—	31,731
Money market mutual funds	—	111,451	—	111,451
Total assets	$ —	$ 149,904	$ 311,492	$ 461,396

December 31, 2021

Type of Financial Instrument	Level 1	Level 2	Level 3	Total
(in thousands)				
Money market mutual funds	$ —	$ 231,134	$ —	$ 231,134
Total assets	$ —	$ 231,134	$ —	$ 231,134

Bonds

Bonds with an NAIC designation of 1 and 2 are carried at amortized cost while bonds with an NAIC designation of 3 through 6 are carried at the lower of cost or fair value.

The fair value of bonds in the investment portfolio 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 investments is more subjective when markets are less liquid due to the lack of market based inputs.

Stocks

The Company's stocks are investments in the common stock of an unaffiliated company and are carried at its underlying GAAP equity.

Cash, Cash Equivalents and Short-Term Investments

Cash equivalents and short-term investments, with the exception of money market mutual funds, are stated at amortized cost and have maturities within one year of purchase date. Money market mutual funds are accounted for at fair value, which approximates amortized cost.

Other Invested Assets

Other invested assets primarily includes (1) promissory notes issued by AGUS, which are carried at amortized cost, and (2) investments in partnerships and limited liability companies, including AGAS, which are carried on the equity basis, to the extent admissable.

Rollforward of Level 3 Items

If applicable, transfers in and out of Level 3 are recognized at the end of the quarter when the Company evaluates whether securities with unobservable inputs need to be carried at fair value. There were no transfers between levels for the year ended December 31, 2022.

Inputs and Techniques Used for Level 3 Fair Values

Most Level 3 securities are 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.

Other Fair Value Disclosures

The fair value of the Company's financial guaranty insurance contracts was approximately $399 million at December 31, 2022 and was 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 and acquisitions that have occurred in the financial guaranty market and also includes adjustments to the carrying value of unearned premium reserve for stressed losses, ceding commissions and return on capital. The Company classified the fair value of financial guaranty insurance contracts as Level 3.

Fair Values for All Financial Instruments by Levels 1, 2 and 3

The tables below reflect the fair values and admitted values of all admitted assets and liabilities that are financial instruments excluding those accounted for under the equity method. The fair values are also categorized into the three-level fair value hierarchy as described above.

December 31, 2022					
Type of Financial Instrument	**Fair Value**	**Admitted Value**	**Level 1**	**Level 2**	**Level 3**
		(in thousands)			
Bonds	$ 2,011,478	$ 2,055,728	$ —	$ 1,559,449	$ 452,029
Cash, cash equivalents and short-term investments	136,027	136,027	24,575	111,451	—
Loans receivable from affiliate	87,500	87,500	—	—	87,500
Total assets	$ 2,235,005	$ 2,279,255	$ 24,575	$ 1,670,900	$ 539,529

December 31, 2021					
Type of Financial Instrument	**Fair Value**	**Admitted Value**	**Level 1**	**Level 2**	**Level 3**
		(in thousands)			
Bonds	$ 2,308,622	$ 2,118,089	$ —	$ 1,787,371	$ 521,251
Cash, cash equivalents and short-term investments	281,186	281,186	50,052	231,134	—
Loans receivable from affiliate	87,500	87,500	—	—	87,500
Total assets	$ 2,677,308	$ 2,486,775	$ 50,052	$ 2,018,505	$ 608,751

14. Subsequent Events

Subsequent events have been considered through May 25, 2023, and to the extent material, have been disclosed in this report.

On April 5, 2023, Assured Guaranty entered into a transaction agreement (“Transaction Agreement”) pursuant to which it agreed to contribute to Sound Point Capital Management, L.P. (“Sound Point”) most of its asset management business, other than that conducted by Assured Healthcare Partners LLC (“AssuredIM Business”). In addition, AGC and AGM entered into a letter agreement ("Letter Agreement") pursuant to which they agreed that, after the closing of the transactions contemplated by the Transaction Agreement, they would (a) engage Sound Point as their sole alternative credit manager, (b) transition to Sound Point the management of existing alternative investments and related commitments, and (c) subject to regulatory approval, over time make new investments in funds, other vehicles and separately managed accounts managed by Sound Point which, when aggregated with the transitioned alternative investments and commitments, will total $1 billion. Assured Guaranty will receive, subject to certain potential post-closing adjustments, common interests in Sound Point representing a 30% participation percentage in Sound Point, and certain other interests in related Sound Point entities (the transactions contemplated under the Transaction Agreement and the Letter Agreement, the "Sound Point Transaction"). The Sound Point Transaction is expected to be completed in the third quarter of 2023, subject to certain customary closing conditions, including the receipt of certain consents and regulatory approval.

