

ASSURED GUARANTY LTD

Form 10-K

March 01, 2019

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 001-32141

ASSURED GUARANTY LTD.

(Exact name of Registrant as specified in its charter)

Bermuda

98-0429991

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

30 Woodbourne Avenue, Hamilton HM 08 Bermuda

(441) 279-5700

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive office)

None

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered

Common Shares, \$0.01 per share New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

The aggregate market value of Common Shares held by non-affiliates of the Registrant as of the close of business on June 30, 2018 was \$3,831,572,150 (based upon the closing price of the Registrant's shares on the New York Stock Exchange on that date, which was \$35.73). For purposes of this information, the outstanding Common Shares which were owned by all directors and executive officers of the Registrant were deemed to be the only shares of Common Stock held by affiliates.

As of February 26, 2019, 103,085,785 Common Shares, par value \$0.01 per share, were outstanding (including 59,532 unvested restricted shares).

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain portions of Registrant's definitive proxy statement relating to its 2017 Annual General Meeting of Shareholders are incorporated by reference to Part III of this report.

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Forward Looking Statements

This Form 10-K contains information that includes or is based upon forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward looking statements give the expectations or forecasts of future events of Assured Guaranty Ltd. (AGL) and its subsidiaries (collectively with AGL, Assured Guaranty or the Company). These statements can be identified by the fact that they do not relate strictly to historical or current facts and relate to future operating or financial performance.

Any or all of Assured Guaranty's forward looking statements herein are based on current expectations and the current economic environment and may turn out to be incorrect. Assured Guaranty's actual results may vary materially. Among factors that could cause actual results to differ adversely are:

- reduction in the amount of available insurance opportunities and/or in the demand for Assured Guaranty's insurance;
  - rating agency action, including a ratings downgrade, a change in outlook, the placement of ratings on watch for downgrade, or a change in rating criteria, at any time, of AGL or any of its subsidiaries, and/or of any securities AGL or any of its subsidiaries have issued, and/or of transactions that AGL's subsidiaries have insured;
  - developments in the world's financial and capital markets that adversely affect obligors' payment rates or Assured Guaranty's loss experience;
  - 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;
  - the failure of Assured Guaranty to realize loss recoveries that are assumed in its expected loss estimates;
  - increased competition, including from new entrants into the financial guaranty industry;
  - rating agency action on obligors, including sovereign debtors, resulting in a reduction in the value of securities in Assured Guaranty's investment portfolio and in collateral posted by and to Assured Guaranty;
  - the inability of Assured Guaranty to access external sources of capital on acceptable terms;
  - changes in the world's credit markets, segments thereof, interest rates or general economic conditions;
  - the impact of market volatility on the mark-to-market of Assured Guaranty's contracts written in credit default swap form;
  - changes in applicable accounting policies or practices;
  - changes in applicable laws or regulations, including insurance, bankruptcy and tax laws, or other governmental actions;
  - the impact of changes in the world's economy and credit and currency markets and in applicable laws or regulations relating to the decision of the United Kingdom (U.K.) to exit the European Union (EU);
  - the possibility that acquisitions or alternative investments made by Assured Guaranty do not result in the benefits anticipated or subject Assured Guaranty to unanticipated consequences;
  - difficulties with the execution of Assured Guaranty's business strategy;
  - loss of key personnel;
  - the effects of mergers, acquisitions and divestitures;
  - natural or man-made catastrophes;
  - other risk factors identified in AGL's filings with the U.S. Securities and Exchange Commission (the SEC);
  - other risks and uncertainties that have not been identified at this time; and
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management's response to these factors.

The foregoing review of important factors should not be construed as exhaustive, and should be read in conjunction with the other cautionary statements that are included in this Form 10-K. The Company 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. Investors are advised, however, to consult any further disclosures the Company makes on related subjects in the Company's reports filed with the SEC.

If one or more of these or other risks or uncertainties materialize, or if the Company's underlying assumptions prove to be incorrect, actual results may vary materially from what the Company projected. Any forward looking statements in this Form 10-K reflect the Company's current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to its operations, results of operations, growth strategy and liquidity.

For these statements, the Company claims the protection of the safe harbor for forward looking statements contained in Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act).

Convention

Unless otherwise noted, ratings on Assured Guaranty's insured portfolio and on bonds or notes purchased pursuant to loss mitigation strategies or other risk management strategies (loss mitigation securities) are Assured Guaranty's internal ratings. Internal credit ratings are expressed on a rating scale similar to that used by the rating agencies and generally reflect an approach similar to that employed by the rating agencies, except that Assured Guaranty's internal credit ratings focus on future performance, rather than lifetime performance.

In addition, unless otherwise noted, the Company excludes amounts from its outstanding par and debt service relating to securities or assets owned by the Company as a result of loss mitigation strategies, including loss mitigation securities held in the investment portfolio. The Company manages the loss mitigation securities as investments and not insurance exposure.

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PART I

ITEM 1. BUSINESS

Overview

Assured Guaranty Ltd. (AGL and, together with its subsidiaries, Assured Guaranty or the Company) is a Bermuda-based holding company incorporated in 2003 that provides, through its operating subsidiaries, credit protection products to the United States (U.S.) and international public finance (including infrastructure) and structured finance markets. The Company applies its credit underwriting judgment, risk management skills and capital markets experience primarily to offer financial guaranty insurance that protects holders of debt instruments and other monetary obligations from defaults in scheduled payments. If an obligor defaults on a scheduled payment due on an obligation, including a scheduled principal or interest payment (debt service), the Company is required under its unconditional and irrevocable financial guaranty to pay the amount of the shortfall to the holder of the obligation. The Company markets its financial guaranty insurance directly to issuers and underwriters of public finance and structured finance securities as well as to investors in such obligations. The Company guarantees obligations issued principally in the U.S. and the United Kingdom (U.K.), and also guarantees obligations issued in other countries and regions, including Australia and Western Europe. The Company also provides other forms of insurance that are in line with its risk profile and benefit from its underwriting experience.

The Company conducts its financial guaranty business on a direct basis from the following companies: Assured Guaranty Municipal Corp. (AGM), Municipal Assurance Corp. (MAC), Assured Guaranty Corp. (AGC), and Assured Guaranty (Europe) plc (AGE). It also conducts business through Bermuda-based reinsurers Assured Guaranty Re Ltd. (AG Re) and Assured Guaranty Re Overseas Ltd. (AGRO). The following is a description of AGL's principal operating subsidiaries:

**Assured Guaranty Municipal Corp.** AGM is located and domiciled in New York. Since mid-2008, AGM has provided financial guaranty insurance and reinsurance only on debt obligations issued in the U.S. public finance and global infrastructure markets, including bonds issued by U.S. state or governmental authorities or notes issued to finance infrastructure projects. AGM was organized in 1984 as "Financial Security Assurance Inc." and until 2008 also offered insurance and reinsurance in the global structured finance market. AGM's subsidiary AGE offers insurance and reinsurance in the global public finance and structured finance markets.

**Municipal Assurance Corp.** MAC is located and domiciled in New York and was organized in 2008. Assured Guaranty acquired MAC on May 31, 2012. On July 16, 2013, Assured Guaranty completed a series of transactions that increased the capitalization of MAC and resulted in MAC assuming a portfolio of geographically diversified U.S. public finance exposure from AGM and AGC. MAC offers insurance and reinsurance on bonds issued by U.S. state or municipal governmental authorities, focusing on investment grade obligations in select sectors of the municipal market.

**Assured Guaranty Corp.** AGC is located in New York and domiciled in Maryland, was organized in 1985 and commenced operations in 1988. It provides insurance and reinsurance on debt obligations in the global structured finance market and also offers guarantees on obligations in the U.S. public finance and international infrastructure markets. AGC acquired CIFG Assurance North America, Inc. (CIFGNA) in 2016 and Radian Asset Assurance Inc. (Radian Asset) in 2015, and merged them each with and into AGC, with AGC being the surviving entity.

**Assured Guaranty (Europe) plc** AGE is a U.K. incorporated company licensed as a U.K. insurance company and is currently authorized to operate in various countries throughout the European Economic Area (EEA). It was organized in 1990 and issued its first financial guarantee in 1994. AGE offers financial guarantees in both the international

public finance and structured finance markets and currently is the only entity from which the Company writes business in the EEA. As discussed further under "Business" below, AGE has agreed with its regulator that new business it writes would be guaranteed using a co-insurance structure pursuant to which AGE would co-insure municipal and infrastructure transactions with AGM, and structured finance transactions with AGC.

The Company combined the operations of its European subsidiaries, AGE, Assured Guaranty (UK) plc (AGUK), Assured Guaranty (London) plc (AGLN) and CIFG Europe S.A. (CIFGE), in a transaction that was completed on November 7, 2018. Under the combination, AGUK, AGLN and CIFGE transferred their insurance portfolios to and merged with and into AGE (the Combination). See Part II, Item 8, Financial Statements and Supplementary Data, Note 1, Business and Basis of Presentation, for additional information on the Combination.

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AGC had acquired MBIA UK Insurance Limited (MBIA UK) (MBIA UK Acquisition), the European operating subsidiary of MBIA Insurance Corporation (MBIA), on January 10, 2017. As of December 31, 2016, MBIA UK had an insured portfolio of approximately \$12 billion of net par. MBIA UK immediately changed its name and subsequently converted to a public limited company, Assured Guaranty (London) plc.

Assured Guaranty Re Ltd. and Assured Guaranty Re Overseas Ltd. AG Re is incorporated under the laws of Bermuda and is licensed as a Class 3B insurer under the Insurance Act 1978 and related regulations of Bermuda. AG Re indirectly owns AGRO, which is a Bermuda Class 3A and Class C insurer. AG Re and AGRO underwrite financial guaranty reinsurance, and AGRO also underwrites other non-financial guaranty insurance and reinsurance that is in line with the Company's risk profile and benefits from its underwriting experience. AG Re and AGRO write business as reinsurers of third-party primary insurers and of certain affiliated companies.

Assured Guaranty is the market leader in the financial guaranty industry. The Company's position in the market benefits from its ability to maintain strong financial strength ratings, its strong claims-paying resources, its proven willingness and ability to make claim payments to policyholders after obligors have defaulted, and its ability to achieve recoveries in respect of the claims that it has paid on insured residential mortgage-backed and other securities and to resolve its troubled municipal exposures.

The Company faces competition in the U.S. public finance financial guaranty market from Build America Mutual Assurance Company (BAM). The Company estimates, based on third party industry compilations, that the Company insured approximately 56% of the par of the insured U.S. public finance bonds issued in the primary market in 2018, while BAM insured 44% of the par. The continued presence in the market of BAM affects the Company's insured volume as well as the amount of premium the Company is able to charge.

The sustained low interest rate environment in the U.S. has also presented the Company with challenges. Over the last several years, interest rates generally have been lower than historical norms. While higher than in 2016, when the benchmark AAA 30-year Municipal Market Data (MMD) index published by Thomson Reuters was at times below 2%, the average for that rate was 3.05% in 2018, still low by historical standards. As a result, the difference in yield (or the credit spread) between a bond insured by Assured Guaranty and an uninsured bond has provided comparatively little room for issuer savings and insurance premium, and Assured Guaranty has seen a lower demand for its financial guaranty insurance from issuers over the past several years than it saw historically.

The Company believes that issuers and investors in securities will continue to purchase financial guaranty insurance, especially if interest rates rise and credit spreads widen. U.S. municipalities have budgetary requirements that are best met through financings in the fixed income capital markets. Historically, smaller municipal issuers have frequently used financial guaranties in order to access the capital markets with new debt offerings at a lower all-in interest rate than on an unguaranteed basis. In addition, the Company expects long-term debt financings for infrastructure projects will grow throughout the world, as will the financing needs associated with privatization initiatives or refinancing of infrastructure projects in developed countries.

The Company evaluates the amount of capital it requires based on an internal capital model as well as rating agency models and insurance regulations. The Company believes it has excess capital based on these measures, and has been returning some of its excess capital to shareholders by repurchasing its common shares and has been deploying some of its excess capital to acquire financial guaranty portfolios and alternative investments.

The Company considers opportunities to acquire financial guaranty portfolios, whether by acquiring financial guarantors who are no longer actively writing new business or their insured portfolios (including through reinsurance), or by commuting business that it had previously ceded. In the last several years, the Company has reassumed a number of previously ceded portfolios and has completed the acquisition of Radian Asset, CIFG Holding Inc.

(CIFGH, and together with its subsidiaries, CIFG) (the CIFG Acquisition) and the MBIA UK Acquisition. On June 1, 2018, the Company closed a transaction with Syncora Guarantee Inc. (SGI) (SGI Transaction) under which AGC assumed, generally on a 100% quota share basis, substantially all of SGI's insured portfolio and AGM reassumed a book of business previously ceded to SGI by AGM. The Company continues to investigate additional opportunities related to remaining legacy financial guaranty portfolios, but there can be no assurance if or when the Company will find suitable opportunities on appropriate terms.

During 2016, the Company also established an alternative investments group to focus on deploying a portion of the Company's excess capital to pursue acquisitions and develop new business opportunities that complement the Company's financial guaranty business, are in line with its risk profile and benefit from its core competencies. In February 2017, the Company agreed to purchase up to \$100 million of limited partnership interests in a fund that invests in the equity of private equity managers. In September 2017, the Company acquired a minority interest in Wasmer, Schroeder & Company LLC, an

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independent investment advisory firm specializing in separately managed accounts (SMAs). In February 2018, the Company acquired a minority interest in the holding company of Rubicon Infrastructure Advisors, a full-service investment firm based in Dublin that provides investment banking services within the global infrastructure sector. The Company continues to investigate additional opportunities to make alternative investments, including, among others, both controlling and non-controlling investments in investment managers, but there can be no assurance if or when the Company will find suitable opportunities on appropriate terms.

### Insurance Portfolio - Financial Guaranty

Financial guaranty insurance generally provides an unconditional and irrevocable guaranty that protects the holder of a debt instrument or other monetary obligation against non-payment of scheduled principal and interest payments when due. Upon an obligor's default on scheduled debt service payments due on the debt obligation, whether due to its insolvency or otherwise, the Company is generally required under the financial guaranty contract to pay the investor the principal or interest shortfall then due.

Financial guaranty insurance may be issued to all of the investors of the guaranteed series or tranche of a municipal bond or structured finance security at the time of issuance of those obligations or it may be issued in the secondary market to only specific individual holders of such obligations who purchase the Company's credit protection.

Both issuers of and investors in financial instruments may benefit from financial guaranty insurance. Issuers benefit when they purchase financial guaranty insurance for their new issue debt transaction because the insurance may have the effect of lowering an issuer's interest cost over the life of the debt transaction to the extent that the insurance premium charged by the Company is less than the net present value of the difference between the yield on the obligation insured by Assured Guaranty (which carries the credit rating of the specific subsidiary that guarantees the debt obligation) and the yield on the debt obligation if sold on the basis of its uninsured credit rating. The principal benefit to investors is that the Company's guaranty provides increased certainty that scheduled payments will be received when due. The guaranty may also improve the marketability and liquidity of obligations issued by infrequent or unknown issuers, as well as obligations with complex structures or backed by asset classes new to the market. In general and especially in such instances, investors may be able to sell bonds insured by highly rated financial guarantors more quickly than uninsured debt obligations and, depending on the difference between the financial strength rating of the insurer and the rating of the issuer, at a higher secondary market price than for uninsured debt obligations.

As an alternative to traditional financial guaranty insurance, in the past the Company also provided credit protection relating to a particular security or obligor through a credit derivative contract, such as a credit default swap (CDS). Under the terms of a CDS, the seller of credit protection agrees to make a specified payment to the buyer of credit protection if one or more specified credit events occurs with respect to a reference obligation or entity. In general, the Company, as the seller of credit protection, specified as credit events in its CDS failure to pay interest and principal on the reference obligation. One difference between CDS and traditional primary financial guaranty insurance is that credit default protection was typically provided to a particular buyer of credit protection, who is not always required to own the reference obligation, rather than to all investors in the reference obligation. As a result, the Company's rights and remedies under a CDS may be different and more limited than on a financial guaranty of an entire issuance. Credit derivatives were preferred by some investors, however, because they generally offered the investor ease of execution and standardized terms as well as more favorable accounting or capital treatment. Due to changes in the regulatory environment, the Company has not provided credit protection in the U.S. through a CDS since March 2009, other than in connection with loss mitigation and other remediation efforts relating to its existing book of business. See the Risk Factor captioned "Changes in or inability to comply with applicable law could adversely affect the Company's ability to do business" under Risks Related to accounting principles generally accepted in the United States of America (GAAP) and Applicable Law in "Item 1A. Risk Factors" for additional detail about the regulatory environment. The

Company has acquired or reinsured portfolios both before and after 2009 that include financial guaranty contracts in credit derivative form.

The Company also offers credit protection through reinsurance, and in the past has provided reinsurance to other financial guaranty insurers with respect to their guaranty of public finance, infrastructure and structured finance obligations. The Company believes that the opportunities currently available to it in the reinsurance market primarily consist of potentially assuming portfolios of transactions from inactive primary insurers, such as the SGI Transaction, and recapturing portfolios that it has previously ceded to third party reinsurers.

The Company's financial guaranty direct and assumed businesses provide credit protection on public finance, infrastructure and structured finance obligations. When the Company directly insures an obligation, it assigns the obligation to a geographic location or locations based on its view of the geographic location of the risk. For information on the geographic

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breakdown of the Company's financial guaranty portfolio and on its income and revenue by jurisdiction, see Part II, Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding Exposure, Geographic Distribution of Net Par Outstanding, and Note 12, Income Taxes, Provision for Income Taxes.

**U.S. Public Finance Obligations** The Company insures and reinsures a number of different types of U.S. public finance obligations, including the following:

**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.

**Healthcare Bonds** are obligations of healthcare facilities, including community based hospitals and systems, as well as of health maintenance organizations and long-term care facilities.

**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.

**Infrastructure Bonds** include obligations issued by a variety of entities engaged in the financing of infrastructure projects, such as roads, airports, ports, social infrastructure and other physical assets delivering essential services supported by long-term concession arrangements with a public sector entity.

**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.

**Investor-Owned Utility Bonds** are obligations primarily backed by investor-owned utilities, first mortgage bond obligations of for-profit electric or water utilities providing retail, industrial and commercial service, and also include sale-leaseback obligation bonds supported by such entities.

Other Public Finance Bonds include other debt issued, guaranteed or otherwise supported by U.S. national or local governmental authorities, as well as student loans, revenue bonds, and obligations of some not-for-profit organizations.

A portion of the Company's exposure to tax-backed bonds, municipal utility bonds and transportation bonds constitutes "special revenue" bonds under the United States Bankruptcy Code (Bankruptcy Code). Even if an obligor under a special revenue bond were to seek protection from creditors under Chapter 9 of the U.S. Bankruptcy Code, holders of the special revenue bond should continue to receive timely payments of principal and interest during the bankruptcy proceeding, subject to the special revenues being sufficient to pay debt service and the lien on the special revenues being subordinate to the necessary operating expenses of the project or system from which the revenues are derived. While "special revenues" acquired by the

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obligor after bankruptcy remain subject to the pre-petition pledge, special revenue bonds may be adjusted if their claim is determined to be "undersecured."

**Non-U.S. Public Finance Obligations** The Company insures and reinsures a number of different types of non-U.S. public finance obligations, which consist of both infrastructure projects and other projects essential for municipal function such as regulated utilities. Credit support for the exposures written by the Company may come from a variety of sources, including some combination of subordinated tranches, over-collateralization or cash reserves. Additional support also may be provided by transaction provisions intended to benefit noteholders or credit enhancers. The types of non-U.S. public finance securities the Company insures and reinsures include the following:

**Regulated Utility Obligations** are issued by government-regulated providers of essential services and commodities, including electric, water and gas utilities. The majority of the Company's international regulated utility business is conducted in the U.K.

**Infrastructure Finance Obligations** are obligations issued by a variety of entities engaged in the financing of international infrastructure projects, such as roads, airports, ports, social infrastructure, and other physical assets delivering essential services supported either by long-term concession arrangements with a public sector entity or a regulatory regime. The majority of the Company's international infrastructure business is conducted in the U.K.

**Pooled Infrastructure Obligations** are synthetic asset-backed obligations that take the form of CDS obligations or credit-linked notes that reference either infrastructure finance obligations or a pool of such obligations, with a defined deductible to cover credit risks associated with the referenced obligations.

**Other Public Finance Obligations** include obligations of local, municipal, regional or national governmental authorities or agencies.

**U.S. and Non-U.S. Structured Finance Obligations** The Company insures and reinsures a number of different types of U.S. and non-U.S. structured finance obligations. Credit support for the exposures written by the Company may come from a variety of sources, including some combination of subordinated tranches, excess spread, over-collateralization or cash reserves. Additional support also may be provided by transaction provisions intended to benefit noteholders or credit enhancers. The types of U.S. and non-U.S. structured finance obligations the Company insures and reinsures include the following:

**Residential Mortgage-Backed Securities (RMBS)** are obligations backed by closed-end and open-end first and second lien mortgage loans on one-to-four family residential properties, including condominiums and cooperative apartments. The Company has not insured a RMBS transaction since January 2008, although it has acquired RMBS insurance exposures since that time in connection with its acquisition or reinsurance of legacy financial guaranty portfolios. First lien mortgage loan products in these transactions include fixed rate, adjustable rate and option adjustable-rate mortgages. The credit quality of borrowers covers a broad range, including "prime", "subprime" and "Alt-A". A prime borrower is generally defined as one with strong risk characteristics as measured by factors such as payment history, credit score, and debt-to-income ratio. A subprime borrower is a borrower with higher risk characteristics, usually as determined by credit score and/or credit history. An Alt-A borrower is generally defined as a prime quality borrower that lacks certain ancillary characteristics, such as fully documented income.

**Insurance Securitization Obligations** are obligations secured by the future earnings from pools of various types of insurance and reinsurance policies and income produced by invested assets.

**Consumer Receivables Securities** are obligations backed by non-mortgage consumer receivables, such as student loans, automobile loans and leases, manufactured home loans and other consumer receivables.

Pooled Corporate Obligations are securities primarily backed by various types of corporate debt obligations, such as secured or unsecured bonds, bank loans or loan participations and trust preferred securities. These securities are often issued in "tranches," with subordinated tranches providing credit support to the more senior tranches. The Company's financial guaranty exposures generally are to the more senior tranches of these issues.

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Financial Products Business is the guaranteed investment contracts (GICs) portion of a line of business previously conducted by Assured Guaranty Municipal Holdings Inc. (AGMH) that the Company did not acquire when it purchased AGMH in 2009 from Dexia SA and that is being run off. That line of business consisted of AGMH's guaranteed investment contracts business, its medium term notes business and the equity payment agreements associated with AGMH's leveraged lease business. Although Dexia SA and certain of its affiliates (Dexia) assumed the liabilities related to such businesses when the Company purchased AGMH, AGM policies related to such businesses remained outstanding. Assured Guaranty is indemnified by Dexia against loss from the former Financial Products Business.

Until November 2008, AGMH's former financial products segment had been in the business of borrowing funds through the issuance of GICs insured by AGM and reinvesting the proceeds in investments that met AGMH's investment criteria. In June 2009, in connection with the Company's acquisition of AGMH from Dexia Holdings Inc., Dexia SA, the ultimate parent of Dexia Holdings Inc., and certain of its affiliates, entered into a number of agreements intended to mitigate the credit, interest rate and liquidity risks associated with the GIC business and the related AGM insurance policies. Some of those agreements have since terminated or expired, or been modified. As of December 31, 2018, the aggregate accreted GIC balance was approximately \$1.0 billion, compared with approximately \$10.2 billion as of December 31, 2009. As of December 31, 2018, the aggregate fair market value of the assets supporting the GIC business plus cash and positive derivative value exceeded by nearly \$0.8 billion the aggregate principal amount of all outstanding GICs and certain other business and hedging costs of the GIC business.

AGMH's financial products business had also issued medium term notes insured by AGM, reinvesting the proceeds in investments that met AGMH's investment criteria. As of December 31, 2018, only \$171 million of insured medium term notes remain outstanding.

The financial products business also included the equity payment undertaking agreement portion of the leveraged lease business, described in Liquidity and Capital Resources, Liquidity Requirements and Sources, Insurance Company Subsidiaries.

Other Structured Finance Obligations are obligations backed by assets not generally described in any of the other described categories.

### Insurance Portfolio - Non-Financial Guaranty Insurance and Reinsurance

The Company also provides non-financial guaranty insurance and reinsurance in transactions with similar risk profiles to its structured finance exposures written in financial guaranty form. The Company provides such non-financial guaranty insurance and reinsurance, for example, for life insurance capital relief transactions and aircraft residual value insurance (RVI) transactions.

### Exposure Limits, Underwriting Procedures, and Credit Policy

#### Exposure Limits

The Company establishes exposure limits and underwriting criteria for obligors, sectors and countries, and for individual transactions. Risk exposure limits for single obligors are based on the Company's assessment of potential frequency and severity of loss as well as other factors, such as historical and stressed collateral performance. Sector limits are based on the Company's view of stress losses for the sector and on its assessment of correlation. Country limits are based on the size and stability of the relevant economy, and the Company's view of the political environment and legal system. All of the foregoing limits are established in relation to the Company's capital base.

#### Underwriting Procedures

Each transaction underwritten by the Company involves persons with different skills and backgrounds across various departments within the Company. The Company's transaction underwriting teams include both underwriters and lawyers, who analyze the structure of a potential transaction and the credit and legal issues pertinent to the particular line of business or asset class, and accounting and finance personnel, who review the more complex transactions to determine the appropriate accounting treatment.

Upon completion of the underwriting analysis, the underwriter prepares a formal credit report that is submitted to a credit committee for review. An oral presentation is usually made to the committee, followed by questions from committee

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members and discussion among the committee members and the underwriters. In some cases, additional information may be presented at the meeting or required to be submitted prior to approval. Each credit committee decision is documented and any further requirements, such as specific terms or evidence of due diligence, are noted. The Company's credit committees are composed of senior officers of the Company excluding those senior officers responsible for business origination. The committees are organized by asset class, such as for public finance or structured finance, or along regulatory lines, to assess the various potential exposures.

Upon approval by the credit committee, the underwriter, working with the responsible attorney, is responsible for closing the transaction and issuing the policy. At policy issuance, the underwriter and the responsible attorney certify that the transaction closed meets the terms and conditions agreed to by the credit committee.

### Credit Policy

#### U.S. Public Finance

For U.S. public finance transactions, the Company's underwriters generally analyze the issuer's historical financial statements and, where warranted, develop stress case projections to test the issuer's ability to make timely debt service payments under stressful economic conditions.

The Company focuses principally on the credit quality of the obligor based on population size and trends, wealth factors, and strength of the economy. The Company evaluates the obligor's liquidity position; its fiscal management policies and track record; its ability to raise revenues and control expenses; and its exposure to derivative contracts and to debt subject to acceleration. The Company assesses the obligor's pension and other post-employment benefits obligations and funding policies and evaluates the obligor's ability to adequately fund such obligations in the future. The Company analyzes other critical risk factors including the type of issue; the repayment source; pledged security, if any; the presence of restrictive covenants and the tenor of the risk. The Company also considers the ability of obligors to file for bankruptcy or receivership under applicable statutes (and on related statutes that provide for state oversight or fiscal control over financially troubled obligors). The Company also considers the environmental impact associated with the transaction. The Company weighs the risk of a rating agency downgrade of an obligation's underlying uninsured rating.

In cases of not-for-profit institutions, such as healthcare issuers and private higher education issuers, the Company focuses on the financial stability of the institution, its competitive position and its management experience.

The Company's credit policy for U.S. infrastructure transactions is substantially similar to that of non-U.S. infrastructure transactions described below.

#### Non-U.S. Transactions

For non-U.S. transactions, the Company undertakes an analysis of the country or countries in which the risk resides, which includes political risk as well as economic and demographic characteristics. For each transaction, the Company also performs an assessment of the legal framework governing the transaction and the laws affecting the underlying assets supporting the obligations to be insured. In general, non-U.S. transactions consist of transactions with regulated utilities or infrastructure transactions. The underwriting of regulated utilities is generally the same as for U.S. transactions, but with additional consideration given to factors specific to the relevant jurisdiction.

For non-U.S. infrastructure transactions, the Company reviews the type of project (e.g., hospital, road, social housing, transportation or student accommodation) and the source of repayment of the debt. For certain transactions, debt service and operational expenses are covered by availability payments made by either a governmental entity or a not-for-profit entity. The availability payments are due if the project is available for use, regardless of whether the project actually is in use. The principal risks for such transactions are construction risk and operational risk. The

project must be completed on time and must be available for use during the life of the concession. For other transactions, notably transactions secured by toll-roads and student accommodation, revenues derived from the project must be sufficient to make debt service payments as well as cover operating expenses during the concession period.

For infrastructure transactions, underwriters generally use financial models in order to evaluate the ability of the transaction to generate adequate cash flow to service the debt under a variety of scenarios. The models include economically stressed scenarios that the underwriters use for their assessment of the potential credit risk inherent in a particular transaction. Stress models developed internally by the Company's underwriters reflect both empirical research and information gathered

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from third parties, such as rating agencies or investment banks. The Company may also engage advisors such as consultants and external counsel to assist in analyzing a transaction's financial or legal risks.

The Company's due diligence for infrastructure projects also includes: a financial review of the entity seeking the development of the project (usually a governmental entity or university); a financial and operational review of the developer, the construction companies, and the project operator; and a financial review of the various providers of operational financial protection for the bondholders (and therefore the insurer), including construction surety providers, letter-of-credit providers, liquidity banks or account banks. The Company uses outside consultants to review the construction program and to assess whether the project can be completed on time and on budget. The Company projects the cost of replacing the construction company, including delays in construction, in the event that a construction company is unable to complete the construction for any reason. Construction security packages are sized appropriately to cover these risks and the Company requires such coverage from credit-worthy institutions.

Prior to the global financial crisis of 2008, the Company insured non-U.S. structured financial transactions, and it may do so again. If it does, it expects its underwriting process generally to be the same as for U.S. structured finance transactions described below, but with additional consideration given to factors specific to the relevant jurisdiction.

### U.S. Structured Finance

Structured finance obligations generally present three distinct forms of risk: asset risk, pertaining to the amount and quality of assets underlying an issue; structural risk, pertaining to the extent to which an issuer's legal structure provides protection from loss; and execution risk, which is the risk that poor performance by a servicer or collateral manager contributes to a decline in the cash flow available to the transaction. Each of these risks is addressed through the Company's underwriting process.

For structured finance transactions, underwriters generally use financial models to evaluate the ability of the transaction to generate adequate cash flow to service the debt under a variety of hypothetical scenarios. The models include economically stressed scenarios that the underwriters use for their assessment of the potential credit risk inherent in a particular transaction. Stress models developed internally by the Company's underwriters reflect both empirical research and information gathered from third parties, such as rating agencies or investment banks. Generally, the amount and quality of asset coverage required with respect to a structured finance exposure is dependent upon both the historic performance of the asset class, as well as the Company's view of the future performance of the subject assets.

The Company may also engage advisors such as consultants and external counsel to assist in analyzing a transaction's financial or legal risks. The Company may also conduct a due diligence review that includes, among other things, a site visit to the project or facility, meetings with issuer management, review of underwriting and operational procedures, file reviews, and review of financial procedures and computer systems.

In addition, structured securities usually are designed to protect investors (and therefore the insurer or reinsurer) from the bankruptcy or insolvency of the entity that originated the underlying assets, as well as the bankruptcy or insolvency of the servicer or manager of those assets.

The Company conducts due diligence on the collateral that supports its insured transactions. The principal focus of the due diligence is to confirm the underlying collateral was originated in accordance with the stated underwriting criteria of the asset originator. The Company also conducts audits of servicing or other management procedures, reviewing critical aspects of these procedures such as cash management and collections. The Company may, for certain transactions, obtain background checks on key managers of the originator, servicer or manager of the obligations underlying that transaction.

### Risk Management Procedures

### Organizational Structure

The Company's policies and procedures relating to risk assessment and risk management are overseen by its Board of Directors (the Board). The Board takes an enterprise-wide approach to risk management that is designed to support the Company's business plans at a reasonable level of risk. A fundamental part of risk assessment and risk management is not only understanding the risks a company faces and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for the Company. The Board annually approves the Company's business plan, factoring risk management into account. It also approves the Company's risk appetite statement, which articulates the Company's tolerance for risk and describes the general types of risk that the Company accepts or attempts to avoid. The involvement of the Board in setting the Company's business strategy is a key part of its assessment of management's risk tolerance and also a determination of what constitutes an appropriate level of risk for the Company.

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While the Board has the ultimate oversight responsibility for the risk management process, various committees of the Board also have responsibility for risk assessment and risk management. The Risk Oversight Committee of the Board oversees the standards, controls, limits, underwriting guidelines and policies that the Company establishes and implements in respect of credit underwriting and risk management. It focuses on management's assessment and management of both (i) credit risks and (ii) other risks, including, but not limited to, financial, legal and operational risks (including cybersecurity risks), and risks relating to the Company's reputation and ethical standards. In addition, the Audit Committee of the Board is responsible for, among other matters, reviewing policies and processes related to risk assessment and risk management, including the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures. It also reviews compliance with legal and regulatory requirements (including cybersecurity requirements). The Compensation Committee of the Board reviews compensation-related risks to the Company. The Finance Committee of the Board oversees the investment of the Company's investment portfolio and the Company's capital structure, liquidity, financing arrangements, rating agency matters, and any corporate development activities in support of the Company's financial plan. The Nominating and Governance Committee of the Board oversees risk at the Company by developing appropriate corporate governance guidelines and identifying qualified individuals to become board members.

The Company has established a number of management committees to develop underwriting and risk management guidelines, policies and procedures for the Company's insurance and reinsurance subsidiaries that are tailored to their respective businesses, providing multiple levels of review, analysis and control.

**Portfolio Risk Management Committee**—This committee establishes company-wide credit policy for the Company's direct and assumed business. It implements specific underwriting procedures and limits for the Company and allocates underwriting capacity among the Company's subsidiaries. The Portfolio Risk Management Committee is responsible for enterprise risk management for the Company on a consolidated basis and focuses on measuring and managing credit, market and liquidity risk for the Company. All transactions in new asset classes or new jurisdictions must be approved by this committee.

**U.S. Management Committee**—This committee establishes strategic policy and reviews the implementation of strategic initiatives and general business progress in the U.S. The U.S. Management Committee approves risk policy at the U.S. operating company level.

- **Risk Management Committees**—The U.S., U.K., AG Re and AGRO risk management committees conduct an in-depth review of the insured portfolios of the relevant subsidiaries, focusing on varying portions of the portfolio at each meeting. They review and may revise internal ratings assigned to the insured transactions and review sector reports, monthly product line surveillance reports and compliance reports.

**Workout Committee**—This committee receives reports from surveillance and workout personnel on transactions that might benefit from active loss mitigation or risk reduction, and approves loss mitigation or risk reduction strategies for such transactions.

**Reserve Committees**—Oversight of reserving risk is vested in the U.S. Reserve Committee, the U.K. Reserve Committee, the AG Re Reserve Committee and the AGRO Reserve Committee. The committees review the reserve methodology and assumptions for each major asset class or significant BIG transaction, as well as the loss projection scenarios used and the probability weights assigned to those scenarios. The reserve committees establish reserves for the relevant subsidiaries, taking into consideration supporting information provided by surveillance personnel.

The Company's surveillance personnel are responsible for monitoring and reporting on all transactions in the insured portfolio, including exposures in both the financial guaranty direct and assumed businesses. The primary objective of the surveillance process is to monitor trends and changes in transaction credit quality, detect any deterioration in credit

quality, and recommend remedial actions to management. All transactions in the insured portfolio are assigned internal credit ratings, and surveillance personnel recommend adjustments to those ratings to reflect changes in transaction credit quality. The Company monitors its insured portfolio and refreshes its internal credit ratings on individual exposures in quarterly, semi-annual or annual cycles based on the Company's view of the exposure's quality, loss potential, volatility and sector. Ratings on exposures in sectors identified as under the most stress or with the most potential volatility are reviewed every quarter, although the Company may also review a rating in response to developments impacting the credit when a ratings review is not scheduled.

The Company's workout personnel are responsible for managing workout, loss mitigation and risk reduction situations. They work together with the Company's surveillance personnel to develop and implement strategies on transactions that are experiencing loss or could possibly experience loss. They develop strategies designed to enhance the ability of the

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Company to enforce its contractual rights and remedies and mitigate potential losses. The Company's workout personnel also engage in negotiation discussions with transaction participants and, when necessary, manage (along with legal personnel) the Company's litigation proceedings. They may also make open market or negotiated purchases of securities that the Company has insured, or negotiate or otherwise implement consensual terminations of insurance coverage prior to contractual maturity. The Company's surveillance personnel work with servicers of RMBS transactions to enhance their performance.

### Direct Business

The Company monitors the performance of each risk in its portfolio and tracks aggregation of risk. The review cycle and scope vary based upon transaction type and credit quality. In general, the review process includes the collection and analysis of information from various sources, including trustee and servicer reports, financial statements, general industry or sector news and analyses, and rating agency reports. For public finance risks, the surveillance process includes monitoring general economic trends, developments with respect to state and municipal finances, and the financial situation of the issuers. For structured finance transactions, the surveillance process can include monitoring transaction performance data and cash flows, compliance with transaction terms and conditions, and evaluation of servicer or collateral manager performance and financial condition. Additionally, the Company uses various quantitative tools and models to assess transaction performance and identify situations where there may have been a change in credit quality. Surveillance activities may include discussions with or site visits to issuers, servicers or other parties to a transaction.

### Assumed Business

For transactions that the Company has assumed, the ceding insurers are responsible for conducting ongoing surveillance of the exposures that have been ceded to the Company, except that the Company provides surveillance for exposures assumed from SGI. The Company's surveillance personnel monitor the ceding insurer's surveillance activities on exposures ceded to the Company through a variety of means, including reviews of surveillance reports provided by the ceding insurers, and meetings and discussions with their analysts. The Company's surveillance personnel also monitor general news and information, industry trends and rating agency reports to help focus surveillance activities on sectors or exposures of particular concern. For certain exposures, the Company also will undertake an independent analysis and remodeling of the exposure. The Company's surveillance personnel also take steps to ensure that the ceding insurer is managing the risk pursuant to the terms of the applicable reinsurance agreement.

### Ceded Business

As part of its risk management strategy prior to the global financial crisis of 2008, the Company obtained third party reinsurance or retrocessions for various risk management purposes, and may do so again in the future. Over the past several years the Company has entered into commutation agreements reassuming portions of the previously ceded business from certain reinsurers; as of December 31, 2018, approximately 1%, or \$2.6 billion, of its principal amount outstanding was still ceded to third party reinsurers, down from 12%, or \$86.5 billion, as of December 31, 2009. In the future, the Company may enter into new commutation agreements to reassume portions of its insured business ceded to other reinsurers, but such opportunities are expected to be limited given the small number of unaffiliated reinsurers currently reinsuring the Company.

The Company has obtained excess-of-loss reinsurance in part to augment its capital in the capital models used by certain rating agencies to evaluate the Company's financial strength ratings. Specifically, effective January 1, 2018, AGC, AGM and MAC entered into a \$400 million aggregate excess of loss reinsurance facility of which \$180 million was placed with an unaffiliated reinsurer. At its inception, the facility covered losses occurring from January 1, 2018

through December 31, 2024, or from January 1, 2019 through December 31, 2025, at the option of AGC, AGM and MAC. AGC, AGM and MAC did not elect coverage under the new facility for the seven year period commencing January 1, 2018, but they retain an option, which must be exercised prior to January 1, 2020, and which requires the payment of additional premium, to elect coverage for the seven year period commencing January 1, 2019. See Part II, Item 8, Financial Statements and Supplementary Data, Note 13, Reinsurance, for more information.

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### Cybersecurity

The Company relies on digital technology to conduct its businesses and interact with market participants and vendors. With this reliance on technology comes the associated security risks from using today's communication technology and networks.

To defend the Company's computer systems from cyberattacks, the Company uses tools such as firewalls, anti-malware software, multifactor authentication, e-mail security services, virtual private networks, third-party security experts, and timely applied software patches, among others. The Company has also engaged third-party consultants to conduct penetration tests to identify any potential security vulnerabilities. Although the Company believes its defenses against cyberintrusions are sufficient, it continually monitors its computer networks for new types of threats.

### Importance of Financial Strength Ratings

Low financial strength ratings or uncertainty over the Company's ability to maintain its financial strength ratings would have a negative impact on issuers' and investors' perceptions of the value of the Company's insurance product. Therefore, the Company manages its business with the goal of achieving high financial strength ratings, preferably the highest that an agency will assign to a financial guarantor. However, the models used by rating agencies differ, presenting conflicting goals that may make it inefficient or impractical to reach the highest rating level. In addition, the models are not fully transparent, contain subjective factors and may change.

Insurance financial strength ratings reflect a rating agency's opinion of an insurer's ability to pay under its insurance policies and contracts in accordance with their terms. The rating is not specific to any particular policy or contract. It does not refer to an insurer's ability to meet non-insurance obligations and is not a recommendation to purchase any policy or contract issued by an insurer or to buy, hold, or sell any security insured by an insurer. The insurance financial strength ratings assigned by the rating agencies are based upon factors that the rating agencies believe are relevant to policyholders and are not directed toward the protection of investors in AGL's common shares. Ratings reflect only the views of the respective rating agencies assigning them and are subject to continuous review and revision or withdrawal at any time.

Following the financial crisis, the rating process has been challenging for the Company due to a number of factors, including:

**Instability of Rating Criteria and Methodologies.** Rating agencies purport to issue ratings pursuant to published rating criteria and methodologies. Beginning during the financial crisis, the rating agencies made material changes to their rating criteria and methodologies applicable to financial guaranty insurers, sometimes through formal changes and other times through ad hoc adjustments to the conclusions reached by existing criteria. Furthermore, these criteria and methodology changes were typically implemented without any transition period, making it difficult for an insurer to comply with new standards. In December 2018, S&P Global Ratings, a division of Standard & Poor's Financial Services LLC (S&P), proposed changes to its ratings methodology for bond insurers which it said are unlikely to affect any existing credit ratings on bond insurers.

**Instability of Severe Stress Case Loss Assumptions.** A major component in arriving at a financial guaranty insurer's rating has been the rating agency's assessment of the insurer's capital adequacy, with each rating agency employing its own proprietary model. These capital adequacy approaches include "stress case" loss assumptions for various risks or risk categories. Since the financial crisis, the rating agencies have at various times materially increased stress case loss assumptions for various risks or risk categories, in some cases later reducing such stress case losses. This approach has made predicting the amount of capital required to maintain or attain a certain rating more difficult.

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More Reliance on Qualitative Rating Criteria. In prior years, the financial strength ratings of the Company's insurance company subsidiaries were largely consistent with the rating agency's assessment of the insurers' capital adequacy, such that a rating downgrade could generally be avoided by raising additional capital or otherwise improving capital adequacy under the rating agency's model. In recent years, however, both S&P and Moody's Investors Service, Inc. (Moody's) have applied other factors, some of which are subjective, such as the insurer's business strategy and franchise value or the anticipated future demand for its product, to justify ratings for the Company's insurance company subsidiaries significantly below the ratings implied by their own capital adequacy models. Currently, for example, S&P has concluded that Assured Guaranty has "AAA" capital adequacy under the S&P model (but subject to a downward adjustment due to a "largest obligor test") and Moody's has concluded that AGM has "Aa" capital adequacy under the Moody's model (offset by other factors including the rating agency's assessment of competitive profile, future profitability and market share).

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Despite the difficult rating agency process following the financial crisis, the Company has been able to maintain strong financial strength ratings. However, if a substantial downgrade of the financial strength ratings of the Company's insurance subsidiaries were to occur in the future, such downgrade would adversely affect its business and prospects and, consequently, its results of operations and financial condition. The Company believes that if the financial strength ratings of any of its insurance subsidiaries were downgraded from their current levels, such downgrade could result in downward pressure on the premium that such insurance subsidiary would be able to charge for its insurance. The Company periodically assesses the value of each rating assigned to each of its companies, and may as a result of such assessment request that a rating agency add or drop a rating from certain of its companies. For example, Kroll Bond Rating Agency (KBRA) ratings were first assigned to MAC in 2013, to AGM in 2014, to AGC in 2016 and to AGE in 2018; an A.M. Best Company, Inc. (Best) rating was first assigned to AGRO in 2015; while a Moody's rating was never requested for MAC, was dropped from AG Re and AGRO in 2015, and was the subject of a rating withdrawal request in the case of AGC (which request was declined).

The Company believes that so long as AGM, AGC and/or MAC continue to have financial strength ratings in the double-A category from at least one of the legacy rating agencies (S&P or Moody's), they are likely to be able to continue writing financial guaranty business with a credit quality similar to that historically written. However, if neither legacy rating agency maintained financial strength ratings of AGM, AGC and/or MAC in the double-A category, or if either legacy rating agency were to downgrade AGM, AGC and/or MAC below the single-A level, it could be difficult for the Company to originate the current volume of new financial guaranty business with comparable credit characteristics.

See "Item 1A. Risk Factors," Risk Factor captioned "Risks Related to the Company's Financial Strength and Financial Enhancement Ratings" and Part II, Item 8, Financial Statements and Supplementary Data, Note 3, Ratings, for more information about the Company's ratings.

