

The number of registrant's Common Shares (\$0.01 par value) outstanding as of November 1, 2016 was 130,375,131 (includes 58,858 unvested restricted shares).

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ASSURED GUARANTY LTD.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Assured Guaranty Ltd.

Consolidated Balance Sheets (unaudited)

(dollars in millions except per share and share amounts)

	As of September 30, 2016	As of December 31, 2015
Assets		
Investment portfolio:		
Fixed-maturity securities, available-for-sale, at fair value (amortized cost of \$10,219 and \$10,275)	\$ 10,752	\$ 10,627
Short-term investments, at fair value	528	396
Other invested assets	165	169
Total investment portfolio	11,445	11,192
Cash	98	166
Premiums receivable, net of commissions payable	608	693
Ceded unearned premium reserve	213	232
Deferred acquisition costs	108	114
Reinsurance recoverable on unpaid losses	87	69
Salvage and subrogation recoverable	455	126
Credit derivative assets	28	81
Deferred tax asset, net	459	276
Current income tax receivable	—	40
Financial guaranty variable interest entities' assets, at fair value	877	1,261
Other assets	291	294
Total assets	\$ 14,669	\$ 14,544
Liabilities and shareholders' equity		
Unearned premium reserve	\$ 3,668	\$ 3,996
Loss and loss adjustment expense reserve	1,091	1,067
Reinsurance balances payable, net	71	51
Long-term debt	1,304	1,300
Credit derivative liabilities	509	446
Current income tax payable	26	—
Financial guaranty variable interest entities' liabilities with recourse, at fair value	832	1,225
Financial guaranty variable interest entities' liabilities without recourse, at fair value	153	124
Other liabilities	375	272
Total liabilities	8,029	8,481
Commitments and contingencies (See Note 14)		
Common stock (\$0.01 par value, 500,000,000 shares authorized; 130,972,620 and 137,928,552 shares issued and outstanding)	1	1
Additional paid-in capital	1,166	1,342
Retained earnings	5,110	4,478
Accumulated other comprehensive income, net of tax of \$144 and \$104	358	237
Deferred equity compensation (320,193 and 320,193 shares)	5	5

Total shareholders' equity	6,640	6,063
Total liabilities and shareholders' equity	\$ 14,669	\$ 14,544

The accompanying notes are an integral part of these consolidated financial statements.

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Assured Guaranty Ltd.

Consolidated Statements of Operations (unaudited)

(dollars in millions except per share amounts)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Revenues				
Net earned premiums	\$231	\$213	\$628	\$574
Net investment income	94	112	291	311
Net realized investment gains (losses):				
Other-than-temporary impairment losses	(4)	(18)	(32)	(34)
Less: portion of other-than-temporary impairment loss recognized in other comprehensive income	1	0	(6)	3
Net impairment loss	(5)	(18)	(26)	(37)
Other net realized investment gains (losses)	3	(9)	21	17
Net realized investment gains (losses)	(2)	(27)	(5)	(20)
Net change in fair value of credit derivatives:				
Realized gains (losses) and other settlements	15	6	47	35
Net unrealized gains (losses)	6	80	(23)	265
Net change in fair value of credit derivatives	21	86	24	300
Fair value gains (losses) on committed capital securities	(23)	(15)	(50)	10
Fair value gains (losses) on financial guaranty variable interest entities	(11)	2	11	0
Bargain purchase gain and settlement of pre-existing relationships	259	—	259	214
Other income (loss)	(3)	(3)	49	43
Total revenues	566	368	1,207	1,432
Expenses				
Loss and loss adjustment expenses	(9)	112	183	318
Amortization of deferred acquisition costs	4	5	13	15
Interest expense	26	25	77	76
Other operating expenses	65	54	188	176
Total expenses	86	196	461	585
Income (loss) before income taxes	480	172	746	847
Provision (benefit) for income taxes				
Current	18	41	80	78
Deferred	(17)	2	(18)	142
Total provision (benefit) for income taxes	1	43	62	220
Net income (loss)	\$479	\$129	\$684	\$627
Earnings per share:				
Basic	\$3.63	\$0.88	\$5.10	\$4.16
Diluted	\$3.60	\$0.88	\$5.06	\$4.13
Dividends per share	\$0.13	\$0.12	\$0.39	\$0.36

The accompanying notes are an integral part of these consolidated financial statements.

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Assured Guaranty Ltd.

Consolidated Statements of Comprehensive Income (unaudited)

(in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	\$479	\$129	\$684	\$627
Unrealized holding gains (losses) arising during the period on:				
Investments with no other-than-temporary impairment, net of tax provision (benefit) of \$(14), \$17, \$48 and \$(36)	(33)	41	146	(77)
Investments with other-than-temporary impairment, net of tax provision (benefit) of \$8, \$(9), \$(5) and \$(12)	13	(15)	(10)	(23)
Unrealized holding gains (losses) arising during the period, net of tax	(20)	26	136	(100)
Less: reclassification adjustment for gains (losses) included in net income (loss), net of tax provision (benefit) of \$(1), \$(6), \$(1) and \$(4)	0	(12)	(1)	(7)
Change in net unrealized gains on investments	(20)	38	137	(93)
Other, net of tax provision	(5)	(4)	(16)	(4)
Other comprehensive income (loss)	\$(25)	\$34	\$121	\$(97)
Comprehensive income (loss)	\$454	\$163	\$805	\$530

The accompanying notes are an integral part of these consolidated financial statements.

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Assured Guaranty Ltd.

Consolidated Statement of Shareholders' Equity (unaudited)

For the Nine Months Ended September 30, 2016

(dollars in millions, except share data)

	Common Shares Outstanding	Common Stock Par Value	Additional Stock Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Deferred Equity Compensation	Total Shareholders' Equity
Balance at December 31, 2015	137,928,552	\$ 1	\$ 1,342	\$ 4,478	\$ 237	\$ 5	\$ 6,063
Net income	—	—	—	684	—	—	684
Dividends (\$0.39 per share)	—	—	—	(52)	—	—	(52)
Common stock repurchases	(7,420,631)	0	(190)	—	—	—	(190)
Share-based compensation and other	464,699	0	14	—	—	—	14
Other comprehensive income	—	—	—	—	121	—	121
Balance at September 30, 2016	130,972,620	\$ 1	\$ 1,166	\$ 5,110	\$ 358	\$ 5	\$ 6,640

The accompanying notes are an integral part of these consolidated financial statements.

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Assured Guaranty Ltd.

Consolidated Statements of Cash Flows (unaudited)

(in millions)

	Nine Months Ended September 30, 2016 2015	
Net cash flows provided by (used in) operating activities	\$(190)	\$(39)
Investing activities		
Fixed-maturity securities:		
Purchases	(1,028)	(1,844)
Sales	877	1,719
Maturities	861	635
Net sales (purchases) of short-term investments	80	751
Net proceeds from paydowns on financial guaranty variable interest entities' assets	590	114
Acquisition of Radian Asset, net of cash acquired	—	(800)
Acquisition of CIFG, net of cash acquired (see Note 2)	(435)	—
Other	(12)	59
Net cash flows provided by (used in) investing activities	933	634
Financing activities		
Dividends paid	(52)	(55)
Repurchases of common stock	(190)	(420)
Share activity under option and incentive plans	4	(2)
Net paydowns of financial guaranty variable interest entities' liabilities	(567)	(122)
Repayment of long-term debt	(2)	(3)
Net cash flows provided by (used in) financing activities	(807)	(602)
Effect of foreign exchange rate changes	(4)	(2)
Increase (decrease) in cash	(68)	(9)
Cash at beginning of period	166	75
Cash at end of period	\$98	\$66
Supplemental cash flow information		
Cash paid (received) during the period for:		
Income taxes	\$2	\$71
Interest	\$55	\$55

The accompanying notes are an integral part of these consolidated financial statements.

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (unaudited)

September 30, 2016

1. Business and Basis of Presentation

Business

Assured Guaranty Ltd. (“AGL” and, together with its subsidiaries, “Assured Guaranty” or the “Company”) is a Bermuda-based holding company 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 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.

In the past, the Company sold credit protection by issuing policies that guaranteed payment obligations under credit derivatives, primarily credit default swaps (“CDS”). Financial guaranty contracts accounted for as credit derivatives are generally structured such that the circumstances giving rise to the Company’s obligation to make loss payments are similar to those for financial guaranty insurance contracts. The Company’s credit derivative transactions are governed by International Swaps and Derivative Association, Inc. (“ISDA”) documentation. The Company has not entered into any new CDS in order to sell credit protection since the beginning of 2009, when regulatory guidelines were issued that limited the terms under which such protection could be sold. The capital and margin requirements applicable under the Dodd-Frank Wall Street Reform and Consumer Protection Act also contributed to the Company not entering into such new CDS since 2009. The Company actively pursues opportunities to terminate existing CDS, which have the effect of reducing future fair value volatility in income and/or reducing rating agency capital charges.

Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and, in the opinion of management, reflect all adjustments that are of a normal recurring nature, necessary for a fair statement of the financial condition, results of operations and cash flows of the Company and its consolidated variable interest entities (“VIEs”) for the periods presented. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These unaudited interim consolidated financial statements are as of September 30, 2016 and cover the three-month period ended September 30, 2016 (“Third Quarter 2016”), the three-month period ended September 30, 2015 (“Third Quarter 2015”), the nine-month period ended September 30, 2016 (“Nine Months 2016”) and the nine-month period ended September 30, 2015 (“Nine Months 2015”). Certain financial information that is normally included in annual financial statements prepared in accordance with GAAP, but is not required for interim reporting purposes, has been condensed or omitted. The year-end balance sheet data was

derived from audited financial statements.

The unaudited interim consolidated financial statements include the accounts of AGL, its direct and indirect subsidiaries (collectively, the “Subsidiaries”), and its consolidated VIEs. Intercompany accounts and transactions between and among all consolidated entities have been eliminated. Certain prior year balances have been reclassified to conform to the current year's presentation.

These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements included in AGL’s Annual Report on Form 10-K for the year ended December 31, 2015, filed with the U.S. Securities and Exchange Commission (the “SEC”).

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The Company's principal insurance company subsidiaries are:

- ▲ Assured Guaranty Municipal Corp. ("AGM"), domiciled in New York;
- ▲ Municipal Assurance Corp. ("MAC"), domiciled in New York;
- ▲ Assured Guaranty Corp. ("AGC"), domiciled in Maryland;
- ▲ Assured Guaranty (Europe) Ltd. ("AGE"), organized in the United Kingdom; and
- ▲ Assured Guaranty Re Ltd. ("AG Re"), domiciled in Bermuda.

The Company's organizational structure includes various holding companies, two of which - Assured Guaranty US Holdings Inc. ("AGUS") and Assured Guaranty Municipal Holdings Inc. ("AGMH") - have public debt outstanding. See Note 15, Long-Term Debt and Credit Facilities and Note 18, Subsidiary Information.

Future Application of Accounting Standards

Income Taxes

In October 2016, the FASB issued Accounting Standards Update ("ASU") 2016-16, Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory, which removes the current prohibition against immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. Under the ASU, the selling (transferring) entity is required to recognize a current income tax expense or benefit upon transfer of the asset. Similarly, the purchasing (receiving) entity is required to recognize a deferred tax asset or deferred tax liability, as well as the related deferred tax benefit or expense, upon receipt of the asset. The ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, and early adoption is permitted. The ASU's amendments are to be applied on a modified retrospective basis recognizing the effects in retained earnings as of the beginning of the year of adoption. The Company is currently evaluating the effect on its Consolidated Financial Statements of adopting this ASU.

Statement of Cash Flows

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force), which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The issues addressed in the new guidance include debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investments, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is currently evaluating the effect on its Consolidated Financial Statements of adopting this ASU.

Credit Losses on Financial Instruments

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this ASU are intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected

credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions will use forward-looking information to better inform their credit loss estimates as a result of the ASU. While many of the loss estimation techniques applied today will still be permitted, the inputs to those techniques will change to reflect the full amount of expected credit losses. The ASU requires enhanced disclosures to help investors and other financial statement users to better understand significant estimates and judgments used in estimating credit losses, as well as credit quality and underwriting standards of an organization's portfolio.

In addition, the ASU amends the accounting for credit losses on available-for-sale securities and purchased financial assets with credit deterioration. The ASU makes targeted improvements to the existing "other than temporary" impairment model for certain available-for-sale debt securities to eliminate the concept of "other than temporary" from that model. Accordingly, the ASU states that an entity must use an allowance approach, must limit the allowance to an amount at which the security's fair value is less than its amortized cost basis, may not consider the length of time fair value has been less

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than amortized cost, and may not consider recoveries in fair value after the balance sheet date when assessing whether a credit loss exists. For purchased financial assets with credit deterioration, the ASU requires an entity's method for measuring credit losses to be consistent with its method for measuring expected losses for originated and purchased non-credit-deteriorated assets.

The ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For most debt instruments, entities will be required to record a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is adopted. The changes to the impairment model for available-for-sale securities and changes to purchased financial assets with credit deterioration are to be applied prospectively. For the Company, this would be as of January 1, 2020. Early adoption is permitted for fiscal years, and interim periods with those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the effect on its Consolidated Financial Statements of adopting this ASU.

Share-Based Payments

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment, which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also will allow an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and early adoption is permitted. The Company does not expect that the ASU will have a material effect on its Consolidated Financial Statements.

2. Acquisitions

Consistent with one of its key business strategies of supplementing its book of business through acquisitions, the Company has acquired two financial guaranty companies since January 1, 2015 and has entered into an agreement to acquire another financial guaranty company, as described below.

CIFG Holding Inc.

On July 1, 2016, AGC acquired all of the issued and outstanding capital stock of CIFG Holding Inc. (together with its subsidiaries "CIFGH"), the parent of financial guaranty insurer CIFG Assurance North America, Inc. ("CIFG"), (the "CIFG Acquisition"), for \$450.6 million in cash. AGUS previously owned 1.6% of the outstanding shares of CIFGH, for which it received \$7.1 million in consideration from AGC, resulting in a net consolidated purchase price of \$443 million. AGC merged CIFG with and into AGC, with AGC as the surviving company, on July 5, 2016. The CIFG Acquisition added \$4.2 billion of net par insured on July 1, 2016.

At the time of the CIFG Acquisition, CIFG had a subsidiary financial guaranty company domiciled and licensed in France, CIFG Europe S.A. ("CIFGE"). CIFG had reinsured all of CIFGE's outstanding financial guaranty business and also had issued a "second-to-pay policy" pursuant to which CIFG guaranteed the full and complete payment of any shortfall in amounts due from CIFGE on its insured portfolio; AGC assumed these obligations as part of the CIFG merger with and into AGC. CIFGE is in run-off, and remains a separate subsidiary, now owned by AGC. At September 30, 2016, CIFGE had investment assets of \$43 million and gross par exposure of \$828 million, and is not currently expected to pay dividends.

The CFIG Acquisition was accounted for under the acquisition method of accounting which requires that the assets and liabilities acquired be recorded at fair value. The Company exercised significant judgment to determine the fair value of the assets it acquired and liabilities it assumed in the CFIG Acquisition. The most significant of these determinations related to the valuation of CFIGH's financial guaranty insurance and credit derivative contracts. On an aggregate basis, CFIGH's contractual premiums for financial guaranty contracts were less than the premiums a market participant of similar credit quality would demand to acquire those contracts at the date of the CFIG Acquisition (the "CFIG Acquisition Date"), particularly for below-investment-grade transactions, resulting in a significant amount of the purchase price being allocated to these contracts. For information on the methodology the Company used to measure the fair value of assets it acquired and liabilities it assumed in the CFIG Acquisition, including financial guaranty insurance and credit derivative contracts, please refer to Note 7, Fair Value Measurement.

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The fair value of the Company's stand-ready obligation on the CIFG Acquisition Date is recorded in unearned premium reserve. After the CIFG Acquisition Date, loss reserves and loss and loss adjustment expenses ("LAE") will be recorded when the expected losses for each contract exceeds the remaining unearned premium reserve, in accordance with the Company's accounting policy described in the Annual Report on Form 10-K. The expected losses acquired by the Company as part of the CIFG Acquisition are included in the description of expected losses to be paid under Note 5, Expected Losses to be Paid.

The excess of the fair value of net assets acquired over the consideration transferred was recorded as a bargain purchase gain in "bargain purchase gain and settlement of pre-existing relationships" in net income. In addition, the Company and CIFG had pre-existing reinsurance relationships, which were also effectively settled at fair value on the CIFG Acquisition Date. The loss on settlement of these pre-existing reinsurance relationships represents the net difference between the historical assumed balances that were recorded by AGC and the fair value of ceded balances acquired from CIFG. The Company believes the bargain purchase gain resulted from the nature of the financial guaranty business and the desire of investors in CIFGH to monetize their investments in CIFGH. The bargain purchase gain reflects the fair value of CIFGH's assets and liabilities, as well as tax attributes that were recorded in deferred taxes comprising net operating losses (after Internal Revenue Code change in control provisions) and other temporary book-to-tax differences for which CIFGH had recorded a full valuation allowance.

The following table shows the net effect of the CIFG Acquisition, including the effects of the settlement of pre-existing relationships.

	Fair Value of Net Assets Acquired before Settlement of Pre-existing Relationships (in millions)	Net effect of Settlement of Pre-existing Relationships	Net Effect of CIFG Acquisition
Cash Purchase Price (1)	\$443	\$ —	\$ 443
Identifiable assets acquired:			
Investments	770	—	770
Cash	8	—	8
Premiums receivable, net of commissions payable	18	—	18
Ceded unearned premium reserve	173	(173)	—
Deferred acquisition costs	1	(1)	—
Salvage and subrogation recoverable	23	—	23
Credit derivative assets	1	—	1
Deferred tax asset, net	194	34	228
Other assets	4	—	4
Total assets	1,192	(140)	1,052
Liabilities assumed:			
Unearned premium reserves	306	(10)	296
Loss and loss adjustment expense reserve	1	(66)	(65)

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Credit derivative liabilities	68	0		68
Other liabilities	17	—		17
Total liabilities	392	(76)	316
Net asset effect of CIFG Acquisition	800	(64	)	736
Bargain purchase gain and settlement of pre-existing relationships resulting from CIFG Acquisition, after-tax	357	(64	)	293
Deferred tax	—	(34	)	(34
Bargain purchase gain and settlement of pre-existing relationships resulting from CIFG Acquisition, pre-tax	\$357	\$ (98	)	\$ 259

The cash purchase price of \$443 million was the cash transferred for the acquisition which was allocated as (1) follows: (1) \$270 million for the purchase of net assets of \$627 million, and (2) the settlement of pre-existing relationships between CIFG and Assured Guaranty at a fair value of \$173 million.

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Revenue and net income related to CIFGH from the CIFG Acquisition Date through September 30, 2016 included in the consolidated statement of operations were approximately \$282 million and \$308 million, respectively. For Third Quarter 2016 and Nine Months 2016, the Company recognized transaction expenses related to the CIFG Acquisition. These expenses were primarily driven by the fees paid to the Company's legal and financial advisors and to the Company's independent auditor.

CIFG Acquisition-Related Expenses

	Third Quarter 2016	Nine Months 2016
	(in millions)	
Professional services	\$ 1	\$ 2
Financial advisory fees	3	4
Total	\$ 4	\$ 6

The Company has determined that the presentation of pro-forma information is impractical for the CIFG Acquisition as historical financial records are not available on a U.S. GAAP basis.

Radian Asset Assurance Inc.

On April 1, 2015, AGC completed the acquisition ("Radian Asset Acquisition") of all of the issued and outstanding capital stock of financial guaranty insurer Radian Asset Assurance Inc. ("Radian Asset") for \$804.5 million. Radian Asset was merged with and into AGC, with AGC as the surviving company of the merger. The Radian Asset Acquisition added \$13.6 billion to the Company's net par outstanding on April 1, 2015.

Please refer to Note 2, Acquisition of Radian Asset Assurance Inc., in Part II, Item 8. "Financial Statements and Supplementary Data" of AGL's Annual Report on Form 10-K for the year ended December 31, 2015 for additional information on the acquisition of Radian Asset, including the purchase price and the allocation of the purchase price to net assets acquired and the resulting bargain purchase gain and the gain on settlement of pre-existing relationships.

MBIA UK Insurance Limited

On September 29, 2016, Assured Guaranty Ltd. announced that its subsidiary AGC entered into an agreement to acquire MBIA UK Insurance Limited ("MBIA UK"), the European operating subsidiary of MBIA Insurance Corporation (together with its subsidiaries, "MBIA"). The parties expect the transaction to close in early January 2017, subject to receipt of regulatory approvals and the satisfaction of other customary closing conditions. There can be no assurance that regulatory approvals will be obtained.

Under the agreement, AGC will deliver to MBIA all of the notes issued in the Zohar II 2005-1 transaction that AGC holds, and the seller, MBIA UK (Holdings) Limited, will transfer to AGC all of the outstanding shares of MBIA UK plus \$23 million in cash. The Zohar notes to be transferred had, as of September 30, 2016, a total outstanding principal of approximately \$347 million. MBIA Insurance Corporation insures all of the notes issued in the Zohar II 2005-1 transaction.

As of June 30, 2016, MBIA UK had an insured portfolio of approximately \$13 billion of net par. Assured Guaranty currently plans to maintain MBIA UK as a stand-alone entity but could combine it with other European affiliates in the future.

3. Rating Actions

When a rating agency assigns a public rating to a financial obligation guaranteed by one of AGL's insurance company subsidiaries, it generally awards that obligation the same rating it has assigned to the financial strength of the AGL subsidiary that provides the guaranty. Investors in products insured by AGL's insurance company subsidiaries frequently rely on ratings published by the rating agencies because such ratings influence the trading value of securities and form the basis for many institutions' investment guidelines as well as individuals' bond purchase decisions. Therefore, the Company manages its business with the goal of achieving strong financial strength ratings. However, the methodologies and models used by rating agencies differ, presenting conflicting goals that may make it inefficient or impractical to reach the highest rating level. The methodologies and models are not fully transparent, contain subjective elements and data (such as assumptions about future market demand for the Company's products) and change frequently. Ratings are subject to continuous review and revision or withdrawal at any time. If the financial strength ratings of one (or more) of the Company's insurance subsidiaries were reduced

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below current levels, the Company expects it could have adverse effects on the impacted subsidiary's future business opportunities as well as the premiums the impacted subsidiary could charge for its insurance policies.

The Company periodically assesses the value of each rating assigned to each of its companies, and as a result of such assessment may request that a rating agency add or drop a rating from certain of its companies. For example, the Kroll Bond Rating Agency ("KBRA") ratings were first assigned to MAC in 2013, to AGM in 2014, and to AGC in 2016, while the A.M. Best Company, Inc. ("Best") rating was first assigned to Assured Guaranty Re Overseas Ltd. ("AGRO") in 2015, and a Moody's Investors Service, Inc. ("Moody's") rating was never requested for MAC and was dropped from AG Re and AGRO in 2015.

In the last several years, S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P") and Moody's have changed, multiple times, their financial strength ratings of AGL's insurance subsidiaries, or changed the outlook on such ratings. More recently, KBRA and Best have assigned financial strength ratings to some of AGL's insurance subsidiaries. The rating agencies' most recent actions related to AGL's insurance subsidiaries are:

On September 20, 2016, KBRA assigned a financial strength rating of AA (stable outlook) to AGC. On July 8, 2016 and December 10, 2015, KBRA affirmed the AA+ (stable outlook) financial strength ratings of MAC and AGM, respectively.

On August 8, 2016, Moody's affirmed the A2 (stable outlook) on AGM and AGE and A3 insurance financial strength rating on AGC and AGC's subsidiary Assured Guaranty (UK) Ltd. ("AGUK") raising the outlook to stable from negative. Effective April 8, 2015, at the Company's request, Moody's withdrew the financial strength ratings it had assigned to AG Re and AGRO.

On July 27, 2016, S&P affirmed the AA (stable) financial strength ratings of AGL's insurance subsidiaries.

On May 27, 2016, Best affirmed the A+ (stable) financial strength rating, which is their second highest rating, of AGRO.

There can be no assurance that any of the rating agencies will not take negative action on their financial strength ratings of AGL's insurance subsidiaries in the future.

For a discussion of the effects of rating actions on the Company, see the following:

• Note 6, Financial Guaranty Insurance

• Note 8, Financial Guaranty Contracts Accounted for as Credit Derivatives

• Note 13, Reinsurance and Other Monoline Exposures

• Note 15, Long-Term Debt and Credit Facilities

4. Outstanding Exposure

The Company's financial guaranty contracts are written in either insurance or credit derivative form, but collectively are considered financial guaranty contracts. The Company seeks to limit its exposure to losses by underwriting obligations that it views as investment grade at inception, although, as part of its loss mitigation strategy for existing troubled credits, it may underwrite new issuances that it views as below-investment-grade ("BIG"). The Company diversifies its insured portfolio across asset classes and, in the structured finance portfolio, requires rigorous subordination or collateralization requirements. Reinsurance may be used in order to reduce net exposure to certain insured transactions.

Public finance obligations insured by the Company consist primarily of general obligation bonds supported by the taxing powers of U.S. state or municipal governmental authorities, as well as tax-supported bonds, revenue bonds and other obligations supported by covenants from state or municipal governmental authorities or other municipal obligors to impose and collect fees and charges for public services or specific infrastructure projects. The Company also includes within public finance obligations those obligations backed by the cash flow from leases or other revenues from projects serving substantial public purposes, including utilities, toll roads, health care facilities and government office buildings. The Company also includes within public finance similar obligations issued by territorial and non-U.S. sovereign and sub-sovereign issuers and governmental authorities.

Structured finance obligations insured by the Company are generally issued by special purpose entities, including VIEs, and backed by pools of assets having an ascertainable cash flow or market value or other specialized financial obligations. Some of these VIEs are consolidated as described in Note 9, Consolidated Variable Interest Entities.

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otherwise specified, the outstanding par and debt service amounts presented in this note include outstanding exposures on VIEs whether or not they are consolidated.

Surveillance Categories

The Company segregates its insured portfolio into investment grade and BIG surveillance categories to facilitate the appropriate allocation of resources to monitoring and loss mitigation efforts and to aid in establishing the appropriate cycle for periodic review for each exposure. BIG exposures include all exposures with internal credit ratings below BBB-. The Company's internal credit ratings are based on internal assessments of the likelihood of default and loss severity in the event of default. Internal credit ratings are expressed on a ratings scale similar to that used by the rating agencies and are generally reflective of an approach similar to that employed by the rating agencies, except that the Company's internal credit ratings focus on future performance rather than lifetime performance.

The Company monitors its investment grade credits to determine whether any need to be internally downgraded to BIG and refreshes its internal credit ratings on individual credits in quarterly, semi-annual or annual cycles based on the Company's view of the credit's quality, loss potential, volatility and sector. Ratings on credits in sectors identified as under the most stress or with the most potential volatility are reviewed every quarter. The Company's credit ratings on assumed credits are based on the Company's reviews of low-rated credits or credits in volatile sectors, unless such information is not available, in which case, the ceding company's credit rating of the transactions are used.

Credits identified as BIG are subjected to further review to determine the probability of a loss. See Note 5, Expected Loss to be Paid, for additional information. Surveillance personnel then assign each BIG transaction to the appropriate BIG surveillance category based upon whether a future loss is expected and whether a claim has been paid. For surveillance purposes, the Company calculates present value using a discount rate of 4% or 5% depending on the insurance subsidiary. (Risk-free rates are used for calculating the expected loss for financial statement measurement purposes.)

More extensive monitoring and intervention is employed for all BIG surveillance categories, with internal credit ratings reviewed quarterly. The Company expects "future losses" on a transaction when the Company believes there is at least a 50% chance that, on a present value basis, it will pay more claims in the future of that transaction than it will have reimbursed. The three BIG categories are:

• BIG Category 1: Below-investment-grade transactions showing sufficient deterioration to make future losses possible, but for which none are currently expected.

• BIG Category 2: Below-investment-grade transactions for which future losses are expected but for which no claims (other than liquidity claims, which are claims that the Company expects to be reimbursed within one year) have yet been paid.

• BIG Category 3: Below-investment-grade transactions for which future losses are expected and on which claims (other than liquidity claims) have been paid.

Components of Outstanding Exposure

Unless otherwise noted, ratings disclosed herein on the Company's insured portfolio reflect its internal ratings. The Company classifies those portions of risks benefiting from reimbursement obligations collateralized by eligible assets held in trust in acceptable reimbursement structures as the higher of 'AA' or their current internal rating.

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 (unless otherwise indicated) from par and debt service outstanding, because it manages such securities as investments and not insurance exposure. The following table presents the gross and net debt service for all financial guaranty contracts.

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Table of ContentsFinancial Guaranty
Debt Service Outstanding

	Gross Debt Service Outstanding		Net Debt Service Outstanding	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
	(in millions)			
Public finance	\$451,287	\$ 515,494	\$433,621	\$ 494,426
Structured finance	33,284	43,976	31,938	41,915
Total financial guaranty	\$484,571	\$ 559,470	\$465,559	\$ 536,341

In addition to the financial guaranty debt service shown in the table above, the Company provides a structured capital relief Triple-X excess of loss life reinsurance on approximately \$275 million of exposure as of September 30, 2016 and \$0 as of December 31, 2015, which is expected to increase to approximately \$1 billion prior to September 30, 2036. The Company also has mortgage guaranty reinsurance related to loans originated in Ireland on debt service of approximately \$38 million as of September 30, 2016, and \$102 million as of December 31, 2015.

Financial Guaranty Portfolio by Internal Rating (1)
As of September 30, 2016

Rating Category	Public Finance U.S.			Public Finance Non-U.S.			Structured Finance U.S			Structured Finance Non-U.S			Total		
	Net Par Outstanding	%		Net Par Outstanding	%		Net Par Outstanding	%		Net Par Outstanding	%		Net Par Outstanding	%	
	(dollars in millions)														
AAA	\$2,182	0.9	%	\$703	2.5	%	\$11,187	45.9	%	\$1,526	37.7	%	\$15,598	5.0	%
AA	53,330	20.6		1,768	6.2		6,246	25.6		134	3.4		61,478	19.5	
A	137,270	53.1		6,466	22.9		1,744	7.1		669	16.5		146,149	46.3	
BBB	58,274	22.5		17,872	63.3		869	3.6		1,172	28.9		78,187	24.8	
BIG	7,594	2.9		1,430	5.1		4,341	17.8		548	13.5		13,913	4.4	
Total net par outstanding (2)	\$258,650	100.0	%	\$28,239	100.0	%	\$24,387	100.0	%	\$4,049	100.0	%	\$315,325	100.0	%

(1) The September 30, 2016 amounts include \$3.7 billion of net par acquired from CIFG.

(2) As of September 30, 2016, excludes \$2.1 billion of net par as a result of loss mitigation strategies, including loss mitigation securities held in the investment portfolio, which are primarily BIG.

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Financial Guaranty Portfolio by Internal Rating

As of December 31, 2015

Rating Category	Public Finance U.S.			Public Finance Non-U.S.			Structured Finance U.S			Structured Finance Non-U.S			Total		
	Net Par Outstanding	%		Net Par Outstanding	%		Net Par Outstanding	%		Net Par Outstanding	%		Net Par Outstanding	%	
	(dollars in millions)														
AAA	\$3,053	1.1	%	\$709	2.4	%	\$14,366	45.2	%	\$2,709	50.6	%	\$20,837	5.8	%
AA	69,274	23.7		2,017	6.8		7,934	25.0		177	3.3		79,402	22.1	
A	157,440	53.9		6,765	22.9		2,486	7.8		555	10.3		167,246	46.7	
BBB	54,315	18.6		18,708	63.2		1,515	4.8		1,365	25.5		75,903	21.2	
BIG	7,784	2.7		1,378	4.7		5,469	17.2		552	10.3		15,183	4.2	
Total net par outstanding (1)	\$291,866	100.0	%	\$29,577	100.0	%	\$31,770	100.0	%	\$5,358	100.0	%	\$358,571	100.0	%

(1) As of December 31, 2015, excludes \$1.5 billion of net par as a result of loss mitigation strategies, including loss mitigation securities held in the investment portfolio, which are primarily BIG.

In addition to amounts shown in the tables above, the Company had outstanding commitments to provide guaranties of \$1.2 billion for public finance obligations as of September 30, 2016. The expiration dates for the public finance commitments range between October 1, 2016 and February 25, 2017, with \$918 million expiring prior to the date of this filing. The commitments are contingent on the satisfaction of all conditions set forth in them and may expire unused or be canceled at the counterparty's request. Therefore, the total commitment amount does not necessarily reflect actual future guaranteed amounts.

Components of BIG Portfolio

Components of BIG Net Par Outstanding

(Insurance and Credit Derivative Form)

As of September 30, 2016

	BIG Net Par Outstanding			Total BIG	Net Par Outstanding
	BIG 1	BIG 2	BIG 3		
	(in millions)				
U.S. public finance	\$2,632	\$3,107	\$1,855	\$7,594	\$258,650
Non-U.S. public finance	1,370	60	—	1,430	28,239
Structured finance:					
First lien U.S. residential mortgage-backed securities ("RMBS"):					
Prime first lien	16	103	22	141	217
Alt-A first lien	85	41	472	598	1,047
Option ARM	22	6	59	87	172
Subprime	80	260	826	1,166	3,136
Second lien U.S. RMBS	29	71	1,204	1,304	1,307
Total U.S. RMBS	232	481	2,583	3,296	5,879
Triple-X life insurance transactions	—	—	126	126	2,060
Trust preferred securities ("TruPS")	428	127	—	555	2,557
Student loans	—	68	41	109	1,423
Other structured finance	548	217	38	803	16,517

Total	\$5,210	\$4,060	\$ 4,643	\$ 13,913	\$ 315,325
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Components of BIG Net Par Outstanding
(Insurance and Credit Derivative Form)
As of December 31, 2015

	BIG Net Par Outstanding			Total BIG	Net Par Outstanding
	BIG 1	BIG 2	BIG 3		
	(in millions)				
U.S. public finance	\$4,765	\$2,883	\$ 136	\$ 7,784	\$ 291,866
Non-U.S. public finance	875	503	—	1,378	29,577
Structured finance:					
First lien U.S. RMBS:					
Prime first lien	225	34	25	284	445
Alt-A first lien	119	73	601	793	1,353
Option ARM	39	12	90	141	252
Subprime	146	228	930	1,304	3,457
Second lien U.S. RMBS	491	50	910	1,451	1,560
Total U.S. RMBS	1,020	397	2,556	3,973	7,067
Triple-X life insurance transactions	—	—	216	216	2,750
TruPS	679	127	—	806	4,379
Student loans	12	68	83	163	1,818
Other structured finance	672	151	40	863	21,114
Total	\$8,023	\$4,129	\$ 3,031	\$ 15,183	\$ 358,571

BIG Net Par Outstanding
and Number of Risks
As of September 30, 2016

Description	Net Par Outstanding			Number of Risks(2)		
	Financial Guaranty Insurance(1)	Credit Derivative	Total	Financial Guaranty Insurance(1)	Credit Derivative	Total
	(dollars in millions)					
BIG:						
Category 1	\$4,470	\$ 740	\$5,210	182	11	193
Category 2	3,861	199	4,060	76	5	81
Category 3	4,503	140	4,643	144	11	155
Total BIG	\$12,834	\$ 1,079	\$13,913	402	27	429

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BIG Net Par Outstanding
and Number of Risks
As of December 31, 2015

Description	Net Par Outstanding			Number of Risks(2)		
	Financial Guaranty Insurance(1)	Credit Derivative	Total	Financial Guaranty Insurance(1)	Credit Derivative	Total
	(dollars in millions)					
BIG:						
Category 1	\$7,019	\$ 1,004	\$8,023	202	12	214
Category 2	3,655	474	4,129	85	8	93
Category 3	2,900	131	3,031	132	12	144
Total BIG	\$13,574	\$ 1,609	\$15,183	419	32	451

(1) Includes net par outstanding for VIEs.

(2) A risk represents the aggregate of the financial guaranty policies that share the same revenue source for purposes of making debt service payments.

Exposure to Puerto Rico

The Company has 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 September 30, 2016, all of which are rated BIG.

Puerto Rico has experienced significant general fund budget deficits in recent years. In addition to high debt levels, Puerto Rico faces a challenging economic environment; the economy has declined nearly every year since 2007, while the population has shrunk every year since 2006 as residents have emigrated.

On June 28, 2015, Governor García Padilla of Puerto Rico (the "Governor") publicly stated that the Commonwealth's public debt, considering the current level of economic activity, was unpayable and that a comprehensive debt restructuring might be necessary.

On November 30, 2015 and December 8, 2015, the Governor issued executive orders ("Clawback Orders") directing the Puerto Rico Department of Treasury and the Puerto Rico Tourism Company to retain or transfer certain taxes pledged to secure the payment of bonds issued by the Puerto Rico Highways and Transportation Authority ("PRHTA"), Puerto Rico Infrastructure Financing Authority ("PRIFA"), and Puerto Rico Convention Center District Authority ("PRCCDA"). On January 7, 2016, the Company sued various Puerto Rico governmental officials in the United States District Court, District of Puerto Rico, asserting that this attempt to "claw back" pledged taxes is unconstitutional, and demanding declaratory and injunctive relief. The Puerto Rico credits insured by the Company subject to the Clawback Orders are shown in the table "Puerto Rico Net Par Outstanding" below.

On January 1, 2016, PRIFA defaulted on payment of a portion of the interest due on its bonds on that date, resulting in a claim on the Company for those PRIFA bonds the Company insures. There have been additional payment defaults on this and other Puerto Rico credits since then, including, on July 1, 2016, a default on the payment of the Commonwealth's general obligation bonds. The Company has now paid claims on several Puerto Rico credits as shown in the table "Puerto Rico Net Par Outstanding" below.

On April 6, 2016, the Governor signed into law the Puerto Rico Emergency Moratorium & Financial Rehabilitation Act (the "Moratorium Act"). The Moratorium Act purportedly empowers the Governor to declare, entity by entity, states of emergencies and moratoriums on debt service payments on obligations of the Commonwealth and its related authorities and public corporations, as well as instituting a stay against related litigation, among other things. The Governor has used the authority of the Moratorium Act to take a number of actions related to issuers of obligations the Company insures. National Public Finance Guarantee Corporation ("National") (another financial guarantor), holders of the Commonwealth general obligation bonds and certain Puerto Rico residents have filed suits to invalidate the Moratorium Act, and on July 21, 2016, the Company filed a motion and form of complaint in the U.S. District Court for the District of Puerto Rico seeking relief from the

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stay of litigation imposed by the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”) to seek a declaration that the Moratorium Act is preempted by Federal bankruptcy law; that motion was denied on November 2, 2016, on procedural grounds. The PROMESA stay expires on February 15, 2017.

On June 13, 2016, the Supreme Court of the United States affirmed rulings of lower courts finding that the Puerto Rico Public Corporation Debt Enforcement and Recovery Act, which was enacted by Puerto Rico in June 2014 in order to provide a legislative framework for certain public corporations experiencing severe financial stress to restructure their debt, was preempted by the U.S. Bankruptcy Code and therefore void.

On June 30, 2016, PROMESA was signed into law by the President of the United States. PROMESA establishes 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 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. PROMESA also appears to preempt at least portions of the Moratorium Act and appears to stay debt-related litigation, possibly including the Company’s litigation regarding the Clawback Orders. On August 31, 2016, the President of the United States appointed the seven members of the Oversight Board.

The Oversight Board has begun meeting. Press reports indicate that the Oversight Board has set a target of mid-January 2017 for hiring an executive director and is considering intervening in certain litigation relating to the Moratorium Act or otherwise related to Puerto Rico’s debt problems. On October 28, 2016, the Oversight Board filed a motion to intervene in the litigation noted above initiated by the Company on July 21, 2016, and seeking relief from the PROMESA stay. That motion was denied on November 1, 2016, without prejudice, on procedural grounds. The Oversight Board also may seek in the future to intervene in litigation initiated by the Company.

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 of any such responses on obligations insured by the Company, is uncertain.

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, 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 clawback revenues supporting debt insured by the Company. As noted above, the Company sued various Puerto Rico governmental officials in the United States District Court, District of Puerto Rico asserting that Puerto Rico’s recent attempt to “claw back” pledged taxes is unconstitutional, and demanding declaratory and injunctive relief.

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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.

Constitutionally Guaranteed

General Obligation. As of September 30, 2016, the Company had \$1,476 million insured net par outstanding of the general obligations of Puerto Rico, which are supported by the good faith, credit and taxing power of the Commonwealth. On July 1, 2016, despite the requirements of Article VI of its Constitution but pursuant to an executive order issued by the Governor under the Moratorium Act, the Commonwealth defaulted on most of the debt service payment due that day, and the Company made its first claim payments on these bonds.

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Puerto Rico Public Buildings Authority (“PBA”). As of September 30, 2016, the Company had \$169 million insured net par outstanding of PBA bonds, which are supported by a pledge of the rents due under leases of government facilities to departments, agencies, instrumentalities and municipalities of the Commonwealth, and that benefit from a Commonwealth guaranty supported by a pledge of the Commonwealth’s good faith, credit and taxing power. On July 1, 2016, despite the requirements of Article VI of its Constitution but pursuant to an executive order issued by the Governor under the Moratorium Act, the PBA defaulted on most of the debt service payment due that day, and the Company made its first claim payments on these bonds.

Public Corporations - Certain Revenues Potentially Subject to Clawback

PRHTA. As of September 30, 2016, the Company had \$918 million insured net par outstanding of PRHTA (Transportation revenue) bonds and \$350 million insured net par of PRHTA (Highways revenue) bonds. The transportation revenue bonds are secured by a subordinate gross pledge of gasoline and gas oil and diesel oil taxes, motor vehicle license fees and certain tolls, plus a first lien on up to \$120 million annually of taxes on crude oil, unfinished oil and derivative products. The highways revenue bonds are secured by a gross pledge of gasoline and gas oil and diesel oil taxes, motor vehicle license fees and certain tolls. The Clawback Orders cover Commonwealth-derived taxes that are allocated to PRHTA. The Company believes that such sources represented a substantial majority of PRHTA’s revenues in 2015. The PRHTA bonds are subject to executive orders issued pursuant to the Moratorium Act. As noted above, the Company filed a motion and form of complaint in the U.S. District Court for the District of Puerto Rico seeking relief from the PROMESA stay to seek a declaration that the Moratorium Act is preempted by Federal bankruptcy law and that certain gubernatorial executive orders diverting PRHTA pledged toll revenues (which are not subject to the Clawback Orders) are preempted by PROMESA and violate the U.S. Constitution, and also seeking damages and injunctive relief. That motion was denied on November 2, 2016, on procedural grounds. The PROMESA stay expires on February 15, 2017. There were sufficient funds in the PRHTA bond accounts to make the July 1, 2016 PRHTA debt service payments guaranteed by the Company, and those payments were made in full.