Upon the closing of the Sound Point Transaction, AGC’s investments in Sound Point will be subject to the risks of Sound Point’s business.

- Sound Point's business operates in highly competitive markets. Sound Point competes with many other firms in every aspect of the asset management industry, including raising funds, seeking investments, and hiring and retaining professionals. Sound Point's ability to increase and retain assets under management is directly related to the performance of the assets it manages as measured against market averages and the performance of its competitors. Some of Sound Point's competitors may have a lower cost of funds and access to funding and other resources that are not available to Sound Point. In addition, some of Sound Point's competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than Sound Point does. Furthermore, Sound Point may lose investment opportunities if it does not match its competitors' pricing, terms and structure. The loss of such investment opportunities may limit Sound Point's ability to grow or cause it to have to shrink the size of its portfolio, which could decrease its earnings. If Sound Point matches its competitors' pricing, terms and structure, it may experience decreased earnings and increased risk of investment losses.

- Sound Point is dependent on certain key personnel, including Sound Point's Managing Partner and Chief Investment Officer, and its future success depends on their continued service. The departure of any of Sound Point's key personnel for any reason could have a material adverse effect on Sound Point's business, financial condition or results of operations and, consequently, AGC's investments in Sound Point funds, other vehicles and separately managed accounts.

- Sound Point operates in a highly regulated industry and, as a registered investment adviser, is subject to the provisions of the Investment Advisers Act of 1940, as amended. Sound Point is, from time to time, subject to formal and informal examinations, investigations, inquiries, audits and reviews from numerous regulatory authorities both in response to issues and questions raised in such examinations or investigations and in connection with the changing priorities of the applicable regulatory authorities across the market in general. As a result, there can be no assurance that Sound Point will not become subject to possible enforcement actions. Sound Point and its principals and employees could also be named as defendants in, or otherwise become involved in, a regulatory action or litigation. Any such regulatory actions or litigation could be disruptive, time-consuming, expensive and lead to negative financial and reputational consequences that have a material adverse effect on Sound Point's business, financial condition or results of operations and, consequently, AGC's investments in Sound Point funds, other vehicles and separately managed accounts.

Assured Guaranty Corp.
Summary Investment Schedule and
Supplemental Investment Risks Interrogatories
For the Year Ended December 31, 2022

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1	2	3	4	5	6
	Amount	Percentage of Column 1 Line 13	Amount	Securities Lending Reinvested Collateral Amount	Total (Col. 3+4) Amount	Percentage of Column 5 Line 13
1. Long-Term Bonds (Schedule D, Part 1):						
1.01 U.S. governments	27,044,024	1.074	27,044,024		27,044,024	1.075
1.02 All other governments						
1.03 U.S. states, territories and possessions, etc. guaranteed	199,830,145	7.934	199,830,145		199,830,145	7.940
1.04 U.S. political subdivisions of states, territories, and possessions, guaranteed	148,258,847	5.887	148,258,847		148,258,847	5.891
1.05 U.S. special revenue and special assessment obligations, etc. non-guaranteed	893,871,366	35.491	893,871,366		893,871,366	35.518
1.06 Industrial and miscellaneous	786,723,528	31.237	786,723,546		786,723,546	31.261
1.07 Hybrid securities						
1.08 Parent, subsidiaries and affiliates						
1.09 SVO identified funds						
1.10 Unaffiliated bank loans						
1.11 Unaffiliated certificates of deposit						
1.12 Total long-term bonds	2,055,727,911	81.623	2,055,727,929		2,055,727,929	81.685
2. Preferred stocks (Schedule D, Part 2, Section 1):						
2.01 Industrial and miscellaneous (Unaffiliated)						
2.02 Parent, subsidiaries and affiliates						
2.03 Total preferred stocks						
3. Common stocks (Schedule D, Part 2, Section 2):						
3.01 Industrial and miscellaneous Publicly traded (Unaffiliated)			789,668		789,668	0.031
3.02 Industrial and miscellaneous Other (Unaffiliated)	789,667	0.031				
3.03 Parent, subsidiaries and affiliates Publicly traded						
3.04 Parent, subsidiaries and affiliates Other						
3.05 Mutual funds						
3.06 Unit investment trusts						
3.07 Closed-end funds						
3.08 Exchange traded funds						
3.09 Total common stocks	789,667	0.031	789,668		789,668	0.031
4. Mortgage loans (Schedule B):						
4.01 Farm mortgages						
4.02 Residential mortgages						
4.03 Commercial mortgages						
4.04 Mezzanine real estate loans						
4.05 Total valuation allowance						
4.06 Total mortgage loans						
5. Real estate (Schedule A):						
5.01 Properties occupied by company	1,402,863	0.056				
5.02 Properties held for production of income	22,151,356	0.880	22,151,356		22,151,356	0.880
5.03 Properties held for sale						
5.04 Total real estate	23,554,219	0.935	22,151,356		22,151,356	0.880
6. Cash, cash equivalents and short-term investments:						
6.01 Cash (Schedule E, Part 1)	24,575,284	0.976	24,575,284		24,575,284	0.977
6.02 Cash equivalents (Schedule E, Part 2)	111,451,436	4.425	111,451,436		111,451,436	4.429
6.03 Short-term investments (Schedule DA)						
6.04 Total cash, cash equivalents and short-term investments	136,026,720	5.401	136,026,720		136,026,720	5.405
7. Contract loans						
8. Derivatives (Schedule DB)						
9. Other invested assets (Schedule BA)	299,117,025	11.877	298,625,076		298,625,076	11.866
10. Receivables for securities	3,338,893	0.133	3,338,893		3,338,893	0.133
11. Securities Lending (Schedule DL, Part 1)				XXX	XXX	XXX
12. Other invested assets (Page 2, Line 11)						
13. Total invested assets	2,518,554,435	100.000	2,516,659,641		2,516,659,641	100.000