## Investments

Investment income from the Company's investment portfolio is one of the primary sources of cash flow supporting its operations and claim payments. The Company's total investment portfolio was \$10.9 billion and \$11.4 billion as of December 31, 2018 and 2017, respectively, and generated net investment income of \$398 million, \$418 million and \$408 million in 2018, 2017 and 2016, respectively.

The Company's principal objectives in managing its investment portfolio are to support the highest possible ratings for each operating company; maintain sufficient liquidity to cover unexpected stress in the insurance portfolio; and maximize total after-tax net investment income. If the Company's calculations with respect to its policy liabilities are incorrect or other unanticipated payment obligations arise, or if the Company improperly structures its investments to meet these liabilities, it could have unexpected losses, including losses resulting from forced liquidation of investments before their maturity. The investment policies of the Company's insurance subsidiaries are subject to insurance law requirements, and may change depending upon regulatory, economic and market conditions and the existing or anticipated financial condition and operating requirements, including the tax position, of the businesses.

Approximately 86% of the Company's investment portfolio is externally managed by seven investment managers: BlackRock Financial Management, Inc., Goldman Sachs Asset Management, L.P., New England Asset Management, Inc., Wellington Management Company, LLP, Insight North America LLC, MacKay Shields LLC and Wasmer, Schroeder & Company, LLC. The performance of the Company's invested assets is subject to the ability of the investment managers to select and manage appropriate investments. The Company's investment managers have discretionary authority over the Company's investment portfolio within the limits of the Company's investment guidelines approved by the Company's Board. Each manager is compensated based upon a fixed percentage of the market value of the portion of the portfolio being managed by such manager. BlackRock Financial Management, Inc.

and Wellington Management Company LLP both own more than 5% of the Company's common shares, and the Company has a minority interest in Wasmer, Schroeder & Company, LLC. During the years ended December 31, 2018, 2017 and 2016, the Company recorded investment management fees and related expenses of \$9 million, \$9 million, and \$9 million, respectively.

As of December 31, 2018, the Company internally managed 11% of the investment portfolio (excluding short-term investments), either in connection with its loss mitigation or risk management strategy, or because the Company believes a particular security or asset presents an attractive investment opportunity.

The largest component of the Company's internally managed portfolio consists of obligations that the Company purchases in connection with its loss mitigation or risk management strategy for its insured exposure. The Company also holds other invested assets that were obtained or purchased as part of negotiated settlements with insured counterparties or under the terms of its financial guaranties. The Company held approximately \$1,190 million and \$1,251 million of securities, based on

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their fair value after elimination of the benefit of any insurance provided by the Company, that were obtained for loss mitigation or risk management purposes in its internally managed investment accounts as of December 31, 2018 and December 31, 2017, respectively.

Another component of the Company's internally managed portfolio consists of alternative investments. Such investments include various funds investing in both equity and debt securities as well as investments in investment managers. During 2016, the Company established an alternative investments group to focus on deploying a portion of the Company's excess capital to pursue acquisitions and develop new business opportunities that complement the Company's financial guaranty business, are in line with its risk profile and benefit from its core competencies. The alternative investments group has been investigating a number of such opportunities including both controlling and non-controlling investments in investment managers. In February 2017 the Company agreed to purchase up to \$100 million of limited partnership interests in a fund that invests in the equity of private equity managers. In September 2017 the Company acquired a minority interest in Wasmer, Schroeder & Company LLC, an independent investment advisory firm specializing in SMAs. In February 2018, the Company acquired a minority interest in the holding company of Rubicon Infrastructure Advisors, a full-service investment firm based in Dublin that provides investment banking services within the global infrastructure sector. The Company continues to investigate additional opportunities to make alternative investments, including, among others, both controlling and non-controlling investments in investment managers, but there can be no assurance if or when the Company will find suitable opportunities on appropriate terms.

## Competition

Assured Guaranty is the market leader in the financial guaranty industry. Assured Guaranty believes its financial strength, protection against defaults, credit selection policies, underwriting standards, history of making claim payments and surveillance procedures make it an attractive provider of financial guaranties.

Assured Guaranty's principal competition is in the form of obligations that issuers decide to issue on an uninsured basis. In the U.S. public finance market, when interest rates are low, investors may prefer greater yield over insurance protection, and issuers may find the cost savings from insurance less compelling. Over the last several years, interest rates generally have been lower than historical norms. Average municipal interest rates in 2018, while above the historic lows experienced in 2016 and slightly above the average rates experienced in 2017, remained low when compared to historical norms. As a result, the difference in yield (or the credit spread) between a bond insured by Assured Guaranty and an uninsured bond has provided comparatively little room for issuer savings and insurance premium. In the U.S. public finance market in 2018, market penetration of municipal bond insurance increased to approximately 5.9% of the par amount of new issues sold, compared with approximately 5.6% in 2017. The Company believes the relatively low market penetration rates in 2018 and 2017 were in part due to the extremely low interest rates prevailing during most of that period.

In the U.S. public finance market, Assured Guaranty is the only financial guaranty company active before the global financial crisis of 2008 that has maintained sufficient financial strength to write new business continuously since the crisis began. Assured Guaranty has only one direct competitor for financial guaranty in the public finance market, BAM, a mutual insurance company that commenced business in 2012.

Based on industry statistics, the Company estimates that, of the new U.S. public finance bonds sold with insurance in 2018, the Company insured approximately 56% of the par, while BAM insured approximately 44%. BAM is effective in competing with the Company for small to medium sized U.S. public finance transactions in certain sectors. BAM sometimes prices its guarantees for such transactions at levels the Company does not believe produces an adequate rate of return and so does not match, but BAM's pricing and underwriting strategies may have a negative impact on the amount of premium the Company is able to charge for its insurance for such transactions. However, the Company

believes it has competitive advantages over BAM due to: AGM's and MAC's larger capital base; AGM's ability to insure larger transactions and issuances in more diverse U.S. bond sectors; BAM's inability to date to generate profits and to increase its statutory capital meaningfully, its higher leverage ratios than those of AGM and MAC, and its unpaid debt obligations; and AGM's and MAC's strong financial strength ratings from multiple rating agencies (in the case of AGM, AA+ from KBRA, AA from S&P and A2 from Moody's, and in the case of MAC, AA+ from KBRA and AA from S&P, compared with BAM's AA solely from S&P). Additionally, as a public company with access to both the equity and debt capital markets, Assured Guaranty may have greater flexibility to raise capital, if needed.

In the global structured finance and infrastructure markets, Assured Guaranty is the only financial guaranty insurance company currently writing new guarantees. Management considers the Company's greater diversification to be a competitive advantage in the long run because it means the Company is not wholly dependent on conditions in any one market. In the international infrastructure finance market, the uninsured execution serving as the Company's principal competition occurs

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primarily in privately funded transactions where no bonds are sold in the public markets. In the structured finance market, the uninsured execution occurs in both public and primary transactions primarily where bonds are sold with sufficient credit or structural enhancement embedded in transactions, such as through overcollateralization, first loss insurance, excess spread or other terms, to make the bonds attractive to investors without bond insurance.

In the future, additional new entrants into the financial guaranty industry could reduce the Company's new business prospects, including by furthering price competition or offering financial guaranty insurance on transactions with structural and security features that are more favorable to the issuers than those required by Assured Guaranty. However, the Company believes that the presence of multiple guarantors might also increase the overall visibility and acceptance of the product by a broadening group of investors, and the fact that investors are willing to commit fresh capital to the industry may promote market confidence in the product.

In addition to monoline insurance companies, Assured Guaranty competes with other forms of credit enhancement, such as letters of credit or credit derivatives provided by banks and other financial institutions, some of which are governmental enterprises, or direct guaranties of municipal, structured finance or other debt by federal or state governments or government sponsored or affiliated agencies. Alternative credit enhancement structures, and in particular federal government credit enhancement or other programs, can interfere with the Company's new business prospects, particularly if they provide direct governmental-level guaranties, restrict the use of third-party financial guaranties or reduce the amount of transactions that might qualify for financial guaranties.

## Regulation

### General

The business of insurance and reinsurance is regulated in most countries, although the degree and type of regulation varies significantly from one jurisdiction to another. Reinsurers are generally subject to less direct regulation than primary insurers. The Company is subject to regulation under applicable statutes in the U.S., the U.K. and Bermuda.

### United States

AGL has three operating insurance subsidiaries domiciled in the U.S., which the Company refers to collectively as the Assured Guaranty U.S. Insurance Subsidiaries.

AGM is a New York domiciled insurance company licensed to write financial guaranty insurance and reinsurance in 50 U.S. states, the District of Columbia, Guam, Puerto Rico and the U.S. Virgin Islands.

MAC is a New York domiciled insurance company licensed to write financial guaranty insurance and reinsurance in 50 U.S. states and the District of Columbia. MAC only insures U.S. public finance debt obligations, focusing on investment grade bonds in select sectors of that market.

AGC is a Maryland domiciled insurance company licensed to write financial guaranty insurance and reinsurance in 50 U.S. states, the District of Columbia and Puerto Rico.

### Insurance Holding Company Regulation

AGL and the Assured Guaranty U.S. Insurance Subsidiaries are subject to the insurance holding company laws of their respective jurisdictions of domicile, as well as other jurisdictions where these insurers are licensed to do insurance business. These laws generally require each of the Assured Guaranty U.S. Insurance Subsidiaries to register with its domestic state insurance department and annually to furnish financial and other information about the

operations of companies within its holding company system. Generally, all transactions among companies in the holding company system to which any of the Assured Guaranty U.S. Insurance Subsidiaries is a party (including sales, loans, reinsurance agreements and service agreements) must be fair and, if material or of a specified category, such as reinsurance or service agreements, require prior notice and approval or non-disapproval by the insurance department where the applicable subsidiary is domiciled.

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### Change of Control

Before a person can acquire control of a U.S. insurance company, prior written approval must be obtained from the insurance commissioner of the state where the insurer is domiciled. Generally, state statutes provide that control over a domestic insurer is presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, 10% or more of the voting securities of the domestic insurer. Prior to granting approval of an application to acquire control of a domestic insurer, the state insurance commissioner will consider factors such as the financial strength of the applicant, the integrity and management of the applicant's board of directors and executive officers, the acquirer's plans for the management of the applicant's board of directors and executive officers, the acquirer's plans for the future operations of the domestic insurer and any anti-competitive results that may arise from the consummation of the acquisition of control. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control involving AGL that some or all of AGL's stockholders might consider to be desirable, including in particular unsolicited transactions.

### State Insurance Regulation

State insurance authorities have broad regulatory powers with respect to various aspects of the business of U.S. insurance companies, including licensing these companies to transact business, accreditation of reinsurers, determining whether assets are "admitted" and counted in statutory surplus, prohibiting unfair trade and claims practices, establishing reserve requirements and solvency standards, regulating investments and dividends and, in certain instances, approving policy forms and related materials and approving premium rates. State insurance laws and regulations require the Assured Guaranty U.S. Insurance Subsidiaries to file financial statements with insurance departments everywhere they are licensed, authorized or accredited to conduct insurance business, and their operations are subject to examination by those departments at any time. The Assured Guaranty U.S. Insurance Subsidiaries prepare statutory financial statements in accordance with Statutory Accounting Principles, or SAP, and procedures prescribed or permitted by these departments. State insurance departments also conduct periodic examinations of the books and records, financial reporting, policy filings and market conduct of insurance companies domiciled in their states, generally once every three to five years. Market conduct examinations by regulators other than the domestic regulator are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the National Association of Insurance Commissioners.

The New York State Department of Financial Services (the NYDFS), the regulatory authority of the domiciliary jurisdiction of AGM and MAC, and the Maryland Insurance Administration (the MIA), the regulatory authority of the domiciliary jurisdiction of AGC, each conducts a periodic examination of insurance companies domiciled in New York and Maryland, respectively, usually at five-year intervals. In 2017, the NYDFS and MIA in coordination commenced examinations, respectively, of AGM and MAC, and AGC, for the period covering the end of the last applicable examination period for each company through December 31, 2016. In 2018, the NYDFS and MIA completed their examinations. The NYDFS issued Reports on Examination of AGM for the five-year period ending December 31, 2016 and MAC for the period July 1, 2012 through December 31, 2016. The reports did not note any significant regulatory issues concerning those companies. The MIA issued an Examination Report with respect to AGC for the five year period ending December 31, 2016; no significant regulatory issues were noted in that report.

### State Dividend Limitations

New York. One of the primary sources of cash for repurchases of shares and the payment of debt service and dividends by the Company is the receipt of dividends from AGM. Under the New York Insurance Law, AGM and MAC may only pay dividends out of "earned surplus," which is the portion of the company's surplus that represents the net earnings, gains or profits (after deduction of all losses) that have not been distributed to shareholders as dividends, transferred to stated capital or capital surplus, or applied to other purposes permitted by law, but does not

include unrealized appreciation of assets. AGM and MAC may each pay dividends without the prior approval of the New York Superintendent of Financial Services (New York Superintendent) that, together with all dividends declared or distributed by it during the preceding 12 months, do not exceed the lesser of 10% of its policyholders' surplus (as of its last annual or quarterly statement filed with the New York Superintendent) or 100% of its adjusted net investment income during that period. See Part II, Item 7, Management's Discussion and Analysis, Liquidity and Capital Resources, for the maximum amount of dividends that can be paid without regulatory approval, recent dividend history and other recent capital movements.

Maryland. Another primary source of cash for the repurchases of shares and payment of debt service and dividends by the Company is the receipt of dividends from AGC. Under Maryland's insurance law, AGC may, with prior notice to the MIA, pay an ordinary dividend that, together with all dividends paid in the prior 12 months, does not exceed the lesser of 10% of its policyholders' surplus (as of the prior December 31) or 100% of its adjusted net investment income during that period. A dividend or distribution to a stockholder in excess of this limitation would constitute an "extraordinary dividend," which must

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be paid out of "earned surplus" and reported to, and approved by, the MIA prior to payment. "Earned surplus" is that portion of the company's surplus that represents the net earnings, gains or profits (after deduction of all losses) that have not been distributed to shareholders as dividends or transferred to stated capital or capital surplus, or applied to other purposes permitted by law, but does not include unrealized capital gains and appreciation of assets. AGC may not pay any dividend or make any distribution, including ordinary dividends, unless it notifies the Maryland Insurance Commissioner (the Maryland Commissioner) of the proposed payment within five business days following declaration and at least ten days before payment. The Maryland Commissioner may declare that such dividend not be paid if it finds that AGC's policyholders' surplus would be inadequate after payment of the dividend or the dividend could lead AGC to a hazardous financial condition. See Part II, Item 7, Management's Discussion and Analysis, Liquidity and Capital Resources, for the maximum amount of dividends that can be paid without regulatory approval, recent dividend history and other recent capital movements.

### Contingency Reserves

Under the New York Insurance Law, each of AGM and MAC must establish a contingency reserve to protect policyholders. New York Insurance Law determines the calculation of the contingency reserve and the period of time over which it must be established and, subsequently, can be released.

Likewise, in accordance with Maryland insurance law and regulations, AGC also maintains a statutory contingency reserve for the protection of policyholders. Maryland insurance law determines the calculation of the contingency reserve and the period of time over which it must be established, and subsequently, can be released.

In both New York and Maryland, when considering the principal amount guaranteed, the insurer is permitted to take into account amounts that it has ceded to reinsurers. In addition, releases from the insurer's contingency reserve may be permitted under specified circumstances in the event that actual loss experience exceeds certain thresholds or if the reserve accumulated is deemed excessive in relation to the insurer's outstanding insured obligations.

From time to time, AGM and AGC have obtained the approval of their regulators to release contingency reserves based on losses or because the accumulated reserve is deemed excessive in relation to the insurer's outstanding insured obligations. In 2018, on the latter basis, AGM obtained the NYDFS's approval for a contingency reserve release of approximately \$142 million and AGC obtained the MIA's approval for a contingency reserve release of approximately \$11 million. In 2017, AGM obtained the NYDFS's approval for a contingency reserve release of approximately \$246 million and AGC obtained the MIA's approval for a contingency reserve release of approximately \$134 million. In addition, MAC also released approximately \$45 million and \$62 million of contingency reserves in 2018 and 2017, respectively, which consisted of the assumed contingency reserves maintained by MAC, as reinsurer of AGM, in respect of the same obligations that were the subject of AGM's \$142 million and \$246 million releases in 2018 and 2017, respectively.

Applicable Maryland and New York laws and regulations require regular, quarterly contributions to contingency reserves, but such laws and regulations permit the discontinuation of such quarterly contributions to an insurer's contingency reserves when such insurer's aggregate contingency reserves for a particular line of business (i.e., municipal or non-municipal) exceed the sum of the insurer's outstanding principal for each specified category of obligations within the particular line of business multiplied by the specified contingency reserve factor for each such category. In accordance with such laws and regulations, and with the approval of the MIA and the NYDFS, respectively, AGC ceased making quarterly contributions to its contingency reserves for both municipal and non-municipal business and AGM ceased making quarterly contributions to its contingency reserves for non-municipal business, in each case beginning in the fourth quarter of 2014. Such cessations are expected to continue for as long as AGC and AGM satisfy the foregoing condition for their applicable line(s) of business.

Financial guaranty insurers are also required to maintain a loss and loss adjustment expense (LAE) reserve (on a case-by-case basis) and unearned premium reserve.

#### Single and Aggregate Risk Limits

The New York Insurance Law and the Code of Maryland Regulations establish single risk limits for financial guaranty insurers applicable to all obligations issued by a single entity and backed by a single revenue source. For example, under the limit applicable to municipal obligations, the insured average annual debt service for a single risk, net of qualifying reinsurance and collateral, may not exceed 10% of the sum of the insurer's policyholders' surplus and contingency reserves. In addition, insured principal of municipal obligations attributable to any single risk, net of qualifying reinsurance and collateral, is limited to 75% of the insurer's policyholders' surplus and contingency reserves.

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Under the limit applicable to qualifying asset-backed securities, the lesser of:

the insured average annual debt service for a single risk, net of qualifying reinsurance and collateral, or

the insured unpaid principal (reduced by the extent to which the unpaid principal of the supporting assets exceeds the insured unpaid principal) divided by nine, net of qualifying reinsurance and collateral,

may not exceed 10% of the sum of the insurer's policyholders' surplus and contingency reserves, subject to certain conditions.

Single-risk limits are also specified for other categories of insured obligations, and generally are more restrictive than those listed for asset-backed or municipal obligations. Obligations not qualifying for an enhanced single-risk limit are generally subject to the "corporate" limit (applicable to insurance of unsecured corporate obligations) equal to 10% of the sum of the insurer's policyholders' surplus and contingency reserves. For example, "triple-X" and "future flow" securitizations, as well as unsecured investor-owned utility obligations, are generally subject to these "corporate" single-risk limits.

The New York Insurance Law and the Code of Maryland Regulations also establish aggregate risk limits on the basis of aggregate net liability insured as compared with statutory capital. "Aggregate net liability" is defined as outstanding principal and interest of guaranteed obligations insured, net of qualifying reinsurance and collateral. Under these limits, policyholders' surplus and contingency reserves must not be less than the sum of various percentages of aggregate net liability for various categories of specified obligations. The percentage varies from 0.33% for certain municipal obligations to 4% for certain non-investment-grade obligations. As of December 31, 2018, the aggregate net liability of each of AGM, MAC and AGC utilized approximately 22%, 22% and 10% of their respective policyholders' surplus and contingency reserves.

The New York Superintendent and the Maryland Commissioner each have broad discretion to order a financial guaranty insurer to cease new business originations if the insurer fails to comply with single or aggregate risk limits. In the Company's experience in New York, the New York Superintendent has shown a willingness to work with insurers to address these concerns.

## Group Regulation

In connection with AGL's establishment of tax residence in the U.K., as discussed in greater detail under "Tax Matters" below, the NYDFS has been designated as group-wide supervisor for the Assured Guaranty group. Group-wide supervision by the NYDFS results in additional regulatory oversight over Assured Guaranty, particularly with respect to group-wide enterprise risk, and may subject Assured Guaranty to new regulatory requirements and constraints.

## Investments

The Assured Guaranty U.S. Insurance Subsidiaries are subject to laws and regulations that require diversification of their investment portfolio and limit the amount of investments in certain asset categories, such as BIG fixed-maturity securities, equity real estate, other equity investments, and derivatives. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as non-admitted assets for purposes of measuring surplus, and, in some instances, would require divestiture of such non-qualifying investments. The Company believes that the investments made by the Assured Guaranty U.S. Insurance Subsidiaries complied with such regulations as of December 31, 2018. In addition, any investment must be approved by the insurance company's board of directors or a committee thereof that is responsible for supervising or making such investment.

### Operations of the Company's Non-U.S. Insurance Subsidiaries

In addition to the regulatory requirements imposed by the jurisdictions in which they are licensed, the business operations of the Company's reinsurance subsidiaries are affected by regulatory requirements in various U.S. states governing the ability of the ceding companies of the reinsurers to receive credit for the reinsurance on their financial statements. The Nonadmitted and Reinsurance Reform Act of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) streamlined the regulation of reinsurance by applying single state regulation for credit for reinsurance. Under the Nonadmitted and Reinsurance Reform Act, credit for reinsurance determinations are controlled by the ceding company's state of domicile and non-domiciliary states are prohibited from applying their reinsurance laws extraterritorially. In general, a ceding company which obtains reinsurance from a reinsurer that is licensed, accredited or approved by the ceding company's state of domicile is permitted to reflect in its statutory financial statements a credit in an aggregate amount equal to the ceding company's liability for unearned premiums (which are that portion of premiums written which applies to the unexpired portion of the policy period), and loss and loss adjustment expense reserves ceded to the reinsurer. The great majority of states,

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however, also permit a credit on the statutory financial statements of a ceding insurer for reinsurance obtained from a non-licensed or non-accredited reinsurer to the extent that the reinsurer secures its reinsurance obligations to the ceding insurer by providing collateral in the form of a letter of credit, trust fund or other acceptable security arrangement. Certain of those states permit such non-licensed/non-accredited reinsurers that meet certain specified requirements to apply for certified reinsurer status. If granted, such status allows the certified reinsurer to post less than 100% collateral (the exact percentage depends on the certifying state's view of the reinsurer's financial strength) and the applicable ceding company will still qualify, on the basis of such reduced collateral, for full credit for reinsurance on its statutory financial statements with respect to reinsurance contracts renewed or entered into with the certified reinsurer on or after the date the reinsurer becomes certified. A few states do not allow credit for reinsurance ceded to non-licensed reinsurers except in certain limited circumstances and others impose additional requirements that make it difficult to become accredited. The Company's reinsurance subsidiaries AG Re and AGRO are not licensed, accredited or approved in any state and accordingly have established trusts to secure their reinsurance obligations. In 2017, AGRO obtained certified reinsurer status in Missouri, which allows AGRO to post 10% collateral in respect of any reinsurance assumed from Missouri-domiciled ceding companies on or after the date of AGRO's certification.

### U.S. Federal Regulation

The Company's businesses are subject to direct and indirect regulation under U.S. federal law. In particular, the Company's derivatives activities are directly and indirectly subject to a variety of regulatory requirements under the Dodd-Frank Act. Based on the size of its subsidiaries' remaining legacy derivatives portfolios, AGL does not believe any of its subsidiaries is required to register with the Commodity Futures Trading Commission as a "major swap participant" or with the Securities and Exchange Commission (SEC) as a "major securities-based swap participant." Certain of the Company's subsidiaries may be subject to Dodd-Frank Act requirements to post margin or to clear on a regulated execution facility future swap transactions or with respect to certain amendments to legacy swap transactions, if they enter into such transactions.

### Bermuda

AG Re and AGRO are each an insurance company currently registered and licensed under the Insurance Act 1978 of Bermuda, amendments thereto and related regulations (collectively, the Insurance Act). AG Re is registered and licensed as a Class 3B insurer and AGRO is registered and licensed as a Class 3A insurer and a Class C long-term insurer.

### Bermuda Insurance Regulation

The Insurance Act imposes on insurance companies solvency and liquidity standards; restrictions on the declaration and payment of dividends and distributions; restrictions on the reduction of statutory capital; restrictions on the winding up of long-term insurers; and auditing and reporting requirements; and the need to have a principal representative and a principal office (as understood under the Insurance Act) in Bermuda. The Insurance Act grants to the Bermuda Monetary Authority (the Authority) the power to cancel insurance licenses, supervise, investigate and intervene in the affairs of insurance companies and in certain circumstances share information with foreign regulators. Class 3A and Class 3B insurers are authorized to carry on general insurance business (as understood under the Insurance Act), subject to conditions attached to the license and to compliance with minimum capital and surplus requirements, solvency margin, liquidity ratio and other requirements imposed by the Insurance Act. Class C long-term insurers are permitted to carry on long-term business (as understood under the Insurance Act) subject to conditions attached to the license and to similar compliance requirements and the requirement to maintain its long-term business fund (a segregated fund).

Each of AG Re and AGRO is required annually to file statutorily mandated financial statements and returns, audited by an auditor approved by the Authority (no approved auditor of an insurer may have an interest in that insurer, other than as an insured, and no officer, servant or agent of an insurer shall be eligible for appointment as an insurer's approved auditor), together with an annual loss reserve opinion of the loss reserve specialist, who is approved by the Authority, and in respect of AGRO, the required actuary's certificate with respect to the long-term business. When each of AG Re and AGRO files its statutory financial statements, it is also required to deliver to the Authority a declaration of compliance, declaring whether or not the insurer has, with respect to the preceding financial year, complied with all requirements of the minimum criteria applicable to it; complied with the minimum margin of solvency as at its financial year end; complied with the applicable enhanced capital requirements as at its financial year end; complied with the minimum liquidity ratio for general business as at its financial year end; and complied with applicable conditions, directions and restrictions imposed on, or approvals granted to the insurer. AG Re and AGRO are also required to file annual financial statements prepared in conformity with GAAP, which must be available to the public.

In addition, AG Re and AGRO are each required to file a capital and solvency return that includes its Bermuda Solvency Capital Requirement (BSCR) model (or an approved internal capital model in lieu thereof), a schedule of fixed

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income investments by BSCR rating, a schedule of funds held by ceding reinsurers in segregated accounts/trusts by BSCR rating, a schedule of net reserves for losses and loss expense provisions by line of business, a schedule of premiums written by line of business, a schedule of geographic diversification of net premiums written by line of business, a schedule of risk management, a schedule of fixed income securities, a schedule of commercial insurer's solvency self-assessment, a schedule of catastrophe risk return, a schedule of loss triangles or reconciliation of net loss reserves, a schedule of eligible capital, a statutory economic balance sheet, the loss reserve specialist's opinion, a schedule of regulated non-insurance financial operating entities and a schedule of solvency. AGRO's capital and solvency return must also include, among other details, a schedule of long-term premiums written by line of business, a schedule of long-term business data, a schedule of long-term variable annuity guarantees data and reconciliation, a schedule of long-term variable annuity guarantees - internal capital model and the approved actuary's opinion.

Each of AG Re and AGRO are also required to prepare and file with the Authority, and publish on its website, a financial condition report. The Authority has discretion to approve modifications and exemptions to the public disclosure rules, on application by the insurer if, among other things, the Authority is satisfied that the disclosure of certain information will result in a competitive disadvantage or compromise confidentiality obligations of the insurer.

Finally, in lieu of the standard legal and regulatory requirements, AG Re is required to make a modified filing with the Authority, consisting of its board of directors quarterly meeting package (which includes AG Re's unaudited quarterly financial statements), no later than 30 days after the date of its quarterly board meetings.

## Shareholder Controllers

Pursuant to provisions in the Insurance Act, any person who becomes a holder of 10% or more, 20% or more, 33% or more or 50% or more of the Company's common shares must notify the Authority in writing within 45 days of becoming such a holder. The Authority has the power to object to such a person if it appears to the Authority that the person is not fit and proper to be such a holder. In such a case, the Authority may require the holder to reduce their shareholding in the Company and may direct, among other things, that the voting rights attached to their common shares are not exercisable. A person that does not comply with such a notice or direction from the Authority will be guilty of an offense.

## Notification of Material Changes

All registered insurers are required to give notice to the Authority of their intention to effect a material change within the meaning of the Insurance Act. For the purposes of the Insurance Act, the following changes are material: (i) the transfer or acquisition of insurance business being part of a scheme falling within, or any transaction relating to a scheme of arrangement under section 25 of the Insurance Act or section 99 of the Companies Act 1981 of Bermuda (the Companies Act), (ii) the amalgamation or merger with or acquisition of another firm, (iii) engaging in unrelated business that is retail business, (iv) the acquisition of a controlling interest in an undertaking that is engaged in non-insurance business which offers services or products to non-affiliated persons, (v) outsourcing all or substantially all of the functions of actuarial, risk management, compliance and internal audit functions, (vi) outsourcing all or a material part of an insurer's underwriting activity, (vii) transferring other than by way of reinsurance all or substantially all of a line of business, (viii) expanding into a material new line of business, (ix) the sale of an insurer, and (x) outsourcing an officer role (in this context meaning a chief executive or senior executive performing the roles of underwriting, actuarial, risk management, compliance, internal audit, finance or investment matters).

Registered insurers are not permitted to take any steps to give effect to a material change listed above unless it has first served notice on the Authority that it intends to effect such material change and, before the end of 30 days, either the Authority has notified such company in writing that it has no objection to such change or that period has lapsed

without the Authority having issued a notice of objection. A person who fails to give the required notice or who effects a material change, or allows such material change to be effected, before the prescribed period has elapsed or after having received a notice of objection is guilty of an offense.

#### Minimum Solvency Margin and Enhanced Capital Requirements

Under the Insurance Act, AG Re and AGRO must each ensure that the value of its general business statutory assets exceeds the amount of its general business statutory liabilities by an amount greater than the prescribed minimum solvency margin and each company's applicable enhanced capital requirement.

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The minimum solvency margin for Class 3A and Class 3B insurers is the greater of (i) \$1 million, or (ii) 20% of the first \$6 million of net premiums written; if in excess of \$6 million, the figure is \$1.2 million plus 15% of net premiums written in excess of \$6 million, or (iii) 15% of net discounted aggregate loss and loss expense provisions and other insurance reserves, or (iv) 25% of that insurer's applicable enhanced capital requirement reported at the end of its relevant year.

In addition, as a Class C long-term insurer, AGRO is required, with respect to its long-term business, to maintain a minimum solvency margin equal to the greater of (i) \$500,000, (ii) 1.5% of its assets or (iii) 25% its enhanced capital requirement reported at the end of the relevant year. For the purpose of this calculation, assets are defined as the total assets pertaining to its long-term business reported on the balance sheet in the relevant year less the amounts held in a segregated account. AGRO is also required to keep its accounts in respect of its long-term business separate from any accounts kept in respect of any other business and all receipts of its long-term business form part of its long-term business fund.

Each of AG Re and AGRO is required to maintain available statutory capital and surplus at a level equal to or in excess of its applicable enhanced capital requirement, which is established by reference to either its BSCR model or an approved internal capital model. The BSCR model is a risk-based capital model which provides a method for determining an insurer's capital requirements (statutory economic capital and surplus) by taking into account the risk characteristics of different aspects of the insurer's business. The BSCR formula establishes capital requirements for ten categories of risk: fixed income investment risk, equity investment risk, interest rate/liquidity risk, currency risk, concentration risk, premium risk, reserve risk, credit risk, catastrophe risk and operational risk. For each category, the capital requirement is determined by applying factors to asset, premium, reserve, creditor, probable maximum loss and operation items, with higher factors applied to items with greater underlying risk and lower factors for less risky items.

While not specifically referred to in the Insurance Act, the Authority has also established a target capital level (TCL) for each insurer subject to an enhanced capital requirement equal to 120% of its enhanced capital requirement. While such an insurer is not currently required to maintain its statutory capital and surplus at this level, the TCL serves as an early warning tool for the Authority and failure to maintain statutory capital at least equal to the TCL will likely result in increased regulatory oversight.

For each insurer subject to an enhanced capital requirement, there is a three-tiered capital system designed to assess the quality of capital resources that a company has available to meet its capital requirements. Under this system, all of an insurer's capital instruments will be classified as either basic or ancillary capital which in turn will be classified into one of three tiers based on their "loss absorbency" characteristics. Highest quality capital is classified as Tier 1 Capital; lesser quality capital is classified as either Tier 2 Capital or Tier 3 Capital. Under this regime, up to certain specified percentages of Tier 1, Tier 2 and Tier 3 Capital (determined by registration classification) may be used to support the company's minimum solvency margin, enhanced capital requirement and TCL.

### Restrictions on Dividends and Distributions

The Insurance Act limits the declaration and payment of dividends and other distributions by AG Re and AGRO. Under the Insurance Act:

The minimum share capital must be always issued and outstanding and cannot be reduced. For AG Re, which is registered as a Class 3B insurer, the minimum share capital is \$120,000. For AGRO, which is registered both as a Class 3A and a Class C long-term insurer, the minimum share capital is \$370,000.

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With respect to the distribution (including repurchase of shares) of any share capital, contributed surplus or other statutory capital:

(a) any such distribution that would reduce AG Re's or AGRO's total statutory capital by 15% or more of their respective total statutory capital as set out in their previous year's financial statements requires the prior approval of the Authority. Any application for such approval must include an affidavit stating that the company will continue to meet the required margins and such other information as the Authority may require; and

(b) as a Class C long-term insurer, AGRO may not use the funds allocated to its long-term business fund, directly or indirectly, for any purpose other than a purpose of its long-term business except in so far as such payment can be made out of any surplus certified by AGRO's approved actuary to be available for distribution otherwise than to policyholders.

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With respect to the declaration and payment of dividends:

each of AG Re and AGRO is prohibited from declaring or paying any dividends during any financial year if it is in breach of its solvency margin, minimum liquidity ratio or enhanced capital requirement, or if the declaration or payment of such dividends would cause such a breach (if it has failed to meet its minimum solvency margin or (a) minimum liquidity ratio on the last day of any financial year, the insurer will be prohibited, without the approval of the Authority, from declaring or paying any dividends during the next financial year). Dividends are paid out of each insurer's statutory surplus and, therefore, dividends cannot exceed such surplus. See "—Minimum Solvency Margin and Enhanced Capital Requirements" above and "—Minimum Liquidity Ratio" below;

an insurer which at any time fails to meet its minimum solvency margin or comply with the enhanced capital requirement may not declare or pay any dividend until the failure is rectified, and also in such circumstances the insurer must report, within 14 days after becoming aware of its failure or having reason to believe that such failure (b) has occurred, to the Authority in writing giving particulars of the circumstances leading to the failure and giving a plan detailing the manner, specific actions to be taken and time frame in which the insurer intends to rectify the failure. A failure to comply with the enhanced capital requirement will also result in the insurer furnishing certain other information to the Authority within 45 days after becoming aware of its failure or having reason to believe that such failure has occurred;

each of AG Re and AGRO is prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial year's statutory balance sheet) unless it files (at least seven days before payments of such dividends) with the Authority an affidavit signed by at least two (c) directors (one of whom must be a Bermuda resident director if any of the insurer's directors are resident in Bermuda) and the principal representative stating that it will continue to meet its solvency margin and minimum liquidity ratio. Where such an affidavit is filed, it shall be available for public inspection at the offices of the Authority; and

as a Class C long-term insurer, AGRO may not declare or pay a dividend to any person other than a policyholder unless the value of the assets of its long-term business fund, as certified by AGRO's approved actuary, exceeds the (d) extent (as so certified) of the liabilities of AGRO's long-term business, and the amount of any such dividend shall not exceed the aggregate of (1) that excess; and (2) any other funds properly available for the payment of dividends being funds arising out of AGRO's business other than its long-term business.

The Companies Act also limits the declaration and payment of dividends and other distributions by Bermuda companies such as AGL and its Bermuda subsidiaries, which consist of AG Re, AGRO and Cedar Personnel Ltd. (Bermuda Subsidiaries). Such companies may only declare and pay a dividend or make a distribution out of contributed surplus (as understood under the Companies Act) if there are reasonable grounds for believing that the company is and after the payment will be able to meet and pay its liabilities as they become due and the realizable value of the company's assets will not be less than its liabilities. The Companies Act also regulates and restricts the reduction and return of capital and paid in share premium, including the repurchase of shares. See Part II, Item 8, Financial Statements and Supplementary Data, Note 11, Insurance Company Regulatory Requirements, for more information, for the maximum amount of dividends that can be paid without regulatory approval, recent dividend history and other recent capital movements.

Minimum Liquidity Ratio

The Insurance Act provides a minimum liquidity ratio for general business. An insurer engaged in general business is required to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real

estate, investment income due and accrued, accounts and premiums receivable, reinsurance balances receivable, funds held by ceding reinsurers and any other assets which the Authority on application in any particular case made to it with reasons, accepts in that case. There are certain categories of assets which, unless specifically permitted by the Authority, do not automatically qualify as relevant assets, such as unquoted equity securities, investments in and advances to affiliates and real estate and collateral loans.

The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax and sundry liabilities (by interpretation, those not specifically defined) and letters of credit, corporate guarantees and other instruments.

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### Insurance Code of Conduct

Each of AG Re and AGRO is subject to the Insurance Code of Conduct, which establishes duties, standards, procedures and sound business principles which must be complied with to ensure sound corporate governance, risk management and internal controls are implemented by all insurers registered under the Insurance Act. The Authority will assess an insurer's compliance with the Code of Conduct in a proportionate manner relative to the nature, scale and complexity of its business. Failure to comply with the requirements under the Insurance Code of Conduct will be a factor taken into account by the Authority in determining whether an insurer is conducting its business in a sound and prudent manner as prescribed by the Insurance Act. Such failure to comply with the requirements of the Insurance Code of Conduct could result in the Authority exercising its powers of intervention and investigation and will be a factor in calculating the operational risk charge applicable in accordance with the insurer's BSCR model or approved internal model.

### Certain Other Bermuda Law Considerations

Although AGL is incorporated in Bermuda, it is classified as a non-resident of Bermuda for exchange control purposes by the Authority. Pursuant to its non-resident status, AGL may engage in transactions in currencies other than Bermuda dollars and there are no restrictions on its ability to transfer funds (other than funds denominated in Bermuda dollars) in and out of Bermuda or to pay dividends to U.S. residents who are holders of its common shares.

Under Bermuda law, "exempted" companies are companies formed for the purpose of conducting business outside Bermuda from a principal place of business in Bermuda. As an "exempted" company, AGL (as well as each of AG Re and AGRO) may not, without the express authorization of the Bermuda legislature or under a license or consent granted by the Minister of Finance (the Minister), participate in certain business and other transactions, including: (1) the acquisition or holding of land in Bermuda (except that held by way of lease or tenancy agreement which is required for its business and held for a term not exceeding 50 years, or which is used to provide accommodation or recreational facilities for its officers and employees and held with the consent of the Minister, for a term not exceeding 21 years), (2) the taking of mortgages on land in Bermuda to secure a principal amount in excess of \$50,000 unless the Minister consents to a higher amount, and (3) the carrying on of business of any kind or type for which it is not duly licensed in Bermuda, except in certain limited circumstances, such as doing business with another exempted undertaking in furtherance of AGL's business carried on outside Bermuda.

The Bermuda government actively encourages foreign investment in "exempted" entities like AGL that are based in Bermuda, but which do not operate in competition with local businesses. AGL is not currently subject to taxes computed on profits or income or computed on any capital asset, gain or appreciation. Bermuda companies pay, as applicable, annual government fees, business fees, payroll tax and other taxes and duties. See "—Tax Matters—Taxation of AGL and Subsidiaries—Bermuda."

Special considerations apply to the Company's Bermuda operations. Under Bermuda law, non-Bermudians, other than spouses of Bermudians and individuals holding permanent resident certificates or working resident certificates, are not permitted to engage in any gainful occupation in Bermuda without a work permit issued by the Bermuda government. A work permit is only granted or extended if the employer can show that, after a proper public advertisement, no Bermudian, spouse of a Bermudian or individual holding a permanent resident certificate or working resident certificate is available who meets the minimum standards for the position. A waiver from advertising is automatically granted in respect of any chief executive officer position and other chief officer positions. The employer can also make a request for a waiver from the requirement to advertise in certain other cases, as expressed in the Bermuda government's work permit policies. Currently, all of the Company's Bermuda based professional employees who require work permits have been granted work permits by the Bermuda government.

United Kingdom

The Company combined the operations of its European subsidiaries, AGE, AGUK, AGLN and CIFGE, in a transaction that was completed on November 7, 2018. Under the Combination, AGUK, AGLN and CIFGE transferred their insurance portfolios to and merged with and into AGE.

General

Each of AGE and Assured Guaranty Finance Overseas Ltd. (AGFOL) are subject to the U.K.'s Financial Services and Markets Act 2000 (FSMA), which covers financial services relating to deposits, insurance, investments and certain other financial products.

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Under FSMA, effecting or carrying out contracts of insurance by way of business in the U.K. each constitutes a “regulated activity” requiring authorization by the appropriate regulator. An authorized insurance company must have permission for each class of insurance business it intends to write.

Insurance companies in the U.K. are authorized and regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The PRA and the FCA were established on April 1, 2013 and are the main regulatory authorities responsible for financial regulation in the U.K. These two regulatory bodies cover the following areas:

- the PRA, a part of the Bank of England, is responsible for prudential regulation of certain classes of financial services firms (which includes insurance companies, among others), and
- the FCA is responsible for the conduct of business regulation of all firms and the regulation of market conduct and the prudential regulation of all non-PRA firms.

While the two regulators coordinate and cooperate in some areas, they have separate and independent mandates and separate rule-making and enforcement powers. AGE is regulated by both the PRA and the FCA. AGFOL is regulated by the FCA.

The PRA carries out the prudential supervision of insurance companies through a variety of methods, including the collection of information from statistical returns, the review of accountants' reports and insurers' annual reports and disclosures, visits to insurance companies and regular formal interviews. The PRA takes a risk-based approach to the supervision of insurance companies.

The primary source of rules relating to the prudential supervision of AGE is the Solvency II Directive (Directive 2009/138/EC) as amended (including by the Omnibus II Directive (Directive 2014/51/EU)) (together, Solvency II), which came into force and effect on January 1, 2016. The PRA remains the prudential regulator for U.K. insurers such as AGE, under Solvency II. Solvency II provides rules on capital adequacy, governance and risk management and regulatory reporting and public disclosure. It is intended to align capital requirements with the risk profile of each EEA insurance company and to ensure adequate diversification of an insurer's or reinsurer's exposures to any credit risks of its reinsurers. AGE has calculated its minimum required capital according to the Solvency II criteria and is in compliance.

The PRA applies threshold conditions, which insurers must meet, and against which the PRA assesses them on a continuous basis. At a high level, these conditions are that:

- an insurer's head office, and in particular its mind and management, must be in the U.K. if it is incorporated in the U.K.;
- an insurer's business must be conducted in a prudent manner — in particular, the insurer must maintain appropriate financial and non-financial resources;
- the insurer must be fit and proper, and be appropriately staffed; and
- the insurer and its group must be capable of being effectively supervised.

The PRA assesses, on an ongoing basis, whether insurers are acting in a manner consistent with safety and soundness and appropriate policyholder protection, and so whether they meet, and are likely to continue to meet, the threshold conditions. It weights its supervision towards those issues and those insurers that, in its judgment, pose the greatest risk to its objectives. It is forward-looking, assessing its objectives not just against current risks, but also against those that could plausibly arise further ahead and will rely significantly on judgments based on evidence and analysis. Its risk assessment framework looks at the potential impact of failure of the insurer, its risk context and mitigating factors.

The key European Union (EU) legislation that is relevant to AGFOL is the Markets in Financial Instruments Directive (Directive 2014/65/EU)(MiFID II), which harmonizes the regulatory regime for investment services and activities across the EEA and the Insurance Distribution Directive (Directive EU/2016/97)(which came into force on October 1, 2018). AGFOL's MiFID II activities are limited to receiving and transmitting orders and giving investment advice and it cannot hold client money. Accordingly, although it is subject to MiFID II, AGFOL is exempt from the Capital Requirements Directive and Capital Requirements Regulations, which are the EU regulations on capital for certain MiFID firms. AGFOL has therefore calculated its minimum required capital according to the FCA's rules for

non-Capital Requirements Directive firms, and is in compliance.

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Currently, the regulatory regime in the U.K. must be consistent with relevant EU legislation, which is either directly applicable in, or must be implemented into national law by, all EU member states. The key EU legislation that is relevant to AGE is Solvency II, which provides the framework for the solvency and supervisory regime for insurers in the EEA. The key EU legislation that is relevant to AGFOL is MiFID II.

### Position of U.K. Regulated Entities within the AGL Group

AGE is authorized by the PRA to effect and carry out certain classes of general insurance, specifically: classes 14 (credit), 15 (suretyship) and 16 (miscellaneous financial loss) for eligible counterparties and professional clients only (i.e., not retail clients). This scope of permission is sufficient to enable AGE to effect and carry out financial guaranty insurance and reinsurance. The insurance and reinsurance businesses of AGE are subject to close supervision by the PRA. AGE also has permission to arrange and advise on transactions it guarantees, and to take deposits in the context of its insurance business.

In 2010 it was agreed between management and AGE's then regulator, the Financial Services Authority (now the PRA), that new business written by AGE would be guaranteed using a co-insurance structure pursuant to which AGE would co-insure municipal and infrastructure transactions with AGM, and structured finance transactions with AGC. AGE's financial guaranty for each transaction covers a proportionate share (currently fixed from 2019 at 15%) of the total exposure, and AGM or AGC, as the case may be, guarantees the remaining exposure under the transaction (subject to compliance with EEA licensing requirements). AGM or AGC, as the case may be, will also provide a second-to-pay guaranty to cover AGE's financial guaranty.

AGE also is the principal of Assured Guaranty Credit Protection Ltd. (AGCPL). AGCPL is not PRA or FCA authorized, but is an appointed representative of AGE. This means AGCPL can carry on insurance mediation activities without a license, because AGE has regulatory responsibility for it.

AGCPL is subject to the requirements of Regulation (EU) No 648/2012 of the European Parliament and of the Council of July 4, 2012 on over the counter (OTC) derivatives, central counterparties and trade repositories (EMIR) which, as a European regulation, is directly applicable in all the member states of the EU. AGCPL is the only European entity within the AGL group which has entered into derivative contracts and as such it is the only entity in the group which is directly subject to EMIR. AGCPL has notified the European Securities and Markets Authority and the FCA of its status under EMIR as a non-financial counterparty which has exceeded the clearing threshold (an NFC+) as described in Article 10 of EMIR. AGCPL is subject to certain requirements under EMIR with respect to its portfolio of derivative contracts including: (i) the requirement to centrally clear standardized OTC derivatives (although AGCPL does not currently enter into such derivatives, and so this requirement is not currently relevant); (ii) an obligation to employ certain risk mitigation techniques relating to derivatives that cannot be centrally cleared; and (iii) a requirement to report derivative transactions to a trade repository. The Company is aware that circumstances exist in which EMIR may apply directly to non-European entities when transacting derivatives, but has determined that these circumstances do not apply to the non-European entities in AGL's group.

AGFOL, a subsidiary of AGL, is authorized by the FCA to carry out designated investment business activities (including insurance distribution) in that it may "advise on investments (except on pension transfers and pension opt outs)" relating to most investment instruments. In addition, it may arrange or bring about transactions in investments and make "arrangements with a view to transactions in investments." In all cases, it may deal only with clients who are eligible counterparties or professional customers (i.e., not retail clients), or, when arranging in relation to non-investment insurance contracts, commercial customers. AGFOL is not authorized as an insurer and does not itself take risk in the transactions it arranges or places, and may not hold funds on behalf of its customers. AGFOL's permissions also allow it to introduce business to AGC and AGM, so that AGFOL can arrange financial guaranties underwritten by AGC and AGM.

### Solvency II and Solvency Requirements

In the U.K., Solvency II has been transposed into national law through changes to existing provisions in the FCA and the PRA's respective handbooks and rulebook and through amendments to primary legislation. The Solvency II "Delegated Acts," which set out more detailed rules underlying Solvency II have direct effect in all EEA member states, including the U.K. Among other things, Solvency II introduced a revised risk-based prudential regime which includes the following "Pillar 1" regulatory capital rules:

• assets and liabilities are generally to be valued at their market value;  
• the amount of required economic capital is intended to ensure, with a probability of 99.5%, that regulated firms are able to meet their obligations to policyholders and beneficiaries over the following 12 months; and

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reinsurance recoveries will be treated as a separate asset (rather than being netted against the underlying insurance liabilities).

AGE has agreed with the PRA that it will use the "Standard Formula" prescribed by Solvency II for calculation of its capital requirements.

In addition to regulatory capital rules, Solvency II also contains a number of "Pillar 2" qualitative requirements, obliging firms to develop and embed systems to identify, measure and proactively manage the risks they are, or may be, exposed to. Among other things, firms must:

- have in place an effective system of governance that provides for the sound and prudent management of its business;
- establish effective risk-management systems; and
- take a comprehensive approach to considering their risks through an Own Risk and Solvency Assessment (ORSA) as proportionate to the nature, scale and complexity of the risks inherent in their business.

"Pillar 3" reporting and disclosure requirements also exist, including a requirement to prepare a public Solvency and Financial Condition Report and a private Regular Supervisory Report. For more information on reporting requirements and the ORSA, see "Reporting Requirements" below.

Solvency II contains a regime for the supervision of groups, including groups in which the parent undertaking has its head office in a country that is outside the EEA. The treatment of such groups in part depends on whether the jurisdiction in which the non-EEA parent has its head office is determined to have a supervisory regime which is equivalent to the Solvency II regime. In the absence of such a determination, the Solvency II rules on supervision apply to the group on a worldwide basis, unless the PRA elects to apply "other methods" which ensure appropriate supervision. AGE is a direct subsidiary of a U.S. parent company.

The PRA has issued a Direction to AGE which confirms the "other methods" that the PRA will apply to ensure appropriate supervision. These include, among other things, requirements for AGE to provide the PRA with certain information, in relation to the group's risk management, risk exposures and solvency assessment. The Direction applies from November 12, 2018 until October 1, 2020, unless it is revoked earlier or no longer applicable.

### Restrictions on Dividend Payments

U.K. company law prohibits each of AGE and AGFOL from declaring a dividend to its shareholders unless it has "profits available for distribution." The determination of whether a company has profits available for distribution is based on its accumulated realized profits less its accumulated realized losses. While the U.K. insurance regulatory laws impose no statutory restrictions on a general insurer's ability to declare a dividend, the PRA's capital requirements may in practice act as a restriction on dividends for AGE.

### Reporting Requirements

U.K. insurance companies must prepare their financial statements under the Companies Act 2006, which requires the filing with Companies House of audited financial statements and related reports. In addition, starting January 1, 2016, the reporting requirements for U.K. insurance companies were modified by Solvency II. AGE is required to produce certain key reports including an annual Solvency and Financial Condition Report, Regular Supervisory Report and an ORSA, the latter as part of the so-called "Pillar 2" individual capital assessment requirements.

The PRA will review each firm's ORSA and then consider whether in its view the firm needs to hold capital in excess of its Pillar 1 capital (see "Solvency II and Solvency Requirements" above) and, if so, may impose a "capital add-on." The prescribed information to be contained in the ORSA, as well as the frequency with which the assessment must be carried out, is subject to guidance issued by the European Insurance and Occupational Pensions Authority in September 2015 and supervisory statements issued by the PRA. The PRA has advised AGE that it is not imposing a capital add-on at this time. The PRA may determine to impose a capital add-on in relation to AGE in the future.

### Supervision of Management

AGE is subject to the rules contained in the Senior Managers and Certification Regime. This requires that individuals undertaking particular roles need to be registered with the PRA as undertaking a "Senior Management Function". This broadly includes individuals undertaking the executive functions and the oversight functions of each entity. There are also FCA senior



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management functions and individuals who are performing roles which fall within one of the FCA senior management functions need to be approved by the FCA.

In respect of AGFOL, individuals who perform one or more “controlled functions” such as significant influence functions (which includes all board members and other senior managers) or the customer function within authorized firms must be approved by the FCA to carry out that function. Individuals performing these functions are currently “Approved Persons” for the purpose of Part V of FSMA and staff performing these specified “controlled functions” within an authorized firm must be approved by the FCA. From December 9, 2019, the Senior Managers and Certification Regime will be extended to almost all financial services firms and this will replace the current “Approved Persons” regime.

### Change of Control

Under FSMA, when a person decides to acquire or increase “control” of a U.K. authorized firm (including an insurance company) they must give the PRA notice in writing before making the acquisition. The PRA has up to 60 working days (without including any period of interruption) in which to assess a change of control case. Any person (a company or individual) that directly or indirectly acquires 10% or 20% (depending on the type of firm, the “Control Percentage Threshold”) or more of the shares, or is entitled to exercise or control the exercise of the Control Percentage Threshold or more of the voting power, in a U.K. authorized firm or its parent undertaking is considered to “acquire control” of the authorized firm. Broadly speaking, the 10% threshold applies to banks, insurers and reinsurers (but not brokers) and MiFID investment firms, and the 20% threshold to insurance brokers and certain other firms that are non-directive firms.

### Intervention and Enforcement

The PRA has extensive powers to intervene in the affairs of an authorized firm, culminating in the sanction of the suspension of authorization to carry on a regulated activity. The PRA can also vary or cancel a firm's permissions under its own initiative if it considers that the firm is failing, or is likely to fail, to satisfy the Threshold Conditions. FSMA gives the PRA significant investigation and enforcement powers. It also gives the PRA a rule-making power, under which it makes the various rules that constitute its Rulebook.

The PRA also has the power to prosecute criminal offenses arising under FSMA. The FCA has the power to prosecute offenses under FSMA and to prosecute insider dealing under Part V of the Criminal Justice Act of 1993, and breaches by authorized firms of money laundering and terrorist financing regulations.

### “Passporting”

EU directives currently allow AGE and AGFOL to conduct business in EU states other than the U.K. where they are authorized by the PRA or FCA under a single market directive. This right extends to the EEA. A firm taking advantage of a right under a single market directive to conduct business in another EEA state can rely on its “home state” authorization. This ability to operate in other jurisdictions of the EEA on the basis of home state authorization and supervision is sometimes referred to as “passporting.” Each of AGE and AGFOL is passported to conduct business in EEA states other than the U.K. Passporting is not applicable to firms not authorized in the EEA, such as AGM and AGC. Accordingly, the co-insurance model described above cannot be “passporting” throughout the EEA. Instead, it is a question of local law in each EEA member state as to whether AGM's or AGC's participation in a co-insurance structure, protecting insureds or risks located in that jurisdiction, would amount to the conduct of insurance business in that jurisdiction. (See also “U.K. referendum vote to leave the EU” below.)

### Fees and Levies

Each of AGE and AGFOL is subject to regulatory fees and levies based on its gross premium income and gross technical liabilities. These fees are collected by the FCA (though they relate to regulation by both the PRA and the FCA). The PRA also requires authorized firms, including authorized insurers, to participate in an investors' protection fund, known as the Financial Services Compensation Scheme. The Financial Services Compensation Scheme was established to compensate consumers of financial services firms, including the buyers of insurance, against failures in the financial services industry. Eligible claimants (identified in the Policyholder Protection section of the PRA Rulebook) may be compensated by the Financial Services Compensation Scheme when an authorized insurer is unable, or likely to be unable, to satisfy policyholder claims. General insurance in class 14 (credit) is not protected by the Financial Services Compensation Scheme, nor is reinsurance in any class; however, other direct insurance classes

written by AGE are covered (namely, classes 15 (suretyship) and 16 (miscellaneous financial loss)).

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### Material Contracts

AGM provides support to AGE through a quota share and excess of loss reinsurance agreement (the AGM Reinsurance Agreement) and a net worth maintenance agreement (the AGE Net Worth Agreement).

The versions of such agreements currently in force became effective on November 7, 2018 upon completion of the Combination. These new agreements clarified the application of the prior agreements to AGE upon the Combination. They also incorporated changes to certain terms of the prior agreements requested by the PRA during its review of the Combination, including a change to the amount of collateral that AGM is obligated to post to secure its reinsurance of AGE. Except for such changes, the new agreements do not materially alter the terms or coverage of the prior agreements.

**The AGM Reinsurance Agreement - Quota Share Reinsurance:** Under the quota share cover of the prior AGM Reinsurance Agreement AGM reinsured between approximately 95% - 99% of AGE's retention of each AGE financial guaranty insurance policy after cessions to other reinsurers. Such range of proportionate reinsurance by AGM was the result of a formula in the prior AGM Reinsurance Agreement that fixed AGM's reinsurance of AGE policies issued during a particular calendar year based upon the respective prior year-end capitalization of AGE and AGM.

The AGE policies reinsured pursuant to the prior AGM Reinsurance Agreement were limited to ones issued in 2011 and prior years because:

(a) AGE and AGM in 2011 implemented a co-guarantee structure pursuant to which (i) AGE, rather than guaranteeing directly all of the obligations issued in a particular transaction, directly guarantees, instead, only the portion of the guaranteed obligations in an amount equal to what would have been AGE's pro rata retention percentage under the quota share cover of the prior AGM Reinsurance Agreement, (ii) AGM directly guarantees the balance of the guaranteed obligations, and (iii) AGM also provides a second-to-pay guarantee for AGE's portion of the guaranteed obligations; and

(b) the prior AGM Reinsurance Agreement excluded AGE's insured portion of the co-guaranteed obligations from reinsurance by AGM, and all AGE business since 2011 has consisted of transactions insured pursuant to such co-guarantee structure.

The new AGM Reinsurance Agreement maintains in place AGM's proportionate reinsurance of all AGE policies covered under the prior AGM Reinsurance Agreement. The new agreement provides, however, that to the extent AGE issues a future qualifying policy without utilizing the co-guarantee structure described above, AGM will reinsure a fixed 85% share of AGE's gross liabilities under such policy, rather than a percentage share based on AGE's and AGM's respective prior year-end capitalization. Similarly, the percentages of a future transaction's obligations that AGE and AGM co-guarantee will be split 15% by AGE and 85% by AGM, so that AGM's co-guaranteed portion continues to mirror the percentage of quota share reinsurance AGM otherwise would provide for the transaction under the new AGM Reinsurance Agreement.

**The AGM Reinsurance Agreement - Excess of Loss Reinsurance:** Under the excess of loss cover of the prior AGM Reinsurance Agreement, AGM was obligated to pay AGE quarterly the amount, if any, by which (i) the sum of (a) AGE's incurred losses calculated in accordance with U.K. GAAP as reported by AGE in its financial returns filed with the PRA and (b) AGE's paid losses and LAE, in both cases net of all other performing reinsurance, including the reinsurance provided by the Company under the quota share cover of the AGM Reinsurance Agreement, exceeded (ii) an amount equal to (a) AGE's capital resources under U.K. law minus (b) 110% of the greatest of the amounts as might be required by the PRA as a condition for AGE to maintain its authorization to carry on a financial guarantee business in the U.K. The new AGM Reinsurance Agreement provides this same form of excess of loss reinsurance; it simply

clarifies that such reinsurance covers the legacy portfolios transferred to AGE by AGUK, AGLN and CIFGE in addition to the legacy AGE policies reinsured under the prior AGM Reinsurance Agreement.

Other Provisions of the AGM Reinsurance Agreement: Under the new AGM Reinsurance Agreement, AGM's required collateral is 102% of the sum of AGM's assumed share of the following for all AGE policies for which AGM provides proportionate reinsurance: (a) AGE's unearned premium reserve (net of AGE's reinsurance premium payable to AGM); (b) AGE's provisions for unpaid losses and allocated loss adjustment expenses (net of any salvage recoverable), and (c) any unexpired risk provisions of AGE, in each case (a) - (c) as calculated by AGE in accordance with U.K. GAAP. This new, post-Combination collateral measure is in contrast to (i) AGM's collateral measure prevailing from December 2014 through 2015, which was based, in part, upon the losses expected to be borne by AGM (and two other affiliated reinsurers of AGE, AG Re and AGRO) at the 99.5% confidence interval under the PRA's FG Benchmark Model; and (ii) AGM's collateral measure prevailing from 2016 up to the time of the Combination, which was based on the same losses calculated under AGE's internal capital

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requirement model instead of the FG Benchmark Model. As a result of this new collateral measure, AGM's total collateral required for AGE increased by approximately \$52 million upon the Combination. AGM funded such increase promptly following the Combination.

The quota share and excess loss covers under the prior AGM Reinsurance Agreement excluded transactions guaranteed by AGE on or after July 1, 2009 that were not municipal, utility, project finance or infrastructure risks or similar types of risks. The new AGM Reinsurance Agreement retains the same exclusion. The old AGM Reinsurance Agreement also permitted AGE to terminate the agreement upon the following events: a downgrade of AGM's ratings by Moody's below Aa3 or by S&P below AA- if AGM fails to restore its rating(s) to the required level within a prescribed period of time; AGM's insolvency; failure by AGM to maintain the minimum capital required by its domiciliary jurisdiction; or AGM filing a petition in bankruptcy, going into liquidation or rehabilitation or having a receiver appointed. The new AGM Reinsurance Agreement preserves these same termination rights by AGE, and also adds an additional termination right enabling AGE to terminate the agreement should AGM fail to maintain its required collateral.

The AGE Net Worth Agreement: Pursuant to the prior AGE Net Worth Agreement, AGM was obligated to cause AGE to maintain capital resources equal to 110% of the greatest of the amounts as may be required by the PRA as a condition for AGE to maintain its authorization to carry on a financial guarantee business in the U.K., provided that AGM's contributions (a) did not exceed 35% of AGM's policyholders' surplus on an accumulated basis as determined by the laws of the State of New York, and (b) were in compliance with Section 1505 of the New York Insurance Law. AGM's obligation remains the same under the new AGE Net Worth Agreement, which simply clarifies that it applies to AGE's expanded insurance and investment portfolios resulting from the Combination. AGM has never been required to make a contribution to AGE's capital under any version of the AGE Net Worth Agreement - either the current agreement or any prior net worth maintenance agreements. The new AGE Net Worth Agreement also permits AGE to terminate such agreement without also triggering an automatic termination of the AGM Reinsurance Agreement (as would have occurred under the prior AGE Net Worth Agreement).

The NYDFS approved each of the changes described above to the AGM Reinsurance Agreement and AGE Net Worth Maintenance Agreement.

AGC's Support Agreements in Respect of AGUK: Prior to the Combination, the Company's affiliate, AGC, provided support to AGUK through a Further Amended and Restated quota share reinsurance agreement (the AGC Quota Share Agreement), a Further Amended and Restated excess of loss reinsurance agreement (the AGC XOL Agreement), and a Further Amended and Restated net worth maintenance agreement (the AGUK Net Worth Agreement). The latter two agreements were terminated effective upon the Combination because AGUK's legacy policies became part of AGE's portfolio upon the Combination and, therefore, are now covered by the excess of loss portion of the new AGM Reinsurance Agreement and the new AGE Net Worth Maintenance Agreement, as described above. The AGC Quota Share Agreement, pursuant to which AGC provided 90% quota share reinsurance of AGUK's legacy policies, was also terminated upon the Combination, but it was replaced with a new quota share reinsurance agreement between AGE and AGC (the New AGC Reinsurance Agreement). This new agreement preserves AGC's 90% quota share reinsurance of the legacy AGUK policies that are now part of AGE's portfolio, but it has no application to new business written by AGE following the Combination. The new AGC Reinsurance Agreement also imposes a new collateral requirement on AGC that is the same as AGM's collateral requirement under the new AGM Reinsurance Agreement, as described above, except that AGC continues also to post as collateral its share of two AGE-guaranteed (formerly, pre-Combination, AGUK-guaranteed) triple-X insurance bonds that have been purchased by AGC for loss mitigation (as AGC had similarly done under the prior AGC Quota Share Agreement).

The MIA approved the termination of the prior AGC XOL Agreement, AGUK Net Worth Agreement and the AGC Quota Share Agreement and the replacement of the latter with the new AGC Reinsurance Agreement.

AGC's Letter of Support in Respect of CIFGE: AGC was a party to a letter of support dated December 6, 2001 issued to CIFGE. Pursuant to such letter of support, AGC agreed to maintain CIFGE's statutory capital and surplus to policyholders under French law and regulation in an amount not less than €20 million for so long as CIFGE carried on business. No capital contributions were made to CIFGE by AGC pursuant to this letter of support from the time AGC succeeded CIFGNA as the parent of CIFGE in July 2016 up to the Combination on November 7, 2018. The letter of support was terminated, with the MIA's approval, effective upon the Combination since the legacy CIFGE policies are now part of AGE and, therefore, are covered by the excess of loss portion of the new AGM Reinsurance Agreement and the new AGE Net Worth Agreement.

U.K. referendum vote to leave the European Union

On June 23, 2016, the U.K. voted in a national referendum to withdraw from the EU. The result of the referendum does not legally oblige the U.K. to exit the EU (a so-called Brexit). However, on March 29, 2017 the U.K. government served

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notice to the European Council of its desire to withdraw in accordance with Article 50 of the Treaty on European Union (Article 50).

Article 50 envisages a negotiation period leading to an exit on a mutually agreed date. However, in the absence of such mutual agreement, the default date for exit is two years after the member state serves the Article 50 notice. EU treaties will therefore cease to apply to the U.K. on the earlier of (i) the entry into force of any withdrawal agreement or (ii) two years after the giving of notice (unless the U.K. and all remaining Member States unanimously agree to extend the negotiation period).

As part of the negotiations, the U.K. is seeking a transition period during which it will have ceased to be a member state of the EU, but will continue to have rights and obligations under EU law, other than the right to participate formally in the EU decision making process. The EU published a paper setting out its terms for a transition period on January 29, 2018, one of which was that the transition period should not last beyond December 31, 2020. The transition period will be dependent upon the U.K. and EU agreeing to the terms of a withdrawal agreement, which has been largely completed, but has not yet been approved by the U.K. Parliament.

Failing the entry into effect of the withdrawal agreement or an agreed extension to the planned U.K. departure date, the U.K. will leave the EU on March 29, 2019 with no agreement on the terms of its departure (a No-Deal Brexit), leaving considerable uncertainty as to the ongoing relationship and a likely negative impact on all parties. Given the lack of clarity on the ultimate post-Brexit relationship between the U.K. and the EU, the Company cannot fully determine what, if any, impact Brexit may have on its operations, both inside and outside the U.K.

A further question arising from Brexit is whether U.K. authorized financial services firms such as AGE will continue to enjoy passporting rights to the other 27 EEA states after Brexit. This question will be particularly acute in the event of a No-Deal Brexit, because the loss of passporting could occur as early as March 29, 2019, rather than December 31, 2020, the end of the transition period under the withdrawal agreement. As a consequence, Assured Guaranty is establishing a new subsidiary in Paris, France, in order to continue with the ability to write new business, and to service existing business, in those other EEA states. That new subsidiary is unlikely to be fully licensed prior to a No-Deal Brexit, should that occur. While the Company believes that, in the event of a No-Deal Brexit or in the absence of applicable transition rules, those other EEA states outside the U.K. will permit the Company to continue to service existing business in their states, there can be no assurance that this will occur, nor can the Company fully determine the impact on its business and operations if it does not occur.

Until the U.K. leaves the EU, EU legislation will remain in force and the role of EU institutions will be unchanged. On withdrawal of the U.K. from the EU, in the absence of any agreement to the contrary, all treaty obligations would lapse, directives, directly effective decisions and regulations (as well as rulings of the Court of Justice of the EU) would cease to apply and the competencies of EU institutions would fall away. The EU's paper on the transition arrangements published on January 29, 2018 envisages EU legislation continuing to apply to the U.K. throughout the transition period.

The U.K. Government has proposed legislation to bring all aspects of European law to the extent possible into U.K. law prior to the U.K. exiting the EU. It seems most likely, given the relatively short timeframe available, that initially Solvency II will be brought into U.K. law in substantially its current form. Retaining Solvency II in substantially its current form would also make it easier for the U.K. to obtain a ruling of "equivalence" from the European Commission under Solvency II, which would accord insurers certain advantages when it comes to the Solvency II rules on reinsurance, the calculation of group capital and group supervision.

The Treasury Select Committee of the House of Commons has conducted a review of Solvency II against the backdrop of Brexit, taking into account certain features which are regarded as unsuitable by the U.K. industry. The

results of the Treasury Select Committee's work have been responded to by the PRA and may feed in to future discussions about potential changes to U.K. insurance regulation.

Any changes to U.K. insurance regulation following Brexit could reduce the chances of the U.K. obtaining (or subsequently preserving) a ruling of equivalence.

See the Risk Factor captioned "Brexit may adversely impact exposures insured by the Company and may also impact the Company through currency exchange rates" under Risks Related to the Financial, Credit and Financial Guaranty Markets and Risk Factor captioned "Changes in applicable laws and regulations resulting from Brexit may adversely effect the Company" under Risks Related to GAAP and Applicable Law, in Item 1A, Risk Factors.

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## Tax Matters

## United States Tax Reform

Recent tax reform commonly referred to as the 2017 Tax Cuts and Jobs Act (Tax Act) was passed by the U.S. Congress and was signed into law on December 22, 2017. The Tax Act lowered the corporate U.S. tax rate to 21%, eliminated the alternative minimum tax, limited the deductibility of interest expense and requires a one-time tax on a deemed repatriation of untaxed earnings of non-U.S. subsidiaries. In the context of the taxation of U.S. property/casualty insurance companies such as the Company, the Tax Act also modifies the loss reserve discounting rules and the proration rules that apply to reduce reserve deductions to reflect the lower corporate income tax rate. In addition, the Tax Act included certain provisions intended to eliminate certain perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the United States but have certain U.S. connections and United States persons investing in such companies. For example, the Tax Act includes a base erosion anti-avoidance tax (BEAT) that could make affiliate reinsurance between United States and non-U.S. members of the Company's group economically unfeasible. In addition, the Tax Act introduced a current tax on global intangible low taxed income that may result in an increase in U.S. corporate income tax imposed on the Company's U.S. group members with respect to earnings of their non-U.S. subsidiaries. As discussed in more detail below, the Tax Act also revised the rules applicable to passive foreign investment companies (PFICs) and controlled foreign corporations (CFCs). Although the Company is currently unable to predict the ultimate impact of the Tax Act on its business, shareholders and results of operations, it is possible that the Tax Act may increase the U.S. federal income tax liability of U.S. members of the group that cede risk to non-U.S. group members and may affect the timing and amount of U.S. federal income taxes imposed on certain U.S. shareholders. Further, it is possible that other legislation could be introduced and enacted by the current Congress or future Congresses that could have an adverse impact on the Company. Additionally, tax laws and interpretations regarding whether a company is engaged in a U.S. trade or business or whether a company is a CFC or a PFIC or has related person insurance income (RPII) are subject to change, possibly on a retroactive basis. Currently there are only proposed regulations regarding the application of the PFIC rules to an insurance company. Additionally, the regulations regarding RPII have been in proposed form since 1991. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming. The Company cannot be certain if, when or in what form such regulations or pronouncements may be provided and whether such guidance will have a retroactive effect. See Part II, Item 8, Financial Statements and Supplementary Data, Note 1, Business and Basis of Presentation and Note 12, Income Taxes.

## Taxation of AGL and Subsidiaries

## Bermuda

Under current Bermuda law, there is no Bermuda income, corporate or profits tax or withholding tax, capital gains tax or capital transfer tax payable by AGL or its Bermuda Subsidiaries. AGL, AG Re and AGRO have each obtained from the Minister of Finance under the Exempted Undertakings Tax Protection Act 1966, as amended, an assurance that, in the event that Bermuda enacts legislation imposing tax computed on profits, income, any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance, then the imposition of any such tax shall not be applicable to AGL, AG Re or AGRO or to any of their operations or their shares, debentures or other obligations, until March 31, 2035. This assurance is subject to the provision that it is not to be construed so as to prevent the application of any tax or duty to such persons as are ordinarily resident in Bermuda, or to prevent the application of any tax payable in accordance with the provisions of the Land Tax Act 1967 or otherwise payable in relation to any land leased to AGL, AG Re or AGRO. AGL, AG Re and AGRO each pays annual Bermuda government fees, and AG Re and AGRO pay annual insurance license fees. In addition, all entities employing individuals in Bermuda are required to pay a payroll tax and there are other sundry taxes payable, directly or indirectly, to the Bermuda government.

United States

AGL has conducted and intends to continue to conduct substantially all of its operations outside the U.S. and to limit the U.S. contacts of AGL and its non-U.S. subsidiaries (except AGRO, which elected to be taxed as a U.S. corporation) so that they should not be engaged in a trade or business in the U.S. A non-U.S. corporation, such as AG Re, that is deemed to be engaged in a trade or business in the United States would be subject to U.S. income tax at regular corporate rates, as well as the branch profits tax, on its income which is treated as effectively connected with the conduct of that trade or business, unless the corporation is entitled to relief under the permanent establishment provision of an applicable tax treaty, as discussed below. Such income tax, if imposed, would be based on effectively connected income computed in a manner generally analogous to that applied to the income of a U.S. corporation, except that a non-U.S. corporation would generally be entitled to deductions and credits only if it timely files a U.S. federal income tax return. AGL, AG Re and certain of the other non-U.S. subsidiaries have and will continue to file protective U.S. federal income tax returns on a timely basis in order to preserve the right to claim

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income tax deductions and credits if it is ever determined that they are subject to U.S. federal income tax. The highest marginal federal income tax rates currently are 21% for a corporation's effectively connected income and 30% for the "branch profits" tax.

Under the income tax treaty between Bermuda and the U.S. (the Bermuda Treaty), a Bermuda insurance company would not be subject to U.S. income tax on income found to be effectively connected with a U.S. trade or business unless that trade or business is conducted through a permanent establishment in the U.S. AG Re currently intends to conduct its activities so that it does not have a permanent establishment in the U.S.

An insurance enterprise resident in Bermuda generally will be entitled to the benefits of the Bermuda Treaty if (i) more than 50% of its shares are owned beneficially, directly or indirectly, by individual residents of the U.S. or Bermuda or U.S. citizens and (ii) its income is not used in substantial part, directly or indirectly, to make disproportionate distributions to, or to meet certain liabilities of, persons who are neither residents of either the U.S. or Bermuda nor U.S. citizens.

Non-U.S. insurance companies carrying on an insurance business within the U.S. have a certain minimum amount of effectively connected net investment income, determined in accordance with a formula that depends, in part, on the amount of U.S. risk insured or reinsured by such companies. If AG Re or another of the Company's Bermuda Subsidiaries is considered to be engaged in the conduct of an insurance business in the U.S. and is not entitled to the benefits of the Bermuda Treaty in general (because it fails to satisfy one of the limitations on treaty benefits discussed above), the Internal Revenue Code of 1986, as amended (the Code), could subject a significant portion of AG Re's or another of the Company's Bermuda subsidiary's investment income to U.S. income tax.

AGL, as a U.K. tax resident, would not be subject to U.S. income tax on any income found to be effectively connected with a U.S. trade or business under the income tax treaty between the U.S. and the U.K. (the U.K. Treaty), unless that trade or business is conducted through a permanent establishment in the United States. AGL intends to conduct its activities so that it does not have a permanent establishment in the United States.

Non-U.S. corporations not engaged in a trade or business in the U.S., and those that are engaged in a U.S. trade or business with respect to their non-effectively connected income are nonetheless subject to U.S. withholding tax on certain "fixed or determinable annual or periodic gains, profits and income" derived from sources within the U.S. (such as dividends and certain interest on investments), subject to exemption under the Code or reduction by applicable treaties. The standard non-treaty rate of U.S. withholding tax is currently 30%. The Bermuda Treaty does not reduce the U.S. withholding rate on U.S.-sourced investment income. The U.K. Treaty reduces or eliminates U.S. withholding tax on certain U.S. sourced investment income, including dividends from U.S. companies to U.K. resident persons entitled to the benefit of the U.K. Treaty.

The U.S. also imposes an excise tax on insurance and reinsurance premiums paid to non-U.S. insurers with respect to risk of a U.S. person located wholly or partly within the U.S. or risks of a foreign person engaged in a trade or business in the U.S. which are located within the U.S. The rates of tax applicable to premiums paid are 4% for direct casualty insurance premiums and 1% for reinsurance premiums.

AGRO has elected to be treated as a U.S. corporation for all U.S. federal tax purposes and, as such, AGRO, together with AGL's U.S. subsidiaries, is subject to taxation in the U.S. at regular corporate rates.

If AGRO were to pay dividends to its U.S. holding company parent and that U.S. holding company were to pay dividends to its Bermudian parent AG Re, such dividends would be subject to U.S. withholding tax at a rate of 30%.

United Kingdom

In November 2013, AGL became tax resident in the U.K. AGL remains a Bermuda-based company and its administrative and head office functions continue to be carried on in Bermuda. The AGL common shares have not changed and continue to be listed on the New York Stock Exchange (NYSE).

As a company that is not incorporated in the U.K., AGL will be considered tax resident in the U.K. only if it is “centrally managed and controlled” in the U.K. Central management and control constitutes the highest level of control of a company’s affairs. Effective November 6, 2013, the AGL Board intends to manage the affairs of AGL in such a way as to maintain its status as a company that is tax resident in the U.K.

As a U.K. tax resident company, AGL is subject to the tax rules applicable to companies resident in the U.K., including the benefits afforded by the U.K.’s tax treaties.

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As a U.K. tax resident, AGL is required to file a corporation tax return with Her Majesty's Revenue & Customs (HMRC). AGL will be subject to U.K. corporation tax in respect of its worldwide profits (both income and capital gains), subject to any applicable exemptions. The rate of corporation tax is currently 19% and will be reduced to 17% with effect from April 1, 2020. AGL has also registered in the U.K. to report its value added tax (VAT) liability. The current rate of VAT is 20%.

The dividends AGL receives from its direct subsidiaries should be exempt from U.K. corporation tax due to the exemption in section 931D of the U.K. Corporation Tax Act 2009. In addition, any dividends paid by AGL to its shareholders should not be subject to any withholding tax in the U.K. The non-U.K. resident subsidiaries intend to operate in such a manner that their profits are outside the scope of the charge under the "controlled foreign companies" regime. Accordingly, Assured Guaranty does not expect any profits of non-U.K. resident members of the group to be attributed to AGL and taxed in the U.K. under the CFC regime and has obtained clearance from HMRC confirming this on the basis of current facts and intentions.

### Taxation of Shareholders

#### Bermuda Taxation

Currently, there is no Bermuda capital gains tax, or withholding or other tax payable on principal, interest or dividends paid to the holders of the AGL common shares.

#### United States Taxation

This discussion is based upon the Code, the regulations promulgated thereunder and any relevant administrative rulings or pronouncements or judicial decisions, all as in effect on the date hereof and as currently interpreted, and does not take into account possible changes in such tax laws or interpretations thereof, which may apply retroactively. This discussion does not include any description of the tax laws of any state or local governments within the U.S. or any foreign government.

The following summary sets forth the material U.S. federal income tax considerations related to the purchase, ownership and disposition of AGL's shares. Unless otherwise stated, this summary deals only with holders that are U.S. Persons (as defined below) who purchase and hold their shares and who hold their shares as capital assets within the meaning of section 1221 of the Code. The following discussion is only a discussion of the material U.S. federal income tax matters as described herein and does not purport to address all of the U.S. federal income tax consequences that may be relevant to a particular shareholder in light of such shareholder's specific circumstances. For example, special rules apply to certain shareholders, such as partnerships, insurance companies, regulated investment companies, real estate investment trusts, dealers or traders in securities, tax exempt organizations, expatriates, persons that do not hold their securities in the U.S. dollar, persons who are considered with respect to AGL or any of its non-U.S. subsidiaries as "United States shareholders" for purposes of the CFC rules of the Code (generally, a U.S. Person, as defined below, who owns or is deemed to own 10% or more of the total combined voting power or value of all classes of AGL or the stock of any of AGL's non-U.S. subsidiaries (i.e., 10% U.S. Shareholders)), or persons who hold the common shares as part of a hedging or conversion transaction or as part of a short-sale or straddle. Any such shareholder should consult their tax advisor.

If a partnership holds AGL's shares, the tax treatment of the partners will generally depend on the status of the partner and the activities of the partnership. Partners of a partnership owning AGL's shares should consult their tax advisers.

For purposes of this discussion, the term "U.S. Person" means: (i) a citizen or resident of the U.S., (ii) a partnership or corporation, created or organized in or under the laws of the U.S., or organized under any political subdivision thereof,

(iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, (iv) a trust if either (x) a court within the U.S. is able to exercise primary supervision over the administration of such trust and one or more U.S. Persons have the authority to control all substantial decisions of such trust or (y) the trust has a valid election in effect to be treated as a U.S. Person for U.S. federal income tax purposes or (v) any other person or entity that is treated for U.S. federal income tax purposes as if it were one of the foregoing.

**Taxation of Distributions.** Subject to the discussions below relating to the potential application of the CFC, RPII and PFIC rules, cash distributions, if any, made with respect to AGL's shares will constitute dividends for U.S. federal income tax purposes to the extent paid out of current or accumulated earnings and profits of AGL (as computed using U.S. tax principles). Dividends paid by AGL to corporate shareholders will not be eligible for the dividends received deduction. To the extent such distributions exceed AGL's earnings and profits, they will be treated first as a return of the shareholder's basis in the common shares to the extent thereof, and then as gain from the sale of a capital asset.

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AGL believes dividends paid by AGL on its common shares to non-corporate holders will be eligible for reduced rates of tax at the rates applicable to long-term capital gains as "qualified dividend income," provided that AGL is not a PFIC and certain other requirements, including stock holding period requirements, are satisfied.

Classification of AGL or its Non-U.S. Subsidiaries as a CFC. Each 10% U.S. Shareholder (as defined below) of a non-U.S. corporation that is a CFC at any time during a taxable year that owns, directly or indirectly through non-U.S. entities, shares in the non-U.S. corporation on the last day of the non-U.S. corporation's taxable year on which it is a CFC, must include in its gross income, for U.S. federal income tax purposes, its pro rata share of the CFC's "subpart F income," even if the subpart F income is not distributed. "Subpart F income" of a non-U.S. insurance corporation typically includes non-U.S. personal holding company income (such as interest, dividends and other types of passive income), as well as insurance and reinsurance income (including underwriting and investment income). A non-U.S. corporation is considered a CFC if 10% U.S. Shareholders own (directly, indirectly through non-U.S. entities or by attribution by application of the constructive ownership rules of section 958(b) of the Code (i.e., constructively)) more than 50% of the total combined voting power of all classes of voting stock of such non-U.S. corporation, or more than 50% of the total value of all stock of such corporation on any day during the taxable year of such corporation. For purposes of taking into account insurance income, a CFC also includes a non-U.S. insurance company in which more than 25% of the total combined voting power of all classes of stock (or more than 25% of the total value of the stock) is owned by 10% U.S. Shareholders, on any day during the taxable year of such corporation. A "10% U.S. Shareholder" is a U.S. Person who owns (directly, indirectly through non-U.S. entities or constructively) at least 10% of the total combined voting power or value of all classes of stock of the non-U.S. corporation. The Tax Act expanded the definition of 10% U.S. Shareholder to include ownership by value (rather than just vote), so provisions in the Company's organizational documents that cut back voting power to potentially avoid 10% U.S. Shareholder status will no longer mitigate the risk of 10% U.S. Shareholder status. AGL believes that because of the dispersion of AGL's share ownership, no U.S. Person who owns shares of AGL directly or indirectly through one or more non-U.S. entities should be treated as owning (directly, indirectly through non-U.S. entities, or constructively), 10% or more of the total voting power or value of all classes of shares of AGL or any of its non-U.S. subsidiaries. However, AGL's shares may not be as widely dispersed as the Company believes due to, for example, the application of certain ownership attribution rules, and no assurance may be given that a U.S. Person who owns the Company's shares will not be characterized as a 10% U.S. Shareholder. In addition, the direct and indirect subsidiaries of Assured Guaranty US Holdings Inc. (AGUS) are characterized as CFCs and any subpart F income generated will be included in the gross income of the applicable domestic subsidiaries in the AGL group.

The RPII CFC Provisions. The following discussion generally is applicable only if the RPII of AG Re or any other non-U.S. insurance subsidiary that either (i) has not made an election under section 953(d) of the Code to be treated as a U.S. corporation for all U.S. federal tax purposes or (ii) is not a CFC owned directly or indirectly by AGUS (each a "Foreign Insurance Subsidiary" or collectively, with AG Re, the "Foreign Insurance Subsidiaries") determined on a gross basis, is 20% or more of the Foreign Insurance Subsidiary's gross insurance income for the taxable year and the 20% Ownership Exception (as defined below) is not met. The following discussion generally would not apply for any taxable year in which the Foreign Insurance Subsidiary's gross RPII falls below the 20% threshold or the 20% Ownership Exception is met. Although the Company cannot be certain, it believes that each Foreign Insurance Subsidiary has been, in prior years of operations, and will be, for the foreseeable future, either below the 20% threshold or in compliance with the requirements of 20% Ownership Exception for each tax year.

RPII is any "insurance income" (as defined below) attributable to policies of insurance or reinsurance with respect to which the person (directly or indirectly) insured is a "RPII shareholder" (as defined below) or a "related person" (as defined below) to such RPII shareholder. In general, and subject to certain limitations, "insurance income" is income (including premium and investment income) attributable to the issuing of any insurance or reinsurance contract which would be taxed under the portions of the Code relating to insurance companies if the income were the income of a domestic insurance company. For purposes of inclusion of the RPII of a Foreign Insurance Subsidiary in the income

of RPII shareholders, unless an exception applies, the term "RPII shareholder" means any U.S. Person who owns (directly or indirectly through non-U.S. entities) any amount of AGL's common shares. Generally, the term "related person" for this purpose means someone who controls or is controlled by the RPII shareholder or someone who is controlled by the same person or persons which control the RPII shareholder. Control is measured by either more than 50% in value or more than 50% in voting power of stock applying certain constructive ownership principles. A non-U.S. Insurance Subsidiary will be treated as a CFC under the RPII provisions if RPII shareholders are treated as owning (directly, indirectly through non-U.S. entities or constructively) 25% or more of the shares of AGL by vote or value.

**RPII Exceptions.** The special RPII rules do not apply if (i) at all times during the taxable year less than 20% of the voting power and less than 20% of the value of the stock of AGL (the 20% Ownership Exception) is owned (directly or indirectly through entities) by persons who are (directly or indirectly) insured under any policy of insurance or reinsurance issued by a Foreign Insurance Subsidiary or related persons to any such person, (ii) RPII, determined on a gross basis, is less

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than 20% of a Foreign Insurance Subsidiary's gross insurance income for the taxable year (the 20% Gross Income Exception), (iii) a Foreign Insurance Subsidiary elects to be taxed on its RPII as if the RPII were effectively connected with the conduct of a U.S. trade or business, and to waive all treaty benefits with respect to RPII and meet certain other requirements or (iv) a Foreign Insurance Subsidiary elects to be treated as a U.S. corporation and waive all treaty benefits and meet certain other requirements. The Foreign Insurance Subsidiaries do not intend to make either of these elections. Where none of these exceptions applies, each U.S. Person owning or treated as owning any shares in AGL (and therefore, indirectly, in a Foreign Insurance Subsidiary) on the last day of AGL's taxable year will be required to include in its gross income for U.S. federal income tax purposes its share of the RPII for the portion of the taxable year during which a Foreign Insurance Subsidiary was a CFC under the RPII provisions, determined as if all such RPII were distributed proportionately only to such U.S. Persons at that date, but limited by each such U.S. Person's share of a Foreign Insurance Subsidiary's current-year earnings and profits as reduced by the U.S. Person's share, if any, of certain prior-year deficits in earnings and profits. The Foreign Insurance Subsidiaries intend to operate in a manner that is intended to ensure that each qualifies for either the 20% Gross Income Exception or 20% Ownership Exception.

**Computation of RPII.** For any year in which a Foreign Insurance Subsidiary does not meet the 20% Ownership Exception or the 20% Gross Income Exception, AGL may also seek information from its shareholders as to whether beneficial owners of shares at the end of the year are U.S. Persons so that the RPII may be determined and apportioned among such persons; to the extent AGL is unable to determine whether a beneficial owner of shares is a U.S. Person, AGL may assume that such owner is not a U.S. Person, thereby increasing the per share RPII amount for all known RPII shareholders. The amount of RPII includable in the income of a RPII shareholder is based upon the net RPII income for the year after deducting related expenses such as losses, loss reserves and operating expenses. If a Foreign Insurance Subsidiary meets the 20% Ownership Exception or the 20% Gross Income Exception, RPII shareholders will not be required to include RPII in their taxable income.

**Apportionment of RPII to U.S. Holders.** Every RPII shareholder who owns shares on the last day of any taxable year of AGL in which a Foreign Insurance Subsidiary does not meet the 20% Ownership Exception or the 20% Gross Income Exception should expect that for such year it will be required to include in gross income its share of a Foreign Insurance Subsidiary's RPII for the portion of the taxable year during which the Foreign Insurance Subsidiary was a CFC under the RPII provisions, whether or not distributed, even though it may not have owned the shares throughout such period. A RPII shareholder who owns shares during such taxable year but not on the last day of the taxable year is not required to include in gross income any part of the Foreign Insurance Subsidiary's RPII.

**Basis Adjustments.** An RPII shareholder's tax basis in its common shares will be increased by the amount of any RPII the shareholder includes in income. The RPII shareholder may exclude from income the amount of any distributions by AGL out of previously taxed RPII income. The RPII shareholder's tax basis in its common shares will be reduced by the amount of such distributions that are excluded from income.

**Uncertainty as to Application of RPII.** The RPII provisions are complex and have never been interpreted by the courts or the Treasury Department in final regulations; regulations interpreting the RPII provisions of the Code exist only in proposed form. It is not certain whether these regulations will be adopted in their proposed form or what changes or clarifications might ultimately be made thereto or whether any such changes, as well as any interpretation or application of RPII by the Internal Revenue Service (IRS), the courts or otherwise, might have retroactive effect. These provisions include the grant of authority to the Treasury Department to prescribe "such regulations as may be necessary to carry out the purpose of this subsection including regulations preventing the avoidance of this subsection through cross insurance arrangements or otherwise." Accordingly, the meaning of the RPII provisions and the application thereof to the Foreign Insurance Subsidiaries is uncertain. In addition, the Company cannot be certain that the amount of RPII or the amounts of the RPII inclusions for any particular RPII shareholder, if any, will not be subject to adjustment based upon subsequent IRS examination. Any prospective investor which does business with a

Foreign Insurance Subsidiary and is considering an investment in common shares should consult his tax advisor as to the effects of these uncertainties.

