ASSURED GUARANTY®

Financial Supplement

Municipal Assurance Holdings Inc.

March 31, 2019

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Financial Supplement

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This financial supplement should be read in conjunction with documents filed by Assured Guaranty Ltd. (AGL and, together with its subsidiaries, Assured Guaranty) with the Securities and Exchange Commission (SEC), including its Annual Report on Form 10-K for the year ended December 31, 2018 and its Quarterly Report on Form 10-Q for the quarterly periods ended March 31, 2019. For the purposes of this financial supplement, all references to the "Company" shall mean Municipal Assurance Holdings Inc., a company formed to own 100% of the common stock of Municipal Assurance Corp. (MAC).

Some amounts in this financial supplement may not add due to rounding.

Cautionary Statement Regarding Forward Looking Statements:

Any forward looking statements made in this supplement reflect the current views of Assured Guaranty with respect to future events and financial performance and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements involve risks and uncertainties that may cause actual results to differ materially from those set forth in these statements. Assured Guaranty's forward looking statements could be affected by many events. These events include (1) reduction in the amount of available insurance opportunities and/or in the demand for Assured Guaranty's insurance; (2) rating agency action, including a ratings downgrade, a change in outlook, the placement of ratings on watch for downgrade, or a change in rating criteria, at any time, of AGL or any of its subsidiaries, and/or of any securities AGL or any of its subsidiaries have issued, and/or of transactions that AGL's subsidiaries have insured; (3) developments in the world's financial and capital markets that adversely affect obligors' payment rates, or Assured Guaranty's loss experience; (4) the possibility that budget or pension shortfalls or other factors will result in credit losses or impairments on obligations of state, territorial and local governments and their related authorities and public corporations that Assured Guaranty insures or reinsures; (5) the failure of Assured Guaranty to realize loss recoveries that are assumed in its expected loss estimates; (6) increased competition, including from new entrants into the financial guaranty industry; (7) rating agency action on obligors, including sovereign debtors, resulting in a reduction in the value of securities in Assured Guaranty's investment portfolio and in collateral posted by and to Assured Guaranty; (8) the inability of Assured Guaranty to access external sources of capital on acceptable terms; (9) changes in the world's credit markets, segments thereof, interest rates or general economic conditions; (10) the impact of market volatility on the mark-to-market of Assured Guaranty's assets and liabilities subject to mark-to-market, including certain of its investments, most of its contracts written in credit default swap (CDS) form, and variable interest entities; (11) changes in applicable accounting policies or practices; (12) changes in applicable laws or regulations, including insurance, bankruptcy and tax laws, or other governmental actions; (13) the impact of changes in the world's economy and credit and currency markets and in applicable laws or regulations relating to the decision of the United Kingdom to exit the European Union; (14) the possibility that acquisitions or alternative investments made by Assured Guaranty do not result in the benefits anticipated or subject Assured Guaranty to unanticipated consequences; (15) difficulties with the execution of Assured Guaranty's business strategy; (16) loss of key personnel; (17) the effects of mergers, acquisitions and divestitures; (18) natural or man-made catastrophes; (19) other risk factors identified in AGL's filings with the SEC; (20) other risks and uncertainties that have not been identified at this time and; (21) management's response to these factors. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the dates on which they are made. Assured Guaranty undertakes no obligation to update publicly or review any forward looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

Municipal Assurance Holdings Inc.

Selected Financial Highlights

(dollars in millions)

	Three Months Ended March 31,		
		2019	2018
Net income (loss)	**$**	**11**	**18**
Non-GAAP operating income[1]		11	18
Effective tax rate on net income		**15.1%**	**9.1%**
Effective tax rate on non-GAAP operating income[2]		15.1 %	9.2 %
Return on equity (ROE) calculations [3]:			
GAAP ROE		**7.6%**	**12.9%**
Non-GAAP operating ROE[1]		7.7 %	13.3 %
New business:			
Gross written premiums (GWP)	**$**	**0.3**	**0.1**
Present value of new business production (PVP) [1]		0.3	0.2
Gross par written		84	59
Effect of refundings and terminations on GAAP measures			
Net earned premiums, pre-tax		**6**	**7**
Net income effect		**5**	**5**
Effect of refundings and terminations on non-GAAP measures:			
Operating net earned premiums[1][4], pre-tax		6	7
Non-GAAP operating income[1][4] effect		5	5

	As of			
		March 31, 2019		December 31, 2018
Shareholder's equity	**$**	**589**	**$**	**575**
Non-GAAP operating shareholder's equity[1]		572		566
Non-GAAP adjusted book value[1]		683		687
Other Information				
Net debt service outstanding	$	36,898	$	39,706
Net par outstanding		26,064		28,132
Claims-paying resources [5]		888		895

1) Please refer to the explanation of Non-GAAP Financial Measures set forth at the end of this Financial Supplement.
2) Represents the ratio of non-GAAP operating provision for income taxes to non-GAAP operating income before income taxes. See page 3 for GAAP pre-tax income
and income tax expense and page 4 for non-GAAP pre-tax income and income tax components.
3) Quarterly ROE calculations represent annualized returns. See page 4 for additional information on calculation.
4) Condensed consolidated statement of operations items mentioned in this Financial Supplement that are described as operating (i.e. operating net earned premiums) are non-GAAP measures and represent components of operating income.
5) See page 6 for additional detail on claims-paying resources.

Municipal Assurance Holdings Inc.

Condensed Consolidated Balance Sheets (unaudited)

(dollars in millions)

	As of:	
	March 31, 2019	December 31, 2018
Assets:		
Investment portfolio:		
Fixed-maturity securities, available-for-sale, at fair value	$ 723	$ 726
Short-term investments, at fair value	18	12
Total investment portfolio	741	738
Cash	1	1
Intangible assets	16	16
Accrued investment income	9	7
Other assets	1	3
Total assets	**$ 768**	**$ 765**
Liabilities and shareholders' equity:		
Liabilities:		
Unearned premium reserve	$ 143	$ 156
Current income tax payable	9	7
Deferred tax liability, net	15	13
Other liabilities	12	14
Total liabilities	**179**	**190**
Shareholders' equity:		
Common stock and additional paid-in capital	510	510
Retained earnings	62	56
Accumulated other comprehensive income	17	9
Total shareholders' equity	**589**	**575**
Total liabilities and shareholders' equity	**$ 768**	**$ 765**

Municipal Assurance Holdings Inc.

Condensed Consolidated Statements of Operations (unaudited)

(dollars in millions)

	Three Months Ended March 31,	
	2019	**2018**
Revenues:		
Net earned premiums	$ 12	$ 17
Net investment income	6	6
Total revenues	**18**	**23**
Expenses:		
Loss and LAE	—	(2)
Other operating expenses	5	5
Total expenses	**5**	**3**
Income (loss) before income taxes	**13**	**20**
Provision (benefit) for income taxes	2	2
Net income (loss)	**$ 11**	**$ 18**

Municipal Assurance Holdings Inc.

Selected Financial Highlights

GAAP to Non-GAAP Reconciliations (1 of 2)

(dollars in millions)

Non-GAAP Operating Income Reconciliation:

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Net income (loss)	**$ 11**	**$ 18**
Less pre-tax adjustments:		
Realized gains (losses) on investments	—	—
Total pre-tax adjustments	—	—
Less tax effect on pre-tax adjustments	—	—
Non-GAAP operating income	$ 11	$ 18

ROE Reconciliation and Calculation

	As of March 31, 2019	As of December 31, 2018	As of March 31, 2018	As of December 31, 2017
Shareholders' equity	**$ 589**	**$ 575**	**$ 559**	**$ 550**
Non-GAAP operating shareholders' equity	572	566	548	530

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Net income (loss)	**$ 11**	**$ 18**
Non-GAAP operating income	11	18
Average shareholders' equity	**$ 582**	**$ 555**
Average non-GAAP operating shareholders' equity	569	539
GAAP ROE (1)	**7.6%**	**12.9%**
Non-GAAP operating ROE(1)	7.7 %	13.3 %

1) Quarterly ROE calculations represent annualized returns.

Municipal Assurance Holdings Inc.

Selected Financial Highlights

GAAP to Non-GAAP Reconciliations (2 of 2)

(dollars in millions)

	As of			
	March 31, 2019	**December 31, 2018**	**March 31, 2018**	**December 31, 2017**
Reconciliation of shareholder's equity to non-GAAP adjusted book value:				
Shareholder's equity	**$ 589**	**$ 575**	**$ 559**	**$ 550**
Less pre-tax reconciling items:				
Unrealized gain (loss) on investment portfolio	23	12	16	27
Less taxes	(6)	(3)	(5)	(7)
Non-GAAP operating shareholders' equity	572	566	548	530
Pre-tax reconciling items:				
Plus: Net unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed	142	153	198	216
Plus taxes	(31)	(32)	(42)	(46)
Non-GAAP adjusted book value	$ 683	$ 687	$ 704	$ 700

Please refer to the explanation of Non-GAAP Financial Measures set forth at the end of this Financial Supplement.

Municipal Assurance Holdings Inc.

Claims-Paying Resources of Municipal Assurance Corp.[1]

(dollars in millions)

	As of:	
	March 31, 2019	December 31, 2018
Claims-paying resources		
Policyholders' surplus	$ 322	$ 321
Contingency reserve	204	200
Qualified statutory capital	**526**	**521**
Unearned premium reserve	183	195
Loss and LAE reserves	(1)	—
Total policyholders' surplus and reserves	**708**	**716**
Present value of installment premium	—	(1)
Excess of loss reinsurance facility [2]	180	180
Total claims-paying resources	**$ 888**	**$ 895**
Net par outstanding [3]	$ 22,375	$ 23,621
Net debt service outstanding [3]	33,007	34,962
Ratios:		
Net par outstanding to qualified statutory capital	43:1	45:1
Capital ratio [4]	63:1	67:1
Financial resources ratio [5]	37:1	39:1

1) MAC is a 100% owned subsidiary of Municipal Assurance Holdings Inc.

2) Represents the $180 million portion placed with an unaffiliated reinsurer of a $400 million aggregate excess-of-loss reinsurance facility for the benefit of Assured Guaranty Corp. (AGC), Assured Guaranty Municipal Corp (AGM) and MAC, which became effective January 1, 2018. The facility terminates on January 1, 2020 unless AGC, AGM and MAC choose to extend it.

3) Net par outstanding and net debt service outstanding are presented on a statutory basis.

4) The capital ratio is calculated by dividing net debt service outstanding by qualified statutory capital.

5) The financial resources ratio is calculated by dividing net debt service outstanding by total claims-paying resources.

Municipal Assurance Holdings Inc.

New Business Production

(dollars in millions)

Reconciliation of GWP to PVP for the Three Months Ended March 31, 2019 and March 31, 2018

	Three Months Ended March 31,	
	2019	**2018**
U.S. Public Finance:		
Total GWP	**$ 0.3**	**$ 0.1**
Less: Installment GWP and other GAAP adjustments[1]	—	(0.1)
Upfront GWP	0.3	0.2
Plus: Installment premium PVP	—	—
Total PVP	$ 0.3	$ 0.2
Gross par written	**$ 84**	**$ 59**

1) Includes present value of GWP adjustments on existing installment policies due to changes in assumptions.

Please refer to the explanation of Non-GAAP Financial Measures set forth at the end of this Financial Supplement.

Municipal Assurance Holdings Inc.

Gross Par Written

(dollars in millions)

Gross Par Written by Asset Type

	Three Months Ended March 31, 2019		
	Gross Par Written		Avg. Internal Rating
Sector:			
U.S. public finance			
Direct:			
General obligation	$	74	A-
Municipal utilities		10	BBB
Total direct		84	BBB+
Total U.S. public finance gross par written	**$**	**84**	**BBB+**

	Three Months Ended March 31, 2019	
Gross debt service written	$	134

Please refer to the Glossary for a description of internal ratings and sectors.

Municipal Assurance Holdings Inc.

Investment Portfolio and Cash

As of March 31, 2019

(dollars in millions)

	Amortized Cost	Pre-Tax Book Yield	After-Tax Book Yield	Fair Value	Annualized Investment Income [1]
Investment portfolio:					
Fixed-maturity securities:					
U.S. Obligations of states and political subdivisions	$ 417	3.16 %	2.96 %	$ 431	$ 13
Insured obligations of state and political subdivisions [2]	81	3.72	3.52	88	3
U.S. Treasury securities and obligations of U.S. government agencies	20	2.53	2.00	20	—
Corporate securities	108	3.46	2.73	110	4
Mortgage-backed securities (MBS):					
Residential MBS (RMBS)	20	3.31	2.62	20	1
Commercial MBS (CMBS)	21	3.43	2.71	21	1
Asset-backed securities	33	3.93	3.11	33	1
Total fixed-maturity securities	700	3.30	2.96	723	23
Short-term investments	18	2.46	1.94	18	1
Cash [3]	1	—	—	1	—
Total	**$ 719**	**3.28%**	**2.93%**	**$ 742**	**$ 24**

Ratings [4]:	**Fair Value**	**% of Portfolio**
U.S. Treasury securities and obligations of U.S. government agencies	$ 20	2.8 %
AAA/Aaa	94	13.0
AA/Aa	415	57.4
A/A	133	18.4
BBB	61	8.4
Total fixed-maturity securities, available-for-sale	**$ 723**	**100.0%**

Duration of fixed-maturity securities and short-term investments (in years):	**3.7**
Average ratings of fixed-maturity securities and short-term investments	**AA**

1) Represents annualized investment income based on amortized cost and pre-tax book yields.
2) Reflects obligations of state and local political subdivisions that have been insured by other financial guarantors. The underlying ratings of these bonds, average A+, after giving effect to the lower of the rating assigned by S&P Global Ratings, a division of Standard & Poor's Financial Services LLC (S&P) or Moody's Investors Service, Inc. (Moody's).
3) Cash is not included in the yield calculation.
4) Ratings are represented by the lower of the Moody's or S&P classifications.

Municipal Assurance Holdings Inc.

Estimated Net Exposure Amortization[1] and Estimated Future Net Premium

(dollars in millions)

	Estimated Net Debt Service Amortization	Estimated Ending Net Debt Service Outstanding	Financial Guaranty Insurance		
			Expected PV Net Earned Premiums	Accretion of Discount	Future Credit Derivative Revenues
2019 (as of March 31)		$ 36,898			
2019 Q2	$ 1,571	35,327	$ 5	$ —	$ —
2019 Q3	2,216	33,111	5	—	—
2019 Q4	1,305	31,806	4	—	—
2020	3,414	28,392	16	—	—
2021	2,586	25,806	13	—	—
2022	2,357	23,449	12	—	—
2023	2,064	21,385	11	—	—
2019-2023	15,513	21,385	66	—	—
2024-2028	8,904	12,481	40	—	—
2029-2033	6,275	6,206	23	—	—
2034-2038	3,625	2,581	10	—	—
After 2038	2,581	—	4	—	—
Total	**$ 36,898**		**$ 143**	**$ —**	**$ —**

1) Represents the future expected amortization of current debt service outstanding (principal and interest), assuming no advance refundings, as of March 31, 2019. Actual amortization differs from expected maturities because borrowers may have the right to call or prepay guaranteed obligations, and changes in other assumptions.

Municipal Assurance Holdings Inc.

Expected Amortization of Net Par Outstanding

(dollars in millions)

U.S. Public Finance

	Estimated Net Par Amortization	Estimated Ending Net Par Outstanding
2019 (as of March 31)		$ 26,064
2019 Q2	$ 1,264	24,800
2019 Q3	1,932	22,868
2019 Q4	1,037	21,831
2020	2,416	19,415
2021	1,679	17,736
2022	1,517	16,219
2023	1,283	14,936
2019-2023	11,128	14,936
2024-2028	5,810	9,126
2029-2033	4,414	4,712
2034-2038	2,689	2,023
After 2038	2,023	—
Total U.S. public finance	**$ 26,064**	

Municipal Assurance Holdings Inc.

Financial Guaranty Profile (1 of 3)

(dollars in millions)

Net Par Outstanding and Average Rating by Asset Type

	March 31, 2019		December 31, 2018	
	Net Par Outstanding	Avg. Internal Rating	Net Par Outstanding	Avg. Internal Rating
U.S. public finance:				
General obligation	$ 16,590	A	$ 17,743	A
Municipal utilities	3,666	A	4,126	A
Tax backed	3,571	A	3,888	A
Transportation	1,231	A-	1,311	A-
Higher education	818	A-	865	A-
Housing revenue	91	A+	94	A+
Other public finance	97	A+	105	A+
Total U.S. public finance	**$ 26,064**	**A**	**$ 28,132**	**A**

Please refer to the Glossary for an explanation of the presentation of net par outstanding and the Company's internal rating approach, and of the various sectors.

Municipal Assurance Holdings Inc.

Financial Guaranty Profile (2 of 3)

As of March 31, 2019

(dollars in millions)

Distribution by Ratings of U.S. Public Finance Financial Guaranty Portfolio

Ratings:	**Net Par Outstanding**	**% of Total**
AAA	$ 196	0.8 %
AA	4,947	19.0
A	16,338	62.6
BBB	4,314	16.6
Below Investment Grade ("BIG")[(1)]	269	1.0
Total net par outstanding	**$ 26,064**	**100.0%**

1) Includes 21 revenue sources, in the BB and B categories, all from the general obligation, education, transportation revenue, and municipal utility sectors. The largest exposure was $66 million in the general obligation sector, no other individual revenue source exceeds $50 million.

Please refer to the Glossary for an explanation of the presentation of net par outstanding and the Company's internal rating approach, and of the various sectors.

Municipal Assurance Holdings Inc.

Financial Guaranty Profile (3 of 3)

As of March 31, 2019

(dollars in millions)

Geographic Distribution of U.S. Public Finance Financial Guaranty Portfolio

	Net Par Outstanding	% of Total
U.S. public finance:		
California	$ 5,779	22.2 %
Texas	2,685	10.3
Pennsylvania	2,558	9.8
New York	2,031	7.8
Illinois	1,971	7.6
New Jersey	1,142	4.4
Florida	1,049	4.0
Arizona	662	2.5
Ohio	642	2.4
Michigan	596	2.3
Other	6,949	26.7
Total U.S. public finance net par outstanding	**$ 26,064**	**100.0%**

Please refer to the Glossary for an explanation of the presentation of net par outstanding and of the various sectors.

Municipal Assurance Holdings Inc.

Largest Exposures by Sector

As of March 31, 2019

(dollars in millions)

50 Largest U.S. Public Finance Exposures by Revenue Source

Credit names:	Net Par Outstanding	Internal Rating
New York City Transitional Finance Authority	$ 141	AAA
Garden State Preservation Trust, New Jersey Open Space & Farmland	138	BBB+
San Bernardino County, California	127	A+
Harris County, Texas	124	AA+
Escondido Union High School District, California	119	A+
Orange County Schools, Florida	107	A+
Frisco Independent School District, Texas	99	AA+
Alaska (State of)	98	AA
Kansas (State of)	95	A+
Palomar Pomerado Health	92	A-
Mount Diablo Unified School District, California	92	AA-
Colton Joint Unified School District, California	90	A+
Will County Community Unit School District No. 365-U (Valley View), Illinois	90	AA-
Norwalk-La Mirada Unified School District, California	89	A+
Regional Transportation Authority (Sales Tax), Illinois	89	AA-
Corona-Norco Unified School District, California	88	AA-
University of Cincinnati	84	A+
Miami-Dade County, Florida	83	A+
Santa Ana Unified School District, California	83	A+
Massachusetts (Commonwealth of) Water Resources	81	AA
Azusa Unified School District, California	78	AA-
Hayward Unified School District, California	77	A
Detroit (City of) School District, Michigan	75	AA-
Pennsylvania Turnpike Commission Registration Fee	74	BBB
North Texas Tollway Authority	74	A
Rancho Santiago Community College District, California	74	AA
Rhode Island Department of Transportation	73	A+
Metro Washington Airports Authority (Dulles Toll Road)	73	BBB+
DeKalb County Water & Sewerage, Georgia	73	A+
Regional Transportation District, Colorado	73	AA
Lincoln Way Community High School District No. 210, Illinois	72	BBB-
West Contra Costa Unified School District, California	71	AA-
Wisconsin (State of)	70	A+
Kentucky Municipal Power Agency	69	BBB
Oglethorpe Power Corporation, Georgia	69	BBB
Oregon School Boards Association, Oregon	69	AA-
North Fort Bend Water Authority, Texas	68	A-
University of Rhode Island	66	A-
Penn Hills School District, Pennsylvania	66	BB
Municipal Gas Authority of Georgia	64	A+
Pima County Sewer System, Arizona	63	A+
Massachusetts (Commonwealth of)	62	AA-
Oceanside Unified School District, California	62	A+
San Antonio Airport, Texas	61	A
Las Vegas-McCarran International Airport, Nevada	61	A
Pittsburgh Public Auditorium Authority, Pennsylvania	60	A+
Tucson (City of), Arizona	60	A+
Kent State University, Ohio	60	A-
New Haven Unified School District, California	60	A+
San Juan Unified School District, California	60	A+
Total top 50 U.S. public finance exposures	**$ 4,046**	

Please refer to the Glossary for an explanation of net par outstanding, internal ratings and sectors.

Municipal Assurance Holdings Inc.

Summary of Statutory Financial and Statistical Data of Municipal Assurance Corp.

(dollars in millions)

	As of:				
	March 31,	December 31,			
	2019	2018	2017	2016	2015
Statutory Data					
Policyholders' surplus	$ 322	$ 321	$ 270	$ 487	$ 730
Contingency reserve	204	200	224	260	282
Qualified statutory capital	**526**	**521**	**494**	**747**	**1,012**
Unearned premium reserve	183	195	248	333	469
Loss and LAE reserves	(1)	—	—	—	—
Total policyholders' surplus and reserves	**708**	**716**	**742**	**1,080**	**1,481**
Present value of installment premium	—	(1)	1	2	3
Excess of loss reinsurance facility	180	180	180	360	360
Total claims-paying resources	**$ 888**	**$ 895**	**$ 923**	**$ 1,442**	**$ 1,844**
Other Financial Information (Statutory Basis)					
Net debt service outstanding (end of period)	$ 33,007	$ 34,962	$ 44,323	$ 61,829	$ 92,048
Gross debt service outstanding (end of period)	33,007	34,962	44,323	61,829	92,048
Net par outstanding (end of period)	22,375	23,621	30,100	41,951	61,805
Gross par outstanding (end of period)	22,375	23,621	30,100	41,951	61,805
Ratios:					
Net par outstanding to qualified statutory capital	43:1	45:1	61:1	56:1	61:1
Capital ratio (1)	63:1	67:1	90:1	83:1	91:1
Financial resources ratio (1)	37:1	39:1	48:1	43:1	50:1

1) See page 6 for additional detail on claims-paying resources.

Please refer to the Glossary for an explanation of the presentation of net debt service and net par outstanding and of the various sectors.

Glossary

Net Par Outstanding and Internal Ratings
Net Par Outstanding is insured par exposure net of reinsurance cessions.

Internal Rating utilizes the Company's ratings scale, which is similar to that used by the nationally recognized statistical rating organizations; however, the ratings in the tables may not be the same as ratings assigned by any such rating agency.

Statutory Net Par and Net Debt Service Outstanding. Under statutory accounting, net par and net debt service outstanding would be reduced both when an outstanding issue is legally defeased (i.e., an issuer has legally discharged its obligations with respect to a municipal security by satisfying conditions set forth in defeasance provisions contained in transaction documents and is no longer responsible for the payment of debt service with respect to such obligations) and when such issue is economically defeased (i.e., transaction documents for a municipal security do not contain defeasance provisions but the issuer establishes an escrow account with U.S. government securities in amounts sufficient to pay the refunded bonds when due; the refunded bonds are not considered paid and continue to be outstanding under the transaction documents and the issuer remains responsible to pay debt service when due to the extent monies on deposit in the escrow account are insufficient for such purpose).

Sectors
Below are brief descriptions of selected types of public finance obligations that the Company insures and reinsures. For a more complete description, please refer to Assured Guaranty Ltd.'s Annual Report on Form 10-K for the year ended December 31, 2018.

Public Finance:
General Obligation Bonds are full faith and credit bonds that are issued by states, their political subdivisions and other municipal issuers, and are supported by the general obligation of the issuer to pay from available funds and by a pledge of the issuer to levy ad valorem taxes in an amount sufficient to provide for the full payment of the bonds.

Tax-Backed Bonds are obligations that are supported by the issuer from specific and discrete sources of taxation. They include tax-backed revenue bonds, general fund obligations and lease revenue bonds. Tax-backed obligations may be secured by a lien on specific pledged tax revenues, such as a gasoline or excise tax, or incrementally from growth in property tax revenue associated with growth in property values. These obligations also include obligations secured by special assessments levied against property owners and often benefit from issuer covenants to enforce collections of such assessments and to foreclose on delinquent properties. Lease revenue bonds typically are general fund obligations of a municipality or other governmental authority that are subject to annual appropriation or abatement; projects financed and subject to such lease payments ordinarily include real estate or equipment serving an essential public purpose. Bonds in this category also include moral obligations of municipalities or governmental authorities.

Municipal Utility Bonds are obligations of all forms of municipal utilities, including electric, water and sewer utilities and resource recovery revenue bonds. These utilities may be organized in various forms, including municipal enterprise systems, authorities or joint action agencies.

Transportation Bonds include a wide variety of revenue-supported bonds, such as bonds for airports, ports, tunnels, municipal parking facilities, toll roads and toll bridges.

Higher Education Bonds are obligations secured by revenue collected by either public or private secondary schools, colleges and universities. Such revenue can encompass all of an institution's revenue, including tuition and fees, or in other cases, can be specifically restricted to certain auxiliary sources of revenue.

Housing Revenue Bonds are obligations relating to both single and multi-family housing, issued by states and localities, supported by cash flow and, in some cases, insurance from entities such as the Federal Housing Administration.

Other Public Finance primarily includes government insured student loans, government-sponsored project finance and structured municipal transactions, which include excess of loss reinsurance on portfolios of municipal credits.

Non-GAAP Financial Measures

To reflect the key financial measures that management analyzes in evaluating the Company's operations and progress towards long-term goals, the Company discloses both financial measures determined in accordance with GAAP and financial measures not determined in accordance with GAAP (non-GAAP financial measures).

Financial measures identified as non-GAAP should not be considered substitutes for GAAP financial measures. The primary limitation of non-GAAP financial measures is the potential lack of comparability to financial measures of other companies, whose definitions of non-GAAP financial measures may differ from those of Assured Guaranty.

By disclosing non-GAAP financial measures, the Company gives investors, analysts and financial news reporters access to information that management and the Board of Directors review internally. Assured Guaranty believes its presentation of non-GAAP financial measures, along with the effect of FG VIE consolidation provides information that is necessary for analysts to calculate their estimates of Assured Guaranty's financial results in their research reports on Assured Guaranty and for investors, analysts and the financial news media to evaluate Assured Guaranty's financial results.

GAAP requires the Company to consolidate certain VIEs that have issued debt obligations insured by the Company. However, the Company does not own such VIEs and its exposure is limited to its obligation under its financial guaranty insurance contract.

Management and the Board of Directors use non-GAAP financial measures adjusted to remove FG VIE consolidation (which the Company refers to as its core financial measures), as well as GAAP financial measures and other factors, to evaluate the Company's results of operations, financial condition and progress towards long-term goals. The Company uses these core financial measures in its decision making process and in its calculation of certain components of management compensation. Wherever possible, the Company has separately disclosed the effect of FG VIE consolidation.