Assured Guaranty Corp.
Summary Investment Schedule and Supplemental Investment Risks Interrogatories
For the Year Ended December 31, 2022

For The Year Ended December 31, 2022

(To Be Filed by April 1)

Of The ASSURED GUARANTY CORP.

Address (City, State and Zip Code) New York, NY 10019

NAIC Group Code 0194 NAIC Company Code 30180 Employer's ID Number 52-1533088

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. $ 2,573,935,236

2. Ten largest exposures to a single issuer/borrower/investment.

	1 Issuer	2 Description of Exposure	3 Amount	4 Percentage of Total Admitted Assets
2.01	Orkney Re II plc	BOND	$ 311,491,575	12.1 %
2.02	AG Asset Strategies, LLC	AFFILIATED OTHER INVESTED ASSETS	$ 211,125,076	8.2 %
2.03	Bank of New York Mellon	CASH EQUIVALENT and BOND	$ 113,020,601	4.4 %
2.04	Assured Guaranty US Holdings Inc	AFFILIATED OTHER INVESTED ASSETS	$ 87,500,000	3.4 %
2.05	Puerto Rico Comwlth Hwys & Transn Auth Restructure	BOND	$ 51,304,910	2.0 %
2.06	Commonwealth of Massachusetts	BOND	$ 45,305,625	1.8 %
2.07	California St	BOND	$ 36,423,724	1.4 %
2.08	New York State Dormitory Authority	BOND	$ 28,995,818	1.1 %
2.09	Southern Calif Logistics Arpt Auth Tax Allocation	BOND	$ 28,054,721	1.1 %
2.10	New York City Municipal Water Finance Authority	BOND	$ 26,465,554	1.0 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation.

	Bonds	1	2		Preferred Stocks	3	4
3.01	NAIC 1	$ 1,433,240,121	55.7 %	3.07	NAIC 1	$	0.0 %
3.02	NAIC 2	$ 215,170,578	8.4 %	3.08	NAIC 2	$	0.0 %
3.03	NAIC 3	$ 0	0.0 %	3.09	NAIC 3	$	0.0 %
3.04	NAIC 4	$ 0	0.0 %	3.10	NAIC 4	$	0.0 %
3.05	NAIC 5	$ 322,375,574	12.5 %	3.11	NAIC 5	$	0.0 %
3.06	NAIC 6	$ 84,941,838	3.3 %	3.12	NAIC 6	$	0.0 %

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [ ] No [X]

If response to 4.01 above is yes, responses are not required for interrogatories 5 – 10.