**Information Reporting.** Under certain circumstances, U.S. Persons owning shares (directly, indirectly or constructively) in a non-U.S. corporation are required to file IRS Form 5471 with their U.S. federal income tax returns. Generally, information reporting on IRS Form 5471 is required by (i) a person who is treated as a RPII shareholder, (ii) a 10% U.S. Shareholder of a non-U.S. corporation that is a CFC for an uninterrupted period of 30 days or more during any tax year of the non-U.S. corporation and who owned the stock on the last day of that year; and (iii) under certain circumstances, a U.S. Person who acquires stock in a non-U.S. corporation and as a result thereof owns 10% or more of the voting power or value of such non-U.S. corporation, whether or not such non-U.S. corporation is a CFC. For any taxable year in which AGL determines that the 20% Gross Income Exception and the 20% Ownership Exception does not apply, AGL will provide to all U.S. Persons registered as shareholders of its shares a completed IRS Form 5471 or the relevant information necessary to complete the form.

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Failure to file IRS Form 5471 may result in penalties. In addition, U.S. shareholders should consult their tax advisors with respect to other information reporting requirements that may be applicable to them.

U.S. Persons holding the Company's shares should consider their possible obligation to file FINCEN Form 114, Foreign Bank and Financial Accounts Report, with respect to their shares. Additionally, such U.S. and non-U.S. persons should consider their possible obligations to annually report certain information with respect to the non-U.S. accounts with their U.S. federal income tax returns. Shareholders should consult their tax advisors with respect to these or any other reporting requirement which may apply with respect to their ownership of the Company's shares.

**Tax-Exempt Shareholders.** Tax-exempt entities will be required to treat certain subpart F insurance income, including RPII, that is includable in income by the tax-exempt entity as unrelated business taxable income. Prospective investors that are tax exempt entities are urged to consult their tax advisors as to the potential impact of the unrelated business taxable income provisions of the Code. A tax-exempt organization that is treated as a 10% U.S. Shareholder or a RPII Shareholder also must file IRS Form 5471 in certain circumstances.

**Dispositions of AGL's Shares.** Subject to the discussions below relating to the potential application of the Code section 1248 and PFIC rules, holders of shares generally should recognize capital gain or loss for U.S. federal income tax purposes on the sale, exchange or other disposition of shares in the same manner as on the sale, exchange or other disposition of any other shares held as capital assets. If the holding period for these shares exceeds one year, any gain will be subject to tax at a current maximum marginal tax rate of 20% for individuals and 21% for corporations. Moreover, gain, if any, generally will be a U.S. source gain and generally will constitute "passive income" for foreign tax credit limitation purposes.

Code section 1248 provides that if a U.S. Person sells or exchanges stock in a non-U.S. corporation and such person owned, directly, indirectly through non-U.S. entities or constructively, 10% or more of the voting power of the corporation at any time during the five-year period ending on the date of disposition when the corporation was a CFC, any gain from the sale or exchange of the shares will be treated as a dividend to the extent of the CFC's earnings and profits (determined under U.S. federal income tax principles) during the period that the shareholder held the shares and while the corporation was a CFC (with certain adjustments). The Company believes that because of the dispersion of AGL's share ownership, no U.S. shareholder of AGL should be treated as owning (directly, indirectly through non-U.S. entities or constructively) 10% or more of the total voting power or value of AGL; to the extent this is the case this application of Code Section 1248 under the regular CFC rules should not apply to dispositions of AGL's shares. A 10% U.S. Shareholder may in certain circumstances be required to report a disposition of shares of a CFC by attaching IRS Form 5471 to the U.S. federal income tax or information return that it would normally file for the taxable year in which the disposition occurs. In the event this is determined necessary, AGL will provide a completed IRS Form 5471 or the relevant information necessary to complete the Form. Code section 1248 in conjunction with the RPII rules also applies to the sale or exchange of shares in a non-U.S. corporation if the non-U.S. corporation would be treated as a CFC for RPII purposes regardless of whether the shareholder is a 10% U.S. Shareholder or whether the 20% Ownership Exception or 20% Gross Income Exception applies. Existing proposed regulations do not address whether Code section 1248 would apply if a non-U.S. corporation is not a CFC but the non-U.S. corporation has a subsidiary that is a CFC and that would be taxed as an insurance company if it were a domestic corporation. The Company believes, however, that this application of Code section 1248 under the RPII rules should not apply to dispositions of AGL's shares because AGL will not be directly engaged in the insurance business. The Company cannot be certain, however, that the IRS will not interpret the proposed regulations in a contrary manner or that the Treasury Department will not amend the proposed regulations to provide that these rules will apply to dispositions of common shares. Prospective investors should consult their tax advisors regarding the effects of these rules on a disposition of common shares.

Passive Foreign Investment Companies. In general, a non-U.S. corporation will be a PFIC during a given year if (i) 75% or more of its gross income constitutes "passive income" (the 75% test) or (ii) 50% or more of its assets produce passive income (the 50% test) and once characterized as a PFIC will generally retain PFIC status for future taxable years with respect to its U.S. shareholders in the taxable year of the initial PFIC characterization.

If AGL were characterized as a PFIC during a given year, each U.S. Person holding AGL's shares would be subject to a penalty tax at the time of the sale at a gain of, or receipt of an "excess distribution" with respect to, their shares, unless such person (i) is a 10% U.S. Shareholder and AGL is a CFC or (ii) made a "qualified electing fund election" or "mark-to-market" election. It is uncertain that AGL would be able to provide its shareholders with the information necessary for a U.S. Person to make a qualified electing fund election. In addition, if AGL were considered a PFIC, upon the death of any U.S. individual owning common shares, such individual's heirs or estate would not be entitled to a "step-up" in the basis of the common shares that might otherwise be available under U.S. federal income tax laws. In general, a shareholder receives an "excess distribution" if the amount of the distribution is more than 125% of the average distribution with respect to the common shares during the three preceding taxable years (or shorter period during which the taxpayer held common shares). In general, the

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penalty tax is equivalent to an interest charge on taxes that are deemed due during the period the shareholder owned the common shares, computed by assuming that the excess distribution or gain (in the case of a sale) with respect to the common shares was taken in equal portion at the highest applicable tax rate on ordinary income throughout the shareholder's period of ownership. The interest charge is equal to the applicable rate imposed on underpayments of U.S. federal income tax for such period. In addition, a distribution paid by AGL to U.S. shareholders that is characterized as a dividend and is not characterized as an excess distribution would not be eligible for reduced rates of tax as qualified dividend income. A U.S. Person that is a shareholder in a PFIC may also be subject to additional information reporting requirements, including the annual filing of IRS Form 8621.

For the above purposes, passive income generally includes interest, dividends, annuities and other investment income. The PFIC rules, as amended by the Tax Act, provide that income derived in the active conduct of an insurance business by a qualifying insurance corporation is not treated as passive income. The PFIC provisions also contain a look-through rule under which a non-U.S. corporation shall be treated as if it "received directly its proportionate share of the income..." and as if it "held its proportionate share of the assets..." of any other corporation in which it owns at least 25% of the value of the stock. A second PFIC look-through rule would treat stock of a U.S. corporation owned by another U.S. corporation which is at least 25% owned (by value) by a non-U.S. corporation as a non-passive asset that generates non-passive income for purposes of determining whether the non-U.S. corporation is a PFIC.

The insurance income exception originally was intended to ensure that income derived by a bona fide insurance company is not treated as passive income, except to the extent such income is attributable to financial reserves in excess of the reasonable needs of the insurance business. The Company expects, for purposes of the PFIC rules, that each of AGL's insurance subsidiaries is unlikely to have financial reserves in excess of the reasonable needs of its insurance business in each year of operations. However, the Tax Act limits the insurance income exception to a non-U.S. insurance company that is a qualifying insurance corporation that would be taxable as an insurance company if it were a U.S. corporation and maintains insurance liabilities of more than 25% of such company's assets for a taxable year (or maintains insurance liabilities that at least equal or exceed 10% of its assets and it satisfies a facts and circumstances test that requires a showing that the failure to exceed the 25% threshold is due to run-off or rating agency circumstances) (the Reserve Test). Further, the IRS issued proposed regulations in 2015 intended to clarify the application of the PFIC provisions to an insurance company. These proposed regulations provide that a non-U.S. insurance company may only qualify for an exception to the PFIC rules if, among other things, the non-U.S. insurance company's officers and employees perform its substantial managerial and operational activities. This proposed regulation will not be effective until adopted in final form. The Company believes that, based on the application of the PFIC look-through rules described above and the Company's plan of operations for the current and future years, AGL should not be characterized as a PFIC. However, as the Company cannot predict the likelihood of finalization of the proposed regulations or the scope, nature, or impact of the proposed regulations on us, should they be formally adopted or enacted or whether the Company's non-U.S. insurance subsidiaries will be able to satisfy the Reserve Test in future years and the interaction of the PFIC look-through rules is not clear, no assurance may be given that the Company will not be characterized as a PFIC. Prospective investors should consult their tax advisor as to the effects of the PFIC rules.

**Foreign tax credit.** If U.S. Persons own a majority of AGL's common shares, only a portion of the current income inclusions, if any, under the CFC, RPII and PFIC rules and of dividends paid by AGL (including any gain from the sale of common shares that is treated as a dividend under section 1248 of the Code) will be treated as foreign source income for purposes of computing a shareholder's U.S. foreign tax credit limitations. The Company will consider providing shareholders with information regarding the portion of such amounts constituting foreign source income to the extent such information is reasonably available. It is also likely that substantially all of the "subpart F income," RPII and dividends that are foreign source income will constitute either "passive" or "general" income. Thus, it may not be possible for most shareholders to utilize excess foreign tax credits to reduce U.S. tax on such income.

Information Reporting and Backup Withholding on Distributions and Disposition Proceeds. Information returns may be filed with the IRS in connection with distributions on AGL's common shares and the proceeds from a sale or other disposition of AGL's common shares unless the holder of AGL's common shares establishes an exemption from the information reporting rules. A holder of common shares that does not establish such an exemption may be subject to U.S. backup withholding tax on these payments if the holder is not a corporation or non-U.S. Person or fails to provide its taxpayer identification number or otherwise comply with the backup withholding rules. The amount of any backup withholding from a payment to a U.S. Person will be allowed as a credit against the U.S. Person's U.S. federal income tax liability and may entitle the U.S. Person to a refund, provided that the required information is furnished to the IRS.

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### United Kingdom

The following discussion is intended to be only a general guide to certain U.K. tax consequences of holding AGL common shares, under current law and the current practice of HMRC, either of which is subject to change at any time, possibly with retrospective effect. Except where otherwise stated, this discussion applies only to shareholders who are not (and have not recently been) resident or (in the case of individuals) domiciled for tax purposes in the U.K., who hold their AGL common shares as an investment and who are the absolute beneficial owners of their common shares. This discussion may not apply to certain shareholders, such as dealers in securities, life insurance companies, collective investment schemes, shareholders who are exempt from tax and shareholders who have (or are deemed to have) acquired their shares by virtue of an office or employment. Such shareholders may be subject to special rules.

The following statements do not purport to be a comprehensive description of all the U.K. considerations that may be relevant to any particular shareholder. Any person who is in any doubt as to their tax position should consult an appropriate professional tax adviser.

**AGL's Tax Residency.** AGL is not incorporated in the U.K., but effective November 6, 2013, the AGL Board manages its affairs with the intent to maintain its status as a company that is tax resident in the U.K.

**Dividends.** Under current U.K. tax law, AGL is not required to withhold tax at source from dividends paid to the holders of the AGL common shares.

**Capital gains.** U.K. tax is not normally charged on any capital gains realized by non-U.K. shareholders in AGL unless, in the case of a corporate shareholder, at or before the time the gain accrues, the shareholding is used in or for the purposes of a trade carried on by the non-resident shareholder through a permanent establishment in the U.K. or for the purposes of that permanent establishment. Similarly, an individual shareholder who carries on a trade, profession or vocation in the U.K. through a branch or agency may be liable for U.K. tax on the gain if such shareholder disposes of shares that are, or have been, used, held or acquired for the purposes of such trade, profession or vocation or for the purposes of such branch or agency. This treatment applies regardless of the U.K. tax residence status of AGL.

**Stamp Taxes.** On the basis that AGL does not currently intend to maintain a share register in the U.K., there should be no U.K. stamp duty reserve tax on a purchase of common shares in AGL. A conveyance or transfer on sale of common shares in AGL will not be subject to U.K. stamp duty, provided that the instrument of transfer is not executed in the U.K. and does not relate to any property situated, or any matter or thing done, or to be done, in the U.K.

### Description of Share Capital

The following summary of AGL's share capital is qualified in its entirety by the provisions of Bermuda law, AGL's memorandum of association and its Bye-Laws, copies of which are incorporated by reference as exhibits to this Annual Report on Form 10-K.

AGL's authorized share capital of \$5,000,000 is divided into 500,000,000 shares, par value U.S. \$0.01 per share, of which 103,026,253 common shares were issued and outstanding as of February 26, 2019. Except as described below, AGL's common shares have no pre-emptive rights or other rights to subscribe for additional common shares, no rights of redemption, conversion or exchange and no sinking fund rights. In the event of liquidation, dissolution or winding-up, the holders of AGL's common shares are entitled to share equally, in proportion to the number of common shares held by such holder, in AGL's assets, if any remain after the payment of all AGL's debts and liabilities and the liquidation preference of any outstanding preferred shares. Under certain circumstances, AGL has the right to purchase all or a portion of the shares held by a shareholder. See "—Acquisition of Common Shares by AGL" below.

## Voting Rights and Adjustments

In general, and except as provided below, shareholders have one vote for each common share held by them and are entitled to vote with respect to their fully paid shares at all meetings of shareholders. However, if, and so long as, the common shares (and other of AGL's shares) of a shareholder are treated as "controlled shares" (as determined pursuant to section 958 of the Code) of any U.S. Person and such controlled shares constitute 9.5% or more of the votes conferred by AGL's issued and outstanding shares, the voting rights with respect to the controlled shares owned by such U.S. Person shall be limited, in the aggregate, to a voting power of less than 9.5% of the voting power of all issued and outstanding shares, under a formula specified in AGL's Bye-laws. The formula is applied repeatedly until there is no U.S. Person whose controlled shares constitute 9.5% or more of the voting power of all issued and outstanding shares and who generally would be required to recognize

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income with respect to AGL under the Code if AGL were a CFC as defined in the Code and if the ownership threshold under the Code were 9.5% (as defined in AGL's Bye-Laws as a 9.5% U.S. Shareholder). In addition, AGL's Board may determine that shares held carry different voting rights when it deems it appropriate to do so to (i) avoid the existence of any 9.5% U.S. Shareholder; and (ii) avoid adverse tax, legal or regulatory consequences to AGL or any of its subsidiaries or any direct or indirect holder of shares or its affiliates. "Controlled shares" includes, among other things, all shares of AGL that such U.S. Person is deemed to own directly, indirectly or constructively (within the meaning of section 958 of the Code). Further, these provisions do not apply in the event one shareholder owns greater than 75% of the voting power of all issued and outstanding shares.

Under these provisions, certain shareholders may have their voting rights limited to less than one vote per share, while other shareholders may have voting rights in excess of one vote per share. Moreover, these provisions could have the effect of reducing the votes of certain shareholders who would not otherwise be subject to the 9.5% limitation by virtue of their direct share ownership. AGL's Bye-laws provide that it will use its best efforts to notify shareholders of their voting interests prior to any vote to be taken by them.

AGL's Board is authorized to require any shareholder to provide information for purposes of determining whether any holder's voting rights are to be adjusted, which may be information on beneficial share ownership, the names of persons having beneficial ownership of the shareholder's shares, relationships with other shareholders or any other facts AGL's Board may deem relevant. If any holder fails to respond to this request or submits incomplete or inaccurate information, AGL's Board may eliminate the shareholder's voting rights. All information provided by the shareholder will be treated by AGL as confidential information and shall be used by AGL solely for the purpose of establishing whether any 9.5% U.S. Shareholder exists and applying the adjustments to voting power (except as otherwise required by applicable law or regulation).

### Restrictions on Transfer of Common Shares

AGL's Board may decline to register a transfer of any common shares under certain circumstances, including if they have reason to believe that any adverse tax, regulatory or legal consequences to the Company, any of its subsidiaries or any of its shareholders or indirect holders of shares or its Affiliates may occur as a result of such transfer (other than such as AGL's Board considers de minimis). Transfers must be by instrument unless otherwise permitted by the Companies Act.

The restrictions on transfer and voting restrictions described above may have the effect of delaying, deferring or preventing a change in control of Assured Guaranty.

### Acquisition of Common Shares by AGL

Under AGL's Bye-Laws and subject to Bermuda law, if AGL's Board determines that any ownership of AGL's shares may result in adverse tax, legal or regulatory consequences to AGL, any of AGL's subsidiaries or any of AGL's shareholders or indirect holders of shares or its Affiliates (other than such as AGL's Board considers de minimis), AGL has the option, but not the obligation, to require such shareholder to sell to AGL or to a third party to whom AGL assigns the repurchase right the minimum number of common shares necessary to avoid or cure any such adverse consequences at a price determined in the discretion of the Board to represent the shares' fair market value (as defined in AGL's Bye-Laws).

### Other Provisions of AGL's Bye-Laws

### AGL's Board and Corporate Action

AGL's Bye-Laws provide that AGL's Board shall consist of not less than three and not more than 21 directors, the exact number as determined by the Board. AGL's Board consists of ten persons who are elected for annual terms.

Shareholders may only remove a director for cause (as defined in AGL's Bye-Laws) at a general meeting, provided that the notice of any such meeting convened for the purpose of removing a director shall contain a statement of the intention to do so and shall be provided to that director at least two weeks before the meeting. Vacancies on the Board can be filled by the Board if the vacancy occurs in those events set out in AGL's Bye-Laws as a result of death, disability, disqualification or resignation of a director, or from an increase in the size of the Board.

Generally under AGL's Bye-Laws, the affirmative votes of a majority of the votes cast at any meeting at which a quorum is present is required to authorize a resolution put to vote at a meeting of the Board, including one relating to a merger, acquisition or business combination. Corporate action may also be taken by a unanimous written resolution of the Board

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without a meeting. A quorum shall be at least one-half of directors then in office present in person or represented by a duly authorized representative, provided that at least two directors are present in person.

### Shareholder Action

At the commencement of any general meeting, two or more persons present in person and representing, in person or by proxy, more than 50% of the issued and outstanding shares entitled to vote at the meeting shall constitute a quorum for the transaction of business. In general, any questions proposed for the consideration of the shareholders at any general meeting shall be decided by the affirmative votes of a majority of the votes cast in accordance with the Bye-Laws.

The Bye-Laws contain advance notice requirements for shareholder proposals and nominations for directors, including when proposals and nominations must be received and the information to be included.

### Amendment

The Bye-Laws may be amended only by a resolution adopted by the Board and by resolution of the shareholders.

### Voting of Non-U.S. Subsidiary Shares

When AGL is required or entitled to vote at a general meeting (for example, an annual meeting) of any of AG Re, AGFOL or any other of its directly held non-U.S. subsidiaries, AGL's Board is required to refer the subject matter of the vote to AGL's shareholders and seek direction from such shareholders as to how they should vote on the resolution proposed by the non-U.S. subsidiary. AGL's Board in its discretion shall require that substantially similar provisions are or will be contained in the bye-laws (or equivalent governing documents) of any direct or indirect non-U.S. subsidiaries other than AGRO and subsidiaries incorporated in the U.K.

### Employees

As of December 31, 2018, the Company had 312 employees. None of the Company's employees are subject to collective bargaining agreements. The Company believes that employee relations are satisfactory.

### Available Information

The Company maintains an Internet web site at [www.assuredguaranty.com](http://www.assuredguaranty.com). The Company makes available, free of charge, on its web site (under [www.assuredguaranty.com/sec-filings](http://www.assuredguaranty.com/sec-filings)) the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13 (a) or 15 (d) of the Exchange Act as soon as reasonably practicable after the Company files such material with, or furnishes it to, the SEC. The Company also makes available, free of charge, through its web site (under [www.assuredguaranty.com/governance](http://www.assuredguaranty.com/governance)) links to the Company's Corporate Governance Guidelines, its Code of Conduct, AGL's Bye-Laws and the charters for its Board committees. In addition, the SEC maintains an Internet site (at [www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

The Company routinely posts important information for investors on its web site (under [www.assuredguaranty.com/company-statements](http://www.assuredguaranty.com/company-statements) and, more generally, under the Investor Information tab at [www.assuredguaranty.com/investor-information](http://www.assuredguaranty.com/investor-information) and Businesses tab at [www.assuredguaranty.com/businesses](http://www.assuredguaranty.com/businesses)). The Company uses this web site as a means of disclosing material information and for complying with its disclosure obligations under SEC Regulation FD (Fair Disclosure). Accordingly, investors should monitor the Company

Statements, Investor Information and Businesses portions of the Company's web site, in addition to following the Company's press releases, SEC filings, public conference calls, presentations and webcasts.

The information contained on, or that may be accessed through, the Company's web site is not incorporated by reference into, and is not a part of, this report.

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ITEM 1A. RISK FACTORS

You should carefully consider the following information, together with the information contained in AGL's other filings with the SEC. The risks and uncertainties discussed below are not the only ones the Company faces. However, these are the risks that the Company's management believes are material. The Company may face additional risks or uncertainties that are not presently known to the Company or that management currently deems immaterial, and such risks or uncertainties also may impair its business or results of operations. The risks discussed below could result in a significant or material adverse effect on the Company's financial condition, results of operations, liquidity or business prospects.

Risks Related to the Company's Expected Losses

Estimates of expected losses are subject to uncertainties and may not be adequate to cover potential paid claims.

The financial guaranties issued by the Company's insurance subsidiaries insure the credit performance of the guaranteed obligations over an extended period of time, in some cases over 30 years, and, in most circumstances, the Company has no right to cancel such financial guaranties. As a result, the Company's estimate of ultimate losses on a policy is subject to significant uncertainty over the life of the insured transaction. Credit performance can be adversely affected by economic, fiscal and financial market variability as well as changes in law or industry practices (such as the potential discontinuance of the publication of the London Interbank Offered Rate (LIBOR)) over the long duration of most contracts. If the Company's actual losses exceed its current estimate, this may result in adverse effects on the Company's financial condition, results of operations, liquidity, business prospects, financial strength ratings and ability to raise additional capital.

The determination of expected loss is an inherently subjective process involving numerous estimates, assumptions and judgments by management, using both internal and external data sources with regard to frequency, severity of loss, economic projections, the perceived strength of legal protections, governmental actions, negotiations and other factors that affect credit performance. The Company does not use traditional actuarial approaches to determine its estimates of expected losses. Actual losses will ultimately depend on future events or transaction performance. As a result, the Company's current estimates of probable and estimable losses may not reflect the Company's future ultimate claims paid.

Certain sectors and large risks within the Company's insured portfolio have experienced credit deterioration in excess of the Company's initial expectations, which has led or may lead to losses in excess of the Company's initial expectations. The Company's expected loss models take into account current and expected future trends, which contemplate the impact of current and probable developments in the performance of the exposure. These factors, which are integral elements of the Company's reserve estimation methodology, are updated on a quarterly basis based on current information. Because such information changes over time, sometimes materially, the Company's projection of losses may also change materially. Much of the recent development in the Company's loss projections relate to the Company's insured Puerto Rico exposures. The Company had net par outstanding to general obligation bonds of the Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations as of December 31, 2018 and December 31, 2017 aggregating to \$4.8 billion and \$5.0 billion, respectively, all of which was rated BIG under the Company's rating methodology. For a discussion of the Company's Puerto Rico risks, see Part II, Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding Exposure.

Risks Related to the Financial, Credit and Financial Guaranty Markets

Claim payments on obligations of the Commonwealth of Puerto Rico and its related authorities and public corporations insured by the Company in excess of those expected by the Company could have a negative effect on the

Company's liquidity and results of operations.

The Company has an aggregate \$4.8 billion net par exposure as of December 31, 2018 to the Commonwealth of Puerto Rico (Puerto Rico or the Commonwealth) and various obligations of its related authorities and public corporations, and claim payments on such insured exposures in excess of those expected by the Company could have a negative effect on the Company's liquidity and results of operations. Most of the Puerto Rican entities with obligations insured by the Company have defaulted on their debt service payments, and the Company has paid claims on them.

On June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) was signed into law by the President of the United States. PROMESA established a seven-member federal financial oversight board (Oversight Board) with authority to require that balanced budgets and fiscal plans be adopted and implemented by Puerto Rico. PROMESA provides a legal framework under which the debt of the Commonwealth and its related authorities and public corporations may be voluntarily restructured, and grants the Oversight Board the sole authority to file restructuring petitions in a federal court to restructure the debt of the Commonwealth and its related authorities and public corporations if voluntary

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negotiations fail, provided that any such restructuring must be in accordance with an Oversight Board approved fiscal plan that respects the liens and priorities provided under Puerto Rico law.

On September 20, 2017, Hurricane Maria made landfall in Puerto Rico as a Category 4 hurricane on the Saffir-Simpson scale, causing loss of life and widespread devastation. Damage to the Commonwealth's infrastructure, including the power grid, water system and transportation system, was extensive, and has impacted the ability and willingness of Puerto Rican obligors to make timely and full debt service payments and participants' efforts to resolve the Commonwealth's financial issues under PROMESA.

The Company believes that a number of the actions taken by the Commonwealth, the Oversight Board and others with respect to obligations it insures are illegal or unconstitutional or both, and has taken legal action, and may take additional legal action in the future, to enforce its rights with respect to these matters. Any adverse decisions in litigation relating to Puerto Rico may impact both the Company's exposure in Puerto Rico as well as the strength of its legal protections in other exposures. For example, on January 30, 2018, the Federal District Court in Puerto Rico held, in an action initiated by the Company relating to the Puerto Rico Highways and Transportation Authority (PRHTA), among other things, that (i) even though the special revenue provisions of the Bankruptcy Code protect a lien on pledged special revenues, those provisions do not mandate the turnover of pledged special revenues to the payment of bonds and (ii) actions to enforce liens on pledged special revenues remain stayed. A hearing on AGM and AGC's appeal of the trial court's decision to the United States Court of Appeals for the First Circuit ("First Circuit") was held on November 5, 2018.

The final shape, timing and validity of responses to Puerto Rico's distress eventually enacted or implemented under the auspices of PROMESA and the Oversight Board or otherwise, and the impact, after resolution of any legal challenges, of any such responses on obligations insured by the Company, are uncertain, but could be significant. Additional information about the Company's exposure to Puerto Rico and legal actions it has initiated may be found in Part II, Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding Exposure, Exposure to Puerto Rico.

The Company's business, liquidity, financial condition and stock price may be adversely affected by developments in the U.S. and world-wide financial markets.

The Company's loss reserves, profitability, financial position, insured portfolio, investment portfolio, cash flow, statutory capital and stock price could be materially affected by the U.S. and global financial markets. Upheavals in the financial markets affect economic activity and employment and therefore can affect the Company's business. The global economic outlook remains uncertain, including the overall growth rate of the U.S. economy, the impact of Brexit in Europe and the impact of recent political trends on the global economic order. These and other risks could materially and negatively affect the Company's ability to access the capital markets, the cost of the Company's debt, the demand for its products, the amount of losses incurred on transactions it guarantees, the value of its investment portfolio (including its alternative investments), its financial ratings and the price of its common shares.

Some of the state and local governments and entities that issue obligations the Company insures are experiencing significant budget deficits and pension funding and revenue shortfalls that could result in increased credit losses or impairments and capital charges on those obligations.

Some of the state and local governments that issue the obligations the Company insures have experienced significant budget deficits and pension funding and revenue collection shortfalls that required them to significantly raise taxes and/or cut spending in order to satisfy their obligations. While the U.S. government has provided some financial support and although overall state revenues have increased in recent years, significant budgetary pressures remain, especially at the local government level and in relation to retirement obligations. Certain local governments, including ones that have issued obligations insured by the Company, have sought protection from creditors under chapter 9 of

the U.S. Bankruptcy Code as a means of restructuring their outstanding debt. In some recent instances where local governments were seeking to restructure their outstanding debt, and partially in response to concerns that materially reducing pension payments would lead to employee flight and, therefore, an inadequate level of local government services, pension and other obligations owed to workers were treated more favorably than senior bond debt owed to the capital markets. If the issuers of the obligations in the Company's public finance portfolio do not have sufficient funds to cover their expenses and are unable or unwilling to raise taxes, decrease spending or receive federal assistance, the Company may experience increased levels of losses or impairments on its public finance obligations, which could materially and adversely affect its business, financial condition and results of operations. If such issuers succeed in restructuring pension and other obligations owed to workers so that they are treated more favorably than obligations insured by the Company, such losses or impairments could be greater than the Company otherwise anticipated when the insurance was written.

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The Company's risk of loss on and capital charges for municipal exposures could also be exacerbated by rating agency downgrades of municipal exposure ratings. A downgraded municipal issuer may be unable to refinance maturing obligations or issue new debt, which could reduce the municipality's ability to service its debt. Downgrades could also affect the interest rate that the municipality must pay on its variable rate debt or for new debt issuance. Municipal exposure downgrades, as with other downgrades, result in an increase in the capital charges the rating agencies assess when evaluating the Company's capital adequacy in their rating models. Significant municipal downgrades could result in higher capital requirements for the Company in order to maintain its financial strength ratings.

In addition, obligations supported by specified revenue streams, such as revenue bonds issued by toll road authorities, municipal utilities or airport authorities, may be adversely affected by revenue declines resulting from reduced demand, changing demographics or other factors associated with an economy in which unemployment remains high, housing prices have not yet stabilized and growth is slow. These obligations, which may not necessarily benefit from financial support from other tax revenues or governmental authorities, may also experience increased losses if the revenue streams are insufficient to pay scheduled interest and principal payments.

Persistently low interest rate levels and credit spreads could adversely affect demand for financial guaranty insurance as well as the Company's financial condition.

Demand for financial guaranty insurance generally fluctuates with changes in market credit spreads. Credit spreads, which are based on the difference between interest rates on high-quality or "risk free" securities versus those on lower-rated or uninsured securities, fluctuate due to a number of factors and are sensitive to the absolute level of interest rates, current credit experience and investors' risk appetite. While higher than in 2016, when the benchmark AAA 30-year MMD index was at times below 2%, the average for that rate was 3.05% in 2018, still low by historical standards. When interest rates are low, or when the market is relatively less risk averse, the credit spread between high-quality or insured obligations versus lower-rated or uninsured obligations typically narrows. As a result, financial guaranty insurance typically provides lower interest cost savings to issuers than it would during periods of relatively wider credit spreads. Issuers are less likely to use financial guaranties on their new issues when credit spreads are narrow, this results in decreased demand or premiums obtainable for financial guaranty insurance, and a resulting reduction in the Company's results of operations. The continued persistence of low interest rate levels and or low credit spreads by historical standards could continue to dampen demand for financial guaranty insurance.

Conversely, in a deteriorating credit environment, credit spreads increase and become "wide", which increases the interest cost savings that financial guaranty insurance may provide and can result in increased demand for financial guaranties by issuers. However, if the weakening credit environment is associated with economic deterioration, the Company's insured portfolio could generate claims and loss payments in excess of normal or historical expectations. In addition, increases in market interest rate levels could reduce new capital markets issuances and, correspondingly, a decreased volume of insured transactions.

Competition in the Company's industry may adversely affect its revenues.

As described in greater detail under "Competition" in "Item 1. Business," the Company can face competition, either in the form of current or new providers of credit enhancement or in terms of alternative structures, including uninsured offerings, or pricing competition. Increased competition could have an adverse effect on the Company's insurance business.

The Company's financial position, results of operations and cash flows may be adversely affected by fluctuations in foreign exchange rates.

The Company's reporting currency is the U.S. dollar. The functional currencies of AGL's primary insurance and reinsurance subsidiaries are the U.S. dollar. The Company's non-U.S. subsidiaries maintain both assets and liabilities in currencies different from their functional currency, which exposes the Company to changes in currency exchange rates. In addition, assets of non-U.S. subsidiaries are primarily invested in local currencies in order to satisfy regulatory requirements and to support local insurance operations regardless of currency fluctuations.

The principal currencies creating foreign exchange risk are the British pound sterling and the European Union euro. The Company's purchase of MBIA UK in 2017 increased its exposure to the British pound sterling. The Company cannot accurately predict the nature or extent of future exchange rate variability between these currencies or relative to the U.S. dollar. Foreign exchange rates are sensitive to factors beyond the Company's control. The pending separation of the U.K. from the EU may increase currency fluctuations in the next several years. See "Risks Related to the Financial, Credit and Financial Guaranty Markets - Brexit may adversely impact exposures insured by the Company and may also adversely impact the Company through currency exchange rates."

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The Company does not engage in active management, or hedging, of its foreign exchange rate risk. Therefore, fluctuation in exchange rates between the U.S. dollar and the British pound sterling or the European Union euro could adversely impact the Company's financial position, results of operations and cash flows. See Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, Sensitivity of Investment Portfolio to Foreign Exchange Risk and Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, Sensitivity of Premiums Receivable to Foreign Exchange Risk.

The Company may be adversely impacted by the transition from LIBOR as a reference rate.

In 2017, the United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate the LIBOR. This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Consequently, at this time, it is not possible to predict whether and to what extent banks will continue to provide submissions for the calculation of LIBOR. While regulators have suggested substitute rates, including the Secured Overnight Financing Rate, the impact of the discontinuance of LIBOR, if it occurs, will be contract-specific. Issuers of obligations the Company insures have obligations, assets and hedges that reference LIBOR, and some of the obligations the Company insures reference LIBOR. Some of the debt issued by the Company, as well as committed capital securities from which it benefits, also pay interest tied to LIBOR. See Part II, Item 8, Financial Statements and Supplementary Data, Note 16, Long-Term Debt and Credit Facilities. The Company cannot at this time predict the impact of the discontinuance of LIBOR, if it occurs, on every obligor and obligation the Company enhances.

The Company's international operations expose it to less predictable credit and legal risks.

The Company pursues new business opportunities in international markets. The underwriting of obligations of an issuer in a foreign country involves the same process as that for a domestic issuer, but additional risks must be addressed, such as the evaluation of foreign currency exchange rates, foreign business and legal issues, and the economic and political environment of the foreign country or countries in which an issuer does business. Changes in such factors could impede the Company's ability to insure, or increase the risk of loss from insuring, obligations in the countries in which it currently does business and limit its ability to pursue business opportunities in other countries.

The Company's investment portfolio may be adversely affected by credit, interest rate and other market changes.

The Company's operating results are affected, in part, by the performance of its investment portfolio which primarily consists of fixed-income securities and short-term investments. As of December 31, 2018, fixed-maturity securities and short-term investments had a fair value of approximately \$10.8 billion. Credit losses and changes in interest rates could have an adverse effect on the Company's shareholders' equity and net income. Credit losses result in realized losses on the Company's investment portfolio, which reduce net income and shareholders' equity. Changes in interest rates can affect both shareholders' equity and investment income. For example, if interest rates decline, funds reinvested will earn less than expected, reducing the Company's future investment income compared to the amount it would earn if interest rates had not declined. However, the value of the Company's fixed-rate investments would generally increase if interest rates decreased, resulting in an unrealized gain on investments included in shareholders' equity. Conversely, if interest rates increase, the value of the fixed-rate investment portfolio will be reduced, resulting in unrealized losses that the Company is required to include in shareholders' equity as other comprehensive income (OCI). Accordingly, interest rate increases could reduce the Company's shareholders' equity.

Interest rates are highly sensitive to many factors, including monetary policies, domestic and international economic and political conditions and other factors beyond the Company's control. The Company does not engage in active management, or hedging, of interest rate risk, and may not be able to mitigate interest rate sensitivity effectively.

The market value of the investment portfolio also may be adversely affected by general developments in the capital markets, including decreased market liquidity for investment assets, market perception of increased credit risk with respect to the types of securities held in the portfolio, downgrades of credit ratings of issuers of investment assets and/or foreign exchange movements impacting investment assets. In addition, the Company invests in securities insured by other financial guarantors, the market value of which may be affected by the rating instability of the relevant financial guarantor.

The Company also invests a portion of its excess capital in alternative investments, which also may be affected by credit, interest rate and other market changes as well as factors specific to those investments. See "Risks Related to the Company's Business - Alternative investments may not result in the benefits anticipated."

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Brexit may adversely impact exposures insured by the Company and may also adversely impact the Company through currency exchange rates.

As described above in Part 1, Item 1, Business, Regulation, on June 23, 2016, a referendum was held in the U.K. in which a majority voted to exit the EU, known as "Brexit". The U.K. government served notice to the European Council on March 29, 2017 of its desire to withdraw in accordance with Article 50 of the Treaty on European Union, and there has been no approval by the U.K. parliament of any withdrawal agreement between the EU and the U.K. Failing such approval or the implementation of an agreed extension to the U.K.'s planned departure date, the it is currently expected that the U.K. will leave the EU on March 29, 2019 under a No-Deal Brexit, leaving considerable uncertainty as to the ongoing terms of the U.K.'s relationship with the EU, including the terms of trade between the U.K. and the EU, and a likely negative impact on all parties. Any resulting political, social and economic uncertainty and changes arising from Brexit, including a No-Deal Brexit if it occurs, may have a negative impact on the economies of the U.K. as well as non-U.K. EU and EEA countries, which may increase the probability of losses on obligations insured by the Company that are exposed to risks in the U.K. and non-U.K. EU and EEA countries. Given the lack of clarity on the ultimate post-Brexit relationship between the U.K. and the EU, the Company cannot fully determine what, if any, impact Brexit may have on its operations, both inside and outside the U.K.

Brexit, especially a No-Deal Brexit if it occurs, may also impact currency exchange rates. The Company reports its accounts in U.S. dollars, while some of its income, expenses and assets are denominated in other currencies, primarily the pound sterling and the euro. For example, from December 31, 2015 to December 31, 2016, which period encompasses the Brexit vote, the value of pound sterling dropped from £0.68 per dollar to £0.81 per dollar, while the euro dropped from €0.83 per dollar to €0.95 per dollar. For the year ended 2016, the Company recognized losses of approximately \$21 million in the consolidated statement of operations, net of tax, and approximately \$32 million in OCI, net of tax, for foreign currency translation, that were primarily driven by the exchange rate fluctuations of the pound sterling. Currency exchange rates may also move materially as the terms of Brexit become known.

See also "Changes in applicable laws and regulations resulting from Brexit may adversely affect the Company" under Risks Related to GAAP and Applicable Law.

### Risks Related to the Company's Business

The Company's insurance products may subject it to significant risks from individual or correlated exposures.

The Company is exposed to the risk that issuers of debt that it insures or other counterparties may default in their financial obligations, whether as a result of insolvency, lack of liquidity, operational failure or other reasons. Similarly, the Company could be exposed to corporate credit risk if a corporation or financial institution is the originator or servicer of loans, mortgages or other assets backing structured securities that the Company has insured.

In addition, because the Company insures or reinsures municipal bonds, it may have significant exposures to single municipal risks; see Part II, Item 7, Management's Discussion and Analysis, Insured Portfolio, for a list of the Company's largest ten municipal risks by revenue source. While the Company's risk of a complete loss, where it would have to pay the entire principal amount of an issue of bonds and interest thereon with no recovery, is generally lower for municipal bonds, most of which are backed by tax or other revenues, than for corporate bonds, there can be no assurance that a single default by a municipality would not have a material adverse effect on the Company's results of operations or financial condition.

The Company's ultimate exposure to a single risk may exceed its underwriting guidelines (caused by, for example, acquisitions, reassumptions, or amortization of the portfolio faster than the single risk), and an event with respect to a single risk may cause a significant loss. The Company seeks to reduce this risk by managing exposure to large single

risks, as well as concentrations of correlated risks, through tracking its aggregate exposure to single risks in its various lines of business and establishing underwriting criteria to manage risk aggregations. It has also in the past obtained third party reinsurance for such exposure. The Company may insure and has insured individual public finance and asset-backed risks well in excess of \$1 billion. Should the Company's risk assessments prove inaccurate and should the applicable limits prove inadequate, the Company could be exposed to larger than anticipated losses, and could be required by the rating agencies to hold additional capital against insured exposures whether or not downgraded by the rating agencies.

The Company is exposed to correlation risk across the various assets the Company insures. During periods of strong macroeconomic performance, stress in an individual transaction generally occurs for idiosyncratic reasons or as a result of issues in a single asset class (so impacting only transactions in that sector). During a broad economic downturn, a wider range of the Company's insurance portfolio could be exposed to stress at the same time. This stress may manifest itself in ratings downgrades, which may require more capital, or in actual losses, or both. In addition, while the Company's portfolio has

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experienced many catastrophic events in the past without material loss, unexpected catastrophic events may have a material adverse effect upon the Company's insured portfolio and/or its investment portfolios. For example, Hurricane Maria negatively impacted the Company's exposure to Puerto Rico and its related authorities and public corporations. See "Risks Related to the Financial, Credit and Financial Guaranty Markets - Claim payments on obligations of the Commonwealth of Puerto Rico insured by the Company in excess of those expected by the Company could have a negative effect on the Company's liquidity and results of operations."

Some of the Company's direct financial guaranty products may be riskier than traditional financial guaranty insurance.

As of December 31, 2018 and 2017, 2% of the Company's financial guaranty direct exposures were originally executed as credit derivatives. Traditional financial guaranty insurance provides an unconditional and irrevocable guaranty that protects the holder of a municipal finance or structured finance obligation against non-payment of principal and interest, while credit derivatives provide protection from the occurrence of specified credit events, including non-payment of principal and interest. In general, the Company structures credit derivative transactions such that circumstances giving rise to its obligation to make payments are similar to those for financial guaranty policies and generally occur when issuers fail to make payments on the underlying reference obligations. The tenor of credit derivatives exposures, like exposure under financial guaranty insurance policies, is also generally for as long as the reference obligation remains outstanding.

Nonetheless, credit derivative transactions are governed by International Swaps and Derivatives Association, Inc. (ISDA) documentation and operate differently from financial guaranty insurance policies. For example, the Company's control rights with respect to a reference obligation under a credit derivative may be more limited than when it issues a financial guaranty insurance policy on a direct primary basis. In addition, a credit derivative may be terminated for a breach of the ISDA documentation or other specific events, unlike financial guaranty insurance policies.

Acquisitions may not result in the benefits anticipated and may subject the Company to non-monetary consequences.

From time to time the Company evaluates financial guaranty portfolio and company acquisition opportunities and conducts diligence activities with respect to transactions with other financial guarantors and financial services companies. For example, during 2015 the Company acquired Radian Asset and in 2016 the Company acquired CIFGNA, and in each case merged it with and into AGC, with AGC as the surviving company of the merger. In January 2017, the Company acquired MBIA UK, and on June 1, 2018, the Company closed a transaction with SGI under which AGC assumed, generally on a 100% quota share basis, substantially all of SGI's insured portfolio and AGM reassumed a book of business previously ceded to SGI by AGM. These acquisitions as well as any future acquisitions of other financial guaranty portfolios or companies or other financial services companies may involve some or all of the various risks commonly associated with acquisitions, including, among other things: (a) failure to adequately identify and value potential exposures and liabilities of the target portfolio or entity; (b) difficulty in estimating the value of the target portfolio or entity; (c) potential diversion of management's time and attention; (d) exposure to asset quality issues of the target entity; (e) difficulty and expense of integrating the operations, systems and personnel of the target entity; and (f) concentration of exposures, including exposures which may exceed single risk limits, due to the addition of the target portfolio. Such acquisitions may also have unintended consequences on ratings assigned by the rating agencies to the Company or its subsidiaries (see "— Risks Related to the Company's Financial Strength and Financial Enhancement Ratings") or on the applicability of laws and regulations to the Company's existing businesses. These or other factors may cause any past or future acquisitions of financial guaranty portfolios or companies or other financial services companies not to result in the benefits to the Company anticipated when the acquisition was agreed. Past or future acquisitions may also subject the Company to non-monetary consequences that may or may not have been anticipated or fully mitigated at the time of the acquisition.

Alternative investments may not result in the benefits anticipated.

From time to time in order to deploy a portion of the Company's excess capital the Company may invest in business opportunities that complement the Company's financial guaranty business, are in line with its risk profile and benefit from its core competencies. The alternative investments group has been investigating a number of such opportunities, including, among others, both controlling and non-controlling investments in investment managers. For example, in February 2017 the Company agreed to purchase up to \$100 million of limited partnership interests in a fund that invests in the equity of private equity managers. In September 2017, the Company acquired a minority interest in Wasmer, Schroeder & Company LLC, an independent investment advisory firm specializing in SMAs. In February 2018, the Company acquired a minority interest in the holding company of Rubicon Infrastructure Advisors, a full-service investment firm based in Dublin that provides investment banking services within the global infrastructure sector. The Company continues to investigate additional opportunities to make alternative investments, including, among others, both controlling and non-controlling investments in investment managers, but there can be no assurance if or when the Company will find suitable opportunities on appropriate terms.

