

A photograph of a construction worker in silhouette, wearing a hard hat and safety harness, walking across a steel beam of a bridge under construction. The background shows the complex steel truss structure of the bridge against a clear sky.

Financial Supplement

Municipal Assurance Holdings Inc.

June 30, 2020

MUNICIPAL ASSURANCE CORP.

AN ASSURED GUARANTY COMPANY

Municipal Assurance Holdings Inc. June 30, 2020 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, 2019 and its Quarterly Report on Form 10-Q for the quarterly periods ended March 31, 2020 and June 30, 2020. 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).

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) the development, course and duration of the COVID-19 pandemic and the governmental and private actions taken in response, and the global consequences of the pandemic and such actions, including their impact on the factors listed below; (2) changes in the world's credit markets, segments thereof, interest rates, credit spreads or general economic conditions; (3) developments in the world's financial and capital markets that adversely affect insured obligors' repayment rates, Assured Guaranty's insurance loss or recovery experience, investments of Assured Guaranty or assets it manages; (4) reduction in the amount of available insurance opportunities and/or in the demand for Assured Guaranty's insurance; (5) the loss of investors in Assured Guaranty's asset management strategies or the failure to attract new investors to Assured Guaranty's asset management business; (6) 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; (7) insured losses in excess of those expected by Assured Guaranty or the failure of Assured Guaranty to realize loss recoveries that are assumed in its expected loss estimates for insurance exposures; (8) increased competition, including from new entrants into the financial guaranty industry; (9) poor performance of Assured Guaranty's asset management strategies compared to the performance of the asset management strategies of Assured Guaranty's competitors; (10) the possibility that investments made by Assured Guaranty for its investment portfolio, including alternative investments and investments it manages, do not result in the benefits anticipated or subject Assured Guaranty to reduced liquidity at a time it requires liquidity or to unanticipated consequences; (11) 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 (VIEs) as well as on the mark-to-market of assets Assured Guaranty manages; (12) 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 insurance subsidiaries, and/or of any securities AGL or any of its subsidiaries have issued, and/or of transactions that AGL's insurance subsidiaries have insured; (13) the inability of Assured Guaranty to access external sources of capital on acceptable terms; (14) changes in applicable accounting policies or practices; (15) changes in applicable laws or regulations, including insurance, bankruptcy and tax laws, or other governmental actions; (16) the failure of Assured Guaranty to successfully integrate the business of BlueMountain Capital Management, LLC (BlueMountain) and its associated entities; (17) the possibility that acquisitions made by Assured Guaranty, including its acquisition of BlueMountain (BlueMountain Acquisition), do not result in the benefits anticipated or subject Assured Guaranty to unanticipated consequences; (18) difficulties with the execution of Assured Guaranty's business strategy; (19) loss of key personnel; (20) the effects of mergers, acquisitions and divestitures; (21) natural or man-made catastrophes or pandemics; (22) other risk factors identified in AGL's filings with the U.S. SEC; (23) other risks and uncertainties that have not been identified at this time; and; (24) management's response to these factors. 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		Six Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
GAAP Highlights				
Net income (loss)	\$ 11	\$ 12	\$ 16	\$ 23
Gross written premiums (GWP)	0.2	0.6	0.5	0.9
Effective tax rate on net income	17.6 %	17.2 %	16.1 %	16.2 %
GAAP return on equity (ROE) ⁽¹⁾	7.7 %	8.9 %	5.9 %	8.6 %
Non-GAAP Highlights⁽²⁾				
Adjusted operating income ⁽²⁾	\$ 10	\$ 10	\$ 15	\$ 21
Present value of new business production (PVP) ⁽²⁾	0.2	0.8	0.5	1.1
Gross par written	77	195	174	279
Effective tax rate on adjusted operating income ⁽³⁾	17.4 %	16.5 %	15.8 %	15.8 %
Adjusted operating ROE ⁽¹⁾⁽²⁾	7.5 %	7.9 %	5.9 %	8.1 %
Effect of refundings and terminations on GAAP measures				
Net earned premiums, pre-tax	\$ 4	\$ 6	\$ 8	\$ 12
Net income effect	4	5	7	10
Effect of refundings and terminations on non-GAAP measures:				
Operating net earned premiums ⁽²⁾⁽⁴⁾ , pre-tax	\$ 4	\$ 6	\$ 8	\$ 12
Adjusted operating income ⁽²⁾⁽⁴⁾ effect	4	5	7	10
			As of	
			June 30, 2020	December 31, 2019
Shareholder's equity			\$ 534	\$ 530
Adjusted operating shareholder's equity ⁽²⁾			505	509
Adjusted book value ⁽²⁾			578	593
Exposure				
Financial guaranty net debt service outstanding			\$ 25,185	\$ 28,660
Financial guaranty net par outstanding			17,401	19,854
Claims-paying resources ⁽⁵⁾			591	610

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	
	June 30, 2020	December 31, 2019
Assets:		
Investment portfolio:		
Fixed-maturity securities, available-for-sale, at fair value	\$ 554	\$ 578
Short-term investments, at fair value	22	9
Equity method investment	52	50
Total investment portfolio	628	637
Loan receivable from affiliate	18	18
Cash	1	3
Intangible assets	16	16
Accrued investment income	5	5
Other assets	4	1
Total assets	\$ 672	\$ 680
Liabilities and shareholders' equity:		
Liabilities:		
Unearned premium reserve	\$ 93	\$ 108
Current income tax payable	18	15
Deferred tax liability, net	16	14
Other liabilities	11	13
Total liabilities	138	150
Shareholders' equity	534	530
Total liabilities and shareholders' equity	\$ 672	\$ 680

Municipal Assurance Holdings Inc.
Condensed Consolidated Statements of Operations (unaudited)
(dollars in millions)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Revenues:				
Net earned premiums	\$ 7	\$ 11	\$ 15	\$ 23
Net investment income	5	5	9	11
Net realized investment gains (losses)	1	2	1	2
Total revenues	13	18	25	36
Expenses:				
Employee compensation and benefit expenses	1	3	5	6
Other operating expenses	2	1	3	3
Total expenses	3	4	8	9
Income (loss) before provision for income taxes and equity in net earnings of investee	10	14	17	27
Equity in net earnings of investee	3	—	2	—
Income (loss) before income taxes	13	14	19	27
Provision (benefit) for income taxes	2	2	3	4
Net income (loss)	\$ 11	\$ 12	\$ 16	\$ 23

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		Six Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Net income (loss)	\$ 11	\$ 12	\$ 16	\$ 23
Less pre-tax adjustments:				
Realized gains (losses) on investments	1	2	1	2
Total pre-tax adjustments	1	2	1	2
Less tax effect on pre-tax adjustments	—	—	—	—
Adjusted operating income	<u>\$ 10</u>	<u>\$ 10</u>	<u>\$ 15</u>	<u>\$ 21</u>

ROE Reconciliation and Calculation

	As of					
	June 30, 2020	March 31, 2020	December 31, 2019	June 30, 2019	March 31, 2019	December 31, 2018
Shareholders' equity	\$ 534	\$ 532	\$ 530	\$ 505	\$ 589	\$ 575
Adjusted operating shareholders' equity	505	514	509	484	572	566

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Net income (loss)	\$ 11	\$ 12	\$ 16	\$ 23
Adjusted operating income	10	10	15	21
Average shareholders' equity	\$ 533	\$ 547	\$ 532	\$ 540
Average adjusted operating shareholders' equity	510	528	507	525
GAAP ROE ⁽¹⁾	7.7 %	8.9 %	5.9 %	8.6 %
Adjusted operating ROE ⁽¹⁾	7.5 %	7.9 %	5.9 %	8.1 %

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					
	June 30, 2020	March 31, 2020	December 31, 2019	June 30, 2019	March 31, 2019	December 31, 2018
Reconciliation of shareholder's equity to adjusted book value:						
Shareholder's equity	\$ 534	\$ 532	\$ 530	\$ 505	\$ 589	\$ 575
Less pre-tax reconciling items:						
Unrealized gain (loss) on investment portfolio	37	24	28	28	23	12
Less taxes	(8)	(6)	(7)	(7)	(6)	(3)
Adjusted operating shareholders' equity	505	514	509	484	572	566
Pre-tax reconciling items:						
Plus: Net unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed	92	99	107	131	142	153
Plus taxes	(19)	(21)	(23)	(28)	(31)	(32)
Adjusted book value	<u>\$ 578</u>	<u>\$ 592</u>	<u>\$ 593</u>	<u>\$ 587</u>	<u>\$ 683</u>	<u>\$ 687</u>

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	
	June 30, 2020	December 31, 2019
Claims-paying resources		
Policyholders' surplus	\$ 264	\$ 276
Contingency reserve	200	192
Qualified statutory capital	464	468
Unearned premium reserve	128	143
Loss and LAE reserves	(1)	(1)
Total policyholders' surplus and reserves	591	610
Total claims-paying resources	\$ 591	\$ 610
Net par outstanding ⁽²⁾	\$ 16,197	\$ 18,150
Net debt service outstanding ⁽²⁾	23,859	26,808
Ratios:		
Net par outstanding to qualified statutory capital	35:1	39:1
Capital ratio ⁽³⁾	51:1	57:1
Financial resources ratio ⁽⁴⁾	40:1	44:1
Net par outstanding to claims-paying resources	27:1	30:1

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 June 30, 2020 and June 30, 2019 ⁽¹⁾

	Three Months Ended June 30,	
	2020	2019
U.S. Public Finance:		
Total GWP	\$ 0.2	\$ 0.6
Less: Installment GWP and other GAAP adjustments ⁽²⁾	—	(0.2)
Upfront GWP	0.2	0.8
Plus: Installment premium PVP	—	—
Total PVP	\$ 0.2	\$ 0.8
Gross par written	\$ 77	\$ 195

Reconciliation of GWP to PVP for the Six Months Ended June 30, 2020 and June 30, 2019 ⁽¹⁾

	Six Months Ended June 30,	
	2020	2019
U.S. Public Finance:		
Total GWP	\$ 0.5	\$ 0.9
Less: Installment GWP and other adjustments ⁽²⁾	—	(0.2)
Upfront GWP	0.5	1.1
Plus: Installment premium PVP	—	—
Total PVP	\$ 0.5	\$ 1.1
Gross par written	\$ 174	\$ 279

1) See Non-GAAP Financial Measures set forth at the end of this Financial Supplement for a description of the changes to the discount rates used in the calculation of non-GAAP financial measure. The discount rate used for PVP as of June 30, 2020 is 3%. There was no material impact on prior periods presented.

2) 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		Six Months Ended	
	June 30, 2020		June 30, 2020	
	Gross Par Written	Avg. Internal Rating	Gross Par Written	Avg. Internal Rating
Sector:				
U.S. public finance				
Direct:				
General obligation	\$ 77	A	\$ 149	A
Municipal utilities	—	—	25	BBB+
Total direct	77	A	174	A-
Total U.S. public finance gross par written	\$ 77	A	\$ 174	A-

	Three Months Ended		Six Months Ended	
	June 30, 2020		June 30, 2020	
Gross debt service written	\$	97	\$	221

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 June 30, 2020
(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⁾	\$ 344	3.44 %	3.19 %	\$ 370	\$ 12
U.S. government securities	20	2.32	1.84	22	—
Corporate securities	107	3.52	2.78	116	4
Mortgage-backed securities (MBS):					
Residential MBS (RMBS)	5	2.85	2.25	5	—
Commercial MBS (CMBS)	14	3.52	2.78	14	—
Asset-backed securities	27	2.34	1.84	27	1
Total fixed-maturity securities	517	3.35	2.96	554	17
Short-term investments	22	0.12	0.10	22	—
Cash ⁽³⁾	1	—	—	1	—
Total	\$ 540	3.22 %	2.84 %	\$ 577	\$ 17

Ratings ⁽⁴⁾:

	Fair Value	% of Portfolio
U.S. government securities	\$ 22	4.0 %
AAA/Aaa	75	13.5
AA/Aa	279	50.4
A/A	82	14.8
BBB	96	17.3
Total fixed-maturity securities, available-for-sale	\$ 554	100.0 %

Duration of fixed-maturity securities and short-term investments (in years):

4.5

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)

	Estimated Net Debt Service Amortization	Estimated Ending Net Debt Service Outstanding	Financial Guaranty Insurance	
			Expected PV Net Earned Premiums	Accretion of Discount
2020 (as of June 30)		\$ 25,185		
2020 Q3	\$ 1,300	23,885	\$ 3	\$ —
2020 Q4	706	23,179	3	—
2021	2,189	20,990	10	—
2022	1,886	19,104	9	—
2023	1,584	17,520	8	—
2024	1,479	16,041	7	—
2020-2024	9,144	16,041	40	—
2025-2029	6,604	9,437	28	—
2030-2034	4,745	4,692	16	—
2035-2039	2,645	2,047	7	—
After 2039	2,047	—	3	—
Total	\$ 25,185		\$ 94	\$ —

1) Represents the future expected amortization of current debt service outstanding (principal and interest), assuming no advance refundings, as of June 30, 2020. 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

	June 30, 2020		December 31, 2019	
	Net Par Outstanding	Avg. Internal Rating	Net Par Outstanding	Avg. Internal Rating
U.S. public finance:				
General obligation	\$ 11,649	A	\$ 12,956	A
Municipal utilities	2,410	A	2,766	A
Tax backed	2,212	A+	2,588	A+
Transportation	737	A-	924	A-
Higher education	359	A-	531	A-
Housing revenue	27	A+	78	A+
Other public finance	7	A-	11	A
Total U.S. public finance	\$ 17,401	A	\$ 19,854	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 June 30, 2020

(dollars in millions)

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

Ratings:	Net Par Outstanding	% of Total
AAA	\$ 158	0.9 %
AA	3,281	18.8
A	10,381	59.7
BBB	3,432	19.7
Below Investment Grade (BIG) ⁽¹⁾	149	0.9
Total net par outstanding	\$ 17,401	100.0 %

1) Includes 19 revenue sources, in the BB and B categories, all from the general obligation, education, transportation revenue, and municipal utility sectors. The largest exposure was \$32 million in the education sector; no other individual revenue source exceeds \$26 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 June 30, 2020

(dollars in millions)

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

	Net Par Outstanding	% of Total
U.S. public finance:		
California	\$ 4,651	26.7 %
Pennsylvania	1,899	10.9
Texas	1,623	9.3
New York	1,382	8.0
Illinois	1,292	7.4
New Jersey	850	4.9
Florida	558	3.2
Arizona	461	2.7
Massachusetts	368	2.1
Michigan	360	2.1
Other	3,957	22.7
Total U.S. public finance net par outstanding	\$ 17,401	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
2020 (as of June 30)		\$ 17,401
2020 Q3	\$ 1,088	16,313
2020 Q4	519	15,794
2021	1,473	14,321
2022	1,230	13,091
2023	971	12,120
2024	907	11,213
2020-2024	6,188	11,213
2025-2029	4,324	6,889
2030-2034	3,371	3,518
2035-2039	1,924	1,594
After 2039	1,594	—
Total U.S. public finance	\$ 17,401	

Municipal Assurance Holdings Inc.

Largest Exposures by Revenue Source

As of June 30, 2020

(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	\$ 134	BBB+
New York City Transitional Finance Authority	130	AAA
Harris County, Texas	103	AA+
San Bernardino County, California	99	A+
Palomar Health	95	A-
Escondido Union High School District, California	94	AA-
Norwalk-La Mirada Unified School District, California	93	A+
Mount Diablo Unified School District, California	92	AA-
Kansas (State of)	87	A+
Will County Community Unit School District No. 365-U (Valley View), Illinois	84	AA-
Lincoln Way Community High School District No. 210, Illinois	80	BBB-
North Texas Tollway Authority	78	A
Massachusetts (Commonwealth of) Water Resources	78	AA
Hayward Unified School District, California	77	A
Detroit (City of) School District, Michigan	75	AA-
Regional Transportation Authority (Sales Tax), Illinois	74	AA
Metro Washington Airports Authority (Dulles Toll Road)	74	BBB+
DeKalb County Water & Sewerage, Georgia	73	A+
Rancho Santiago Community College District, California	73	AA
Regional Transportation District, Colorado	72	AA
Pennsylvania Turnpike Commission Registration Fee	71	BBB
Oglethorpe Power Corporation, Georgia	69	BBB
Santa Ana Unified School District, California	68	A+
West Contra Costa Unified School District, California	68	A
Oceanside Unified School District, California	65	A+
Colton Joint Unified School District, California	64	A+
Municipal Gas Authority of Georgia	64	A+
Azusa Unified School District, California	64	AA-
Grossmont-Cuyamaca Community College District, California	62	AA-
New Haven Unified School District, California	60	A+
Oregon School Boards Association, Oregon	60	AA-
University of Rhode Island	59	A
San Juan Unified School District, California	58	A+
Miami-Dade County, Florida	58	AA-
Pittsburgh Public Auditorium Authority, Pennsylvania	57	A+
Anaheim (City of), California	56	BBB+
Woonsocket Safe Drinking Water Revolving Fund, Rhode Island	55	A
Massachusetts (Commonwealth of)	53	AA-
Pima County Sewer System, Arizona	52	A+
Alameda City Unified School District, California	52	AA-
New Jersey (State of)	51	BBB
Corona-Norco Unified School District, California	50	AA-
Indianapolis Gas Utility Distribution System, Indiana	49	AA-
Coachella Valley Unified School District, California	47	BBB+
Piedmont Municipal Power Authority, South Carolina	47	A-
Erie (City of), Pennsylvania	47	BBB+
Sacramento County, California	47	A-
San Jose Airport, California	46	A-
Alvord Unified School District, California	45	BBB+
New York Power Authority	44	AA
Total top 50 U.S. public finance exposures	\$ 3,453	

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				
	June 30,	December 31,			
	2020	2019	2018	2017	2016
Statutory Data					
Policyholders' surplus	\$ 264	\$ 276	\$ 321	\$ 270	\$ 487
Contingency reserve	200	192	200	224	260
Qualified statutory capital	464	468	521	494	747
Unearned premium reserve	128	143	195	248	333
Loss and LAE reserves	(1)	(1)	—	—	—
Total policyholders' surplus and reserves	591	610	716	742	1,080
Present value of installment premium	—	—	(1)	1	2
Excess of loss reinsurance facility	—	—	180	180	360
Total claims-paying resources	\$ 591	\$ 610	\$ 895	\$ 923	\$ 1,442
Other Financial Information (Statutory Basis)					
Net debt service outstanding (end of period)	\$ 23,859	\$ 26,808	\$ 34,962	\$ 44,323	\$ 61,829
Gross debt service outstanding (end of period)	23,859	26,808	34,962	44,323	61,829
Net par outstanding (end of period)	16,197	18,150	23,621	30,100	41,951
Gross par outstanding (end of period)	16,197	18,150	23,621	30,100	41,951
Ratios:					
Net par outstanding to qualified statutory capital	35:1	39:1	45:1	61:1	56:1
Capital ratio ⁽¹⁾	51:1	57:1	67:1	90:1	83:1
Financial resources ratio ⁽¹⁾	40:1	44:1	39:1	48:1	43:1
Net par outstanding to claims-paying resources	27:1	30:1	26:1	33:1	29:1

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, 2019.

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

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 the Company.

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. 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.

The Company also provides the effect of VIE consolidation that is embedded in each non-GAAP financial measure, as applicable, which the Company believes may also be useful to investors, analysts and financial news media to evaluate Assured Guaranty's financial results. GAAP requires the Company to consolidate certain FG VIEs and investment vehicles. The Company does not own the consolidated FG VIEs and its exposure is limited to its obligation under the financial guaranty insurance contract. The Insurance segment presents the economic effect of the financial guaranty contracts associated with the consolidated FG VIEs. The Company does own a substantial ownership interest in its consolidated investment vehicles, which is reflected in 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 and in its calculation of certain components of management compensation.

Management believes that many investors, analysts and financial news reporters use adjusted operating shareholders' equity, further adjusted to remove the effect of 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. Management also believes that many of the Company's fixed income investors also use this measure to evaluate the Company's capital adequacy.

Management believes that many investors, analysts and financial news reporters also use adjusted book value, further adjusted to remove the effect of VIE consolidation, to evaluate AGL's share price and as the basis of their decision to recommend, buy or sell the AGL common shares. 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 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.

In the first quarter of 2020, the Company changed the discount rate used in the calculation of PVP and net present value of estimated future net revenues, which is a component of adjusted book value. Beginning in 2020, the discount rate will be the approximate average pre-tax fixed book yield of fixed-maturity securities purchased in the prior calendar year, excluding loss mitigation bonds. In prior periods the discount rate was a constant 6% discount rate. The Company made these changes and recast prior periods to better reflect the then current interest rate environment. The reconciliation tables of GAAP to non-GAAP financial measures for PVP and ABV indicate the new discount rate for each relevant period. 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 underwriting 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.

Non-GAAP Financial Measures (continued)

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.

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 the basis of the calculation of adjusted book value (see below). 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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