4.02	Total admitted assets held in foreign investments	$ 378,203,036	14.7 %
4.03	Foreign-currency-denominated investments	$ 287	0.0 %
4.04	Insurance liabilities denominated in that same foreign currency	$	0.0 %

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

		1	2
5.01	Countries designated NAIC 1	$ 378,203,036	14.7 %
5.02	Countries designated NAIC 2	$	0.0 %
5.03	Countries designated NAIC 3 or below	$	0.0 %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

		1	2
	Countries designated NAIC 1:		
6.01	Country 1: Ireland	$ 315,611,401	12.3 %
6.02	Country 2: Cayman Islands	$ 30,627,313	1.2 %
	Countries designated NAIC 2:		
6.03	Country 1:	$	0.0 %
6.04	Country 2:	$	0.0 %
	Countries designated NAIC 3 or below:		
6.05	Country 1:	$	0.0 %
6.06	Country 2:	$	0.0 %

		1	2
7.	Aggregate unhedged foreign currency exposure	$ 287	0.0 %

Assured Guaranty Corp.
Summary Investment Schedule and
Supplemental Investment Risks Interrogatories
For the Year Ended December 31, 2022

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:

		1	2
8.01 Countries designated NAIC 1	$	287	0.0 %
8.02 Countries designated NAIC 2	$		0.0 %
8.03 Countries designated NAIC 3 or below	$		0.0 %

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:

		1	2
Countries designated NAIC 1:			
9.01 Country 1: France	$	287	0.0 %
9.02 Country 2:	$		0.0 %
Countries designated NAIC 2:			
9.03 Country 1:	$		0.0 %
9.04 Country 2:	$		0.0 %
Countries designated NAIC 3 or below:			
9.05 Country 1:	$		0.0 %
9.06 Country 2:	$		0.0 %

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	1 Issuer	2 NAIC Designation		3	4
10.01	Orkney Re II plc	5.B FE	$	311,491,575	12.1 %
10.02	Vodafone Group Public Limited Company	2.B FE	$	7,518,860	0.3 %
10.03	BNP Paribas SA	1.G FE	$	5,272,035	0.2 %
10.04	Golub Capital Partners Clo 52 B Ltd.	1.F FE	$	5,000,000	0.2 %
10.05	Sumitomo Mitsui Financial Group, Inc.	1.G FE	$	4,900,000	0.2 %
10.06	Wellfleet Clo 2020-2 Ltd.	1.F FE	$	4,900,000	0.2 %
10.07	Venture 42 CLO, Limited	1.A FE	$	4,636,462	0.2 %
10.08	JAB Holdings B.V.	2.A FE	$	3,208,475	0.1 %
10.09	Shell International Finance B.V.	1.D FE	$	2,887,331	0.1 %
10.10	Credit Suisse Group Funding (Guernsey)	2.B FE	$	2,760,499	0.1 %

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 11.01 is yes, detail is not required for the remainder of interrogatory 11.

		1	2
11.02 Total admitted assets held in Canadian investments	$		0.0 %
11.03 Canadian-currency-denominated investments	$		0.0 %
11.04 Canadian-denominated insurance liabilities	$		0.0 %
11.05 Unhedged Canadian currency exposure	$		0.0 %

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 12.01 is yes, responses are not required for the remainder of interrogatory 12.

1		2	3
12.02 Aggregate statement value of investments with contractual sales restrictions	$		0.0 %
Largest three investments with contractual sales restrictions:			
12.03	$		0.0 %
12.04	$		0.0 %
12.05	$		0.0 %

13. Amounts and percentages of admitted assets held in the ten largest equity interests:

13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? Yes [ ] No [X]

If response to 13.01 is yes, responses are not required for the remainder of interrogatory 13.

	1 Issuer		2	3
13.02	AG Asset Strategies, LLC	$	211,125,076	8.2 %
13.03	PRIVATE EXPT FDG CORP	$	799,667	0.0 %
13.04		$		0.0 %
13.05		$		0.0 %
13.06		$		0.0 %
13.07		$		0.0 %
13.08		$		0.0 %
13.09		$		0.0 %
13.10		$		0.0 %
13.11		$		0.0 %

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 14.01 above is yes, responses are not required for 14.02 through 14.05.

