

A photograph of a construction worker in silhouette, wearing a hard hat and safety harness, walking across a steel truss bridge. The worker is holding a tool or equipment. The background shows the sky and the structural elements of the bridge.

Financial Supplement

Municipal Assurance Holdings Inc.

December 31, 2019

MUNICIPAL ASSURANCE CORP.

AN ASSURED GUARANTY COMPANY

Municipal Assurance Holdings Inc. December 31, 2019 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. 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 and course of the COVID-19 pandemic and its global consequences; (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		Year Ended	
	December 31,		December 31,	
	2019	2018	2019	2018
GAAP Highlights				
Net income (loss)	\$ 12	\$ 11	\$ 48	61
Gross written premiums (GWP)	0.4	0.5	2.0	0.8
Effective tax rate on net income	17.7%	17.3%	12.5%	11.1%
GAAP return on equity (ROE) ⁽³⁾	9.0%	7.7%	8.7%	10.8%
Non-GAAP Highlights⁽¹⁾				
Adjusted operating income ⁽¹⁾	\$ 12	\$ 12	\$ 45	\$ 62
Present value of new business production (PVP) ⁽¹⁾	0.4	0.5	2.2	1.6
Gross par written	117	147	565	457
Effective tax rate on adjusted operating income ⁽²⁾	17.6%	17.5%	11.8%	11.2%
Adjusted operating ROE ⁽¹⁾⁽³⁾	9.3%	8.3%	8.4%	11.3%
Effect of refundings and terminations on GAAP measures				
Net earned premiums, pre-tax	\$ 11	\$ 6	\$ 30	\$ 28
Net income effect	8	4	23	22
Effect of refundings and terminations on non-GAAP measures:				
Operating net earned premiums ⁽¹⁾⁽⁴⁾ , pre-tax	\$ 11	\$ 6	\$ 30	\$ 28
Adjusted operating income ⁽¹⁾⁽⁴⁾ effect	8	4	23	22
			As of	
			December 31,	December 31,
			2019	2018
Shareholder's equity			\$ 530	\$ 575
Adjusted operating shareholder's equity ⁽¹⁾			509	566
Adjusted book value ⁽¹⁾			593	687
Exposure				
Financial guaranty net debt service outstanding			\$ 28,660	\$ 39,706
Financial guaranty net par outstanding			19,854	28,132
Claims-paying resources⁽⁵⁾			610	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 adjusted operating provision for income taxes to adjusted operating income before income taxes. See page 3 for GAAP pre-tax income and income tax expense and page 4 for operating 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:	
	December 31, 2019	December 31, 2018
Assets:		
Investment portfolio:		
Fixed-maturity securities, available-for-sale, at fair value	\$ 578	\$ 726
Short-term investments, at fair value	9	12
Equity method investment	50	—
Total investment portfolio	637	738
Loan receivable from affiliate	18	—
Cash	3	1
Intangible assets	16	16
Accrued investment income	5	7
Other assets	1	3
Total assets	\$ 680	\$ 765
Liabilities and shareholders' equity:		
Liabilities:		
Unearned premium reserve	\$ 108	\$ 156
Current income tax payable	15	7
Deferred tax liability, net	14	13
Other liabilities	13	14
Total liabilities	150	190
Shareholders' equity	530	575
Total liabilities and shareholders' equity	\$ 680	\$ 765

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

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
Revenues:				
Net earned premiums	\$ 15	\$ 12	\$ 49	\$ 61
Net investment income	5	6	21	24
Net realized investment gains (losses)	—	(1)	4	(1)
Total revenues	20	17	74	84
Expenses:				
Loss and LAE	—	—	—	(3)
Other expenses	5	3	19	18
Total expenses	5	3	19	15
Income (loss) before income taxes	15	14	55	69
Provision (benefit) for income taxes	3	3	7	8
Net income (loss)	\$ 12	\$ 11	\$ 48	\$ 61

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		Year Ended	
	December 31,		December 31,	
	2019	2018	2019	2018
Net income (loss)	\$ 12	\$ 11	\$ 48	\$ 61
Less pre-tax adjustments:				
Realized gains (losses) on investments	—	(1)	4	(1)
Total pre-tax adjustments	—	(1)	4	(1)
Less tax effect on pre-tax adjustments	—	—	(1)	—
Adjusted operating income	<u>\$ 12</u>	<u>\$ 12</u>	<u>\$ 45</u>	<u>\$ 62</u>

ROE Reconciliation and Calculation

	As of				
	December 31, 2019	September 30, 2019	December 31, 2018	September 30, 2018	December 31, 2017
Shareholders' equity	\$ 530	\$ 519	\$ 575	\$ 558	\$ 550
Adjusted operating shareholders' equity	509	497	566	553	530
	Three Months Ended		Year Ended		
	December 31,		December 31,		
	2019	2018	2019	2018	
Net income (loss)	\$ 12	\$ 11	\$ 48	\$ 61	
Adjusted operating income	12	12	45	62	
Average shareholders' equity	\$ 525	\$ 567	\$ 553	\$ 563	
Average adjusted operating shareholders' equity	503	560	538	548	
GAAP ROE ⁽¹⁾	9.0%	7.7%	8.7%	10.8%	
Adjusted operating ROE ⁽¹⁾	9.3 %	8.3 %	8.4 %	11.3 %	

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				
	December 31, 2019	September 30, 2019	December 31, 2018	September 30, 2018	December 31, 2017
Reconciliation of shareholder's equity to adjusted book value:					
Shareholder's equity	\$ 530	\$ 519	\$ 575	\$ 558	\$ 550
Less pre-tax reconciling items:					
Unrealized gain (loss) on investment portfolio	28	29	12	8	27
Less taxes	(7)	(7)	(3)	(3)	(7)
Adjusted operating shareholders' equity	509	497	566	553	530
Pre-tax reconciling items:					
Plus: Net unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed	107	121	153	165	216
Plus taxes	(23)	(26)	(32)	(35)	(46)
Adjusted book value	<u>\$ 593</u>	<u>\$ 592</u>	<u>\$ 687</u>	<u>\$ 683</u>	<u>\$ 700</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:	
	December 31, 2019	December 31, 2018
Claims-paying resources		
Policyholders' surplus	\$ 276	\$ 321
Contingency reserve	192	200
Qualified statutory capital	468	521
Unearned premium reserve	143	195
Loss and LAE reserves	(1)	—
Total policyholders' surplus and reserves	610	716
Present value of installment premium	—	(1)
Excess of loss reinsurance facility ⁽²⁾	—	180
Total claims-paying resources	\$ 610	\$ 895
Net par outstanding ⁽³⁾	\$ 18,150	\$ 23,621
Net debt service outstanding ⁽³⁾	26,808	34,962
Ratios:		
Net par outstanding to qualified statutory capital	39:1	45:1
Capital ratio ⁽⁴⁾	57:1	67:1
Financial resources ratio ⁽⁵⁾	44:1	39:1
Net par outstanding to claims-paying resources	30:1	26:1

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

2) The excess of loss reinsurance facility represented 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 terminated on January 1, 2020.

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 December 31, 2019 and December 31, 2018

	Three Months Ended December 31,	
	2019	2018
U.S. Public Finance:		
Total GWP	\$ 0.4	\$ 0.5
Less: Installment GWP and other GAAP adjustments ⁽¹⁾	—	—
Upfront GWP	0.4	0.5
Plus: Installment premium PVP	—	—
Total PVP	\$ 0.4	\$ 0.5
 Gross par written	 \$ 117	 \$ 147

Reconciliation of GWP to PVP for the Year Ended December 31, 2019 and December 31, 2018

	Year Ended December 31,	
	2019	2018
U.S. Public Finance:		
Total GWP	\$ 2.0	\$ 0.8
Less: Installment GWP and other GAAP adjustments ⁽¹⁾	(0.2)	(0.8)
Upfront GWP	2.2	1.6
Plus: Installment premium PVP	—	—
Total PVP	\$ 2.2	\$ 1.6
 Gross par written	 \$ 565	 \$ 457

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 December 31, 2019		Year Ended December 31, 2019	
	Gross Par Written	Avg. Internal Rating	Gross Par Written	Avg. Internal Rating
Sector:				
U.S. public finance				
Direct:				
General obligation	\$ 110	A-	\$ 453	A-
Municipal utilities	3	BBB+	79	A-
Tax backed	4	A-	31	BBB
Higher education	—	--	2	BBB
Total direct	<u>\$ 117</u>	A-	<u>\$ 565</u>	A-
Total U.S. public finance gross par written	<u>\$ 117</u>	A-	<u>\$ 565</u>	A-

	Three Months Ended December 31, 2019	Year Ended December 31, 2019
Gross debt service written	\$ 152	\$ 797

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

Municipal Assurance Holdings Inc.