PRCCDA. As of September 30, 2016, the Company had \$152 million insured net par outstanding of PRCCDA bonds, which are secured by certain hotel tax revenues. These revenues are sensitive to the level of economic activity in the area and are subject to the Clawback Orders, and the bonds are subject to an executive order issued pursuant to the Moratorium Act. There were sufficient funds in the PRCCDA bond accounts to make the July 1, 2016 PRCCDA bond payments guaranteed by the Company, and those payments were made in full.

PRIFA. As of September 30, 2016, the Company had \$18 million insured net par outstanding of PRIFA bonds, which are secured primarily by the return to Puerto Rico of federal excise taxes paid on rum. These revenues are subject to the Clawback Orders and the bonds are subject to an executive order issued pursuant to the Moratorium Act. The Company made its first claim payment on PRIFA bonds in January 2016, and has continued to make claim payments on PRIFA bonds.

Other Public Corporations

Puerto Rico Electric Power Authority (“PREPA”). As of September 30, 2016, the Company had \$724 million insured net par outstanding of PREPA obligations, which are payable from a pledge of net revenues of the electric system.

On December 24, 2015, AGM and AGC entered into a Restructuring Support Agreement (“RSA”) with PREPA, an ad hoc group of uninsured bondholders and a group of fuel-line lenders that would, subject to certain conditions, result in, among other things, modernization of the utility and a restructuring of current debt. Upon finalization of the contemplated restructuring transaction, insured PREPA revenue bonds (with no reduction to par or stated interest rate or extension of maturity) will be supported by securitization bonds issued by a special purpose corporation and

secured by a transition charge assessed on ratepayers. To facilitate the securitization transaction and in exchange for a market premium, Assured Guaranty will issue surety insurance policies in an aggregate amount not expected to exceed \$113 million (\$14 million for AGC and \$99 million for AGM) to support a portion of the reserve fund for the securitization bonds. Certain of the creditors also agreed, subject to certain conditions, to participate in a bridge financing, which was closed in two tranches on May 19, 2016 and June 22, 2016. AGM's and AGC's share of the bridge financing was approximately \$15 million (\$2 million for AGC and \$13 million for AGM). Legislation meeting the requirements of the RSA was enacted on February 16, 2016, and a transition charge to be paid by PREPA rate payers for debt service on the securitization bonds as contemplated by the RSA was approved by the Puerto Rico Energy Commission on June 20, 2016. The closing of the restructuring transaction and the issuance of the surety bonds are subject to certain conditions, including execution of acceptable documentation and legal opinions.

On July 1, 2016, PREPA made full payment of the \$41 million of principal and interest due on PREPA revenue bonds insured by AGM and AGC. That payment was funded in part by AGM's purchase of \$26 million of PREPA bonds maturing in 2020. Upon finalization of the RSA, these new PREPA revenue bonds will be supported by securitization bonds contemplated

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by the RSA. In early 2016, PREPA repaid in full the \$74 million in aggregate principal amount of PREPA revenue bonds purchased by AGM and AGC in July 2015 to replenish some of the operating funds PREPA used to make the July 2015 payments on the PREPA revenue bonds insured by AGM and AGC.

There can be no assurance that the conditions in the RSA will be met or that, if the conditions are met, the RSA's other provisions, including those related to the insured PREPA revenue bonds, will be implemented. In addition, the impact of PROMESA and the Moratorium Act or any attempt to exercise the power purportedly granted by the Moratorium Act on the implementation of the RSA is uncertain. PREPA, during the pendency of the agreements, has suspended deposits into its debt service fund.

Puerto Rico Aqueduct and Sewer Authority ("PRASA"). As of September 30, 2016, the Company had \$373 million of insured net par outstanding to PRASA bonds, which are secured by the gross revenues of the water and sewer system. On September 15, 2015, PRASA entered into a settlement with the U.S. Department of Justice and the U.S. Environmental Protection Agency that requires it to spend \$1.6 billion to upgrade and improve its sewer system island-wide. According to a material event notice PRASA filed on March 4, 2016, PRASA owed its contractors \$140 million. The PRASA Revitalization Act, which establishes a securitization mechanism that could facilitate debt issuance, was signed into law on July 13, 2016. While certain bonds benefiting from a guarantee by the Commonwealth are subject to an executive order issued under the Moratorium Act, bonds insured by the Company are not subject to that order. There were sufficient funds in the PRASA bond accounts to make the July 1, 2016, PRASA bond payments guaranteed by the Company, and those payments were made in full.

Municipal Finance Agency ("MFA"). As of September 30, 2016, the Company had \$334 million net par outstanding of bonds issued by MFA secured by a pledge of local property tax revenues. There were sufficient funds in the MFA bond accounts to make the July 1, 2016 MFA bond payments guaranteed by the Company, and those payments were made in full.

Puerto Rico Sales Tax Financing Corporation ("COFINA"). As of September 30, 2016, the Company had \$271 million insured net par outstanding of junior COFINA bonds, which are secured primarily by a second lien on certain sales and use taxes. There were no debt service payments due on July 1, 2016 on Company-insured COFINA bonds, and, as of the date of this filing, all payments on Company-insured COFINA bonds had been made.

University of Puerto Rico ("U of PR"). As of September 30, 2016, the Company had \$1 million insured net par outstanding of U of PR bonds, which are general obligations of the university and are secured by a subordinate lien on the proceeds, profits and other income of the University, subject to a senior pledge and lien for the benefit of outstanding university system revenue bonds. The U of PR bonds are subject to an executive order issued under the Moratorium Act. There were no debt service payments due on July 1, 2016 on Company-insured U of PR bonds, and, as of the date of this filing, all payments on Company-insured U of PR bonds had been made.

All Puerto Rico exposures are internally rated triple-C or below. The following tables show the Company's insured exposure to general obligation bonds of Puerto Rico and various obligations of its related authorities and public corporations.

Puerto Rico
Gross Par and Gross Debt Service Outstanding

Gross Par Outstanding		Gross Debt Service Outstanding	
September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015

(in millions)

Exposure to Puerto Rico \$5,437 \$ 5,755 \$9,041 \$ 9,632

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Puerto Rico

Net Par Outstanding

	As of September 30, 2016	As of December 31, 2015
	(in millions)	
Commonwealth Constitutionally Guaranteed		
Commonwealth of Puerto Rico - General Obligation Bonds (1)	\$1,476	\$ 1,615
Puerto Rico Public Buildings Authority (1)	169	188
Public Corporations - Certain Revenues Potentially Subject to Clawback		
PRHTA (Transportation revenue) (2)	918	909
PRHTA (Highways revenue)	350	370
PRCCDA	152	164
PRIFA (1)	18	18
Other Public Corporations		
PREPA	724	744
PRASA	373	388
MFA	334	387
COFINA	271	269
U of PR	1	1
Total net exposure to Puerto Rico	\$4,786	\$ 5,053

(1) As of the date of this filing, the Company has paid claims on these credits.

(2) The September 30, 2016 amount includes \$46 million of net par acquired from CIFG.

The following table shows the scheduled amortization of the insured general obligation bonds of Puerto Rico and various obligations of its related authorities and public corporations. 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 be required to 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 Puerto Rico Net Par Outstanding
and Net Debt Service Outstanding
As of September 30, 2016

	Scheduled Net Par Amortization (in millions)	Scheduled Net Debt Service Amortization (in millions)
2016 (October 1 – December 31)	\$0	\$ 2
2017 (January 1 - March 31)	0	118
2017 (April 1 - June 30)	0	2
2017 (July 1 - September 30)	220	339
2017 (October 1 - December 31)	0	2
Subtotal 2017	220	461
2018	175	407
2019	206	430
2020	266	480
2021-2025	787	1,718
2026-2030	955	1,647
2031-2035	1,134	1,605
2036-2040	579	781
2041-2045	296	381
2046-2047	168	181
Total	\$4,786	\$ 8,093

Exposure to Selected European Countries

The European countries where the Company has exposure and believes heightened uncertainties exist are: Hungary, Italy, Portugal, Spain and Turkey (collectively, the “Selected European Countries”). The Company added Turkey to its list of Selected European Countries as of June 30, 2016, as a result of the recent political turmoil in the country. The Company’s direct economic exposure to the Selected European Countries (based on par for financial guaranty contracts and notional amount for financial guaranty contracts accounted for as derivatives) is shown in the following table, net of ceded reinsurance.

Net Direct Economic Exposure to Selected European Countries(1)
As of September 30, 2016

	Hungary (in millions)	Italy (in millions)	Portugal	Spain	Turkey	Total
Sub-sovereign exposure(2)	\$252	\$955	\$ 80	\$366	\$ —	\$1,653
Non-sovereign exposure(3)	180	427	—	—	203	810
Total	\$432	\$1,382	\$ 80	\$366	\$ 203	\$2,463
Total BIG (See Note 5)	\$360	\$—	\$ 80	\$366	\$ —	\$806

(1) While the Company’s exposures are shown in U.S. dollars, the obligations the Company insures are in various currencies, primarily Euros.

(2)

Sub-sovereign exposure in Selected European Countries includes transactions backed by receivables from or supported by sub-sovereigns, which are governmental or government-backed entities other than the ultimate governing body of the country.

- (3) Non-sovereign exposure in Selected European Countries includes debt of regulated utilities, RMBS and diversified payment rights ("DPR") securitizations.

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The Company has excluded from the exposure tables above its indirect economic exposure to the Selected European Countries through policies it provides on pooled corporate and commercial receivables transactions. The Company calculates indirect exposure to a country by multiplying the par amount of a transaction insured by the Company times the percent of the relevant collateral pool reported as having a nexus to the country. On that basis, the Company has calculated exposure of \$175 million to Selected European Countries (plus Greece) in transactions with \$3.4 billion of net par outstanding. The indirect exposure to credits with a nexus to Greece is \$4 million across several highly rated pooled corporate obligations with net par outstanding of \$165 million.

The \$203 million net insured par exposure in Turkey is to DPR securitizations sponsored by a major Turkish bank. These DPR securitizations were established outside of Turkey and involve payment orders in U.S. dollars, pounds sterling and Euros from persons outside of Turkey to beneficiaries in Turkey who are customers of the sponsoring bank. The sponsoring bank's correspondent banks have agreed to remit all such payments to a trustee-controlled account outside Turkey, where debt service payments for the DPR securitization are given priority over payments to the sponsoring bank.

5. Expected Loss to be Paid

Loss Estimation Process

This note provides information regarding expected claim payments to be made under all contracts in the insured portfolio, regardless of the accounting model. The Company's loss reserve committees estimate expected loss to be paid for all contracts by reviewing analyses that consider various scenarios with corresponding probabilities assigned to them. Depending upon the nature of the risk, the Company's view of the potential size of any loss and the information available to the Company, that analysis may be based upon individually developed cash flow models, internal credit rating assessments and sector-driven loss severity assumptions or judgmental assessments.

The financial guaranties issued by the Company 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. The determination of expected loss to be paid 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, governmental actions, negotiations and other factors that affect credit performance. These estimates, assumptions and judgments, and the factors on which they are based, may change materially over a quarter, and as a result the Company's loss estimates may change materially over that same period.

The Company does not use traditional actuarial approaches to determine its estimates of financial guaranty expected losses. Actual losses will ultimately depend on future events or transaction performance and may be influenced by many interrelated factors that are difficult to predict. As a result, the Company's current projections of probable and estimable losses may be subject to considerable volatility and may not reflect the Company's ultimate claims paid. For information on the Company's loss estimation process, please refer to Note 5, Expected Losses to be Paid, of Part II, Item 8, Financial Statements and Supplementary Data in AGL's Annual Report on Form 10-K for the year ended December 31, 2015.

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The following tables present a roll forward of the present value of net expected loss to be paid for all contracts, whether accounted for as insurance, credit derivatives or financial guaranty ("FG") VIEs, by sector, after the benefit for expected recoveries for breaches of representations and warranties ("R&W") and other expected recoveries. The Company used weighted average risk-free rates for U.S. dollar denominated obligations that ranged from 0.0% to 2.42% as of September 30, 2016 and 0.0% to 3.25% as of December 31, 2015.

Net Expected Loss to be Paid
After Net Expected Recoveries for Breaches of R&W
Roll Forward

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in millions)			
Net expected loss to be paid, beginning of period	\$1,326	\$1,510	\$1,391	\$1,169
Net expected loss to be paid on CIFG portfolio as of July 1, 2016	22	—	22	—
Net expected loss to be paid on Radian Asset portfolio as of April 1, 2015	—	—	—	190
Economic loss development due to:				
Accretion of discount	5	10	20	24
Changes in discount rates	(29)	11	79	(29)
Changes in timing and assumptions	(20)	(24)	(62)	191
Total economic loss development	(44)	(3)	37	186
Paid losses	(214)	(200)	(360)	(238)
Net expected loss to be paid, end of period	\$1,090	\$1,307	\$1,090	\$1,307

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Net Expected Loss to be Paid
 After Net Expected Recoveries for Breaches of R&W
 Roll Forward by Sector
 Third Quarter 2016

	Net Expected Loss to be Paid (Recovered) as of June 30, 2016 (in millions)	Net Expected Loss to be Paid (Recovered) on CIFG as of July 1, 2016	Economic Loss Development	(Paid) Recovered Losses (1)	Net Expected Loss to be Paid (Recovered) as of September 30, 2016 (2)
Public Finance:					
U.S. public finance	\$963	\$ 40	\$ 9	\$ (196)	\$ 816
Non-U.S. public finance	37	2	(1)	—	38
Public Finance	1,000	42	8	(196)	854
Structured Finance:					
U.S. RMBS:					
First lien:					
Prime first lien	3	—	0	0	3
Alt-A first lien	(96)	0	3	5	(88)
Option ARM	(56)	—	(3)	3	(56)
Subprime	227	—	(17)	(12)	198
Total first lien	78	0	(17)	(4)	57
Second lien	114	(22)	(10)	9	91
Total U.S. RMBS	192	(22)	(27)	5	148
Triple-X life insurance transactions	100	—	(23)	(23)	54
Student loans	31	—	0	0	31
Other structured finance	3	2	(2)	0	3
Structured Finance	326	(20)	(52)	(18)	236
Total	\$1,326	\$ 22	\$ (44)	\$ (214)	\$ 1,090

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Net Expected Loss to be Paid
 After Net Expected Recoveries for Breaches of R&W
 Roll Forward by Sector
 Third Quarter 2015

	Net Expected Loss to be Paid (Recovered) as of June 30, 2015 (in millions)			Economic Loss Development	(Paid) Recovered Losses (1)	Net Expected Loss to be Paid (Recovered) as of September 30, 2015	
Public Finance:							
U.S. public finance	\$613	\$ 92		\$ (18	)	\$ 687
Non-U.S public finance	44	(1	)	—		43
Public Finance	657	91		(18	)	730
Structured Finance:							
U.S. RMBS:							
First lien:							
Prime first lien	1	0		(1	)	0
Alt-A first lien	265	(111	)	(108	)	46
Option ARM	(18)	(4)	6	(16)
Subprime	273	26		(20	)	279
Total first lien	521	(89	)	(123	)	309
Second lien	3	13		10		26	
Total U.S. RMBS	524	(76	)	(113	)	335
Triple-X life insurance transactions	165	1		(68	)	98
Student loans	58	(2	)	—		56
Other structured finance	106	(17)	(1)	88	
Structured Finance	853	(94)	(182)	577	
Total	\$1,510	\$ (3)	\$ (200)	\$ 1,307	

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Net Expected Loss to be Paid
 After Net Expected Recoveries for Breaches of R&W
 Roll Forward by Sector
 Nine Months 2016

	Net Expected Loss to be Paid (Recovered) as of December 31, 2015 (2) (in millions)	Net Expected Loss to be Paid (Recovered) on CIFG as of July 1, 2016	Economic Loss Development	(Paid) Recovered Losses (1)	Net Expected Loss to be Paid (Recovered) as of September 30, 2016 (2)
Public Finance:					
U.S. public finance	\$771	\$ 40	\$ 218	\$ (213)	\$ 816
Non-U.S. public finance	38	2	(2)	—	38
Public Finance	809	42	216	(213)	854
Structured Finance:					
U.S. RMBS:					
First lien:					
Prime first lien	(2)	—	0	5	3
Alt-A first lien	127	0	(51)	(164)	(88)
Option ARM	(28)	—	(34)	6	(56)
Subprime	251	—	(42)	(11)	198
Total first lien	348	0	(127)	(164)	57
Second lien	61	(22)	(12)	64	91
Total U.S. RMBS	409	(22)	(139)	(100)	148
Triple-X life insurance transactions	99	—	(21)	(24)	54
Student loans	54	—	(15)	(8)	31
Other structured finance	20	2	(4)	(15)	3
Structured Finance	582	(20)	(179)	(147)	236
Total	\$1,391	\$ 22	\$ 37	\$ (360)	\$ 1,090

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Net Expected Loss to be Paid
 After Net Expected Recoveries for Breaches of R&W
 Roll Forward by Sector
 Nine Months 2015

	Net Expected Loss to be Paid (Recovered) as of December 31, 2014 (in millions)	Net Expected Loss to be Paid (Recovered) on Radian Asset portfolio as of April 1, 2015	Economic Loss Development	(Paid) Recovered Losses (1)	Net Expected Loss to be Paid (Recovered) as of September 30, 2015
Public Finance:					
U.S. public finance	\$ 303	\$ 81	\$ 327	\$ (24)	\$ 687
Non-U.S. public finance	45	4	(6)	—	43
Public Finance	348	85	321	(24)	730
Structured Finance:					
U.S. RMBS:					
First lien:					
Prime first lien	4	—	(1)	(3)	0
Alt-A first lien	304	7	(132)	(133)	46
Option ARM	(16)	0	(3)	3	(16)
Subprime	303	(4)	19	(39)	279
Total first lien	595	3	(117)	(172)	309
Second lien	(11)	1	13	23	26
Total U.S. RMBS	584	4	(104)	(149)	335
Triple-X life insurance transactions	161	—	8	(71)	98
Student loans	68	—	(7)	(5)	56
Other structured finance	8	101	(32)	11	88
Structured Finance	821	105	(135)	(214)	577
Total	\$ 1,169	\$ 190	\$ 186	\$ (238)	\$ 1,307

Net of ceded paid losses, whether or not such amounts have been settled with reinsurers. Ceded paid losses are typically settled 45 days after the end of the reporting period. Such amounts are recorded in reinsurance (1) recoverable on paid losses included in other assets. The Company paid \$3 million and \$7 million in LAE for Third Quarter 2016 and 2015, respectively, and \$12 million and \$16 million in LAE for Nine Months 2016 and 2015, respectively.

(2) Includes expected LAE to be paid of \$12 million as of September 30, 2016 and \$12 million as of December 31, 2015.

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Future Net R&W Recoverable (Payable)(1)

	As of September 30, 2016	As of December 31, 2015
	(in millions)	
U.S. RMBS:		
First lien	\$ (87)	\$ 0
Second lien	50	79
Total	\$ (37)	\$ 79

The Company's agreements with R&W providers generally provide that, as the Company makes claim payments, the R&W providers reimburse it for those claims; if the Company later receives reimbursement through the transaction (for example, from excess spread), the Company repays the R&W providers. See the section "Breaches (1) of Representations and Warranties" for information about the R&W agreements and eligible assets held in trust with respect to such agreements. When the Company projects receiving more reimbursements in the future than it projects paying in claims on transactions covered by R&W settlement agreements, the Company will have a net R&W payable.

The following tables present the present value of net expected loss to be paid for all contracts by accounting model, by sector and after the benefit for expected recoveries for breaches of R&W.

Net Expected Loss to be Paid (Recovered)

By Accounting Model

As of September 30, 2016

	Financial Guaranty Insurance (in millions)	FG VIEs(1) and Other	Credit Derivatives(2)	Total
Public Finance:				
U.S. public finance	\$816	\$ —	\$ 0	\$816
Non-U.S. public finance	38	—	—	38
Public Finance	854	—	0	854
Structured Finance:				
U.S. RMBS:				
First lien:				
Prime first lien	3	—	—	3
Alt-A first lien	(110)	20	2	(88)
Option ARM	(52)	—	(4)	(56)
Subprime	119	45	34	198
Total first lien	(40)	65	32	57
Second lien	54	42	(5)	91
Total U.S. RMBS	14	107	27	148
Triple-X life insurance transactions	43	—	11	54
Student loans	31	—	—	31
Other structured finance	35	1	(33)	3
Structured Finance	123	108	5	236

Total	\$977	\$ 108	\$ 5	\$1,090
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Net Expected Loss to be Paid (Recovered)

By Accounting Model

As of December 31, 2015

	Financial Guaranty Insurance (in millions)	FG VIEs(1) and Other	Credit Derivatives(2)	Total
Public Finance:				
U.S. public finance	\$771	\$ —	\$ 0	\$771
Non-U.S. public finance	38	—	—	38
Public Finance	809	—	0	809
Structured Finance:				
U.S. RMBS:				
First lien:				
Prime first lien	2	—	(4)	(2)
Alt-A first lien	110	17	0	127
Option ARM	(27)	—	(1)	(28)
Subprime	153	59	39	251
Total first lien	238	76	34	348
Second lien	13	44	4	61
Total U.S. RMBS	251	120	38	409
Triple-X life insurance transactions	88	—	11	99
Student loans	54	—	—	54
Other structured finance	37	16	(33)	20
Structured Finance	430	136	16	582
Total	\$1,239	\$ 136	\$ 16	\$1,391

(1) Refer to Note 9, Consolidated Variable Interest Entities.

(2) Refer to Note 8, Financial Guaranty Contracts Accounted for as Credit Derivatives.

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The following tables present the net economic loss development for all contracts by accounting model, by sector and after the benefit for expected recoveries for breaches of R&W.

Net Economic Loss Development (Benefit)

By Accounting Model

Third Quarter 2016

	Financial Guaranty Insurance (in millions)	FG VIEs(1) and Other	Credit Derivatives(2)	Total
Public Finance:				
U.S. public finance	\$9	\$ —	\$ —	\$9
Non-U.S. public finance	(1)	—	—	(1)
Public Finance	8	—	—	8
Structured Finance:				
U.S. RMBS:				
First lien:				
Prime first lien	0	—	—	0
Alt-A first lien	4	(1)	0	3
Option ARM	(3)	—	0	(3)
Subprime	(17)	0	0	(17)
Total first lien	(16)	(1)	0	(17)
Second lien	(1)	(1)	(8)	(10)
Total U.S. RMBS	(17)	(2)	(8)	(27)
Triple-X life insurance transactions	(23)	—	0	(23)
Student loans	0	—	—	0
Other structured finance	(3)	(1)	2	(2)
Structured Finance	(43)	(3)	(6)	(52)
Total	\$(35)	\$ (3)	\$ (6)	\$(44)

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Net Economic Loss Development (Benefit)

By Accounting Model

Third Quarter 2015

	Financial Guaranty and Insurance (in millions)	FG and Other VIEs(1)	Credit Derivatives(2)	Total
Public Finance:				
U.S. public finance	\$91	\$ —	\$ 1	\$92
Non-U.S. public finance	(1)	—	0	(1)
Public Finance	90	—	1	91
Structured Finance:				
U.S. RMBS:				
First lien:				
Prime first lien	0	—	0	0
Alt-A first lien	(44)	0	(67)	(111)
Option ARM	(2)	—	(2)	(4)
Subprime	16	7	3	26
Total first lien	(30)	7	(66)	(89)
Second lien	11	2	0	13
Total U.S. RMBS	(19)	9	(66)	(76)
Triple-X life insurance transactions	(1)	—	2	1
Student loans	(2)	—	—	(2)
Other structured finance	(1)	0	(16)	(17)
Structured Finance	(23)	9	(80)	(94)
Total	\$67	\$ 9	\$ (79)	\$(3)

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Net Economic Loss Development (Benefit)

By Accounting Model

Nine Months 2016

	Financial Guaranty Insurance (in millions)	FG VIEs(1) and Other	Credit Derivatives(2)	Total
Public Finance:				
U.S. public finance	\$218	\$ —	\$ —	\$218
Non-U.S. public finance	(2)	—	—	(2)
Public Finance	216	—	—	216
Structured Finance:				
U.S. RMBS:				
First lien:				
Prime first lien	0	0	0	0
Alt-A first lien	(52)	2	(1)	(51)
Option ARM	(31)	0	(3)	(34)
Subprime	(31)	(2)	(9)	(42)
Total first lien	(114)	0	(13)	(127)
Second lien	0	(4)	(8)	(12)
Total U.S. RMBS	(114)	(4)	(21)	(139)
Triple-X life insurance transactions	(21)	0	0	(21)
Student loans	(15)	—	—	(15)
Other structured finance	0	(2)	(2)	(4)
Structured Finance	(150)	(6)	(23)	(179)
Total	\$66	\$ (6)	\$ (23)	\$37

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Net Economic Loss Development (Benefit)

By Accounting Model

Nine Months 2015

	Financial Guaranty Insurance (in millions)	FG VIEs(1) and Other	Credit Derivatives(2)	Total
Public Finance:				
U.S. public finance	\$332	\$ —	\$ (5)	\$327
Non-U.S. public finance	(6)	—	0	(6)
Public Finance	326	—	(5)	321
Structured Finance:				
U.S. RMBS:				
First lien:				
Prime first lien	0	—	(1)	(1)
Alt-A first lien	(54)	(1)	(77)	(132)
Option ARM	(5)	—	2	(3)
Subprime	12	10	(3)	19
Total first lien	(47)	9	(79)	(117)
Second lien	12	1	0	13
Total U.S. RMBS	(35)	10	(79)	(104)
Triple-X life insurance transactions	4	—	4	8
Student loans	(7)	—	—	(7)
Other structured finance	(2)	0	(30)	(32)
Structured Finance	(40)	10	(105)	(135)
Total	\$286	\$ 10	\$ (110)	\$186

(1) Refer to Note 9, Consolidated Variable Interest Entities.

(2) Refer to Note 8, Financial Guaranty Contracts Accounted for as Credit Derivatives.

Selected U.S. Public Finance Transactions

The Company insures general obligation bonds of the Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations aggregating \$4.8 billion net par as of September 30, 2016, all of which are BIG. For additional information regarding the Company's exposure to general obligations of Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations, please refer to "Exposure to Puerto Rico" in Note 4, Outstanding Exposure.

On February 25, 2015, a plan of adjustment resolving the bankruptcy filing of the City of Stockton, California under chapter 9 of the U.S. Bankruptcy Code became effective. As of September 30, 2016, the Company's net par subject to the plan consists of \$113 million of pension obligation bonds. As part of the plan settlement, the City will repay the pension obligation bonds from certain fixed payments and certain variable payments contingent on the City's revenue growth.

The Company also has \$12.4 billion of net par exposure to healthcare transactions. The BIG net par outstanding in this sector is \$246 million.

The Company projects that its total net expected loss across its troubled U.S. public finance credits as of September 30, 2016 including those mentioned above, which incorporated the likelihood of the various outcomes, will be \$816 million, compared with a net expected loss of \$771 million as of December 31, 2015. On July 1, 2016, the CIFG Acquisition

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added \$40 million in net economic losses to be paid for U.S. public finance credits. Economic loss development in Third Quarter 2016 and Nine Months 2016 was \$9 million and \$218 million, respectively, which was primarily attributable to Puerto Rico exposures.

Certain Selected European Country Sub-Sovereign Transactions

The Company insures and reinsures credits with sub-sovereign exposure to various Spanish and Portuguese issuers where a Spanish and Portuguese sovereign default may cause the sub-sovereigns also to default. The Company's exposure net of reinsurance to these Spanish and Portuguese credits is \$366 million and \$80 million, respectively. The Company rates most of these issuers in the BB category due to the financial condition of Spain and Portugal and their dependence on the sovereign. The Company's Hungary exposure is to infrastructure bonds dependent on payments from Hungarian governmental entities. The Company's exposure net of reinsurance to these Hungarian credits is \$252 million, all of which is rated BIG. The Company estimated net expected losses of \$35 million related to these Spanish, Portuguese and Hungarian credits. The economic benefit of approximately \$1 million during Third Quarter 2016 and approximately \$2 million during Nine Months 2016 was primarily related to changes in the exchange rate between the Euro and U.S. Dollar.

Approach to Projecting Losses in U.S. RMBS

The Company projects losses on its insured U.S. RMBS on a transaction-by-transaction basis by projecting the performance of the underlying pool of mortgages over time and then applying the structural features (i.e., payment priorities and tranching) of the RMBS and any R&W agreements to the projected performance of the collateral over time. The resulting projected claim payments or reimbursements are then discounted using risk-free rates.

Third Quarter and Nine Months 2016 U.S. RMBS Loss Projections

Based on its observation during the period of the performance of its insured transactions (including early stage delinquencies, late stage delinquencies and loss severity) as well as the residential property market and economy in general, the Company chose to use the same general assumptions to project RMBS losses as of September 30, 2016 as it used as of June 30, 2016. For Nine Months 2016, the Company chose to use the same general assumptions to project RMBS losses as of September 30, 2016 as it used as of December 31, 2015, except it (1) increased severities for specific vintages of Alt-A first lien, Option ARM and subprime transactions, (2) decreased liquidation rates for certain vintages of subprime and (3) increased liquidation rates for second lien transactions based on observed data.

U.S. First Lien RMBS Loss Projections: Alt-A First Lien, Option ARM, Subprime and Prime

The majority of projected losses in first lien RMBS transactions are expected to come from non-performing mortgage loans (those that are or in the past twelve months have been two or more payments behind, have been modified, are in foreclosure, or have been foreclosed upon). Changes in the amount of non-performing loans from the amount projected in the previous period are one of the primary drivers of loss development in this portfolio. In order to determine the number of defaults resulting from these delinquent and foreclosed loans, the Company applies a liquidation rate assumption to loans in each of various non-performing categories. The Company arrived at its liquidation rates based on data purchased from a third party provider and assumptions about how delays in the foreclosure process and loan modifications may ultimately affect the rate at which loans are liquidated. Each quarter the Company reviews the most recent twelve months of this data and (if necessary) adjusts its liquidation rates based on its observations. The following table shows liquidation assumptions for various non-performing categories.

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First Lien Liquidation Rates

	September 30, 2016	June 30, 2016	December 31, 2015
Current Loans Modified in the Previous 12 Months			
Alt A and Prime	25%	25%	25%
Option ARM	25	25	25
Subprime	25	25	25
Current Loans Delinquent in the Previous 12 Months			
Alt A and Prime	25	25	25
Option ARM	25	25	25
Subprime	25	25	25
30 – 59 Days Delinquent			
Alt A and Prime	35	35	35
Option ARM	40	40	40
Subprime	45	45	45
60 – 89 Days Delinquent			
Alt A and Prime	45	45	45
Option ARM	50	50	50
Subprime	50	50	55
90+ Days Delinquent			
Alt A and Prime	55	55	55
Option ARM	60	60	60
Subprime	55	55	60
Bankruptcy			
Alt A and Prime	45	45	45
Option ARM	50	50	50
Subprime	40	40	40
Foreclosure			
Alt A and Prime	65	65	65
Option ARM	70	70	70
Subprime	65	65	70
Real Estate Owned			
All	100	100	100

While the Company uses liquidation rates as described above to project defaults of non-performing loans (including current loans modified or delinquent within the last 12 months), it projects defaults on presently current loans by applying a conditional default rate ("CDR") trend. The start of that CDR trend is based on the defaults the Company projects will emerge from currently nonperforming, recently nonperforming and modified loans. The total amount of expected defaults from the non-performing loans is translated into a constant CDR (i.e., the CDR plateau), which, if applied for each of the next 36 months, would be sufficient to produce approximately the amount of defaults that were calculated to emerge from the various delinquency categories. The CDR thus calculated individually on the delinquent collateral pool for each RMBS is then used as the starting point for the CDR curve used to project defaults of the presently performing loans.

In the base case, after the initial 36-month CDR plateau period, each transaction's CDR is projected to improve over 12 months to an intermediate CDR (calculated as 20% of its CDR plateau); that intermediate CDR is held constant for 36 months and then trails off in steps to a final CDR of 5% of the CDR plateau. In the base case, the Company assumes the final CDR will be reached 6.75 years after the initial 36-month CDR plateau period. Under the Company's methodology, defaults projected to occur in the first 36 months represent defaults that can be attributed to loans that

were modified or delinquent in the last 12 months or that are currently delinquent or in foreclosure, while the defaults projected to occur using the projected CDR trend after the first 36 month period represent defaults attributable to borrowers that are currently performing or are projected to reperform.

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Another important driver of loss projections is loss severity, which is the amount of loss the transaction incurs on a loan after the application of net proceeds from the disposal of the underlying property. Loss severities experienced in first lien transactions have reached historically high levels, and the Company is assuming in the base case that these high levels generally will continue for another 18 months. The Company determines its initial loss severity based on actual recent experience. As a result, as of March 31, 2016, the Company updated severities for specific vintages of Alt-A first lien and subprime transactions based on observed data and as of June 30, 2016 the Company updated severities again for certain vintages of Alt-A, as well as Option ARM. The Company then assumes that loss severities begin returning to levels consistent with underwriting assumptions beginning after the initial 18 month period, declining to 40% in the base case over 2.5 years.

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The following table shows the range as well as the average, weighted by outstanding net insured par, for key assumptions used in the calculation of expected loss to be paid for individual transactions for direct vintage 2004 - 2008 first lien U.S. RMBS.

Key Assumptions in Base Case Expected Loss Estimates
First Lien RMBS(1)

	As of September 30, 2016		As of June 30, 2016		As of December 31, 2015	
	Range	Weighted Average	Range	Weighted Average	Range	Weighted Average
Alt-A First Lien						
Plateau CDR	0.1% - 20.8%	6.0%	0.9% - 27.0%	6.1%	1.7% - 26.4%	6.4%
Intermediate CDR	0.0% - 4.2%	1.2%	0.2% - 5.4%	1.2%	0.3% - 5.3%	1.3%
Period until intermediate CDR	48 months		48 months		48 months	
Final CDR	0.0% - 1.0%	0.3%	0.0% - 1.3%	0.3%	0.1% - 1.3%	0.3%
Initial loss severity:						
2005 and prior	60.0%		60.0%		60.0%	
2006	80.0%		80.0%		70.0%	
2007	70.0%		70.0%		65.0%	
Initial conditional prepayment rate ("CPR")	1.8% - 26.6%	10.7%	3.5% - 29.3%	11.0%	2.7% - 32.5%	11.5%
Final CPR(2)	15%		15%		15%	
Option ARM						
Plateau CDR	3.4% - 9.1%	7.1%	3.2% - 10.1%	7.4%	3.5% - 10.3%	7.8%
Intermediate CDR	0.7% - 1.8%	1.4%	0.6% - 2.0%	1.5%	0.7% - 2.1%	1.6%
Period until intermediate CDR	48 months		48 months		48 months	
Final CDR	0.2% - 0.5%	0.3%	0.2% - 0.5%	0.3%	0.2% - 0.5%	0.4%
Initial loss severity:						
2005 and prior	60.0%		60.0%		60.0%	
2006	70.0%		70.0%		70.0%	
2007	75.0%		75.0%		65.0%	
Initial CPR	1.7% - 14.4%	6.8%	2.0% - 13.2%	5.7%	1.5% - 10.9%	5.1%
Final CPR(2)	15%		15%		15%	
Subprime						
Plateau CDR	4.5% - 12.8%	8.2%	4.4% - 12.7%	8.5%	4.7% - 13.2%	9.5%
Intermediate CDR	0.9% - 2.6%	1.6%	0.9% - 2.5%	1.7%	0.9% - 2.6%	1.9%
Period until intermediate CDR	48 months		48 months		48 months	
Final CDR	0.2% - 0.6%	0.4%	0.2% - 0.6%	0.4%	0.2% - 0.7%	0.4%
Initial loss severity:						
2005 and prior	80.0%		80.0%		75.0%	
2006	90.0%		90.0%		90.0%	
2007	90.0%		90.0%		90.0%	
Initial CPR	0.4% - 12.1%	5.2%	0.6% - 11.3%	4.9%	0.0% - 10.1%	3.6%
Final CPR(2)	15%		15%		15%	

- (1) Represents variables for most heavily weighted scenario (the “base case”).
- (2) For transactions where the initial CPR is higher than the final CPR, the initial CPR is held constant and the final CPR is not used.

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The rate at which the principal amount of loans is voluntarily prepaid may impact both the amount of losses projected (since that amount is a function of the CDR, the loss severity and the loan balance over time) as well as the amount of excess spread (the amount by which the interest paid by the borrowers on the underlying loan exceeds the amount of interest owed on the insured obligations). The assumption for the voluntary CPR follows a similar pattern to that of the CDR. The current level of voluntary prepayments is assumed to continue for the plateau period before gradually increasing over 12 months to the final CPR, which is assumed to be 15% in the base case. For transactions where the initial CPR is higher than the final CPR, the initial CPR is held constant and the final CPR is not used. These CPR assumptions are the same as those the Company used for June 30, 2016 and December 31, 2015.

In estimating expected losses, the Company modeled and probability weighted sensitivities for first lien transactions by varying its assumptions of how fast a recovery is expected to occur. One of the variables used to model sensitivities was how quickly the CDR returned to its modeled equilibrium, which was defined as 5% of the initial CDR. The Company also stressed CPR and the speed of recovery of loss severity rates. The Company probability weighted a total of five scenarios as of September 30, 2016. The Company used a similar approach to establish its pessimistic and optimistic scenarios as of September 30, 2016 as it used as of June 30, 2016 and December 31, 2015, increasing and decreasing the periods of stress from those used in the base case.

In a somewhat more stressful environment than that of the base case, where the CDR plateau was extended six months (to be 42 months long) before the same more gradual CDR recovery and loss severities were assumed to recover over 4.5 rather than 2.5 years (and subprime loss severities were assumed to recover only to 60% and Option ARM and Alt A loss severities to only 45%), expected loss to be paid would increase from current projections by approximately \$12 million for Alt-A first liens, \$6 million for Option ARM, \$38 million for subprime and \$0.1 million for prime transactions.

In an even more stressful scenario where loss severities were assumed to rise and then recover over nine years and the initial ramp-down of the CDR was assumed to occur over 15 months and other assumptions were the same as the other stress scenario, expected loss to be paid would increase from current projections by approximately \$30 million for Alt-A first liens, \$12 million for Option ARM, \$51 million for subprime and \$0.4 million for prime transactions.

In a scenario with a somewhat less stressful environment than the base case, where CDR recovery was somewhat less gradual, expected loss to be paid would decrease from current projections by approximately \$5 million for Alt-A first liens, \$21 million for Option ARM, \$10 million for subprime and \$15 thousand for prime transactions.

In an even less stressful scenario where the CDR plateau was six months shorter (30 months, effectively assuming that liquidation rates would improve) and the CDR recovery was more pronounced (including an initial ramp-down of the CDR over nine months), expected loss to be paid would decrease from current projections by approximately \$17 million for Alt-A first liens, \$32 million for Option ARM, \$33 million for subprime and \$0.1 million for prime transactions.

U.S. Second Lien RMBS Loss Projections

Second lien RMBS transactions include both home equity lines of credit ("HELOC") and closed end second lien. The Company believes the primary variable affecting its expected losses in second lien RMBS transactions is the amount and timing of future losses in the collateral pool supporting the transactions. Expected losses are also a function of the structure of the transaction; the voluntary prepayment rate (typically also referred to as CPR of the collateral); the interest rate environment; and assumptions about the draw rate and loss severity.

In second lien transactions the projection of near-term defaults from currently delinquent loans is relatively straightforward because loans in second lien transactions are generally "charged off" (treated as defaulted) by the

securitization's servicer once the loan is 180 days past due. The Company estimates the amount of loans that will default over the next six months by calculating current representative liquidation rates. A liquidation rate is the percent of loans in a given cohort (in this instance, delinquency category) that ultimately default. Similar to first liens, the Company then calculates a CDR for six months, which is the period over which the currently delinquent collateral is expected to be liquidated. That CDR is then used as the basis for the plateau CDR period that follows the embedded five months of losses. Liquidation rates assumed as of September 30, 2016 were from 25% to 100%, which were the same as of June 30, 2016 and December 31, 2015.

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For the base case scenario, the CDR (the “plateau CDR”) was held constant for six months. Once the plateau period has ended, the CDR is assumed to gradually trend down in uniform increments to its final long-term steady state CDR. (The long-term steady state CDR is calculated as the constant CDR that would have yielded the amount of losses originally expected at underwriting.) In the base case scenario, the time over which the CDR trends down to its final CDR is 28 months. Therefore, the total stress period for second lien transactions is 34 months, comprising five months of delinquent data, a one month plateau period and 28 months of decrease to the steady state CDR, the same as of June 30, 2016 and December 31, 2015.

HELOC loans generally permit the borrower to pay only interest for an initial period (often ten years) and, after that period, require the borrower to make both the monthly interest payment and a monthly principal payment, and so increase the borrower's aggregate monthly payment. Some of the HELOC loans underlying the Company's insured HELOC transactions have reached their principal amortization period. The Company has observed that the increase in monthly payments occurring when a loan reaches its principal amortization period, even if mitigated by borrower relief offered by the servicer, is associated with increased borrower defaults. Thus, most of the Company's HELOC projections incorporate an assumption that a percentage of loans reaching their amortization periods will default around the time of the payment increase. These projected defaults are in addition to those generated using the CDR curve as described above. This assumption is similar to the one used as of June 30, 2016 and December 31, 2015. For September 30, 2016 the Company used the same general approach as of June 30, 2016 and December 31, 2015.

When a second lien loan defaults, there is generally a very low recovery. The Company had assumed as of September 30, 2016 that it will generally recover only 2% of the collateral defaulting in the future and declining additional amounts of post-default receipts on previously defaulted collateral. This is the same assumption used as of June 30, 2016 and December 31, 2015.

The rate at which the principal amount of loans is prepaid may impact both the amount of losses projected as well as the amount of excess spread. In the base case, an average CPR (based on experience of the past year) is assumed to continue until the end of the plateau before gradually increasing to the final CPR over the same period the CDR decreases. The final CPR is assumed to be 15% for second lien transactions, which is lower than the historical average but reflects the Company's continued uncertainty about the projected performance of the borrowers in these transactions. For transactions where the initial CPR is higher than the final CPR, the initial CPR is held constant and the final CPR is not used. This pattern is generally consistent with how the Company modeled the CPR as of June 30, 2016 and December 31, 2015. To the extent that prepayments differ from projected levels it could materially change the Company's projected excess spread and losses.