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Alternative investments may be riskier than many of the other investments the Company makes, and may not result in the benefits anticipated at the time of the investment. In addition, although the Company uses what it believes to be excess capital to make alternative investments, measures of required capital can fluctuate and such investments may not be given much, or any, value under the various rating agency, regulatory and internal capital models to which the Company is subject. Also, alternative investments may be less liquid than most of the Company's other investments and so may be difficult to convert to cash or investments that do receive credit under the capital models to which the Company is subject. See "Risks Related to the Company's Capital and Liquidity Requirements — The ability of AGL and its subsidiaries to meet their liquidity needs may be limited."

The Company is dependent on key executives and the loss of any of these executives, or its inability to retain other key personnel, could adversely affect its business.

The Company's success substantially depends upon its ability to attract and retain qualified employees and upon the ability of its senior management and other key employees to implement its business strategy. The Company believes there are only a limited number of available qualified executives in the business lines in which the Company competes. The Company relies substantially upon the services of Dominic J. Frederico, President and Chief Executive Officer, and other executives. Although the Company has designed its executive compensation with the goal of retaining and creating incentives for its executive officers, the Company may not be successful in retaining their services. The loss of the services of any of these individuals or other key members of the Company's management team could adversely affect the implementation of its business strategy.

The Company is dependent on its information technology and that of certain third parties, and a cyberattack, security breach or failure in such systems could adversely affect the Company's business.

The Company relies upon information technology and systems, including technology and systems provided by or interfacing with those of third parties, to support a variety of its business processes and activities. In addition, the Company has collected and stored confidential information including, in connection with certain loss mitigation and due diligence activities related to its structured finance business, personally identifiable information. While the Company does not believe that the financial guaranty industry is as inherently prone to cyberattacks as industries relating to, for example, payment card processing, banking, critical infrastructure or defense contracting, the Company's data systems and those of third parties on which it relies are still vulnerable to security breaches due to cyberattacks, viruses, malware, ransomware, hackers and other external hazards, as well as inadvertent errors, equipment and system failures, and employee misconduct. Problems in or security breaches of these systems could, for example, result in lost business, reputational harm, the disclosure or misuse of confidential or proprietary information, incorrect reporting, inaccurate loss projections, legal costs and regulatory penalties.

The Company's business operations rely on the continuous availability of its computer systems as well as those of certain third parties. In addition to disruptions caused by cyberattacks or other data breaches, such systems may be adversely affected by natural and man-made catastrophes. The Company's failure to maintain business continuity in the wake of such events, particularly if there were an interruption for an extended period, could prevent the timely completion of critical processes across its operations, including, for example, claims processing, treasury and investment operations and payroll. These failures could result in additional costs, loss of business, fines and litigation.

The Company and its subsidiaries are subject to numerous laws and regulations of a number of jurisdictions regarding its information systems, particularly with regard to personally identifiable information. The Company's failure to comply with these requirements, even absent a security breach, could result in penalties, reputational harm or difficulty in obtaining desired consents from regulatory authorities.

The Board of Directors oversees the risk management process, including cybersecurity risks, and engages with management on risk management issues, including cybersecurity issues. The Audit Committee of the Board of Directors has specific responsibility for overseeing information technology matters, including cybersecurity risk, and the Risk Oversight Committee of the Board of Directors addresses cybersecurity matters as part of its enterprise risk management responsibilities.

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Risks Related to the Company's Financial Strength and Financial Enhancement Ratings

A downgrade of the financial strength or financial enhancement ratings of any of the Company's insurance and reinsurance subsidiaries would adversely affect its business and prospects and, consequently, its results of operations and financial condition.

The financial strength and financial enhancement ratings assigned by S&P, Moody's, KBRA and Best to each of AGL's insurance and reinsurance subsidiaries represent such rating agencies' opinions of the insurer's financial strength and ability to meet ongoing obligations to policyholders and cedants in accordance with the terms of the financial guaranties it has issued or the reinsurance agreements it has executed. The ratings also reflect qualitative factors, such as the rating agencies' opinion of an insurer's business strategy and franchise value, the anticipated future demand for its product, the composition of its insured portfolio, and its capital adequacy, profitability and financial flexibility. Issuers, investors, underwriters, ceding companies and others consider the Company's financial strength or financial enhancement ratings an important factor when deciding whether or not to utilize a financial guaranty or purchase reinsurance from one of the Company's insurance or reinsurance subsidiaries. A downgrade by a rating agency of the financial strength or financial enhancement ratings of one or more of AGL's subsidiaries could impair the Company's financial condition, results of operation, liquidity, business prospects or other aspects of the Company's business.

The ratings assigned by the rating agencies that publish financial strength or financial enhancement ratings on AGL's insurance subsidiaries are subject to review and may be lowered by a rating agency as a result of a number of factors, including, but not limited to, the rating agency's revised stress loss estimates for the Company's insurance portfolio, adverse developments in the Company's or the subsidiary's financial conditions or results of operations due to underwriting or investment losses or other factors, changes in the rating agency's outlook for the financial guaranty industry or in the markets in which the Company operates, or a revision in the rating agency's capital model or rating methodology. Their reviews can occur at any time and without notice to the Company and could result in a decision to downgrade, revise or withdraw the financial strength or financial enhancement ratings of AGL's insurance and reinsurance subsidiaries. For example, while all of the rating agencies that rate AGL subsidiaries with exposure to Puerto Rico have indicated that their evaluations of such AGL subsidiaries already take into account stress scenarios related to developments in Puerto Rico, actual developments in Puerto Rico beyond what a rating agency previously considered could cause that rating agency to review its ratings of such AGL subsidiaries.

The Company periodically assesses the value of each rating assigned to each of its companies, and may as a result of such assessment request that a rating agency add or drop a rating from certain of its companies. For example, the KBRA ratings were first assigned to MAC in 2013, to AGM in 2014, to AGC in 2016 and to AGE in 2018, and the Best rating was first assigned to AGRO in 2015, while a Moody's rating was never requested for MAC and was dropped from AG Re and AGRO in 2015. In January 2017, AGC requested that Moody's withdraw its financial strength rating of AGC, but Moody's denied that request and still rates AGC.

The insurance subsidiaries' financial strength ratings are an important competitive factor in the financial guaranty insurance and reinsurance markets. If the financial strength or financial enhancement ratings of one or more of the Company's insurance subsidiaries were reduced below current levels, the Company expects that would reduce the number of transactions that would benefit from the Company's insurance; consequently, a downgrade by rating agencies could harm the Company's new business production, results of operations and financial condition.

In addition, a downgrade may have a negative impact on the Company in respect of transactions that it has insured or reinsurance that it has assumed. For example, a downgrade of one of the Company's insurance subsidiaries may result in increased claims under financial guaranties such subsidiary has issued. Under variable rate demand obligations insured by AGM, downgrades past rating levels specified in the transaction documents could result in the municipal

obligor paying a higher rate of interest and in such obligations amortizing on a more accelerated basis than expected when the obligations originally were issued; if the municipal obligor is unable to make such interest or principal payments, AGM may receive a claim under its financial guaranty. Under interest rate swaps insured by AGM, downgrades past specified rating levels could entitle the municipal obligor's swap counterparty to terminate the swap; if the municipal obligor owed a termination payment as a result and were unable to make such payment, AGM may receive a claim if its financial guaranty guaranteed such termination payment. For more information about increased claim payments the Company may potentially make, see Part II, Item 8, Financial Statements and Supplementary Data, Note 6, Contracts Accounted for as Insurance, Ratings Impact on Financial Guaranty Business. In certain other transactions, beneficiaries of financial guaranties issued by the Company's insurance subsidiaries may have the right to cancel the credit protection offered by the Company, which would result in the loss of future premium earnings and the reversal of any fair value gains recorded by the Company. In addition, a downgrade of AG Re, AGC or AGRO could result in certain ceding companies recapturing business that they had ceded to these reinsurers. See "The downgrade of the financial strength ratings of AG Re, AGC or AGRO would give certain reinsurance counterparties the right to

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recapture certain ceded business, which would lead to a reduction in the Company's unearned premium reserve and related earnings" below.

Furthermore, if the financial strength ratings of AGE were downgraded, AGM may be required to contribute additional capital to AGE pursuant to the terms of the support arrangement for AGE, as described in "Item 1. Business, Regulation, United Kingdom, Material Contracts."

The downgrade of the financial strength ratings of AG Re, AGC or AGRO would give certain reinsurance counterparties the right to recapture certain ceded business, which would lead to a reduction in the Company's unearned premium reserve and related earnings.

The downgrade of the financial strength ratings of AG Re, AGC or AGRO gives certain reinsurance counterparties the right to recapture certain ceded business, which would involve payments by the Company and lead to a reduction in the Company's unearned premium reserve and related earnings. As of December 31, 2018, if each third party company ceding business to AG Re, AGC and/or AGRO had a right to recapture such business, and chose to exercise such right, the aggregate amounts that AG Re, AGC and AGRO could be required to pay to all such companies would be approximately \$42 million, \$326 million and \$10 million, respectively.

Actions taken by the rating agencies with respect to capital models and rating methodology of the Company's business or changes in capital charges or downgrades of transactions within its insured portfolio may adversely affect its ratings, business prospects, results of operations and financial condition.

The rating agencies from time to time have evaluated the Company's capital adequacy under a variety of scenarios and assumptions. The rating agencies do not always supply clear guidance on their approach to assessing the Company's capital adequacy and the Company may disagree with the rating agencies' approach and assumptions. For example, S&P assesses each individual exposure (including potential new exposures) insured by the Company based on a variety of factors, including the nature of the exposure, the nature of the support or credit enhancement for the exposure, its tenor, and its expected and actual performance. This assessment determines the amount of capital the Company is required to maintain against that exposure to maintain its financial strength ratings under S&P's capital adequacy model. Sometimes the rating agencies consider the amount of additional capital that could be required for certain risks or sectors under certain stress scenarios based on their views of developments in the market, as each have done recently with respect to the Company's exposures to Puerto Rico. Factors influencing the rating agencies are beyond management's control and not always known to the Company. In the event of an actual or perceived deterioration in creditworthiness, or a change in a rating agency's capital model or rating methodology, that rating agency may require the Company to increase the amount of capital allocated to support the affected exposures, regardless of whether losses actually occur, or against potential new business. Significant reductions in the rating agencies' assessments of exposures in the Company's insured portfolio can produce significant increases in the amount of capital required for the Company to maintain its financial strength ratings under the rating agencies' capital adequacy models, which may require the Company to seek additional capital. The amount of such capital required may be substantial, and may not be available to the Company on favorable terms and conditions or at all. Accordingly, the Company cannot ensure that it will seek or be able to raise additional capital. The failure to raise additional required capital could result in a downgrade of the Company's ratings and thus have an adverse impact on its business, results of operations and financial condition. See "Risks Related to the Company's Capital and Liquidity Requirements—The Company may require additional capital from time to time, including from soft capital and liquidity credit facilities, which may not be available or may be available only on unfavorable terms."

Risks Related to the Company's Capital and Liquidity Requirements

Significant claim payments may reduce the Company's liquidity.

Claim payments reduce the Company's invested assets and result in reduced liquidity and net investment income, even if the Company is reimbursed in full over time and does not experience ultimate loss on a particular policy. Since the financial crisis in 2008, many of the claims paid by the Company were with respect to insured U.S. RMBS securities. More recently, there has been credit deterioration with respect to certain insured Puerto Rico exposures, and the Company has paid material claims with respect to a number of those exposures. The Company had net par outstanding to general obligation bonds of the Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations aggregating \$4.8 billion and \$5.0 billion, respectively, as of December 31, 2018 and December 31, 2017, all of which was rated BIG under the Company's rating methodology. For a discussion of the Company's Puerto Rico risks, see Part II, Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding Exposure.

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The Company plans for future claim payments. If the amount of future claim payments is significantly more than that projected by the Company, however, the Company's ability to make other claim payments and its financial condition, financial strength ratings and business prospects could be adversely affected.

The Company may require additional capital from time to time, including from soft capital and liquidity credit facilities, which may not be available or may be available only on unfavorable terms.

The Company's capital requirements depend on many factors, primarily related to its in-force book of business and rating agency capital requirements. Failure to raise additional capital if and as needed may result in the Company being unable to write new business and may result in the ratings of the Company and its subsidiaries being downgraded by one or more rating agency. The Company's access to external sources of financing, as well as the cost of such financing, is dependent on various factors, including the market supply of such financing, the Company's long-term debt ratings and insurance financial strength ratings and the perceptions of its financial strength and the financial strength of its insurance subsidiaries. The Company's debt ratings are in turn influenced by numerous factors, such as financial leverage, balance sheet strength, capital structure and earnings trends. If the Company's need for capital arises because of significant losses, the occurrence of these losses may make it more difficult for the Company to raise the necessary capital.

Future capital raises for equity or equity-linked securities could also result in dilution to the Company's shareholders. In addition, some securities that the Company could issue, such as preferred stock or securities issued by the Company's operating subsidiaries, may have rights, preferences and privileges that are senior to those of its common shares.

Financial guaranty insurers and reinsurers typically rely on providers of lines of credit, excess of loss reinsurance facilities and similar capital support mechanisms (often referred to as "soft capital") to supplement their existing capital base, or "hard capital." The ratings of soft capital providers directly affect the level of capital credit which the rating agencies give the Company when evaluating its financial strength. The Company currently maintains soft capital facilities with providers having ratings adequate to provide the Company's desired capital credit. For example, effective January 1, 2018, AGC, AGM and MAC entered into a \$400 million aggregate excess of loss reinsurance facility of which \$180 million was placed with an unaffiliated reinsurer, that covers certain U.S. public finance exposures insured or reinsured by those companies. (For additional information, see Part II, Item 8, Financial Statements and Supplementary Data, Note 13, Reinsurance). However, no assurance can be given that the Company will be able to renew any existing soft capital facilities or that one or more of the rating agencies will not downgrade or withdraw the applicable ratings of such providers in the future. In addition, the Company may not be able to replace a downgraded soft capital provider with an acceptable replacement provider for a variety of reasons, including the unwillingness of an acceptable replacement provider to provide the Company with soft capital commitments or the lack of adequately-rated institutions that are actively providing soft capital facilities. Furthermore, the rating agencies may in the future change their methodology and no longer give credit for soft capital, which may necessitate the Company having to raise additional capital in order to maintain its ratings.

An increase in AGL's subsidiaries' leverage ratio may prevent them from writing new insurance.

Insurance regulatory authorities impose capital requirements on AGL's insurance subsidiaries. These capital requirements, which include leverage ratios and surplus requirements, may limit the amount of insurance that the subsidiaries may write. The insurance subsidiaries have several alternatives available to control their leverage ratios, including obtaining capital contributions from affiliates, purchasing reinsurance or entering into other loss mitigation agreements, or reducing the amount of new business written. However, a material reduction in the statutory capital and surplus of a subsidiary, whether resulting from underwriting or investment losses, a change in regulatory capital requirements or otherwise, or a disproportionate increase in the amount of risk in force, could increase a subsidiary's

leverage ratio. This in turn could require that subsidiary to obtain reinsurance for existing business (which may not be available, or may be available on terms that the Company considers unfavorable), or add to its capital base to maintain its financial strength ratings. Failure to maintain regulatory capital levels could limit that subsidiary's ability to write new business.

The Company's holding companies' ability to meet their obligations may be constrained.

Each of AGL, AGUS and AGMH is a holding company and, as such, has no direct operations of its own. None of the holding companies expects to have any significant operations or assets other than its ownership of the shares of its subsidiaries.

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The insurance company subsidiaries' ability to pay dividends and make other payments depends, among other things, upon their financial condition, results of operations, cash requirements, and compliance with rating agency requirements, and is also subject to restrictions contained in the insurance laws and related regulations of their states of domicile. Restrictions applicable to AGM, AGC and MAC, and to AG Re and AGRO, are described under the "Regulation, United States, State Dividend Limitations" and "Regulation, Bermuda, Restrictions on Dividends and Distributions" sections of "Item 1. Business." Such dividends and permitted payments are currently expected to be the primary source of funds for the holding companies to meet ongoing cash requirements, including operating expenses, any future debt service payments and other expenses, and to pay dividends to their respective shareholders. Accordingly, if the insurance subsidiaries cannot pay sufficient dividends or make other permitted payments at the times or in the amounts that are required, that would have an adverse effect on the ability of AGL, AGUS and AGMH to satisfy their ongoing cash requirements and on their ability to pay dividends to shareholders.

If AGRO were to pay dividends to its U.S. holding company parent and that U.S. holding company were to pay dividends to its Bermudian parent AG Re, such dividends would be subject to U.S. withholding tax at a rate of 30%.

The ability of AGL and its subsidiaries to meet their liquidity needs may be limited.

Each of AGL, AGUS and AGMH requires liquidity, either in the form of cash or in the ability to easily sell investment assets for cash, in order to meet its payment obligations, including, without limitation, its operating expenses, interest on debt and dividends on common shares, and to make capital investments in operating subsidiaries. The Company's operating subsidiaries require substantial liquidity in order to meet their respective payment and/or collateral posting obligations, including under financial guaranty insurance policies, CDS contracts or reinsurance agreements. They also require liquidity to pay operating expenses, reinsurance premiums, dividends to AGUS or AGMH for debt service and dividends to AGL, as well as, where appropriate, to make capital investments in their own subsidiaries. In addition, the Company may require substantial liquidity to fund any future acquisitions. The Company cannot give any assurance that the liquidity of AGL and its subsidiaries will not be adversely affected by adverse market conditions, changes in insurance regulatory law or changes in general economic conditions.

AGL anticipates that its liquidity needs will be met by the ability of its operating subsidiaries to pay dividends or to make other payments; external financings; investment income from its invested assets; and current cash and short-term investments. The Company expects that its subsidiaries' need for liquidity will be met by the operating cash flows of such subsidiaries; external financings; investment income from their invested assets; and proceeds derived from the sale of their investment portfolios, significant portions of which are in the form of cash or short-term investments. All of these sources of liquidity are subject to market, regulatory or other factors that may impact the Company's liquidity position at any time. As discussed above, AGL's insurance subsidiaries are subject to regulatory and rating agency restrictions limiting their ability to declare and to pay dividends and make other payments to AGL. As further noted above, external financing may or may not be available to AGL or its subsidiaries in the future on satisfactory terms.

In addition, investment income at AGL and its subsidiaries may fluctuate based on interest rates, defaults by the issuers of the securities AGL or its subsidiaries hold in their respective investment portfolios, the performance of alternative investments, or other factors that the Company does not control. Also, the value of the Company's investments may be adversely affected by changes in interest rates, credit risk and capital market conditions and therefore may adversely affect the Company's potential ability to sell investments quickly and the price which the Company might receive for those investments. Alternative investments may be particularly difficult to sell at adequate prices or at all.

## Risks Related to Taxation

Changes in U.S. tax laws could reduce the demand or profitability of financial guaranty insurance, or negatively impact the Company's investment portfolio.

The Tax Act included provisions that could result in a reduction of supply, such as the termination of advance refunding bonds. Any such lower volume of municipal obligations could impact the amount of such obligations that could benefit from insurance. The supply of municipal bonds in 2018 was below that in 2017, possibly due at least in part to the impact of the Tax Act. In addition, the reduction of the U.S. corporate income tax rate to 21% could make municipal obligations less attractive to certain institutional investors such as banks and property and casualty insurance companies, resulting in lower demand for municipal obligations.

Further, future changes in U.S. federal, state or local laws that materially adversely affect the tax treatment of municipal securities or the market for those securities, or other changes negatively affecting the municipal securities market, may lower volume and demand for municipal obligations and also may adversely impact the Company's investment portfolio, a

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significant portion of which is invested in tax-exempt instruments. These adverse changes may adversely affect the value of the Company's tax-exempt portfolio, or its liquidity.

Certain of the Company's non-U.S. subsidiaries may be subject to U.S. tax.

The Company manages its business so that AGL and its non-U.S. subsidiaries (other than AGRO) operate in such a manner that none of them should be subject to U.S. federal tax (other than U.S. excise tax on insurance and reinsurance premium income attributable to insuring or reinsuring U.S. risks, and U.S. withholding tax on certain U.S. source investment income). However, because there is considerable uncertainty as to the activities which constitute being engaged in a trade or business within the U.S., the Company cannot be certain that the IRS will not contend successfully that AGL or any of its non-U.S. subsidiaries (other than AGRO) is/are engaged in a trade or business in the U.S. If AGL and its non-U.S. subsidiaries (other than AGRO) were considered to be engaged in a trade or business in the U.S., each such company could be subject to U.S. corporate income and branch profits taxes on the portion of its earnings effectively connected to such U.S. business.

AGL, AG Re and AGRO may become subject to taxes in Bermuda after March 2035, which may have a material adverse effect on the Company's results of operations and on an investment in the Company.

The Bermuda Minister of Finance, under Bermuda's Exempted Undertakings Tax Protection Act 1966, as amended, has given AGL, AG Re and AGRO an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then subject to certain limitations the imposition of any such tax will not be applicable to AGL, AG Re or AGRO, or any of AGL's or its subsidiaries' operations, shares, debentures or other obligations until March 31, 2035. Given the limited duration of the Minister of Finance's assurance, the Company cannot be certain that it will not be subject to Bermuda tax after March 31, 2035.

U.S. Persons who hold 10% or more of AGL's shares directly or through non-U.S. entities may be subject to taxation under the U.S. controlled non-U.S. corporation rules.

Each 10% U.S. shareholder of a non-U.S. corporation that is a CFC at any time during a taxable year that owns shares in the non-U.S. corporation directly or indirectly through non-U.S. entities on the last day of the non-U.S. corporation's taxable year on which it is a CFC, must include in its gross income for U.S. federal income tax purposes its pro rata share of the CFC's "subpart F income," even if the subpart F income is not distributed. In addition, upon a sale of shares of a CFC, 10% U.S. shareholders may be subject to U.S. federal income tax on a portion of their gain at ordinary income rates.

The Company believes that because of the dispersion of the share ownership in AGL, no U.S. Person who owns AGL's shares directly or indirectly through non-U.S. entities should be treated as a 10% U.S. shareholder of AGL or of any of its non-U.S. subsidiaries. However, AGL's shares may not be as widely dispersed as the Company believes due to, for example, the application of certain ownership attribution rules, and no assurance may be given that a U.S. Person who owns the Company's shares will not be characterized as a 10% U.S. shareholder, in which case such U.S. Person may be subject to taxation under U.S. CFC rules.

U.S. Persons who hold shares may be subject to U.S. income taxation at ordinary income rates on their proportionate share of the Company's related person insurance income.

If the following conditions are true, then a U.S. Person who owns AGL's shares (directly or indirectly through non-U.S. entities) on the last day of the taxable year would be required to include in its income for U.S. federal income tax purposes such person's pro rata share of the RPII of such Foreign Insurance Subsidiary (as defined above)

for the entire taxable year, determined as if such RPII were distributed proportionately only to U.S. Persons at that date, regardless of whether such income is distributed:

the Company is 25% or more owned directly, indirectly through non-U.S. entities or by attribution by U.S. Persons;

the gross RPII of AG Re or any other AGL non-U.S. subsidiary engaged in the insurance business that has not made an election under section 953(d) of the Code to be treated as a U.S. corporation for all U.S. tax purposes or are CFCs owned directly or indirectly by AGUS (each, with AG Re, a Foreign Insurance Subsidiary) equals or exceeds 20% of such Foreign Insurance Subsidiary's gross insurance income in any taxable year; and

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direct or indirect insureds (and persons related to such insureds) own (or are treated as owning directly or indirectly through entities) 20% or more of the voting power or value of the Company's shares.

In addition, any RPII that is includible in the income of a U.S. tax-exempt organization may be treated as unrelated business taxable income.

The amount of RPII earned by a Foreign Insurance Subsidiary (generally, premium and related investment income from the direct or indirect insurance or reinsurance of any direct or indirect U.S. holder of shares or any person related to such holder) will depend on a number of factors, including the geographic distribution of a Foreign Insurance Subsidiary's business and the identity of persons directly or indirectly insured or reinsured by a Foreign Insurance Subsidiary. The Company believes that each of its Foreign Insurance Subsidiaries either should not in the foreseeable future have RPII income which equals or exceeds 20% of its gross insurance income or have direct or indirect insureds, as provided for by RPII rules, that directly or indirectly own 20% or more of either the voting power or value of AGL's shares. However, the Company cannot be certain that this will be the case because some of the factors which determine the extent of RPII may be beyond its control.

U.S. Persons who dispose of AGL's shares may be subject to U.S. income taxation at dividend tax rates on a portion of their gain, if any.

The meaning of the RPII provisions and the application thereof to AGL and its Foreign Insurance Subsidiaries is uncertain. The RPII rules in conjunction with section 1248 of the Code provide that if a U.S. Person disposes of shares in a non-U.S. insurance corporation in which U.S. Persons own (directly, indirectly, through non-U.S. entities or by attribution) 25% or more of the shares (even if the amount of gross RPII is less than 20% of the corporation's gross insurance income and the ownership of its shares by direct or indirect insureds and related persons is less than the 20% threshold), any gain from the disposition will generally be treated as dividend income to the extent of the holder's share of the corporation's undistributed earnings and profits that were accumulated during the period that the holder owned the shares. This provision applies whether or not such earnings and profits are attributable to RPII. In addition, such a holder will be required to comply with certain reporting requirements, regardless of the amount of shares owned by the holder.

In the case of AGL's shares, these RPII rules should not apply to dispositions of shares because AGL is not itself directly engaged in the insurance business. However, the RPII provisions have never been interpreted by the courts or the U.S. Treasury Department in final regulations, and regulations interpreting the RPII provisions of the Code exist only in proposed form. It is not certain whether these regulations will be adopted in their proposed form, what changes or clarifications might ultimately be made thereto, or whether any such changes, as well as any interpretation or application of the RPII rules by the IRS, the courts, or otherwise, might have retroactive effect. The U.S. Treasury Department has authority to impose, among other things, additional reporting requirements with respect to RPII.

U.S. Persons who hold common shares will be subject to adverse tax consequences if AGL is considered to be a "passive foreign investment company" for U.S. federal income tax purposes.

If AGL is considered a PFIC for U.S. federal income tax purposes, a U.S. Person who owns any shares of AGL will be subject to adverse tax consequences that could materially adversely affect its investment, including subjecting the investor to both a greater tax liability than might otherwise apply and an interest charge. The Company believes that AGL was not a PFIC for U.S. federal income tax purposes for taxable years through 2018 and, based on the application of certain PFIC look-through rules and the Company's plan of operations for the current and future years, should not be a PFIC in the future. However, as discussed above, the Tax Act limits the insurance income exception to a non-U.S. insurance company that is a qualifying insurance corporation that would be taxable as an insurance company if it were a U.S. corporation and maintains insurance liabilities of more than 25% of such company's assets

for a taxable year (or maintains insurance liabilities that at least equal to 10% of its assets and it satisfies a facts and circumstances test that requires a showing that the failure to exceed the 25% threshold is due to run-off or rating agency circumstances) (the Reserve Test).

In addition, the IRS issued proposed regulations in 2015 intended to clarify the application of the PFIC provisions to an insurance company. These proposed regulations provide that a non-U.S. insurance company may only qualify for an exception to the PFIC rules if, among other things, the non-U.S. insurance company's officers and employees perform its substantial managerial and operational activities. This proposed regulation will not be effective unless and until adopted in final form. The Company cannot predict the likelihood of finalization of the proposed regulations or the scope, nature, or impact of the proposed regulations on it, should they be formally adopted or enacted or whether its Foreign Insurance subsidiaries will be able to satisfy the Reserve Test in future years, and the interaction of the PFIC look-through rules is not clear, no assurance may be given that the Company will not be characterized as a PFIC.

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Changes in U.S. federal income tax law could materially adversely affect an investment in AGL's common shares.

The Tax Act was passed by the U.S. Congress and was signed into law on December 22, 2017, with certain provisions intended to eliminate certain perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the United States but have certain U.S. connections and United States persons investing in such companies. For example, the Tax Act includes a BEAT that could make affiliate reinsurance between United States and non-U.S. members of the group economically unfeasible and a current tax on global intangible income that may result in an increase in U.S. corporate income tax imposed on U.S. group members with respect to certain earnings at their non-U.S. subsidiaries, and revises the rules applicable to PFICs and CFCs. Although the Company is currently unable to predict the ultimate impact of the Tax Act on its business, shareholders and results of operations, it is possible that the Tax Act may increase the U.S. federal income tax liability of the U.S. members of its group that cede risk to non-U.S. group members and may affect the timing and amount of U.S. federal income taxes imposed on certain U.S. shareholders. Furthermore, it is possible that other legislation could be introduced and enacted by the current Congress or future Congresses that could have an adverse impact on the Company.

U.S. federal income tax laws and interpretations regarding whether a company is engaged in a trade or business within the U.S. is a PFIC, or whether U.S. Persons would be required to include in their gross income the "subpart F income" of a CFC or RPII are subject to change, possibly on a retroactive basis. There currently are only recently proposed regulations regarding the application of the PFIC rules to insurance companies, and the regulations regarding RPII have been in proposed form since 1991. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming. The Company cannot be certain if, when, or in what form such regulations or pronouncements may be implemented or made, or whether such guidance will have a retroactive effect.

An ownership change under Section 382 of the Code could have adverse U.S. federal tax consequences.

If AGL were to issue equity securities in the future, including in connection with any strategic transaction, or if previously issued securities of AGL were to be sold by the current holders, AGL may experience an "ownership change" within the meaning of Section 382 of the Code. In general terms, an ownership change would result from transactions increasing the aggregate ownership of certain stockholders in AGL's stock by more than 50 percentage points over a testing period (generally three years). If an ownership change occurred, the Company's ability to use certain tax attributes, including certain built-in losses, credits, deductions or tax basis and/or the Company's ability to continue to reflect the associated tax benefits as assets on AGL's balance sheet, may be limited. The Company cannot give any assurance that AGL will not undergo an ownership change at a time when these limitations could materially adversely affect the Company's financial condition.

A change in AGL's U.K. tax residence or its ability to otherwise qualify for the benefits of income tax treaties to which the U.K. is a party could adversely affect an investment in AGL's common shares.

AGL is not incorporated in the U.K. and, accordingly, is only resident in the U.K. for U.K. tax purposes if it is "centrally managed and controlled" in the U.K. Central management and control constitutes the highest level of control of a company's affairs. AGL believes it is entitled to take advantage of the benefits of income tax treaties to which the U.K. is a party on the basis that it has established central management and control in the U.K. AGL has obtained confirmation that there is a low risk of challenge to its residency status from HMRC under the facts as they stand today. The Board intends to manage the affairs of AGL in such a way as to maintain its status as a company that is tax-resident in the U.K. for U.K. tax purposes and to qualify for the benefits of income tax treaties to which the U.K. is a party. However, the concept of central management and control is a case-law concept that is not comprehensively defined in U.K. statute. In addition, it is a question of fact. Moreover, tax treaties may be revised in a way that causes AGL to fail to qualify for benefits thereunder. Accordingly, a change in relevant U.K. tax law or in tax treaties to which the U.K. is a party, or in AGL's central management and control as a factual matter, or other events, could

adversely affect the ability of Assured Guaranty to manage its capital in the efficient manner that it contemplated in establishing U.K. tax residence.

Changes in U.K. tax law or in AGL's ability to satisfy all the conditions for exemption from U.K. taxation on dividend income or capital gains in respect of its direct subsidiaries could affect an investment in AGL's common shares.

As a U.K. tax resident, AGL is subject to U.K. corporation tax in respect of its worldwide profits (both income and capital gains), subject to applicable exemptions. The rate of corporation tax is currently 19%.

• With respect to income, the dividends that AGL receives from its subsidiaries should be exempt from U.K. corporation tax under the exemption contained in section 931D of the Corporation Tax Act 2009.

• With respect to capital gains, if AGL were to dispose of shares in its direct subsidiaries or if it were deemed to have done so, it may realize a chargeable gain for U.K. tax purposes. Any tax charge would be based on AGL's

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original acquisition cost. It is anticipated that any such future gain should qualify for exemption under the substantial shareholding exemption in Schedule 7AC to the Taxation of Chargeable Gains Act 1992. However, the availability of such exemption would depend on facts at the time of disposal, in particular the “trading” nature of the relevant subsidiary. There is no statutory definition of what constitutes “trading” activities for this purpose and in practice reliance is placed on the published guidance of HMRC.

A change in U.K. tax law or its interpretation by HMRC, or any failure to meet all the qualifying conditions for relevant exemptions from U.K. corporation tax, could affect Assured Guaranty’s financial results of operations or its ability to provide returns to shareholders.

Assured Guaranty's financial results may be affected by measures taken in response to the OECD BEPS project.

The Organization for Economic Co-operation and Development (OECD) published its final reports on Base Erosion and Profit Shifting (the BEPS Reports) in October 2015. The recommended actions include measures to address the abuse of double tax treaties, and an updating of the definition of a “permanent establishment” and the rules for attributing profit to a permanent establishment. There are also recommended actions relating to the goal of ensuring that transfer pricing outcomes are in line with value creation, noting that the current rules may facilitate the transfer of risks or capital away from countries where the economic activity takes place. In response to this, the U.K. Government has already introduced legislation to implement changes to transfer pricing, hybrid financial instruments and the deductibility of interest and to impose country-by-country reporting obligations. The U.K. Government has also ratified the multilateral instrument, that was developed as a result of the BEPS Report, with regard to changes to the U.K. double tax treaties. Any further changes in U.K. tax law or changes in U.S. tax law in response to the BEPS Reports could adversely affect Assured Guaranty’s tax liability.

A U.K. tax, the diverted profits tax (DPT), which is levied at 25%, came into effect from April 1, 2015, and, in substance, effectively anticipated some of the recommendations emerging from the BEPS Reports. This is an anti-avoidance measure, aimed at protecting the U.K. tax base against the diversion of profits away from the U.K. tax charge. In particular, DPT may apply to profits generated by economic activities carried out in the U.K., that are not taxed in the U.K. by reason of arrangements between companies in the same multinational group and involving a low-tax jurisdiction, including co-insurance and reinsurance. It is currently unclear whether DPT would constitute a creditable tax for U.S. foreign tax credit purposes. If any member of the Assured Guaranty group is liable to DPT, this could adversely affect the Company's results of operations.

An adverse adjustment under U.K. legislation governing the taxation of U.K. tax resident holding companies on the profits of their non-U.K. subsidiaries could adversely impact Assured Guaranty’s tax liability.

Under the U.K. “controlled foreign company” regime, the income profits of non-U.K. resident companies may, in certain circumstances, be attributed to controlling U.K. resident shareholders for U.K. corporation tax purposes. The non-U.K. resident members of the Assured Guaranty group intend to operate and manage their levels of capital in such a manner that their profits would not be taxed on AGL under the U.K. CFC regime. Assured Guaranty has obtained clearance from HMRC that none of the profits of the non-U.K. resident members of the Assured Guaranty group should be subject to U.K. tax as a result of attribution under the CFC regime on the facts as they currently stand. However, a change in the way in which Assured Guaranty operates or any further change in the CFC regime, resulting in an attribution to AGL of any of the income profits of any of AGL’s non-U.K. resident subsidiaries for U.K. corporation tax purposes, could adversely affect Assured Guaranty’s financial results of operations.

## Risks Related to GAAP and Applicable Law

Changes in the fair value of the Company's insured credit derivatives portfolio may subject net income to volatility.

The Company is required to mark-to-market certain derivatives that it insures, including CDS that are considered derivatives under GAAP. Although there is no cash flow effect from this "marking-to-market," net changes in the fair value of the derivative are reported in the Company's consolidated statements of operations and therefore affect its reported earnings. As a result of such treatment, and given the principal balance of the Company's CDS portfolio, small changes in the market pricing for insurance of CDS will generally result in the Company recognizing material gains or losses, with material market price increases generally resulting in material reported losses under GAAP. Accordingly, the Company's GAAP earnings will be more volatile than would be suggested by the actual performance of its business operations and insured portfolio.

The fair value of a credit derivative will be affected by any event causing changes in the credit spread (i.e., the difference in interest rates between comparable securities having different credit risk) on an underlying security referenced in the credit derivative. Common events that may cause credit spreads on an underlying municipal or corporate security

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referenced in a credit derivative to fluctuate include changes in the state of national or regional economic conditions, industry cyclicalities, changes to a company's competitive position within an industry, management changes, changes in the ratings of the underlying security, movements in interest rates, default or failure to pay interest, or any other factor leading investors to revise expectations about the issuer's ability to pay principal and interest on its debt obligations. Similarly, common events that may cause credit spreads on an underlying structured security referenced in a credit derivative to fluctuate may include the occurrence and severity of collateral defaults, changes in demographic trends and their impact on the levels of credit enhancement, rating changes, changes in interest rates or prepayment speeds, or any other factor leading investors to revise expectations about the risk of the collateral or the ability of the servicer to collect payments on the underlying assets sufficient to pay principal and interest. The fair value of credit derivative contracts also reflects the change in the Company's own credit cost, based on the price to purchase credit protection on AGC and AGM. For discussion of the Company's fair value methodology for credit derivatives, see Part II, Item 8, Financial Statements and Supplementary Data, Note 7, Fair Value Measurement.

If a credit derivative is held to maturity and no credit loss is incurred, any unrealized gains or losses previously reported would be offset as the transactions reach maturity. Due to the complexity of fair value accounting and the application of GAAP requirements, future amendments or interpretations of relevant accounting standards may cause the Company to modify its accounting methodology in a manner which may have an adverse impact on its financial results.

Change in industry and other accounting practices could impair the Company's reported financial results and impede its ability to do business.

Changes in or the issuance of new accounting standards, as well as any changes in the interpretation of current accounting guidance, may have an adverse effect on the Company's reported financial results, including future revenues, and may influence the types and/or volume of business that management may choose to pursue. See Part II, Item 8, Financial Statements and Supplementary Data, Note 1, Business and Basis of Presentation, for a discussion of the future application of accounting standards.

Changes in or inability to comply with applicable law could adversely affect the Company's ability to do business.

The Company's businesses are subject to direct and indirect regulation under state insurance laws, federal securities, commodities and tax laws affecting public finance and asset backed obligations, and federal regulation of derivatives, as well as applicable laws in the other countries in which the Company operates. Future legislative, regulatory, judicial or other legal changes in the jurisdictions in which the Company does business may adversely affect its ability to pursue its current mix of business, thereby materially impacting its financial results by, among other things, limiting the types of risks it may insure, lowering applicable single or aggregate risk limits, increasing required reserves or capital, increasing the level of supervision or regulation to which the Company's operations may be subject, imposing restrictions that make the Company's products less attractive to potential buyers, lowering the profitability of the Company's business activities, requiring the Company to change certain of its business practices and exposing it to additional costs (including increased compliance costs).

If the Company fails to comply with applicable insurance laws and regulations it could be exposed to fines, the loss of insurance licenses, limitations on the right to originate new business and restrictions on its ability to pay dividends, all of which could have an adverse impact on its business results and prospects. If an insurance company's surplus declines below minimum required levels, the insurance regulator could impose additional restrictions on the insurer or initiate insolvency proceedings. AGM, AGC and MAC may increase surplus by various means, including obtaining capital contributions from the Company, purchasing reinsurance or entering into other loss mitigation arrangements, reducing the amount of new business written or obtaining regulatory approval to release contingency reserves. From time to time, AGM, MAC and AGC have obtained approval from their regulators to release contingency reserves

based on losses and, in the case of AGM and MAC, also based on the expiration of their insured exposure.

AGL's ability to pay dividends may be constrained by certain insurance regulatory requirements and restrictions.

AGL is subject to Bermuda regulatory requirements that affect its ability to pay dividends on common shares and to make other payments. Under the Bermuda Companies Act 1981, as amended, AGL may declare or pay a dividend only if it has reasonable grounds for believing that it is, and after the payment would be, able to pay its liabilities as they become due, and if the realizable value of its assets would not be less than its liabilities. While AGL currently intends to pay dividends on its common shares, investors who require dividend income should carefully consider these risks before investing in AGL. In addition, if, pursuant to the insurance laws and related regulations of Bermuda, Maryland and New York, AGL's insurance subsidiaries cannot pay sufficient dividends to AGL at the times or in the amounts that it requires, it would have an adverse

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effect on AGL's ability to pay dividends to shareholders. See "Risks Related to the Company's Capital and Liquidity Requirements—The ability of AGL and its subsidiaries to meet their liquidity needs may be limited."

Applicable insurance laws may make it difficult to effect a change of control of AGL.

Before a person can acquire control of a U.S. or U.K. insurance company, prior written approval must be obtained from the insurance commissioner of the state or country where the insurer is domiciled. Because a person acquiring 10% or more of AGL's common shares would indirectly control the same percentage of the stock of its U.S. insurance company subsidiaries, the insurance change of control laws of Maryland, New York and the U.K. would likely apply to such a transaction. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of AGL, including through transactions, and in particular unsolicited transactions, that some or all of its shareholders might consider to be desirable. While AGL's Bye-Laws limit the voting power of any shareholder to less than 10%, the Company cannot provide assurances that the applicable regulatory body would agree that a shareholder who owned 10% or more of its common shares did not control the applicable insurance company subsidiary, notwithstanding the limitation on the voting power of such shares.

Changes in applicable laws and regulations resulting from Brexit may adversely affect the Company.

As described above in Part 1, Item 1, Business, Regulation, on June 23, 2016, a referendum was held in the U.K. in which a majority voted to exit the EU, known as "Brexit", and there has been no approval by the U.K. Parliament of the withdrawal agreement between the EU and the U.K. Failing such approval or the implementation of an agreed extension to the U.K.'s planned departure date, it is currently expected that the U.K. will leave the EU on March 29, 2019 under a No-Deal Brexit.

Given the lack of clarity on the ultimate post-Brexit relationship between Great Britain and the EU, the Company cannot fully determine what, if any, impact Brexit may have on its operations, both inside and outside the U.K. For example, the Company cannot determine whether U.K. authorized financial services firms such as AGE will continue to enjoy passporting rights to the other 27 EEA states after Brexit. This question will be particularly acute in the event of a No-Deal Brexit because the loss of passporting could occur as early as March 29, 2019, rather than at the end of the transition period under the withdrawal agreement of December 31, 2020. As a consequence, Assured Guaranty is establishing a new subsidiary in Paris, France, in order to continue with the ability to write new business, and to service existing business, in those other EEA states. That new subsidiary is unlikely to be fully licensed prior to a No-Deal Brexit, should that occur. While the Company believes that, in the event of a No-Deal Brexit or in the absence of applicable transition rules, those other EEA states outside the U.K. will permit the Company to continue to service existing business in their states, there can be no assurance that this will occur, nor can the Company fully determine the impact on its business and operations if it does not occur.

See also "Brexit may adversely impact exposures insured by the Company and may also impact the Company through currency exchange rates" under Risks Related to the Financial, Credit and Guaranty Markets.

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### Risks Related to AGL's Common Shares

The market price of AGL's common shares may be volatile, which could cause the value of an investment in the Company to decline.

The market price of AGL's common shares has experienced, and may continue to experience, significant volatility. Numerous factors, including many over which the Company has no control, may have a significant impact on the market price of its common shares. These risks include those described or referred to in this "Risk Factors" section as well as, among other things:

- investor perceptions of the Company, its prospects and that of the financial guaranty industry and the markets in which the Company operates;
- the Company's operating and financial performance;
- the Company's access to financial and capital markets to raise additional capital, refinance its debt or replace existing senior secured credit and receivables-backed facilities;
- the Company's ability to repay debt;
- the Company's dividend policy;
- the amount of share repurchases authorized by the Company;
- future sales of equity or equity-related securities;
- changes in earnings estimates or buy/sell recommendations by analysts; and
- general financial, economic and other market conditions.

In addition, the stock market in recent years has experienced extreme price and trading volume fluctuations that often have been unrelated or disproportionate to the operating performance of individual companies. These broad market fluctuations may adversely affect the price of AGL's common shares, regardless of its operating performance.

Furthermore, future sales or other issuances of AGL equity may adversely affect the market price of its common shares.

AGL's common shares are equity securities and are junior to existing and future indebtedness.

As equity interests, AGL's common shares rank junior to indebtedness and to other non-equity claims on AGL and its assets available to satisfy claims on AGL, including claims in a bankruptcy or similar proceeding. For example, upon liquidation, holders of AGL debt securities and shares of preferred stock and creditors would receive distributions of AGL's available assets prior to the holders of AGL common shares. Similarly, creditors, including holders of debt securities, of AGL's subsidiaries, have priority on the assets of those subsidiaries. Future indebtedness may restrict payment of dividends on the common shares.

Additionally, unlike indebtedness, where principal and interest customarily are payable on specified due dates, in the case of common shares, dividends are payable only when and if declared by AGL's Board or a duly authorized committee of the Board. Further, the common shares place no restrictions on its business or operations or on its ability

to incur indebtedness or engage in any transactions, subject only to the voting rights available to stockholders generally.

Provisions in the Code and AGL's Bye-Laws may reduce or increase the voting rights of its common shares.

Under the Code, AGL's Bye-Laws and contractual arrangements, certain shareholders have their voting rights limited to less than one vote per share, resulting in other shareholders having voting rights in excess of one vote per share. Moreover, the relevant provisions of the Code and AGL's Bye-Laws may have the effect of reducing the votes of certain shareholders who would not otherwise be subject to the limitation by virtue of their direct share ownership.

More specifically, pursuant to the relevant provisions of the Code, if, and so long as, the common shares of a shareholder are treated as "controlled shares" (as determined under section 958 of the Code) of any U.S. Person and such

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controlled shares constitute 9.5% or more of the votes conferred by AGL's issued shares, the voting rights with respect to the controlled shares of such U.S. Person (a 9.5% U.S. Shareholder) are limited, in the aggregate, to a voting power of less than 9.5%, under a formula specified in AGL's Bye-Laws. The formula is applied repeatedly until the voting power of all 9.5% U.S. Shareholders has been reduced to less than 9.5%. For these purposes, "controlled shares" include, among other things, all shares of AGL that such U.S. Person is deemed to own directly, indirectly or constructively (within the meaning of section 958 of the Code).

In addition, the Board may limit a shareholder's voting rights where it deems appropriate to do so to (1) avoid the existence of any 9.5% U.S. Shareholders, and (2) avoid certain material adverse tax, legal or regulatory consequences to the Company or any of the Company's subsidiaries or any shareholder or its affiliates. AGL's Bye-Laws provide that shareholders will be notified of their voting interests prior to any vote taken by them.

As a result of any such reallocation of votes, the voting rights of a holder of AGL common shares might increase above 5% of the aggregate voting power of the outstanding common shares, thereby possibly resulting in such holder becoming a reporting person subject to Schedule 13D or 13G filing requirements under the Securities Exchange Act of 1934. In addition, the reallocation of votes could result in such holder becoming subject to the short swing profit recovery and filing requirements under Section 16 of the Exchange Act.

AGL also has the authority under its Bye-Laws to request information from any shareholder for the purpose of determining whether a shareholder's voting rights are to be reallocated under the Bye-Laws. If a shareholder fails to respond to a request for information or submits incomplete or inaccurate information in response to a request, the Company may, in its sole discretion, eliminate such shareholder's voting rights.

Provisions in AGL's Bye-Laws may restrict the ability to transfer common shares, and may require shareholders to sell their common shares.

AGL's Board may decline to approve or register a transfer of any common shares (1) if it appears to the Board, after taking into account the limitations on voting rights contained in AGL's Bye-Laws, that any adverse tax, regulatory or legal consequences to AGL, any of its subsidiaries or any of its shareholders may occur as a result of such transfer (other than such as the Board considers to be de minimis), or (2) subject to any applicable requirements of or commitments to the NYSE, if a written opinion from counsel supporting the legality of the transaction under U.S. securities laws has not been provided or if any required governmental approvals have not been obtained.

AGL's Bye-Laws also provide that if the Board determines that share ownership by a person may result in adverse tax, legal or regulatory consequences to the Company, any of the subsidiaries or any of the shareholders (other than such as the Board considers to be de minimis), then AGL has the option, but not the obligation, to require that shareholder to sell to AGL or to third parties to whom AGL assigns the repurchase right for fair market value the minimum number of common shares held by such person which is necessary to eliminate such adverse tax, legal or regulatory consequences.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

The principal executive offices of AGL and AG Re consist of approximately 8,250 square feet of office space located in Hamilton, Bermuda; the lease for this space expires in April 2021 and is renewable at the option of the Company.

The U.S. subsidiaries of the Company lease 103,500 square feet of office space in New York City; the lease expires in February 2032, with an option, subject to certain conditions, to renew for five years at a fair market rent. The U.S. subsidiaries also lease office space in San Francisco. In addition, AGE leases space in London.

Management believes its office space is adequate for its current and anticipated needs.

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ITEM 3. LEGAL PROCEEDINGS

Lawsuits arise in the ordinary course of the Company's business. It is the opinion of the Company's management, based upon the information available, that the expected outcome of litigation against the Company, individually or in the aggregate, will not have a material adverse effect on the Company's financial position or liquidity, although an adverse resolution of litigation against the Company in a fiscal quarter or year could have a material adverse effect on the Company's results of operations in a particular quarter or year.

In addition, in the ordinary course of their respective businesses, certain of the Company's subsidiaries assert claims in legal proceedings against third parties to recover losses paid in prior periods or prevent losses in the future. For example, the Company has commenced a number of legal actions in the U.S. District Court for the District of Puerto Rico to enforce its rights with respect to the obligations it insures of Puerto Rico and various of its related authorities and public corporations. See the "Exposure to Puerto Rico" section of Part II, Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding Exposure, for a description of such actions. See also the "Recovery Litigation" section of Part II, Item 8, Financial Statements and Supplementary Data, Note 5, Expected Losses to be Paid, for a description of recovery litigation unrelated to Puerto Rico. The amounts, if any, the Company will recover in these and other proceedings to recover losses are uncertain, and recoveries, or failure to obtain recoveries, in any one or more of these proceedings during any quarter or year could be material to the Company's results of operations in that particular quarter or year.

The Company establishes accruals for litigation and regulatory matters to the extent it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation and regulatory matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established, but if the matter is material, it is disclosed, including matters discussed below. The Company reviews relevant information with respect to its litigation and regulatory matters on a quarterly and annual basis and updates its accruals, disclosures and estimates of reasonably possible loss based on such reviews.

The Company receives subpoenas duces tecum and interrogatories from regulators from time to time.

On November 28, 2011, Lehman Brothers International (Europe) (in administration) (LBIE) sued AG Financial Products Inc. (AGFP), an affiliate of AGC which in the past had provided credit protection to counterparties under CDS. AGC acts as the credit support provider of AGFP under these CDS. LBIE's complaint, which was filed in the Supreme Court of the State of New York, asserted a claim for breach of the implied covenant of good faith and fair dealing based on AGFP's termination of nine credit derivative transactions between LBIE and AGFP and asserted claims for breach of contract and breach of the implied covenant of good faith fair dealing based on AGFP's termination of 28 other credit derivative transactions between LBIE and AGFP and AGFP's calculation of the termination payment in connection with those 28 other credit derivative transactions. Following defaults by LBIE, AGFP properly terminated the transactions in question in compliance with the agreement between AGFP and LBIE, and calculated the termination payment properly. AGFP calculated that LBIE owes AGFP approximately \$29 million in connection with the termination of the credit derivative transactions, whereas LBIE asserted in the complaint that AGFP owes LBIE a termination payment of approximately \$1.4 billion. AGFP filed a motion to dismiss the claims for breach of the implied covenant of good faith in LBIE's complaint, and on March 15, 2013, the court granted AGFP's motion to dismiss in respect of the count relating to the nine credit derivative transactions and narrowed LBIE's claim with respect to the 28 other credit derivative transactions. LBIE's administrators disclosed in an April 10, 2015 report to LBIE's unsecured creditors that LBIE's valuation expert has calculated LBIE's claim for damages in aggregate for the 28 transactions to range between a minimum of approximately \$200 million and a maximum of approximately \$500 million, depending on what adjustment, if any, is made for AGFP's credit risk and excluding any applicable interest. AGFP filed a motion for summary judgment on the remaining causes of action asserted by LBIE and on AGFP's counterclaims, and on July 2, 2018, the court granted in part and denied in part AGFP's motion. The court

dismissed, in its entirety, LBIE's remaining claim for breach of the implied covenant of good faith and fair dealing and also dismissed LBIE's claim for breach of contract solely to the extent that it is based upon AGFP's conduct in connection with the auction. With respect to LBIE's claim for breach of contract, the court held that there are triable issues of fact regarding whether AGFP calculated its loss reasonably and in good faith. On October 1, 2018, AGFP filed an appeal with the Appellate Division of the Supreme Court of the State of New York, First Judicial Department, seeking reversal of the portions of the lower court's ruling denying AGFP's motion for summary judgment with respect to LBIE's sole remaining claim for breach of contract. On January 17, 2019, the Appellate Division affirmed the Supreme Court's decision, holding that the lower court correctly determined that there are triable issues of fact regarding whether AGFP calculated its loss reasonably and in good faith.

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## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## Executive Officers of the Company

The table below sets forth the names, ages, positions and business experience of the executive officers of AGL.

Name	Age	Position(s)
Dominic J. Frederico	66	President and Chief Executive Officer; Deputy Chairman
Robert A. Bailenson	52	Chief Financial Officer
Ling Chow	48	General Counsel and Secretary
Russell B. Brewer II	61	Chief Surveillance Officer
Bruce E. Stern	64	Executive Officer
Howard W. Albert	59	Chief Risk Officer
Stephen Donnarumma	56	Chief Credit Officer

Dominic J. Frederico has been a director of AGL since the Company's 2004 initial public offering and the President and Chief Executive Officer of AGL since December 2003. Mr. Frederico served as Vice Chairman of ACE Limited from 2003 until 2004 and served as President and Chief Operating Officer of ACE Limited and Chairman of ACE INA Holdings, Inc. from 1999 to 2003. Mr. Frederico was a director of ACE Limited from 2001 through May 2005. From 1995 to 1999 Mr. Frederico served in a number of executive positions with ACE Limited. Prior to joining ACE Limited, Mr. Frederico spent 13 years working for various subsidiaries of American International Group.

Robert A. Bailenson has been Chief Financial Officer of AGL since June 2011. Mr. Bailenson has been with Assured Guaranty and its predecessor companies since 1990. Mr. Bailenson became Chief Accounting Officer of AGM in July 2009 and has been Chief Accounting Officer of AGL since May 2005 and Chief Accounting Officer of AGC since 2003. He was Chief Financial Officer and Treasurer of AG Re from 1999 until 2003 and was previously the Assistant Controller of Capital Re Corp., the Company's predecessor.

Ling Chow has been General Counsel and Secretary of AGL since January 1, 2018. Ms. Chow previously served as Deputy General Counsel and Assistant Secretary of AGL from May 2015 and as Assured Guaranty's U.S. General Counsel from June 2016. Prior to that, Ms. Chow served as Deputy General Counsel of Assured Guaranty's U.S. subsidiaries in several capacities from 2004. Before joining Assured Guaranty in 2002, Ms. Chow was an associate at Brobeck, Phleger & Harrison LLP, Cahill Gordon & Reindel and LeBoeuf, Lamb, Greene & MacRae, L.L.P.

Russell B. Brewer II has been Chief Surveillance Officer of AGL since November 2009 and Chief Surveillance Officer of AGC and AGM since July 2009 and has also been responsible for information technology at Assured Guaranty since April 2015. Mr. Brewer has been with AGM since 1986. Mr. Brewer was Chief Risk Management Officer of AGM from September 2003 until July 2009 and Chief Underwriting Officer of AGM from September 1990 until September 2003. Mr. Brewer was also a member of the Executive Management Committee of AGM. He was a Managing Director of AGMH from May 1999 until July 2009. From March 1989 to August 1990, Mr. Brewer was Managing Director, Asset Finance Group, of AGM. Prior to joining AGM, Mr. Brewer was an Associate Director of Moody's Investors Service, Inc.

Bruce E. Stern has been Executive Officer of AGC and AGM since July 2009. Mr. Stern was General Counsel, Managing Director, Secretary and Executive Management Committee member of AGM from 1987 until July 2009. Prior to joining AGM, Mr. Stern was an associate at the New York office of Cravath, Swaine & Moore. Mr. Stern has served as Chairman of the Association of Financial Guaranty Insurers since April 2010.

Howard W. Albert has been Chief Risk Officer of AGL since May 2011. Prior to that, he was Chief Credit Officer of AGL from 2004 to April 2011. Mr. Albert joined Assured Guaranty in September 1999 as Chief Underwriting Officer of Capital Re Company, the predecessor to AGC. Before joining Assured Guaranty, he was a Senior Vice President with Rothschild Inc. from February 1997 to August 1999. Prior to that, he spent eight years at Financial Guaranty Insurance Company from May 1989 to February 1997, where he was responsible for underwriting guaranties of asset-backed securities and international infrastructure transactions. Prior to that, he was employed by Prudential Capital, an investment arm of The

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Prudential Insurance Company of America, from September 1984 to April 1989, where he underwrote investments in asset-backed securities, corporate loans and project financings.

Stephen Donnarumma has been the Chief Credit Officer of AGC since 2007, of AGM since its 2009 acquisition, and of MAC since its 2012 capitalization. Mr. Donnarumma has been with Assured Guaranty since 1993. Over the past 25 years, Mr. Donnarumma has held a number of positions at Assured Guaranty, including Deputy Chief Credit Officer of AGL, Chief Operating Officer and Chief Underwriting Officer of AG Re, Chief Risk Officer of AGC, and Senior Managing Director, Head of Mortgage and Asset-backed Securities of AGC. Prior to joining Assured Guaranty, Mr. Donnarumma was with Financial Guaranty Insurance Company from 1989 until 1993, where his responsibilities included underwriting domestic and international financial guaranty transactions. Prior to that, he served as a Director of Credit Risk Analysis at Fannie Mae from 1987 until 1989. Mr. Donnarumma was also an analyst with Moody's Investors Services from 1985 until 1987.

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## PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND  
5. ISSUER PURCHASES OF EQUITY SECURITIES

AGL's common shares are listed on the NYSE under the symbol "AGO." On February 26, 2019, the approximate number of shareholders of record at the close of business on that date was 73.

AGL is a holding company whose principal source of income is dividends from its operating subsidiaries. The ability of the operating subsidiaries to pay dividends to AGL and AGL's ability to pay dividends to its shareholders are each subject to legal and regulatory restrictions. The declaration and payment of future dividends will be at the discretion of AGL's Board and will be dependent upon the Company's profits and financial requirements and other factors, including legal restrictions on the payment of dividends and such other factors as the Board deems relevant. For each of the four quarters of 2018 and 2017, AGL paid cash dividends in the amount of \$0.16 and \$0.1425 per common share per quarter, respectively. For more information concerning AGL's dividends, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources and Item 8, Financial Statements and Supplementary Data, Note 11, Insurance Company Regulatory Requirements.

## 2018 Share Purchases

In 2018, the Company repurchased a total of 13.2 million common shares for approximately \$500 million at an average price of \$37.76 per share. From time to time, the Board authorizes the repurchase of common shares. Most recently, on February 27, 2019, the Board approved an additional \$300 million of share repurchases, and the remaining authorization, as of March 1, 2019, is \$350 million. The Company expects future common share repurchases under the current authorization to be made from time to time in the open market or in privately negotiated transactions. The timing, form and amount of the share repurchases are at the discretion of management and will depend on a variety of factors, including availability of funds at the holding companies, other potential uses for such funds, market conditions, the Company's capital position, legal requirements and other factors. The repurchase authorization may be modified, extended or terminated by the Board at any time. It does not have an expiration date. See Item 8, Financial Statements and Supplementary Data, Note 18, Shareholders' Equity for additional information about share repurchases and authorizations.

## Issuer's Purchases of Equity Securities

The following table reflects purchases of AGL common shares made by the Company during Fourth Quarter 2018.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Program(2)
October 1 - October 31	964,544	\$ 41.47	964,544	\$ 177,873,174
November 1 - November 30	989,741	\$ 40.43	989,434	\$ 137,873,183
December 1 - December 31	1,038,954	\$ 38.50	1,038,954	\$ 97,873,184
Total	2,993,239	\$ 40.09	2,992,932	

(1)

After giving effect to repurchases since the beginning of 2013 through March 1, 2019, the Company has repurchased a total of 95.7 million common shares for approximately \$2,764 million, excluding commissions, at an average price of \$28.87 per share.

(2) Excludes commissions.

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## Performance Graph

Set forth below are a line graph and a table comparing the dollar change in the cumulative total shareholder return on AGL's common shares from December 31, 2013 through December 31, 2018 as compared to the cumulative total return of the Standard & Poor's 500 Stock Index, the cumulative total return of the Standard & Poor's 500 Financials Sector GICS Level 1 Index and the cumulative total return of the Russell Midcap Financial Services Index. The Company added the Russell Midcap Financial Services Index in 2018 because it believes that this index, which includes the Company, provides a useful comparison to other companies in the financial services sector, and excludes companies that are included in the Standard & Poor's 500 Financials Sector GICS Level 1 Index but are many times larger than the Company. The chart and table depict the value on December 31 of each year from 2013 through 2018 of a \$100 investment made on December 31, 2013, with all dividends reinvested:

	Assured Guaranty	S&P 500 Index	S&P 500 Financials Sector GICS Level 1 Index	Russell Midcap Financial Services Index
12/31/2013	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00
12/31/2014	112.19	113.68	115.18	114.64
12/31/2015	116.12	115.24	113.38	117.34
12/31/2016	169.07	129.02	139.17	135.11
12/31/2017	153.79	157.17	169.98	157.56
12/31/2018	176.79	150.27	147.82	141.74

Source: Calculated from total returns published by Bloomberg.

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## ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read together with the other information contained in this Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included elsewhere in this Form 10-K. Certain prior year balances have been reclassified to conform to the current year's presentation.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(dollars in millions, except per share amounts)				
Statement of operations data:					
Revenues:					
Net earned premiums	\$548	\$690	\$864	\$766	\$570
Net investment income	398	418	408	423	403
Net realized investment gains (losses)	(32 )	40	(29 )	(26 )	(60 )
Net change in fair value of credit derivatives	112	111	98	728	823
Fair value gains (losses) on financial guaranty variable interest entities (FG VIEs)	14	30	38	38	255
Bargain purchase gain and settlement of pre-existing relationships	—	58	259	214	—
Commutation gains (losses)	(16 )	328	8	28	23
Other income (loss)	(22 )	64	31	36	(20 )
Total revenues	1,002	1,739	1,677	2,207	1,994
Expenses:					
Loss and loss adjustment expenses	64	388	295	424	126
Amortization of deferred acquisition costs (DAC)	16	19	18	20	25
Interest expense	94	97	102	101	92
Other operating expenses	248	244	245	231	220
Total expenses	422	748	660	776	463
Income (loss) before (benefit) provision for income taxes	580	991	1,017	1,431	1,531
Provision (benefit) for income taxes	59	261	136	375	443
Net income (loss)	\$521	\$730	\$881	\$1,056	\$1,088
Earnings (loss) per share:					
Basic	\$4.73	\$6.05	\$6.61	\$7.12	\$6.30
Diluted	\$4.68	\$5.96	\$6.56	\$7.08	\$6.26
Cash dividends declared per share	\$0.64	\$0.57	\$0.52	\$0.48	\$0.44

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	As of December 31,				
	2018	2017	2016	2015	2014
	(dollars in millions, except per share amounts)				
Balance sheet data (end of period):					
Assets:					
Investments and cash	\$10,977	\$11,539	\$11,103	\$11,358	\$11,459
Premiums receivable, net of commissions payable	904	915	576	693	729
Ceded unearned premium reserve	59	119	206	232	381
Salvage and subrogation recoverable	490	572	365	126	151
Total assets	13,603	14,433	14,151	14,544	14,919
Liabilities and shareholders' equity:					
Unearned premium reserve	3,512	3,475	3,511	3,996	4,261
Loss and loss adjustment expense reserve	1,177	1,444	1,127	1,067	799
Long-term debt	1,233	1,292	1,306	1,300	1,297
Credit derivative liabilities	209	271	402	446	963
Total liabilities	7,048	7,594	7,647	8,481	9,161
Accumulated OCI (AOCI)	93	372	149	237	370
Shareholders' equity	6,555	6,839	6,504	6,063	5,758
Book value per share	63.23	58.95	50.82	43.96	36.37
Consolidated statutory financial information:					
Contingency reserve	\$1,663	\$1,750	\$2,008	\$2,263	\$2,330
Policyholders' surplus (1)	5,148	5,305	5,126	4,631	4,222
Claims-paying resources (1) (2)	11,815	12,021	11,954	12,567	12,462
Financial Guaranty Exposure:					
Net debt service outstanding	\$371,586	\$401,118	\$437,535	\$536,341	\$609,622
Net par outstanding	241,802	264,952	296,318	358,571	403,729

- (1) Beginning in the second quarter of 2018, the Company incorporates deferred ceding commission income in claims-paying resources. The claims-paying resources in prior periods have been updated to reflect this change. Based on accounting practices prescribed or permitted by U.S. insurance regulatory authorities, for all insurance subsidiaries. Claims-paying resources is calculated as the sum of statutory policyholders' surplus, statutory
- (2) contingency reserve, unearned premium reserves and net deferred ceding commission income, statutory loss and LAE reserves, present value of installment premium on financial guaranty and credit derivatives, discounted at 6%, standby lines of credit/stop loss and excess-of-loss reinsurance facility. Total claims-paying resources is used by the Company to evaluate the adequacy of capital resources.

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ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
7. OPERATIONS

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's consolidated financial statements and accompanying notes which appear elsewhere in this Form 10-K. It contains forward looking statements that involve risks and uncertainties. See "Forward Looking Statements" for more information. The Company's actual results could differ materially from those anticipated in these forward looking statements as a result of various factors, including those discussed below and elsewhere in this Form 10-K, particularly under the headings "Risk Factors" and "Forward Looking Statements."

Introduction

The Company provides credit protection products to the U.S. and international public finance (including infrastructure) and structured finance markets. The Company applies its credit underwriting judgment, risk management skills and capital markets experience primarily to offer credit protection products to holders of debt instruments and other monetary obligations that protect them from defaults in scheduled payments. If an obligor defaults on a scheduled payment due on an obligation, including a scheduled debt service payment, the Company is required under its unconditional and irrevocable financial guaranty to pay the amount of the shortfall to the holder of the obligation. The Company markets its credit protection products directly to issuers and underwriters of public finance and structured finance securities as well as to investors in such obligations. The Company guarantees obligations issued principally in the U.S. and the U.K., and also guarantees obligations issued in other countries and regions, including Australia and Western Europe. The Company also provides other forms of insurance that are consistent with its risk profile and benefit from its underwriting experience.

Executive Summary

This executive summary of management's discussion and analysis highlights selected information and may not contain all of the information that is important to readers of this Annual Report. For a more detailed description of events, trends and uncertainties, as well as the capital, liquidity, credit, operational and market risks and the critical accounting policies and estimates affecting the Company, this Annual Report should be read in its entirety.

Economic Environment

The U.S. has experienced sustained positive economic momentum in 2018. According to the U.S. Bureau of Labor Statistics (BLS), the unemployment rate began the year at 4.1% and ended the year at 3.9%. Payroll employment growth in 2018 totaled 2.6 million jobs, compared with a gain of 2.2 million jobs in 2017. Gross domestic product (GDP) increased 2.9% in 2018, compared with 2.2% in 2017 according to the Bureau of Economic Analysis initial estimate.

As reported by U.S. Census Bureau and the U.S. Department of Housing and Urban Development, U.S. home prices moderated during 2018 while remaining historically high. The median sale price of new homes sold in the U.S. fell to \$302,400 in November 2018, the lowest level recorded since February 2017 and 11.9% below the peak value of \$343,400 recorded in November 2017. Falling median new home prices and rising median household incomes have contributed to an improvement in the relative affordability of new homes sold in the U.S. See Item 8, Financial Statements and Supplementary Data, Note 5, Expected Loss to be Paid, for a discussion of the market assumptions used in determining expected losses for U.S. RMBS.

At the December 2018 FOMC meeting, the FOMC raised the target range for the federal funds rate to between 2.25% and 2.5%, its fourth rate hike of 2018. The federal funds rate ended 2017 with a target range of 1.25% and 1.50%. On

January 30, 2019, the FOMC made the following statement in regards to future rate hikes in 2019, softening its tone from the December meeting: “In light of global economic and financial developments and muted inflation pressures, the Committee will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes.” The Company believes this signaled a level of cautiousness in 2019 and a wait-and-see approach as to whether there would be rate hikes in 2019.

Average municipal interest rates in 2018 remained above the historic lows experienced in 2016, during which 30-year AAA MMD rates were at times below 2%. The 30-year AAA MMD rate started the year off at 2.54% and increased to as high as 3.46% in early November 2018. The 30-year AAA MMD rate ended the year at 3.02%. Credit spreads remained largely unchanged throughout 2018 at relatively narrow levels. At year-end, the spread between the MMD “A” general obligation 20-year index and the MMD “AAA” general obligation 20-year index was 50 basis points (bps), having started the year off at 48 bps. During 2018, the spread average was 50.1 bps, more than 5 bps tighter than the 55.7 bps average in 2017.

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When interest rates are low, or when the market is relatively less risk averse, the credit spread between high-quality or insured obligations versus lower-rated or uninsured obligations typically narrows. As a result, financial guaranty insurance typically provides lower interest cost savings to issuers than it would during periods of relatively wider credit spreads. Issuers are less likely to use financial guaranties on their new issues when credit spreads are narrow, which results in decreased demand or premiums obtainable for financial guaranty insurance, and a resulting reduction in the Company's results of operations. See Key Business Strategies, New Business Production section below for market volume and penetration.

Equity markets continued their solid 2017 performance during the first three quarters of 2018, but turned decidedly lower in the fourth quarter. The Company believes that fears that an increasing interest rate environment would hurt the economy in the medium-term, the potential impact of trade negotiations with China, European turmoil (i.e. Brexit; Italy's political, economic, and sovereign fiscal instability), and the partial U.S. government shut down increased market volatility and sent the major U.S. indices lower for the year. The Dow Jones Industrial Average (DJIA), Nasdaq Composite Index and the S&P 500 Index all finished in negative territory for the full year.

During 2018 the U.S. dollar appreciated by around 8% against other currencies on a trade-weighted basis according to data from the Federal Reserve Bank of St. Louis. The Company believes this was the result of the U.S. economy's stronger economic performance vis-à-vis the rest of the world and the differing monetary policy path pursued by the Federal Reserve and other key central banks like the Bank of Japan, the Bank of England and the European Central Bank. See Results of Operations, Consolidated Results of Operations, Other Income (Loss) below for gains/losses on foreign exchange rate changes on the consolidated statements of operations.

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## Financial Performance of Assured Guaranty

## Financial Results

	Year Ended December 31,			
	2018	2017	2016	
	(in millions, except per share amounts)			
Net income (loss)	\$521	\$ 730	\$ 881	
Non-GAAP operating income (1)	482	661	895	
Gain (loss) related to the effect of consolidating financial guaranty variable interest entities (FG VIE consolidation) included in non-GAAP operating income	(4 )	11	12	
Net income (loss) per diluted share	4.68	5.96	6.56	
Non-GAAP operating income per share (1)	4.34	5.41	6.68	
Gain (loss) related to FG VIE consolidation included in non-GAAP operating income per share	(0.03)	0.10	0.10	
Diluted shares	111.3	122.3	134.1	
Gross written premiums (GWP)	612	307	154	
Present value of new business production (PVP) (1)	663	289	214	
Gross par written	24,624	18,024	17,854	
	As of		As of	
	December 31,		December 31,	
	2018		2017	
	Amount	Per	Amount	Per
		Share		Share
	(in millions, except per share amounts)			
Shareholders' equity	\$6,555	\$63.23	\$6,839	\$58.95
Non-GAAP operating shareholders' equity (1)	6,342	61.17	6,521	56.20
Non-GAAP adjusted book value (1)	8,922	86.06	9,020	77.74
Gain (loss) related to FG VIE consolidation included in non-GAAP operating shareholders' equity	3	0.03	5	0.03
Gain (loss) related to FG VIE consolidation included in non-GAAP adjusted book value	(15 )	(0.15 )	(14 )	(0.12 )
Common shares outstanding (2)	103.7		116.0	

(1) See “—Non-GAAP Financial Measures” for a definition of the financial measures that were not determined in accordance with accounting principles generally accepted in the United States of America (GAAP) and a reconciliation of the non-GAAP financial measure to the most directly comparable GAAP measure, if available. See “—Non-GAAP Financial Measures” for additional details.

(2) See "Key Business Strategies – Capital Management" below for information on common share repurchases.

Several primary drivers of volatility in net income or loss are not necessarily indicative of credit impairment or improvement, or ultimate economic gains or losses such as: changes in credit spreads of insured credit derivative obligations, changes in fair value of assets and liabilities of FG VIEs and committed capital securities (CCS), changes

in fair value of credit derivatives related to the Company's own credit spreads, and changes in risk-free rates used to discount expected losses. Changes in the Company's and/or collateral credit spreads generally have the most significant effect on the fair value of credit derivatives and FG VIEs' assets and liabilities. Effective January 1, 2018, the change in fair value of FG VIEs' liabilities with recourse attributed to changes in the credit spreads of AGC and AGM, or instrument specific credit risk (ISCR), is recorded in OCI.

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In addition to non-economic factors, other factors such as: changes in expected claims and recoveries, the amount and timing of the refunding and/or termination of insured obligations, realized gains and losses on the investment portfolio (including other-than-temporary impairments (OTTI)), the effects of large settlements, commutations, acquisitions, the effects of the Company's various loss mitigation strategies, and changes in laws and regulations, among others, may also have a significant effect on reported net income or loss in a given reporting period.

### Year Ended December 31, 2018

Net income for 2018 was \$521 million compared with \$730 million in 2017. Net income for 2017 was higher primarily due to significant gains attributable to commutations, the MBIA UK Acquisition and representations and warranties (R&W) settlements. Excluding these items in 2017, net income increased mainly due to lower loss and LAE and a lower effective tax rate, offset in part by lower net earned premiums, and net realized investment losses and foreign exchange losses in 2018 compared with foreign exchange gains in 2017.

The Company reported non-GAAP operating income of \$482 million in 2018, compared with \$661 million in 2017. Excluding commutations, the MBIA UK Acquisition and R&W settlements in 2017, non-GAAP operating income increased mainly due to lower loss and LAE and a lower effective tax rate in 2018, offset in part by lower net earned premiums.

Shareholders' equity decreased since December 31, 2017 primarily due to share repurchases, dividends and unrealized losses on available for sale investment securities, partially offset by net income. Non-GAAP operating shareholders' equity decreased in 2018 primarily due to share repurchases and dividends, partially offset by positive non-GAAP operating income. Non-GAAP adjusted book value decreased in 2018 primarily due to share repurchases and dividends, partially offset by the effect of the SGI Transaction and new direct business production.

Shareholders' equity per share, non-GAAP operating shareholders' equity per share and non-GAAP adjusted book value per share all increased in 2018 to \$63.23, \$61.17 and \$86.06, respectively, which benefitted from the repurchase of an additional 13.2 million shares in 2018 under the share repurchase program that began in 2013. See "Accretive Effect of Cumulative Repurchases" table below.

### Key Business Strategies

The Company continually evaluates its business strategies. Currently, the Company is pursuing the following business strategies, each described in more detail below:

- New business production
- Capital management
- Alternative strategies
- Loss mitigation

### New Business Production

The Company believes high-profile defaults by municipal obligors, such as Puerto Rico, Detroit, Michigan and Stockton, California have led to increased awareness of the value of bond insurance and stimulated demand for the product. The Company believes there will be continued demand for its insurance in this market because, for those exposures that the Company guarantees, it undertakes the tasks of credit selection, analysis, negotiation of terms, surveillance and, if necessary, loss mitigation. The Company believes that its insurance:

-

encourages retail investors, who typically have fewer resources than the Company for analyzing municipal bonds, to purchase such bonds;  
enables institutional investors to operate more efficiently; and  
allows smaller, less well-known issuers to gain market access on a more cost-effective basis.

On the other hand, the persistently low interest rate environment and relatively tight U.S. municipal credit spreads have dampened demand for bond insurance, and provisions in legislation known as the Tax Act, such as the termination of the tax-exempt status of advance refunding bonds and the reduction in corporate tax rates, have resulted in a reduction of supply and made municipal obligations less attractive to certain institutional investors.

Table of ContentsU.S. Municipal Market Data and Bond Insurance Penetration Rates (1)  
Based on Sale Date

	Year Ended December 31,			
	2018	2017	2016	
	(dollars in billions, except number of issues and percent)			
Par:				
New municipal bonds issued	\$ 320.3	\$ 409.5	\$ 423.7	
Total insured	\$ 18.9	\$ 23.0	\$ 25.3	
Insured by Assured Guaranty	\$ 10.5	\$ 13.5	\$ 14.2	
Number of issues:				
New municipal bonds issued	8,555	10,589	12,271	
Total insured	1,246	1,637	1,889	
Insured by Assured Guaranty	596	833	904	
Bond insurance market penetration based on:				
Par	5.9	% 5.6	% 6.0	%
Number of issues	14.6	% 15.5	% 15.4	%
Single A par sold	17.8	% 23.3	% 22.6	%
Single A transactions sold	52.8	% 57.3	% 55.8	%
\$25 million and under par sold	17.2	% 18.7	% 17.8	%
\$25 million and under transactions sold	17.1	% 18.3	% 17.5	%

Source: The amounts in the table are those reported by Thomson Reuters. In addition, the Company considers \$500 (1) million of taxable ProMedica Toledo Hospital bonds insured by Assured Guaranty in 2018 to be public finance business.

Table of ContentsGross Written Premiums and  
New Business Production

	Year Ended December 31,			
	2018	2017	2016	
	(in millions)			
<b>GWP</b>				
Public Finance—U.S.	\$ 320	\$ 190	\$ 142	
Public Finance—non-U.S.	115	105	15	
Structured Finance—U.S.	167	(1	) (1	)
Structured Finance—non-U.S.	10	13	(2	)
Total GWP	\$612	\$307	\$154	
<b>PVP (1):</b>				
Public Finance—U.S.	\$391	\$196	\$161	
Public Finance—non-U.S.	94	66	25	
Structured Finance—U.S. (2)	166	12	27	
Structured Finance—non-U.S. (3)	12	15	1	
Total PVP	\$663	\$289	\$214	
<b>Gross Par Written (1):</b>				
Public Finance—U.S.	\$19,572	\$15,957	\$16,039	
Public Finance—non-U.S.	3,817	1,376	677	
Structured Finance—U.S. (2)	902	489	1,114	
Structured Finance—non-U.S. (3)	333	202	24	
Total gross par written	\$24,624	\$18,024	\$17,854	
Average rating on new business written	A-	A-	A-	

(1) PVP and Gross Par Written in the table above are based on "close date," when the transaction settles. See "– Non-GAAP Financial Measures – PVP or Present Value of New Business Production."

(2) Includes life insurance capital relief transactions in certain years.

(3) Included aircraft RVI policies in certain years.

GWP relates to both financial guaranty insurance and non-financial guaranty insurance contracts. Credit derivatives are accounted for at fair value and therefore not included in GWP. Financial guaranty GWP includes amounts collected upfront on new business written, the present value of future premiums on new business written (discounted at risk free rates), as well as the effects of changes in the estimated lives of transactions in the inforce book of business. Non-financial guaranty GWP is recorded as premiums are received. Non-GAAP PVP, on the other hand, includes upfront premiums and future installments on new business that are estimated at the time of issuance, discounted at 6% for all contracts whether in insurance or credit derivative form.

GWP and PVP for 2018 reached 10-year records due to the assumption of substantially all of the insured portfolio of SGI. On a GAAP basis, the SGI Transaction generated GWP of \$330 million, plus \$86 million in undiscounted expected future credit derivative revenue, including transactions with \$131 million in expected losses (discounted at a risk-free rate on a GAAP basis). On a non-GAAP basis, PVP was \$391 million, including transactions with expected losses of \$83 million (discounted at 6% consistent with the PVP discount rate). See also Item 8, Financial Statements and Supplementary Data, Note 2, Assumption of Insured Portfolio and Business Combinations, for additional

information. The components of new business production generated by the SGI Transaction are presented below.

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## Assumed SGI Insured Portfolio

As of June 1, 2018

	GWP PVP (1)			Total	Gross Par Written (1)
	Financial Guaranty	Financial Guaranty	Credit Derivatives		
	(in millions)				
Public Finance—U.S.	\$ 123	\$ 118	\$ 67	\$ 185	\$ 7,559
Public Finance—non-U.S.	50	38	12	50	3,345
Structured Finance—U.S.	157	156	—	156	349
Structured Finance—non-U.S.	—	—	—	—	19
Total	\$ 330	\$ 312	\$ 79	\$ 391	\$ 11,272

(1) See “– Non-GAAP Financial Measures – PVP or Present Value of New Business Production.”

Excluding the assumed business from SGI, U.S. public finance PVP was 5% higher compared with 2017, despite a 22% decline in new U.S. municipal bonds issued. In 2018, Assured Guaranty once again guaranteed the majority of U.S. public finance insured par issued. Outside the U.S., the Company generated \$44 million of public finance PVP in 2018 compared with \$66 million in 2017. In 2018 this included several infrastructure finance and regulated utilities transactions, including the Company's first post-financial crisis transaction in Australia.

In non-U.S. structured finance, the Company closed insurance and reinsurance aircraft residual value insurance policies, which represented all of the new business in 2017 and the majority of new business in 2018. In 2018, the Company also closed transactions in the commercial real estate market, and guaranteed a collateralized loan obligation for the first time since 2008. Structured finance transactions tend to have long lead times and may vary from period to period.

The Company believes its financial guaranty product is competitive with other financing options in certain segments of the global infrastructure market. Future business activity in the global infrastructure market will be influenced by the typically long lead times for these types of transactions and may vary from period to period. The Company also believes that its financial guaranty product is competitive with other financing options in certain segments of the structured finance market. For example, certain investors may receive advantageous capital requirement treatment with the addition of the Company's guaranty. The Company considers its involvement in both international infrastructure and structured finance transactions to be beneficial because such transactions diversify both the Company's business opportunities and its risk profile beyond U.S. public finance.

**Capital Management**

In recent years, the Company has developed strategies to manage capital within the Assured Guaranty group more efficiently.

From 2013 through March 1, 2019, the Company has repurchased 95.7 million common shares for approximately \$2,764 million, representing 49% of the total shares outstanding at the beginning of the repurchase program in 2013. On February 27, 2019, the Board of Directors (the Board) authorized an additional \$300 million of share repurchases. As of March 1, 2019, \$350 million remained under the aggregate share repurchase authorization. Shares may be repurchased from time to time in the open market or in privately negotiated transactions. The timing, form and amount of the share repurchases under the program are at the discretion of management and will depend on a variety of factors, including free funds available at the parent company, other potential uses for such free funds, market

conditions, the Company's capital position, legal requirements and other factors. The repurchase program may be modified, extended or terminated by the Board of Directors at any time and does not have an expiration date. See Item 8, Financial Statements and Supplementary Data, Note 18, Shareholders' Equity, for additional information about the Company's repurchases of its common shares.

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## Summary of Share Repurchases

	Amount of	Number	Average
	Shares	of	price
		Shares	per
			share
	(in millions, except per share data)		
2013	\$264	12.5	\$ 21.12
2014	590	24.4	24.17
2015	555	21.0	26.43
2016	306	10.7	28.53
2017	501	12.7	39.57
2018	500	13.2	37.76
2019 (through March 1, 2019)	48	1.2	40.03
Cumulative repurchases since the beginning of 2013	\$2,764	95.7	\$ 28.87

## Accretive Effect of Cumulative Repurchases(1)

	Year Ended		December	
	31,		31,	
	2018	2017	As of	As of
			December 31,	December 31,
			2018	2017
	(per share)			
Net income	\$1.73	\$2.03		
Non-GAAP operating income	1.58	1.81		
Shareholders' equity			\$ 16.26	\$ 12.92
Non-GAAP operating shareholders' equity			15.29	11.80
Non-GAAP adjusted book value			27.07	20.58

(1) Cumulative repurchases since the beginning of 2013.

In 2017, the respective regulators of AGC, AGM and MAC approved those companies' repurchases of shares of common stock from their respective direct parent companies. AGC implemented a \$200 million share repurchase in January 2018, AGM implemented a \$101 million share repurchase in December 2017 and MAC implemented a \$250 million share repurchase in September 2017. AGL has used these funds predominantly to repurchase its publicly traded common shares.

In December 2016, AGM repurchased \$300 million of its common stock from AGMH, the majority of which was ultimately distributed to AGL. AGL has used these funds predominantly to repurchase its publicly traded common shares. In June 2016, MAC repaid its \$300 million surplus note to Municipal Assurance Holdings Inc. (MAC Holdings) and its \$100 million surplus note (plus accrued interest) to AGM with a mixture of cash and/ or marketable securities. MAC Holdings, in turn, distributed \$182 million to AGM and \$118 million to AGC. See Item 8, Financial Statements and Supplementary Data, Note 11, Insurance Company Regulatory Requirements, for information about dividend capacity of the Company's insurance companies.

The Company also considers the appropriate mix of debt and equity in its capital structure, and may repurchase some of its debt from time to time. For example, in 2018 and 2017, AGUS purchased \$100 million and \$28 million of par, respectively, of AGMH's outstanding Junior Subordinated Debentures, which resulted in a loss on extinguishment of debt of \$34 million in 2018 and \$9 million in 2017. The Company may choose to make additional purchases of this or other Company debt in the future.

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### Alternative Strategies

The Company considers alternative strategies to create long-term shareholder value, including acquisitions, investments and commutations. For example, the Company considers opportunities to acquire financial guaranty portfolios, whether by acquiring financial guarantors who are no longer actively writing new business or their insured portfolios, or by commuting previously ceded business. See New Business Production above, and Item 8, Financial Statements and Supplementary Data, Note 2, Assumption of Insured Portfolio and Business Combinations, and Item 8, Financial Statements and Supplementary Data, Note 13, Reinsurance, for additional information. These transactions enable the Company to improve its future earnings and deploy excess capital.

**Assumption of Insured Portfolio.** On June 1, 2018, the Company closed the SGI Transaction under which AGC assumed, generally on a 100% quota share basis, substantially all of SGI's insured portfolio and AGM reassumed a book of business previously ceded to SGI by AGM. The net par value of exposures reinsured and commuted as of June 1, 2018 totaled approximately \$12 billion. The SGI Transaction reduced shareholders' equity by \$0.16 per share, due to a loss on the reassumed book of business, and increased non-GAAP adjusted book value by \$2.25 per share. Additionally, beginning on June 1, 2018, on behalf of SGI, AGC began providing certain administrative services on the assumed portfolio, including surveillance, risk management, and claims processing.

**Acquisitions:** On January 10, 2017, AGC completed its acquisition of MBIA UK, which added a total of \$12 billion in net par. At acquisition, MBIA UK contributed shareholders' equity of \$84 million and non-GAAP adjusted book value of \$322 million. On July 1, 2016, AGC acquired all of the issued and outstanding capital stock of CIFGH, for \$450.6 million in cash that contributed \$2.23 per share to shareholders' equity, \$2.23 per share to non-GAAP operating shareholders' equity and \$3.85 per share to non-GAAP adjusted book value at the date of acquisition.

**Commutations.** The Company entered into various commutation agreements to reassume previously ceded business in 2018, 2017 and 2016 that resulted in losses of \$16 million in 2018, gains of \$328 million in 2017 and gains of \$8 million in 2016. The commutations added net unearned premium reserve of \$64 million in 2018 and \$82 million in 2017. In the future, the Company may enter into new commutation agreements to reassume portions of its insured business ceded to other reinsurers, but such opportunities are expected to be limited given the small number of unaffiliated reinsurers currently reinsuring the Company.

**Alternative Investments.** The alternative investments group has been investigating a number of new business opportunities that complement the Company's financial guaranty business, are in line with its risk profile and benefit from its core competencies, including, among others, both controlling and non-controlling investments in investment managers.

In February 2018, the Company acquired a minority interest in the holding company of Rubicon Infrastructure Advisors, a full-service investment firm based in Dublin that provides investment banking services within the global infrastructure sector. In September 2017, the Company acquired a minority interest in Wasmer, Schroeder & Company LLC, an independent investment advisory firm specializing in SMAs. In February 2017 the Company agreed to purchase up to \$100 million of limited partnership interests in a fund that invests in the equity of private equity managers of which \$83 million remains to be invested as of December 31, 2018.

The Company continues to investigate additional opportunities, but there can be no assurance of whether or when the Company will find suitable opportunities on appropriate terms.

### Loss Mitigation

In an effort to avoid or reduce potential losses in its insurance portfolios, the Company employs a number of strategies.

In the public finance area, the Company believes its experience and the resources it is prepared to deploy, as well as its ability to provide bond insurance or other contributions as part of a solution, result in more favorable outcomes in distressed public finance situations than would be the case without its participation. This has been illustrated by the Company's role in the Detroit, Michigan; Stockton, California; and Jefferson County, Alabama financial crises. Currently, the Company is actively working to mitigate potential losses in connection with the obligations it insures of the Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations and was an active participant in negotiating the Puerto Rico Sales Tax Financing Corporation (COFINA) Plan of Adjustment. The Company will also, where appropriate, pursue litigation to enforce its rights, and it has initiated a number of legal actions to enforce its rights in Puerto Rico. For more information about developments in Puerto Rico and related recovery litigation being pursued by the Company, see Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding Exposure.

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The Company is currently working with the servicers of some of the RMBS it insures to encourage the servicers to provide alternatives to distressed borrowers that will encourage them to continue making payments on their loans to help improve the performance of the related RMBS.

In some instances, the terms of the Company's policy gives it the option to pay principal on an accelerated basis on an obligation on which it has paid a claim, thereby reducing the amount of guaranteed interest due in the future. The Company has at times exercised this option, which uses cash but reduces projected future losses. The Company may also facilitate the issuance of refunding bonds, by either providing insurance on the refunding bonds or purchasing refunding bonds, or both. Refunding bonds may provide the issuer with payment relief.

## Other Events

### Brexit

On June 23, 2016, a referendum was held in the U.K. in which a majority voted to exit the EU, known as “Brexit”. The U.K. government served notice to the European Council on March 29, 2017 of its desire to withdraw in accordance with Article 50 of the Treaty on European Union. As described above in Part 1, Item 1, Business, Regulation, there has been no approval by the U.K. parliament of any withdrawal agreement between the EU and the U.K. Failing such approval or the implementation of an agreed extension to the U.K.'s planned departure date, the U.K. is currently expected to leave the EU on March 29, 2019 under a No-Deal Brexit, leaving considerable uncertainty as to the ongoing terms of the U.K.'s relationship with the EU, including the terms of trade between the U.K. and the EU, and a likely negative impact on all parties. Given the lack of clarity on the ultimate post-Brexit relationship between the U.K. and the EU, the Company cannot fully determine what, if any, impact Brexit may have on its business or operations, both inside and outside the U.K., but it has identified the following issues:

**Currency Impact.** The Company reports its accounts in U.S. dollars, while some of its income, expenses, assets and liabilities are denominated in other currencies, primarily the pound sterling and the euro. During 2016, the year in which a majority in the U.K. voted for Brexit, the value of pound sterling dropped from £0.68 per dollar to £0.81 per dollar, while the euro dropped from €0.83 per dollar to €0.95 per dollar. For the year ended 2016 the Company recognized losses of approximately \$21 million in the consolidated statement of operations, net of tax, and approximately \$32 million in OCI, net of tax, for foreign currency translation, that were primarily driven by the exchange rate fluctuations of the pound sterling. Currency exchange rates may also move materially as the terms of Brexit become known, especially in the event of a No-Deal Brexit.

**U.K. Business.** As of December 31, 2018, approximately \$31.1 billion of the Company's insured net par is to risks located in the U.K., and most of that exposure is to utilities, with much of the rest to hospital facilities, government accommodation, universities, toll roads and housing associations that the Company believes are not overly vulnerable to Brexit pressures. AGE is currently authorized by the PRA of the Bank of England with permissions sufficient to enable AGE to effect and carry out financial guaranty insurance and reinsurance in the U.K. Most of the new transactions insured by AGE since 2008 have been in the U.K.

- **Business Elsewhere in the EU.** As of December 31, 2018, approximately \$7.1 billion of the Company's insured net par is to risks located in EU and EEA countries other than the U.K. Currently, EU directives allow AGE to conduct business in other EU or EEA states based on its PRA permissions. This is sometimes called “passporting”. The Company cannot determine whether U.K. authorized financial services firms such as AGE will continue to enjoy passporting rights to the other EEA states after Brexit. This question will be particularly acute in the event of a No-Deal Brexit because the loss of passporting could occur as early as March 29, 2019, rather than at the end of the transition period under the withdrawal agreement of December 31, 2020. As a

consequence, Assured Guaranty is establishing a new subsidiary in Paris, France, in order to continue with the ability to write new business, and to service existing business, in those other EEA states. That new subsidiary is unlikely to be fully licensed prior to a No-Deal Brexit, should that occur. While the Company believes that, in the event of a No-Deal Brexit or in the absence of applicable transition rules, those other EEA states outside the U.K. will permit the Company to continue to service existing business in their states, there can be no assurance that this will occur, nor can the Company fully determine the impact on its business and operations if it does not occur. As noted above, most of the new transactions insured by AGE since 2008 have been in the U.K.

• Employees. All of the employees working in AGE's London office are either U.K. citizens or have U.K. resident status except one, who has started the application process to become a U.K. resident.

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## Results of Operations

## Estimates and Assumptions

The Company's consolidated financial statements include amounts that are determined using estimates and assumptions. It is possible that actual amounts realized could differ, possibly materially, from the amounts currently recorded in the Company's consolidated financial statements. Management believes the most significant items requiring inherently subjective and complex estimates are expected losses, fair value estimates, OTTI, deferred income taxes, and premium revenue recognition. The following discussion of the results of operations includes information regarding the estimates and assumptions used for these items and should be read in conjunction with the notes to the Company's consolidated financial statements.

An understanding of the Company's accounting policies is critical to understanding its consolidated financial statements. See Part II, Item 8, Financial Statements and Supplementary Data, for a discussion of significant accounting policies, the loss estimation process, and fair value methodologies.

The Company carries a significant amount of its assets and a portion of its liabilities at fair value, the majority of which are measured at fair value on a recurring basis. Level 3 assets, primarily consisting of loss mitigation securities and FG VIEs' assets, represented approximately 18% and 17% of the total assets that are measured at fair value on a recurring basis as of December 31, 2018 and 2017, respectively. All of the Company's liabilities that are measured at fair value are Level 3. See Item 8, Financial Statements and Supplementary Data, Note 7, Fair Value Measurement, for additional information.

## Consolidated Results of Operations

## Consolidated Results of Operations

	Year Ended		
	December 31,		
	2018	2017	2016
	(in millions)		
Revenues:			
Net earned premiums	\$548	\$690	\$864
Net investment income	398	418	408
Net realized investment gains (losses)	(32 )	40	(29 )
Net change in fair value of credit derivatives	112	111	98
Fair value gains (losses) on FG VIEs	14	30	38
Bargain purchase gain and settlement of pre-existing relationships	—	58	259
Commutation gains (losses)	(16 )	328	8
Other income (loss)	(22 )	64	31
Total revenues	1,002	1,739	1,677
Expenses:			
Loss and LAE	64	388	295
Amortization of DAC	16	19	18
Interest expense	94	97	102
Other operating expenses	248	244	245
Total expenses	422	748	660
Income (loss) before provision for income taxes	580	991	1,017
Provision (benefit) for income taxes	59	261	136

Net income (loss)	\$521	\$730	\$881
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## Net Earned Premiums

Premiums are earned over the contractual lives, or in the case of homogeneous pools of insured obligations, the remaining expected lives, of financial guaranty insurance contracts. The Company estimates remaining expected lives of its insured obligations and makes prospective adjustments for such changes in expected lives. Scheduled net earned premiums decrease each year unless replaced by a higher amount of new business, reassumptions of previously ceded business, or books of business acquired in a business combination. See Item 8, Financial Statements and Supplementary Data, Note 6, Contracts Accounted for as Insurance, Financial Guaranty Insurance Premiums, for additional information.

## Net Earned Premiums

	Year Ended December 31, 2018 2017 2016 (in millions)		
Financial guaranty insurance:			
Public finance			
Scheduled net earned premiums and accretion	\$300	\$315	\$299
Accelerations:			
Refundings	139	269	390
Terminations	14	2	34
Total accelerations	153	271	424
Total public finance	453	586	723
Structured finance(1)			
Scheduled net earned premiums and accretion	85	87	96
Accelerations	6	15	45
Total structured finance	91	102	141
Non-financial guaranty	4	2	—
Total net earned premiums	\$548	\$690	\$864

(1) Excludes \$12 million, \$15 million and \$16 million for 2018, 2017 and 2016, respectively, related to consolidated FG VIEs.

2018 compared with 2017: Net earned premiums decreased in 2018 compared with 2017 primarily due to reduced refunding activity due to a reduction in the insured portfolio as well as fewer advanced refunding bonds, caused by changes in tax law enacted in 2017. At December 31, 2018, \$3.5 billion of net deferred premium revenue remained to be earned over the life of the insurance contracts. The SGI Transaction contributed \$375 million of net unearned premium reserve on June 1, 2018.

2017 compared with 2016: Net earned premiums decreased in 2017 compared with 2016 due to lower refundings and terminations. The MBIA UK Acquisition increased deferred premium revenue by \$383 million at the date of the acquisition.

Net earned premiums due to accelerations is attributable to changes in the expected lives of insured obligations driven by (a) refundings of insured obligations or (b) terminations of insured obligations either through negotiated agreements or the exercise of the Company's contractual rights to make claim payments on an accelerated basis.

Refundings occur in the public finance market and had been at historically high levels in recent years primarily due to the low interest rate environment, which has allowed many municipalities and other public finance issuers to refinance their debt obligations at lower rates. The premiums associated with the insured obligations of municipalities and other public finance issuers are generally received upfront when the obligations are issued and insured. When such issuers pay down insured obligations prior to their originally scheduled maturities, the Company is no longer on risk for payment defaults, and therefore accelerates the recognition of the nonrefundable deferred premium revenue remaining. Provisions in the 2017 Tax Act regarding the termination of the tax-exempt status of advance refunding bonds has resulted in fewer refundings in 2018 than in comparable periods in prior years.

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Terminations are generally negotiated agreements with beneficiaries resulting in the extinguishment of the Company's insurance obligation. Terminations are more common in the structured finance asset class, but may also occur in the public finance asset class. While each termination may have different terms, they all result in the expiration of the Company's insurance risk, the acceleration of the recognition of the associated deferred premium revenue and the reduction of remaining premiums receivable.

## Net Investment Income

Net investment income is a function of the yield earned and the size of the investment portfolio. The investment yield is a function of market interest rates at the time of investment as well as the type, credit quality and maturity of the invested assets.

## Net Investment Income (1)

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Income from fixed-maturity securities managed by third parties	\$297	\$298	\$306
Income from internally managed securities (1)	110	129	111
Gross investment income	407	427	417
Investment expenses	(9 )	(9 )	(9 )
Net investment income	\$398	\$418	\$408

(1) Net investment income excludes \$4 million for 2018, \$5 million for 2017 and \$10 million in 2016, related to securities in the investment portfolio that were issued by consolidated FG VIEs.

2018 compared with 2017: Net investment income decreased compared with 2017 primarily due to the accretion on the Zohar II 2005-1 notes prior to the MBIA UK Acquisition date in January 2017. The overall pre-tax book yield was 3.79% as of December 31, 2018 and 3.68% as of December 31, 2017, respectively. Excluding the internally managed portfolio, pre-tax book yield was 3.23% as of December 31, 2018 compared with 3.14% as of December 31, 2017.

2017 compared with 2016: Net investment income increased compared with 2016 primarily due to improved underlying cash flows of internally managed securities due to a litigation settlement related to certain loss mitigation bonds. The overall pre-tax book yield was 3.68% as of December 31, 2017 and 3.80% as of December 31, 2016, respectively. Excluding the internally managed portfolio, pre-tax book yield was 3.14% as of December 31, 2017 compared with 3.30% as of December 31, 2016.

## Net Realized Investment Gains (Losses)

The table below presents the components of net realized investment gains (losses).

## Net Realized Investment Gains (Losses)

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Gross realized gains on available-for-sale securities	\$20	\$95	\$28

Gross realized losses on available-for-sale securities	(12 )	(12 )	(8 )
Net realized gains (losses) on other invested assets	(1 )	—	2
OTTI	(39 )	(43 )	(51 )
Net realized investment gains (losses)	\$(32)	\$40	\$(29)

Gross realized gains in 2018 mainly related to foreign exchange gains. Gross realized gains in 2017 mainly relate to sales of internally managed investments, including the gain on sale of the Zohar II 2005-1 notes exchanged in the MBIA UK

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Acquisition. Gross realized gains in 2016 were primarily due to sales of securities in order to fund the purchase of CIFGH by AGC. OTTI for all periods presented was mainly attributable to securities purchased for loss mitigation purposes.

## Net Change in Fair Value of Credit Derivatives

Changes in the fair value of credit derivatives occur because of changes in the issuing company's own credit rating and credit spreads, collateral credit spreads, notional amounts, credit ratings of the referenced entities, expected terms, realized gains (losses) and other settlements, interest rates, and other market factors. With volatility continuing in the market, unrealized gains (losses) on credit derivatives may fluctuate significantly in future periods.

Except for net estimated credit impairments (i.e., net expected payments), the unrealized gains and losses on credit derivatives are expected to reduce to zero as the exposure approaches its maturity date. Changes in the fair value of the Company's credit derivatives that do not reflect actual or expected claims or credit losses have no impact on the Company's statutory claims-paying resources, rating agency capital or regulatory capital positions. Changes in expected losses in respect of contracts accounted for as credit derivatives are included in the discussion of "Economic Loss Development" below.

The impact of changes in credit spreads will vary based upon the volume, tenor, interest rates, and other market conditions at the time these fair values are determined. In addition, since each transaction has unique collateral and structural terms, the underlying change in fair value of each transaction may vary considerably. The fair value of credit derivative contracts also reflects the change in the Company's own credit cost based on the price to purchase credit protection on AGC and AGM. The Company determines its own credit risk based on quoted CDS prices traded on the Company at each balance sheet date. Generally, a widening of credit spreads of the underlying obligations results in unrealized losses and the tightening of credit spreads of the underlying obligations results in unrealized gains. A widening of the CDS prices traded on AGC and AGM has an effect of offsetting unrealized losses that result from widening general market credit spreads, while a narrowing of the CDS prices traded on AGC and AGM has an effect of offsetting unrealized gains that result from narrowing general market credit spreads.

The valuation of the Company's credit derivative contracts requires the use of models that contain significant, unobservable inputs, and are classified as Level 3 in the fair value hierarchy. The models used to determine fair value are primarily developed internally based on market conventions for similar transactions that the Company observed in the past. There has been very limited new issuance activity in this market over the past several years and as of December 31, 2018, market prices for the Company's credit derivative contracts were generally not available. Inputs to the estimate of fair value include various market indices, credit spreads, the Company's own credit spread, and estimated contractual payments. See Item 8, Financial Statements and Supplementary Data, Note 7, Fair Value Measurement, for additional information.

## Net Change in Fair Value of Credit Derivative Gain (Loss)

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Realized gains on credit derivatives	\$9	\$17	\$56
Net credit derivative losses (paid and payable) recovered and recoverable and other settlements	(25 )	(27 )	(27 )
Realized gains (losses) and other settlements (1)	(16 )	(10 )	29
Net unrealized gains (losses)	128	121	69
Net change in fair value of credit derivatives	\$112	\$111	\$98

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(1) Includes realized gains and losses due to terminations and settlements of CDS contracts.

Net credit derivative premiums included in the realized gains on credit derivatives line in the table above have declined in 2018, 2017 and 2016 primarily due to the decline in the net par outstanding. In recent years, the Company has negotiated terminations of investment grade and BIG CDS contracts with its counterparties. The following table presents the effects of terminations.

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of Direct Credit Derivative Contracts

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Net par of terminated credit derivative contracts	\$601	\$331	\$3,811
Realized gains (losses) and other settlements	1	(15 )	20
Net unrealized gains (losses) on credit derivatives	5	26	103

During 2018, unrealized fair value gains were primarily generated by CDS terminations, run-off of CDS par and price improvements on the underlying collateral of the Company's CDS. In addition, unrealized fair value gains were generated by the increase in credit given to the primary insurer on one of the Company's second-to-pay CDS policies during the period. The unrealized fair value gains were partially offset by unrealized fair value losses resulting from wider implied net spreads driven by the decreased cost to buy protection in AGC's and AGM's name, as the market cost of AGC's and AGM's credit protection decreased during the period. For those CDS transactions that were pricing at or above their floor levels, when the cost of purchasing CDS protection on AGC and AGM, which management refers to as the CDS spread on AGC and AGM, decreased the implied spreads that the Company would expect to receive on these transactions increased.

During 2017 and 2016, unrealized fair value gains were primarily generated by CDS terminations, run-off of net par outstanding, and price improvements on the underlying collateral of the Company's CDS. The majority of the CDS transactions that were terminated were as a result of settlement agreements with several CDS counterparties. In 2016, the unrealized fair value gains were partially offset by unrealized losses resulting from wider implied net spreads. The wider implied net spreads were primarily a result of the decreased cost to buy protection in AGC's and AGM's name, as the market cost of AGC's and AGM's credit protection decreased significantly during the period. During 2017, the cost to buy protection in AGC's and AGM's name, specifically the five-year CDS spread, did not change materially during the period, and therefore did not have a material impact on the Company's unrealized fair value gains and losses on CDS.

Effect of Changes in the Company's Credit Spread on  
Net Unrealized Gains (Losses) on Credit Derivatives

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Change in unrealized gains (losses) on credit derivatives:			
Before considering implication of the Company's credit spreads	\$126	\$118	\$183
Resulting from change in the Company's credit spreads	2	3	(114 )
After considering implication of the Company's credit spreads	\$128	\$121	\$69

Management believes that the trading level of AGC's and AGM's credit spreads over the past several years has been due to the correlation between AGC's and AGM's risk profile and the current risk profile of the broader financial markets.

Financial Guaranty Variable Interest Entities

As of December 31, 2018 and 2017, the Company consolidated 31 and 32 FG VIEs, respectively. The table below presents the effects on reported GAAP income resulting from consolidating these FG VIEs and eliminating intercompany transactions. The consolidation of FG VIEs has the following effect on net income and shareholders' equity.

Changes in fair value gains (losses) on FG VIEs' assets and liabilities are recorded in the Statement of Operations (effective January 1, 2018 the change in fair value of FG VIEs' liabilities with recourse attributable to ISCR is recorded in OCI, instead of net income - See Item 8, Financial Statements and Supplementary Data, Note 1, Business and Basis of Presentation, for additional information). Upon adoption, the Company reclassified a loss of approximately \$33 million, net of tax, from retained earnings to AOCI.

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Upon consolidation of a FG VIE, premiums and losses related to AGC's and AGM's insurance of FG VIEs' liabilities with recourse and, any investment balances related to the Company's purchase of AGC and AGM insured FG VIEs' debt, are considered intercompany transactions and are therefore eliminated.

See Item 8, Financial Statements and Supplementary Data, Note 9, Variable Interest Entities, for additional information.

## Effect of Consolidating FG VIEs on Net Income (Loss)

	Year Ended December 31, 2018 2017 2016 (in millions)		
Fair value gains (losses) on FG VIEs	\$14	\$30	\$38
Elimination of insurance and investment balances	(19 )	(13 )	(18 )
Effect on income before tax	(5 )	17	20
Less: tax provision (benefit)	(1 )	6	7
Effect on net income (loss)	\$(4 )	\$11	\$13

For all periods presented, the primary driver of the gain in fair value of FG VIEs' assets and FG VIEs' liabilities was an increase in the value of FG VIEs' assets resulting from improvement in the underlying collateral.

## Bargain Purchase Gain and Settlement of Pre-existing Relationships

In connection with the MBIA UK Acquisition in 2017 and the CIFG Acquisition in 2016, the Company recognized bargain purchase gains and gains (losses) on settlements of pre-existing relationships.

## Bargain Purchase Gain and Settlement of Pre-existing Relationships

	Year Ended December 31, 20172016 (in millions)	
Bargain purchase gain	\$56	\$357
Settlement of pre-existing relationships	2	(98 )
Total	\$58	\$259

See Item 8, Financial Statements and Supplementary Data, Note 2, Assumption of Insured Portfolio and Business Combinations, for additional information.

## Commutation Gains (Losses)

In connection with the reassumption of previously ceded books of business, the Company recognized commutation losses of \$16 million in 2018 and commutation gains of \$328 million and \$8 million in 2017 and 2016, respectively. The losses in 2018 related to the commutation component of the SGI Transaction. See Item 8, Financial Statements and Supplementary Data, Note 13, Reinsurance, for additional information.

Other Income (Loss)

Other income (loss) consists of recurring items such as those listed in the table below as well as ancillary fees on financial guaranty policies for commitments and consents, and if applicable, other revenue items on financial guaranty insurance and reinsurance contracts such as loss mitigation recoveries and other non-recurring items.

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## Other Income (Loss)

	Year Ended		
	December 31,		
	2018	2017	2016
	(in millions)		
Foreign exchange gain (loss) on remeasurement (1)	\$(37)	\$60	\$(37)
Fair value gains (losses) on equity investments (2)	27	—	—
Loss on extinguishment of debt (3)	(34)	(9)	—
Fair value gains (losses) on CCS	14	(2)	—
Other	8	15	68
Total other income (loss)	\$(22)	\$64	\$31

(1) Foreign exchange gains primarily relate to remeasurement of premiums receivable and are mainly due to changes in the exchange rate of the British pound sterling relative to the U.S. dollar.

(2) The Company recorded a gain on change in fair value of equity securities in 2018 related to the Company's minority interest in the parent company of TMC Bonds LLC, which it sold in third quarter of 2018.

(3) The loss on extinguishment of debt is related to AGUS' purchase of a portion of the principal amount of AGMH's outstanding Junior Subordinated Debentures. The loss represents the difference between the amount paid to purchase AGMH's debt and the carrying value of the debt, which includes the unamortized fair value adjustments that were recorded upon the acquisition of AGMH in 2009. AGUS purchased \$100 million of principal amount in 2018 and \$28 million in 2017. See Item 8, Financial Statements and Supplementary Data, Note 16, Long-Term Debt and Credit Facilities, for additional information.

## Economic Loss Development

The insured portfolio includes policies accounted for under three separate accounting models depending on the characteristics of the contract and the Company's control rights. For a discussion of assumptions and methodologies used in calculating the expected loss to be paid for all contracts, the loss estimation process and approach to projecting losses, and the measurement and recognition accounting policies under GAAP for each type of contract, see the Notes listed below in Item 8, Financial Statements and Supplementary Data.

- Note 5 for expected loss to be paid
- Note 6 for contracts accounted for as insurance
- Note 7 for fair value methodologies for credit derivatives and FG VIEs' assets and liabilities
- Note 8 for contracts accounted for as credit derivatives
- Note 9 for FG VIEs

In order to efficiently evaluate and manage the economics of the entire insured portfolio, management complies and analyzes expected loss information for all policies on a consistent basis. The discussion of losses that follows encompasses losses on all contracts in the insured portfolio regardless of accounting model, unless otherwise specified. Net expected loss to be paid primarily consists of the present value of future: expected claim and LAE payments, expected recoveries from issuers or excess spread and other collateral in the transaction structures, cessions to reinsurers, and expected recoveries/payables for breaches of R&W and the effects of other loss mitigation strategies. Current risk free rates are used to discount expected losses at the end of each reporting period and therefore changes in such rates from period to period affect the expected loss estimates reported. Assumptions used in the

determination of the net expected loss to be paid such as delinquency, severity, and discount rates and expected time frames to recovery were consistent by sector regardless of the accounting model used. The primary drivers of economic loss development are discussed below. Changes in risk free rates used to discount losses affect economic loss development, and loss and LAE; however, the effect of changes in discount rates are not indicative of actual credit impairment or improvement in the period.

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Net Expected Loss to be Paid (Recovered) and  
 Net Economic Loss Development (Benefit)  
 By Accounting Model

	Net Expected Loss to be Paid (Recovered)		Net Economic Loss Development (Benefit) (1)		
	As of December 31,		Year Ended December 31,		
	2018	2017	2018	2017	2016
	(in millions)				
Financial guaranty insurance	\$1,109	\$1,226	\$(9)	\$353	\$164
FG VIEs and other	76	91	(13)	(6)	(8)
Credit derivatives	(2)	(14)	17	(34)	(17)
Total	\$1,183	\$1,303	\$(5)	\$313	\$139

Net Expected Loss to be Paid (Recovered) and  
 Net Economic Loss Development (Benefit)  
 By Sector

	Net Expected Loss to be Paid (Recovered)		Net Economic Loss Development (Benefit) (1)		
	As of December 31,		Year Ended December 31,		
	2018	2017	2018	2017	2016
	(in millions)				
Public finance	\$864	\$1,203	\$56	\$549	\$269
Structured finance					
U.S. RMBS	293	73	(69)	(181)	(91)
Other structured finance	26	27	8	(55)	(39)
Structured finance	319	100	(61)	(236)	(130)
Total	\$1,183	\$1,303	\$(5)	\$313	\$139

(1) Economic loss development includes the effects of changes in assumptions based on observed market trends, changes in discount rates, accretion of discount and the economic effects of loss mitigation efforts.

Risk-Free Rates

Risk-Free Rates used in Effect of  
 Expected Loss for U.S. Changes in  
 Dollar Denominated the Risk-Free  
 Obligations Rates on  
 Economic  
 Loss  
 Development

	(Benefit)
As of December 31,	Year Ended December 31,
Range	Weighted Average (in millions)
2018 0.0%-3.06%	2.74 % \$ (17 )
2017 0.0%-2.78%	2.38 % 25
2016 0.0%-3.23%	2.73 % (15 )

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2018 Net Economic Loss Development

Public Finance Economic Loss Development: Public finance expected loss to be paid primarily related to U.S. exposure, which had BIG net par outstanding of \$6.4 billion as of December 31, 2018 compared with \$7.1 billion as of December 31, 2017. The Company projects that its total net expected loss across its troubled U.S. public finance exposures as of December 31, 2018 will be \$832 million, compared with \$1,157 million as of December 31, 2017. The total net expected loss for troubled U.S. public finance exposures is net of a credit for estimated future recoveries of claims already paid. At December 31, 2018 that credit was \$586 million compared with \$385 million at December 31, 2017. Economic loss development on U.S. exposures in 2018 was \$70 million, which was primarily attributable to Puerto Rico exposures, partially offset by the release of reserves on the Company's exposure to the City of Hartford following the State of Connecticut's (CT) agreement to pay the debt service costs of certain bonds of the City of Hartford, including those insured by the Company.

The economic benefit of approximately \$14 million on non-U.S. exposures during 2018 was mainly attributable to the U.K. arterial road and changes in certain probability of default assumptions. See Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding Exposure, for details about significant developments that have taken place in Puerto Rico.

U.S. RMBS Economic Loss Development: The net benefit attributable to U.S. RMBS of \$69 million was mainly related to improvement in the performance of second lien U.S. RMBS transactions. The net expected loss to be paid for U.S. RMBS increased from 2017 to 2018 mainly due to the SGI Transaction and collection of a large R&W settlement in 2018.

Other Structured Finance Economic Loss Development: The economic loss development attributable to structured finance, excluding U.S. RMBS, was \$8 million, related to progress on efforts to workout triple-X life insurance transactions and LAE.

2017 Net Economic Loss Development

Public Finance Economic Loss Development: Public finance expected loss to be paid primarily related to U.S. exposures which had BIG net par outstanding of \$7.1 billion as of December 31, 2017 compared with \$7.4 billion as of December 31, 2016. The Company projected that its total net expected loss across its troubled U.S. public finance exposures as of December 31, 2017 would be \$1,157 million, compared with \$871 million as of December 31, 2016. Economic loss development on U.S. exposures in 2017 was \$554 million, which was primarily attributable to Puerto Rico exposures.

U.S. RMBS Economic Loss Development: The net benefit attributable to U.S. RMBS was \$181 million and was mainly related to an R&W litigation settlement, and improved second lien U.S. RMBS recoveries.

Other Structured Finance Economic Loss Development: The net benefit attributable to structured finance (excluding U.S. RMBS) was \$55 million, primarily due to a benefit from a litigation settlement related to two triple-X transactions.

2016 Net Economic Loss Development

Public Finance Economic Loss Development: Expected loss to be paid for public finance primarily related the Company's to U.S. exposures. The net par outstanding for U.S. public finance obligations rated BIG by the Company was \$7.4 billion as of December 31, 2016 compared with \$7.8 billion as of December 31, 2015. The Company projected that its total net expected loss across its troubled U.S. public finance exposures as of December 31, 2016 would be \$871 million, compared with \$771 million as of December 31, 2015. Economic loss development on U.S.

exposures in 2016 was \$276 million, which was primarily attributable to Puerto Rico exposures.

**U.S. RMBS Economic Loss Development:** The net benefit attributable to U.S. RMBS was \$91 million and was mainly due to the acceleration of claim payments as a means of mitigating future losses on certain Alt-A transactions.

**Other Structured Finance Economic Loss Development:** The net benefit attributable to structured finance, excluding U.S. RMBS, was \$39 million, primarily due to a benefit from the purchase of a portion of an insured obligation as part of a loss mitigation strategy and the commutation of certain assumed student loan exposures.

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## Loss and LAE (Financial Guaranty Insurance Contracts)

The primary differences between net economic loss development and the amount reported as loss and LAE in the consolidated statements of operations are that loss and LAE: (1) considers deferred premium revenue in the calculation of loss reserves and loss and LAE for financial guaranty insurance contracts, (2) eliminates loss and LAE related to consolidated FG VIEs and (3) does not include estimated losses on credit derivatives.

Loss and LAE reported in non-GAAP operating income (i.e., operating loss and LAE) includes losses on financial guaranty insurance contracts (other than those eliminated due to consolidation of FG VIEs), and credit derivatives.

For financial guaranty insurance contracts each transaction's expected loss to be expensed is compared with the deferred premium revenue of that transaction. When the expected loss to be expensed exceeds the deferred premium revenue, a loss is recognized in the consolidated statements of operations for the amount of such excess. Therefore, the timing of loss recognition in income does not necessarily coincide with the timing of the actual credit impairment or improvement reported in net economic loss development. Transactions (particularly BIG transactions) acquired in a business combination or seasoned portfolios assumed from legacy financial guaranty insurers generally have the largest deferred premium revenue balances. Therefore the largest differences between net economic loss development and loss and LAE on financial guaranty insurance contracts generally relate to those policies.

The amount of loss and LAE recognized in the consolidated statements of operations for financial guaranty contracts accounted for as insurance is a function of the amount of economic loss development discussed above and the deferred premium revenue amortization in a given period, on a contract-by-contract basis.

While expected loss to be paid is an important liquidity measure that provides the present value of amounts that the Company expects to pay or recover in future periods on all contracts, expected loss to be expensed is important because it presents the Company's projection of loss and LAE that will be recognized in future periods as deferred premium revenue amortizes into income for financial guaranty insurance policies.

The following table presents the loss and LAE recorded in the consolidated statements of operations. Amounts presented are net of reinsurance.

Loss and LAE Reported  
on the Consolidated Statements of Operations

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Public finance	\$83	\$549	\$304
Structured finance			
U.S. RMBS (1)	(15 )	(113 )	30
Other structured finance	(4 )	(48 )	(39 )
Structured finance	(19 )	(161 )	(9 )
Total loss and LAE (2)	\$64	\$388	\$295

(1) Excludes a benefit of \$3 million, a loss of \$7 million and a loss of \$7 million as of December 31, 2018, December 31, 2017 and December 31, 2016, respectively, related to consolidated FG VIEs.

(2)

Excludes credit derivative loss of \$9 million for 2018, and credit derivative benefit of \$43 million and \$20 million 2017 and 2016, respectively.

Loss and LAE in 2018 was mainly driven by higher loss reserves on certain Puerto Rico exposures, partially offset by the reduction of loss reserves on the City of Hartford, CT exposure and a benefit on structured finance exposures.

Loss and LAE in 2017 was mainly driven by higher loss reserves on certain Puerto Rico exposures, partially offset by a benefit from R&W settlements of \$105 million and a triple-X litigation settlement.

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Loss and LAE in 2016 was mainly driven by higher loss reserves on certain Puerto Rico exposures.

For additional information on the expected timing of net expected losses to be expensed see Item 8, Financial Statements and Supplementary Data, Note 6, Contracts Accounted for as Insurance, Financial Guaranty Insurance Losses.

## Interest Expense

The following table presents the components of interest expense. For additional information, see Item 8, Financial Statements and Supplementary Data, Note 16, Long-Term Debt and Credit Facilities.

## Interest Expense

	Year Ended December 31, 2018 2017 2016 (in millions)		
Debt issued by AGUS	\$46	\$44	\$48
Debt issued by AGMH	53	54	54
AGMH's debt purchased by AGUS (1)	(5 )	(1 )	—
Total	\$94	\$97	\$102

(1) See --Other Income (Loss)-- above for additional information.

In December 2016, \$150 million of debt issued by AGUS became floating rate interest debt, that resets quarterly, at a rate equal to three month LIBOR plus a margin equal to 2.38%. The interest rate on the debt was previously a fixed rate of 6.4%.

## Other Operating Expenses and Amortization of Deferred Acquisition Costs

	Year Ended December 31, 2018 2017 2016 (in millions)		
Employee compensation and benefits	\$165	\$153	\$140
Deferred costs	(14 )	(10 )	(7 )
Total employee compensation and benefits net of deferred costs	151	143	133
Professional fees	21	21	21
Premises and equipment	19	19	30
Acquisition related expenses (1)	4	7	8
Other	53	54	53
Other operating expenses	248	244	245
Amortization of DAC	16	19	18
Total other operating expenses and amortization of DAC	\$264	\$263	\$263

(1) Expenses related to SGI Transaction, MBIA UK Acquisition and CIFG Acquisition.

2018 compared with 2017: Other operating expenses increased in 2018 compared with 2017 as higher compensation expenses were partially offset by higher deferred costs as a result of increased new business production.

2017 compared with 2016: Other operating expenses in 2017 decreased slightly compared with 2016 due to lower rent in 2017 that resulted from the move of the Company's New York City offices, offset by higher compensation expenses.

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## Provision for Income Tax

Deferred income tax assets and liabilities are established for the temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities using enacted rates in effect for the year in which the differences are expected to reverse. Such temporary differences relate principally to unrealized gains and losses on investments and credit derivatives, investment basis difference, loss and LAE reserves, unearned premium reserves and tax attributes for net operating losses and alternative minimum tax credits.

As of December 31, 2018 and December 31, 2017, the Company had a net deferred income tax asset of \$68 million and \$98 million, respectively. The decrease in 2018 from 2017 is mainly attributable to the utilization of alternative minimum tax credits and a decrease in tax reserves for unearned premiums.

## Provision for Income Taxes and Effective Tax Rates

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Total provision (benefit) for income taxes	\$59	\$261	\$136
Effective tax rate	10.2%	26.3 %	13.4 %

The Company's effective tax rate reflects the proportion of income recognized by each of the Company's operating subsidiaries, with U.S. subsidiaries generally taxed at the U.S. marginal corporate income tax rate of 21% in 2018 compared with 35% in 2017, U.K. subsidiaries taxed at the U.K. marginal corporate tax rate of 19% unless taxed as a U.S. CFC, and no taxes for the Company's Bermuda Subsidiaries, unless subject to U.S. tax by election or as a U.S. controlled foreign corporation.

The impact of the Tax Act includes the deemed repatriation of all previously untaxed unremitted earnings of CFCs as well as the permanent write down of various tax attributes and other net deferred tax assets related to the reduction of the statutory corporate tax rate from 35% to 21% as of January 1, 2018. As of December 31, 2018, the accounting for the income tax effects of the Tax Act have been completed and the total net impact resulting from the Tax Act is \$57 million, of which \$61 million in provisional expense was recorded in 2017, and a \$4 million tax benefit was recorded in 2018 upon completion of the Company's assessment of the effects of the Tax Act. See Item 8, Financial Statements and Supplementary Data, Note 12, Income Taxes, for more details.

The 2018 effective tax rate reflects the release of \$18 million of previously recorded uncertain tax position reserves and accrued interest, due to the closing of the 2013 and 2014 audit years. In April 2017, the Company received a final letter from the IRS to close the audit for the period of 2009 - 2012, with no additional findings or changes, and as a result the Company released previously recorded uncertain tax position reserves and accrued interest of approximately \$37 million in the third quarter of 2017. Other non-taxable book-to-tax differences were mostly consistent compared with the prior period, with the exception of the benefit on bargain purchase gains from the MBIA UK Acquisition in 2017 and the CIFG Acquisition in 2016.

## 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 FG VIE consolidation, provides information that is necessary for analysts to calculate their estimates of Assured Guaranty's financial results in their research reports on Assured Guaranty and for investors, analysts and the financial news media to evaluate Assured Guaranty's financial results.

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GAAP requires the Company to consolidate certain VIEs that have issued debt obligations insured by the Company. However, the Company does not own such VIEs and its exposure is limited to its obligation under its financial guaranty insurance contract. Management and the Board of Directors use non-GAAP financial measures adjusted to remove FG VIE consolidation (which the Company refers to as its core financial measures), as well as GAAP financial measures and other factors, to evaluate the Company's results of operations, financial condition and progress towards long-term goals. The Company uses these core financial measures in its decision making process and in its calculation of certain components of management compensation. Wherever possible, the Company has separately disclosed the effect of FG VIE consolidation.

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

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

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

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

### Non-GAAP Operating Income

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

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

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

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

- 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.

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- 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.

Reconciliation of Net Income (Loss)  
to Non-GAAP Operating Income

	Year Ended December 31, 2018 2017 2016 (in millions)		
Net income (loss)	\$521	\$730	\$881
Less pre-tax adjustments:			
Realized gains (losses) on investments	(32 )	40	(30 )
Non-credit impairment unrealized fair value gains (losses) on credit derivatives	101	43	36
Fair value gains (losses) on CCS (1)	14	(2 )	—
Foreign exchange gains (losses) on remeasurement of premiums receivable and loss and LAE reserves (1)	(32 )	57	(33 )
Total pre-tax adjustments	51	138	(27 )
Less tax effect on pre-tax adjustments	(12 )	(69 )	13
Non-GAAP operating income	\$482	\$661	\$895
Gain (loss) related to FG VIE consolidation (net of tax provision (benefit) of \$(1), \$6 and \$7) included in non-GAAP operating income	\$(4 )	\$11	\$12

(1) Included in other income (loss) in the consolidated statements of operations.

Non-GAAP Operating Shareholders' Equity and Non-GAAP Adjusted Book Value

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

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

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

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

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

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

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

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

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

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

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

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

Table of ContentsReconciliation of Shareholders' Equity  
to Non-GAAP Adjusted Book Value

	As of December 31, 2018		As of December 31, 2017	
	After-Tax Per Share		After-Tax Per Share	
	(dollars in millions, except per share amounts)			
Shareholders' equity	\$6,555	\$ 63.23	\$ 6,839	\$ 58.95
Less pre-tax adjustments:				
Non-credit impairment unrealized fair value gains (losses) on credit derivatives	(45 )	(0.44 )	(146 )	(1.26 )
Fair value gains (losses) on CCS	74	0.72	60	0.52
Unrealized gain (loss) on investment portfolio excluding foreign exchange effect	247	2.39	487	4.20
Less taxes	(63 )	(0.61 )	(83 )	(0.71 )
Non-GAAP operating shareholders' equity	6,342	61.17	6,521	56.20
Pre-tax adjustments:				
Less: Deferred acquisition costs	105	1.01	101	0.87
Plus: Net present value of estimated net future revenue	204	1.96	146	1.26
Plus: Net unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed	3,005	28.98	2,966	25.56
Plus taxes	(524 )	(5.04 )	(512 )	(4.41 )
Non-GAAP adjusted book value	\$8,922	\$ 86.06	\$ 9,020	\$ 77.74
Gain (loss) related to FG VIE consolidation included in non-GAAP operating shareholders' equity (net of tax provision of \$1 and \$2)	\$3	\$ 0.03	\$5	\$ 0.03
Gain (loss) related to FG VIE consolidation included in non-GAAP adjusted book value (net of tax benefit of \$4 and \$3)	\$(15 )	\$(0.15 )	\$(14 )	\$(0.12 )

## Net Present Value of Estimated Net Future Revenue

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

## PVP or Present Value of New Business Production

Management believes that PVP is a useful measure because it enables the evaluation of the value of new business production for the Company by taking into account the value of estimated future installment premiums on all new contracts underwritten in a reporting period as well as premium supplements and additional installment premium on existing contracts as to which the issuer has the right to call the insured obligation but has not exercised such right, whether in insurance or credit derivative contract form, which management believes GAAP gross written premiums

and the net credit derivative premiums received and receivable portion of net realized gains and other settlements on credit derivatives (Credit Derivative Realized Gains (Losses)) do not adequately measure. PVP in respect of contracts written in a specified period is defined as gross upfront and installment premiums received and the present value of gross estimated future installment premiums, discounted, in each case, at 6%. Under GAAP, financial guaranty installment premiums are discounted at a risk free rate. Additionally, under

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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.

## Reconciliation of GWP to PVP

	Year Ended December 31, 2018				
	Public Finance		Structured Finance		
	Non	Non	Non	Non	Total
	U.S.	U.S.	U.S.	U.S.	U.S.
	(in millions)				
GWP	\$320	\$115	\$167	\$10	\$612
Less: Installment GWP and other GAAP adjustments (1)	34	75	9	1	119
Upfront GWP	286	40	158	9	493
Plus: Installment premium PVP (2)	105	54	8	3	170
PVP	\$391	\$94	\$166	\$12	\$663
	Year Ended December 31, 2017				
	Public Finance		Structured Finance		
	Non	Non	Non	Non	Total
	U.S.	U.S.	U.S.	U.S.	U.S.
	(in millions)				
GWP	\$190	\$105	\$(1)	\$13	\$307
Less: Installment GWP and other GAAP adjustments (1)	(3)	103	(1)	—	99
Upfront GWP	193	2	—	13	208
Plus: Installment premium PVP	3	64	12	2	81
PVP	\$196	\$66	\$12	\$15	\$289
	Year Ended December 31, 2016				
	Public Finance		Structured Finance		
	Non	Non	Non	Non	Total
	U.S.	U.S.	U.S.	U.S.	U.S.
	(in millions)				
GWP	\$142	\$15	\$(1)	\$(2)	\$154
Less: Installment GWP and other GAAP adjustments (1)	(19)	15	(4)	(2)	(10)
Upfront GWP	161	—	3	—	164
Plus: Installment premium PVP	—	25	24	1	50

PVP \$161 \$25 \$27 \$1 \$214

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Includes present value of new business on installment policies discounted at the prescribed GAAP discount rates, (1)GWP adjustments on existing installment policies due to changes in assumptions, any cancellations of assumed reinsurance contracts, and other GAAP adjustments.

(2)Includes PVP of credit derivatives assumed in the SGI Transaction in 2018.

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Insured Portfolio

Financial Guaranty Exposure

The following table presents the insured financial guaranty portfolio by sector net of cessions to reinsurers. It includes all financial guaranty contracts outstanding as of the dates presented, regardless of the form written (i.e., credit derivative form or traditional financial guaranty insurance form) or the applicable accounting model (i.e., insurance, derivative or VIE consolidation). The Company purchases securities that it has insured, and for which it has expected losses to be paid, in order to mitigate the economic effect of insured losses (loss mitigation securities). The Company excludes amounts attributable to loss mitigation securities from par and scheduled principal and interest payments (debt service) outstanding. These amounts are included in the investment portfolio, because the Company manages such securities as investments and not insurance exposure. As of December 31, 2018 and December 31, 2017, the Company excluded \$1.9 billion and \$2.0 billion, respectively, of net par attributable to loss mitigation strategies. See Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding Exposure, for additional information.

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## Financial Guaranty

## Net Par Outstanding and Average Internal Rating by Sector

Sector	As of December 31, 2018		As of December 31, 2017	
	Net Par Outstanding (dollars in millions)	Avg. Rating	Net Par Outstanding	Avg. Rating
Public finance:				
U.S.:				
General obligation	\$78,800	A-	\$90,705	A-
Tax backed	40,616	A-	44,350	A-
Municipal utilities	28,462	A-	32,357	A-
Transportation	15,197	A-	17,030	A-
Healthcare	6,750	A-	8,763	A
Higher education	6,643	A-	8,195	A
Infrastructure finance	5,489	A-	4,216	BBB+
Housing revenue	1,435	BBB+	1,319	BBB+
Investor-owned utilities	1,001	A-	523	A-
Other public finance—U.S.	2,169	A-	1,934	A
Total public finance—U.S.	186,562	A-	209,392	A-
Non-U.S.:				
Regulated utilities	18,325	BBB+	16,689	BBB+
Infrastructure finance	17,216	BBB	18,234	BBB
Pooled infrastructure	1,373	AAA	1,561	AAA
Other public finance	7,189	A	6,438	A
Total public finance—non-U.S.	44,103	BBB+	42,922	BBB+
Total public finance	230,665	A-	252,314	A-
Structured finance:				
U.S.:				
RMBS	4,270	BBB-	4,818	BBB-
Insurance securitizations	1,435	A+	1,449	A+
Consumer receivables	1,255	A-	1,590	A-
Pooled corporate obligations	1,215	AA-	1,347	A
Financial products	1,094	AA-	1,418	AA-
Other structured finance—U.S.	675	A-	602	A
Total structured finance—U.S.	9,944	A-	11,224	BBB+
Non-U.S.:				
RMBS	576	A-	637	A-
Pooled corporate obligations	126	A	157	A+
Other structured finance	491	A	620	A
Total structured finance—non-U.S.	1,193	A	1,414	A
Total structured finance	11,137	A-	12,638	A-
Total net par outstanding	\$241,802	A-	\$264,952	A-



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The following table sets forth the Company's net financial guaranty portfolio by internal rating.