	1	2	3
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities	$	%
	Largest three investments held in nonaffiliated, privately placed equities:		
14.03		$	%
14.04		$	%
14.05		$	%

Ten largest fund managers:

	1 Fund Manager	2 Total Invested	3 Diversified	4 Non-Diversified
14.06	BNY Mellon Family of Funds	$ 111,345,635	$ 111,345,635	$
14.07	SSGA Funds Management Inc	$ 97,993	$ 97,993	$
14.08	ALLSPRING Fund	$ 9	$ 9	$
14.09		$	$	$
14.10		$	$	$
14.11		$	$	$
14.12		$	$	$
14.13		$	$	$
14.14		$	$	$
14.15		$	$	$

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

	1	2	3
15.02	Aggregate statement value of investments held in general partnership interests	$	%
	Largest three investments in general partnership interests:		
15.03		$	%
15.04		$	%
15.05		$	%

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1 Type (Residential, Commercial, Agricultural)	2	3
16.02		$	%
16.03		$	%
16.04		$	%
16.05		$	%
16.06		$	%
16.07		$	%
16.08		$	%
16.09		$	%
16.10		$	%
16.11		$	%

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

		Loans	
16.12	Construction loans	$	%
16.13	Mortgage loans over 90 days past due	$	%
16.14	Mortgage loans in the process of foreclosure	$	%
16.15	Mortgage loans foreclosed	$	%
16.16	Restructured mortgage loans	$	%

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan-to-Value	Residential 1	2	Commercial 3	4	Agricultural 5	6
17.01 above 95%	$	%	$	%	$	%
17.02 91% to 95%	$	%	$	%	$	%
17.03 81% to 90%	$	%	$	%	$	%
17.04 71% to 80%	$	%	$	%	$	%
17.05 below 70%	$	%	$	%	$	%

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Assured Guaranty Corp.
Summary Investment Schedule and Supplemental Investment Risks Interrogatories
For the Year Ended December 31, 2022

Largest five investments in any one parcel or group of contiguous parcels of real estate.

	Description 1	2	3	
18.02		$	0.0	%
18.03		$	0.0	%
18.04		$	0.0	%
18.05		$	0.0	%
18.06		$	0.0	%

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

	1	2	3	
19.02	Aggregate statement value of investments held in mezzanine real estate loans:	$	0.0	%

Largest three investments held in mezzanine real estate loans:

	1	2	3	
19.03		$	0.0	%
19.04		$	0.0	%
19.05		$	0.0	%

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year-End			At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
	1	2		3	4	5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	$	0.0	%	$	$	$
20.02 Repurchase agreements	$	0.0	%	$	$	$
20.03 Reverse repurchase agreements	$	0.0	%	$	$	$
20.04 Dollar repurchase agreements	$	0.0	%	$	$	$
20.05 Dollar reverse repurchase agreements	$	0.0	%	$	$	$

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

	Owned			Written		
	1	2		3	4	
21.01 Hedging	$	0.0	%	$	0.0	%
21.02 Income generation	$	0.0	%	$	0.0	%
21.03 Other	$	0.0	%	$	0.0	%

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	At Year-End			At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
	1	2		3	4	5
22.01 Hedging	$	0.0	%	$	$	$
22.02 Income generation	$	0.0	%	$	$	$
22.03 Replications	$	0.0	%	$	$	$
22.04 Other	$	0.0	%	$	$	$

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	At Year-End			At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
	1	2		3	4	5
23.01 Hedging	$	0.0	%	$	$	$
23.02 Income generation	$	0.0	%	$	$	$
23.03 Replications	$	0.0	%	$	$	$
23.04 Other	$	0.0	%	$	$	$

Assured Guaranty Corp.
Supplemental Schedule of Reinsurance Disclosures
For the Year Ended December 31, 2022

1. The Company did not have any risks reinsured under a quota share reinsurance contract, entered into, renewed or amended on or after January 1, 1994, with any other entity that includes a provision that would limit the reinsurer's losses below the stated quota share percentage.

2. The Company did not cede any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), entered into, renewed or amended on or after January 1, 1994, for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features that would have similar results:

   a. A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
   b. A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
   c. Aggregate stop loss reinsurance coverage;
   d. A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
   e. A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
   f. Payment schedules, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

3. The Company during the period covered by the statement did not cede any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) entered into, renewed or amended on or after January 1, 1994 (excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member), for which the Company recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% or prior year-end surplus as regards policyholders, where:

   a. The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

   b. Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates.

4. Except for transactions meeting the requirements of paragraph 36 of SSAP No. 62R - Property and Casualty Reinsurance, the Company did not cede any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates), entered into, renewed or amended on or after January 1, 1994, during the period covered by the financial statement, and either:

   a. Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or

   b. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP.