ASSURED GUARANTY®

Financial Supplement

Municipal Assurance Holdings Inc.

March 31, 2021

MUNICIPAL ASSURANCE CORP.

AN ASSURED GUARANTY COMPANY

Municipal Assurance Holdings Inc.
March 31, 2021
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, 2020 and its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2021. 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). Effective April 1, 2021, MAC was merged with and into AGM, with AGM as the surviving company. On February 24, 2021, the Company received the last regulatory approval required to execute a multi-step transaction to merge MAC with and into AGM, with AGM as the surviving company. The steps leading up to the merger of MAC with and into AGM, with AGM as the surviving company, were effective April 1, 2021, and include (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.

Cautionary Statement Regarding Forward Looking Statements:

Municipal Assurance Holdings Inc.

Selected Financial Highlights

(dollars in millions)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
GAAP Highlights		
Net income (loss)	**$ (8)**	**$ 5**
Gross written premiums (GWP)	**—**	**0.3**
Effective tax rate on net income	**24.6 %**	**11.3 %**
GAAP return on equity (ROE)[1]	**(5.7)%**	**4.0 %**
Non-GAAP Highlights[2]		
Adjusted operating income (loss)[2]	$ (7)	$ 5
Present value of new business production (PVP) [2]	—	0.3
Gross par written	—	96
Effective tax rate on adjusted operating income[3]	25.1 %	11.3 %
Adjusted operating ROE[1][2]	(5.2) %	4.2 %
Effect of refundings and terminations on GAAP measures		
Net earned premiums, pre-tax	**$ 1**	**$ 4**
Net income effect	**1**	**3**
Effect of refundings and terminations on non-GAAP measures:		
Operating net earned premiums[2][4], pre-tax	$ 1	$ 4
Adjusted operating income[2][4] effect	1	3

	As of March 31, 2021	As of December 31, 2020
Shareholder's equity	**$ 538**	**$ 557**
Adjusted operating shareholder's equity[2]	517	525
Adjusted book value[2]	576	587
Exposure		
Financial guaranty net debt service outstanding	$ 20,346	$ 21,216
Financial guaranty net par outstanding	13,859	14,455
Claims-paying resources [5]	**597**	**598**

1) Quarterly ROE calculations represent annualized returns. See page 4 for additional information on calculation.
2) Please refer to the explanation of Non-GAAP Financial Measures set forth at the end of this Financial Supplement and for a description of the changes to the discount rates used in the calculation of non-GAAP financial measure. The prior period has been recast to present these measures at 3%, instead of a 6% discount rate. There was no material impact on prior period presented.
3) Represents the ratio of non-GAAP operating provision for income taxes to non-GAAP operating income before income taxes.
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, 2021	December 31, 2020
Assets:		
Investment portfolio:		
Fixed-maturity securities, available-for-sale, at fair value	$ 480	$ 536
Short-term investments, at fair value	76	47
Equity method investment	55	54
Total investment portfolio	611	637
Loan receivable from affiliate	18	18
Intangible assets	—	16
Accrued investment income	5	4
Other assets	2	2
Total assets	**$ 636**	**$ 677**
Liabilities and shareholders' equity:		
Liabilities:		
Unearned premium reserve	$ 75	$ 79
Current income tax payable	7	5
Deferred tax liability, net	11	18
Other liabilities	5	18
Total liabilities	**98**	**120**
Shareholders' equity	**538**	**557**
Total liabilities and shareholders' equity	**$ 636**	**$ 677**

Municipal Assurance Holdings Inc.

Condensed Consolidated Statements of Operations (unaudited)

(dollars in millions)

	Three Months Ended March 31,	
	2021	**2020**
Revenues:		
Net earned premiums	$ 4	$ 8
Net investment income	4	4
Net realized investment gains (losses)	(1)	—
Total revenues	**7**	**12**
Expenses:		
Employee compensation and benefit expenses	1	4
Write-off of insurance licenses	16	—
Other operating expenses	1	1
Total expenses	**18**	**5**
Income (loss) before provision for income taxes and equity in earnings of investee	**(11)**	**7**
Equity in earnings of investee	1	(1)
Income (loss) before income taxes	**(10)**	**6**
Less: Provision (benefit) for income taxes	(2)	1
Net income (loss)	**$ (8)**	**$ 5**

Municipal Assurance Holdings Inc.

Selected Financial Highlights

GAAP to Non-GAAP Reconciliations (1 of 2)

(dollars in millions)

Adjusted Operating Income Reconciliation:

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Net income (loss)	**$ (8)**	**$ 5**
Less pre-tax adjustments:		
Realized gains (losses) on investments	(1)	—
Total pre-tax adjustments	(1)	—
Less tax effect on pre-tax adjustments	—	—
Adjusted operating income (loss)	$ (7)	$ 5

ROE Reconciliation and Calculation

	As of March 31, 2021	December 31, 2020	March 31, 2020	December 31, 2019
Shareholders' equity	**$ 538**	**$ 557**	**$ 532**	**$ 530**
Adjusted operating shareholders' equity	517	525	514	509

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Net income (loss)	**$ (8)**	**$ 5**
Adjusted operating income (loss)	(7)	5
Average shareholders' equity	**$ 548**	**$ 531**
Average adjusted operating shareholders' equity	521	512
GAAP ROE (1)	**(5.7)%**	**4.0 %**
Adjusted operating ROE(1)	(5.2) %	4.2 %

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, 2021	**December 31, 2020**	**March 31, 2020**	**December 31, 2019**
Reconciliation of shareholder's equity to adjusted book value:				
Shareholder's equity	**$ 538**	**$ 557**	**$ 532**	**$ 530**
Less pre-tax reconciling items:				
Unrealized gain (loss) on investment portfolio	27	41	24	28
Less taxes	(6)	(9)	(6)	(7)
Adjusted operating shareholders' equity	517	525	514	509
Pre-tax reconciling items:				
Plus: Net unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed	75	78	99	107
Plus taxes	(16)	(16)	(21)	(23)
Adjusted book value	$ 576	$ 587	$ 592	$ 593

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, 2021	December 31, 2020
Claims-paying resources		
Policyholders' surplus	$ 305	$ 305
Contingency reserve	187	184
Qualified statutory capital	**492**	**489**
Unearned premium reserve	106	110
Loss and LAE reserves	(1)	(1)
Total policyholders' surplus and reserves	**597**	**598**
Total claims-paying resources	**$ 597**	**$ 598**
Net par outstanding [2]	$ 13,312	$ 13,816
Net debt service outstanding [2]	19,709	20,481
Ratios:		
Net par outstanding to qualified statutory capital	27:1	28:1
Capital ratio [3]	40:1	42:1
Financial resources ratio [4]	33:1	34:1
Net par outstanding to claims-paying resources	22:1	23:1

1) MAC is a 100% owned subsidiary of Municipal Assurance Holdings Inc.
2) Net par outstanding and net debt service outstanding are presented on a statutory basis.
3) The capital ratio is calculated by dividing net debt service outstanding by qualified statutory capital.
4) 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, 2021 and March 31, 2020

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
U.S. Public Finance:		
Total GWP	**$ —**	**$ 0.3**
Less: Installment GWP and other adjustments[1]	—	—
Upfront GWP	—	0.3
Plus: Installment premium PVP	—	—
Total PVP	$ —	$ 0.3
Gross par written	**$ —**	**$ 96**

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, 2021	
	Gross Par Written	Avg. Internal Rating
Sector:		
U.S. public finance		
Direct:		
Total direct	$ —	—
Total U.S. public finance gross par written	**$ —**	**—**

	Three Months Ended March 31, 2021
Gross debt service written	$ —

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

Municipal Assurance Holdings Inc.

Fixed-Maturity Securities, Short-Term Investments and Cash
As of March 31, 2021
(dollars in millions)

	Amortized Cost	Pre-Tax Book Yield	After-Tax Book Yield	Fair Value	Annualized Investment Income [(1)]
Fixed-maturity securities:					
Obligations of state and political subdivisions[(2)]	$ 292	3.46 %	3.16 %	$ 313	$ 10
U.S. government securities	18	2.25	1.77	19	1
Corporate securities	117	3.31	2.61	122	4
Mortgage-backed securities:					
Residential mortgage-backed securities	4	2.84	2.25	4	—
Commercial mortgage-backed securities	6	3.66	2.89	6	—
Asset-backed securities (ABS)					
Collateralized loan obligations	15	1.43	1.13	15	—
Other ABS	2	3.31	2.62	1	—
Total fixed-maturity securities	454	3.30	2.88	480	15
Short-term investments	76	0.01	0.01	76	—
Cash [(3)]	—	—	—	—	—
Total	**$ 530**	**2.83 %**	**2.47 %**	**$ 556**	**$ 15**

Ratings [(4)]:	**Fair Value**	**% of Portfolio**
U.S. government securities	$ 19	4.0 %
AAA/Aaa	58	12.1
AA/Aa	219	45.6
A/A	87	18.1
BBB	97	20.2
Total fixed-maturity securities, available-for-sale	**$ 480**	**100.0 %**

Duration of fixed-maturity securities and short-term investments (in years):	**5.0**
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) Includes 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 lower of Moody's or S&P classifications.

Municipal Assurance Holdings Inc.

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

(dollars in millions)

			Financial Guaranty Insurance	
	Estimated Net Debt Service Amortization	Estimated Ending Net Debt Service Outstanding	Expected PV Net Earned Premiums	Accretion of Discount
2021 (as of March 31)		$ 20,346		
2021 Q2	$ 439	19,907	$ 2	$ —
2021 Q3	674	19,233	2	—
2021 Q4	507	18,726	2	—
2022	1,727	16,999	8	—
2023	1,380	15,619	7	—
2024	1,288	14,331	6	—
2025	1,234	13,097	6	—
2021-2025	7,249	13,097	33	—
2026-2030	5,502	7,595	22	—
2031-2035	3,845	3,750	13	—
2036-2040	2,078	1,672	6	—
After 2040	1,672	—	2	—
Total	**$ 20,346**		**$ 76**	**$ —**

1) Represents the future expected amortization of current debt service outstanding (principal and interest), assuming no advance refundings, as of March 31, 2021. 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.

Financial Guaranty Profile (1 of 3)

(dollars in millions)

Net Par Outstanding and Average Rating by Asset Type

	March 31, 2021		December 31, 2020	
	Net Par Outstanding	Avg. Internal Rating	Net Par Outstanding	Avg. Internal Rating
U.S. public finance:				
General obligation	$ 9,703	A	$ 10,072	A
Municipal utilities	1,709	A	1,840	A
Tax backed	1,677	A+	1,732	A+
Transportation	571	A-	587	A-
Higher education	170	BBB+	193	BBB+
Housing revenue	22	A+	24	A+
Other public finance	7	A-	7	A-
Total U.S. public finance	**$ 13,859**	**A**	**$ 14,455**	**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, 2021

(dollars in millions)

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

Ratings:	Net Par Outstanding	% of Total
AAA	$ 147	1.1 %
AA	2,813	20.3
A	7,976	57.5
BBB	2,793	20.2
Below Investment Grade (BIG)(1)	130	0.9
Total net par outstanding	**$ 13,859**	**100.0 %**

1) Includes 20 revenue sources, in the BB and B categories, all from the general obligation, education, transportation revenue, and municipal utility sectors. The largest exposure was $30 million in the education sector; no other individual revenue source exceeds $12 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, 2021

(dollars in millions)

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

	Net Par Outstanding	% of Total
U.S. public finance:		
California	$ 4,119	29.7 %
Pennsylvania	1,413	10.2
Texas	1,267	9.1
New York	1,184	8.5
Illinois	1,047	7.6
New Jersey	704	5.1
Florida	404	2.9
Michigan	333	2.4
Massachusetts	302	2.2
Georgia	275	2.0
Other	2,811	20.3
Total U.S. public finance net par outstanding	**$ 13,859**	**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.

Expected Amortization of Net Par Outstanding

(dollars in millions)

U.S. Public Finance

	Estimated Net Par Amortization	Estimated Ending Net Par Outstanding
2021 (as of March 31)		$ 13,859
2021 Q2	$ 279	13,580
2021 Q3	515	13,065
2021 Q4	357	12,708
2022	1,147	11,561
2023	840	10,721
2024	783	9,938
2025	762	9,176
2021-2025	4,683	9,176
2026-2030	3,635	5,541
2031-2035	2,741	2,800
2036-2040	1,483	1,317
After 2040	1,317	—
Total U.S. public finance	**$ 13,859**	

Municipal Assurance Holdings Inc.