Many investors, analysts and financial news reporters use non-GAAP operating shareholders' equity, adjusted to remove the effect of FG VIE consolidation, as the principal financial measure for valuing AGL's current share price or projected share price and also as the basis of their decision to recommend, buy or sell AGL's common shares. Many of the Company's fixed income investors also use this measure to evaluate the Company's capital adequacy.

Many investors, analysts and financial news reporters also use non-GAAP adjusted book value, adjusted to remove the effect of FG VIE consolidation, to evaluate AGL's share price and as the basis of their decision to recommend, buy or sell the AGL common shares. Non-GAAP operating income adjusted for the effect of FG VIE consolidation enables investors and analysts to evaluate the Company's financial results in comparison with the consensus analyst estimates distributed publicly by financial databases.

The core financial measures that the Company uses to help determine compensation are: (1) non-GAAP operating income, adjusted to remove the effect of FG VIE consolidation, (2) non-GAAP operating shareholders' equity, adjusted to remove the effect of FG VIE consolidation, (3) growth in non-GAAP adjusted book value per share, adjusted to remove the effect of FG VIE consolidation, and (4) PVP.

The following paragraphs define each non-GAAP financial measure disclosed by the Company and describe why it is useful. To the extent there is a directly comparable GAAP financial measure, a reconciliation of the non-GAAP financial measure and the most directly comparable GAAP financial measure is presented within this financial supplement.

Non-GAAP Operating Income: Management believes that non-GAAP operating income is a useful measure because it clarifies the understanding of the underwriting results and financial condition of the Company and presents the results of operations of the Company excluding the fair value adjustments on credit derivatives and CCS that are not expected to result in economic gain or loss, as well as other adjustments described below. Management adjusts non-GAAP operating income further by removing FG VIE consolidation to arrive at its core operating income measure. Non-GAAP operating income is defined as net income (loss) attributable to AGL, as reported under GAAP, adjusted for the following:

1) Elimination of realized gains (losses) on the Company's investments, except for gains and losses on securities classified as trading. The timing of realized gains and losses, which depends largely on market credit cycles, can vary considerably across periods. The timing of sales is largely subject to the Company's discretion and influenced by market opportunities, as well as the Company's tax and capital profile.

2) Elimination of non-credit-impairment unrealized fair value gains (losses) on credit derivatives that are recognized in net income, which is the amount of unrealized fair value gains (losses) in excess of the present value of the expected estimated economic credit losses, and non-economic payments. Such fair value adjustments are heavily affected by, and in part fluctuate with, changes in market interest rates, the Company's credit spreads, and other market factors and are not expected to result in an economic gain or loss.

3) Elimination of fair value gains (losses) on the Company's CCS that are recognized in net income. Such amounts are affected by changes in market interest rates, the Company's credit spreads, price indications on the Company's publicly traded debt, and other market factors and are not expected to result in an economic gain or loss.

Non-GAAP Financial Measures (continued)

4) Elimination of foreign exchange gains (losses) on remeasurement of net premium receivables and loss and LAE reserves that are recognized in net income. Long-dated receivables and loss and LAE reserves represent the present value of future contractual or expected cash flows. Therefore, the current period's foreign exchange remeasurement gains (losses) are not necessarily indicative of the total foreign exchange gains (losses) that the Company will ultimately recognize.

5) Elimination of the tax effects related to the above adjustments, which are determined by applying the statutory tax rate in each of the jurisdictions that generate these adjustments.

Non-GAAP Operating Shareholders' Equity and Non-GAAP Adjusted Book Value: Management believes that non-GAAP operating shareholders' equity is a useful measure because it presents the equity of the Company excluding the fair value adjustments on investments, credit derivatives and CCS, that are not expected to result in economic gain or loss, along with other adjustments described below. Management adjusts non-GAAP operating shareholders' equity further by removing FG VIE consolidation to arrive at its core operating shareholders' equity and core adjusted book value.

Non-GAAP operating shareholders' equity is the basis of the calculation of non-GAAP adjusted book value (see below). Non-GAAP operating shareholders' equity is defined as shareholders' equity attributable to AGL, as reported under GAAP, adjusted for the following:

1) Elimination of non-credit-impairment unrealized fair value gains (losses) on credit derivatives, which is the amount of unrealized fair value gains (losses) in excess of the present value of the expected estimated economic credit losses, and non-economic payments. Such fair value adjustments are heavily affected by, and in part fluctuate with, changes in market interest rates, credit spreads and other market factors and are not expected to result in an economic gain or loss.

2) Elimination of fair value gains (losses) on the Company's CCS. Such amounts are affected by changes in market interest rates, the Company's credit spreads, price indications on the Company's publicly traded debt, and other market factors and are not expected to result in an economic gain or loss.