The Company uses a number of other variables in its second lien loss projections, including the spread between relevant interest rate indices. These variables have been relatively stable and in the relevant ranges have less impact on the projection results than the variables discussed above. However, in a number of HELOC transactions the servicers have been modifying poorly performing loans from floating to fixed rates, and, as a result, rising interest rates would negatively impact the excess spread available from these modified loans to support the transactions. The Company incorporated these modifications in its assumptions.

In estimating expected losses, the Company modeled and probability weighted five possible CDR curves applicable to the period preceding the return to the long-term steady state CDR. The Company used five scenarios at September 30, 2016 and December 31, 2015. The Company believes that the level of the elevated CDR and the length of time it will persist, the ultimate prepayment rate, and the amount of additional defaults because of the expiry of the interest only period, are the primary drivers behind the likely amount of losses the collateral will suffer. The Company continues to evaluate the assumptions affecting its modeling results.

Most of the Company's projected second lien RMBS losses are from HELOC transactions. The following table shows the range as well as the average, weighted by outstanding net insured par, for key assumptions for the calculation of expected loss to be paid for individual transactions for direct vintage 2004 - 2008 HELOCs.

Table of ContentsKey Assumptions in Base Case Expected Loss Estimates
HELOCs (1)

	As of September 30, 2016			As of June 30, 2016			As of December 31, 2015		
	Range	Weighted Average		Range	Weighted Average		Range	Weighted Average	
Plateau CDR	5.1 %	20.6%	13.0%	2.5 %	26.3%	12.6%	4.9 %	23.5%	10.3%
Final CDR trended down to	0.5 %	3.2%	1.2%	0.5 %	3.2%	1.2%	0.5 %	3.2%	1.2%
Period until final CDR	34 months			34 months			34 months		
Initial CPR	11.5 %	17.7%	12.9%	11.0 %	15.4%	11.1%	10.9%		
Final CPR(2)	15.0 %	17.7%	15.3%	10.0 %	15.4%	13.3%	10.0 %	15.0%	13.3%
Loss severity	98.0%			98.0%			98.0%		

(1) Represents variables for most heavily weighted scenario (the “base case”).

(2) For transactions where the initial CPR is higher than the final CPR, the initial CPR is held constant and the final CPR is not used.

The Company’s base case assumed a six month CDR plateau and a 28 month ramp-down (for a total stress period of 34 months). The Company also modeled a scenario with a longer period of elevated defaults and another with a shorter period of elevated defaults. Increasing the CDR plateau to eight months and increasing the ramp-down by three months to 31 months (for a total stress period of 39 months), and doubling the defaults relating to the end of the interest only period would increase the expected loss by approximately \$44 million for HELOC transactions. On the other hand, reducing the CDR plateau to four months and decreasing the length of the CDR ramp-down to 25 months (for a total stress period of 29 months), and lowering the ultimate prepayment rate to 10% would decrease the expected loss by approximately \$26 million for HELOC transactions.

Breaches of Representations and Warranties

The Company entered into agreements with R&W providers under which those providers made payments to the Company, agreed to make payments to the Company in the future, and / or repurchased loans from the transactions, all in return for releases of related liability by the Company.

As of September 30, 2016, the Company had a net R&W payable of \$37 million to R&W counterparties, compared to an R&W recoverable of \$79 million as of December 31, 2015. The decrease represents improvements in underlying collateral performance and the termination of the Deutsche Bank agreement described below, partially offset by the addition of R&W recoverable related to a RMBS insured by CIFG and still being pursued by the Company. The Company’s agreements with providers of R&W generally provide for reimbursement to the Company as claim payments are made and, to the extent the Company later receives reimbursements of such claims from excess spread or other sources, for the Company to provide reimbursement to the R&W providers. When the Company projects receiving more reimbursements in the future than it projects to pay in claims on transactions covered by R&W settlement agreements, the Company will have a net R&W payable. Most of the amount projected to be received pursuant to agreements with R&W providers benefits from eligible assets placed in trusts to collateralize the R&W provider’s future reimbursement obligation, with the amount of such collateral subject to increase or decrease from time to time as determined by rating agency requirements. Currently the Company has agreements with two counterparties where a future reimbursement obligation is collateralized by eligible assets held in trust:

Bank of America. Under the Company's agreement with Bank of America Corporation and certain of its subsidiaries ("Bank of America"), Bank of America agreed to reimburse the Company for 80% of claims on the first lien transactions covered by the agreement that the Company pays in the future, until the aggregate lifetime collateral losses (not insurance losses or claims) on those transactions reach \$6.6 billion. As of September 30, 2016 aggregate lifetime collateral losses on those transactions was \$4.5 billion, and the Company was projecting in its base case that such collateral losses would eventually reach \$5.2 billion. Bank of America's reimbursement obligation is secured by \$593 million of collateral held in trust for the Company's benefit.

UBS. Under the Company's agreement with UBS Real Estate Securities Inc. and affiliates ("UBS"), UBS agreed to reimburse the Company for 85% of future losses on three first lien RMBS transactions, and such reimbursement obligation is secured by \$38 million of collateral held in trust for the Company's benefit.

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Under the Company's previous agreement with Deutsche Bank AG and certain of its affiliates (collectively, "Deutsche Bank"), Deutsche Bank agreed to reimburse the Company for certain claims it pays in the future on eight first and second lien transactions, including 80% of claims it pays on those transactions until the aggregate lifetime claims (before reimbursement) reach \$319 million. In May 2016, Deutsche Bank's reimbursement obligations under the May 2012 agreement were terminated in return for a cash payment to the Company.

The Company uses the same RMBS projection scenarios and weightings to project its future R&W benefit as it uses to project RMBS losses on its portfolio. To the extent the Company increases its loss projections, the R&W benefit generally will also increase, subject to the agreement limits and thresholds described above. Similarly, to the extent the Company decreases its loss projections, the R&W benefit generally will also decrease, subject to the agreement limits and thresholds described above.

Triple-X Life Insurance Transactions

The Company had \$2.1 billion of net par exposure to financial guaranty Triple-X life insurance transactions as of September 30, 2016. Two of these transactions, with \$126 million of net par outstanding, are rated BIG. The Triple-X life insurance transactions are based on discrete blocks of individual life insurance business. In older vintage Triple-X life insurance transactions, which include the two BIG-rated transactions, the amounts raised by the sale of the notes insured by the Company were used to capitalize a special purpose vehicle that provides reinsurance to a life insurer or reinsurer. The amounts are invested at inception in accounts managed by third-party investment managers. In the case of the two BIG-rated transactions, material amounts of their assets were invested in U.S. RMBS. Based on its analysis of the information currently available, including estimates of future investment performance, and projected credit impairments on the invested assets and performance of the blocks of life insurance business at September 30, 2016, the Company's projected net expected loss to be paid is \$54 million. The economic benefit during Third Quarter 2016 was approximately \$23 million, which was due primarily to a benefit resulting from the purchase of a portion of an insured obligation to mitigate loss, changes in interest rates and updates to the projected asset cash flows. The economic benefit during Nine Months 2016 was approximately \$21 million, which was due primarily to benefit resulting from a purchase of a portion of an insured obligation to mitigate loss, changes in discount rates and updates to the projected life insurance cash flows.

Student Loan Transactions

The Company has insured or reinsured \$1.4 billion net par of student loan securitizations issued by private issuers and that it classifies as structured finance. Of this amount, \$109 million is rated BIG. The Company is projecting approximately \$31 million of net expected loss to be paid on these transactions. In general, the losses are due to: (i) the poor credit performance of private student loan collateral and high loss severities, or (ii) high interest rates on auction rate securities with respect to which the auctions have failed. The economic loss development during Third Quarter 2016 was approximately flat. The economic benefit during Nine Months 2016 was approximately \$15 million, which was driven primarily by the commutation of certain assumed student loan exposures earlier in the year.

TruPS and other structured finance

The Company's TruPS sector has BIG par of \$555 million and all other structured finance BIG par totaled \$803 million, comprising primarily transactions backed by perpetual preferred securities, commercial receivables and manufactured housing loans. The Company has expected loss to be paid of \$3 million for TruPS and other structured finance transactions as of September 30, 2016. The economic benefit during Third Quarter 2016 was \$2 million, which was attributable primarily to improved performance of various credits. The economic benefit during Nine Months 2016 was \$4 million, which was attributable primarily to improved performance of various credits.

Recovery Litigation

Public Finance Transactions

On January 7, 2016, AGM, AGC and Ambac Assurance Corporation (“Ambac”) commenced an action for declaratory judgment and injunctive relief in the U.S. District Court for the District of Puerto Rico to invalidate the executive orders issued by the Governor on November 30, 2015 and December 8, 2015 directing that the Secretary of the Treasury of the Commonwealth of Puerto Rico and the Puerto Rico Tourism Company retain or transfer (in other words, "claw back") certain taxes and revenues pledged to secure the payment of bonds issued by the PRHTA, the PRCCDA and the PRIFA. The Commonwealth defendants filed a motion to dismiss the action for lack of subject matter jurisdiction, which the Court denied on October 4, 2016. On October 14, 2016, the Commonwealth defendants filed a notice of PROMESA automatic stay.

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On July 21, 2016, AGC and AGM filed a motion and form of complaint in the U.S. District Court for the District of Puerto Rico seeking relief from the stay provided by PROMESA. Upon a grant of relief from the PROMESA stay, the lawsuit further seeks a declaration that the Moratorium Act is preempted by Federal bankruptcy law and that certain gubernatorial executive orders diverting PRHTA pledged toll revenues (which are not subject to the Clawback) are preempted by PROMESA and violate the U.S. Constitution. Additionally, it seeks damages for the value of the PRHTA toll revenues diverted and injunctive relief prohibiting the defendants from taking any further action under these executive orders. On October 28, 2016, the Oversight Board filed a motion seeking leave to intervene in the action, which motion was denied on November 1, 2016, without prejudice, on procedural grounds. On November 2, 2016, the Court denied AGC's and AGM's motion for relief from the PROMESA stay on procedural grounds. The PROMESA stay expires on February 15, 2017.

On November 1, 2013, Radian Asset commenced a declaratory judgment action in the U.S. District Court for the Southern District of Mississippi against Madison County, Mississippi and the Parkway East Public Improvement District to establish its rights under a contribution agreement from the County supporting certain special assessment bonds issued by the District and insured by Radian Asset (now AGC). As of September 30, 2016, \$20 million of such bonds were outstanding. The County maintained that its payment obligation is limited to two years of annual debt service, while AGC contended the County's obligations under the contribution agreement continue so long as the bonds remain outstanding. On April 27, 2016, the Court granted AGC's motion for summary judgment, agreeing with AGC's interpretation of the County's obligations. On May 11, 2016, the County filed a notice of appeal of that ruling to the United States Court of Appeals for the Fifth Circuit.

Triple-X Life Insurance Transactions

In December 2008 AGUK filed an action in the Supreme Court of the State of New York against J.P. Morgan Investment Management Inc. ("JPMIM"), the investment manager for a triple-X life insurance transaction, Orkney Re II plc ("Orkney"), involving securities guaranteed by AGUK. The action alleges that JPMIM engaged in breaches of fiduciary duty, gross negligence and breaches of contract based upon its handling of the Orkney investments. After AGUK's claims were dismissed with prejudice in January 2010, AGUK was successful in its subsequent motions and appeals and, as of December 2011, all of AGUK's claims for breaches of fiduciary duty, gross negligence and contract were reinstated in full. On January 22, 2016, AGUK filed a motion for partial summary judgment with respect to one of its claims for breach of contract relating to a failure to invest in compliance with the Delaware insurance code. Discovery was completed on February 22, 2016, and oral argument on the motion for partial summary judgment took place on August 16, 2016.

RMBS Transactions

On February 5, 2009, U.S. Bank National Association, as indenture trustee ("U.S. Bank"), CIFG, as insurer of the Class Ac Notes, and Syncora Guarantee Inc. ("Syncora"), as insurer of the Class Ax Notes, filed a complaint in the Supreme Court of the State of New York against GreenPoint Mortgage Funding, Inc. ("GreenPoint") alleging GreenPoint breached its representations and warranties with respect to the underlying mortgage loans in the GreenPoint Mortgage Funding Trust 2006-HE1 transaction. On March 3, 2010, the court dismissed CIFG's and Syncora's causes of action on standing grounds. On December 16, 2013, GreenPoint moved to dismiss the remaining claims of U.S. Bank on the grounds that it too lacked standing. U.S. Bank cross-moved for partial summary judgment striking GreenPoint's defense that U.S. Bank lacked standing to directly pursue claims against GreenPoint. On January 28, 2016, the court denied GreenPoint's motion for summary judgment and granted U.S. Bank's cross-motion for partial summary judgment, finding that as a matter of law U.S. Bank has standing to directly assert claims against GreenPoint. On February 26, 2016, GreenPoint filed a notice of appeal of that decision but to date has not perfected its appeal.

On November 26, 2012, CIFG filed a complaint in the Supreme Court of the State of New York against JP Morgan Securities LLC ("JP Morgan") for material misrepresentation in the inducement of insurance and common law fraud, alleging that JP Morgan fraudulently induced CIFG to insure \$400 million of securities issued by ACA ABS CDO 2006-2 Ltd. and \$325 million of securities issued by Libertas Preferred Funding II, Ltd. On June 26, 2015, the Court dismissed with prejudice CIFG's material misrepresentation in the inducement of insurance claim and dismissed without prejudice CIFG's common law fraud claim. On September 24, 2015, the Court denied CIFG's motion to amend but allowed CIFG to re-plead a cause of action for common law fraud. On November 20, 2015, CIFG filed a motion for leave to amend its complaint to re-plead common law fraud. On April 29, 2016, CIFG filed an appeal to reverse the Court's decision dismissing CIFG's material misrepresentation in the inducement of insurance claim, and on October 4, 2016, the Appellate Division of the Supreme Court of the State of New York heard oral arguments on such appeal.

On January 15, 2013, CIFG filed a complaint in the Supreme Court of the State of New York against Goldman, Sachs & Co. ("Goldman") for material misrepresentation in the inducement of insurance and common law fraud, alleging that

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Goldman fraudulently induced CIFG to insure \$325 million of Class A-1 Notes (the “Class A-1 Notes”) and to purchase \$10 million of Class A-2 Notes (the “Class A-2 Notes”) issued by Fortius II Funding, Ltd. CDO. CIFG and Goldman agreed to separately arbitrate the issue of liability with respect to CIFG’s purchase of the Class A-2 Notes, and on February 4, 2015, an arbitration panel awarded CIFG \$2.5 million in damages. On September 11, 2015, CIFG filed an amended complaint to allege that the arbitration award collaterally estopped Goldman from disputing its liability for fraudulent inducement in respect of the Class A-1 Notes. On July 7, 2016, the Court heard oral argument on (i) the motion of AGC (as successor to CIFG) for partial summary judgment on the issue of Goldman’s liability for material misrepresentation in the inducement of insurance and fraud with respect to the Class A-1 Notes policy and (ii) Goldman’s motion to dismiss AGC’s amended complaint. On October 20, 2016, AGC (as successor to CIFG) and Goldman reached a settlement of the action.

6. Financial Guaranty Insurance

Financial Guaranty Insurance Premiums

The portfolio of outstanding exposures discussed in Note 4, Outstanding Exposure, includes financial guaranty contracts that meet the definition of insurance contracts as well as those that meet the definition of a derivative under GAAP. Amounts presented in this note relate to financial guaranty insurance contracts, unless otherwise noted. See Note 8, Financial Guaranty Contracts Accounted for as Credit Derivatives for amounts that relate to CDS and Note 9, Consolidated Variable Interest Entities for amounts that relate to FG VIEs.

Net Earned Premiums

	Third Quarter 2016		Nine Months 2015	
	2016	2015	2016	2015
	(in millions)			
Scheduled net earned premiums	\$101	\$104	\$285	\$318
Accelerations				
Refundings	105	77	267	213
Terminations	21	28	65	29
Total Accelerations	126	105	332	242
Accretion of discount on net premiums receivable	4	4	11	13
Financial guaranty insurance net earned premiums	231	213	628	573
Other	—	0	0	1
Net earned premiums (1)	\$231	\$213	\$628	\$574

(1) Excludes \$4 million and \$6 million for Third Quarter 2016 and 2015, respectively, and \$12 million and \$16 million for Nine Months 2016 and 2015, respectively, related to consolidated FG VIEs.

Components of Unearned Premium Reserve

	As of September 30, 2016			As of December 31, 2015		
	Gross	Ceded	Net(1)	Gross	Ceded	Net(1)
	(in millions)					
Deferred premium revenue	3,710	217	3,493	4,008	238	3,770
Contra-paid (2)	(42)	(4)	(38)	(12)	(6)	(6)

Unearned premium reserve \$3,668 \$213 \$3,455 \$3,996 \$232 \$3,764

(1) Excludes \$93 million and \$110 million of deferred premium revenue, and \$28 million and \$30 million of contra-paid related to FG VIEs as of September 30, 2016 and December 31, 2015, respectively.

(2) See "Financial Guaranty Insurance Losses– Insurance Contracts' Loss Information" below for an explanation of "contra-paid".

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Gross Premium Receivable,
Net of Commissions on Assumed Business
Roll Forward

	Nine Months	
	2016	2015
	(in millions)	
Beginning of period, December 31	\$693	\$729
Premiums receivable from acquisitions (see Note 2)	18	2
Gross written premiums on new business, net of commissions on assumed business	111	103
Gross premiums received, net of commissions on assumed business	(155)	(140)
Adjustments:		
Changes in the expected term	(39)	(11)
Accretion of discount, net of commissions on assumed business	5	15
Foreign exchange translation	(25)	(18)
Consolidation/deconsolidation of FG VIEs	0	(4)
End of period, September 30 (1)	\$608	\$676

(1) Excludes \$11 million and \$23 million as of September 30, 2016 and September 30, 2015, respectively, related to consolidated FG VIEs.

Foreign exchange translation relates to installment premium receivables denominated in currencies other than the U.S. dollar. Approximately 52%, 52% and 50% of installment premiums at September 30, 2016, December 31, 2015 and September 30, 2015, respectively, are denominated in currencies other than the U.S. dollar, primarily the Euro and British Pound Sterling.

The timing and cumulative amount of actual collections may differ from expected collections in the tables below due to factors such as foreign exchange rate fluctuations, counterparty collectability issues, accelerations, commutations and changes in expected lives.

Expected Collections of
Financial Guaranty Insurance Gross Premiums Receivable,
Net of Commissions on Assumed Business
(Undiscounted)

	As of September 30, 2016 (in millions)
2016 (October 1 – December 31)	\$ 25
2017	70
2018	60
2019	54
2020	52
2021-2025	207
2026-2030	135
2031-2035	95
After 2035	75

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Scheduled Financial Guaranty Insurance Net Earned Premiums

	As of September 30, 2016 (in millions)
2016 (October 1 – December 31)	\$ 96
2017	344
2018	309
2019	274
2020	249
2021-2025	959
2026-2030	608
2031-2035	366
After 2035	288
Net deferred premium revenue(1)	3,493
Future accretion	154
Total future net earned premiums	\$ 3,647

(1) Excludes scheduled net earned premiums on consolidated FG VIEs of \$93 million.

Selected Information for Financial Guaranty Insurance
Policies Paid in Installments

	As of September 30, 2016	As of December 31, 2015
	(dollars in millions)	
Premiums receivable, net of commission payable	\$ 608	\$ 693
Gross deferred premium revenue	1,080	1,240
Weighted-average risk-free rate used to discount premiums	3.1 %	3.1 %
Weighted-average period of premiums receivable (in years)	9.1	9.4

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Financial Guaranty Insurance Losses

Insurance Contracts' Loss Information

The following table provides information on loss and LAE reserves and salvage and subrogation recoverable, net of reinsurance. The Company used weighted average risk-free rates for U.S. dollar denominated financial guaranty insurance obligations that ranged from 0.0% to 2.42% as of September 30, 2016 and 0.0% to 3.25% as of December 31, 2015.

Loss and LAE Reserve and Salvage and Subrogation Recoverable

Net of Reinsurance

Insurance Contracts

	As of September 30, 2016			As of December 31, 2015		
	LAE Reserve, net (in millions)	Subrogation net (in millions)	Net Reserve (Recoverable)	LAE Reserve, net (in millions)	Subrogation net (in millions)	Net Reserve (Recoverable)
Public Finance:						
U.S. public finance	\$674	\$ 117	\$ 557	\$604	\$ 7	\$ 597
Non-U.S. public finance	24	—	24	25	—	25
Public Finance	698	117	581	629	7	622
Structured Finance:						
U.S. RMBS:						
First lien:						
Prime first lien	2	—	2	2	—	2
Alt-A first lien	38	174	(136)	46	—	46
Option ARM	8	56	(48)	13	42	(29)
Subprime	147	24	123	169	21	148
First lien	195	254	(59)	230	63	167
Second lien	84	61	23	32	53	(21)
Total U.S. RMBS	279	315	(36)	262	116	146
Triple-X life insurance transactions	36	—	36	82	—	82
Student loans	30	—	30	51	—	51
Other structured finance	27	—	27	48	—	48
Structured Finance	372	315	57	443	116	327
Subtotal	1,070	432	638	1,072	123	949
Other recoverables	—	5	(5)	—	3	(3)
Subtotal	1,070	437	633	1,072	126	946
Effect of consolidating FG VIEs	(66)	—	(66)	(74)	0	(74)
Total (1)	\$1,004	\$ 437	\$ 567	\$998	\$ 126	\$ 872

(1) See “Components of Net Reserves (Salvage)” table for loss and LAE reserve and salvage and subrogation recoverable components.

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Components of Net Reserves (Salvage)

	As of September 30, 2016	As of December 31, 2015
	(in millions)	
Loss and LAE reserve	\$1,091	\$ 1,067
Reinsurance recoverable on unpaid losses	(87)	(69)
Loss and LAE reserve, net	1,004	998
Salvage and subrogation recoverable	(455)	(126)
Salvage and subrogation payable(1)	23	3
Other recoverables	(5)	(3)
Salvage and subrogation recoverable, net and other recoverable	(437)	(126)
Net reserves (salvage)	\$567	\$ 872

(1) Recorded as a component of reinsurance balances payable.

The table below provides a reconciliation of net expected loss to be paid to net expected loss to be expensed. Expected loss to be paid differs from expected loss to be expensed due to: (i) the contra-paid which represent the claim payments made and recoveries received that have not yet been recognized in the statement of operations, (ii) salvage and subrogation recoverable for transactions that are in a net recovery position where the Company has not yet received recoveries on claims previously paid (having the effect of reducing net expected loss to be paid by the amount of the previously paid claim and the expected recovery), but will have no future income effect (because the previously paid claims and the corresponding recovery of those claims will offset in income in future periods), and (iii) loss reserves that have already been established (and therefore expensed but not yet paid).

Reconciliation of Net Expected Loss to be Paid and
Net Expected Loss to be Expensed
Financial Guaranty Insurance Contracts

	As of September 30, 2016 (in millions)
Net expected loss to be paid - financial guaranty insurance (1)	\$ 977
Contra-paid, net	38
Salvage and subrogation recoverable, net of reinsurance	432
Loss and LAE reserve - financial guaranty insurance contracts, net of reinsurance	(1,003)
Other recoveries	5
Net expected loss to be expensed (present value) (2)	\$ 449

(1) See "Net Expected Loss to be Paid (Recovered) by Accounting Model" table in Note 5, Expected Loss to be Paid.

(2) Excludes \$70 million as of September 30, 2016, related to consolidated FG VIEs.

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The following table provides a schedule of the expected timing of net expected losses to be expensed. The amount and timing of actual loss and LAE may differ from the estimates shown below due to factors such as accelerations, commutations, changes in expected lives and updates to loss estimates. This table excludes amounts related to FG VIEs, which are eliminated in consolidation.

Net Expected Loss to be Expensed
Financial Guaranty Insurance Contracts

	As of September 30, 2016 (in millions)
2016 (October 1 – December 31)	\$ 8
Subtotal 2016	8
2017	37
2018	37
2019	33
2020	31
2021-2025	129
2026-2030	95
2031-2035	56
After 2035	23
Net expected loss to be expensed	449
Future accretion	242
Total expected future loss and LAE	\$ 691

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

Loss and LAE
Reported on the
Consolidated Statements of Operations

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in millions)			
Public Finance:				
U.S. public finance	\$20	\$89	\$233	\$298
Non-U.S. public finance	—	(2)	(1)	4
Public finance	20	87	232	302
Structured Finance:				
U.S. RMBS:				
First lien:				
Prime first lien	1	0	0	(1)
Alt-A first lien	(1)	(15)	10	(26)
Option ARM	1	(4)	(20)	(5)
Subprime	(6)	31	(13)	32
First lien	(5)	12	(23)	0
Second lien	3	19	20	29
Total U.S. RMBS	(2)	31	(3)	29
Triple-X life insurance transactions	(24)	7	(22)	14
Student loans	0	(2)	(14)	(7)
Other structured finance	(3)	(1)	(6)	(3)
Structured finance	(29)	35	(45)	33
Loss and LAE on insurance contracts before FG VIE consolidation	(9)	122	187	335
Effect of consolidating FG VIEs	0	(10)	(4)	(17)
Loss and LAE	\$(9)	\$112	\$183	\$318

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The following table provides information on financial guaranty insurance contracts categorized as BIG.

Financial Guaranty Insurance
BIG Transaction Loss Summary
As of September 30, 2016

	BIG Categories						Total BIG, Net	Effect of Consolidating FG VIEs	Total
	BIG 1		BIG 2		BIG 3				
	Gross	Ceded	Gross	Ceded	Gross	Ceded			
	(dollars in millions)								
Number of risks(1)	182	(39)	76	(10)	144	(48)	402	—	402
Remaining weighted-average contract period (in years)	9.1	7.4	13.5	10.8	8.1	6.0	10.2	—	10.2
Outstanding exposure:									
Principal	\$4,813	\$(343)	\$4,277	\$(416)	\$4,834	\$(331)	\$12,834	\$ —	\$12,834
Interest	2,326	(154)	2,973	(224)	1,929	(91)	6,759	—	6,759
Total(2)	\$7,139	\$(497)	\$7,250	\$(640)	\$6,763	\$(422)	\$19,593	\$ —	\$19,593
Expected cash outflows (inflows)	\$210	\$(21)	\$1,302	\$(86)	\$1,286	\$(60)	\$2,631	\$ (326)	\$2,305
Potential recoveries									
Undiscounted R&W	138	(3)	(2)	—	(52)	1	82	—	82
Other(3)	(668)	29	(125)	3	(648)	41	(1,368)	200	(1,168)
Total potential recoveries	(530)	26	(127)	3	(700)	42	(1,286)	200	(1,086)
Subtotal	(320)	5	1,175	(83)	586	(18)	1,345	(126)	1,219
Discount	54	(3)	(249)	14	19	(96)	(261)	19	(242)
Present value of expected cash flows	\$(266)	\$2	\$926	\$(69)	\$605	\$(114)	\$1,084	\$ (107)	\$977
Deferred premium revenue	\$172	\$(5)	\$256	\$(6)	\$496	\$(32)	\$881	\$ (90)	\$791
Reserves (salvage)	\$(325)	\$5	\$749	\$(64)	\$272	\$(5)	\$632	\$ (66)	\$566

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Financial Guaranty Insurance
BIG Transaction Loss Summary
As of December 31, 2015

	BIG Categories						Total BIG, Net	Effect of Consolidating FG VIEs	Total
	BIG 1		BIG 2		BIG 3				
	Gross	Ceded	Gross	Ceded	Gross	Ceded			
	(dollars in millions)								
Number of risks(1)	202	(46)	85	(13)	132	(44)	419	—	419
Remaining weighted-average contract period (in years)	10.0	8.7	13.8	9.5	7.7	5.9	10.7	—	10.7
Outstanding exposure:									
Principal	\$7,751	\$(732)	\$3,895	\$(240)	\$3,087	\$(187)	\$13,574	\$ —	\$13,574
Interest	4,109	(354)	2,805	(110)	1,011	(42)	7,419	—	7,419
Total(2)	\$11,860	\$(1,086)	\$6,700	\$(350)	\$4,098	\$(229)	\$20,993	\$ —	\$20,993
Expected cash outflows (inflows)	\$386	\$(42)	\$1,158	\$(60)	\$1,464	\$(53)	\$2,853	\$ (343)	\$2,510
Potential recoveries									
Undiscounted R&W	69	(2)	(49)	1	(85)	5	(61)	7	(54)
Other(3)	(372)	12	(167)	8	(672)	24	(1,167)	182	(985)
Total potential recoveries	(303)	10	(216)	9	(757)	29	(1,228)	189	(1,039)
Subtotal	83	(32)	942	(51)	707	(24)	1,625	(154)	1,471
Discount	22	5	(237)	11	27	(94)	(266)	34	(232)
Present value of expected cash flows	\$105	\$(27)	\$705	\$(40)	\$734	\$(118)	\$1,359	\$ (120)	\$1,239
Deferred premium revenue	\$371	\$(37)	\$150	\$(4)	\$386	\$(32)	\$834	\$ (100)	\$734
Reserves (salvage)	\$2	\$(19)	\$591	\$(38)	\$404	\$(9)	\$931	\$ (74)	\$857

A risk represents the aggregate of the financial guaranty policies that share the same revenue source for purposes of (1) making debt service payments. The ceded number of risks represents the number of risks for which the Company ceded a portion of its exposure.

(2) Includes BIG amounts related to FG VIEs.

(3) Includes excess spread.

Ratings Impact on Financial Guaranty Business

A downgrade of one of AGL's insurance subsidiaries may result in increased claims under financial guaranties issued by the Company, if the insured obligors were unable to pay.

For example, AGM has issued financial guaranty insurance policies in respect of the obligations of municipal obligors under interest rate swaps. AGM insures periodic payments owed by the municipal obligors to the bank counterparties. In certain cases, AGM also insures termination payments that may be owed by the municipal obligors to the bank counterparties. If (i) AGM has been downgraded below the rating trigger set forth in a swap under which it has insured the termination payment, which rating trigger varies on a transaction by transaction basis; (ii) the municipal obligor has the right to cure by, but has failed in, posting collateral, replacing AGM or otherwise curing the downgrade of AGM; (iii) the transaction documents include as a condition that an event of default or termination

event with respect to the municipal obligor has occurred, such as the rating of the municipal obligor being downgraded past a specified level, and such condition has been met; (iv) the bank counterparty has elected to terminate the swap; (v) a termination payment is payable by the municipal obligor; and (vi) the municipal obligor has failed to make the termination payment payable by it, then AGM would be required to pay the termination payment due by the municipal obligor, in an amount not to exceed the policy limit set forth in the financial guaranty insurance policy. At AGM's current financial strength ratings, if the conditions giving rise to the obligation of AGM to make a termination payment under the swap termination policies were all satisfied, then AGM could pay claims in an amount not exceeding approximately \$191 million in respect of such termination payments. Taking into consideration whether the

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rating of the municipal obligor is below any applicable specified trigger, if the financial strength ratings of AGM were further downgraded below "A" by S&P or below "A2" by Moody's, and the conditions giving rise to the obligation of AGM to make a payment under the swap policies were all satisfied, then AGM could pay claims in an additional amount not exceeding approximately \$439 million in respect of such termination payments.

As another example, with respect to variable rate demand obligations ("VRDOs") for which a bank has agreed to provide a liquidity facility, a downgrade of AGM or AGC may provide the bank with the right to give notice to bondholders that the bank will terminate the liquidity facility, causing the bondholders to tender their bonds to the bank. Bonds held by the bank accrue interest at a "bank bond rate" that is higher than the rate otherwise borne by the bond (typically the prime rate plus 2.00% — 3.00%, and capped at the lesser of 25% and the maximum legal limit). In the event the bank holds such bonds for longer than a specified period of time, usually 90-180 days, the bank has the right to demand accelerated repayment of bond principal, usually through payment of equal installments over a period of not less than five years. In the event that a municipal obligor is unable to pay interest accruing at the bank bond rate or to pay principal during the shortened amortization period, a claim could be submitted to AGM or AGC under its financial guaranty policy. As of September 30, 2016, AGM and AGC had insured approximately \$5.3 billion net par of VRDOs, of which approximately \$0.3 billion of net par constituted VRDOs issued by municipal obligors rated BBB- or lower pursuant to the Company's internal rating. The specific terms relating to the rating levels that trigger the bank's termination right, and whether it is triggered by a downgrade by one rating agency or a downgrade by all rating agencies then rating the insurer, vary depending on the transaction.

In addition, AGM may be required to pay claims in respect of AGMH's former financial products business if Dexia SA and its affiliates, from which the Company had purchased AGMH and its subsidiaries, do not comply with their obligations following a downgrade of the financial strength rating of AGM. Most of the guaranteed investment contracts ("GICs") insured by AGM allow the GIC holder to terminate the GIC and withdraw the funds in the event of a downgrade of AGM below A3 or A-, with no right of the GIC issuer to avoid such withdrawal by posting collateral or otherwise enhancing its credit. Each GIC contract stipulates the thresholds below which the GIC issuer must post eligible collateral, along with the types of securities eligible for posting and the collateralization percentage applicable to each security type. These collateralization percentages range from 100% of the GIC balance for cash posted as collateral to, typically, 108% for asset-backed securities. If the entire aggregate accreted GIC balance of approximately \$1.6 billion as of September 30, 2016 were terminated, the assets of the GIC issuers (which had an aggregate market value which exceed the liabilities by \$0.9 billion) would be sufficient to fund the withdrawal of the GIC funds.

7. Fair Value Measurement

The Company carries a significant portion of its assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., exit price). The price represents the price available in the principal market for the asset or liability. If there is no principal market, then the price is based on a hypothetical market that maximizes the value received for an asset or minimizes the amount paid for a liability (i.e., the most advantageous market).

Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on either internally developed models that primarily use, as inputs, market-based or independently sourced market parameters, including but not limited to yield curves, interest rates and debt prices or with the assistance of an independent third-party using a discounted cash flow approach and the third party's proprietary pricing models. In addition to market information, models also incorporate transaction details, such as maturity of the instrument and contractual features designed to reduce the Company's credit exposure, such as collateral rights as applicable.

Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, the Company's creditworthiness and constraints on liquidity. As markets and products develop and the pricing for certain products becomes more or less transparent, the Company may refine its methodologies and assumptions. During Nine Months 2016, no changes were made to the Company's valuation models that had or are expected to have, a material impact on the Company's consolidated balance sheets or statements of operations and comprehensive income.

The Company's methods for calculating fair value produce a fair value that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The categorization within the fair value hierarchy is determined based on whether the inputs to valuation techniques used to measure fair value are observable or unobservable. Observable inputs reflect market data obtained from independent

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sources, while unobservable inputs reflect Company estimates of market assumptions. The fair value hierarchy prioritizes model inputs into three broad levels as follows, with Level 1 being the highest and Level 3 the lowest. An asset or liability's categorization is based on the lowest level of significant input to its valuation.

Level 1—Quoted prices for identical instruments in active markets. The Company generally defines an active market as a market in which trading occurs at significant volumes. Active markets generally are more liquid and have a lower bid-ask spread than an inactive market.

Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and observable inputs other than quoted prices, such as interest rates or yield curves and other inputs derived from or corroborated by observable market inputs.

Level 3—Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

Transfers between Levels 1, 2 and 3 are recognized at the end of the period when the transfer occurs. The Company reviews the classification between Levels 1, 2 and 3 quarterly to determine whether a transfer is necessary. During the periods

presented, there were no transfers between Level 1 and Level 2. There were transfers of fixed-maturity securities from Level 2 into Level 3 during Third Quarter 2016 and Nine Months 2016 because of a lack of observability relating to the valuation inputs and collateral pricing. There were no transfers into or out Level 3 during Nine Months 2015.

Measured and Carried at Fair Value

Fixed-Maturity Securities and Short-Term Investments

The fair value of bonds in the investment portfolio is generally based on prices received from third party pricing services or alternative pricing sources with reasonable levels of price transparency. The pricing services prepare estimates of fair value measurements using their pricing models, which include available relevant market information, benchmark curves, benchmarking of like securities, and sector groupings. Additional valuation factors that can be taken into account are nominal spreads and liquidity adjustments. The pricing services evaluate each asset class based on relevant market and credit information, perceived market movements, and sector news. The market inputs used in the pricing evaluation include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data and industry and economic events. Benchmark yields have in many cases taken priority over reported trades for securities that trade less frequently or those that are distressed trades, and therefore may not be indicative of the market. The extent of the use of each input is dependent on the asset class and the market conditions. Given the asset class, the priority of the use of inputs may change or some market inputs may not be relevant. Additionally, the valuation of fixed-maturity investments is more subjective when markets are less liquid due to the lack of market based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction would occur.

Short-term investments, that are traded in active markets, are classified within Level 1 in the fair value hierarchy and their value is based on quoted market prices. Securities such as discount notes are classified within Level 2 because these securities are typically not actively traded due to their approaching maturity and, as such, their cost approximates fair value. Short term securities that were obtained as part of loss mitigation efforts and whose prices were determined based on models, where at least one significant model assumption or input is unobservable, are

considered to be Level 3 in the fair value hierarchy.

Annually, the Company reviews each pricing service's procedures, controls and models used in the valuations of the Company's investment portfolio, as well as the competency of the pricing service's key personnel. In addition, on a quarterly basis, the Company holds a meeting of the internal valuation committee (comprised of individuals within the Company with market, valuation, accounting, and/or finance experience) that reviews and approves prices and assumptions used by the pricing services.

For Level 1 and 2 securities, the Company, on a quarterly basis, reviews internally developed analytic packages that highlight, at a CUSIP level, price changes from the previous quarter to the current quarter. Where unexpected price movements are noted for a specific CUSIP, the Company formally challenges the price provided, and reviews all key inputs utilized in the third party's pricing model, and compares such information to management's own market information.

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For Level 3 securities, the Company, on a quarterly basis:

reviews methodologies, any model updates and inputs and compares such information to management's own market information and, where applicable, the internal models,

reviews internally developed analytic packages that highlight, at a CUSIP level, price changes from the previous quarter to the current quarter, and evaluates, documents, and resolves any significant pricing differences with the assistance of the third party pricing source, and

compares prices received from different third party pricing sources, and evaluates, documents the rationale for, and resolves any significant pricing differences.

As of September 30, 2016, the Company used models to price 83 fixed-maturity securities (primarily securities that were purchased or obtained for loss mitigation or other risk management purposes), which were 10.4% or \$1,175 million of the Company's fixed-maturity securities and short-term investments at fair value. Most Level 3 securities were priced with the assistance of an independent third-party. The pricing is based on a discounted cash flow approach using the third-party's proprietary pricing models. The models use inputs such as projected prepayment speeds; severity assumptions; recovery lag assumptions; estimated default rates (determined on the basis of an analysis of collateral attributes, historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); home price appreciation/depreciation rates based on macroeconomic forecasts and recent trading activity. The yield used to discount the projected cash flows is determined by reviewing various attributes of the bond including collateral type, weighted average life, sensitivity to losses, vintage, and convexity, in conjunction with market data on comparable securities. Significant changes to any of these inputs could materially change the expected timing of cash flows within these securities which is a significant factor in determining the fair value of the securities.

Other Invested Assets

As of September 30, 2016 and December 31, 2015, other invested assets include investments carried and measured at fair value on a recurring basis of \$56 million and \$53 million, respectively, and include primarily an investment in the global property catastrophe risk market and an investment in a fund that invests primarily in senior loans and bonds. Fair values for the majority of these investments are based on their respective net asset value ("NAV") per share or equivalent.

Other Assets

Committed Capital Securities

The fair value of committed capital securities ("CCS"), which is recorded in "other assets" on the consolidated balance sheets, represents the difference between the present value of remaining expected put option premium payments under AGC's CCS (the "AGC CCS") and AGM's Committed Preferred Trust Securities (the "AGM CPS") agreements, and the estimated present value that the Company would hypothetically have to pay currently for a comparable security (see Note 15, Long Term Debt and Credit Facilities). The AGC CCS and AGM CPS are carried at fair value with changes in fair value recorded in the consolidated statement of operations. The estimated current cost of the Company's CCS is based on several factors, including AGM and AGC CDS spreads, the U.S. dollar forward swap curve, London Interbank Offered Rate ("LIBOR") curve projections and the term the securities are estimated to remain outstanding.

Supplemental Executive Retirement Plans

The Company classifies the fair value measurement of the assets of the Company's various supplemental executive retirement plans as either Level 1 or Level 2. The fair value of these assets is valued based on the observable published daily values of the underlying mutual fund included in the aforementioned plans (Level 1) or based upon the NAV of the funds if a published daily value is not available (Level 2). The NAV are based on observable information.

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Financial Guaranty Contracts Accounted for as Credit Derivatives

The Company's credit derivatives consist primarily of insured CDS contracts, and also include interest rate swaps and hedges on other financial guarantors that fall under derivative accounting standards requiring fair value accounting through the statement of operations. The following is a description of the fair value methodology applied to the Company's insured credit default swaps that are accounted for as credit derivatives, which constitute the vast majority of the net credit derivative liability in the consolidated balance sheets. The Company did not enter into CDS with the intent to trade these contracts and the Company may not unilaterally terminate a CDS contract absent an event of default or termination event that entitles the Company to terminate such contracts; however, the Company has mutually agreed with various counterparties to terminate certain CDS transactions. Such terminations generally are not completed at fair value but instead for an amount that approximates the present value of future premiums or for a negotiated amount.

The terms of the Company's CDS contracts differ from more standardized credit derivative contracts sold by companies outside the financial guaranty industry. The non-standard terms include the absence of collateral support agreements or immediate settlement provisions. In addition, the Company employs relatively high attachment points and does not exit derivatives it sells or purchases for credit protection purposes, except under specific circumstances such as mutual agreements with counterparties. Management considers the non-standard terms of its credit derivative contracts in determining the fair value of these contracts.

Due to the lack of quoted prices and other observable inputs for its instruments or for similar instruments, the Company determines the fair value of its credit derivative contracts primarily through internally developed, proprietary models that use both observable and unobservable market data inputs to derive an estimate of the fair value of the Company's contracts in its principal markets (see "Assumptions and Inputs"). There is no established market where financial guaranty insured credit derivatives are actively traded, therefore, management has determined that the exit market for the Company's credit derivatives is a hypothetical one based on its entry market. Management has tracked the historical pricing of the Company's deals to establish historical price points in the hypothetical market that are used in the fair value calculation. These contracts are classified as Level 3 in the fair value hierarchy since there is reliance on at least one unobservable input deemed significant to the valuation model, most importantly the Company's estimate of the value of the non-standard terms and conditions of its credit derivative contracts and of the Company's current credit standing.

The Company's models and the related assumptions are continuously reevaluated by management and enhanced, as appropriate, based upon improvements in modeling techniques and availability of more timely and relevant market information.