Largest Exposures by Revenue Source
As of March 31, 2021
(dollars in millions)

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

Credit names:	Net Par Outstanding	Internal Rating
Garden State Preservation Trust, New Jersey Open Space & Farmland	$ 127	BBB+
New York City Transitional Finance Authority	118	AAA
Palomar Health	100	A-
Escondido Union High School District, California	99	AA-
Mount Diablo Unified School District, California	91	AA-
Norwalk-La Mirada Unified School District, California	90	A+
Kansas (State of)	87	A+
North Texas Tollway Authority	81	A
Harris County, Texas	81	AA+
Lincoln Way Community High School District No. 210, Illinois	77	BBB-
Metro Washington Airports Authority (Dulles Toll Road)	75	BBB+
Detroit (City of) School District, Michigan	75	AA-
Regional Transportation Authority (Sales Tax), Illinois	74	AA
DeKalb County Water & Sewerage, Georgia	73	AA-
Regional Transportation District, Colorado	72	AA
Massachusetts (Commonwealth of) Water Resources	72	AA
Santa Ana Unified School District, California	72	A+
Rancho Santiago Community College District, California	70	AA
Oglethorpe Power Corporation, Georgia	69	BBB
Pennsylvania Turnpike Commission Registration Fee	69	BBB
Will County Community Unit School District No. 365-U (Valley View), Illinois	69	AA-
West Contra Costa Unified School District, California	67	A
San Bernardino County, California	66	A+
Azusa Unified School District, California	66	AA-
Oceanside Unified School District, California	65	A+
Grossmont-Cuyamaca Community College District, California	65	AA-
Municipal Gas Authority of Georgia	64	A+
Colton Joint Unified School District, California	61	A+
New Haven Unified School District, California	60	A+
Oregon School Boards Association, Oregon	60	AA-
Miami-Dade County, Florida	59	AA-
Woonsocket Safe Drinking Water Revolving Fund, Rhode Island	55	A
Alameda City Unified School District, California	51	AA-
Anaheim (City of), California	49	BBB+
Piedmont Municipal Power Authority, South Carolina	48	A-
Corona-Norco Unified School District, California	48	AA-
Coachella Valley Unified School District, California	48	BBB+
Alvord Unified School District, California	46	BBB+
San Jose Airport, California	45	A-
New Jersey (State of)	45	BBB
Massachusetts (Commonwealth of)	44	AA-
Sacramento County, California	43	A-
Will County School District No. 122 (New Lenox), Illinois	42	A+
William S. Hart Union High School District, California	41	AA-
Tacoma Electric System, Washington	41	AA-
Coast Community College District, California	41	AA
St. Louis, Missouri	39	BBB
Riverside County, California	39	A+
Brazoria-Fort Bend County Municipal Utility District No. 1, Texas	38	A-
Bethlehem, Pennsylvania	38	A-
Total top 50 U.S. public finance exposures	**$ 3,215**	

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,			
	2021	2020	2019	2018	2017
Statutory Data					
Policyholders' surplus	$ 305	$ 305	$ 276	$ 321	$ 270
Contingency reserve	187	184	192	200	224
Qualified statutory capital	**492**	**489**	**468**	**521**	**494**
Unearned premium reserve	106	110	143	195	248
Loss and LAE reserves	(1)	(1)	(1)	—	—
Total policyholders' surplus and reserves	**597**	**598**	**610**	**716**	**742**
Present value of installment premium	—	—	—	(1)	1
Excess of loss reinsurance facility	—	—	—	180	180
Total claims-paying resources	**$ 597**	**$ 598**	**$ 610**	**$ 895**	**$ 923**
Other Financial Information (Statutory Basis)					
Net debt service outstanding (end of period)	$ 19,709	$ 20,481	$ 26,808	$ 34,962	$ 44,323
Gross debt service outstanding (end of period)	19,709	20,481	26,808	34,962	44,323
Net par outstanding (end of period)	13,312	13,816	18,150	23,621	30,100
Gross par outstanding (end of period)	13,312	13,816	18,150	23,621	30,100
Ratios:					
Net par outstanding to qualified statutory capital	27:1	28:1	39:1	45:1	61:1
Capital ratio (1)	40:1	42:1	57:1	67:1	90:1
Financial resources ratio (1)	33:1	34:1	44:1	39:1	48:1
Net par outstanding to claims-paying resources	22:1	23:1	30:1	26:1	33:1

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.

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, 2020.

Public Finance:

General Obligation Bonds are full faith and credit obligations 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.

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.

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.

Transportation Bonds include a wide variety of revenue-supported obligations, 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

The Company discloses both (a) financial measures determined in accordance with GAAP and (b) 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 the Company.

The Company believes its presentation of non-GAAP financial measures 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 FG VIEs, which the Company does not own and where its exposure is limited to its obligation under the financial guaranty insurance contract, and
- certain investment vehicles for which the Company is deemed the primary beneficiary.

The Company provides the effect of VIE consolidation that is embedded in each non-GAAP financial measure, as applicable. The Company believes this information may also be useful to analysts and investors evaluating Assured Guaranty's financial results. In the case of both the consolidated FG VIEs and the CIVs, the economic effect of each of the consolidated FG VIEs and CIVs is reflected primarily in the results of the Insurance segment.

Management and the Board of Directors use non-GAAP financial measures further adjusted to remove the effect of 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 core financial measures in its decision-making process for and in its calculation of certain components of management compensation. The core financial measures that the Company uses to help determine compensation are: (1) adjusted operating income, further adjusted to remove the effect of VIE consolidation, (2) adjusted operating shareholders' equity, further adjusted to remove the effect of VIE consolidation, (3) growth in adjusted book value per share, further adjusted to remove the effect of VIE consolidation, and (4) PVP.

Management believes that many investors, analysts and financial news reporters use adjusted operating shareholders' equity and/or adjusted book value, each further adjusted to remove the effect of VIE consolidation, as the principal financial measures 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. Management also believes that many of the Company's fixed income investors also use adjusted operating shareholders' equity, further adjusted to remove the effect of VIE consolidation to evaluate the Company's capital adequacy.

Adjusted operating income, further adjusted for the effect of 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 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.

Adjusted Operating Income: Management believes that adjusted operating income is a useful measure because it clarifies the understanding of the operating results of the Company. Adjusted 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.

Adjusted Operating Shareholders' Equity and Adjusted Book Value: Management believes that adjusted operating shareholders' equity is a useful measure because it excludes the fair value adjustments on investments, credit derivatives and CCS that are not expected to result in economic gain or loss.

Adjusted 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 adjusted book value, further adjusted for VIE consolidation, to measure the intrinsic value of the Company, excluding franchise value. Growth in adjusted book value per share, further adjusted for 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 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. Adjusted book value is adjusted 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 present value of the expected future net earned premiums, net of the present value 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 adjusted book value will be earned in future periods, but actual earnings may differ materially from the estimated amounts used in determining current adjusted book value due to changes in foreign exchange rates, prepayment speeds, terminations, credit defaults and other factors.

Non-GAAP Financial Measures (continued)

Adjusted Operating Return on Equity (Adjusted Operating ROE): Adjusted Operating ROE represents adjusted operating income for a specified period divided by the average of adjusted operating shareholders' equity at the beginning and the end of that period. Management believes that adjusted 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 adjusted operating ROE, adjusted for 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 adjusted operating ROE are calculated on an annualized basis. Adjusted operating ROE, adjusted for 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.

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 the present value of estimated net future revenue for contracts other than financial guaranty insurance contracts (such as specialty insurance and reinsurance contracts and credit derivatives). This amount represents the net present value of estimated future revenue from these contracts (other than credit derivatives with net expected losses), net of reinsurance, ceding commissions and premium taxes.

Future installment premiums are discounted at the approximate average pre-tax book yield of fixed-maturity securities purchased during the prior calendar year, other than loss mitigation securities. The discount rate is recalculated annually and updated as necessary. Net present value of estimated future revenue for an obligation may change from period to period due to a change in the discount rate or due to a change in estimated net future revenue for the obligation, which may change 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. There is no corresponding GAAP financial measure.

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 additional installment premium on existing contracts (which may result from supplements or fees or from the issuer not calling an insured obligation the Company projected would be called), whether in insurance or credit derivative contract form, which management believes GAAP gross written premiums and changes in fair value of credit derivatives 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.

Future installment premiums are discounted at the approximate average pre-tax book yield of fixed-maturity securities purchased during the prior calendar year, other than loss mitigation securities. The discount rate is recalculated annually and updated as necessary. 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 installment premiums may differ from those estimated in the Company's PVP calculation 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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