3) Elimination of unrealized gains (losses) on the Company's investments that are recorded as a component of accumulated other comprehensive income (AOCI) (excluding foreign exchange remeasurement). The AOCI component of the fair value adjustment on the investment portfolio is not deemed economic because the Company generally holds these investments to maturity and therefore should not recognize an economic gain or loss.

4) Elimination of the tax effects related to the above adjustments, which are determined by applying the statutory tax rate in each of the jurisdictions that generate these adjustments.

Management uses non-GAAP adjusted book value, adjusted for FG VIE consolidation, to measure the intrinsic value of the Company, excluding franchise value. Growth in non-GAAP adjusted book value per share adjusted for FG VIE consolidation (core adjusted book value) is one of the key financial measures used in determining the amount of certain long-term compensation elements to management and employees and used by rating agencies and investors. Management believes that non-GAAP adjusted book value is a useful measure because it enables an evaluation of the Company's in-force premiums and revenues net of expected losses. Non-GAAP adjusted book value is non-GAAP operating shareholders' equity, as defined above, further adjusted for the following:

1) Elimination of deferred acquisition costs, net. These amounts represent net deferred expenses that have already been paid or accrued and will be expensed in future accounting periods.

2) Addition of the net present value of estimated net future revenue. See below.

3) Addition of the deferred premium revenue on financial guaranty contracts in excess of expected loss to be expensed, net of reinsurance. This amount represents the expected future net earned premiums, net of expected losses to be expensed, which are not reflected in GAAP equity.

4) Elimination of the tax effects related to the above adjustments, which are determined by applying the statutory tax rate in each of the jurisdictions that generate these adjustments.

The unearned premiums and revenues included in non-GAAP adjusted book value will be earned in future periods, but actual earnings may differ materially from the estimated amounts used in determining current non-GAAP adjusted book value due to changes in foreign exchange rates, prepayment speeds, terminations, credit defaults and other factors.

Non-GAAP Operating Return on Equity (Non-GAAP Operating ROE): Non-GAAP Operating ROE represents non-GAAP operating income for a specified period divided by the average of non-GAAP operating shareholders' equity at the beginning and the end of that period. Management believes that non-GAAP operating ROE is a useful measure to evaluate the Company's return on invested capital. Many investors, analysts and members of the financial news media use non-GAAP operating ROE, adjusted for FG VIE consolidation, to evaluate AGL's share price and as the basis of their decision to recommend, buy or sell the AGL common shares. Quarterly and year-to-date non-GAAP operating ROE are calculated on an annualized basis. Non-GAAP operating ROE, adjusted for FG VIE consolidation, is one of the key management financial measures used in determining the amount of certain long-term compensation to management and employees and used by rating agencies and investors.

Non-GAAP Financial Measures (continued)

Net Present Value of Estimated Net Future Revenue: Management believes that this amount is a useful measure because it enables an evaluation of the value of future estimated revenue for contracts other than financial guaranty insurance contracts (such as non-financial guaranty insurance contracts and credit derivatives). There is no corresponding GAAP financial measure. This amount represents the present value of estimated future revenue from these contracts, net of reinsurance, ceding commissions and premium taxes, for contracts without expected economic losses, and is discounted at 6%. Estimated net future revenue may change from period to period due to changes in foreign exchange rates, prepayment speeds, terminations, credit defaults or other factors that affect par outstanding or the ultimate maturity of an obligation.

PVP or Present Value of New Business Production: Management believes that PVP is a useful measure because it enables the evaluation of the value of new business production for the Company by taking into account the value of estimated future installment premiums on all new contracts underwritten in a reporting period as well as premium supplements and additional installment premium on existing contracts as to which the issuer has the right to call the insured obligation but has not exercised such right, whether in insurance or credit derivative contract form, which management believes GAAP gross written premiums and the net credit derivative premiums received and receivable portion of net realized gains and other settlements on credit derivatives (Credit Derivative Realized Gains (Losses)) do not adequately measure. PVP in respect of contracts written in a specified period is defined as gross upfront and installment premiums received and the present value of gross estimated future installment premiums, discounted, in each case, at 6%. Under GAAP, financial guaranty installment premiums are discounted at a risk free rate. Additionally, under GAAP, management records future installment premiums on financial guaranty insurance contracts covering non-homogeneous pools of assets based on the contractual term of the transaction, whereas for PVP purposes, management records an estimate of the future installment premiums the Company expects to receive, which may be based upon a shorter period of time than the contractual term of the transaction. Actual future earned or written premiums and Credit Derivative Realized Gains (Losses) may differ from PVP due to factors including, but not limited to, changes in foreign exchange rates, prepayment speeds, terminations, credit defaults, or other factors that affect par outstanding or the ultimate maturity of an obligation.

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