The fair value of the Company's credit derivative contracts represents the difference between the present value of remaining premiums the Company expects to receive or pay and the estimated present value of premiums that a financial guarantor of comparable credit-worthiness would hypothetically charge or pay at the reporting date for the same protection. The fair value of the Company's credit derivatives depends on a number of factors, including notional amount of the contract, expected term, credit spreads, changes in interest rates, the credit ratings of referenced entities, the Company's own credit risk and remaining contractual cash flows. The expected remaining contractual premium cash flows are the most readily observable inputs since they are based on the CDS contractual terms. Credit spreads capture the effect of recovery rates and performance of underlying assets of these contracts, among other factors. Consistent with previous years, market conditions at September 30, 2016 were such that market prices of the Company's CDS contracts were not available.

Management considers factors such as current prices charged for similar agreements, when available, performance of underlying assets, life of the instrument, and the nature and extent of activity in the financial guaranty credit derivative

marketplace. The assumptions that management uses to determine the fair value may change in the future due to market conditions. Due to the inherent uncertainties of the assumptions used in the valuation models, actual experience may differ from the estimates reflected in the Company's consolidated financial statements and the differences may be material.

Assumptions and Inputs

The various inputs and assumptions that are key to the establishment of the Company's fair value for CDS contracts are as follows:

- Gross spread.
- The allocation of gross spread among:
the profit the originator, usually an investment bank, realizes for putting the deal together and funding the transaction ("bank profit");

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premiums paid to the Company for the Company's credit protection provided ("net spread"); and the cost of CDS protection purchased by the originator to hedge their counterparty credit risk exposure to the Company ("hedge cost").

- The weighted average life which is based on debt service schedules.

The rates used to discount future expected premium cash flows ranged from 0.87% to 1.85% at September 30, 2016 and 0.44% to 2.51% at December 31, 2015.

The Company obtains gross spreads on its outstanding contracts from market data sources published by third parties (e.g., dealer spread tables for the collateral similar to assets within the Company's transactions), as well as collateral-specific spreads provided by trustees or obtained from market sources. If observable market credit spreads are not available or reliable for the underlying reference obligations, then market indices are used that most closely resemble the underlying reference obligations, considering asset class, credit quality rating and maturity of the underlying reference obligations. These indices are adjusted to reflect the non-standard terms of the Company's CDS contracts. Market sources determine credit spreads by reviewing new issuance pricing for specific asset classes and receiving price quotes from their trading desks for the specific asset in question. Management validates these quotes by cross-referencing quotes received from one market source against quotes received from another market source to ensure reasonableness. In addition, the Company compares the relative change in price quotes received from one quarter to another, with the relative change experienced by published market indices for a specific asset class. Collateral specific spreads obtained from third-party, independent market sources are un-published spread quotes from market participants or market traders who are not trustees. Management obtains this information as the result of direct communication with these sources as part of the valuation process.

With respect to CDS transactions for which there is an expected claim payment within the next twelve months, the allocation of gross spread reflects a higher allocation to the cost of credit rather than the bank profit component. In the current market, it is assumed that a bank would be willing to accept a lower profit on distressed transactions in order to remove these transactions from its financial statements.

The following spread hierarchy is utilized in determining which source of gross spread to use, with the rule being to use CDS spreads where available. If not available, CDS spreads are either interpolated or extrapolated based on similar transactions or market indices.

- Actual collateral specific credit spreads (if up-to-date and reliable market-based spreads are available).
- Deals priced or closed during a specific quarter within a specific asset class and specific rating. No transactions closed during the periods presented.
- Credit spreads interpolated based upon market indices.
- Credit spreads provided by the counterparty of the CDS.
- Credit spreads extrapolated based upon transactions of similar asset classes, similar ratings, and similar time to maturity.

Information by Credit Spread Type (1)

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	As of September 30, 2016		As of December 31, 2015	
Based on actual collateral specific spreads	9	%	13	%
Based on market indices	76	%	73	%
Provided by the CDS counterparty	15	%	14	%
Total	100	%	100	%

(1) Based on par.

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Over time the data inputs can change as new sources become available or existing sources are discontinued or are no longer considered to be the most appropriate. It is the Company's objective to move to higher levels on the hierarchy whenever possible, but it is sometimes necessary to move to lower priority inputs because of discontinued data sources or management's assessment that the higher priority inputs are no longer considered to be representative of market spreads for a given type of collateral. This can happen, for example, if transaction volume changes such that a previously used spread index is no longer viewed as being reflective of current market levels.

The Company interpolates a curve based on the historical relationship between the premium the Company receives when a credit derivative is closed to the daily closing price of the market index related to the specific asset class and rating of the deal. This curve indicates expected credit spreads at each indicative level on the related market index. For transactions with unique terms or characteristics where no price quotes are available, management extrapolates credit spreads based on a similar transaction for which the Company has received a spread quote from one of the first three sources within the Company's spread hierarchy. This alternative transaction will be within the same asset class, have similar underlying assets, similar credit ratings, and similar time to maturity. The Company then calculates the percentage of relative spread change quarter over quarter for the alternative transaction. This percentage change is then applied to the historical credit spread of the transaction for which no price quote was received in order to calculate the transactions' current spread. Counterparties determine credit spreads by reviewing new issuance pricing for specific asset classes and receiving price quotes from their trading desks for the specific asset in question. These quotes are validated by cross-referencing quotes received from one market source with those quotes received from another market source to ensure reasonableness.

The premium the Company receives is referred to as the "net spread." The Company's pricing model takes into account not only how credit spreads on risks that it assumes affect pricing, but also how the Company's own credit spread affects the pricing of its deals. The Company's own credit risk is factored into the determination of net spread based on the impact of changes in the quoted market price for credit protection bought on the Company, as reflected by quoted market prices on CDS referencing AGC or AGM. For credit spreads on the Company's name the Company obtains the quoted price of CDS contracts traded on AGC and AGM from market data sources published by third parties. The cost to acquire CDS protection referencing AGC or AGM affects the amount of spread on CDS deals that the Company retains and, hence, their fair value. As the cost to acquire CDS protection referencing AGC or AGM increases, the amount of premium the Company retains on a deal generally decreases. As the cost to acquire CDS protection referencing AGC or AGM decreases, the amount of premium the Company retains on a deal generally increases. In the Company's valuation model, the premium the Company captures is not permitted to go below the minimum rate that the Company would currently charge to assume similar risks. This assumption can have the effect of mitigating the amount of unrealized gains that are recognized on certain CDS contracts. Given the current market conditions and the Company's own credit spreads, approximately 25%, 16% and 20% based on number of deals, of the Company's CDS contracts are fair valued using this minimum premium as of September 30, 2016, June 30, 2016 and December 31, 2015, respectively. The percentage of deals that price using the minimum premiums fluctuates due to changes in AGM's and AGC's credit spreads. In general when AGM's and AGC's credit spreads narrow, the cost to hedge AGM's and AGC's name declines and more transactions price above previously established floor levels. Meanwhile, when AGM's and AGC's credit spreads widen, the cost to hedge AGM's and AGC's name increases causing more transactions to price at previously established floor levels. The Company corroborates the assumptions in its fair value model, including the portion of exposure to AGC and AGM hedged by its counterparties, with independent third parties each reporting period. The current level of AGC's and AGM's own credit spread has resulted in the bank or deal originator hedging a significant portion of its exposure to AGC and AGM. This reduces the amount of contractual cash flows AGC and AGM can capture as premium for selling its protection.

The amount of premium a financial guaranty insurance market participant can demand is inversely related to the cost of credit protection on the insurance company as measured by market credit spreads assuming all other assumptions remain constant. This is because the buyers of credit protection typically hedge a portion of their risk to the financial

guarantor, due to the fact that the contractual terms of the Company's contracts typically do not require the posting of collateral by the guarantor. The extent of the hedge depends on the types of instruments insured and the current market conditions.

A fair value resulting in a credit derivative asset on protection sold is the result of contractual cash inflows on in-force deals in excess of what a hypothetical financial guarantor could receive if it sold protection on the same risk as of the reporting date. If the Company were able to freely exchange these contracts (i.e., assuming its contracts did not contain proscriptions on transfer and there was a viable exchange market), it would be able to realize a gain representing the difference between the higher contractual premiums to which it is entitled and the current market premiums for a similar contract. The Company determines the fair value of its CDS contracts by applying the difference between the current net spread and the contractual net spread for the remaining duration of each contract to the notional value of its CDS contracts and taking the present value of such amounts discounted at the corresponding LIBOR over the weighted average remaining life of the contract.

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Example

The following is an example of how changes in gross spreads, the Company's own credit spread and the cost to buy protection on the Company affect the amount of premium the Company can demand for its credit protection. The assumptions used in these examples are hypothetical amounts. Scenario 1 represents the market conditions in effect on the transaction date and Scenario 2 represents market conditions at a subsequent reporting date.

	Scenario 1			Scenario 2		
	bps	% of Total	%	bps	% of Total	%
Original gross spread/cash bond price (in bps)	185			500		
Bank profit (in bps)	115	62	%	50	10	%
Hedge cost (in bps)	30	16	%	440	88	%
The premium the Company receives per annum (in bps)	40	22	%	10	2	%

In Scenario 1, the gross spread is 185 basis points. The bank or deal originator captures 115 basis points of the original gross spread and hedges 10% of its exposure to AGC, when the CDS spread on AGC was 300 basis points (300 basis points \times 10% = 30 basis points). Under this scenario the Company receives premium of 40 basis points, or 22% of the gross spread.

In Scenario 2, the gross spread is 500 basis points. The bank or deal originator captures 50 basis points of the original gross spread and hedges 25% of its exposure to AGC, when the CDS spread on AGC was 1,760 basis points (1,760 basis points \times 25% = 440 basis points). Under this scenario the Company would receive premium of 10 basis points, or 2% of the gross spread. Due to the increased cost to hedge AGC's name, the amount of profit the bank would expect to receive, and the premium the Company would expect to receive decline significantly.

In this example, the contractual cash flows (the Company premium received per annum above) exceed the amount a market participant would require the Company to pay in today's market to accept its obligations under the CDS contract, thus resulting in an asset.

Strengths and Weaknesses of Model

The Company's credit derivative valuation model, like any financial model, has certain strengths and weaknesses.

The primary strengths of the Company's CDS modeling techniques are:

- The model takes into account the transaction structure and the key drivers of market value. The transaction structure includes par insured, weighted average life, level of subordination and composition of collateral.

- The model maximizes the use of market-driven inputs whenever they are available. The key inputs to the model are market-based spreads for the collateral, and the credit rating of referenced entities. These are viewed by the Company to be the key parameters that affect fair value of the transaction.

- The model is a consistent approach to valuing positions. The Company has developed a hierarchy for market-based spread inputs that helps mitigate the degree of subjectivity during periods of high illiquidity.

The primary weaknesses of the Company's CDS modeling techniques are:

- There is no exit market or actual exit transactions. Therefore the Company's exit market is a hypothetical one based on the Company's entry market.

• There is a very limited market in which to validate the reasonableness of the fair values developed by the Company's model.

• The markets for the inputs to the model were highly illiquid, which impacts their reliability.

- Due to the non-standard terms under which the Company enters into derivative contracts, the fair value of its credit derivatives may not reflect the same prices observed in an actively traded market of credit derivatives that do not contain terms and conditions similar to those observed in the financial guaranty market.

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These contracts were classified as Level 3 in the fair value hierarchy because there is a reliance on at least one unobservable input deemed significant to the valuation model, most significantly the Company's estimate of the value of non-standard terms and conditions of its credit derivative contracts and amount of protection purchased on AGC or AGM's name.

Fair Value Option on FG VIEs' Assets and Liabilities

The Company elected the fair value option for all the FG VIEs' assets and liabilities. See Note 9, Consolidated Variable Interest Entities.

The FG VIEs issued securities collateralized by first lien and second lien RMBS as well as loans and receivables. The lowest level input that is significant to the fair value measurement of these assets and liabilities was a Level 3 input (i.e., unobservable), therefore management classified them as Level 3 in the fair value hierarchy. Prices are generally determined with the assistance of an independent third-party, based on a discounted cash flow approach.

The models to price the FG VIEs' liabilities used, where appropriate, inputs such as estimated prepayment speeds; market values of the assets that collateralize the securities; estimated default rates (determined on the basis of an analysis of collateral attributes, historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); yields implied by market prices for similar securities; house price depreciation/appreciation rates based on macroeconomic forecasts and, for those liabilities insured by the Company, the benefit from the Company's insurance policy guaranteeing the timely payment of principal and interest, taking into account the timing of the potential default and the Company's own credit rating. The third-party also utilizes an internal model to determine an appropriate yield at which to discount the cash flows of the security, by factoring in collateral types, weighted-average lives, and other structural attributes specific to the security being priced. The expected yield is further calibrated by utilizing algorithms designed to aggregate market color, received by the third-party, on comparable bonds.

The fair value of the Company's FG VIE assets is generally sensitive to changes related to estimated prepayment speeds; estimated default rates (determined on the basis of an analysis of collateral attributes such as: historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); discount rates implied by market prices for similar securities; and house price depreciation/appreciation rates based on macroeconomic forecasts. Significant changes to some of these inputs could materially change the market value of the FG VIE's assets and the implied collateral losses within the transaction. In general, the fair value of the FG VIE asset is most sensitive to changes in the projected collateral losses, where an increase in collateral losses typically leads to a decrease in the fair value of FG VIE assets, while a decrease in collateral losses typically leads to an increase in the fair value of FG VIE assets. These factors also directly impact the fair value of the Company's FG VIE liabilities.

The fair value of the Company's FG VIE liabilities is generally sensitive to the various model inputs described above. In addition, the Company's FG VIE liabilities with recourse are also sensitive to changes in the Company's implied credit worthiness. Significant changes to any of these inputs could materially change the timing of expected losses within the insured transaction which is a significant factor in determining the implied benefit from the Company's insurance policy guaranteeing the timely payment of principal and interest for the tranches of debt issued by the FG VIE that is insured by the Company. In general, extending the timing of expected loss payments by the Company into the future typically leads to a decrease in the value of the Company's insurance and a decrease in the fair value of the Company's FG VIE liabilities with recourse, while a shortening of the timing of expected loss payments by the Company typically leads to an increase in the value of the Company's insurance and an increase in the fair value of the Company's FG VIE liabilities with recourse.

Not Carried at Fair Value

Financial Guaranty Insurance Contracts

For financial guaranty insurance contracts that are acquired in a business combination, the Company measures each contract at fair value on the date of acquisition, and then follows insurance accounting guidance on a recurring basis thereafter. On a quarterly basis, the Company also discloses the fair value of its outstanding financial guaranty insurance contracts. In both cases, fair value is based on management's estimate of what a similarly rated financial guaranty insurance company would demand to acquire the Company's in-force book of financial guaranty insurance business. It is based on a variety of factors that may include pricing assumptions management has observed for portfolio transfers, commutations, and acquisitions that have occurred in the financial guaranty market, as well as prices observed in the credit derivative market with an adjustment for illiquidity so that the terms would be similar to a financial guaranty insurance contract, and includes adjustments to the carrying value of unearned premium reserve for stressed losses, ceding commissions and return on capital. The significant inputs were not readily observable. The Company accordingly classified this fair value measurement as Level 3.

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Long-Term Debt

The Company's long-term debt, excluding notes payable, is valued by broker-dealers using third party independent pricing sources and standard market conventions. The market conventions utilize market quotations, market transactions for the Company's comparable instruments, and to a lesser extent, similar instruments in the broader insurance industry. The fair value measurement was classified as Level 2 in the fair value hierarchy.

The fair value of the notes payable was determined by calculating the present value of the expected cash flows. The Company determines discounted future cash flows using market driven discount rates and a variety of assumptions, including a projection of the LIBOR rate, prepayment and default assumptions, and AGM CDS spreads. The fair value measurement was classified as Level 3 in the fair value hierarchy because there is a reliance on significant unobservable inputs to the valuation model, including the discount rates, prepayment and default assumptions, loss severity and recovery on delinquent loans.

Other Invested Assets

The other invested assets not carried at fair value consist primarily of investments in a guaranteed investment contract for future claims payments. The fair value of the investments in the guaranteed investment contract approximated their carrying value due to their short term nature. The fair value measurement of the investments in the guaranteed investment contract was classified as Level 2 in the fair value hierarchy.

Other Assets and Other Liabilities

The Company's other assets and other liabilities consist predominantly of accrued interest, receivables for securities sold and payables for securities purchased, the carrying values of which approximate fair value.

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Financial Instruments Carried at Fair Value

Amounts recorded at fair value in the Company's financial statements are presented in the tables below.

Fair Value Hierarchy of Financial Instruments Carried at Fair Value

As of September 30, 2016

	Fair Value Hierarchy			
	Fair Value	Level 1	Level 2	Level 3
	(in millions)			
Assets:				
Investment portfolio, available-for-sale:				
Fixed-maturity securities				
Obligations of state and political subdivisions	\$5,669	\$—	\$5,626	\$43
U.S. government and agencies	405	—	405	—
Corporate securities	1,775	—	1,717	58
Mortgage-backed securities:				
RMBS	1,105	—	722	383
Commercial mortgage-backed securities ("CMBS")	649	—	649	—
Asset-backed securities	892	—	201	691
Foreign government securities	257	—	257	—
Total fixed-maturity securities	10,752	—	9,577	1,175
Short-term investments	528	369	159	0
Other invested assets (1)	12	—	4	8
Credit derivative assets	28	—	—	28
FG VIEs' assets, at fair value	877	—	—	877
Other assets	62	23	27	12
Total assets carried at fair value	\$12,259	\$392	\$9,767	\$2,100
Liabilities:				
Credit derivative liabilities	\$509	\$—	\$—	\$509
FG VIEs' liabilities with recourse, at fair value	832	—	—	832
FG VIEs' liabilities without recourse, at fair value	153	—	—	153
Total liabilities carried at fair value	\$1,494	\$—	\$—	\$1,494

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Fair Value Hierarchy of Financial Instruments Carried at Fair Value

As of December 31, 2015

	Fair Value Hierarchy			
	Fair Value Level 1	Level 2	Level 3	
	(in millions)			
Assets:				
Investment portfolio, available-for-sale:				
Fixed-maturity securities				
Obligations of state and political subdivisions	\$5,841	\$—	\$5,833	\$8
U.S. government and agencies	400	—	400	—
Corporate securities	1,520	—	1,449	71
Mortgage-backed securities:				
RMBS	1,245	—	897	348
CMBS	513	—	513	—
Asset-backed securities	825	—	168	657
Foreign government securities	283	—	283	—
Total fixed-maturity securities	10,627	—	9,543	1,084
Short-term investments	396	305	31	60
Other invested assets (1)	12	—	5	7
Credit derivative assets	81	—	—	81
FG VIEs' assets, at fair value	1,261	—	—	1,261
Other assets	106	23	21	62
Total assets carried at fair value	\$12,483	\$328	\$9,600	\$2,555
Liabilities:				
Credit derivative liabilities	\$446	\$—	\$—	\$446
FG VIEs' liabilities with recourse, at fair value	1,225	—	—	1,225
FG VIEs' liabilities without recourse, at fair value	124	—	—	124
Total liabilities carried at fair value	\$1,795	\$—	\$—	\$1,795

Excluded from the table above are investments funds of \$48 million and \$45 million as of September 30, 2016 and (1)December 31, 2015, respectively, measured using NAV per share. Includes Level 3 mortgage loans that are recorded at fair value on a non-recurring basis.

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Changes in Level 3 Fair Value Measurements

The table below presents a roll forward of the Company's Level 3 financial instruments carried at fair value on a recurring basis during Third Quarter 2016 and 2015 and Nine Months 2016 and 2015.

Fair Value Level 3 Rollforward

Recurring Basis

Third Quarter 2016

	Fixed-Maturity Securities									
	Obligations of State and Political Subdivisions	Corporate Securities	RMBS	Asset- Backed Securities	Short- Term Investments	FG VIEs' Assets at Fair Value	Other Assets (8)	Credit Derivative Asset (Liability), net(5)	FG VIEs' Liabilities with Recourse, at Fair Value	FG VIEs' Liabilities without Recourse, at Fair Value
	(in millions)									
Fair value as of June 30, 2016	\$41	\$ 58	\$349	\$564	\$ —	\$ 814	\$38	\$(396)	\$(790)	\$(115)
CIFG Acquisition	1	—	20	36	0	—	—	(67)	—	—
Total pretax realized and unrealized gains/(losses) recorded in: (1)										
Net income (loss)	1	(2)0	(2)3	(2)9	(2)—	20	(3)(23)	(4)21	(6)(21)	(3)(18)
Other comprehensive income (loss)	0	0	2	47	0	—	0	—	—	—
Purchases	—	—	24	53	—	—	—	—	—	—
Settlements	0	—	(15)	(40)	—	(34)	—	(39)	33	3
FG VIE consolidations	—	—	—	—	—	97	—	—	(54)	(43)
FG VIE deconsolidations	—	—	—	—	—	(20)	—	—	—	20
Transfers into Level 3	—	—	—	22	—	—	—	—	—	—
Fair value as of September 30, 2016	\$43	\$ 58	\$383	\$691	\$ 0	\$ 877	\$15	\$(481)	\$(832)	\$(153)
Change in unrealized gains/(losses) related to financial instruments held as of September 30, 2016	\$0	\$ 0	\$1	\$47	\$ 0	\$29	\$(23)	\$(5)	\$(18)	\$(17)

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Fair Value Level 3 Rollforward
Recurring Basis
Third Quarter 2015

	Fixed-Maturity Securities						Other Assets (8)	Credit Derivative Asset (Liability), net(5)	FG VIEs' Liabilities with Recourse, at Fair Value	FG VIEs' Liabilities without Recourse, at Fair Value							
	Obligations of State and Political Subdivisions	Corporate Securities	RMBS	Asset-Backed Securities	Short-Term Investments	FG VIEs' Assets at Fair Value											
	(in millions)																
Fair value as of June 30, 2015	\$7	\$77	\$335	\$236	\$—	\$1,596	\$64	\$(926)	\$(1,361)	\$(171)							
Total pretax realized and unrealized gains/(losses) recorded in: (1)																	
Net income (loss)	0	(2)	(2)	(5)	(2)	(8)	(2)	(11)	(3)	(16)	(4)	86	(6)	6	(3)	0	(3)
Other comprehensive income (loss)	1	0	(3)	(8)	(4)	—	0	—	—	—	—	—	—	—	—	—	—
Purchases	—	—	38	212	52	(7)	—	—	—	—	—	—	—	—	—	—	—
Settlements	0	—	(9)	0	(6)	(44)	—	(7)	40	4	—	—	—	—	—	—	—
FG VIE consolidations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
FG VIE deconsolidations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Fair value as of September 30, 2015	\$8	\$79	\$361	\$435	\$50	\$1,541	\$48	\$(847)	\$(1,315)	\$(167)							
Change in unrealized gains/(losses) related to financial instruments held as of September 30, 2015	\$0	\$0	\$(3)	\$(7)	\$(4)	\$3	\$(15)	\$(19)	\$7	\$(1)							

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Fair Value Level 3 Rollforward
Recurring Basis
Nine Months 2016

	Fixed-Maturity Securities									
	Obligations of State and Political Subdivisions	Corporate Securities	RMBS	Asset- Backed Securities	Short-Term Investments	FG VIEs' Assets at Fair Value	Other Assets (8)	Credit Derivative Asset (Liability) net(5)	FG VIEs' Liabilities with Recourse, at Fair Value	FG VIEs' Liabilities without Recourse, at Fair Value
	(in millions)									
Fair value as of December 31, 2015	\$8	\$71	\$348	\$657	\$60	\$1,261	\$65	\$(365)	\$(1,225)	\$(124)
CIFG Acquisition	1	—	20	36	0	—	—	(67)	—	—
Total pretax realized and unrealized gains/(losses) recorded in: (1)										
Net income (loss)	1	(2)4	(2)5	(2)20	(2)0	(2)129	(3)(50)	(4)24	(6)(112)	(3)(14)
Other comprehensive income (loss)	1	(17)	0	37	0	—	0	—	—	—
Purchases	33	—	64	53	—	—	—	—	—	—
Settlements	(1)	—	(54)	(134)	(60)	(590)	—	(73)	559	8
FG VIE consolidations	—	—	—	—	—	97	—	—	(54)	(43)
FG VIE deconsolidations	—	—	0	—	—	(20)	—	—	—	20
Transfers into Level 3	—	—	—	22	—	—	—	—	—	—
Fair value as of September 30, 2016	\$43	\$58	\$383	\$691	\$0	\$877	\$15	\$(481)	\$(832)	\$(153)
Change in unrealized gains/(losses) related to financial instruments held as of September 30, 2016	\$1	\$(17)	\$(1)	\$37	\$0	\$44	\$(50)	\$(104)	\$1	\$(14)

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Fair Value Level 3 Rollforward
Recurring Basis
Nine Months 2015

	Fixed-Maturity Securities								FG VIEs' Liabilities with Recourse, at Fair Value	FG VIEs' Liabilities without Recourse, at Fair Value
	Obligations of State and Political Subdivisions	Corporate Securities	RMBS	Asset-Backed Securities	Short-Term Investments	FG VIEs' Assets at Fair Value	Other Assets (8)	Credit Derivative Asset (Liability), net(5)		
	(in millions)									
Fair value as of December 31, 2014	\$38	\$79	\$425	\$228	\$—	\$1,398	\$37	\$(895)	\$(1,277)	\$(142)
Radian Asset Acquisition	—	—	4	—	—	122	2	(215)	(114)	(4)
Total pretax realized and unrealized gains/(losses) recorded in: (1)										
Net income (loss)	3	(2)1	(2)17	(2)(4)	(2)8	(2)31	(3)9	(4)300	(6)94	(3)(30) (3)
Other comprehensive income (loss)	(2)	(1)	(7)	1	(4)	—	0	—	—	—
Purchases	—	—	48	212	52	(7)—	—	—	—	—
Settlements	(31)	(7)—	(125)	(2)	(6)	(114)	0	(37)	113	9
FG VIE consolidations	—	—	(1)	—	—	104	—	—	(131)	—
FG VIE deconsolidations	—	—	—	—	—	—	—	—	—	—
Fair value as of September 30, 2015	\$8	\$79	\$361	\$435	\$50	\$1,541	\$48	\$(847)	\$(1,315)	\$(167)
Change in unrealized gains/(losses) related to financial instruments held as of September 30, 2015	\$0	\$(1)	\$(5)	\$2	\$(4)	\$68	\$10	\$166	\$(5)	\$(19)

Realized and unrealized gains (losses) from changes in values of Level 3 financial instruments represent gains (1)(losses) from changes in values of those financial instruments only for the periods in which the instruments were classified as Level 3.

(2) Included in net realized investment gains (losses) and net investment income.

(3) Included in fair value gains (losses) on FG VIEs.

(4) Recorded in fair value gains (losses) on CCS, net investment income and other income.

(5) Represents net position of credit derivatives. The consolidated balance sheet presents gross assets and liabilities based on net counterparty exposure.

(6) Reported in net change in fair value of credit derivatives.

(7) Primarily non-cash transaction.

(8) Includes CCS and other invested assets.

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Level 3 Fair Value Disclosures

Quantitative Information About Level 3 Fair Value Inputs
At September 30, 2016

Financial Instrument Description (1)	Fair Value at September 30, 2016 (in millions)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Assets (2):				
Fixed-maturity securities:				
Obligations of state and political subdivisions	\$ 43	Yield	4.3 % - 24.6%	12.2%
Corporate securities	58	Yield	20.5%	
RMBS	383	CPR	1.2 % - 20.0%	4.0%
		CDR	1.5 % - 10.5%	6.8%
		Loss severity	30.0 % - 100.0%	75.6%
		Yield	3.3 % - 8.0%	5.2%
Asset-backed securities:				
Triple-X life insurance transactions	392	Yield	5.3%	
Collateralized debt obligations ("CDO")	260	Yield	15.0%	
CLO/TruPS	22	Yield	1.4 % - 3.8%	2.2%
Others	17	Yield	5.8%	
		CPR	3.5 % - 9.3%	5.5%
		CDR	1.2 % - 21.6%	5.7%
		Loss severity	50.0 % - 100.0%	81.8%
FG VIEs' assets, at fair value	877	Yield	3.2 % - 22.1%	6.3%
		Estimated pricing	\$79 - \$84	\$82
		Term (years)	5 years	
		Year 1 loss estimates	0.0 % - 55.0%	1.4%
Liabilities:	(481)	Hedge cost (in bps)	7.6 - 127.5	24.4
		Bank profit (in bps)	3.8 - 1,575.7	73.4
		Internal floor (in bps)	7.0 - 100.0	13.9
		Internal credit rating	AAA - CCC	AA
		CPR	3.5 % - 9.3%	5.5%
FG VIEs' liabilities, at fair value	(985)	CDR	1.2 % - 21.6%	5.7%
		Loss severity	50.0 % - 100.0%	81.8%
		Yield	2.9 % - 22.1%	5.0%

(1) Discounted cash flow is used as valuation technique for all financial instruments.

(2) Excludes several investments recorded in other invested assets with fair value of \$8 million.

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Quantitative Information About Level 3 Fair Value Inputs

At December 31, 2015

Financial Instrument Description (1)	Fair Value at December 31, 2015 (in millions)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Assets (2):				
Fixed-maturity securities (3):				
Corporate securities	\$ 71	Yield	21.8%	
RMBS	348	CPR	0.3 % - 9.0%	2.6%
		CDR	2.7 % - 9.3%	7.0%
		Loss severity	60.0 % - 100.0%	74.0%
		Yield	4.7 % - 8.2%	6.0%
Asset-backed securities:				
Investor owned utility	69	Cash flow receipts	100.0%	
		Collateral recovery period	2.9 years	
		Discount factor	7.0%	
Triple-X life insurance transactions	329	Yield	3.5 % - 7.5%	5.0%
CDO	259	Yield	20.0%	
Short-term investments	60	Yield	17.0%	
FG VIEs' assets, at fair value	1,261	CPR	0.3 % - 9.2%	3.9%
		CDR	1.2 % - 16.0%	4.7%
		Loss severity	40.0 % - 100.0%	85.9%
		Yield	1.9 % - 20.0%	6.4%
Other assets	62	Quotes from third party pricing	\$44 - \$46	\$45
		Term (years)	5 years	
Liabilities:				
Credit derivative liabilities, net	(365)	Year 1 loss estimates	0.0 % - 41.0%	0.6%
		Hedge cost (in bps)	32.8 - 282.0	66.3
		Bank profit (in bps)	3.8 - 1,017.5	110.8
		Internal floor (in bps)	7.0 - 100.0	16.8
		Internal credit rating	AAA - CCC	AA+
FG VIEs' liabilities, at fair value	(1,349)	CPR	0.3 % - 9.2%	3.9%
		CDR	1.2 % - 16.0%	4.7%
		Loss severity	40.0 % - 100.0%	85.9%
		Yield	1.9 % - 20.0%	5.6%

(1) Discounted cash flow is used as valuation technique for all financial instruments.

(2) Excludes several investments recorded in other invested assets with fair value of \$7 million.

(3) Excludes obligations of state and political subdivisions investments with fair value of \$8 million.

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The carrying amount and estimated fair value of the Company's financial instruments are presented in the following table.

Fair Value of Financial Instruments

	As of September 30, 2016		As of December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in millions)			
Assets:				
Fixed-maturity securities	\$10,752	\$ 10,752	\$10,627	\$ 10,627
Short-term investments	528	528	396	396
Other invested assets (1)	150	151	150	152
Credit derivative assets	28	28	81	81
FG VIEs' assets, at fair value	877	877	1,261	1,261
Other assets	183	183	206	206
Liabilities:				
Financial guaranty insurance contracts (2)	3,468	9,232	3,998	8,712
Long-term debt	1,304	1,603	1,300	1,512
Credit derivative liabilities	509	509	446	446
FG VIEs' liabilities with recourse, at fair value	832	832	1,225	1,225
FG VIEs' liabilities without recourse, at fair value	153	153	124	124
Other liabilities	130	130	9	9

(1) Includes investments not carried at fair value with a carrying value of \$90 million and \$93 million as of September 30, 2016 and December 31, 2015, respectively. Excludes investments carried under the equity method.

(2) Carrying amount includes the assets and liabilities related to financial guaranty insurance contract premiums, losses, and salvage and subrogation and other recoverables net of reinsurance.

8. Financial Guaranty Contracts Accounted for as Credit Derivatives

The Company has a portfolio of financial guaranty contracts that meet the definition of a derivative in accordance with GAAP (primarily CDS).

Credit derivative transactions are governed by ISDA documentation and have different characteristics from financial guaranty insurance contracts. For example, the Company's control rights with respect to a reference obligation under a credit derivative may be more limited than when the Company issues a financial guaranty insurance contract. In addition, there are more circumstances under which the Company may be obligated to make payments. Similar to a financial guaranty insurance contract, the Company would be obligated to pay if the obligor failed to make a scheduled payment of principal or interest in full. 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 non-defaulting or the non-affected party, which may be either the Company or the counterparty, depending upon the circumstances, may decide to terminate a credit derivative prior to maturity. In that case, the Company may be

required to make a termination payment to its swap counterparty upon such termination. Absent such an event of default or termination event, the Company may not unilaterally terminate a CDS contract; however, the Company on occasion has mutually agreed with various counterparties to terminate certain CDS transactions.

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Credit Derivative Net Par Outstanding by Sector

The estimated remaining weighted average life of credit derivatives was 5.1 years at September 30, 2016 and 5.4 years at December 31, 2015. The components of the Company's credit derivative net par outstanding are presented below.

Credit Derivatives
Subordination and Ratings

Asset Type	As of September 30, 2016					As of December 31, 2015				
	Net Par Outstanding	Original Subordination	Current Subordination	Weighted Average Credit Rating		Net Par Outstanding	Original Subordination	Current Subordination	Weighted Average Credit Rating	
	(dollars in millions)									
Pooled corporate obligations:										
Collateralized loan obligation/collateral bond obligations	\$2,583	29.2 %	45.3 %	AAA		\$5,873	30.9 %	42.3 %	AAA	
Synthetic investment grade pooled corporate TruPS CDOs	7,920	22.2	19.9	AAA		7,108	21.7	19.4	AAA	
Market value CDOs of corporate obligations	1,771	42.2	41.6	BBB		3,429	45.8	42.6	A-	
Total pooled corporate obligations	—	—	—	--		1,113	17.0	30.1	AAA	
Total pooled corporate obligations	12,274	26.6	28.4	AAA		17,523	29.2	32.3	AAA	
U.S. RMBS:										
Option ARM and Alt-A first lien	277	9.4	12.7	AA-		351	10.5	12.7	AA-	
Subprime first lien	891	27.8	45.0	AA		981	27.7	45.2	AA	
Prime first lien	—	—	—	--		177	10.9	0.0	BB	
Closed-end second lien	14	—	—	BB		17	—	—	CCC	
Total U.S. RMBS	1,182	25.1	40.3	AA		1,526	24.1	37.4	A+	
CMBS	159	56.9	78.9	AAA		530	44.8	52.6	AAA	
Other	6,344	—	—	A		6,015	—	—	A	
Total(2)	\$19,959			AA		\$25,594			AA+	

(1) Represents the sum of subordinate tranches and over-collateralization and does not include any benefit from excess interest collections that may be used to absorb losses.

(2) The September 30, 2016 total amount includes \$2.3 million net par outstanding of credit derivatives acquired from CIFG.

Except for TruPS CDOs, the Company's exposure to pooled corporate obligations is highly diversified in terms of obligors and industries. Most pooled corporate transactions are structured to limit exposure to any given obligor and industry. The majority of the Company's pooled corporate exposure consists of CLO or synthetic pooled corporate obligations. Most of these CLOs have an average obligor size of less than 1% of the total transaction and typically restrict the maximum exposure to any one industry to approximately 10%. The Company's exposure also benefits from embedded credit enhancement in the transactions which allows a transaction to sustain a certain level of losses in the underlying collateral, further insulating the Company from industry specific concentrations of credit risk on these deals.

The Company's TruPS CDO asset pools are generally less diversified by obligors and industries than the typical CLO asset pool. Also, the underlying collateral in TruPS CDOs consists primarily of subordinated debt instruments such as TruPS issued by bank holding companies and similar instruments issued by insurance companies, real estate investment trusts and other real estate related issuers while CLOs typically contain primarily senior secured obligations. However, to mitigate these risks TruPS CDOs were typically structured with higher levels of embedded credit enhancement than typical CLOs.

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The Company's exposure to "Other" CDS contracts is also highly diversified. It includes \$1.6 billion of exposure to one pooled infrastructure transaction comprising diversified pools of international infrastructure project transactions and loans to regulated utilities. These pools were all structured with underlying credit enhancement sufficient for the Company to attach at AAA levels at origination. The remaining \$4.7 billion of exposure in "Other" CDS contracts comprises numerous deals across various asset classes, such as commercial receivables, international RMBS, infrastructure, regulated utilities and consumer receivables.

Distribution of Credit Derivative Net Par Outstanding by Internal Rating

Ratings	As of September 30, 2016		As of December 31, 2015	
	Net Par Outstanding (dollars in millions)	% of Total	Net Par Outstanding	% of Total
AAA	\$10,778	54.0 %	\$14,808	57.9 %
AA	4,025	20.2	4,821	18.8
A	2,037	10.2	2,144	8.4
BBB	2,040	10.2	2,212	8.6
BIG	1,079	5.4	1,609	6.3
Credit derivative net par outstanding	\$19,959	100.0 %	\$25,594	100.0 %

Fair Value of Credit Derivatives

Net Change in Fair Value of Credit Derivatives Gain (Loss)

	Third Quarter 2016	Nine Months 2015	Third Quarter 2016	Nine Months 2015
	(in millions)			
Realized gains on credit derivatives	\$11	\$14	\$39	\$52
Net credit derivative losses (paid and payable) recovered and recoverable and other settlements	4	(8)	8	(17)
Realized gains (losses) and other settlements	15	6	47	35
Net unrealized gains (losses):				
Pooled corporate obligations	3	(24)	(37)	0
U.S. RMBS	(12)	11	0	148
CMBS	0	(3)	0	1
Other	15	96	14	116
Net unrealized gains (losses)	6	80	(23)	265
Net change in fair value of credit derivatives	\$21	\$86	\$24	\$300

Net Par and Realized Gains
from Terminations and Settlements of Credit Derivative Contracts

Third Quarter 2016	Third Quarter 2015	Nine Months 2016	Nine Months 2015
(in millions)			

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Net par of terminated credit derivative contracts	\$1,071	\$405	\$3,507	\$969
Realized gains on credit derivatives	3	0	11	13
Net unrealized gains (losses) on credit derivatives	11	99	81	98

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During Third Quarter 2016, unrealized fair value gains were generated primarily as a result of CDS terminations in the pooled corporate and other sectors and price improvements on the underlying collateral of the Company's CDS. This was the primary driver of the unrealized fair value gains in the pooled corporate CLO, and other sectors. The unrealized fair value gains were partially offset by unrealized losses resulting from wider implied net spreads across all sectors. The wider implied net spreads were primarily a result of the decreased cost to buy protection in AGC's and AGM's name, particularly for the one year CDS spread, as the market cost of AGC's and AGM's credit protection decreased significantly during the period. These transactions were pricing at or above their floor levels (or the minimum rate at which the Company would consider assuming these risks based on historical experience); therefore 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 Nine Months 2016, unrealized fair value losses were generated primarily in the trust preferred sector, due to 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, particularly for the one year and five year CDS spread, as the market cost of AGC's and AGM's credit protection decreased during the period. These transactions were pricing at or above their floor levels, therefore when the cost of purchasing CDS protection on AGC and AGM decreased, the implied spreads that the Company would expect to receive on these transactions increased. The unrealized fair value losses were partially offset by unrealized fair value gains which resulted from the terminations of several CDS transactions during the period. The majority of the CDS transactions were terminated as a result of settlement agreements with several CDS counterparties.

During Third Quarter 2015, unrealized fair value gains were driven primarily by the termination of a Triple-X life-securitization transaction in the other sector. These unrealized gains were partially offset by wider implied net spreads in the Company's pooled corporate CLO sector. The wider implied net spreads were primarily a result of the decreased cost to buy protection in AGC's and AGM's name, particularly for the one year and five year CDS spreads, as the market cost of AGC's and AGM's credit protection decreased during the period. For those CDS transactions that were pricing above their floor levels, when the cost of purchasing CDS protection on AGC and AGM decreased, the implied spreads that the Company would expect to receive on these transactions increased.

During Nine Months 2015, unrealized fair value gains were generated primarily in the U.S. RMBS prime first lien and Option ARM and subprime sectors, due to tighter implied net spreads. The tighter implied net spreads were primarily a result of the increased cost to buy protection in AGC's and AGM's name, particularly for the one year CDS spread, as the market cost of AGC's and AGM's credit protection increased during the period. For those CDS transactions that were pricing above their floor levels, when the cost of purchasing CDS protection on AGC and AGM increased, the implied spreads that the Company would expect to receive on these transactions decreased. The unrealized fair value gains in the other sector were a result of the termination of a Triple-X life-securitization transaction, referenced above. In addition, during Nine Months 2015 there was a refinement in methodology to address an instance in a U.S. RMBS transaction that changed from an expected loss to an expected recovery position. This refinement resulted in approximately \$49 million in fair value gains in Nine Months 2015.

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.

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CDS Spread on AGC and AGM

Quoted price of CDS contract (in basis points)

	As of September 30, 2016	As of June 30, 2016	As of December 31, 2015	As of September 30, 2015	As of June 30, 2015	As of December 31, 2014
Five-year CDS spread:						
AGC	170	265	376	331	390	323
AGM	170	265	366	337	410	325
One-year CDS spread						
AGC	31	45	139	112	120	80
AGM	31	47	131	104	125	85

Fair Value of Credit Derivatives Assets (Liabilities)

and Effect of AGC and AGM

Credit Spreads

	As of September 30, 2016	As of December 31, 2015
	(in millions)	
Fair value of credit derivatives before effect of AGC and AGM credit spreads	\$(1,020)	\$(1,448)
Plus: Effect of AGC and AGM credit spreads	539	1,083
Net fair value of credit derivatives	\$(481)	\$(365)

The fair value of CDS contracts at September 30, 2016, before considering the implications of AGC's and AGM's credit spreads, is a direct result of continued wide credit spreads in the fixed income security markets and ratings downgrades. The asset classes that remain most affected are TruPS and pooled corporate securities as well as 2005-2007 vintages of prime first lien, Alt-A, Option ARM and subprime RMBS deals. The mark to market benefit between September 30, 2016, and December 31, 2015, resulted primarily from several CDS terminations and a narrowing of credit spreads related to the Company's TruPS obligations.

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, as well as the overall lack of liquidity in the CDS market. Offsetting the benefit attributable to AGC's and AGM's credit spread were higher credit spreads in the fixed income security markets. The higher credit spreads in the fixed income security market are due to the lack of liquidity in the high yield CDO, TruPS CDO, and CLO markets as well as continuing market concerns over the 2005-2007 vintages of RMBS.

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The following table presents the fair value and the present value of expected claim payments or recoveries (i.e. net expected loss to be paid as described in Note 5) for contracts accounted for as derivatives.

Net Fair Value and Expected Losses
of Credit Derivatives by Sector

Asset Type	Fair Value of Credit Asset (Liability), net		Expected Loss to be (Paid) Recovered	
	As of September 30, 2016	As of December 31, 2015	As of September 30, 2016	As of December 31, 2015
	(in millions)			
Pooled corporate obligations	\$ (126)	\$ (82)	\$ (4)	\$ (5)
U.S. RMBS	(97)	(98)	(27)	(38)
Other	(258)	(185)	26	27
Total	\$ (481)	\$ (365)	\$ (5)	\$ (16)

Ratings Sensitivities of Credit Derivative Contracts

Within the Company's insured CDS portfolio, the transaction documentation for approximately \$0.7 billion in CDS gross par insured as of September 30, 2016 requires AGC to post eligible collateral to secure its obligations to make payments under such contracts. This constitutes a reduction of approximately \$3.1 billion from the \$3.8 billion subject to such a requirement as of December 31, 2015, primarily due to an agreement reached in May 2016 with a CDS counterparty reducing the collateral posting requirement with respect to that counterparty to zero. Eligible collateral is generally cash or U.S. government or agency securities; eligible collateral other than cash is valued at a discount to the face amount.

For approximately \$0.6 billion gross par of such contracts, AGC has negotiated caps such that the posting requirement cannot exceed a certain fixed amount, regardless of the mark-to-market valuation of the exposure or the financial strength ratings of AGC. For such contracts, AGC need not post on a cash basis an aggregate of more than \$500 million, although the value of the collateral posted may exceed such fixed amount depending on the advance rate agreed with the counterparty for the particular type of collateral posted.

For the remaining approximately \$178 million gross par of such contracts, AGC could be required from time to time to post additional collateral without such cap based on movements in the mark-to-market valuation of the underlying exposure.

As of September 30, 2016, the Company was posting approximately \$130 million to secure its obligations under CDS, of which approximately \$17 million related to the \$178 million of gross par described above, as to which the obligation to collateralize is not capped. As of December 31, 2015, the Company was posting approximately \$305 million to secure its obligations under CDS, of which approximately \$23 million related to \$221 million of gross par as to which the obligation to collateralize was not capped. The obligation to post collateral could impair the Company's liquidity and results of operations.

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Sensitivity to Changes in Credit Spread

The following table summarizes the estimated change in fair values on the net balance of the Company's credit derivative positions assuming immediate parallel shifts in credit spreads on AGC and AGM and on the risks that they both assume.

Effect of Changes in Credit Spread

As of September 30, 2016

Credit Spreads(1)	Estimated Fair Value (Pre-Tax) (in millions)	Estimated Change in Fair Value (Pre-Tax)	Estimated Change in Net Gain/(Loss) (Pre-Tax)
100% widening in spreads	\$(978)	\$ (497))
50% widening in spreads	(730)	) (249))
25% widening in spreads	(606)	) (125))
10% widening in spreads	(531)	) (50))
Base Scenario	(481)) —	
10% narrowing in spreads	(435)	) 46	
25% narrowing in spreads	(365)	) 116	
50% narrowing in spreads	(251)	) 230	

(1) Includes the effects of spreads on both the underlying asset classes and the Company's own credit spread.

9. Consolidated Variable Interest Entities

Consolidated FG VIEs

The Company provides financial guaranties with respect to debt obligations of special purpose entities, including VIEs. Assured Guaranty does not act as the servicer or collateral manager for any VIE obligations insured by its companies. The transaction structure generally provides certain financial protections to the Company. This financial protection can take several forms, the most common of which are overcollateralization, first loss protection (or subordination) and excess spread. In the case of overcollateralization (i.e., the principal amount of the securitized assets exceeds the principal amount of the structured finance obligations guaranteed by the Company), the structure allows defaults of the securitized assets before a default is experienced on the structured finance obligation guaranteed by the Company. In the case of first loss, the financial guaranty insurance policy only covers a senior layer of losses experienced by multiple obligations issued by special purpose entities, including VIEs. The first loss exposure with respect to the assets is either retained by the seller or sold off in the form of equity or mezzanine debt to other investors. In the case of excess spread, the financial assets contributed to special purpose entities, including VIEs, generate interest income that are in excess of the interest payments on the debt issued by the special purpose entity. Such excess spread is typically distributed through the transaction's cash flow waterfall and may be used to create additional credit enhancement, applied to redeem debt issued by the special purpose entities, including VIEs (thereby, creating additional overcollateralization), or distributed to equity or other investors in the transaction.

Assured Guaranty is not primarily liable for the debt obligations issued by the VIEs it insures and would only be required to make payments on those insured debt obligations in the event that the issuer of such debt obligations defaults on any principal or interest due and only for the amount of the shortfall. AGL's and its Subsidiaries' creditors do not have any rights with regard to the collateral supporting the debt issued by the FG VIEs. Proceeds from sales,

maturities, prepayments and interest from such underlying collateral may only be used to pay debt service on VIE liabilities. Net fair value gains and losses on FG VIEs are expected to reverse to zero at maturity of the VIE debt, except for net premiums received and net claims paid by Assured Guaranty under the financial guaranty insurance contract. The Company's estimate of expected loss to be paid for FG VIEs is included in Note 5, Expected Loss to be Paid.

As part of the terms of its financial guaranty contracts, the Company obtains certain protective rights with respect to the VIE that are triggered by the occurrence of certain events, such as failure to be in compliance with a covenant due to poor deal performance or a deterioration in a servicer or collateral manager's financial condition. At deal inception, the Company typically is not deemed to control a VIE; however, once a trigger event occurs, the Company's control of the VIE typically increases. The Company continuously evaluates its power to direct the activities that most significantly impact the economic

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performance of VIEs that have debt obligations insured by the Company and, accordingly, where the Company is obligated to absorb VIE losses or receive benefits that could potentially be significant to the VIE. The Company obtains protective rights under its insurance contracts that give the Company additional controls over a VIE if there is either deterioration of deal performance or in the financial health of the deal servicer. The Company is deemed to be the control party for certain VIEs under GAAP, typically when its protective rights give it the power to both terminate and replace the deal servicer, which are characteristics specific to the Company's financial guaranty contracts. If the protective rights that could make the Company the control party have not been triggered, then the VIE is not consolidated. If the Company is deemed no longer to have those protective rights, the transaction is deconsolidated.

Number of FG VIEs Consolidated

	Nine Months 2016 2015	
Beginning of the period, December 31	34	32
Radian Asset Acquisition	—	4
Consolidated (1)	1	1
Deconsolidated (1)	(2)	—
Matured	(1)	—
End of the period, September 30	32	37

Net loss on consolidation and deconsolidation was de minimis in Nine Months 2016, and net loss on consolidation (1) was \$26 million in Nine Months 2015, and recorded in "fair value gains (losses) on FG VIEs" in the consolidated statement of operations.

The total unpaid principal balance for the FG VIEs' assets that were over 90 days or more past due was approximately \$154 million at September 30, 2016 and \$154 million at December 31, 2015. The aggregate unpaid principal of the FG VIEs' assets was approximately \$478 million greater than the aggregate fair value at September 30, 2016. The aggregate unpaid principal of the FG VIEs' assets was approximately \$804 million greater than the aggregate fair value at December 31, 2015, excluding the effect of R&W settlements.

The change in the instrument-specific credit risk of the FG VIEs' assets held as of September 30, 2016 that was recorded in the consolidated statements of operations for Third Quarter 2016 and Nine Months 2016 were gains of \$1 million and \$36 million, respectively. The change in the instrument-specific credit risk of the FG VIEs' assets held as of September 30, 2015 that was recorded in the consolidated statements of operations for Third Quarter 2015 and Nine Months 2015 were gains of \$56 million and \$25 million, respectively. To calculate the instrument specific credit risk, the changes in the fair value of the FG VIE assets are allocated between changes that are due to the instrument specific credit risk and changes due to other factors, including interest rates. The instrument specific credit risk amount is determined by using expected contractual cash flows versus current expected cash flows discounted at original contractual rate. The net present value is calculated by discounting the expected cash flows of the underlying security, excluding the Company's financial guaranty insurance, at the relevant effective interest rate.

The unpaid principal for FG VIE liabilities with recourse, which represent obligations insured by AGC or AGM, was \$909 million and \$1,436 million as of September 30, 2016 and December 31, 2015, respectively. FG VIE liabilities with recourse will mature at various dates ranging from 2025 to 2038. The aggregate unpaid principal balance of the FG VIE liabilities with and without recourse was approximately \$126 million greater than the aggregate fair value of the FG VIEs' liabilities as of September 30, 2016. The aggregate unpaid principal balance was approximately \$423 million greater than the aggregate fair value of the FG VIEs' liabilities as of December 31, 2015.

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The table below shows the carrying value of the consolidated FG VIEs' assets and liabilities in the consolidated financial statements, segregated by the types of assets that collateralize their respective debt obligations for FG VIE liabilities with recourse.

Consolidated FG VIEs
By Type of Collateral

	As of September 30, 2016		As of December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
	(in millions)			
With recourse:				
U.S. RMBS first lien	\$482	\$ 523	\$506	\$ 521
U.S. RMBS second lien	165	232	194	273
Life insurance	—	—	347	347
Manufactured housing	77	77	84	84
Total with recourse	724	832	1,131	1,225
Without recourse	153	153	130	124
Total	\$877	\$ 985	\$1,261	\$ 1,349

The consolidation of FG VIEs affects net income and shareholders' equity due to (i) changes in fair value gains (losses) on FG VIE assets and liabilities, (ii) the elimination of premiums and losses related to the AGC and AGM FG VIE liabilities with recourse and (iii) the elimination of investment balances related to the Company's purchase of AGC and AGM insured FG VIE debt. Upon consolidation of a FG VIE, the related insurance and, if applicable, the related investment balances, are considered intercompany transactions and therefore eliminated. Such eliminations are included in the table below to present the full effect of consolidating FG VIEs.

Effect of Consolidating FG VIEs on Net Income,
Cash Flows From Operating Activities and Shareholders' Equity

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in millions)			
Net earned premiums	\$(4)	\$(6)	\$(12)	\$(16)
Net investment income	(1)	(3)	(8)	(9)
Net realized investment gains (losses)	0	6	1	9
Fair value gains (losses) on FG VIEs	(11)	2	11	0
Bargain purchase gain	—	—	—	2
Loss and LAE	(1)	11	3	18
Effect on income before tax	(17)	10	(5)	4
Less: tax provision (benefit)	(6)	4	(2)	1
Effect on net income (loss)	\$(11)	\$6	\$(3)	\$3
Effect on cash flows from operating activities	\$11	\$11	\$16	\$44

As of As of
September December
30, 31, 2015
2016
(in millions)

Effect on shareholders' equity (decrease) increase \$(25) \$ (23)

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Fair value gains (losses) on FG VIEs represent the net change in fair value on the consolidated FG VIEs' assets and liabilities. During Third Quarter 2016, the Company recorded a pre-tax net fair value loss on consolidated FG VIEs of \$11 million and during Nine Months 2016, the Company recorded a gain of \$11 million. The primary drivers of the loss during Third Quarter 2016 were the net mark-to-market losses due to price depreciation on the FG VIE assets, resulting from declines in value in the underlying collateral, and the price appreciation on the FG VIE recourse liabilities during the quarter, resulting from the tightening of the Company's credit spread. The primary driver of the Nine Months 2016 gain in fair value of FG VIEs assets and liabilities was net mark-to-market gains due to price appreciation on the FG VIE assets during the nine months period resulting from improvements in the underlying collateral.

During Third Quarter 2015, the Company recorded a pre-tax net fair value gain on consolidated FG VIEs of \$2 million. The primary driver of the gain was mark-to-market gains due to price appreciation on the FG VIE assets during the quarter resulting from improvements in the underlying collateral. During Nine Months 2015, the Company recorded a pre-tax net fair value loss on consolidated FG VIEs of less than \$1 million. The primary driver of the loss was a pre-tax loss of \$26 million on the consolidation of one new FG VIE which was mostly offset by net mark-to-market gains due to price appreciation on the FG VIE assets resulting from improvements in the underlying collateral.

Other Consolidated VIEs

In certain instances where the Company consolidates a VIE that was established as part of a loss mitigation negotiation settlement agreement that results in the termination of the original insured financial guaranty insurance or credit derivative contract the Company classifies the assets and liabilities of those VIEs in the line items that most accurately reflect the nature of the items, as opposed to within the FG VIE assets and FG VIE liabilities.

Non-Consolidated VIEs

As of September 30, 2016 and December 31, 2015, the Company had financial guaranty contracts outstanding for approximately 640 and 750 VIEs, respectively, that it did not consolidate. To date, the Company's analyses have indicated that it does not have a controlling financial interest in any other VIEs and, as a result, they are not consolidated. The Company's exposure provided through its financial guaranties with respect to debt obligations of special purpose entities is included within net par outstanding in Note 4, Outstanding Exposure.

10. Investments and Cash

Net Investment Income and Realized Gains (Losses)

Net investment income is a function of the yield that the Company earns on invested assets and the size of the 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. Accrued investment income, which is recorded in Other Assets, was \$95 million and \$99 million as of September 30, 2016 and December 31, 2015, respectively.

Net Investment Income

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in millions)			
Income from fixed-maturity securities managed by third parties	\$75	\$85	\$231	\$252

Income from internally managed securities:

Fixed maturities	19	15	58	44
Other	2	14	8	21
Gross investment income	96	114	297	317
Investment expenses	(2)	(2)	(6)	(6)
Net investment income	\$94	\$112	\$291	\$311

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Net Realized Investment Gains (Losses)

	Third Quarter 2016		Nine Months 2015	
	(in millions)			
Gross realized gains on available-for-sale securities	\$4	\$3	\$24	\$35
Gross realized losses on available-for-sale securities	(1)	(3)	(3)	(10)
Net realized gains (losses) on other invested assets	0	(9)	0	(8)
Other-than-temporary impairment	(5)	(18)	(26)	(37)
Net realized investment gains (losses)	\$(2)	\$(27)	\$(5)	\$(20)

The following table presents the roll-forward of the credit losses of fixed-maturity securities for which the Company has recognized an other-than-temporary-impairment and where the portion of the fair value adjustment related to other factors was recognized in other comprehensive income ("OCI").

Roll Forward of Credit Losses
in the Investment Portfolio

	Third Quarter 2016		Nine Months 2015	
	(in millions)			
Balance, beginning of period	\$108	\$104	\$108	\$124
Additions for credit losses on securities for which an other-than-temporary-impairment was not previously recognized	1	2	3	2
Reductions for securities sold and other settlement during the period	—	—	(4)	(28)
Additions for credit losses on securities for which an other-than-temporary-impairment was previously recognized	1	0	3	8
Balance, end of period	\$110	\$106	\$110	\$106

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Investment Portfolio

Fixed-Maturity Securities and Short-Term Investments

by Security Type

As of September 30, 2016

Investment Category	Percent of Total(1)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	AOCI(2) Gain (Loss) on Securities with Other-Than-Temporary Impairment	Weighted Average Credit Rating (3)
(dollars in millions)							
Fixed-maturity securities:							
Obligations of state and political subdivisions	49 %	\$ 5,272	\$ 398	\$ (1)	\$ 5,669	\$ 16	AA-
U.S. government and agencies	3	381	24	0	405	—	AA+
Corporate securities	16	1,733	82	(40)	1,775	(29)	A-
Mortgage-backed securities(4):	0						
RMBS	10	1,082	39	(16)	1,105	(7)	A-
CMBS	6	618	32	(1)	649	—	AAA
Asset-backed securities	8	860	42	(10)	892	9	B+
Foreign government securities	3	273	6	(22)	257	—	AA
Total fixed-maturity securities	95	10,219	623	(90)	10,752	(11)	A+
Short-term investments	5	528	0	0	528	—	AA+
Total investment portfolio	100%	\$ 10,747	\$ 623	\$ (90)	\$ 11,280	\$ (11)	A+

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Fixed-Maturity Securities and Short-Term Investments
by Security Type
As of December 31, 2015

Investment Category	Percent of Total(1)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	AOCI Gain (Loss) on Securities with Other-Than-Temporary Impairment	Weighted Average Credit Rating (2)
(dollars in millions)							
Fixed-maturity securities:							
Obligations of state and political subdivisions	52 %	\$ 5,528	\$ 323	\$ (10)	\$ 5,841	\$ 5	AA
U.S. government and agencies	3	377	23	0	400	—	AA+
Corporate securities	14	1,505	38	(23)	1,520	(13)	A-
Mortgage-backed securities(4):							
RMBS	11	1,238	29	(22)	1,245	(7)	A
CMBS	5	506	9	(2)	513	—	AAA
Asset-backed securities	8	831	4	(10)	825	(6)	B+
Foreign government securities	3	290	4	(11)	283	—	AA+
Total fixed-maturity securities	96	10,275	430	(78)	10,627	(21)	A+
Short-term investments	4	396	0	0	396	—	AA-
Total investment portfolio	100%	\$ 10,671	\$ 430	\$ (78)	\$ 11,023	\$ (21)	A+

(1) Based on amortized cost.

(2) Accumulated OCI. See also Note 17, Shareholders' Equity for additional information as applicable.

Ratings in the tables above represent the lower of the Moody's and S&P classifications except for bonds purchased (3) for loss mitigation or risk management strategies, which use internal ratings classifications. The Company's portfolio consists primarily of high-quality, liquid instruments.

(4) Government-agency obligations were approximately 44% of mortgage backed securities as of September 30, 2016 and 54% as of December 31, 2015 based on fair value.

The Company's investment portfolio in tax-exempt and taxable municipal securities includes issuances by a wide number of municipal authorities across the U.S. and its territories. Under the Company's investment guidelines, securities rated lower than A-/A3 by S&P or Moody's are typically not purchased for the Company's portfolio unless acquired for loss mitigation or risk management strategies.

The majority of the investment portfolio is managed by four outside managers. The Company has established detailed guidelines regarding credit quality, exposure to a particular sector and exposure to a particular obligor within a sector.

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The following tables summarize, for all fixed-maturity securities in an unrealized loss position, the aggregate fair value and gross unrealized loss by length of time the amounts have continuously been in an unrealized loss position.

Fixed-Maturity Securities
Gross Unrealized Loss by Length of Time
As of September 30, 2016

	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	\$ 180	\$ (1)	\$ 7	\$ 0	\$ 187	\$ (1)
U.S. government and agencies	52	0	—	—	52	0
Corporate securities	237	(6)	85	(34)	322	(40)
Mortgage-backed securities:						
RMBS	64	(2)	149	(14)	213	(16)
CMBS	102	(1)	—	—	102	(1)
Asset-backed securities	28	0	210	(10)	238	(10)
Foreign government securities	98	(7)	74	(15)	172	(22)
Total	\$ 761	\$ (17)	\$ 525	\$ (73)	\$ 1,286	\$ (90)
Number of securities (1)		219		52		263
Number of securities with other-than-temporary impairment		5		12		17

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Fixed-Maturity Securities
Gross Unrealized Loss by Length of Time
As of December 31, 2015

	Less than 12 months	12 months or more	Total		
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
	(dollars in millions)				Unrealized Loss
Obligations of state and political subdivisions	\$316	\$ (10)	\$ 7	\$ 0	\$323 \$ (10)
U.S. government and agencies	77	0	—	—	77 0
Corporate securities	381	(8)	95	(15)	476 (23)
Mortgage-backed securities:					
RMBS	438	(8)	90	(14)	528 (22)
CMBS	140	(2)	2	0	142 (2)
Asset-backed securities	517	(10)	—	—	517 (10)
Foreign government securities	97	(4)	82	(7)	179 (11)
Total	\$1,966	\$ (42)	\$ 276	\$ (36)	\$2,242 \$ (78)
Number of securities (1)		335		71	396
Number of securities with other-than-temporary impairment		9		4	13

The number of securities does not add across because lots consisting of the same securities have been purchased at (1) different times and appear in both categories above (i.e., less than 12 months and 12 months or more). If a security appears in both categories, it is counted only once in the total column.

Of the securities in an unrealized loss position for 12 months or more as of September 30, 2016, 28 securities had unrealized losses greater than 10% of book value. The total unrealized loss for these securities as of September 30, 2016 was \$60 million. As of December 31, 2015, of the securities in an unrealized loss position for 12 months or more, nine securities had unrealized losses greater than 10% of book value with unrealized loss amount of \$26 million. The Company has determined that the unrealized losses recorded as of September 30, 2016 and December 31, 2015 were yield related and not the result of other-than-temporary-impairment.

The amortized cost and estimated fair value of available-for-sale fixed maturity securities by contractual maturity as of September 30, 2016 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Distribution of Fixed-Maturity Securities
by Contractual Maturity
As of September 30, 2016

	Amortized Cost	Estimated Fair Value
	(in millions)	
Due within one year	\$416	\$ 436
Due after one year through five years	1,928	1,974
Due after five years through 10 years	2,110	2,216
Due after 10 years	4,065	4,372
Mortgage-backed securities:		
RMBS	1,082	1,105

CMBS	618	649
Total	\$10,219	\$ 10,752

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The investment portfolio contains securities and cash that are either held in trust for the benefit of third party reinsurers in accordance with statutory requirements, invested in a guaranteed investment contract for future claims payments, placed on deposit to fulfill state licensing requirements, or otherwise restricted in the amount of \$299 million and \$283 million, based on fair value, as of September 30, 2016 and December 31, 2015, respectively. The investment portfolio also contains securities that are held in trust by certain AGL subsidiaries for the benefit of other AGL subsidiaries in accordance with statutory and regulatory requirements in the amount of \$1,485 million and \$1,411 million, based on fair value, as of September 30, 2016 and December 31, 2015, respectively.

The fair value of the Company's pledged securities to secure its obligations under its CDS exposure totaled \$130 million and \$305 million as of September 30, 2016 and December 31, 2015, respectively.

No material investments of the Company were non-income producing for Nine Months 2016 and Nine Months 2015, respectively.

Internally Managed Portfolio

The investment portfolio tables shown above include both assets managed externally and internally. In the table below, more detailed information is provided for the component of the total investment portfolio that is internally managed (excluding short-term investments). The internally managed portfolio, as defined below, represents approximately 14% and 13% of the investment portfolio, on a fair value basis as of September 30, 2016 and December 31, 2015, respectively. The internally managed portfolio consists primarily of the Company's investments in securities for (i) loss mitigation purposes, (ii) other risk management purposes and (iii) where the Company believes a particular security presents an attractive investment opportunity.

One of the Company's strategies for mitigating losses has been to purchase securities it has insured that have expected losses, at discounted prices (loss mitigation securities). In addition, the Company holds other invested assets that were obtained or purchased as part of negotiated settlements with insured counterparties or under the terms of our financial guaranties (other risk management assets).

**Internally Managed Portfolio
Carrying Value**

	As of September 30, 2016	As of December 31, 2015
	(in millions)	
Assets purchased for loss mitigation and other risk management purposes:		
Fixed-maturity securities, at fair value	\$ 1,414	\$ 1,266
Other invested assets	110	114
Other	55	55
Total	\$ 1,579	\$ 1,435

11. Insurance Company Regulatory Requirements**Dividend Restrictions and Capital Requirements**

Under New York insurance law, AGM 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 or transferred to stated capital or capital surplus, or applied to other purposes permitted by law, but does not include unrealized appreciation of assets. AGM may 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, does 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. The maximum amount available during 2016 for AGM to distribute as dividends without regulatory approval is estimated to be approximately \$247 million, of which approximately \$55 million is estimated to be available for distribution in the fourth quarter of 2016.

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Under Maryland's insurance law, AGC may, with prior notice to the Maryland Insurance Commissioner, 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. The maximum amount available during 2016 for AGC to distribute as ordinary dividends is approximately \$79 million, of which approximately \$41 million is available for distribution in the fourth quarter of 2016.

MAC is a New York domiciled insurance company subject to the same dividend limitations described above for AGM. The Company does not currently anticipate that MAC will distribute any dividends. On June 30, 2016, MAC obtained approval from the New York State Department of Financial Services to repay its \$300 million surplus note to Municipal Assurance Holdings Inc. ("MAC Holdings") and its \$100 million surplus note (plus accrued interest) to AGM. Accordingly, on June 30, 2016, MAC transferred cash and/or marketable securities to (i) MAC Holdings in an aggregate amount equal to \$300 million, and (ii) AGM in an aggregate amount of \$102.5 million. MAC Holdings, upon receipt of such \$300 million from MAC, distributed cash and/or marketable securities in an aggregate amount of \$300 million to its shareholders, AGM and AGC, in proportion to their respective 60.7% and 39.3% ownership interests such that AGM received \$182 million and AGC received \$118 million.

For AG Re, any distribution (including repurchase of shares) of any share capital, contributed surplus or other statutory capital that would reduce its total statutory capital by 15% or more of its total statutory capital as set out in its previous year's financial statements requires the prior approval of the Bermuda Monetary Authority ("Authority"). Separately, dividends are paid out of an insurer's statutory surplus and cannot exceed that surplus. Further, annual dividends cannot exceed 25% of total statutory capital and surplus as set out in its previous year's financial statements, which is \$246 million without AG Re certifying to the Authority that it will continue to meet required margins. Based on the foregoing limitations, in 2016 AG Re has the capacity to (i) make capital distributions in an aggregate amount up to \$127 million without the prior approval of the Authority and (ii) declare and pay dividends in an aggregate amount up to the limit of its outstanding statutory surplus, which was approximately \$235 million as of September 30, 2016. 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 September 30, 2016, AG Re had unencumbered assets of approximately \$625 million.

U.K. company law prohibits each of AGE and AGUK 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 Prudential Regulation Authority's capital requirements may in practice act as a restriction on dividends. The Company does not expect AGE or AGUK to distribute any dividends at this time.

Dividends and Surplus Notes

By Insurance Company Subsidiaries

	Third Quarter 2016		Nine Months 2015	
	2016	2015	2016	2015
	(in millions)			
Dividends paid by AGC to AGUS	\$15	\$15	\$38	\$50
Dividends paid by AGM to AGMH	65	57	192	163
Dividends paid by AG Re to AGL	35	35	85	120
Repayment of surplus note by AGM to AGMH	—	—	—	25
Repayment of surplus note by MAC to AGM	—	—	100	—
Repayment of surplus note by MAC to MAC Holdings (1)	—	—	300	—

(1) MAC Holdings returned \$300 million to AGM and AGC, in proportion to their ownership percentages, in the second quarter of 2016.

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12. Income Taxes

Overview

AGL, and its "Bermuda Subsidiaries," which consist of AG Re, AGRO, and Cedar Personnel Ltd., are not subject to any income, withholding or capital gains taxes under current Bermuda law. The Company has received an assurance from the Minister of Finance in Bermuda that, in the event of any taxes being imposed, AGL and its Bermuda Subsidiaries will be exempt from taxation in Bermuda until March 31, 2035. AGL's U.S. and U.K. subsidiaries are subject to income taxes imposed by U.S. and U.K. authorities, respectively, and file applicable tax returns. In addition, AGRO, a Bermuda domiciled company and AGE, a U.K. domiciled company, have elected under Section 953(d) of the U.S. Internal Revenue Code to be taxed as a U.S. domestic corporation.

In November 2013, AGL became tax resident in the U.K. although it will remain a Bermuda-based company and its administrative and head office functions will continue to be carried on in Bermuda. As a U.K. tax resident company, AGL is required to file a corporation tax return with Her Majesty's Revenue & Customs ("HMRC"). AGL is subject to U.K. corporation tax in respect of its worldwide profits (both income and capital gains), subject to any applicable exemptions. The main rate of corporation tax remains at 20% for 2016. AGL has also registered in the U.K. to report its Value Added Tax ("VAT") liability. The current rate of VAT is 20%. Assured Guaranty expects that the dividends AGL receives from its direct subsidiaries will 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 U.K. government implemented a tax regime for "controlled foreign companies" ("CFC regime") effective January 1, 2013. Assured Guaranty does not expect any profits of non-U.K. resident members of the group to be taxed under the CFC regime and has obtained a clearance from HMRC confirming this on the basis of current facts.

AGUS files a consolidated federal income tax return with AGC, AG Financial Products Inc. ("AGFP"), AG Analytics Inc., AGMH, beginning May 12, 2012 MAC and MAC Holdings, and beginning April 1, 2015 Radian Asset and Van American ("AGUS consolidated tax group"). Assured Guaranty Overseas US Holdings Inc. and its subsidiaries AGRO and AG Intermediary Inc., file their own consolidated federal income tax return.

Provision for Income Taxes

The Company's provision for income taxes for interim financial periods is not based on an estimated annual effective rate due, for example, to the variability in fair value of its credit derivatives, which prevents the Company from projecting a reliable estimated annual effective tax rate and pretax income for the full year 2016. A discrete calculation of the provision is calculated for each interim period.

The effective tax rates reflect the proportion of income recognized by each of the Company's operating subsidiaries, with U.S. subsidiaries taxed at the U.S. marginal corporate income tax rate of 35%, U.K. subsidiaries taxed at the U.K. marginal corporate tax rate of 20% unless subject to U.S. tax by election or as a U.S. controlled foreign corporation, 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. For periods subsequent to April 1, 2015, the U.K. corporation tax rate has been reduced to 20% and will remain unchanged until April 1, 2017. For the period April 1, 2014 to April 1, 2015 the U.K. corporation tax rate was 21% resulting in a blended tax rate of 20.25% in 2015. The Company's overall effective tax rate fluctuates based on the distribution of income across jurisdictions.

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A reconciliation of the difference between the provision for income taxes and the expected tax provision at statutory rates in taxable jurisdictions is presented below.

Effective Tax Rate Reconciliation

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in millions)			
Expected tax provision (benefit) at statutory rates in taxable jurisdictions	\$ 150	\$ 56	\$ 234	\$ 276
Tax-exempt interest	(12)	(14)	(38)	(41)
Gain on bargain purchase	(125)	0	(125)	(19)
Change in liability for uncertain tax positions	8	10	10	12
True-up from tax return filing	(16)	(11)	(16)	(11)
Other	(4)	2	(3)	3
Total provision (benefit) for income taxes	\$ 1	\$ 43	\$ 62	\$ 220
Effective tax rate	0.3 %	25.0%	8.3 %	26.0 %

The expected tax provision at statutory rates in taxable jurisdictions is calculated as the sum of pretax income in each jurisdiction multiplied by the statutory tax rate of the jurisdiction by which it will be taxed. Pretax income of the Company's subsidiaries which are not U.S. or U.K. domiciled but are subject to U.S. or U.K. tax by election, establishment of tax residency or as controlled foreign corporations, are included at the U.S. or U.K. statutory tax rate. Where there is a pretax loss in one jurisdiction and pretax income in another, the total combined expected tax rate may be higher or lower than any of the individual statutory rates.

The following table presents pretax income and revenue by jurisdiction.

Pretax Income (Loss) by Tax Jurisdiction

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in millions)			
United States	\$432	\$166	\$681	\$803
Bermuda	56	12	88	67
U.K.	(8)	(6)	(23)	(23)
Total	\$480	\$172	\$746	\$847

Revenue by Tax Jurisdiction

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in millions)			
United States	\$499	\$311	\$1,041	\$1,229
Bermuda	69	58	170	209
U.K.	(2)	(1)	(4)	(6)
Total	\$566	\$368	\$1,207	\$1,432

Pretax income by jurisdiction may be disproportionate to revenue by jurisdiction to the extent that insurance losses incurred are disproportionate.

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Valuation Allowance

As part of the Radian Asset Acquisition, the Company acquired \$19 million of foreign tax credits (“FTC”) which will expire between 2018 and 2020. After reviewing positive and negative evidence, the Company came to the conclusion that it is more likely than not that the FTC will not be utilized, and therefore recorded a valuation allowance with respect to this tax attribute.

The Company came to the conclusion that it is more likely than not that the remaining net deferred tax asset will be fully realized after weighing all positive and negative evidence available as required under GAAP. The positive evidence that was considered included the cumulative income the Company has earned over the last three years, and the significant unearned premium income to be included in taxable income. The positive evidence outweighs any negative evidence that exists. As such, the Company believes that no valuation allowance is necessary in connection with this deferred tax asset. The Company will continue to analyze the need for a valuation allowance on a quarterly basis.

Audits

AGUS has open tax years with the U.S. Internal Revenue Service (“IRS”) for 2009 forward and is currently under audit for the 2009-2012 tax years. Assured Guaranty Overseas US Holdings Inc. has open tax years of 2013 forward. The Company's U.K. subsidiaries are not currently under examination and have open tax years of 2014 forward. CIFG, which was acquired by AGC during 2016, is not currently under examination and has open tax years of 2013 forward.

Uncertain Tax Positions

The Company's policy is to recognize interest and penalties related to uncertain tax positions in income tax expense and has accrued \$1 million for Nine Months 2016 and \$1 million for 2015. As of September 30, 2016 and December 31, 2015, the Company has accrued \$6.7 million and \$5.4 million of interest, respectively.

The total amount of unrecognized tax benefits as of September 30, 2016 and December 31, 2015, that would affect the effective tax rate, if recognized, was \$55 million and \$45 million, respectively.

13. Reinsurance and Other Monoline Exposures

The Company assumes exposure on insured obligations (“Assumed Business”) and may cede portions of its exposure on obligations it has insured (“Ceded Business”) in exchange for premiums, net of ceding commissions. The Company historically entered into ceded reinsurance contracts in order to obtain greater business diversification and reduce the net potential loss from large risks.

Assumed and Ceded Business

The Company assumes business from other monoline financial guaranty companies. 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. The Company’s facultative and treaty agreements are generally subject to termination at the option of the ceding company:

- if the Company fails to meet certain financial and regulatory criteria and to maintain a specified minimum financial strength rating, or

- upon certain changes of control of the Company.

Upon termination under these conditions, the Company may be required (under some of its reinsurance agreements) to return to the ceding company unearned premiums (net of ceding commissions) and loss reserves calculated on a statutory basis of accounting, attributable to reinsurance assumed pursuant to such agreements after which the Company would be released from liability with respect to the Assumed Business.

Upon the occurrence of the conditions set forth in the first bullet above, whether or not an agreement is terminated, the Company may be required to obtain a letter of credit or alternative form of security to collateralize its obligation to perform under such agreement or it may be obligated to increase the level of ceding commission paid.

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The downgrade of the financial strength ratings of AG Re or of AGC gives certain ceding companies the right to recapture business they had ceded to AG Re and AGC, which would lead to a reduction in the Company's unearned premium reserve and related earnings on such reserve. With respect to a significant portion of the Company's in-force financial guaranty assumed business, based on AG Re's and AGC's current ratings and subject to the terms of each reinsurance agreement, the third party ceding company may have the right to recapture business it had ceded to AG Re and/or AGC, and in connection therewith, to receive payment from AG Re or AGC of an amount equal to the statutory unearned premium (net of ceding commissions) and statutory loss reserves (if any) associated with that business, plus, in certain cases, an additional ceding commission. As of September 30, 2016, if each third party insurer ceding business to AG Re and/or AGC had a right to recapture such business, and chose to exercise such right, the aggregate amounts that AG Re and AGC could be required to pay to all such companies would be approximately \$51 million and \$21 million, respectively.

The Company has Ceded Business to non-affiliated companies to limit its exposure to risk. Under these relationships, the Company ceded a portion of its insured risk in exchange for a premium paid to the reinsurer. 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. A number of the financial guaranty insurers to which the Company has ceded par have experienced financial distress and been downgraded by the rating agencies as a result. In addition, state insurance regulators have intervened with respect to some of these insurers. The Company's ceded contracts generally allow the Company to recapture Ceded Business after certain triggering events, such as reinsurer downgrades.

In Nine Months 2016, the Company entered into a commutation agreement to reassume previously ceded U.S. structured finance business. In Nine Months 2015, the Company entered into a commutation agreement to reassume previously ceded U.S. public finance business. For such reassumptions, the Company received the statutory unearned premium outstanding as of the commutation date plus a commutation premium.

The following table presents the components of premiums and losses reported in the consolidated statement of operations and the contribution of the Company's Assumed and Ceded Businesses.

Effect of Reinsurance on Statement of Operations

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in millions)			
Premiums Written:				
Direct	\$17	\$41	\$80	\$93
Assumed (1)	(1)	(1)	(9)	1
Ceded	0	0	(17)	2
Net	\$16	\$40	\$54	\$96
Premiums Earned:				
Direct	\$237	\$224	\$647	\$596
Assumed	6	7	19	29
Ceded	(12)	(18)	(38)	(51)
Net	\$231	\$213	\$628	\$574
Loss and LAE:				
Direct	\$7	\$111	\$217	\$323
Assumed	(1)	23	(4)	35
Ceded	(15)	(22)	(30)	(40)

Net \$(9) \$112 \$183 \$318

(1) Negative assumed premiums written were due to changes in expected debt service schedules.

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Other Monoline Exposures

In addition to assumed and ceded reinsurance arrangements, the Company may also have exposure to some financial guaranty reinsurers (i.e., monolines) in other areas. Second-to-pay insured par outstanding represents transactions the Company has insured that were previously insured by other monolines. The Company underwrites such transactions based on the underlying insured obligation without regard to the primary insurer. Another area of exposure is in the investment portfolio where the Company holds fixed-maturity securities that are wrapped by monolines and whose value may change based on the rating of the monoline. As of September 30, 2016, based on fair value, the Company had fixed-maturity securities in its investment portfolio consisting of \$150 million insured by National, \$104 million insured by Ambac and \$8 million insured by other guarantors.

In addition, the Company acquired bonds for loss mitigation or other risk management purposes. As of September 30, 2016 these bonds had a fair value of \$260 million insured by MBIA Insurance Corporation and \$135 million insured by FGIC UK Limited.

Monoline and Reinsurer Exposure by Company

Reinsurer	Ratings at November 2, 2016		Par Outstanding (1) As of September 30, 2016		
	Moody's Reinsurer Rating	S&P Reinsurer Rating	Ceded Par Outstanding	Second-to- Pay Insured Par Outstanding	Assumed Par Outstanding
	(dollars in millions)				
American Overseas Reinsurance Company Limited (2)	WR (3)	WR	\$4,052	\$ —	\$ 30
Tokio Marine & Nichido Fire Insurance Co., Ltd. (2)	Aa3 (4)	A+ (4)	3,681	—	—
Syncora (2)	WR	WR	2,185	1,326	677
Mitsui Sumitomo Insurance Co. Ltd. (2)	A1	A+ (4)	1,394	—	—
ACA Financial Guaranty Corp.	NR (5)	WR	637	33	—
Ambac	WR	WR	115	3,393	7,911
National (6)	A3	AA-	—	4,946	4,696
MBIA	(7)	(7)	—	1,583	380
FGIC	(8)	(8)	—	1,296	572
Ambac Assurance Corp. Segregated Account	NR	NR	—	77	638
Other (2)	Various	Various	67	558	123
Total			\$12,131	\$ 13,212	\$ 15,027

(1) Includes par related to insured credit derivatives.

(2) The total collateral posted by all non-affiliated reinsurers required or agreeing to post collateral as of September 30, 2016 was approximately \$427 million.

(3) Represents "Withdrawn Rating."

(4) The Company benefits from trust arrangements that satisfy the triple-A credit requirement of S&P and/or Moody's.

(5) Represents "Not Rated."

(6) Rated AA+ by KBRA.

(7) MBIA includes subsidiaries MBIA Insurance Corporation rated CCC by S&P and Caa1 by Moody's and MBIA UK rated BB by S&P and Ba2 by Moody's. See Note 2, Acquisitions, for more information on MBIA UK.

(8) FGIC includes subsidiaries Financial Guaranty Insurance Company and FGIC UK Limited both of which had their ratings withdrawn by rating agencies.

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Amounts Due (To) From Reinsurers

As of September 30, 2016

	Assumed Premium, net of Commissions	Ceded Premium, net of Commissions	Assumed Expected Loss to be Paid	Ceded Expected Loss to be Paid
	(in millions)			
American Overseas Reinsurance Company Limited	\$—	\$ (5)	\$ —	\$ 30
Tokio Marine & Nichido Fire Insurance Co., Ltd.	—	(10)	—	45
Syncora	14	(19)	—	(7)
Mitsui Sumitomo Insurance Co. Ltd.	—	(2)	—	20
Ambac	34	—	(1)	—
National	6	—	2	—
MBIA	4	—	(8)	—
FGIC	4	—	(15)	—
Ambac Assurance Corp. Segregated Account	6	—	(44)	—
Other	—	(12)	—	—
Total	\$68	\$ (48)	\$ (66)	\$ 88

Excess of Loss Reinsurance Facility

AGC, AGM and MAC entered into a \$360 million aggregate excess of loss reinsurance facility with a number of reinsurers, effective as of January 1, 2016. This facility replaces a similar \$450 million aggregate excess of loss reinsurance facility that AGC, AGM and MAC had entered into effective January 1, 2014 and which terminated on December 31, 2015. The new facility covers losses occurring either from January 1, 2016 through December 31, 2023, or January 1, 2017 through December 31, 2024, at the option of AGC, AGM and MAC. It terminates on January 1, 2018, unless AGC, AGM and MAC choose to extend it. The new facility covers certain U.S. public finance credits insured or reinsured by AGC, AGM and MAC as of September 30, 2015, excluding credits that were rated non-investment grade as of December 31, 2015 by Moody's or S&P or internally by AGC, AGM or MAC and is subject to certain per credit limits. Among the credits excluded are those associated with the Commonwealth of Puerto Rico and its related authorities and public corporations. The new facility attaches when AGC's, AGM's and MAC's net losses (net of AGC's and AGM's reinsurance (including from affiliates) and net of recoveries) exceed \$1.25 billion in the aggregate. The new facility covers a portion of the next \$400 million of losses, with the reinsurers assuming pro rata in the aggregate \$360 million of the \$400 million of losses and AGC, AGM and MAC jointly retaining the remaining \$40 million. The reinsurers are required to be rated at least AA- or to post collateral sufficient to provide AGM, AGC and MAC with the same reinsurance credit as reinsurers rated AA-. AGM, AGC and MAC are obligated to pay the reinsurers their share of recoveries relating to losses during the coverage period in the covered portfolio. AGC, AGM and MAC paid approximately \$9 million of premiums in 2016 for the term January 1, 2016 through December 31, 2016 and deposited approximately \$9 million of securities into trust accounts for the benefit of the reinsurers to be used to pay the premium for January 1, 2017 through December 31, 2017. The main differences between the new facility and the prior facility that terminated on December 31, 2015 are the reinsurance attachment point (\$1.25 billion versus \$1.5 billion), the total reinsurance coverage (\$360 million part of \$400 million versus \$450 million part of \$500 million) and the annual premium (\$9 million versus \$19 million).

14. Commitments and Contingencies

Leases

AGL and its subsidiaries lease office space and certain other items.

In 2015, AGM entered into an operating lease for new office space comprising one full floor and one partial floor at 1633 Broadway in New York City. On September 23, 2016, AGM entered into an amendment to that lease to include the remaining portion of the partial floor for the remainder of the lease term. The fixed annual rent, which commences after an initial rent holiday, begins at \$1.1 million per annum, rising in two steps to \$1.3 million for the last five years of the initial term.

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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, as described in the "Recovery Litigation" section of Note 5, Expected Loss to be Paid. For example, in January 2016, the Company commenced an action for declaratory judgment and injunctive relief in the U.S. District Court for the District of Puerto Rico to invalidate executive orders issued by the Governor of Puerto Rico directing the retention or transfer of certain taxes and revenues pledged to secure the payment of certain bonds insured by the Company, and in July 2016, the Company filed a motion and form of complaint in the U.S. District Court for the District of Puerto Rico seeking relief from the PROMESA stay in order to file a complaint to protect its interest in certain pledged PRHTA toll revenues. 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.

Litigation

Proceedings Relating to the Company's Financial Guaranty Business

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 AGFP, an affiliate of AGC which in the past had provided credit protection to counterparties under credit default swaps. AGC acts as the credit support provider of AGFP under these credit default swaps. LBIE's complaint, which was filed in the Supreme Court of the State of New York, alleged that AGFP improperly terminated nine credit derivative transactions between LBIE and AGFP and improperly calculated the termination payment in connection with the termination of 28 other credit derivative transactions between LBIE and AGFP. 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. On February 3, 2012, AGFP filed a motion to dismiss certain of the counts in the complaint, and on March 15, 2013, the court granted AGFP's motion to dismiss the count relating to improper termination of the nine credit derivative transactions and denied AGFP's motion to dismiss the counts relating to the remaining transactions. On February 22, 2016, AGFP filed a motion for summary judgment on the remaining causes of action asserted by LBIE and on AGFP's counterclaims. Oral argument on AGFP's motion took place on July 21, 2016. 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.

On September 25, 2013, Wells Fargo Bank, N.A., as trust administrator of the MASTR Adjustable Rate Mortgages Trust 2007-3, filed an interpleader complaint in the U.S. District Court for the Southern District of New York seeking adjudication of a dispute between Wales LLC and Assured Guaranty Municipal Corp. as to whether AGM is entitled to reimbursement payments from certain cashflows for principal claims paid in respect of insured certificates. On September 30, 2016, the court issued an opinion denying the motion for judgment on the pleadings filed by Wales. The Company estimates that an adverse outcome to the interpleader proceeding could increase losses on the transaction by approximately \$10 - \$20 million, net of expected settlement payments and reinsurance in force.

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On December 22, 2014, Deutsche Bank National Trust Company, as indenture trustee for the AAA Trust 2007-2 Re-REMIC (the Trustee), filed a “trust instructional proceeding” petition in the State of California Superior Court (Probate Division, Orange County), seeking the court’s instruction as to how it should allocate the losses resulting from its December 2014 sale of four RMBS owned by the AAA Trust 2007-2 Re-REMIC. This sale of approximately \$70 million principal balance of RMBS was made pursuant to AGC’s liquidation direction in November 2014, and resulted in approximately \$27 million of gross proceeds to the Re-REMIC. On December 22, 2014, AGC directed the indenture trustee to allocate to the uninsured Class A-3 Notes the losses realized from the sale. On May 4, 2015, the Superior Court rejected AGC’s allocation direction, and ordered the Trustee to allocate to the Class A-3 noteholders a pro rata share of the \$27 million of gross proceeds. AGC is appealing the Superior Court’s decision to the California Court of Appeal.

Proceedings Resolved Since December 31, 2015

On May 28, 2014, Houston Casualty Company Europe, Seguros y Reseguros, S.A. (“HCCE”) notified Radian Asset that it was demanding arbitration against Radian Asset in connection with housing cooperative losses presented to Radian Asset by HCCE under several years of quota-share surety reinsurance contracts. Through November 30, 2015, HCCE had presented AGC, as successor to Radian Asset, with approximately €15 million in claims. In January 2016, Assured Guaranty and HCCE settled all the claims related to the Spanish housing cooperative losses.

Proceedings Related to AGMH’s Former Financial Products Business

The following is a description of legal proceedings involving AGMH’s former Financial Products Business. Although the Company did not acquire AGMH’s former Financial Products Business, which included AGMH’s former GIC business, medium term notes business and portions of the leveraged lease businesses, certain legal proceedings relating to those businesses were against entities that the Company did acquire. While Dexia SA and Dexia Crédit Local S.A. (together, “Dexia”) have paid all expenses and settlement amounts due to date as a result of the proceedings described below, such indemnification might not be sufficient to fully hold the Company harmless against any injunctive relief or civil or criminal sanction that is imposed against AGMH or its subsidiaries as a result of any potential newly asserted claims related to these matters.

Governmental Investigations into Former Financial Products Business

AGMH and/or AGM received subpoenas duces tecum and interrogatories or civil investigative demands from the Attorneys General of the States of Connecticut, Florida, Illinois, Massachusetts, Missouri, New York, Texas and West Virginia relating to their investigations of alleged bid rigging of municipal GICs. In addition, AGMH received a subpoena from the Antitrust Division of the Department of Justice in November 2006 issued in connection with an ongoing criminal investigation of bid rigging of awards of municipal GICs and other municipal derivatives. AGMH responded to such requests when they were received several years ago. While it is possible AGMH may receive additional inquiries from these or other regulators, the Company is not currently aware that any governmental authority, including such Attorneys General or the Department of Justice, are actively pursuing or contemplating legal proceedings with respect to AGMH’s former Financial Products Business.

Lawsuits Relating to Former Financial Products Business

From 2008 through 2010, complaints were brought on behalf of a purported class of state, local and municipal government entities alleging federal antitrust violations in the municipal derivatives industry, seeking damages and alleging, among other things, a conspiracy to fix the pricing of, and manipulate bids for, municipal derivatives, including GICs. These actions were consolidated before one judge in the Southern District of New York as Municipal Derivatives Antitrust Litigation (“MDL 1950”). Following motions to dismiss, amended class action complaints were

filed on behalf of a putative class of plaintiffs. The most recently amended, operative class action complaint does not list AGMH or its affiliates as defendants or co-conspirators. On July 8, 2016, the MDL 1950 Court entered an order approving settlement of the remaining class claims, resolving the putative class case.

In addition, the Attorney General of the State of West Virginia filed a lawsuit that, as amended, named AGM and Assured Guaranty US Holdings as defendants and alleged a conspiracy to decrease the returns that West Virginia public entities earned on municipal derivative instruments. Also, approximately 19 California and New York government entities brought individual lawsuits that were not a part of the class action and that did not dismiss AGMH or its affiliates. All these cases were transferred to the Southern District of New York and consolidated with MDL 1950 for pretrial purposes. In June and July 2016, Dexia executed settlement agreements covering the action brought by the Attorney General of the State of West Virginia and the actions brought by the individual California and New York plaintiffs, and on July 1, 2016 and July 27, 2016, respectively, the MDL 1950 court dismissed with prejudice the claims against Assured Guaranty US Holdings and AGM in all such actions.

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Those settlements release all claims as to Assured Guaranty US Holdings, AGMH and AGM, as well as their parents, subsidiaries and affiliates.

15. Long-Term Debt and Credit Facilities

The principal and carrying values of the Company's long-term debt are presented in the table below.

Principal and Carrying Amounts of Debt

	As of September 30, 2016		As of December 31, 2015	
	Principal	Carrying Value	Principal	Carrying Value
	(in millions)			
AGUS:				
7% Senior Notes	\$200	\$ 197	\$200	\$ 197
5% Senior Notes	500	495	500	495
Series A Enhanced Junior Subordinated Debentures	150	150	150	150
Total AGUS	850	842	850	842
AGMH:				
67/8% QUIBS	100	69	100	69
6.25% Notes	230	141	230	140
5.6% Notes	100	56	100	56
Junior Subordinated Debentures	300	185	300	180
Total AGMH	730	451	730	445
AGM:				
Notes Payable	10	11	12	13
Total AGM	10	11	12	13
Total	\$1,590	\$ 1,304	\$ 1,592	\$ 1,300

AGL fully and unconditionally guarantees the payment of the principal of, and interest on, the senior notes issued by AGUS and AGMH, and the junior subordinated debentures issued by AGUS and AGMH

Recourse Credit Facilities

2009 Strip Coverage Facility

In connection with the Company's acquisition of AGMH and its subsidiaries from Dexia Holdings Inc., 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. 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 do not make the required early termination payments, then AGM would be exposed to possible liquidity

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claims on gross exposure of approximately \$991 million as of September 30, 2016. 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 September 30, 2016, approximately \$1.5 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.

On July 1, 2009, AGM and Dexia Crédit Local S.A., acting through its New York Branch (“Dexia Crédit Local (NY)”), entered into a credit facility (the “Strip Coverage Facility”). Under the Strip Coverage Facility, Dexia Crédit Local (NY) agreed to make loans to AGM to finance all draws made by lessors on AGM strip policies that were outstanding as of November 13, 2008, up to the commitment amount, which was \$495 million at the time the Strip Coverage Facility was terminated.

There have never been any borrowings under the Strip Coverage Facility, the amount of the leveraged leases covered by the Strip Coverage Facility has declined since July 1, 2009 and, as noted above, to date, none of the leveraged lease transactions in which AGM acts as the strip coverage provider has experienced an early termination due to a lease default. Consequently, and in view of the credit quality of the relevant tax-exempt entities and the cost of the Strip Coverage Facility, the Company determined that maintaining the Strip Coverage Facility was no longer warranted. On July 29, 2016, the parties terminated the facility.

Intercompany Credit Facility and Intercompany Debt

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. Such commitment terminates on October 25, 2018 (the “loan termination date”). The unpaid principal amount of each loan will bear interest at a fixed rate equal to 100% of the then applicable Federal short-term or mid-term interest rate, as the case may be, as determined under Internal Revenue Code Sec. 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 by the third anniversary of the loan termination date. No amounts are currently outstanding under the credit facility.

In addition, in 2012 AGUS borrowed \$90 million from its affiliate AGRO to fund the acquisition of MAC. That loan remained outstanding as of September 30, 2016.

Committed Capital Securities

On April 8, 2005, AGC entered into separate agreements (the “Put Agreements”) with four custodial trusts (each, a “Custodial Trust”) pursuant to which AGC may, at its option, cause each of the Custodial Trusts to purchase up to \$50 million of perpetual preferred stock of AGC (the “AGC Preferred Stock”). The custodial trusts were created as a vehicle for providing capital support to AGC by allowing AGC to obtain immediate access to new capital at its sole discretion at any time through the exercise of the put option. If the put options were exercised, AGC would receive \$200 million in return for the issuance of its own perpetual preferred stock, the proceeds of which may be used for any purpose, including the payment of claims. The put options have not been exercised through the date of this filing.

Distributions on the AGC CCS are determined pursuant to an auction process. Beginning on April 7, 2008 this auction process failed, thereby increasing the annualized rate on the AGC CCS to one-month LIBOR plus 250 basis points.

In June 2003, \$200 million of “AGM CPS”, money market preferred trust securities, were issued by trusts created for the primary purpose of issuing the AGM CPS, investing the proceeds in high-quality commercial paper and selling put

options to AGM, allowing AGM to issue the trusts non-cumulative redeemable perpetual preferred stock (the “AGM Preferred Stock”) of AGM in exchange for cash. There are four trusts, each with an initial aggregate face amount of \$50 million. These trusts hold auctions every 28 days, at which time investors submit bid orders to purchase AGM CPS. If AGM were to exercise a put option, the applicable trust would transfer the portion of the proceeds attributable to principal received upon maturity of its assets, net of expenses, to AGM in exchange for AGM Preferred Stock. AGM pays a floating put premium to the trusts, which represents the difference between the commercial paper yield and the winning auction rate (plus all fees and expenses of the trust). If an auction does not attract sufficient clearing bids, however, the auction rate is subject to a maximum rate of one-month LIBOR plus 200 basis points for the next succeeding distribution period. Beginning in August 2007, the AGM CPS required the maximum rate for each of the relevant trusts. AGM continues to have the ability to exercise its put option and cause the related trusts to purchase AGM Preferred Stock. The trusts provide AGM access to new capital at its sole discretion through the exercise of the put options. As of September 30, 2016 the put option had not been exercised.

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See Note 7, Fair Value Measurement, –Other Assets–Committed Capital Securities, for a fair value measurement discussion.

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16. Earnings Per Share

Computation of Earnings Per Share

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in millions)			
Basic earnings per share ("EPS"):				
Net income (loss) attributable to AGL	\$479	\$129	\$684	\$627
Less: Distributed and undistributed income (loss) available to nonvested shareholders	1	0	1	0
Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries, basic	\$478	\$129	\$683	\$627
Basic shares	131.9	145.8	134.0	150.7
Basic EPS	\$3.63	\$0.88	\$5.10	\$4.16
Diluted EPS:				
Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries, basic	\$478	\$129	\$683	\$627
Plus: Re-allocation of undistributed income (loss) available to nonvested shareholders of AGL and subsidiaries	0	0	0	0
Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries, diluted	\$478	\$129	\$683	\$627
Basic shares	131.9	145.8	134.0	150.7
Dilutive securities:				
Options and restricted stock awards	0.9	0.7	0.9	0.9
Diluted shares	132.8	146.5	134.9	151.6
Diluted EPS	\$3.60	\$0.88	\$5.06	\$4.13
Potentially dilutive securities excluded from computation of EPS because of antidilutive effect	0.0	1.3	0.5	0.7

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17. Shareholders' Equity

Other Comprehensive Income

The following tables present the changes in each component of AOCI and the effect of reclassifications out of AOCI on the respective line items in net income.

Changes in Accumulated Other Comprehensive Income by Component
Third Quarter 2016

	Net Unrealized Gains (Losses) on Investments with no Other-Than- Temporary Impairment (in millions)	Net Unrealized Gains (Losses) on Investments with Other-Than- Temporary Impairment	Cumulative Translation Adjustment	Cash Flow Hedge	Total Accumulated Other Comprehensive Income
Balance, June 30, 2016	\$426	\$ (24)	\$ (26)	\$ 7	\$ 383
Other comprehensive income (loss) before reclassifications	(33)	13	(5)	—	(25)
Amounts reclassified from AOCI to:					
Net realized investment gains (losses)	(3)	4	—	—	1
Net investment income	—	—	—	—	—
Interest expense	—	—	—	0	0
Total before tax	(3)	4	—	0	1
Tax (provision) benefit	0	(1)	—	0	(1)
Total amount reclassified from AOCI, net of tax	(3)	3	—	0	—
Net current period other comprehensive income (loss)	(36)	16	(5)	0	(25)
Balance, September 30, 2016	\$390	\$ (8)	\$ (31)	\$ 7	\$ 358

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Third Quarter 2015

	Net Unrealized Gains (Losses) on Investments with no Other-Than- Temporary Impairment (in millions)	Net Unrealized Gains (Losses) on Investments with Other-Than- Temporary Impairment (in millions)	Cumulative Translation Adjustment	Cash Flow Hedge	Total Accumulated Other Comprehensive Income
Balance, June 30, 2015	\$236	\$ 4	\$ (9)	\$ 8	\$ 239
Other comprehensive income (loss) before reclassifications	41	(15)	(4)	—	22
Amounts reclassified from AOCI to:					
Net realized investment gains (losses)	10	17	—	—	27
Net investment income	(9)	—	—	—	(9)
Interest expense	—	—	—	0	0
Total before tax	1	17	—	0	18
Tax (provision) benefit	0	(6)	—	0	(6)
Total amount reclassified from AOCI, net of tax	1	11	—	0	12
Net current period other comprehensive income (loss)	42	(4)	(4)	0	34
Balance, September 30, 2015	\$278	\$ 0	\$ (13)	\$ 8	\$ 273

Changes in Accumulated Other Comprehensive Income by Component
Nine Months 2016

	Net Unrealized Gains (Losses) on Investments with no Other-Than- Temporary Impairment (in millions)	Net Unrealized Gains (Losses) on Investments with Other-Than- Temporary Impairment (in millions)	Cumulative Translation Adjustment	Cash Flow Hedge	Total Accumulated Other Comprehensive Income
Balance, December 31, 2015	\$260	\$ (15)	\$ (16)	\$ 8	\$ 237
Other comprehensive income (loss) before reclassifications	146	(10)	(15)	—	121
Amounts reclassified from AOCI to:					
Net realized investment gains (losses)	(20)	25	—	—	5
Net investment income	(3)	—	—	—	(3)
Interest expense	—	—	—	(1)	(1)
Total before tax	(23)	25	—	(1)	1
Tax (provision) benefit	7	(8)	—	0	(1)
Total amount reclassified from AOCI, net of tax	(16)	17	—	(1)	0
Net current period other comprehensive income (loss)	130	7	(15)	(1)	121

Balance, September 30, 2016 \$390 \$ (8) \$ (31) \$ 7 \$ 358

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Nine Months 2015

	Net Unrealized Gains (Losses) on Investments with no Other-Than- Temporary Impairment (in millions)	Net Realized Gains (Losses) on Investments with Other-Than- Temporary Impairment (in millions)	Cumulative Translation Adjustment	Cash Flow Hedge	Total Accumulated Other Comprehensive Income
Balance, December 31, 2014	\$367	\$ 4	\$ (10)	\$ 9	\$ 370
Other comprehensive income (loss) before reclassifications	(77)	(23)	(3)	—	(103)
Amounts reclassified from AOCI to:					
Net realized investment gains (losses)	(9)	29	—	—	20
Net investment income	(9)	—	—	—	(9)
Interest expense	—	—	—	(1)	(1)
Total before tax	(18)	29	—	(1)	10
Tax (provision) benefit	6	(10)	—	0	(4)
Total amount reclassified from AOCI, net of tax	(12)	19	—	(1)	6
Net current period other comprehensive income (loss)	(89)	(4)	(3)	(1)	(97)
Balance, September 30, 2015	\$278	\$ 0	\$ (13)	\$ 8	\$ 273

Share Repurchase

The following table presents share repurchases since January 2013.

Share Repurchases

Period	Number of Shares Repurchased	Total Payments(in millions)	Average Price Paid Per Share
2013	12,512,759	\$ 264	\$ 21.12
2014	24,413,781	590	24.17
2015 (January 1 - March 31)	5,860,291	152	25.87
2015 (April 1 - June 30)	4,737,388	133	28.13
2015 (July 1 - September 30)	5,362,103	135	25.17
2015 (October 1 - December 31)	5,035,637	135	26.81
Total 2015	20,995,419	555	26.43
2016 (January 1 - March 31)	3,038,928	75	24.69
2016 (April 1 - June 30)	2,331,474	60	25.73
2016 (July 1 - September 30)	2,050,229	55	26.83
Total 2016 (through September 30)	7,420,631	190	25.61
2016 (October 1 - through November 3, 2016)	692,002	20	28.90
Total 2016	8,112,633	210	25.89

Cumulative repurchases since the beginning of 2013 66,034,592 \$ 1,619 \$ 24.52

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On February 24, 2016, the Board of Directors approved a \$250 million share repurchase authorization, and on November 2, 2016, it approved an incremental \$250 million in share repurchases. As of September 30, 2016, the Company's remaining share repurchase authorization was \$115 million, and as of November 3, 2016, it was approximately \$345 million. The Company expects to repurchase shares 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 funds available at the parent company, 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. It does not have an expiration date.

The Board of Directors has specifically authorized the Company to use a portion of its share repurchase program to repurchase up to 297,131 common shares from its Chief Executive Officer and up to 23,062 common shares from its General Counsel. These officers will also receive 297,131 and 23,062 common shares, respectively, in January 2017 in settlement of 297,131 share units and 23,062 share units, respectively, held by them in the employer stock fund of the Assured Guaranty Ltd. Supplemental Employee Retirement Plan (the "AGL SERP"). The distribution of shares in settlement of the units must occur in January 2017 pursuant to the terms of an amendment adopted in 2011 to the AGL SERP. Such amendment was adopted to comply with requirements of Section 409A of the Internal Revenue Code (the "Code") and Section 457A of the Code, which required all grandfathered amounts (within the meaning of Section 457A of the Code), including the units in the employer stock fund in the AGL SERP, to be included in the income of the applicable participant no later than 2017. The Company would repurchase shares on the date that these officers receive shares in settlement of the units. The shares would be purchased at the closing price of a common share of the Company on the New York Stock Exchange on that same date, which is currently expected to be January 6, 2017.

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18. Subsidiary Information

The following tables present the condensed consolidating financial information for AGUS and AGMH, 100%-owned subsidiaries of AGL, which have issued publicly traded debt securities (see Note 15, Long Term Debt and Credit Facilities). The information for AGL, AGUS and AGMH presents its subsidiaries on the equity method of accounting.

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF SEPTEMBER 30, 2016

(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
ASSETS						
Total investment portfolio and cash	\$ 60	\$ 107	\$ 23	\$ 11,712	\$ (359)	\$ 11,543
Investment in subsidiaries	6,524	6,056	4,164	293	(17,037)	—
Premiums receivable, net of commissions payable	—	—	—	720	(112)	608
Ceded unearned premium reserve	—	—	—	1,122	(909)	213
Deferred acquisition costs	—	—	—	161	(53)	108
Reinsurance recoverable on unpaid losses	—	—	—	485	(398)	87
Credit derivative assets	—	—	—	95	(67)	28
Deferred tax asset, net	—	32	—	549	(122)	459
Intercompany receivable	—	—	—	90	(90)	—
Financial guaranty variable interest entities' assets, at fair value	—	—	—	877	—	877
Other	61	62	39	974	(390)	746
TOTAL ASSETS	\$ 6,645	\$ 6,257	\$ 4,226	\$ 17,078	\$ (19,537)	\$ 14,669
LIABILITIES AND SHAREHOLDERS' EQUITY						
Unearned premium reserves	\$ —	\$ —	\$ —	\$ 4,666	\$ (998)	\$ 3,668
Loss and LAE reserve	—	—	—	1,554	(463)	1,091
Long-term debt	—	842	451	11	—	1,304
Intercompany payable	—	90	—	300	(390)	—
Credit derivative liabilities	—	—	—	576	(67)	509
Deferred tax liabilities, net	—	—	89	—	(89)	—
Financial guaranty variable interest entities' liabilities, at fair value	—	—	—	985	—	985
Other	5	53	19	898	(503)	472
TOTAL LIABILITIES	5	985	559	8,990	(2,510)	8,029
TOTAL SHAREHOLDERS' EQUITY						
ATTRIBUTABLE TO ASSURED GUARANTY LTD.	6,640	5,272	3,667	7,795	(16,734)	6,640
Noncontrolling interest	—	—	—	293	(293)	—
TOTAL SHAREHOLDERS' EQUITY	6,640	5,272	3,667	8,088	(17,027)	6,640
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 6,645	\$ 6,257	\$ 4,226	\$ 17,078	\$ (19,537)	\$ 14,669

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CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2015

(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
ASSETS						
Total investment portfolio and cash	\$ 10	\$ 156	\$ 22	\$ 11,530	\$ (360)	) \$ 11,358
Investment in subsidiaries	5,961	5,569	4,081	377	(15,988)) —
Premiums receivable, net of commissions payable	—	—	—	833	(140)	) 693
Ceded unearned premium reserve	—	—	—	1,266	(1,034)	) 232
Deferred acquisition costs	—	—	—	176	(62)	) 114
Reinsurance recoverable on unpaid losses	—	—	—	467	(398)	) 69
Credit derivative assets	—	—	—	207	(126)	) 81
Deferred tax asset, net	—	52	—	357	(133)	) 276
Intercompany receivable	—	—	—	90	(90)) —
Financial guaranty variable interest entities' assets, at fair value	—	—	—	1,261	—	) 1,261
Other	98	29	26	571	(264)	) 460
TOTAL ASSETS	\$ 6,069	\$ 5,806	\$ 4,129	\$ 17,135	\$ (18,595)	) \$ 14,544
LIABILITIES AND SHAREHOLDERS' EQUITY						
Unearned premium reserves	\$ —	\$ —	\$ —	\$ 5,143	\$ (1,147)	) \$ 3,996
Loss and LAE reserve	—	—	—	1,537	(470)	) 1,067
Long-term debt	—	842	445	13	—	) 1,300
Intercompany payable	—	90	—	300	(390)) —
Credit derivative liabilities	—	—	—	572	(126)	) 446
Deferred tax liabilities, net	—	—	91	—	(91)) —
Financial guaranty variable interest entities' liabilities, at fair value	—	—	—	1,349	—	) 1,349
Other	6	82	15	622	(402)	) 323
TOTAL LIABILITIES	6	1,014	551	9,536	(2,626)	) 8,481
TOTAL SHAREHOLDERS' EQUITY						
ATTRIBUTABLE TO ASSURED GUARANTY LTD.	6,063	4,792	3,578	7,222	(15,592)	) 6,063
Noncontrolling interest	—	—	—	377	(377)) —
TOTAL SHAREHOLDERS' EQUITY	6,063	4,792	3,578	7,599	(15,969)	) 6,063
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 6,069	\$ 5,806	\$ 4,129	\$ 17,135	\$ (18,595)) \$ 14,544

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
AND COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016
(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
REVENUES						
Net earned premiums	\$ —	\$ —	\$ —	\$ 239	\$ (8)	\$ 231
Net investment income	0	0	0	95	(1)	94
Net realized investment gains (losses)	0	3	0	(2)	(3)	(2)
Net change in fair value of credit derivatives:						
Realized gains (losses) and other settlements	—	—	—	15	0	15
Net unrealized gains (losses)	—	—	—	6	—	6
Net change in fair value of credit derivatives	—	—	—	21	0	21
Bargain purchase gain and settlement of pre-existing relationships	—	—	—	257	2	259
Other	0	—	—	(37)	0	(37)
TOTAL REVENUES	0	3	0	573	(10)	566
EXPENSES						
Loss and LAE	—	—	—	(15)	6	(9)
Amortization of deferred acquisition costs	—	—	—	9	(5)	4
Interest expense	—	13	13	3	(3)	26
Other operating expenses	7	1	1	58	(2)	65
TOTAL EXPENSES	7	14	14	55	(4)	86
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET EARNINGS OF SUBSIDIARIES	(7)	(11)	(14)	518	(6)	480
Total (provision) benefit for income taxes	—	4	5	(13)	3	(1)
Equity in net earnings of subsidiaries	486	433	92	11	(1,022)	—
NET INCOME (LOSS)	\$ 479	\$ 426	\$ 83	\$ 516	\$ (1,025)	\$ 479
Less: noncontrolling interest	—	—	—	11	(11)	—
NET INCOME (LOSS) ATTRIBUTABLE TO ASSURED GUARANTY LTD.	\$ 479	\$ 426	\$ 83	\$ 505	\$ (1,014)	\$ 479
COMPREHENSIVE INCOME (LOSS)	\$ 454	\$ 414	\$ 64	\$ 497	\$ (975)	\$ 454

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
AND COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2015
(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
REVENUES						
Net earned premiums	\$ —	\$—	\$—	\$ 219	\$ (6)	\$ 213
Net investment income	0	0	0	113	(1)	112
Net realized investment gains (losses)	0	0	0	(22)	(5)	(27)
Net change in fair value of credit derivatives:						
Realized gains (losses) and other settlements	—	—	—	6	0	6
Net unrealized gains (losses)	—	—	—	81	(1)	80
Net change in fair value of credit derivatives	—	—	—	87	(1)	86
Bargain purchase gain and settlement of pre-existing relationships	—	—	—	—	—	—
Other	0	—	—	(16)	—	(16)
TOTAL REVENUES	0	0	0	381	(13)	368
EXPENSES						
Loss and LAE	—	—	—	114	(2)	112
Amortization of deferred acquisition costs	—	—	—	8	(3)	5
Interest expense	—	13	13	4	(5)	25
Other operating expenses	7	0	1	47	(1)	54
TOTAL EXPENSES	7	13	14	173	(11)	196
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET EARNINGS OF SUBSIDIARIES	(7)	(13)	(14)	208	(2)	172
Total (provision) benefit for income taxes	—	5	5	(55)	2	(43)
Equity in net earnings of subsidiaries	136	126	133	10	(405)	—
NET INCOME (LOSS)	\$ 129	\$ 118	\$ 124	\$ 163	\$ (405)	\$ 129
Less: noncontrolling interest	—	—	—	10	(10)	—
NET INCOME (LOSS) ATTRIBUTABLE TO ASSURED GUARANTY LTD.	\$ 129	\$ 118	\$ 124	\$ 153	\$ (395)	\$ 129
COMPREHENSIVE INCOME (LOSS)	\$ 163	\$ 138	\$ 139	\$ 199	\$ (476)	\$ 163

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
AND COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
REVENUES						
Net earned premiums	\$ —	\$ —	\$ —	\$ 653	\$ (25)	\$ 628
Net investment income	0	0	0	293	(2)	291
Net realized investment gains (losses)	0	3	0	(4)	(4)	(5)
Net change in fair value of credit derivatives:						
Realized gains (losses) and other settlements	—	—	—	47	—	47
Net unrealized gains (losses)	—	—	—	(23)	—	(23)
Net change in fair value of credit derivatives	—	—	—	24	—	24
Bargain purchase gain and settlement of pre-existing relationships	—	—	—	257	2	259
Other	0	0	0	10	0	10
TOTAL REVENUES	0	3	0	1,233	(29)	1,207
EXPENSES						
Loss and LAE	—	—	—	182	1	183
Amortization of deferred acquisition costs	—	—	—	23	(10)	13
Interest expense	—	39	40	8	(10)	77
Other operating expenses	23	1	2	165	(3)	188
TOTAL EXPENSES	23	40	42	378	(22)	461
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET EARNINGS OF SUBSIDIARIES	(23)	(37)	(42)	855	(7)	746
Total (provision) benefit for income taxes	—	13	15	(94)	4	(62)
Equity in net earnings of subsidiaries	707	623	282	34	(1,646)	—
NET INCOME (LOSS)	\$ 684	\$ 599	\$ 255	\$ 795	\$ (1,649)	\$ 684
Less: noncontrolling interest	—	—	—	34	(34)	—
NET INCOME (LOSS) ATTRIBUTABLE TO ASSURED GUARANTY LTD.	\$ 684	\$ 599	\$ 255	\$ 761	\$ (1,615)	\$ 684
COMPREHENSIVE INCOME (LOSS)	\$ 805	\$ 660	\$ 281	\$ 923	\$ (1,864)	\$ 805

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
AND COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015
(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
REVENUES						
Net earned premiums	\$ —	\$ —	\$ —	\$ 585	\$ (11)	\$ 574
Net investment income	0	0	0	318	(7)	311
Net realized investment gains (losses)	0	0	1	(13)	(8)	(20)
Net change in fair value of credit derivatives:						
Realized gains (losses) and other settlements	—	—	—	35	0	35
Net unrealized gains (losses)	—	—	—	292	(27)	265
Net change in fair value of credit derivatives	—	—	—	327	(27)	300
Bargain purchase gain and settlement of pre-existing relationships	—	—	—	54	160	214
Other	0	—	—	53	0	53
TOTAL REVENUES	0	0	1	1,324	107	1,432
EXPENSES						
Loss and LAE	—	—	—	316	2	318
Amortization of deferred acquisition costs	—	—	—	22	(7)	15
Interest expense	—	39	40	11	(14)	76
Other operating expenses	24	1	1	152	(2)	176
TOTAL EXPENSES	24	40	41	501	(21)	585
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET EARNINGS OF SUBSIDIARIES	(24)	(40)	(40)	823	128	847
Total (provision) benefit for income taxes	—	14	14	(205)	(43)	(220)
Equity in net earnings of subsidiaries	651	594	347	30	(1,622)	—
NET INCOME (LOSS)	\$ 627	\$ 568	\$ 321	\$ 648	\$ (1,537)	\$ 627
Less: noncontrolling interest	—	—	—	30	(30)	—
NET INCOME (LOSS) ATTRIBUTABLE TO ASSURED GUARANTY LTD.	\$ 627	\$ 568	\$ 321	\$ 618	\$ (1,507)	\$ 627
COMPREHENSIVE INCOME (LOSS)	\$ 530	\$ 482	\$ 269	\$ 554	\$ (1,305)	\$ 530

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
 (in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
Net cash flows provided by (used in) operating activities	\$ 287	\$ 171	\$ 159	\$ 3	\$ (810)	\$ (190)
Cash flows from investing activities						
Fixed-maturity securities:						
Purchases	(4)	(44)	(10)	(970)	—	(1,028)
Sales	4	—	12	861	—	877
Maturities	—	23	—	838	—	861
Sales (purchases) of short-term investments, net	(49)	(3)	(1)	133	—	80
Net proceeds from financial guaranty variable entities' assets	—	—	—	590	—	590
Investment in subsidiary	—	—	—	4	(4)	—
Acquisition of CIFG, net of cash acquired	—	—	—	(442)	7	(435)
Other	—	7	—	(12)	(7)	(12)
Net cash flows provided by (used in) investing activities	(49)	(17)	1	1,002	(4)	933
Cash flows from financing activities						
Return of capital	—	—	—	(4)	4	—
Dividends paid	(52)	(223)	(158)	(429)	810	(52)
Repurchases of common stock	(190)	—	—	—	—	(190)
Share activity under option and incentive plans	5	—	—	(1)	—	4
Net paydowns of financial guaranty variable entities' liabilities	—	—	—	(567)	—	(567)
Payment of long-term debt	—	—	—	(2)	—	(2)
Net cash flows provided by (used in) financing activities	(237)	(223)	(158)	(1,003)	814	(807)
Effect of exchange rate changes	—	—	—	(4)	—	(4)
Increase (decrease) in cash	1	(69)	2	(2)	—	(68)
Cash at beginning of period	0	95	8	63	—	166
Cash at end of period	\$ 1	\$ 26	\$ 10	\$ 61	\$ —	\$ 98

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015
 (in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
Net cash flows provided by (used in) operating activities	\$ 451	\$ 209	\$ 134	\$ 99	\$ (932)	\$ (39)
Cash flows from investing activities						
Fixed-maturity securities:						
Purchases	—	(72)	(8)	(1,830)	66	(1,844)
Sales	—	170	27	1,522	—	1,719
Maturities	—	8	—	627	—	635
Sales (purchases) of short-term investments, net	26	42	4	679	—	751
Net proceeds from financial guaranty variable entities' assets	—	—	—	114	—	114
Investment in subsidiary	—	—	25	—	(25)	—
Acquisition of Radian Asset, net of cash acquired	—	—	—	(800)	—	(800)
Other	—	(5)	—	64	—	59
Net cash flows provided by (used in) investing activities	26	143	48	376	41	634
Cash flows from financing activities						
Return of capital	—	—	—	(25)	25	—
Dividends paid	(55)	(351)	(182)	(333)	866	(55)
Repurchases of common stock	(420)	—	—	—	—	(420)
Share activity under option and incentive plans	(2)	—	—	—	—	(2)
Net paydowns of financial guaranty variable entities' liabilities	—	—	—	(122)	—	(122)
Payment of long-term debt	—	—	—	(3)	—	(3)
Net cash flows provided by (used in) financing activities	(477)	(351)	(182)	(483)	891	(602)
Effect of exchange rate changes	—	—	—	(2)	—	(2)
Increase (decrease) in cash	—	1	—	(10)	—	(9)
Cash at beginning of period	0	0	4	71	—	75
Cash at end of period	\$ 0	\$ 1	\$ 4	\$ 61	\$ —	\$ 66

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ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
 2. OPERATIONS
 Forward Looking Statements

This Form 10-Q 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:

- 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;
- reduction in the amount of available insurance opportunities and/or in the demand for Assured Guaranty's insurance;
- developments in the world's financial and capital markets that adversely affect obligors' payment rates, Assured Guaranty's loss experience, or its exposure to refinancing risk in transactions (which could result in substantial liquidity claims on its guarantees);
- 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;
- deterioration in the financial condition of Assured Guaranty's reinsurers, the amount and timing of reinsurance recoverables actually received and the risk that reinsurers may dispute amounts owed to Assured Guaranty under its reinsurance agreements;
- 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 to exit the European Union;
- difficulties with the execution of Assured Guaranty's business strategy;
- loss of key personnel;
- the effects of mergers, acquisitions and divestitures;

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natural or man-made catastrophes;
other risks and uncertainties that have not been identified at this time;
management's response to these factors; and
other risk factors identified in AGL's filings with the U.S. Securities and Exchange Commission (the "SEC").
The foregoing review of important factors should not be construed as exhaustive, and should be read in conjunction with the other cautionary statements in this Form 10-Q, as well as the risk factors included in AGL's 2015 Annual Report on Form 10-K and AGL's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2016. 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-Q 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").

Available Information

The Company maintains an Internet web site at www.assuredguaranty.com. The Company makes available, free of charge, on its web site (under 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 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.

The Company routinely posts important information for investors on its web site (under assuredguaranty.com/company-statements and, more generally, under the Investor Information and Businesses pages). 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.

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 Quarterly 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 Quarterly Report should be read in its entirety and in addition to AGL's 2015 Annual Report on Form 10-K.

Economic Environment

The amount and pricing of new business the Company originates, as well as the financial health of the issuers whose obligations it insures, depends in part on the economic environment in the markets it serves, including the level of interest rates and credit spreads in those markets.

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The overall economic environment in the United States (“U.S.”) improved during the three-month and nine-month periods ended September 30, 2016 (“Third Quarter 2016” and “Nine Months 2016,” respectively). The U.S. Department of Commerce Bureau of Economic Analysis reported an advance estimate that gross domestic product increased at an annual rate of 2.9% in Third Quarter 2016. According to the U.S. Bureau of Labor Statistics (“BLS”), the estimated seasonally adjusted monthly unemployment rates remained at 5.0% or slightly lower during Third Quarter 2016. The BLS also reported that the U.S. economy added approximately 575 thousand jobs during Third Quarter 2016, equaling the job growth in the three month period ended September 30, 2015 (“Third Quarter 2015”) and bringing the total jobs added in Nine Months 2016 to 1.6 million. U.S. home prices, as measured by the S&P CoreLogic Case-Shiller U.S. National Home Price Index, continued to rise at a 5.1% rate over the 12 months ended July 31, 2016.

Throughout Nine Months 2016, the Federal Open Market Committee (“FOMC”) maintained the target range for the federal funds rate at 1/4 to 1/2 percent and continued to support further improvement in labor market conditions and a return to 2% inflation. In a release dated September 21, 2016, the Federal Reserve said the FOMC judges that the case for an increase in the federal funds rate has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives. The U.S. stock market opened 2016 in decline, with some commentators attributing the decline to global economic uncertainty and weak oil prices that threatened certain U.S. companies. Broad stock market indexes began to rise in February after the Federal Reserve Board chair indicated in Congressional testimony that further increases in the federal funds rate would be gradual, and as oil prices began to recover. Stock prices generally rose thereafter although they experienced a dip following the British electorate’s June 23, 2016, vote in favor of Britain exiting the European Union (“Brexit”). In Third Quarter 2016, the market reached record S&P 500 levels in August before settling at quarter-end near their levels at the end of the second quarter 2016. Average municipal interest rates, at a record low in the last week of the second quarter 2016, fell further in July, reaching a new low point of 1.93% for the 30-year AAA MMD Index, on July 6, 2016, then rose to approximately 2.3% near the end of Third Quarter 2016.

Looking at the global interest rate environment, the European Central Bank continued its program of quantitative easing during Nine Months 2016. Interest rates for bank deposits remained near 0% or negative in Europe and negative in Japan. The Bank of England cut its Bank Rate 25 basis points to 0.25% on August 3, 2016 and maintained that rate through September 30. The August rate cut was part of a package of accommodative measures.

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Financial Performance of Assured Guaranty

Financial Results

		Third Quarter		Nine Months	
		2016	2015	2016	2015
		(in millions)			
Net income (loss)		\$479	\$129	\$684	\$627
Operating income(1)		508	164	760	582
Net income (loss) per diluted share		\$3.60	\$0.88	\$5.06	\$4.13
Operating income per share(1)		3.83	1.12	5.64	3.84
Diluted shares		132.8	146.5	134.9	151.6
Gross written premiums		\$16	\$40	\$71	\$94
Present value of new business production ("PVP")	(1)	150	41	129	103
Gross par written		4,687	4,703	12,211	12,992
	As of	As of			
	September 30,	December 31,			
	2016	2015			
	Amount	Per	Amount	Per	
		Share		Share	
	(in millions, except per share amounts)				
Shareholders' equity	\$6,640	\$50.70	\$6,063	\$43.96	
Operating shareholders' equity(1)	6,456	49.29	5,946	43.11	
Adjusted book value(1)	8,689	66.34	8,439	61.18	
Common shares outstanding (2)	131.0		137.9		

Please refer to "—Non-GAAP Financial Measures" for a definition of the financial measures that were not determined (1) 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.

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

Third Quarter 2016

There are several primary drivers of volatility in net income or loss that are not necessarily indicative of credit impairment or improvement, or ultimate economic gains or losses: changes in credit spreads of insured credit derivative obligations; changes in fair value of assets and liabilities of financial guaranty variable interest entities ("FG VIEs") and committed capital securities ("CCS"); changes in the Company's own credit spreads; and changes in risk-free rates used to discount expected losses. Changes in credit spreads generally have the most significant effect on the fair value of credit derivatives and FG VIE assets and liabilities. In addition to non-economic factors, other factors such as: changes in expected losses, the amount and timing of refunding transactions and terminations, realized gains

and losses on the investment portfolio (including other-than-temporary impairments), the effects of large settlements and transactions, acquisitions, and the effects of the Company's various loss mitigation strategies, among others, may also have a significant effect on reported net income or loss in a given reporting period.

Net income for Third Quarter 2016 was \$479 million compared with \$129 million in Third Quarter 2015. The increase is primarily attributable to the acquisition of CIFG Holding Inc. (together with its subsidiaries "CIFGH"), the parent of financial guaranty insurer CIFG, (the "CIFG Acquisition") in Third Quarter 2016, which resulted in a net bargain purchase gain and settlement of pre-existing relationships, and lower loss and loss adjustment expenses ("LAE").