Investment Portfolio and Cash

As of December 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:					
Obligations of state and political subdivisions ⁽²⁾	\$ 374	3.36 %	3.13 %	\$ 396	\$ 13
U.S. government securities	20	2.54	2.00	21	1
Corporate securities	100	3.46	2.73	105	3
Mortgage-backed securities (MBS):					
Residential MBS (RMBS)	11	3.21	2.53	11	—
Commercial MBS (CMBS)	17	3.48	2.75	17	1
Asset-backed securities	28	3.19	2.52	28	1
Total fixed-maturity securities	550	3.34	2.97	578	19
Short-term investments	9	1.56	1.23	9	—
Cash ⁽³⁾	3	—	—	3	—
Total	\$ 562	3.31%	2.94%	\$ 590	\$ 19

Ratings ⁽⁴⁾:

	Fair Value	% of Portfolio
U.S. government securities	\$ 21	3.6 %
AAA/Aaa	78	13.6
AA/Aa	322	55.7
A/A	84	14.5
BBB	73	12.6
Total fixed-maturity securities, available-for-sale	\$ 578	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) 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 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 December 31)		\$ 28,660			
2020 Q1	\$ 1,038	27,622	\$ 4	\$ —	\$ —
2020 Q2	751	26,871	3	—	—
2020 Q3	1,196	25,675	3	—	—
2020 Q4	736	24,939	3	—	—
2021	2,283	22,656	11	—	—
2022	2,038	20,618	9	—	—
2023	1,743	18,875	9	—	—
2024	1,634	17,241	8	—	—
2020-2024	11,419	17,241	50	—	—
2025-2029	7,223	10,018	30	—	—
2030-2034	5,085	4,933	17	—	—
2035-2039	2,848	2,085	8	—	—
After 2039	2,085	—	3	—	—
Total	\$ 28,660		\$ 108	\$ —	\$ —

- 1) Represents the future expected amortization of current debt service outstanding (principal and interest), assuming no advance refundings, as of December 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.
Financial Guaranty Profile (1 of 3)
(dollars in millions)

Net Par Outstanding and Average Rating by Asset Type

	December 31, 2019		December 31, 2018	
	Net Par Outstanding	Avg. Internal Rating	Net Par Outstanding	Avg. Internal Rating
U.S. public finance:				
General obligation	\$ 12,956	A	\$ 17,743	A
Municipal utilities	2,766	A	4,126	A
Tax backed	2,588	A+	3,888	A
Transportation	924	A-	1,311	A-
Higher education	531	A-	865	A-
Housing revenue	78	A+	94	A+
Other public finance	11	A	105	A+
Total U.S. public finance	\$ 19,854	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 December 31, 2019

(dollars in millions)

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

Ratings:	Net Par Outstanding	% of Total
AAA	\$ 160	0.8 %
AA	3,899	19.6
A	11,781	59.4
BBB	3,770	19.0
Below Investment Grade ("BIG") ⁽¹⁾	244	1.2
Total net par outstanding	\$ 19,854	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 December 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	\$ 4,776	24.1 %
Pennsylvania	2,137	10.8
Texas	1,881	9.5
Illinois	1,605	8.1
New York	1,593	8.0
New Jersey	992	5.0
Florida	658	3.3
Arizona	478	2.4
Alabama	464	2.3
Michigan	446	2.2
Other	4,824	24.3
Total U.S. public finance net par outstanding	\$ 19,854	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
2019 (as of December 31)		\$ 19,854
2020 Q1	\$ 804	19,050
2020 Q2	529	18,521
2020 Q3	974	17,547
2020 Q4	528	17,019
2021	1,505	15,514
2022	1,322	14,192
2023	1,075	13,117
2024	1,012	12,105
2020-2024	7,749	12,105
2025-2029	4,762	7,343
2030-2034	3,621	3,722
2035-2039	2,095	1,627
After 2039	1,627	—
Total U.S. public finance	\$ 19,854	

Municipal Assurance Holdings Inc.