## Financial Guaranty Portfolio by Internal Rating

Rating Category	As of December 31, 2018		As of December 31, 2017	
	Net Par Outstanding (dollars in millions)	%	Net Par Outstanding	%
AAA	\$4,618	1.9 %	\$5,392	2.1 %
AA	27,021	11.2	34,212	12.9
A	119,415	49.4	134,396	50.7
BBB	80,588	33.3	78,714	29.7
BIG	10,160	4.2	12,238	4.6
Total net par outstanding	\$241,802	100.0%	\$264,952	100.0%

The tables below show the Company's ten largest U.S. public finance, U.S. structured finance and non-U.S. exposures by revenue source, excluding related authorities and public corporations, as of December 31, 2018:

Ten Largest U.S. Public Finance Exposures  
by Revenue Source  
As of December 31, 2018

	Net Par Outstanding	Percent of Total U.S. Public Finance Net Par Outstanding (dollars in millions)	Rating
New Jersey (State of)	\$4,245	2.3 %	BBB
Pennsylvania (Commonwealth of)	1,986	1.1	A-
Illinois (State of)	1,967	1.0	BBB
Puerto Rico, General Obligation, Appropriations and Guarantees of the Commonwealth	1,498	0.8	CCC
Puerto Rico Highways & Transportation Authority	1,319	0.7	CCC
Chicago (City of) Illinois	1,300	0.7	BBB
North Texas Tollway Authority	1,242	0.7	A
California (State of)	1,177	0.6	A
Massachusetts (Commonwealth of)	1,160	0.6	AA-
Wisconsin (State of)	1,124	0.6	A+
Total of top ten U.S. public finance exposures	\$17,018	9.1 %	



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## Ten Largest U.S. Structured Finance Exposures

As of December 31, 2018

	Net Par Outstanding	Percent of Total U.S. Structured Finance Net Par Outstanding (dollars in millions)	Rating
Private US Insurance Securitization	\$500	5.0 %	AA
SLM Private Credit Student Trust 2007-A	500	5.0	A+
Private US Insurance Securitization	424	4.3	AA
SLM Private Credit Student Loan Trust 2006-C	257	2.6	AA-
Private US Insurance Securitization	250	2.5	AA
Brightwood Fund III Static 2018-1, LLC	231	2.3	A-
Option One 2007-FXD2	196	2.0	CCC
Timberlake Financial, LLC Floating Insured Notes	175	1.8	BBB-
Soundview 2007-WMC1	160	1.6	CCC
Countrywide HELOC 2006-I	132	1.3	BBB-
Total of top ten U.S. structured finance exposures	\$2,825	28.4 %	

## Ten Largest Non-U.S. Exposures

As of December 31, 2018

	Country	Net Par Outstanding	Percent of Total Non-U.S. Net Par Outstanding (dollars in millions)	Rating
Southern Water Services Limited	United Kingdom	\$2,592	5.7 %	A-
Hydro-Quebec, Province of Quebec	Canada	2,060	4.5	A+
Thames Water Utility Finance PLC	United Kingdom	1,900	4.2	A-
Societe des Autoroutes du Nord et de l'Est de France S.A.	France	1,727	3.8	BBB+
Southern Gas Networks PLC	United Kingdom	1,635	3.6	BBB
Anglian Water Services Financing	United Kingdom	1,415	3.1	A-
Dwr Cymru Financing Limited	United Kingdom	1,392	3.1	A-
British Broadcasting Corporation (BBC)	United Kingdom	1,296	2.9	A+
National Grid Gas PLC	United Kingdom	1,247	2.8	BBB+
Channel Link Enterprises Finance PLC	France, United Kingdom	1,206	2.7	BBB
Total of top ten non-U.S. exposures		\$16,470	36.4 %	

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## Financial Guaranty Portfolio by Geographic Area

The following table sets forth the geographic distribution of the Company's financial guaranty portfolio.

Geographic Distribution  
of Financial Guaranty Portfolio  
As of December 31, 2018

	Number of Risks	Net Par Outstanding	Percent of Total Net Par Outstanding	
	(dollars in millions)			
U.S.:				
California	1,361	\$ 33,847	14.0	%
Texas	1,154	16,915	7.0	
Pennsylvania	704	16,866	7.0	
New York	829	15,077	6.2	
Illinois	642	14,914	6.2	
New Jersey	370	10,998	4.5	
Florida	273	8,518	3.5	
Michigan	349	5,635	2.3	
Puerto Rico	18	4,767	2.0	
Alabama	289	4,230	1.7	
Other	2,726	54,795	22.7	
Total U.S. public finance	8,715	186,562	77.1	
U.S. Structured finance (multiple states)	485	9,944	4.1	
Total U.S.	9,200	196,506	81.2	
Non-U.S.:				
United Kingdom	130	31,128	12.9	
France	10	3,189	1.3	
Canada	9	2,659	1.1	
Australia	11	2,103	0.9	
Italy	8	1,176	0.5	
Other	45	5,041	2.1	
Total non-U.S.	213	45,296	18.8	
Total	9,413	\$ 241,802	100.0	%

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## Financial Guaranty Portfolio by Issue Size

The Company seeks broad coverage of the market by insuring and reinsuring small and large issues alike. The following tables set forth the distribution of the Company's portfolio by original size of the Company's exposure.

## Public Finance Portfolio by Issue Size

As of December 31, 2018

Original Par Amount Per Issue	Number of Issues	Net Par Outstanding	% of Public Finance Net Par Outstanding	
	(dollars in millions)			
Less than \$10 million	12,717	\$ 32,730	14.2	%
\$10 through \$50 million	4,047	64,982	28.2	
\$50 through \$100 million	693	36,171	15.7	
\$100 million to \$200 million	372	37,960	16.4	
\$200 million or greater	229	58,822	25.5	
Total	18,058	\$ 230,665	100.0	%

## Structured Finance Portfolio by Issue Size

As of December 31, 2018

Original Par Amount Per Issue	Number of Issues	Net Par Outstanding	% of Structured Finance Net Par Outstanding	
	(dollars in millions)			
Less than \$10 million	154	\$ 77	0.7	%
\$10 through \$50 million	178	1,235	11.1	
\$50 through \$100 million	64	1,464	13.1	
\$100 million to \$200 million	82	2,657	23.9	
\$200 million or greater	104	5,704	51.2	
Total	582	\$ 11,137	100.0	%

## Exposure to Puerto Rico

The Company had insured exposure to general obligation bonds of the Commonwealth of Puerto Rico (Puerto Rico or the Commonwealth) and various obligations of its related authorities and public corporations aggregating \$4.8 billion net par as of December 31, 2018, all of which was rated BIG. Puerto Rico experienced significant general fund budget deficits and a challenging economic environment since at least the financial crisis. In 2017, Hurricane Maria created additional challenges for Puerto Rico. Beginning on January 1, 2016, a number of Puerto Rico exposures have defaulted on bond payments, and the Company has now paid claims on all of its Puerto Rico exposures except for Puerto Rico Aqueduct and Sewer Authority (PRASA), Municipal Finance Agency (MFA) and University of Puerto Rico (U of PR). Additional information about recent developments in Puerto Rico and the individual exposures insured by the Company may be found in Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding

Exposure.

The Company groups its Puerto Rico exposure into three categories:

**Constitutionally Guaranteed.** The Company includes in this category public debt benefiting from Article VI of the Constitution of the Commonwealth, which expressly provides that interest and principal payments on the public debt are to be paid before other disbursements are made.

**Public Corporations – Certain Revenues Potentially Subject to Clawback.** The Company includes in this category the debt of public corporations for which applicable law permits the Commonwealth to claw back,

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subject to certain conditions and for the payment of public debt, at least a portion of the revenues supporting the bonds the Company insures. As a constitutional condition to clawback, available Commonwealth revenues for any fiscal year must be insufficient to pay Commonwealth debt service before the payment of any appropriations for that year. The Company believes that this condition has not been satisfied to date, and accordingly that the Commonwealth has not to date been entitled to claw back revenues supporting debt insured by the Company.

Other Public Corporations. The Company includes in this category the debt of public corporations that are supported by revenues it does not believe are subject to clawback.

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Exposure to Puerto Rico  
As of December 31, 2018

	Net Par Outstanding				Total Net Par Outstanding	Gross Par Outstanding
	AGM	AGC	AG Re	Eliminations (1)		
	(in millions)					
Commonwealth Constitutionally Guaranteed Commonwealth of Puerto Rico - General Obligation Bonds (2) (3)	\$ 647	\$ 301	\$ 393	\$ (1 )	\$ 1,340	\$ 1,383
Puerto Rico Public Buildings Authority (PBA) Public Corporations - Certain Revenues Potentially Subject to Clawback	9	142	—	(9 )	142	148
PRHTA (Transportation revenue) (3)	233	495	195	(79 )	844	874
PRHTA (Highway revenue) (3)	351	84	40	—	475	536
Puerto Rico Convention Center District Authority (PRCCDA)	—	152	—	—	152	152
Puerto Rico Infrastructure Financing Authority (PRIFA)	—	15	1	—	16	16
Other Public Corporations						
Puerto Rico Electric Power Authority (PREPA) (3)	544	72	232	—	848	866
PRASA	—	284	89	—	373	373
MFA	189	40	74	—	303	349
COFINA (4)	264	—	9	—	273	273
U of PR	—	1	—	—	1	1
Total exposure to Puerto Rico	\$2,237	\$1,586	\$1,033	\$ (89 )	\$ 4,767	\$ 4,971

(1) Net par outstanding eliminations relate to second-to-pay policies under which an Assured Guaranty insurance subsidiary guarantees an obligation already insured by another Assured Guaranty insurance subsidiary.

(2) Includes exposure to capital appreciation bonds with a current aggregate net par outstanding of \$2 million and fully accreted net par at maturity of \$3 million.

(3) As of the date of this filing, the seven-member financial oversight board established by PROMESA has certified a filing under Title III of PROMESA for these exposures.

(4) As of the date of this filing, a plan of adjustment under PROMESA is effective for this credit.

The following tables show the scheduled amortization of the general obligation bonds of Puerto Rico and various obligations of its related authorities and public corporations insured by the Company. The Company guarantees payments of interest and principal when those amounts are scheduled to be paid and cannot be required to pay on an accelerated basis. In the event that obligors default on their obligations, the Company would only pay the shortfall between the principal and interest due in any given period and the amount paid by the obligors.

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Amortization Schedule  
of Net Par Outstanding of Puerto Rico  
As of December 31, 2018

	Scheduled Net Par Amortization												Total	
	2019 (1Q)	2019 (2Q)	2019 (3Q)	2019 (4Q)	2020	2021	2022	2023	2024 -2028	2029 -2033	2034 -2038	2039 -2043		2044 -2047
Commonwealth Constitutionally Guaranteed														
Commonwealth of Puerto Rico - General Obligation Bonds	\$-	\$87	\$	\$141	\$15	\$37	\$14	\$298	\$341	\$407	\$—	\$—	\$1,340	
PBA	—	3	—	5	13	—	7	58	36	20	—	—	142	
Public Corporations - Certain Revenues Potentially Subject to Clawback														
PRHTA (Transportation revenue)	—	32	—	25	18	28	33	120	127	296	165	—	844	
PRHTA (Highway revenue)	—	21	—	22	35	6	32	77	145	137	—	—	475	
PRCCDA	—	—	—	—	—	—	—	19	50	83	—	—	152	
PRIFA	—	—	—	—	—	—	2	—	—	3	11	—	16	
Other Public Corporations														
PREPA	—	26	—	48	28	28	95	440	174	9	—	—	848	
PRASA	—	—	—	—	—	—	—	110	—	2	—	261	373	
MFA	—	55	—	45	40	40	22	91	10	—	—	—	303	
COFINA	—	—	—	(1)	(2)	(2)	1	(8)	20	11	254	—	273	
U of PR	—	—	—	—	—	—	—	—	1	—	—	—	1	
Total	\$-	\$224	\$	\$285	\$147	\$137	\$206	\$1,205	\$904	\$968	\$430	\$261	\$4,767	

Amortization Schedule  
of Net Debt Service Outstanding of Puerto Rico  
As of December 31, 2018

	Scheduled Net Debt Service Amortization												Total	
	2019 (1Q)	2019 (2Q)	2019 (3Q)	2019 (4Q)	2020	2021	2022	2023	2024 -2028	2029 -2033	2034 -2038	2039 -2043		2044 -2047
Commonwealth Constitutionally Guaranteed														
Commonwealth of Puerto Rico - General Obligation Bonds	\$35	\$	\$121	\$	\$206	\$74	\$94	\$71	\$538	\$512	\$457	\$—	\$—	\$2,108
PBA	3	—	7	—	12	20	6	13	84	51	23	—	—	219
Public Corporations - Certain Revenues Potentially Subject to Clawback														
PRHTA (Transportation revenue)	22	—	54	—	67	59	68	72	295	262	374	180	—	1,453
PRHTA (Highway revenue)	13	—	34	—	46	58	27	52	159	208	152	—	—	749
PRCCDA	3	—	4	—	7	7	7	7	53	78	91	—	—	257
PRIFA	—	—	—	—	1	1	1	2	5	3	7	12	—	32

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Other Public Corporations

PREPA	17	3	43	3	87	63	62	128	540	198	10	—	—	1,154
PRASA	10	—	10	—	19	19	19	19	197	68	70	68	300	799
MFA	8	—	62	—	58	50	48	28	106	11	—	—	—	371
COFINA	6	—	6	—	13	13	13	16	66	95	76	296	—	600
U of PR	—	—	—	—	—	—	—	—	—	1	—	—	—	1
Total	\$117	\$ 3	\$341	\$ 3	\$516	\$364	\$345	\$408	\$2,043	\$1,487	\$1,260	\$ 556	\$ 300	\$7,743

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## Financial Guaranty Exposure to U.S. Residential Mortgage-Backed Securities

The table below provides information on certain risk characteristics of the Company's financial guaranty insurance, FG VIE and credit derivative U.S. RMBS exposures. As of December 31, 2018, U.S. RMBS net par outstanding was \$4.3 billion, of which \$2.4 billion was rated BIG. U.S. RMBS exposures represent 2% of the total net par outstanding, and BIG U.S. RMBS represent 24% of total BIG net par outstanding as of December 31, 2018. See Item 8, Financial Statements and Supplementary Data, Note 5, Expected Loss to be Paid, for a discussion of expected losses to be paid on U.S. RMBS exposures.

## Distribution of U.S. RMBS by Year Insured and Type of Exposure as of December 31, 2018

Year insured:	Prime First Lien	Alt-A First Lien	Option ARMs	Subprime First Lien	Second Lien	Total Net Par Outstanding
	(in millions)					
2004 and prior	\$27	\$ 23	\$ 2	\$ 724	\$ 68	\$ 844
2005	62	241	29	233	172	737
2006	47	49	14	375	267	752
2007	—	388	42	1,049	398	1,877
2008	—	—	—	60	—	60
Total exposures	\$136	\$ 701	\$ 87	\$ 2,441	\$ 905	\$ 4,270

## Financial Guaranty Exposure to the U.S. Virgin Islands

See Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding Exposure.

## Non-Financial Guaranty Exposure

The Company also provides non-financial guaranty insurance and reinsurance on transactions with similar risk profiles to its structured finance exposures written in financial guaranty form. All non-financial guaranty exposures shown in the table below are rated investment grade internally.

## Non-Financial Guaranty Exposure

	Gross Exposure		Net Exposure	
	As of	As of	As of	As of
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	(in millions)			
Life insurance capital relief transactions	\$880	\$ 773	\$763	\$ 675
Aircraft RVI policies	340	201	218	140

(1) The life insurance capital relief transactions net exposure is expected to increase to approximately \$1.0 billion prior to September 30, 2036.

## Reinsurance Exposures

The Company has exposure to reinsurers through reinsurance arrangements (both as a ceding company and as an assuming company).

Assumed outstanding exposure represents the amount of exposure assumed by the Company from third party insurers and reinsurers. Under these relationships, the Company assumes a portion of the ceding company's insured risk in exchange for a premium. The Company may be exposed to risk in this portfolio in that the Company may be required to pay losses without a corresponding premium in circumstances where the ceding company is experiencing financial distress and is unable to pay premiums.

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Ceded outstanding exposure represents the portion of insured risk ceded to external reinsurers. Under these relationships, the Company has ceded a portion of its insured risk to the reinsurer in exchange for the reinsurer receiving a share of the Company's premiums for the insured risk (typically, net of a ceding commission). The Company remains primarily liable for all risks it directly underwrites and is required to pay all gross claims. It then seeks reimbursement from the reinsurer for its proportionate share of claims. The Company may be exposed to risk for this exposure if it were required to pay the gross claims and not be able to collect ceded claims from an assuming company experiencing financial distress. The Company's ceded contracts generally allow the Company to recapture ceded financial guaranty business after certain triggering events, such as reinsurer downgrades. In accordance with U.S. statutory accounting requirements and U.S. insurance laws and regulations, in order for the Company to receive credit for liabilities ceded to reinsurers domiciled outside of the U.S., such reinsurers must secure their liabilities to the Company. The total collateral posted by all non-affiliated reinsurers as of December 31, 2018 was approximately \$80 million.

Liquidity and Capital Resources

Liquidity Requirements and Sources

AGL and its Holding Company Subsidiaries

The liquidity of AGL, AGUS and AGMH is largely dependent on dividends from their operating subsidiaries and their access to external financing. The liquidity requirements of these entities include the payment of operating expenses, interest on debt issued by AGUS and AGMH, and dividends on AGL's common shares. AGL and its holding company subsidiaries may also require liquidity to make periodic capital investments in their operating subsidiaries, purchase the Company's outstanding debt, or in the case of AGL, to repurchase its common shares pursuant to its share repurchase authorization. In the ordinary course of business, the Company evaluates its liquidity needs and capital resources in light of holding company expenses and dividend policy, as well as rating agency considerations. The Company also subjects its cash flow projections and its assets to a stress test, maintaining a liquid asset balance of one time its stressed operating company net cash flows. Management believes that AGL will have sufficient liquidity to satisfy its needs over the next twelve months. See "Distributions From Subsidiaries" below for a discussion of the dividend restrictions of its insurance company subsidiaries.

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The following table presents significant holding company cash flow activity (other than investment income, expenses and taxes) related to distributions from subsidiaries and outflows for debt service and dividends, dividends to AGL shareholders and other capital management activities.

AGL and U.S. Holding Company Subsidiaries  
Significant Cash Flow Items

	AGL	AGUS	AGMH	Other Subsidiaries
	(in millions)			
Year ended December 31, 2018				
Intercompany sources	\$597	\$525	\$205	\$13
Intercompany (uses)	—	(485)	(192)	(663)
External sources (uses):				
Dividends paid to AGL shareholders	(71)	—	—	—
Repurchases of common shares (1)	(500)	—	—	—
Interest paid (2)	—	(58)	(41)	—
Purchase of AGMH's debt by AGUS	—	(100)	—	—
Year ended December 31, 2017				
Intercompany sources	\$595	\$391	\$322	\$16
Intercompany (uses)	—	(511)	(279)	(534)
External sources (uses):				
Dividends paid to AGL shareholders	(70)	—	—	—
Repurchases of common shares (1)	(501)	—	—	—
Interest paid (2)	—	(32)	(45)	—
Purchase of AGMH's debt by AGUS	—	(28)	—	—
Year ended December 31, 2016				
Intercompany sources	\$388	\$592	\$547	\$34
Intercompany (uses)	—	(322)	(513)	(726)
External sources (uses):				
Dividends paid to AGL shareholders	(69)	—	—	—
Repurchases of common shares (1)	(306)	—	—	—
Interest paid (2)	—	(49)	(46)	—

(1) See Item 8, Financial Statements and Supplementary Data, Note 18, Shareholders' Equity, for additional information about share repurchases and authorizations.

(2) See Long-Term Obligations below for interest paid by subsidiary.

Distributions From Subsidiaries

The Company anticipates that for the next twelve months, amounts paid by AGL's direct and indirect insurance company subsidiaries as dividends or other distributions will be a major source of its liquidity. The insurance company subsidiaries' ability to pay dividends depends upon their financial condition, results of operations, cash requirements, other potential uses for such funds, and compliance with rating agency requirements, and is also subject to restrictions contained in the insurance laws and related regulations of their states of domicile. Dividend restrictions

applicable to AGC, AGM, MAC, AG Re and AGRO are described in Item 8, Financial Statements and Supplementary Data, Note 11, Insurance Company Regulatory Requirements.

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Dividend restrictions by insurance company subsidiary are as follows:

The maximum amount available during 2019 for AGM to distribute as dividends without regulatory approval is estimated to be approximately \$172 million, of which \$74 million is estimated to be available for distribution in the first quarter of 2019.

The maximum amount available during 2019 for AGC to distribute as ordinary dividends is approximately \$123 million, of which approximately \$42 million is available for distribution in the first quarter of 2019.

The maximum amount available during 2019 for MAC to distribute as dividends to MAC Holdings, which is owned by AGM and AGC, without regulatory approval is estimated to be approximately \$32 million, of which approximately \$5 million is available for distribution in the first quarter of 2019.

Based on the applicable law and regulations, in 2019 AG Re has the capacity to (i) make capital distributions in an aggregate amount up to \$128 million without the prior approval of the Authority and (ii) declare and pay dividends in an aggregate amount up to approximately \$312 million as of December 31, 2018. Such dividend capacity is further limited by the actual amount of AG Re's unencumbered assets, which amount changes from time to time due in part to collateral posting requirements. As of December 31, 2018, AG Re had unencumbered assets of approximately \$416 million.

Based on the applicable law and regulations, in 2019 AGRO has the capacity to (i) make capital distributions in an aggregate amount up to \$21 million without the prior approval of the Authority and (ii) declare and pay dividends in an aggregate amount up to approximately \$96 million as of December 31, 2018. Such dividend capacity is further limited by the actual amount of AGRO's unencumbered assets, which amount changes from time to time due in part to collateral posting requirements. As of December 31, 2018, AGRO had unencumbered assets of approximately \$342 million.

Generally, dividends paid by a U.S. company to a Bermuda holding company are subject to a 30% withholding tax. After AGL became tax resident in the U.K., it became subject to the tax rules applicable to companies resident in the U.K., including the benefits afforded by the U.K.'s tax treaties. The income tax treaty between the U.K. and the U.S. reduces or eliminates the U.S. withholding tax on certain U.S. sourced investment income (to 5% or 0%), including dividends from U.S. subsidiaries to U.K. resident persons entitled to the benefits of the treaty.

Each of the Company's insurance company subsidiaries may, with the approval of the relevant regulator, repurchase shares of its stock from its parent, so providing its parent with additional liquidity. AGC made such repurchases in 2018, AGM made such repurchases in 2017 and 2016 and MAC made such repurchases in 2017. See Item 8, Financial Statements and Supplementary Data, Note 11, Insurance Company Regulatory Requirements, for more information.

## External Financing

From time to time, AGL and its subsidiaries have sought external debt or equity financing in order to meet their obligations. External sources of financing may or may not be available to the Company, and if available, the cost of such financing may not be acceptable to the Company.

## Intercompany Loans and Guarantees

From time to time, AGL and its subsidiaries have entered into intercompany loan facilities. For example, on October 25, 2013, AGL, as borrower, and AGUS, as lender, entered into a revolving credit facility pursuant to which AGL may, from time to time, borrow for general corporate purposes. Under the credit facility, AGUS committed to lend a

principal amount not exceeding \$225 million in the aggregate. In September 2018, AGL and AGUS amended the revolving credit facility to extend the commitment until October 25, 2023 (the loan commitment termination date). The unpaid principal amount of each loan will bear semi-annual interest at a fixed rate equal to 100% of the then applicable interest rate as determined under Internal Revenue Code Section 1274(d), and interest on all loans will be computed for the actual number of days elapsed on the basis of a year consisting of 360 days. Accrued interest on all loans will be paid on the last day of each June and December, beginning on December 31, 2013, and at maturity. AGL must repay the then unpaid principal amounts of the loans, if any, by the third anniversary of the loan termination date. AGL has not drawn upon the credit facility.

In addition, in 2012 AGUS borrowed \$90 million from its affiliate AGRO to fund the acquisition of MAC. In 2018 the maturity date was extended to November 2023. During 2018, 2017 and 2016, AGUS repaid \$10 million, \$10 million and \$20

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million, respectively, in outstanding principal as well as accrued and unpaid interest. As of December 31, 2018, \$50 million remained outstanding.

Furthermore, AGL fully and unconditionally guarantees the payment of the principal of, and interest on, the \$1,130 million aggregate principal amount of senior notes issued by AGUS and AGMH, and the \$450 million aggregate principal amount of junior subordinated debentures issued by AGUS and AGMH, in each case, as described under "Commitments and Contingencies -- Long-Term Debt Obligations" below.

### Cash and Investments

As of December 31, 2018, AGL had \$45 million in cash and short-term investments. AGUS and AGMH had a total of \$192 million in cash and short-term investments. In addition, the Company's U.S. holding companies have \$26 million in fixed-maturity securities (excluding AGUS's investment in AGMH's debt) with weighted average duration of 1.3 years.

### Insurance Company Subsidiaries

Liquidity of the insurance company subsidiaries is primarily used to pay for:

- operating expenses,
- claims on the insured portfolio,
- dividends or other distributions to AGL, AGUS and/or AGMH, as applicable,
- posting of collateral in connection with reinsurance and credit derivative transactions,
- reinsurance premiums,
- principal of and, where applicable, interest on surplus notes, and
- capital investments in their own subsidiaries, where appropriate.

Management believes that the insurance subsidiaries' liquidity needs for the next twelve months can be met from current cash, short-term investments and operating cash flow, including premium collections and coupon payments as well as scheduled maturities and paydowns from their respective investment portfolios. The Company targets a balance of its most liquid assets including cash and short-term securities, Treasuries, agency RMBS and pre-refunded municipal bonds equal to 1.5 times its projected operating company cash flow needs over the next four quarters. The Company intends to hold and has the ability to hold temporarily impaired debt securities until the date of anticipated recovery of amortized cost.

Beyond the next twelve months, the ability of the operating subsidiaries to declare and pay dividends may be influenced by a variety of factors, including market conditions, insurance regulations and rating agency capital requirements and general economic conditions.

Insurance policies issued provide, in general, that payments of principal, interest and other amounts insured may not be accelerated by the holder of the obligation. Amounts paid by the Company therefore are typically in accordance with the obligation's original payment schedule, unless the Company accelerates such payment schedule, at its sole option.

Payments made in settlement of the Company's obligations arising from its insured portfolio may, and often do, vary significantly from year-to-year, depending primarily on the frequency and severity of payment defaults and whether the Company chooses to accelerate its payment obligations in order to mitigate future losses.



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## Claims (Paid) Recovered

	Year Ended December		
	31,		
	2018	2017	2016
	(in millions)		
Public finance	\$(396)	\$(263)	\$(216)
Structured finance:			
U.S. RMBS	159	48	(90 )
Other structured finance	(9 )	(14 )	(48 )
Structured finance	150	34	(138 )
Claims (paid) recovered, net of reinsurance (1)	\$(246)	\$(229)	\$(354)

(1) Includes \$2 million, \$8 million and \$11 million paid in 2018, 2017 and 2016, respectively, for consolidated FG VIEs.

In addition, the Company has net par exposure to the general obligation bonds of Puerto Rico and various obligations of its related authorities and public corporations aggregating \$4.8 billion, all of which is rated BIG. Puerto Rico has experienced significant general fund budget deficits in recent years. Beginning in 2016, the Commonwealth and certain related authorities and public corporations have defaulted on obligations to make payments on its debt. In addition to high debt levels, Puerto Rico faces a challenging economic environment exacerbated by the impact of hurricane Maria in September 2017. Information regarding the Company's exposure to the Commonwealth of Puerto Rico and its related authorities and public corporations is set forth in Item 8, Financial Statements and Supplementary Data, Note 4, Outstanding Exposure.

In connection with the acquisition of AGMH, AGM agreed to retain the risks relating to the debt and strip policy portions of the leveraged lease business. In a leveraged lease transaction, a tax-exempt entity (such as a transit agency) transfers tax benefits to a tax-paying entity by transferring ownership of a depreciable asset, such as subway cars. The tax-exempt entity then leases the asset back from its new owner.

If the lease is terminated early, the tax-exempt entity must make an early termination payment to the lessor. A portion of this early termination payment is funded from monies that were pre-funded and invested at the closing of the leveraged lease transaction (along with earnings on those invested funds). The tax-exempt entity is obligated to pay the remaining, unfunded portion of this early termination payment (known as the strip coverage) from its own sources. AGM issued financial guaranty insurance policies (known as strip policies) that guaranteed the payment of these unfunded strip coverage amounts to the lessor, in the event that a tax-exempt entity defaulted on its obligation to pay this portion of its early termination payment. Following such events, AGM can then seek reimbursement of its strip policy payments from the tax-exempt entity, and can also sell the transferred depreciable asset and reimburse itself from the sale proceeds.

Currently, all the leveraged lease transactions in which AGM acts as strip coverage provider are breaching a rating trigger related to AGM and are subject to early termination. However, early termination of a lease does not result in a draw on the AGM policy if the tax-exempt entity makes the required termination payment. If all the leases were to terminate early and the tax-exempt entities did not make the required early termination payments, then AGM would be exposed to possible liquidity claims on gross exposure of approximately \$755 million as of December 31, 2018. To date, none of the leveraged lease transactions that involve AGM has experienced an early termination due to a lease default and a claim on the AGM policy. At December 31, 2018, approximately \$1.7 billion of cumulative strip par exposure had been terminated since 2008 on a consensual basis. The consensual terminations have resulted in no

claims on AGM.

The terms of the Company's CDS contracts generally are modified from standard CDS contract forms approved by ISDA in order to provide for payments on a scheduled "pay-as-you-go" basis and to replicate the terms of a traditional financial guaranty insurance policy. However, the Company may also be required to pay if the obligor becomes bankrupt or if the reference obligation were restructured if, after negotiation, those credit events are specified in the documentation for the credit derivative transactions. Furthermore, the Company may be required to make a payment due to an event that is unrelated to the performance of the obligation referenced in the credit derivative. If events of default or termination events specified in the credit derivative documentation were to occur, the Company may be required to make a cash termination payment to its swap counterparty upon such termination. Any such payment would probably occur prior to the maturity of the reference obligation and be in an amount larger than the amount due for that period on a "pay-as-you-go" basis.

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The transaction documentation with one counterparty for \$250 million of the CDS insured by AGC requires AGC to post collateral, subject to a cap, to secure its obligation to make payments under such contracts. As of December 31, 2018, AGC had posted \$1 million of collateral to satisfy these requirements and the maximum posting requirement was \$250 million.

## Consolidated Cash Flows

## Consolidated Cash Flow Summary

	Year Ended December 31,		
	2018	2017	2016
	(in millions)		
Net cash flows provided by (used in) operating activities before effects of FG VIE consolidation	\$451	\$414	\$(156)
Effect of FG VIE consolidation	11	19	24
Net cash flows provided by (used in) operating activities - reported	462	433	(132 )
Net cash flows provided by (used in) investing activities before effects of FG VIE consolidation	192	112	924
Acquisitions, net of cash acquired	—	95	(435 )
Effect of FG VIE consolidation	105	138	587
Net cash flows provided by (used in) investing activities - reported	297	345	1,076
Net cash flows provided by (used in) financing activities before effects of FG VIE consolidation	(8 )	(10 )	8
Dividends paid	(71 )	(70 )	(69 )
Repurchases of common stock	(500 )	(501 )	(306 )
Repurchase of debt	(100 )	(28 )	—
Effect of FG VIE consolidation	(116 )	(157 )	(611 )
Net cash flows provided by (used in) financing activities - reported (1)	(795 )	(766 )	(978 )
Effect of exchange rate changes	(4 )	5	(5 )
Cash and restricted cash at beginning of period	144	127	166
Total cash and restricted cash at the end of the period	\$104	\$144	\$127

(1) Claims paid on consolidated FG VIEs are presented in the consolidated cash flow statements as a component of paydowns on FG VIEs' liabilities in financing activities as opposed to operating activities.

The most significant operating cash inflow in 2018 related to \$363 million received as consideration for the SGI Transaction. The most significant operating cash inflow in 2017 was \$426 million in commutation premiums. Operating cash flows were adversely affected by claim payments on Puerto Rico exposures in all three periods presented.

Investing activities primarily consisted of net sales (purchases) of fixed-maturity and short-term investments, paydowns on FG VIEs' assets, inflows for the MBIA UK Acquisition in 2017 and outflows for the CIFG Acquisition in 2016. The higher investing inflows in 2016 primarily related to sales of securities whose proceeds were used to fund the CIFG Acquisition and proceeds from the paydown of a large FG VIE.

Financing activities primarily consisted of share repurchases, debt extinguishment, paydowns of FG VIEs' liabilities, and dividends. The higher outflows from FG VIEs in 2016 were due to the paydown of a large transaction.

From January 1, 2019 through March 1, 2019, the Company repurchased an additional 1.2 million common shares. On February 27, 2019, the Board authorized share repurchases for an additional \$300 million. As of March 1, 2019, after

combining the remaining authorization and the new authorization, the Company was authorized to purchase \$350 million of its common shares. For more information about the Company's share repurchases and authorizations, see Item 8, Financial Statements and Supplementary Data, Note 18, Shareholders' Equity.

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## Commitments and Contingencies

## Leases

The Company leases and occupies approximately 103,500 square feet in New York City through 2032. Subject to certain conditions, the Company has an option to renew the lease for five years at a fair market rent. In addition, AGL and its subsidiaries lease additional office space in various locations under non-cancelable operating leases which expire at various dates through 2029. See “–Contractual Obligations” or Item 8, Financial Statements and Supplementary Data, Note 15, Commitments and Contingencies, for lease payments due by period. Rent expense was \$9 million in 2018, \$9 million in 2017 and \$13 million in 2016.

## Long-Term Debt Obligations

The Company has outstanding long-term debt issued primarily by AGUS and AGMH. All of AGUS's and AGMH's debt is fully and unconditionally guaranteed by AGL; AGL's guarantee of the junior subordinated debentures is on a junior subordinated basis. The outstanding principal, and interest paid, on long-term debt were as follows:

Principal Outstanding  
and Interest Paid on Long-Term Debt

	Principal Amount		Interest Paid		
	As of December 31,		Year Ended December 31,		
	2018	2017	2018	2017	2016
	(in millions)				
AGUS	\$850	\$850	\$58	\$32	\$49
AGMH	730	730	46	46	46
AGM	5	6	—	—	—
AGMH's debt purchased by AGUS (1)	(128 )	(28 )	(5 )	(1 )	—
Total	\$1,457	\$1,558	\$99	\$77	\$95

Represents principal amount of Junior Subordinated Debentures issued by AGMH that has been purchased by (1) AGUS. See Item 8, Financial Statements and Supplementary Data, Note 16, Long-Term Debt and Credit Facilities, for additional information.

## Issued by AGUS:

**7% Senior Notes.** On May 18, 2004, AGUS issued \$200 million of 7% Senior Notes due 2034 for net proceeds of \$197 million. Although the coupon on the Senior Notes is 7%, the effective rate is approximately 6.4%, taking into account the effect of a cash flow hedge. The notes are redeemable, in whole or in part, at their principal amount plus accrued and unpaid interest at the date of redemption or, if greater, the make-whole redemption price.

**5% Senior Notes.** On June 20, 2014, AGUS issued \$500 million of 5% Senior Notes due 2024 for net proceeds of \$495 million. The net proceeds from the sale of the notes were used for general corporate purposes, including the purchase of common shares of AGL. The notes are redeemable, in whole or in part, at their principal amount plus accrued and unpaid interest at the date of redemption or, if greater, the make-whole redemption price.

Series A Enhanced Junior Subordinated Debentures. On December 20, 2006, AGUS issued \$150 million of Debentures due 2066. The Debentures paid a fixed 6.4% rate of interest until December 15, 2016, and thereafter pay a floating rate of interest, reset quarterly, at a rate equal to three month LIBOR plus a margin equal to 2.38%. LIBOR may be discontinued. See the Risk Factor captioned "The Company may be adversely impacted by the transition from LIBOR as a reference rate" under Risks Related to the Financial, Credit and Financial Guaranty Markets in Part I, Item 1A, Risk Factors. AGUS may select at one or more times to defer payment of interest for one or more consecutive periods for up to ten years. Any unpaid interest bears interest at the then applicable rate. AGUS may not defer interest past the maturity date. The debentures are redeemable, in whole or in part, at their principal amount plus accrued and unpaid interest to the date of redemption.

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Issued by AGMH:

6 7/8% QUIBS. On December 19, 2001, AGMH issued \$100 million face amount of 6 7/8% QUIBS due December 15, 2101, which are redeemable without premium or penalty in whole or in part at their principal amount plus accrued and unpaid interest up to but not including the date of redemption.

6.25% Notes. On November 26, 2002, AGMH issued \$230 million face amount of 6.25% Notes due November 1, 2102, which are redeemable without premium or penalty in whole or in part at their principal amount plus accrued and unpaid interest up to but not including the date of redemption.

5.6% Notes. On July 31, 2003, AGMH issued \$100 million face amount of 5.6% Notes due July 15, 2103, which are redeemable without premium or penalty in whole or in part at their principal amount plus accrued and unpaid interest up to but not including the date of redemption.

Junior Subordinated Debentures. On November 22, 2006, AGMH issued \$300 million face amount of Junior Subordinated Debentures with a scheduled maturity date of December 15, 2036 and a final repayment date of December 15, 2066. The final repayment date of December 15, 2066 may be automatically extended up to four times in five-year increments provided certain conditions are met. The debentures are redeemable, in whole or in part, at any time prior to December 15, 2036 at their principal amount plus accrued and unpaid interest to the date of redemption or, if greater, the make-whole redemption price. Interest on the debentures will accrue from November 22, 2006 to December 15, 2036 at the annual rate of 6.4%. If any amount of the debentures remains outstanding after December 15, 2036, then the principal amount of the outstanding debentures will bear interest at a floating interest rate equal to one-month LIBOR plus 2.215% until repaid. LIBOR may be discontinued. See the Risk Factor captioned "The Company may be adversely impacted by the transition from LIBOR as a reference rate" under Risks Related to the Financial, Credit and Financial Guaranty Markets in Part I, Item 1A, Risk Factors. AGMH may elect at one or more times to defer payment of interest on the debentures for one or more consecutive interest periods that do not exceed ten years. In connection with the completion of this offering, AGMH entered into a replacement capital covenant for the benefit of persons that buy, hold or sell a specified series of AGMH long-term indebtedness ranking senior to the debentures. Under the covenant, the debentures will not be repaid, redeemed, repurchased or defeased by AGMH or any of its subsidiaries on or before the date that is twenty years prior to the final repayment date, except to the extent that AGMH has received proceeds from the sale of replacement capital securities. The proceeds from this offering were used to pay a dividend to the shareholders of AGMH. In 2018 and 2017, AGUS purchased \$100 million and \$28 million of par, respectively, of the debentures, which resulted in a loss on extinguishment of debt on a consolidated basis of \$34 million in 2018 and \$9 million in 2017. The Company may choose to make additional purchases of this or other Company debt in the future.

Committed Capital Securities

Each of AGC and AGM have entered into put agreements with four separate custodial trusts allowing AGC and AGM, respectively, to issue an aggregate of \$200 million of non-cumulative redeemable perpetual preferred securities to the trusts in exchange for cash. Each custodial trust was created for the primary purpose of issuing \$50 million face amount of CCS, investing the proceeds in high-quality assets and entering into put options with AGC or AGM, as applicable. The Company does not consider itself to be the primary beneficiary of the trusts and the trusts are not consolidated in Assured Guaranty's financial statements.

The trusts provide AGC and AGM access to new equity capital at their respective sole discretion through the exercise of the put options. Upon AGC's or AGM's exercise of its put option, the relevant trust will liquidate its portfolio of eligible assets and use the proceeds to purchase the AGC or AGM preferred stock, as applicable. AGC or AGM may use the proceeds from its sale of preferred stock to the trusts for any purpose, including the payment of claims. The

put agreements have no scheduled termination date or maturity. However, each put agreement will terminate if (subject to certain grace periods) specified events occur. Both AGC and AGM continue to have the ability to exercise their respective put options and cause the related trusts to purchase their preferred stock.

Prior to 2008 or 2007, the amounts paid on the CCS were established through an auction process. All of those auctions failed in 2008 or 2007, and the rates paid on the CCS increased to their respective maximums. The annualized rate on the AGC CCS is one-month LIBOR plus 250 bps, and the annualized rate on the AGM Committed Preferred Trust Securities (CPS) is one-month LIBOR plus 200 bps. LIBOR may be discontinued. See the Risk Factor captioned "The Company may be adversely impacted by the transition from LIBOR as a reference rate" under Risks Related to the Financial, Credit and Financial Guaranty Markets in Part I, Item 1A, Risk Factors.

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## Contractual Obligations

The following table summarizes the Company's obligations under its contracts, including debt and lease obligations, and also includes estimated claim payments, based on its loss estimation process, under financial guaranty policies it has issued.

	As of December 31, 2018				
	Less		More		
	Than	1-3	3-5	Than	Total
	1	Years	Years	5	
	Year			Years	
	(in millions)				
Long-term debt(1):					
AGUS:					
7% Senior Notes	\$14	\$28	\$28	\$345	\$415
5% Senior Notes	25	50	50	525	650
Series A Enhanced Junior Subordinated Debentures	8	15	16	487	526
AGMH:					
6 <sup>7</sup> / <sub>8</sub> % QUIBS	7	14	14	636	671
6.25% Notes	14	29	29	1,364	1,436
5.6% Notes	6	11	11	546	574
Junior Subordinated Debentures	19	38	38	1,126	1,221
AGM Notes Payable	2	1	1	1	5
Operating lease obligations (2)	9	17	17	72	115
Other compensation plans (3)	12	—	—	—	12
Estimated claim payments (4)	804	908	162	1,228	3,102
Ceded premium payable, net of commission	7	7	6	15	35
Other	6	—	—	—	6
Total	\$933	\$1,118	\$372	\$6,345	\$8,768

(1) Includes interest and principal payments. See Item 8, Financial Statements and Supplementary Data, Note 16, Long-Term Debt and Credit Facilities, for expected maturities of debt.

(2) Operating lease obligations exclude escalations in building operating costs and real estate taxes.

Amount excludes approximately \$69 million of liabilities under various supplemental retirement plans, which are fair valued and payable at the time of termination of employment by either employer or employee. Amount also (3) excludes approximately \$19 million of liabilities under Performance Retention Plan, which are payable at the time of vesting or termination of employment by either employer or employee. Given the nature of these awards, the Company is unable to determine the year in which they will be paid.

Claim payments represent estimated expected cash outflows under direct and assumed financial guaranty contracts, whether accounted for as insurance or credit derivatives, including claim payments under contracts in consolidated (4) FG VIEs. The amounts presented are not reduced for cessions under reinsurance contracts. Amounts include any benefit anticipated from excess spread or other recoveries within the contracts but do not reflect any benefit for recoveries under breaches of R&W. Amounts also exclude estimated recoveries related to past claims paid for policies in the public finance sector.

Investment Portfolio

The Company's principal objectives in managing its investment portfolio are to support the highest possible ratings for each operating company; to manage investment risk within the context of the underlying portfolio of insurance risk; to maintain sufficient liquidity to cover unexpected stress in the insurance portfolio; and to maximize after-tax net investment income.

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The Company's fixed-maturity securities and short-term investments had a duration of 4.9 years and 5.3 years as of December 31, 2018 and December 31, 2017, respectively. Generally, the Company's fixed-maturity securities are designated as available-for-sale. For more information about the Investment Portfolio and a detailed description of the Company's valuation of investments see Item 8, Financial Statements and Supplementary Data, Note 7, Fair Value Measurement and Note 10, Investments and Cash.

Fixed-Maturity Securities and Short-Term Investments  
by Security Type

	As of December 31, 2018		As of December 31, 2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in millions)			
Fixed-maturity securities:				
Obligations of state and political subdivisions	\$4,761	\$ 4,911	\$5,504	\$ 5,760
U.S. government and agencies	167	175	272	285
Corporate securities	2,175	2,136	1,973	2,018
Mortgage-backed securities (1):				
RMBS	999	982	852	861
Commercial mortgage-backed securities (CMBS)	542	539	540	549
Asset-backed securities	942	1,068	730	896
Non-U.S. government securities	298	278	316	305
Total fixed-maturity securities	9,884	10,089	10,187	10,674
Short-term investments	729	729	627	627
Total fixed-maturity and short-term investments	\$10,613	\$ 10,818	\$10,814	\$ 11,301

(1) U.S. government-agency obligations were approximately 48% of mortgage backed securities as of December 31, 2018 and 39% as of December 31, 2017, based on fair value.

The following tables summarize, for all fixed-maturity securities in an unrealized loss position as of December 31, 2018 and December 31, 2017, the aggregate fair value and gross unrealized loss by length of time the amounts have continuously been in an unrealized loss position.

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Fixed-Maturity Securities  
Gross Unrealized Loss by Length of Time  
As of December 31, 2018

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(dollars in millions)					
Obligations of state and political subdivisions	\$ 195	\$ (4 )	\$ 658	\$ (14 )	\$ 853	\$ (18 )
U.S. government and agencies	11	—	24	(1 )	35	(1 )
Corporate securities	836	(19 )	522	(33 )	1,358	(52 )
Mortgage-backed securities:						
RMBS	85	(2 )	447	(32 )	532	(34 )
CMBS	111	(1 )	164	(6 )	275	(7 )
Asset-backed securities	322	(4 )	38	(1 )	360	(5 )
Non-U.S. government securities	83	(4 )	99	(18 )	182	(22 )
Total	\$ 1,643	\$ (34 )	\$ 1,952	\$ (105 )	\$ 3,595	\$ (139 )
Number of securities (1)		417		608		997
Number of securities with OTTI (1)		22		22		42

Fixed-Maturity Securities  
Gross Unrealized Loss by Length of Time  
As of December 31, 2017

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(dollars in millions)					
Obligations of state and political subdivisions	\$ 166	\$ (4 )	\$ 281	\$ (7 )	\$ 447	\$ (11 )
U.S. government and agencies	151	—	18	(1 )	169	(1 )
Corporate securities	201	(1 )	240	(17 )	441	(18 )
Mortgage-backed securities:						
RMBS	191	(5 )				