Non-GAAP operating income in Third Quarter 2016 was \$508 million, compared with \$164 million in Third Quarter 2015. The primary drivers of the increase in operating income are the same as those discussed above for net income.

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Nine Months 2016

Net income for Nine Months 2016 was \$684 million compared with \$627 million in the nine-month period ended September 30, 2015 ("Nine Months 2015"). The increase was due primarily to lower loss and LAE, higher premium accelerations and higher net bargain purchase gain and settlement of pre-existing relationships on the CIFG Acquisition compared with the acquisition of Radian Asset Assurance Inc. ("Radian Asset Acquisition"). This was offset in part by fair value losses on credit derivatives in Nine Months 2016 compared with fair value gains for Nine Months 2015.

Non-GAAP operating income in Nine Months 2016 was \$760 million, compared with \$582 million in Nine Months 2015. The increase in operating income was primarily due to lower operating loss and LAE, higher premium accelerations and higher net bargain purchase gain and settlement of pre-existing relationships on the CIFG Acquisition compared with the Radian Asset Acquisition. This was offset in part by lower credit derivative revenues and operating net investment income.

Shareholder's equity increased since December 31, 2015 due primarily to the CIFG Acquisition, positive income and net unrealized gains on available for sale investment securities recorded in accumulated other comprehensive income, which was partially offset by share repurchases and dividends. Operating shareholders' equity and adjusted book value also increased since December 31, 2015 due mainly to the CIFG Acquisition, offset in part by share repurchases and dividends. Operating shareholders' equity per share and adjusted book value per share benefited from the repurchase of 7.4 million common shares in Nine Months 2016.

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 to create value, including through acquisitions, investments and commutations
- Loss mitigation

New Business Production

The Company believes high-profile defaults by municipal obligors, such as the Commonwealth of 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 continues to dampen demand for bond insurance and, after a number of years in which the Company was essentially the only financial guarantor, there are now two other financial guarantors active in one of its markets.

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U.S. Municipal Market Data (1)

Based on Sale Date

	Nine Months 2016		Nine Months 2015		Year Ended December 31, 2015	
	Par	Number of issues	Par	Number of issues	Par	Number of issues
	(dollars in billions, except number of issues)					
New municipal bonds issued	\$323.3	9,489	\$301.0	9,503	\$377.6	12,076
Total insured	18.5	1,404	19.6	1,465	25.2	1,880
Insured by Assured Guaranty	10.1	672	11.9	806	15.1	1,009

(1) Source: Thomson Reuters.

Industry Penetration Rates (1)

U.S. Municipal Market

	Nine Months		Year Ended December 31,
	2016	2015	2015
Market penetration par	5.7%	6.5%	6.7%
Market penetration based on number of issues	14.8	15.4	15.6
% of single A par sold	23.1	21.4	22.1
% of single A transactions sold	55.1	52.4	54.1
% of \$25 million and under par sold	17.1	18.3	18.7
% of \$25 million and under transactions sold	16.9	17.4	17.6

(1) Source: Thomson Reuters.

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New Business Production

	Third Quarter		Nine Months		
	2016	2015	2016	2015	
	(in millions)				
Gross Written Premiums					
Public Finance—U.S.	\$24	\$41	\$72	\$77	
Public Finance—non-U.S.	(9) (1) 6	(2)
Structured Finance—U.S.	1	0	(5	) 19
Structured Finance—non-U.S.	0	0	(2	) 0
Total gross written premiums	\$16	\$40	\$71	\$94	
PVP (1):					
Public Finance—U.S.	\$25	\$41	\$89	\$79	
Public Finance—non-U.S.	2	—	16	—	
Structured Finance—U.S. (2)	23	0	24	19	
Structured Finance—non-U.S.	—	—	—	5	
Total PVP	\$50	\$41	\$129	\$103	
Gross Par Written:					
Public Finance—U.S.	\$3,459	\$4,703	\$10,574	\$12,725	
Public Finance—non-U.S.	164	—	570	—	
Structured Finance—U.S. (2)	1,064	—	1,067	261	
Structured Finance—non-U.S.	—	—	—	6	
Total gross par written	\$4,687	\$4,703	\$12,211	\$12,992	

(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) Included in this category is a structured capital relief Triple-X excess of loss life reinsurance transaction written in Third Quarter 2016.

Gross written premiums include amounts collected upfront on new business written as well as the present value of contractual or expected premiums discounted at risk free rates and the effects of changes in the estimated lives of all transactions in the inforce book of business. The decrease in gross written premiums to \$16 million in Third Quarter 2016 from \$40 million in Third Quarter 2015, was primarily attributable to lower public finance new business production, and changes in estimated lives. For Nine Months 2016, gross written premiums decreased compared to Nine Months 2015 primarily due to lower public finance new business production, and the termination of several large transactions.

U.S. public finance PVP decreased in Third Quarter 2016 compared with the comparable prior year period, however, Nine Months 2016 U.S. public finance PVP was \$89 million, a 12.7% increase over Nine Months 2015. During Third Quarter 2016 and Nine Months 2016, Assured Guaranty once again guaranteed the majority of insured par issued and maintained an A- rating.

U.S. structured finance PVP in Third Quarter and Nine Months 2016 primarily comprises a structured capital relief Triple-X excess of loss life reinsurance transaction.

Outside the U.S., the Company believes the United Kingdom ("U.K.") currently presents the most new business opportunities for financial guarantees of infrastructure financings, which have typically required such guarantees for capital market access. These transactions typically have long lead times. Assured Guaranty believes it is the only

company in the private sector offering such financial guarantees outside the United States. For the Nine Months 2016, non-U.S. public finance PVP primarily represents secondary market financial guarantees written on utility bonds and additional future premiums related to the restructuring of an existing insured obligation.

In general, the Company expects that structured finance opportunities will increase in the future as the global economy recovers, interest rates rise, more issuers return to the capital markets for financings and institutional investors again utilize

Shareholders' equity	\$ 8.64	\$ 5.75
Operating shareholders' equity	8.17	5.49
Adjusted book value	13.85	10.83

(1) Cumulative repurchases since the beginning of 2013.

In order to reduce leverage, and possibly rating agency capital charges, the Company has mutually agreed with beneficiaries to terminate selected financial guaranty insurance and credit derivative contracts. In particular, the Company has targeted investment grade securities for which claims are not expected but which carry a disproportionately large rating agency capital charge. The Company terminated \$1.7 billion and \$1.2 billion in net par of investment grade financial guaranty and credit default swap ("CDS") contracts in Third Quarter 2016 and Third Quarter 2015, respectively. The Company terminated

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\$5.8 billion and \$1.8 billion in net par of investment grade financial guaranty and CDS contracts in Nine Months 2016 and Nine Months 2015, respectively.

Alternative Strategies

The Company considers alternative strategies in order to create long-term shareholder value. 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 business that it had previously ceded. These transactions enable the Company to improve its future earnings and deploy some of its excess capital. During Third Quarter 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 credit experience.

CIFG Holding Inc. On July 1, 2016, Assured Guaranty Corp. ("AGC") acquired all of the issued and outstanding capital stock of CIFGH, for \$450.6 million in cash. Assured Guaranty US Holdings Inc. ("AGUS") previously owned 1.6% of the outstanding shares of CIFGH, for which it received \$7.1 million in consideration from AGC, resulting in a net consolidated purchase price of \$443 million. AGC merged CIFG with and into AGC, with AGC as the surviving company, on July 5, 2016. The CIFG Acquisition added \$4.2 billion of net par insured on July 1, 2016. In Third Quarter 2016, the acquisition contributed net income and operating income of approximately \$2.32 per share, including the bargain purchase gain, loss on settlement of pre-existing relationships and activity since the day of CIFG Acquisition ("CIFG Acquisition Date"). Shareholders' equity benefited by \$2.23 per share, operating shareholders' equity benefited by \$2.23 per share and adjusted book value benefited by \$3.85 per share as of the CIFG Acquisition Date.

Radian Asset Assurance Inc. On April 1, 2015 (the "Radian Acquisition Date"), AGC completed the acquisition of Radian Asset Assurance Inc. ("Radian Asset") for a cash purchase price of \$804.5 million. In connection with the acquisition, AGC acquired Radian Asset's entire insured portfolio, which resulted in an increase in net par outstanding as of the Radian Acquisition Date of approximately \$13.6 billion, consisting of \$9.4 billion public finance net par outstanding and \$4.2 billion structured finance net par outstanding. In 2015, the acquisition contributed net income of approximately \$2.46 per share and operating income of approximately \$2.13 per share, including the bargain purchase gain, settlement of pre-existing relationships and activity since the Radian Acquisition Date. Shareholders' equity benefited by \$1.04 per share, operating shareholders' equity benefited by \$1.26 per share and adjusted book value benefited by \$3.73 per share as of the Radian Acquisition Date.

MBIA UK Insurance Limited. On September 29, 2016, Assured Guaranty Ltd. announced that its subsidiary AGC entered into an agreement to acquire MBIA UK Insurance Limited ("MBIA UK"), the European operating subsidiary of MBIA Insurance Corporation (together with its subsidiaries, "MBIA"). The parties expect the transaction to close in early January 2017, subject to receipt of regulatory approvals and the satisfaction of other customary closing conditions. There can be no assurance that regulatory approvals will be obtained.

Under the agreement, AGC will deliver to MBIA all of the notes issued in the Zohar II 2005-1 transaction that AGC holds, and the seller, MBIA UK (Holdings) Limited, will transfer to AGC all of the outstanding shares of MBIA UK plus \$23 million in cash. The Zohar notes to be transferred had, as of September 30, 2016, a total outstanding principal of approximately \$347 million. MBIA Insurance Corporation insures all of the notes issued in the Zohar II 2005-1 transaction.

As of June 30, 2016, MBIA UK had an insured portfolio of approximately \$13.0 billion of net par. Assured Guaranty currently plans to maintain MBIA UK as a stand-alone entity but could combine it with other European

affiliates in the future.

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 that 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, has resulted in more favorable outcomes in distressed public finance situations than would have been the case without its participation, as illustrated, for example, by the Company's role in the Detroit, Michigan; Stockton, California; and Jefferson County, Alabama financial crises. Currently, the Company is an active participant in discussions with the Commonwealth of Puerto Rico and its advisors with respect to a number of Puerto Rico credits. For example, on December 24, 2015, AGC and Assured Guaranty Municipal Corp. ("AGM") entered into an RSA with Puerto Rico Electric Power Authority ("PREPA"), an ad hoc group of uninsured bondholders and a

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group of fuel-line lenders that would, subject to certain conditions, result in, among other things, modernization of the utility and a restructuring of current debt. Legislation meeting the requirements of the RSA was enacted on February 16, 2016, and a transition charge to be paid by PREPA rate payers for debt service on the securitization bonds as contemplated by the RSA was approved by the Puerto Rico Energy Commission on June 20, 2016. The closing of the restructuring transaction and the issuance of the surety bonds are subject to certain conditions, including execution of acceptable documentation and legal opinions. There can be no assurance that the conditions in the RSA will be met or that, if the conditions are met, the RSA's other provisions, including those related to the restructuring of the insured PREPA revenue bonds, will be implemented. In addition, there also can be no assurance that the negotiations with respect to other Puerto Rico credits will result in agreements on a consensual recovery plans.

The Company is currently working with the servicers of some of the residential mortgage-backed securities ("RMBS") it insures to encourage the servicers to provide alternatives to distressed borrowers that will encourage them to continue making payments on their loans and so improve the performance of the related RMBS. Many of the home equity lines of credit ("HELOC") loans underlying the HELOC RMBS are entering their amortization periods, which results in material increases to the size of the monthly payments the borrowers are required to make.

The Company also continues to purchase attractively priced obligations, including below-investment-grade ("BIG") obligations, 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"). These purchases resulted in a reduction of net expected loss to be paid of \$558 million as of September 30, 2016. The fair value of assets purchased for loss mitigation purposes as of September 30, 2016 (excluding the value of the Company's insurance) was \$1,129 million, with a par of \$2,027 million (including bonds related to FG VIEs of \$49 million in fair value and \$239 million in par).

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.

In an effort to recover losses the Company experienced in its insured U.S. RMBS portfolio, the Company also continues to pursue providers of representations and warranties ("R&W") by enforcing R&W provisions in contracts, negotiating agreements with R&W providers relating to those provisions and, where appropriate, pursuing litigation against R&W providers. See Note 5, Expected Loss to be Paid, of the Financial Statements.

Other Events

Brexit

The Company is evaluating the impact on its business of the referendum held in the U.K on June 23, 2016, in which a majority voted to exit the European Union ("EU"), known as "Brexit". Negotiations are expected to commence soon to determine the future terms of the U.K's relationship with the EU, including the terms of trade between the U.K. and the EU. The negotiations, once commenced, are likely to last for two years, or possibly more. Brexit may impact laws, rules and regulations applicable to the Company's U.K. subsidiaries and U.K. operations.

The Company cannot predict the direction Brexit-related developments will take nor the impact of those developments on the economies of the markets the Company serves, which may materially adversely affect the Company's business, results of operations and financial condition, but the Company has identified certain areas where Brexit may impact its business:

Currency Impact. The Company reports its accounts in US dollars, while some of its income, expenses and assets are denominated in other currencies, primarily the U.K's pound sterling and the EU's Euro. From March 31, 2016 to June

30, 2016, the value of pound sterling dropped from £0.69 per dollar to £0.75 per dollar, while the Euro dropped from €0.88 per dollar to €0.90 per dollar. For the second quarter 2016 the Company recognized losses of approximately \$9 million in the consolidated statement of operations, net of tax, and approximately \$18 million in other comprehensive income, net of tax, for foreign currency translation, that were primarily driven by the exchange rate fluctuations of the pound sterling. At September 30, 2016, the pound sterling was £0.77 per dollar, while the Euro was €0.89 per dollar. Future movements in currency exchange rates will also impact the consolidated statements of operation and other comprehensive income.

U.K. Business. Approximately \$17.1 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, toll roads, government accommodation, housing associations, universities and other public purpose enterprises that the Company

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believes are not overly vulnerable to Brexit pressures. Assured Guaranty (Europe) Ltd. (“AGE”) is currently authorized by the Prudential Regulation Authority (“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. Approximately \$6.3 billion of the Company’s insured net par is to risks located in EU and European Economic Area (“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”. Depending on the terms of Brexit, AGE may, once Brexit is implemented, lose the ability to insure new transactions from London in non-U.K. EU and EEA countries without obtaining additional licenses, which may require a presence in another EU country. While pertinent laws and regulations have yet to be adopted or passed, the Company does not believe Brexit will adversely affect its surveillance and loss mitigation activities with respect to existing insured transactions in non-U.K. EU and EEA countries, except to the extent Brexit inhibits the issuance of new guaranties in distressed situations in non-U.K. EU or EEA countries. As noted above, most of the new transactions insured by AGE since 2008 have been in the U.K.

Employees. While nearly one-third of the employees working in AGE’s London office are non-U.K. EU or EEA citizens, most of those employees currently qualify, and the Company expects the rest to qualify within the next two years, to become permanent residents under current U.K. law.

Results of Operations

Estimates and Assumptions

The Company’s consolidated financial statements include amounts that are determined using estimates and assumptions. The actual amounts realized could ultimately be materially different from the amounts currently provided for 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, other-than-temporary impairment, 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 of critical importance to understanding its consolidated financial statements. See Part II, Item 8. “Financial Statements and Supplementary Data” of the Company’s 2015 Annual Report on Form 10-K for a discussion of the significant accounting policies, the loss estimation process, and the fair value methodologies.

The Company carries a portion of its assets and liabilities at fair value, the majority of which are measured at fair value on a recurring basis. Level 3 assets, consisting primarily of financial guaranty variable interest entities’ assets, credit derivative assets, and investments, represented approximately 17% and 20% of total assets measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015, respectively. All of the Company’s liabilities that are measured at fair value are Level 3. See Note 7, Fair Value Measurement, of the Financial Statements for additional information about assets and liabilities classified as Level 3.

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Consolidated Results of Operations

Consolidated Results of Operations

	Three Months Ended September 30, 2016 2015		Nine Months Ended September 30, 2016 2015	
	(in millions)			
Revenues:				
Net earned premiums	\$231	\$213	\$628	\$574
Net investment income	94	112	291	311
Net realized investment gains (losses)	(2)	(27)	(5)	(20)
Net change in fair value of credit derivatives:				
Realized gains (losses) and other settlements	15	6	47	35
Net unrealized gains (losses)	6	80	(23)	265
Net change in fair value of credit derivatives	21	86	24	300
Fair value gains (losses) on CCS	(23)	(15)	(50)	10
Fair value gains (losses) on FG VIEs	(11)	2	11	0
Bargain purchase gain and settlement of pre-existing relationships	259	—	259	214
Other income (loss)	(3)	(3)	49	43
Total revenues	566	368	1,207	1,432
Expenses:				
Loss and LAE	(9)	112	183	318
Amortization of deferred acquisition costs	4	5	13	15
Interest expense	26	25	77	76
Other operating expenses	65	54	188	176
Total expenses	86	196	461	585
Income (loss) before provision for income taxes	480	172	746	847
Provision (benefit) for income taxes	1	43	62	220
Net income (loss)	\$479	\$129	\$684	\$627

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Net Earned Premiums

Net earned premiums are recognized 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 are expected to 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 "Financial Guaranty Insurance Premiums" in Note 6, Financial Guaranty Insurance, of the Financial Statements, for additional information and the expected timing of future premium earnings.

Net Earned Premiums

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in millions)			
Financial guaranty:				
Public finance				
Scheduled net earned premiums and accretion	\$80	\$77	\$222	\$232
Accelerations				
Refundings	105	77	267	213
Terminations	21	22	21	22
Total accelerations	126	99	288	235
Total public finance	206	176	510	467
Structured finance(1)				
Scheduled net earned premiums and accretion	25	31	74	99
Terminations	—	6	44	7
Total structured finance	25	37	118	106
Other	—	0	0	1
Total net earned premiums	\$231	\$213	\$628	\$574

(1) Excludes \$4 million and \$6 million for Third Quarter 2016 and 2015, respectively, and \$12 million and \$16 million for Nine Months 2016 and 2015, respectively, related to consolidated FG VIEs.

Net earned premiums increased in Third Quarter 2016 and Nine Months 2016 compared with Third Quarter 2015 and Nine Months 2015 due primarily to higher accelerations, offset by the scheduled decline in structured finance par outstanding, as shown in the table above.

The increase in 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 our contractual rights to make claim payments on an accelerated basis.

Refundings occur in the public finance market and have been at historically high levels in recent years due primarily 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 unearned premiums remaining from the original upfront payment.

Terminations are generally negotiated agreements with issuers resulting in the extinguishment of the Company's insurance obligation with respect to the insured obligations. 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, such that the Company accelerates the recognition of the associated unearned premiums.

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At September 30, 2016, \$3.5 billion of net deferred premium revenue remained to be earned over the life of the insurance contracts. The CIFG Acquisition Date increased deferred premium revenue by \$296 million.

Net Investment Income

Net investment income is a function of the yield that the Company earns on invested assets and the size of the 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)

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in millions)			
Income from fixed-maturity securities managed by third parties	\$75	\$85	\$231	\$252
Income from internally managed securities:				
Fixed maturities	19	15	58	44
Other	2	14	8	21
Gross investment income	96	114	297	317
Investment expenses	(2)	(2)	(6)	(6)
Net investment income	\$94	\$112	\$291	\$311

Net investment income excludes \$1 million and \$3 million for Third Quarter 2016 and 2015, and \$8 million and \$9 (1) million for Nine Months 2016 and 2015, respectively, related to securities in the investment portfolio owned by AGC and AGM that were issued by consolidated FG VIEs.

Net investment income for Third Quarter 2016 and Nine Months 2016 decreased compared to Third Quarter 2015 and Nine Months 2015 due primarily to lower average yield and additional income on securities within the internally managed portfolio purchased as part of loss mitigation strategies in 2015. The lower average yield is due primarily to proceeds from matured securities being reinvested at lower new market rates.

The overall pre-tax book yield was 3.57% as of September 30, 2016 and 4.30% as of September 30, 2015, respectively. Excluding the internally managed portfolio, pre-tax book yield was 3.32% as of September 30, 2016 compared with 3.49% as of September 30, 2015.

Net Realized Investment Gains (Losses)

The table below presents the components of net realized investment gains (losses). See Note 10, Investments and Cash, of the Financial Statements.

Net Realized Investment Gains (Losses)

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in millions)			
Gross realized gains on available-for-sale securities	\$4	\$3	\$24	\$35
Gross realized losses on available-for-sale securities	(1)	(3)	(3)	(10)

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Net realized gains (losses) on other invested assets	0	(9)	0	(8)
Other-than-temporary impairment	(5)	(18)	(26)	(37)
Net realized investment gains (losses)	\$(2)	\$(27)	\$(5)	\$(20)

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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. Please refer to Note 5, Expected Loss to be Paid, of the Financial Statements, for a discussion of the assumptions and methodologies used in calculating the expected loss to be paid for all contracts. For a discussion of the loss estimation process, approach to projecting losses in the U.S. RMBS portfolio and the measurement and recognition accounting policies under GAAP for each type of contract, see the following in Item 8, Financial Statements and Supplementary Data of the Company's 2015 Annual Report on Form 10-K:

• Note 5 for expected loss to be paid,

• Note 6 for financial guaranty insurance,

• Note 7 for fair value methodologies for credit derivatives and FG VIE assets and liabilities,

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• Note 8 for credit derivatives, and
• Note 9 for consolidated FG VIEs.

The discussion of losses that follows encompasses losses on all contracts in the insured portfolio regardless of accounting model, unless otherwise specified. In order to effectively evaluate and manage the economics of the entire insured portfolio, management compiles and analyzes expected loss information for all policies on a consistent basis. That is, management monitors and assigns ratings and calculates expected losses in the same manner for all its exposures. Management also considers contract specific characteristics that affect the estimates of expected loss.

The surveillance process for identifying transactions with expected losses is described in the notes to the consolidated financial statements. More extensive monitoring and intervention is employed for all BIG surveillance categories, with internal credit ratings reviewed quarterly.

Net expected loss to be paid consists primarily of the present value of future: expected claim and LAE payments, expected recoveries from excess spread and other collateral in the transaction structures, cessions to reinsurers, and expected recoveries 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 in the mortgage market 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, loss and LAE, and operating loss and LAE; however the effect of changes in discount rates are not indicative of actual credit impairment or improvement in the period.

The primary differences between net economic loss development and loss and LAE are that the amount reported in the Consolidated Statements of Operations:

• considers deferred premium revenue in the calculation of loss reserves and loss and LAE for financial guaranty insurance contracts,

- eliminates loss and LAE related to FG VIEs and

• does not include estimated losses on credit derivatives.

Loss and LAE reported in operating income (i.e. operating loss and LAE) includes losses on financial guaranty insurance, credit derivatives and FG VIEs.

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For financial guaranty insurance contracts, the loss and LAE reported in the Consolidated Statements of Operations is generally recorded only when expected losses exceed deferred premium revenue. 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 acquired in a business combination generally have the largest deferred premium revenue balances because of the purchase accounting adjustments made at acquisition. Therefore the largest differences between net economic loss development and loss and LAE on financial guaranty insurance contracts generally relate to these policies. See "Loss and LAE (Financial Guaranty Insurance Contracts)" below.

Net Expected Loss to be Paid

	As of September 30, 2016	As of December 31, 2015
	(in millions)	
Public finance	\$854	\$ 809
Structured finance		
U.S. RMBS before R&W payable (recoverable)	111	488
R&W payable (recoverable) (1)	37	(79)
U.S. RMBS after R&W	148	409
Other structured finance	88	173
Structured finance	236	582
Total	\$1,090	\$ 1,391

The Company's agreements with R&W providers generally provide that, as the Company makes claim payments, the R&W providers reimburse it for those claims; if the Company later receives reimbursement through the (1) transaction (for example, from excess spread), the Company repays the R&W providers. When the Company projects receiving more reimbursements in the future than it projects paying in claims on transactions covered by R&W settlement agreements, the Company will have a net R&W payable.

Economic Loss Development (Benefit) (1)

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in millions)			
Public finance	\$8	\$91	\$216	\$321
Structured finance				
U.S. RMBS before R&W payable (recoverable)	(36)	(77)	(193)	(152)
R&W payable (recoverable)	9	1	54	48
U.S. RMBS after R&W	(27)	(76)	(139)	(104)
Other structured finance	(25)	(18)	(40)	(31)
Structured finance	(52)	(94)	(179)	(135)
Total	\$(44)	\$(3)	\$37	\$186

(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.

Third Quarter 2016 Net Economic Loss Development

The total economic benefit of \$44 million in Third Quarter 2016 was generated mainly by the structured finance sector. The risk-free rates used to discount expected losses ranged from 0.0% to 2.42% as of September 30, 2016 and 0.0% to 2.46% as of June 30, 2016. The effect of changes in the risk-free rates used to discount expected losses was a benefit of \$29 million in Third Quarter 2016.

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U.S. Public Finance Economic Loss Development: The net par outstanding for U.S. public finance obligations rated BIG by the Company was \$7.6 billion as of September 30, 2016 compared with \$8.3 billion as of June 30, 2016. The Company projects that its total net expected loss across its troubled U.S. public finance credits as of September 30, 2016 will be \$816 million, compared with \$963 million as of June 30, 2016. Economic loss development in Third Quarter 2016 was \$9 million, which was primarily attributable to Puerto Rico exposures and the effect of changing discount rates. See "Insured Portfolio-Exposure to Puerto Rico" below 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 was \$27 million and was due mainly to underlying collateral improvement on certain subprime transactions and an increase in the expected recovery rate on certain second lien transactions.

Other Structured Finance Economic Loss Development: The net benefit attributable to structured finance (excluding U.S. RMBS) was \$25 million, due primarily to a benefit from the purchase of a portion of an insured obligation as part of a loss mitigation strategy.

Third Quarter 2015 Net Economic Loss Development

Total economic benefit of \$3 million in Third Quarter 2015 was generated mainly by a net benefit in the structured finance sector, partially offset by a loss development in the U.S. public finance sector. The risk-free rates used to discount expected losses ranged from 0.0% to 3.34% as of September 30, 2015 and 0.0% to 3.37% as of June 30, 2015. The effect of changes in the risk-free rates used to discount expected losses was a loss of \$11 million in Third Quarter 2015.

U.S. Public Finance Economic Loss Development: The net par outstanding for U.S. public finance obligations rated BIG by the Company was \$9.5 billion as of September 30, 2015 compared with \$9.9 billion as of June 30, 2015. Economic loss development in Third Quarter 2015 was \$92 million, which was primarily attributable to Puerto Rico exposures.

U.S. RMBS Economic Loss Development: Economic loss development attributable to U.S. RMBS was a benefit of \$76 million primarily attributable to an R&W settlement, and a benefit related to the acceleration of claim payments as a means of mitigating future losses on certain Alt-A transactions.

Other structured finance: Economic loss development in this sector was a benefit of \$18 million, which was due primarily to a termination of a commercial mortgage-backed security ("CMBS") transaction.

Nine Months 2016 Net Economic Loss Development

Total economic loss development of \$37 million in Nine Months 2016 was generated mainly by the U.S. public finance sector on Puerto Rico exposures, partially offset by a net benefit in the structured finance sector due to the acceleration of claim payments as a means of mitigating future losses on certain Alt-A transactions and underlying collateral improvement on U.S. RMBS transactions. The effect of the change in the risk-free rates used to discount expected losses was a loss of \$79 million in Nine Months 2016.

Nine Months 2015 Net Economic Loss Development

Total economic loss development of \$186 million in Nine Months 2015 was primarily due to higher U.S. public finance losses on Puerto Rico exposures, partially offset by U.S. RMBS R&W benefits attributable to settlements and a benefit due to the acceleration of claim payments as a means of mitigating future losses on certain Alt-A

transactions.

Loss and LAE (Financial Guaranty Insurance Contracts)

For transactions accounted for as financial guaranty insurance under GAAP, each transaction's expected loss to be expensed, net of estimated recoveries, is compared with the deferred premium revenue of that transaction. Generally, when the expected loss to be expensed exceeds the deferred premium revenue, a loss is recognized in the income statement for the amount of such excess. When the Company measures operating income, a non-GAAP financial measure, it calculates the credit derivative and FG VIE losses incurred in a similar manner.

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 in the Consolidated Statements of Operations for financial guaranty insurance policies. Expected loss to

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be paid for FG VIEs pursuant to AGC's and AGM's financial guaranty policies is calculated in a manner consistent with financial guaranty insurance contracts, but eliminated in consolidation under GAAP.

The following table presents the loss and LAE recorded in the consolidated statements of operations. These amounts are based on economic loss development and expected losses to be paid for financial guaranty insurance contracts only, and the amortization of the related unearned premium reserve on a transaction by transaction basis. Amounts presented are net of reinsurance.

Loss and LAE Reported
on the Consolidated Statements of Operations

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in millions)			
Public finance	\$20	\$87	\$232	\$302
Structured finance:				
U.S. RMBS	(2)	31	(3)	29
Other structured finance	(27)	4	(42)	4
Structured finance	(29)	35	(45)	33
Total insurance contracts before FG VIE consolidation	(9)	122	187	335
Effect of consolidating FG VIEs	0	(10)	(4)	(17)
Total loss and LAE (1)	\$(9)	\$112	\$183	\$318

Excludes credit derivative benefit of \$8 million and \$54 million for Third Quarter 2016 and Third Quarter 2015 (1) and credit derivative benefit of \$25 million and \$75 million for Nine Months 2016 and Nine Months 2015, which are included in non-GAAP operating loss and LAE.

Loss and LAE in Third Quarter 2016 was mainly driven by lower loss reserves in the structured finance sector. The non-U.S. RMBS structured finance sector benefited from the purchase of a portion of an insured obligation as part of a loss mitigation strategy. In Third Quarter 2015, loss and LAE were due primarily to Puerto Rico exposures, partially offset by a benefit from accelerated payments to reduce future losses.

Loss and LAE in Nine Months 2016 was mainly driven by higher loss reserves on certain Puerto Rico exposures partially offset by a benefit from the non-U.S. RMBS structured finance transaction loss mitigation strategy described above, and commutations of certain assumed student loan exposures. In Nine Months 2015, loss and LAE incurred were due primarily to increased loss estimates on certain Puerto Rico exposures.

For financial guaranty contracts accounted for as insurance, the amounts reported in the GAAP financial statements may only reflect a portion of the current period's economic loss development and may also include a portion of prior-period economic loss development. The difference between economic loss development on financial guaranty insurance contracts and loss and LAE recognized in the Consolidated Statements of Operations relates to the effect of taking deferred premium revenue into account for loss and LAE, which is not considered in economic loss development.

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The table below presents the expected timing of loss recognition for insurance contracts on both a reported GAAP net income and non-GAAP operating income basis.

Financial Guaranty Insurance
Net Expected Loss to be Expensed
As of September 30, 2016

	In GAAP Reported Income (in millions)	Non-GAAP Operating Income (1) (in millions)
2016 (October 1 – December 31)	\$ 8	\$ 11
2017	37	46
2018	37	44
2019	33	39
2020	31	37
2021-2025	129	145
2026-2030	95	103
2031-2035	56	67
After 2035	23	27
Net expected loss to be expensed	449	519
Future accretion	242	261
Total expected future loss and LAE	\$ 691	\$ 780

(1) Net expected loss to be expensed for GAAP reported income is different than operating income, a non-GAAP financial measure, by the amount related to consolidated FG VIEs and credit derivatives.

Net Change in Fair Value of Credit Derivatives

Changes in the fair value of credit derivatives occur primarily because of changes in interest rates, credit spreads, notional amounts, credit ratings of the referenced entities, expected terms, realized gains (losses) and other settlements, and the issuing company's own credit rating and credit spreads, and other market factors. With considerable 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. Expected losses to be paid in respect of contracts accounted for as credit derivatives are included in the discussion above "Economic Loss Development."

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 September 30, 2016, market prices for the Company's credit derivative contracts were generally not available. Inputs to the estimate of fair value

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include various market indices, credit spreads, the Company's own credit spread, and estimated contractual payments. See Note 7, Fair Value Measurement, of the Financial Statements for additional information.

Net Change in Fair Value of Credit Derivatives Gain (Loss)

	Third Quarter 2016	2015	Nine Months 2016	2015
	(in millions)			
Realized gains on credit derivatives	\$11	\$14	\$39	\$52
Net credit derivative losses (paid and payable) recovered and recoverable and other settlements	4	(8)	8	(17)
Realized gains (losses) and other settlements (1)	15	6	47	35
Net unrealized gains (losses):				
Pooled corporate obligations	3	(24)	(37)	0
U.S. RMBS	(12)	11	0	148
Commercial mortgage-backed securities ("CMBS")	0	(3)	0	1
Other	15	96	14	116
Net unrealized gains (losses)	6	80	(23)	265
Net change in fair value of credit derivatives	\$21	\$86	\$24	\$300

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

Net Par and Realized Gains

from Terminations and Settlements of Credit Derivative Contracts

	Third Quarter 2016	2015	Nine Months 2016	2015
	(in millions)			
Net par of terminated credit derivative contracts	\$1,071	\$405	\$3,507	\$969
Realized gains on credit derivatives	3	0	11	13
Net unrealized gains (losses) on credit derivatives	11	99	81	98

During Third Quarter 2016, unrealized fair value gains were generated primarily as a result of CDS terminations in the pooled corporate and other sectors and price improvements on the underlying collateral of the Company's CDS. This was the primary driver of the unrealized fair value gains in the pooled corporate CLO, and other sectors. The unrealized fair value gains were partially offset by unrealized losses resulting from wider implied net spreads across all sectors. The wider implied net spreads were primarily a result of the decreased cost to buy protection in AGC's and AGM's name, particularly for the one year CDS spread, as the market cost of AGC's and AGM's credit protection decreased significantly during the period. These transactions were pricing at or above their floor levels (or the minimum rate at which the Company would consider assuming these risks based on historical experience); therefore 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 Nine Months 2016, unrealized fair value losses were generated primarily in the trust preferred sector, due to 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, particularly for the one year and five year CDS spread, as the market cost of AGC's and AGM's credit protection decreased during the period. These transactions were pricing at or above their floor levels, therefore when the cost of purchasing CDS protection on AGC and AGM decreased, the implied spreads that the Company would expect to receive on these transactions increased. The unrealized fair value losses were partially offset by unrealized fair value gains which resulted from the terminations of several CDS transactions during the period. The majority of the CDS transactions were terminated as a result of settlement agreements with several CDS counterparties.

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During Third Quarter 2015, unrealized fair value gains were driven primarily by the termination of a Triple-X life-securitization transaction in the other sector. These unrealized gains were partially offset by wider implied net spreads in the Company's pooled corporate CLO sector. The wider implied net spreads were primarily a result of the decreased cost to buy protection in AGC's and AGM's name, particularly for the one year and five year CDS spreads, as the market cost of AGC's and AGM's credit protection decreased during the period. For those CDS transactions that were pricing above their floor levels, when the cost of purchasing CDS protection on AGC and AGM decreased, the implied spreads that the Company would expect to receive on these transactions increased.

During Nine Months 2015, unrealized fair value gains were generated primarily in the U.S. RMBS prime first lien and Option ARM and subprime sectors, due to tighter implied net spreads. The tighter implied net spreads were primarily a result of the increased cost to buy protection in AGC's and AGM's name, particularly for the one year CDS spread, as the market cost of AGC's and AGM's credit protection increased during the period. For those CDS transactions that were pricing above their floor levels, when the cost of purchasing CDS protection on AGC and AGM increased, the implied spreads that the Company would expect to receive on these transactions decreased. The unrealized fair value gains in the other sector were a result of the termination of a Triple-X life-securitization transaction, referenced above. In addition, during Nine Months 2015 there was a refinement in methodology to address an instance in a U.S. RMBS transaction that changed from an expected loss to an expected recovery position. This refinement resulted in approximately \$49 million in fair value gains in Nine Months 2015.

CDS Spread on AGC and AGM

Quoted price of CDS contract (in basis points)

	As of September 30, 2016	As of June 30, 2016	As of December 31, 2015	As of September 30, 2015	As of June 30, 2015	As of December 31, 2014
Five-year CDS spread:						
AGC	170	265	376	331	390	323
AGM	170	265	366	337	410	325
One-year CDS spread						
AGC	31	45	139	112	120	80
AGM	31	47	131	104	125	85

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

	Third Quarter 2016	Third Quarter 2015	Nine Months 2016	Nine Months 2015
	(in millions)			
Change in unrealized gains (losses) of credit derivatives:				
Before considering implication of the Company's credit spreads	\$44	\$121	\$85	\$212
Resulting from change in the Company's credit spreads	(38)	(41)	(108)	53
After considering implication of the Company's credit spreads	\$6	\$80	\$(23)	\$265

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, as well as the overall lack of liquidity in the CDS market. Offsetting the benefit attributable to AGC's and

AGM's credit spread were higher credit spreads in the fixed income security markets relative to pre-financial crisis levels. The higher credit spreads in the fixed income security market are due to the lack of liquidity in the high-yield collateralized debt obligations ("CDO"), TruPS CDOs, and collateralized loan obligation ("CLO") markets as well as continuing market concerns over the 2005-2007 vintages of RMBS.

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Financial Guaranty Variable Interest Entities

As of September 30, 2016 and December 31, 2015, the Company consolidated 32 and 34 VIEs, respectively. The table below presents the effects on reported GAAP income resulting from consolidating these FG VIEs and eliminating their related insurance and investment accounts and, in total, represents a difference between GAAP reported net income and non-GAAP operating income attributable to FG VIEs. The consolidation of FG VIEs has an effect on net income and shareholders' equity due to:

- changes in fair value gains (losses) on FG VIE assets and liabilities,
- the eliminations of premiums and losses related to the AGC and AGM FG VIE liabilities with recourse, and
- the elimination of investment balances related to the Company's purchase of AGC and AGM insured FG VIE debt.

Upon consolidation of a FG VIE, the related insurance and, if applicable, the related investment balances, are considered intercompany transactions and therefore eliminated. See "Non-GAAP Financial Measures—Operating Income" below and Note 9, Consolidated Variable Interest Entities, of the Financial Statements for more details.

Effect of Consolidating FG VIEs on Net Income

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in millions)			
Net earned premiums	\$(4)	\$(6)	\$(12)	\$(16)
Net investment income	(1)	(3)	(8)	(9)
Net realized investment gains (losses)	0	6	1	9
Fair value gains (losses) on FG VIEs	(11)	2	11	0
Bargain purchase gain	—	—	—	2
Loss and LAE	(1)	11	3	18
Effect on income before tax	(17)	10	(5)	4
Less: tax provision (benefit)	(6)	4	(2)	1
Effect on net income (loss)	\$(11)	\$6	\$(3)	\$3

Fair value gains (losses) on FG VIEs represent the net change in fair value on the consolidated FG VIEs' assets and liabilities. During Third Quarter 2016, the Company recorded a pre-tax net fair value loss on consolidated FG VIEs of \$11 million and during Nine Months 2016, the Company recorded a gain of \$11 million. The primary drivers of the loss during Third Quarter 2016 were the net mark-to-market losses due to price depreciation on the FG VIE assets, resulting from declines in value in the underlying collateral, and the price appreciation on the FG VIE recourse liabilities during the quarter, resulting from the tightening of the Company's credit spread. The primary driver of the Nine Months 2016 gain in fair value of FG VIEs assets and liabilities was net mark-to-market gains due to price appreciation on the FG VIE assets during the nine months period resulting from improvements in the underlying collateral.

During Third Quarter 2015, the Company recorded a pre-tax net fair value gain on consolidated FG VIEs of \$2 million. The primary driver of the gain was mark-to-market gains due to price appreciation on the FG VIE assets during the quarter resulting from improvements in the underlying collateral. During Nine Months 2015, the Company recorded a pre-tax net fair value loss on consolidated FG VIEs of less than \$1 million. The primary driver of the loss was a pre-tax loss of \$26 million on the consolidation of one new FG VIE which was mostly offset by net

mark-to-market gains due to price appreciation on the FG VIE assets resulting from improvements in the underlying collateral.

Net Change in Fair Value of CCS

The fair value losses for Third Quarter 2016 and Nine Months 2016 were due to the narrowing of the credit spreads of AGM and AGC. The fair value loss for Third Quarter 2015 and fair value gain for Nine Months 2015 were due to the narrowing and widening, respectively, of their credit spreads during those periods.

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Other Operating Expenses

Other operating expenses in Third Quarter 2016 increased by \$11 million compared to Third Quarter 2015 due primarily to expenses related to the CIFG Acquisition.

Other operating expenses in Nine Months 2016 increased by \$12 million compared to Nine Months 2016 due primarily to the accelerated amortization of leasehold improvements as a result of the Company's move of its New York offices.

Provision for Income Tax

Provision for Income Taxes and Effective Tax Rates

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in millions)			
Total provision (benefit) for income taxes	\$1	\$43	\$62	\$220
Effective tax rate	0.3%	25.0%	8.3 %	26.0 %

The Company's effective tax rates reflect the proportion of income recognized by each of the Company's operating subsidiaries, with U.S. subsidiaries taxed at the U.S. marginal corporate income tax rate of 35%, U.K. subsidiaries taxed at the U.K. marginal corporate tax rate of 20% unless subject to U.S. tax by election or as a U.S. controlled foreign corporation, 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 Company's overall corporate effective tax rate fluctuates based on the distribution of taxable income across these jurisdictions. In each of the periods presented, the portion of taxable income from each jurisdiction varied. The non-taxable book to tax differences were mostly consistent as compared to the prior period with the exception of the benefit on bargain purchase gain from the CIFG Acquisition.

Non-GAAP Financial Measures

To reflect the key financial measures 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, which may define non-GAAP financial measures differently than Assured Guaranty. Three of the primary non-GAAP financial measures analyzed by the Company's senior management are: operating income, adjusted book value and PVP.

Management and the Board of Directors use non-GAAP 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. By disclosing non-GAAP financial measures, the Company gives investors, analysts and financial news reporters access to some of the same information that management and the Board of Directors review internally. Assured Guaranty believes its presentation of non-GAAP financial measures is consistent with how analysts calculate their estimates of Assured Guaranty's financial results in their research reports on Assured Guaranty and with how investors, analysts and the financial news media evaluate Assured Guaranty's financial results.

Many investors, analysts and financial news reporters use operating shareholders' equity 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 operating shareholders' equity to evaluate the Company's capital adequacy. Many investors, analysts and financial news reporters also use adjusted book value to evaluate AGL's share price and as the basis of their decision to recommend, buy or sell the AGL common shares. Operating income enables investors and analysts to evaluate the Company's financial results as compared with the consensus analyst estimates distributed publicly by financial databases. Two non-GAAP financial measures, growth in adjusted book value per share and operating income, are key measures used to help determine compensation.