Largest Exposures by Sector

As of December 31, 2019

(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	\$ 132	BBB+
New York City Transitional Finance Authority	130	AAA
Escondido Union High School District, California	123	A+
Harris County, Texas	103	AA+
San Bernardino County, California	97	A+
Palomar Health	92	A-
Kansas (State of)	91	A+
Mount Diablo Unified School District, California	91	AA-
Norwalk-La Mirada Unified School District, California	90	A+
Regional Transportation Authority (Sales Tax), Illinois	81	AA
University of Cincinnati	80	A+
Will County Community Unit School District No. 365-U (Valley View), Illinois	80	AA-
Massachusetts (Commonwealth of) Water Resources	78	AA
Lincoln Way Community High School District No. 210, Illinois	77	BBB-
North Texas Tollway Authority	77	A
Hayward Unified School District, California	76	A
Detroit (City of) School District, Michigan	75	AA-
Metro Washington Airports Authority (Dulles Toll Road)	73	BBB+
DeKalb County Water & Sewerage, Georgia	73	A+
Regional Transportation District, Colorado	73	AA
Rancho Santiago Community College District, California	71	AA
Pennsylvania Turnpike Commission Registration Fee	71	BBB
Oglethorpe Power Corporation, Georgia	69	BBB
Santa Ana Unified School District, California	67	A+
Penn Hills School District, Pennsylvania	66	BB
West Contra Costa Unified School District, California	66	AA-
Wisconsin (State of)	65	A+
Oregon School Boards Association, Oregon	64	AA-
Municipal Gas Authority of Georgia	64	A+
Oceanside Unified School District, California	64	A+
Colton Joint Unified School District, California	62	A+
Azusa Unified School District, California	62	AA-
Pittsburgh Public Auditorium Authority, Pennsylvania	60	A+
Grossmont-Cuyamaca Community College District, California	60	AA-
San Antonio Airport, Texas	59	A-
University of Rhode Island	59	A
New Haven Unified School District, California	58	A+
San Juan Unified School District, California	57	A+
Miami-Dade County, Florida	57	AA-
Woonsocket Safe Drinking Water Revolving Fund, Rhode Island	55	A
Corona-Norco Unified School District, California	55	AA-
New Jersey (State of)	55	BBB
Anaheim (City of), California	54	BBB+
Indianapolis Gas Utility Distribution System, Indiana	54	AA-
Massachusetts (Commonwealth of)	53	AA-
Pima County Sewer System, Arizona	52	A+
Alameda City Unified School District, California	51	AA-
Piedmont Municipal Power Authority, South Carolina	47	A-
Oklahoma Municipal Power Authority	47	A
Sacramento County, California	47	A-
Total top 50 U.S. public finance exposures	\$ 3,563	

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:				
	December 31,				
	2019	2018	2017	2016	2015
Statutory Data					
Policyholders' surplus	\$ 276	\$ 321	\$ 270	\$ 487	\$ 730
Contingency reserve	192	200	224	260	282
Qualified statutory capital	468	521	494	747	1,012
Unearned premium reserve	143	195	248	333	469
Loss and LAE reserves	(1)	—	—	—	—
Total policyholders' surplus and reserves	610	716	742	1,080	1,481
Present value of installment premium	—	(1)	1	2	3
Excess of loss reinsurance facility	—	180	180	360	360
Total claims-paying resources	\$ 610	\$ 895	\$ 923	\$ 1,442	\$ 1,844
Other Financial Information (Statutory Basis)					
Net debt service outstanding (end of period)	\$ 26,808	\$ 34,962	\$ 44,323	\$ 61,829	\$ 92,048
Gross debt service outstanding (end of period)	26,808	34,962	44,323	61,829	92,048
Net par outstanding (end of period)	18,150	23,621	30,100	41,951	61,805
Gross par outstanding (end of period)	18,150	23,621	30,100	41,951	61,805
Ratios:					
Net par outstanding to qualified statutory capital	39:1	45:1	61:1	56:1	61:1
Capital ratio ⁽¹⁾	57:1	67:1	90:1	83:1	91:1
Financial resources ratio ⁽¹⁾	44:1	39:1	48:1	43:1	50:1
Net par outstanding to claims-paying resources	30:1	26:1	33:1	29:1	34:1

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, 2019.

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 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, along with the effect of 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 FG VIEs and investment vehicles. The Company does not own such FG VIEs and its exposure is limited to its obligation under the financial guaranty insurance contract, which is captured in the Insurance segment results. The economic effect of its consolidated investment vehicles is also captured in its Insurance segment results through the insurance subsidiaries' economic interest in such vehicles. Management and the Board of Directors use non-GAAP financial measures further adjusted to remove 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 VIE consolidation.

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.

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 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 further adjusts adjusted operating income by removing VIE consolidation to arrive at its core operating income measure. 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 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 further adjusts adjusted operating shareholders' equity by removing VIE consolidation to arrive at its core operating shareholders' equity and core adjusted book value.

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 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 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 future estimated revenue for contracts other than financial guaranty insurance contracts (such as specialty insurance and reinsurance 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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