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

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Operating Income

Management believes that operating income is a useful measure because it presents the results of operations of the Company with all financial guaranty contracts accounted for on a consistent basis and excludes fair value adjustments that are not expected to result in economic gain or loss, which clarifies the understanding of the underwriting results and financial condition of the Company. 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, which is the amount 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. Additionally, this adjustment presents all financial guaranty contracts on a more consistent basis of accounting, whether or not they are subject to derivative accounting rules.
- 3) Elimination of fair value gains (losses) on the Company's CCS. Such amounts 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.
- 4) Elimination of foreign exchange gains (losses) on remeasurement of net premium receivables and loss and LAE reserves. Long-dated receivables and loss and LAE reserves represent the present value of future contractual or expected cash flows. Therefore, the current period's foreign exchange remeasurement gains (losses) are not necessarily indicative of the total foreign exchange gains (losses) that the Company will ultimately recognize.
- 5) Elimination of the effects of consolidating FG VIEs. GAAP requires the Company to consolidate certain VIEs that have issued debt obligations insured by the Company even though the Company does not own such VIEs. This adjustment presents all financial guaranty contracts on a more consistent basis of accounting, whether or not GAAP requires consolidation.
- 6) 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.

Table of ContentsReconciliation of Net Income (Loss)
to Operating Income

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in millions)			
Net income (loss)	\$479	\$129	\$684	\$627
Less pre-tax adjustments:				
Realized gains (losses) on investments	(2)	(35)	(7)	(31)
Non-credit impairment unrealized fair value gains (losses) on credit derivatives	(4)	4	(32)	105
Fair value gains (losses) on CCS	(23)	(15)	(50)	10
Foreign exchange gains (losses) on remeasurement of premiums receivable and loss and LAE reserves	(2)	(9)	(21)	(10)
Effect of consolidating FG VIEs	(17)	10	(5)	4
Total pre-tax adjustments	(48)	(45)	(115)	78
Less tax effect on pre-tax adjustments	19	10	39	(33)
Operating income	\$508	\$164	\$760	\$582

Operating Shareholders' Equity and Adjusted Book Value

Management believes that operating shareholders' equity is a useful measure because it presents the equity of the Company with all financial guaranty contracts accounted for on a consistent basis and excludes fair value adjustments that are not expected to result in economic gain or loss, which clarifies the understanding of the underwriting results and financial condition of the Company. Operating shareholders' equity is the basis of the calculation of adjusted book value (see below). Operating shareholders' equity is defined as shareholders' equity attributable to AGL, as reported under GAAP, adjusted for the following:

1) Elimination of the effects of consolidating FG VIEs in order to present all financial guaranty contracts on a more consistent basis of accounting, whether or not GAAP requires consolidation. GAAP requires the Company to consolidate certain VIEs that have issued debt obligations insured by the Company even though the Company does not own such VIEs.

2) Elimination of non-credit-impairment unrealized fair value gains (losses) on credit derivatives, which is the amount 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.

3) Elimination of fair value gains (losses) on the Company's CCS. Such amounts 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.

4) 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.

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

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Management uses adjusted book value to measure the intrinsic value of the Company, excluding franchise value. Growth in adjusted book value per share is one of the key financial measures used in determining the amount of certain long term compensation to management and employees and used by rating agencies and investors. Management believes that adjusted book value is a useful measure because it enables an evaluation of the net present value of the Company's in-force premiums and revenues net of expected losses. Adjusted book value is 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 credit derivative revenue. See below.

Addition of the deferred premium revenue on financial guaranty contracts in excess of expected loss to be expensed,
- 3) 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 asset or liability related to the above adjustments, which are determined by applying the statutory tax rate in each of the jurisdictions that generate these adjustments.

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

Reconciliation of Shareholders' Equity to Adjusted Book Value

	As of September 30, 2016		As of December 31, 2015	
	After-Tax	Per Share	After-Tax	Per Share
	(dollars in millions, except per share amounts)			
Shareholders' equity	\$6,640	\$50.70	\$6,063	\$43.96
Less pre-tax adjustments:				
Effect of consolidating FG VIEs	(38)	(0.29)	(35)	(0.25)
Non-credit impairment unrealized fair value gains (losses) on credit derivatives	(284)	(2.17)	(241)	(1.75)
Fair value gains (losses) on CCS	12	0.09	62	0.45
Unrealized gain (loss) on investment portfolio excluding foreign exchange effect	572	4.37	376	2.73
Taxes	(78)	(0.59)	(45)	(0.33)
Operating shareholders' equity	6,456	49.29	5,946	43.11
Pre-tax adjustments:				
Less: Deferred acquisition costs	108	0.82	114	0.83
Plus: Net present value of estimated net future credit derivative revenue	155	1.19	169	1.23
Plus: Net unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed	3,062	23.37	3,417	24.77
Taxes	(876)	(6.69)	(979)	(7.10)
Adjusted book value	\$8,689	\$66.34	\$8,439	\$61.18

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Net Present Value of Estimated Net Future Credit Derivative Revenue

Management believes that this amount is a useful measure because it enables an evaluation of the value of future estimated credit derivative revenue. There is no corresponding GAAP financial measure. This amount represents the present value of estimated future revenue from the Company's credit derivative in-force book of business, net of reinsurance, ceding commissions and premium taxes, for contracts without expected economic losses, and is discounted at 6%. Estimated net future credit derivative 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 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 Revenues") do not adequately measure. PVP in respect of financial guaranty 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, in each case, discounted at 6%. For purposes of the PVP calculation, management discounts estimated future installment premiums on insurance contracts at 6%, while under GAAP, these amounts are discounted at a risk free rate. Additionally, under GAAP, management records future installment premiums on financial guaranty insurance contracts covering non-homogeneous pools of assets based on the contractual term of the transaction, whereas for PVP purposes, management records an estimate of the future installment premiums the Company expects to receive, which may be based upon a shorter period of time than the contractual term of the transaction. Actual future net earned or written premiums and Credit Derivative Revenues 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 PVP to Gross Written Premiums

	Third Quarter 2016					Third Quarter 2015				
	Public Finance		Structured Finance			Public Finance		Structured Finance		
	Non U.S.	U.S.	Non U.S.	U.S.	Total	Non U.S.	U.S.	Non U.S.	Total	
	U.S.	-	U.S.	-	Total	U.S.	-	U.S.	-	Total
	U.S.		U.S.			U.S.		U.S.		
	(in millions)									
Total PVP	\$25	\$2	\$23	\$—	\$50	\$41	\$—	\$0	\$—	\$41
Less: PVP of non-financial guaranty insurance	—	—	22	—	22	—	—	1	—	1
Less: Financial guaranty installment premium PVP	0	2	1	—	3	—	—	(1)	—	(1)
Plus: Installment gross written premiums and other GAAP adjustments(1)	(1)	(9)	1	0	(9)	—	(1)	0	0	(1)
Total gross written premiums	\$24	\$(9)	\$1	\$0	\$16	\$41	\$(1)	\$0	\$0	\$40

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Net Par Outstanding and Average Internal Rating by Sector

Sector	As of September 30, 2016		As of December 31, 2015	
	Net Par Outstanding	Avg. Rating	Net Par Outstanding	Avg. Rating
(dollars in millions)				
Public finance:				
U.S.:				
General obligation	\$111,753	A	\$126,255	A
Tax backed	52,444	A	58,062	A
Municipal utilities	40,851	A	45,936	A
Transportation	21,346	A-	23,454	A
Healthcare	12,381	A	15,006	A
Higher education	10,587	A	11,936	A
Infrastructure finance	3,680	BBB+	4,993	BBB
Housing	1,889	A-	2,037	A
Investor-owned utilities	871	BBB+	916	A-
Other public finance—U.S.	2,848	A	3,271	A
Total public finance—U.S.	258,650	A	291,866	A
Non-U.S.:				
Infrastructure finance	11,644	BBB	12,728	BBB
Regulated utilities	9,905	BBB+	10,048	BBB+
Pooled infrastructure	1,595	AA	1,879	AA
Other public finance	5,095	A	4,922	A
Total public finance—non-U.S.	28,239	BBB+	29,577	BBB+
Total public finance	286,889	A-	321,443	A
Structured finance:				
U.S.:				
Pooled corporate obligations	11,660	AAA	16,008	AAA
RMBS	5,879	BBB-	7,067	BBB-
Insurance securitizations	2,310	A+	3,000	A+
Financial products	1,753	AA-	1,906	AA-
Consumer receivables	1,671	BBB+	2,099	A-
Commercial receivables	327	BBB	427	BBB+
CMBS and other commercial real estate related exposures	161	AAA	533	AAA
Other structured finance—U.S.	626	AA	730	AA-
Total structured finance—U.S.	24,387	AA-	31,770	AA-
Non-U.S.:				
Pooled corporate obligations	2,355	AA-	3,645	AA
RMBS	710	A-	492	BBB
Commercial receivables	389	BBB	600	BBB+
Other structured finance	595	AA-	621	AA-
Total structured finance—non-U.S.	4,049	A+	5,358	AA-
Total structured finance	28,436	AA-	37,128	AA-
Total net par outstanding	\$315,325	A	\$358,571	A

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The following tables set forth the Company's net financial guaranty portfolio by internal rating.

Financial Guaranty Portfolio by Internal Rating (1)
As of September 30, 2016

Rating Category	Public Finance U.S.			Public Finance Non-U.S.			Structured Finance U.S			Structured Finance Non-U.S			Total		
	Net Par Outstanding	%		Net Par Outstanding	%		Net Par Outstanding	%		Net Par Outstanding	%		Net Par Outstanding	%	
	(dollars in millions)														
AAA	\$2,182	0.9	%	\$703	2.5	%	\$11,187	45.9	%	\$1,526	37.7	%	\$15,598	5.0	%
AA	53,330	20.6		1,768	6.2		6,246	25.6		134	3.4		61,478	19.5	
A	137,270	53.1		6,466	22.9		1,744	7.1		669	16.5		146,149	46.3	
BBB	58,274	22.5		17,872	63.3		869	3.6		1,172	28.9		78,187	24.8	
BIG	7,594	2.9		1,430	5.1		4,341	17.8		548	13.5		13,913	4.4	
Total net par outstanding (2)	\$258,650	100.0	%	\$28,239	100.0	%	\$24,387	100.0	%	\$4,049	100.0	%	\$315,325	100.0	%

(1) The September 30, 2016 amounts include \$3.7 billion of net par acquired from CIFG.

(2) As of September 30, 2016, excludes \$2.1 billion of net par as a result of loss mitigation strategies, including loss securities held in the investment portfolio, which are primarily BIG.

Financial Guaranty Portfolio by Internal Rating
As of December 31, 2015

Rating Category	Public Finance U.S.			Public Finance Non-U.S.			Structured Finance U.S			Structured Finance Non-U.S			Total		
	Net Par Outstanding	%		Net Par Outstanding	%		Net Par Outstanding	%		Net Par Outstanding	%		Net Par Outstanding	%	
	(dollars in millions)														
AAA	\$3,053	1.1	%	\$709	2.4	%	\$14,366	45.2	%	\$2,709	50.6	%	\$20,837	5.8	%
AA	69,274	23.7		2,017	6.8		7,934	25.0		177	3.3		79,402	22.1	
A	157,440	53.9		6,765	22.9		2,486	7.8		555	10.3		167,246	46.7	
BBB	54,315	18.6		18,708	63.2		1,515	4.8		1,365	25.5		75,903	21.2	
BIG	7,784	2.7		1,378	4.7		5,469	17.2		552	10.3		15,183	4.2	
Total net par outstanding (1)	\$291,866	100.0	%	\$29,577	100.0	%	\$31,770	100.0	%	\$5,358	100.0	%	\$358,571	100.0	%

(1) As of December 31, 2015, excludes \$1.5 billion of net par as a result of loss mitigation strategies, including loss mitigation securities held in the investment portfolio, which are primarily BIG.

Exposure to Puerto Rico

The Company has 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 September 30, 2016, rated triple-C or below.

Puerto Rico has experienced significant general fund budget deficits in recent years. In addition to high debt levels, Puerto Rico faces a challenging economic environment; the economy has declined nearly every year since 2007, while the population has shrunk every year since 2006 as residents have emigrated.

On June 28, 2015, Governor García Padilla of Puerto Rico (the "Governor") publicly stated that the Commonwealth's public debt, considering the current level of economic activity, was unpayable and that a comprehensive debt restructuring might be necessary.

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On November 30, 2015 and December 8, 2015, the Governor issued executive orders (“Clawback Orders”) directing the Puerto Rico Department of Treasury and the Puerto Rico Tourism Company to retain or transfer certain taxes pledged to secure the payment of bonds issued by the Puerto Rico Highways and Transportation Authority (“PRHTA”), Puerto Rico Infrastructure Financing Authority (“PRIFA”), and Puerto Rico Convention Center District Authority (“PRCCDA”). On January 7, 2016, the Company sued various Puerto Rico governmental officials in the United States District Court, District of Puerto Rico, asserting that this attempt to “claw back” pledged taxes is unconstitutional, and demanding declaratory and injunctive relief. The Puerto Rico credits insured by the Company subject to the Clawback Orders are shown in the table “Puerto Rico Net Par Outstanding” below.

On January 1, 2016, PRIFA defaulted on payment of a portion of the interest due on its bonds on that date, resulting in a claim on the Company for those PRIFA bonds the Company insures. There have been additional payment defaults on this and other Puerto Rico credits since then, including, on July 1, 2016, a default on the payment of the Commonwealth’s general obligation bonds. The Company has now paid claims on several Puerto Rico credits as shown in the table “Puerto Rico Net Par Outstanding” below.

On April 6, 2016, the Governor signed into law the Puerto Rico Emergency Moratorium & Financial Rehabilitation Act (the “Moratorium Act”). The Moratorium Act purportedly empowers the Governor to declare, entity by entity, states of emergencies and moratoriums on debt service payments on obligations of the Commonwealth and its related authorities and public corporations, as well as instituting a stay against related litigation, among other things. The Governor has used the authority of the Moratorium Act to take a number of actions related to issuers of obligations the Company insures. National Public Finance Guarantee Corporation (“National”) (another financial guarantor), holders of the Commonwealth general obligation bonds and certain Puerto Rico residents have filed suits to invalidate the Moratorium Act, and on July 21, 2016, the Company filed a motion and form of complaint in the U.S. District Court for the District of Puerto Rico seeking relief from the stay of litigation imposed by the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”) to seek a declaration that the Moratorium Act is preempted by Federal bankruptcy law; that motion was denied on November 2, 2016, on procedural grounds. The PROMESA stay expires on February 15, 2017.

On June 13, 2016, the Supreme Court of the United States affirmed rulings of lower courts finding that the Puerto Rico Public Corporation Debt Enforcement and Recovery Act, which was enacted by Puerto Rico in June 2014 in order to provide a legislative framework for certain public corporations experiencing severe financial stress to restructure their debt, was preempted by the U.S. Bankruptcy Code and therefore void.

On June 30, 2016, PROMESA was signed into law by the President of the United States. PROMESA establishes 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 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. PROMESA also appears to preempt at least portions of the Moratorium Act and appears to stay debt-related litigation, possibly including the Company’s litigation regarding the Clawback Orders. On August 31, 2016, the President of the United States appointed the seven members of the Oversight Board.

The Oversight Board has begun meeting. Press reports indicate that the Oversight Board has set a target of mid-January 2017 for hiring an executive director and is considering intervening in certain litigation relating to the Moratorium Act or otherwise related to Puerto Rico’s debt problems. On October 28, 2016, the Oversight Board filed a motion to intervene in the litigation noted above initiated by the Company on July 21, 2016, and seeking relief from the PROMESA stay. That motion was denied on November 1, 2016, without prejudice, on procedural grounds. The

Oversight Board also may seek in the future to intervene in litigation initiated by the Company.

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 of any such responses on obligations insured by the Company, is uncertain.

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.

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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, 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 clawback revenues supporting debt insured by the Company. As noted above, the Company sued various Puerto Rico governmental officials in the United States District Court, District of Puerto Rico asserting that Puerto Rico's recent attempt to “claw back” pledged taxes is unconstitutional, and demanding declaratory and injunctive relief.

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.

Constitutionally Guaranteed

General Obligation. As of June 30, 2016, the Company had \$1,476 million insured net par outstanding of the general obligations of Puerto Rico, which are supported by the good faith, credit and taxing power of the Commonwealth. On July 1, 2016, despite the requirements of Article VI of its Constitution but pursuant to an executive order issued by the Governor under the Moratorium Act, the Commonwealth defaulted on most of the debt service payment due that day, and the Company made its first claim payments on these bonds.

Puerto Rico Public Buildings Authority (“PBA”). As of June 30, 2016, the Company had \$169 million insured net par outstanding of PBA bonds, which are supported by a pledge of the rents due under leases of government facilities to departments, agencies, instrumentalities and municipalities of the Commonwealth, and that benefit from a Commonwealth guaranty supported by a pledge of the Commonwealth’s good faith, credit and taxing power. On July 1, 2016, despite the requirements of Article VI of its Constitution but pursuant to an executive order issued by the Governor under the Moratorium Act, the PBA defaulted on most of the debt service payment due that day, and the Company made its first claim payments on these bonds.

Public Corporations - Certain Revenues Potentially Subject to Clawback

PRHTA. As of September 30, 2016, the Company had \$918 million insured net par outstanding of PRHTA (Transportation revenue) bonds and \$350 million insured net par of PRHTA (Highways revenue) bonds. The transportation revenue bonds are secured by a subordinate gross pledge of gasoline and gas oil and diesel oil taxes, motor vehicle license fees and certain tolls, plus a first lien on up to \$120 million annually of taxes on crude oil, unfinished oil and derivative products. The highways revenue bonds are secured by a gross pledge of gasoline and gas oil and diesel oil taxes, motor vehicle license fees and certain tolls. The Clawback Orders cover Commonwealth-derived taxes that are allocated to PRHTA. The Company believes that such sources represented a substantial majority of PRHTA’s revenues in 2015. The PRHTA bonds are subject to executive orders issued pursuant to the Moratorium Act. As noted above, the Company filed a motion and form of complaint in the U.S. District Court for the District of Puerto Rico seeking relief from the PROMESA stay to seek a declaration that the Moratorium Act is preempted by Federal bankruptcy law and that certain gubernatorial executive orders diverting PRHTA pledged toll revenues (which are not subject to the Clawback Orders) are preempted by PROMESA and violate the U.S. Constitution, and also seeking damages and injunctive relief. That motion was denied on November 2, 2016, on procedural grounds. The PROMESA stay expires on February 15, 2017. There were sufficient funds in the PRHTA bond accounts to make the July 1, 2016 PRHTA debt service payments guaranteed by the Company, and those payments were made in full.

PRCCDA. As of September 30, 2016, the Company had \$152 million insured net par outstanding of PRCCDA bonds, which are secured by certain hotel tax revenues. These revenues are sensitive to the level of economic activity in the area and are subject to the Clawback Orders, and the bonds are subject to an executive order issued pursuant to the Moratorium Act. There were sufficient funds in the PRCCDA bond accounts to make the July 1, 2016 PRCCDA bond payments guaranteed by the Company, and those payments were made in full.

PRIFA. As of June 30, 2016, the Company had \$18 million insured net par outstanding of PRIFA bonds, which are secured primarily by the return to Puerto Rico of federal excise taxes paid on rum. These revenues are subject to the Clawback Orders and the bonds are subject to an executive order issued pursuant to the Moratorium Act. The Company made its first claim payment on PRIFA bonds in January 2016, and has continued to make claim payments on PRIFA bonds.

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Other Public Corporations

PREPA. As of September 30, 2016, the Company had \$724 million insured net par outstanding of PREPA obligations, which are payable from a pledge of net revenues of the electric system.

On December 24, 2015, AGM and AGC entered into a Restructuring Support Agreement (“RSA”) with PREPA, an ad hoc group of uninsured bondholders and a group of fuel-line lenders that would, subject to certain conditions, result in, among other things, modernization of the utility and a restructuring of current debt. Upon finalization of the contemplated restructuring transaction, insured PREPA revenue bonds (with no reduction to par or stated interest rate or extension of maturity) will be supported by securitization bonds issued by a special purpose corporation and secured by a transition charge assessed on ratepayers. To facilitate the securitization transaction and in exchange for a market premium, Assured Guaranty will issue surety insurance policies in an aggregate amount not expected to exceed \$113 million (\$14 million for AGC and \$99 million for AGM) to support a portion of the reserve fund for the securitization bonds. Certain of the creditors also agreed, subject to certain conditions, to participate in a bridge financing, which was closed in two tranches on May 19, 2016, and June 22, 2016. AGM's and AGC's share of the bridge financing was approximately \$15 million (\$2 million for AGC and \$13 million for AGM). Legislation meeting the requirements of the RSA was enacted on February 16, 2016, and a transition charge to be paid by PREPA rate payers for debt service on the securitization bonds as contemplated by the RSA was approved by the Puerto Rico Energy Commission on June 20, 2016. The closing of the restructuring transaction and the issuance of the surety bonds are subject to certain conditions, including execution of acceptable documentation and legal opinions.

On July 1, 2016, PREPA made full payment of the \$41 million of principal and interest due on PREPA revenue bonds insured by AGM and AGC. That payment was funded in part by AGM's purchase of \$26 million of PREPA bonds maturing in 2020. Upon finalization of the RSA, these new PREPA revenue bonds will be supported by securitization bonds contemplated by the RSA. In early 2016, PREPA repaid in full the \$74 million in aggregate principal amount of PREPA revenue bonds purchased by AGM and AGC in July 2015 to replenish some of the operating funds PREPA used to make the July 2015 payments on the PREPA revenue bonds insured by AGM and AGC.

There can be no assurance that the conditions in the RSA will be met or that, if the conditions are met, the RSA's other provisions, including those related to the insured PREPA revenue bonds, will be implemented. In addition, the impact of PROMESA and the Moratorium Act or any attempt to exercise the power purportedly granted by the Moratorium Act on the implementation of the RSA is uncertain. PREPA, during the pendency of the agreements, has suspended deposits into its debt service fund.

Puerto Rico Aqueduct and Sewer Authority (“PRASA”). As of September 30, 2016, the Company had \$373 million of insured net par outstanding to PRASA bonds, which are secured by the gross revenues of the water and sewer system. On September 15, 2015, PRASA entered into a settlement with the U.S. Department of Justice and the U.S. Environmental Protection Agency that requires it to spend \$1.6 billion to upgrade and improve its sewer system island-wide. According to a material event notice PRASA filed on March 4, 2016, PRASA owed its contractors \$140 million. The PRASA Revitalization Act, which establishes a securitization mechanism that could facilitate debt issuance, was signed into law on July 13, 2016. While certain bonds benefiting from a guarantee by the Commonwealth are subject to an executive order issued under the Moratorium Act, bonds insured by the Company are not subject to that order. There were sufficient funds in the PRASA bond accounts to make the July 1, 2016, PRASA bond payments guaranteed by the Company, and those payments were made in full.

Municipal Finance Agency (“MFA”). As of September 30, 2016, the Company had \$334 million net par outstanding of bonds issued by MFA secured by a pledge of local property tax revenues. There were sufficient funds in the MFA bond accounts to make the July 1, 2016 MFA bond payments guaranteed by the Company, and those payments were made in full.

Puerto Rico Sales Tax Financing Corporation (“COFINA”). As of September 30, 2016, the Company had \$271 million insured net par outstanding of junior COFINA bonds, which are secured primarily by a second lien on certain sales and use taxes. There were no debt service payments due on July 1, 2016 on Company-insured COFINA bonds, and, as of the date of this filing, all payments on Company-insured COFINA bonds had been made.

University of Puerto Rico (“U of PR”). As of June 30, 2016, the Company had \$1 million insured net par outstanding of U of PR bonds, which are general obligations of the university and are secured by a subordinate lien on the proceeds, profits and other income of the University, subject to a senior pledge and lien for the benefit of outstanding university system revenue bonds. The U of PR bonds are subject to an executive order issued under the Moratorium Act. There were no debt service payments due on July 1, 2016 on Company-insured U of PR bonds, and, as of the date of this filing, all payments on Company-insured U of PR bonds had been made.

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Net Exposure to Puerto Rico

As of September 30, 2016

	Net Par Outstanding				Total Net	
	AGM	AGC	AG Re (1)	Elimination (2)	Par Outstanding (3)	Gross Par Outstanding
	(in millions)					
Commonwealth Constitutionally Guaranteed Commonwealth of Puerto Rico - General Obligation Bonds (4)	\$680	\$378	\$421	\$ (3)	\$ 1,476	\$ 1,577
Puerto Rico Public Buildings Authority (4)	11	169	0	(11)	169	175
Public Corporations - Certain Revenues Potentially Subject to Clawback						
PRHTA (Transportation revenue) (5)	273	519	209	(83)	918	950
PRHTA (Highway revenue)	213	93	44	—	350	556
PRCCDA	—	152	—	—	152	152
PRIFA (4)	—	17	1	—	18	18
Other Public Corporations						
PREPA	417	73	234	—	724	876
PRASA	—	285	88	—	373	373
MFA	175	61	98	—	334	488
COFINA	262	—	9	—	271	271
U of PR	—	1	—	—	1	1
Total net exposure to Puerto Rico	\$2,031	\$1,748	\$1,104	\$ (97)	\$ 4,786	\$ 5,437

(1) "AG Re" means Assured Guaranty Re Ltd.

(2) 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.

Includes exposure to capital appreciation bonds with a current aggregate net par outstanding of \$31 million and a fully accreted net par at maturity of \$63 million. Of these amounts, current net par of \$18 million and fully accreted net par at maturity of \$50 million relate to the COFINA, current net par of \$7 million and fully accreted net par at maturity of \$7 million relate to the PRHTA, and current net par of \$5 million and fully accreted net par at maturity of \$5 million relate to the Commonwealth General Obligation Bonds.

(4) As of the date of this filing, the Company has paid claims on these credits.

(5) The September 30, 2016 amount include \$46 million of net par acquired from CIFG.

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The following table shows 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.

Amortization Schedule
of Net Par Outstanding of Puerto Rico
As of September 30, 2016

	Scheduled Net Par Amortization														Total
	2016 (4Q)	2017 (1Q)	2017 (2Q)	2017 (3Q)	2017 (4Q)	2018	2019	2020	2021-2025	2026 -2030	2031 -2035	2036 -2040	2041 -2045	2046 -2047	
Commonwealth Constitutionally Guaranteed Commonwealth of Puerto Rico - General Obligation Bonds	\$0	\$0	\$0	\$93	\$0	\$75	\$82	\$136	\$209	\$255	\$480	\$146	\$—	\$—	\$1,476
Puerto Rico Public Buildings Authority	—	—	—	28	—	—	3	5	26	52	39	16	—	—	169
Public Corporations - Certain Revenues Potentially Subject to Clawback															
PRHTA (Transportation revenue)	0	0	0	36	0	38	32	25	113	162	227	240	45	—	918
PRHTA (Highway revenue)	—	—	—	10	—	10	21	22	55	28	167	37	—	—	350
PRCCDA	—	—	—	—	—	—	—	—	—	19	104	29	—	—	152
PRIFA	—	—	—	—	2	—	—	2	—	—	—	10	4	—	18
Other Public Corporations															
PREPA	0	0	0	5	—	4	25	42	255	309	84	0	—	—	724
PRASA	—	—	—	—	—	—	—	—	27	84	—	2	92	168	373
MFA	—	—	—	48	—	47	44	37	106	52	—	—	—	—	334
COFINA	0	0	0	0	0	(1)	(1)	(1)	(6)	(6)	32	99	155	—	271
U of PR	—	—	—	0	—	0	0	0	0	0	1	—	—	—	1
Total net par for Puerto Rico	\$0	\$0	\$0	\$220	\$0	\$175	\$206	\$266	\$787	\$955	\$1,134	\$579	\$296	\$168	\$4,786

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Amortization Schedule
of Net Debt Service Outstanding of Puerto Rico
As of September 30, 2016

	Scheduled Net Debt Service Amortization														Total	
	2017 (4Q)	2017 (1Q)	2017 (2Q)	2017 (3Q)	2017 (4Q)	2018	2019	2020	2021	2025	2026 -2030	2031 -2035	2036 -2040	2041 -2045		2046 -2047
Commonwealth																
Constitutionally Guaranteed																
Commonwealth of Puerto Rico - General Obligation Bonds	\$0	\$38	\$ 0	\$131	\$ 0	\$146	\$150	\$200	\$ 480		\$ 461	\$ 611	\$ 161	\$—	\$—	\$2,378
Puerto Rico Public Buildings Authority	—	4	—	32	—	7	10	13	58		71	49	17	—	—	261
Public Corporations - Certain Revenues Potentially Subject to Clawback																
PRHTA (Transportation revenue)	0	24	0	60	0	84	77	67	306		322	348	288	47	—	1,623
PRHTA (Highway revenue)	—	10	—	19	—	29	39	39	125		88	203	38	—	—	590
PRCCDA	—	3	—	4	—	7	7	7	35		51	127	30	—	—	271
PRIFA	—	0	—	0	—	3	1	1	7		3	3	13	4	—	35
Other Public Corporations																
PREPA	2	15	2	20	2	37	58	74	385		366	92	0	—	—	1,053
PRASA	—	10	—	10	—	19	19	19	122		160	68	70	159	181	837
MFA	—	8	—	57	—	62	56	47	131		57	—	—	—	—	418
COFINA	0	6	0	6	0	13	13	13	69		68	103	164	171	—	626
U of PR	—	0	—	0	0	0	0	0	0		0	1	—	—	—	1
Total net par for Puerto Rico	\$2	\$118	\$ 2	\$339	\$ 2	\$407	\$430	\$480	\$ 1,718		\$1,647	\$1,605	\$ 781	\$ 381	\$ 181	\$8,093

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Exposure to Residential Mortgage-Backed Securities

The tables below provide information on the risk ratings and certain other risk characteristics of the Company's financial guaranty insurance, FG VIE and credit derivative RMBS exposures. As of September 30, 2016, 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. See Note 5, Expected Loss to be Paid, of the Financial Statements, for a discussion of expected losses to be paid on U.S. RMBS exposures.

Distribution of U.S. RMBS by Rating and Type of Exposure as of September 30, 2016

Ratings:	Prime First Lien	Alt-A First Lien	Option ARMs	Subprime First Lien	Second Lien	Total Net Par Outstanding
	(dollars in millions)					
AAA	\$2	\$ 186	\$ 30	\$ 1,467	\$3	\$ 1,688
AA	25	249	55	336	0	665
A	16	12	0	85	0	112
BBB	33	2	—	81	0	117
BIG	141	599	87	1,166	1,304	3,296
Total exposures	\$217	\$ 1,047	\$ 171	\$ 3,136	\$1,307	\$ 5,879

Distribution of U.S. RMBS by Year Insured and Type of Exposure as of September 30, 2016

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	\$33	\$ 47	\$ 15	\$ 986	\$82	\$ 1,163
2005	108	396	32	169	280	984
2006	76	79	29	703	375	1,262
2007	—	525	96	1,213	570	2,404
2008	—	—	—	66	—	66
Total exposures	\$217	\$ 1,047	\$ 171	\$ 3,136	\$1,307	\$ 5,879

Exposures by Reinsurer

Ceded par outstanding represents the portion of insured risk ceded to other reinsurers. Under these relationships, the Company cedes a portion of its insured risk in exchange for a premium paid to the reinsurer. 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. A number of the financial guaranty insurers to which the Company has ceded par have experienced financial distress and as a result have been downgraded by the rating agencies. In addition, state insurance regulators have intervened with respect to some of these insurers.

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. All of the unauthorized reinsurers in the table below are required to post collateral for

the benefit of the Company in an amount at least equal to the sum of their ceded unearned premium reserve, loss reserves and contingency reserves, all calculated on a statutory basis of accounting. In addition, certain authorized reinsurers in the table below post collateral on terms negotiated with the Company. Collateral may be in the form of letters of credit or trust accounts. The total collateral posted by all non-affiliated reinsurers as of September 30, 2016 was approximately \$427 million.

Assumed par outstanding represents the amount of par assumed by the Company from other monolines. Under these relationships, the Company assumes a portion of the ceding company's insured risk in exchange for a premium. The Company

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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.

In addition to assumed and ceded reinsurance arrangements, the Company may also have exposure to financial guaranty insurers in "second-to-pay" transactions, where the Company provides insurance on an obligation that is already insured by another financial guarantor. In that case, if the underlying obligor and the financial guarantor both fail to pay an amount scheduled to be paid, the Company would be obligated to pay. The Company underwrites these transactions based on the underlying obligation, without regard to the financial obligor. See Note 13, Reinsurance and Other Monoline Exposures, of the Financial Statements.

Monoline and Reinsurer exposure
by Company

Reinsurer	Ratings at November 2, 2016		Par Outstanding (1) As of September 30, 2016		
	Moody's Reinsurer Rating	S&P Reinsurer Rating	Ceded Outstanding	Second-to- Pay Insured Outstanding	Assumed Par Outstanding
	(dollars in millions)				
American Overseas Reinsurance Company Limited (2)	WR (3)	WR	\$4,052	\$ —	\$ 30
Tokio Marine & Nichido Fire Insurance Co., Ltd. (2)	Aa3 (4)	A+ (4)	3,681	—	—
Syncora Guarantee Inc. (2)	WR	WR	2,185	1,326	677
Mitsui Sumitomo Insurance Co. Ltd. (2)	A1	A+ (4)	1,394	—	—
ACA Financial Guaranty Corp.	NR (5)	WR	637	33	—
Ambac Assurance Corporation	WR	WR	115	3,393	7,911
National (6)	A3	AA-	—	4,946	4,696
MBIA	(7)	(7)	—	1,583	380
FGIC	(8)	(8)	—	1,296	572
Ambac Assurance Corp. Segregated Account	NR	NR	—	77	638
Other (2)	Various	Various	67	558	123
Total			\$12,131	\$ 13,212	\$ 15,027

(1) Includes par related to insured credit derivatives.

(2) The total collateral posted by all non-affiliated reinsurers required or agreeing to post collateral as of September 30, 2016 was approximately \$427 million.

(3) Represents "Withdrawn Rating."

(4) The Company benefits from trust arrangements that satisfy the triple-A credit requirement of Standard & Poor's Financial Services LLC ("S&P") and/or Moody's Investors Service, Inc. ("Moody's").

(5) Represents "Not Rated."

(6) Rated AA+ by Kroll Bond Rating Agency.

(7)

MBIA includes subsidiaries MBIA Insurance Corporation rated CCC by S&P and Caa1 by Moody's and MBIA UK rated BB by S&P and Ba2 by Moody's. See Note 2, Acquisitions, of the Financial Statements for more information on MBIA UK.

(8) FGIC includes subsidiaries Financial Guaranty Insurance Company and FGIC UK Limited both of which had their ratings withdrawn by rating agencies.

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Ceded Par Outstanding by Reinsurer and Credit Rating

As of September 30, 2016

Reinsurer	Internal Credit Rating					Total
	AAA	AA	A	BBB	BIG	
	(in millions)					
American Overseas Reinsurance Company Limited	\$166	\$1,433	\$1,294	\$868	\$291	\$4,052
Tokio Marine & Nichido Fire Insurance Co., Ltd.	372	494	1,016	1,229	570	3,681
Syncora Guarantee Inc.	—	124	392	1,567	102	2,185
Mitsui Sumitomo Insurance Co. Ltd.	83	385	431	330	165	1,394
ACA Financial Guaranty Corp.	—	430	197	10	—	637
Ambac Assurance Corporation	—	—	115	—	—	115
Other	40	0	1	26	—	67
Total	\$661	\$2,866	\$3,446	\$4,030	\$1,128	\$12,131

Second-to-Pay

Insured Par Outstanding by Internal Rating

As of September 30, 2016(1)

	Public Finance				Structured Finance				Total	
	AAAAA	A	BBB	BIG	AAAAA	A	BBB	BIG		
	(in millions)									
Syncora Guarantee Inc.	\$—	\$45	\$185	\$703	\$349	\$—	\$—	\$—	\$44	\$1,326
ACA Financial Guaranty Corp.	—	—	2	13	18	—	—	—	—	33
Ambac Assurance Corporation	9	844	1,302	1,046	43	1	9	55	76	3,393
National MBIA	69	1,764	3,089	—	—	—	—	24	—	4,946
FGIC	—	18	306	411	—	—	589	77	72	1,583
Ambac Assurance Corp. Segregated Account	—	5	710	261	226	64	—	—	—	30
Other	—	—	—	—	—	18	—	—	—	59
Other	—	558	—	—	—	—	—	—	—	558
Total	\$78	\$3,234	\$5,594	\$2,434	\$636	\$65	\$616	\$156	\$148	\$251

(1) Assured Guaranty's internal rating.

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Exposure to Selected European Countries

The European countries where the Company has exposure and believes heightened uncertainties exist are: Hungary, Italy, Portugal, Spain and Turkey (collectively, the "Selected European Countries"). The Company added Turkey to its list of Selected European Countries as of June 30, 2016, as a result of the recent political turmoil in the country. The Company's direct economic exposure to the Selected European Countries (based on par for financial guaranty contracts and notional amount for financial guaranty contracts accounted for as derivatives) is shown in the following tables, both gross and net of ceded reinsurance.

Gross Direct Economic Exposure
to Selected European Countries(1)
As of September 30, 2016

	Hungary	Italy	Portugal	Spain	Turkey	Total
	(in millions)					
Sub-sovereign exposure(2)	\$255	\$1,202	\$ 84	\$459	\$ —	\$2,000
Non-sovereign exposure(3)	186	474	—	—	203	863
Total	\$441	\$1,676	\$ 84	\$459	\$ 203	\$2,863
Total BIG	\$367	\$—	\$ 84	\$459	\$ —	\$910

Net Direct Economic Exposure
to Selected European Countries(1)
As of September 30, 2016

	Hungary	Italy	Portugal	Spain	Turkey	Total
	(in millions)					
Sub-sovereign exposure(2)	\$252	\$955	\$ 80	\$366	\$ —	\$1,653
Non-sovereign exposure(3)	180	427	—	—	203	810
Total	\$432	\$1,382	\$ 80	\$366	\$ 203	\$2,463
Total BIG	\$360	\$—	\$ 80	\$366	\$ —	\$806

(1) While the Company's exposures are shown in U.S. dollars, the obligations the Company insures are in various currencies, primarily Euros.

(2) Sub-sovereign exposure in Selected European Countries includes transactions backed by receivables from or supported by sub-sovereigns, which are governmental or government-backed entities other than the ultimate governing body of the country.

(3) Non-sovereign exposure in Selected European Countries includes debt of regulated utilities, RMBS and diversified payment rights ("DPR") securitizations.

The tables above include the par amount of financial guaranty contracts accounted for as derivatives of \$116 million with a fair value of \$3 million, net of reinsurance. The Company's credit derivative transactions are governed by International Swaps and Derivatives Association, Inc. ("ISDA") documentation, and the Company is required to make a loss payment on them only upon the occurrence of one or more defined credit events with respect to the referenced securities or loans.

The Company has excluded from the exposure tables above its indirect economic exposure to the Selected European Countries through policies it provides on pooled corporate and commercial receivables transactions. The Company

calculates indirect exposure to a country by multiplying the par amount of a transaction insured by the Company times the percent of the relevant collateral pool reported as having a nexus to the country. On that basis, the Company has calculated exposure of \$175 million to Selected European Countries (plus Greece) in transactions with \$3.4 billion of net par outstanding. The indirect exposure to credits with a nexus to Greece is \$4 million across several highly rated pooled corporate obligations with net par outstanding of \$165 million.

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The \$203 million net insured par exposure in Turkey is to DPR securitizations sponsored by a major Turkish bank. These DPR securitizations were established outside of Turkey and involve payment orders in U.S. dollars, pounds sterling and Euros from persons outside of Turkey to beneficiaries in Turkey who are customers of the sponsoring bank. The sponsoring bank's correspondent banks have agreed to remit all such payments to a trustee-controlled account outside Turkey, where debt service payments for the DPR securitization are given priority over payments to the sponsoring bank.

Liquidity and Capital Resources

Liquidity Requirements and Sources

AGL and its Holding Company Subsidiaries

The liquidity of AGL, AGUS and Assured Guaranty Municipal Holdings Inc. ("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 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 "—Insurance Company Regulatory Restrictions" below for a discussion of the dividend restrictions of its insurance company subsidiaries.

AGL and Holding Company Subsidiaries

Significant Cash Flow Items

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in millions)			
Dividends paid by AGC to AGUS	\$15	\$15	\$38	\$50
Dividends paid by AGM to AGMH	65	57	192	163
Dividends paid by AG Re to AGL	35	35	85	120
Repayment of surplus note by AGM to AGMH	—	—	—	25
Dividends paid to AGL shareholders	(17)	(18)	(52)	(55)
Repurchases of common shares(1)	(55)	(135)	(190)	(420)
Interest paid	(7)	(7)	55	(55)
Issuance of note by AGUS to AGC(2)	—	—	—	(200)
Repayment of note by AGC to AGUS(2)	—	—	—	200

On November 2, 2016, in continuation of the Company's capital management strategy of repurchasing its common (1) shares, the Company's Board of Directors approved the repurchase of a \$250 million of common shares. As of November 3, 2016 on a settlement date basis, the remaining authorization for share repurchases was \$345 million.

(2) On March 31, 2015, AGUS, as lender, provided \$200 million to AGC, as borrower, from available funds to help fund the purchase of Radian Asset. AGC repaid that loan in full on April 14, 2015.

Dividends 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, 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 and AGM, and to AG Re, are described under Note 11, Insurance Company Regulatory Requirements of the Financial Statements.

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Dividend restrictions by insurance company subsidiary are as follows:

The maximum amount available during 2016 for AGM to distribute as dividends without regulatory approval is estimated to be approximately \$247 million, of which approximately \$55 million is estimated to be available for distribution in the fourth quarter of 2016.

The maximum amount available during 2016 for AGC to distribute as ordinary dividends is approximately \$79 million, of which approximately \$41 million is available for distribution in the fourth quarter of 2016.

The Company does not currently anticipate that Municipal Assurance Corp. ("MAC") will distribute any dividends.

Based on the applicable law and regulations, in 2016 AG Re has the capacity to (i) make capital distributions in an aggregate amount up to \$127 million without the prior approval of the Bermuda Monetary Authority and (ii) declare and pay dividends in an aggregate amount up to the limit of its outstanding statutory surplus, which is \$235 million. 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 September 30, 2016, AG Re had unencumbered assets of approximately \$625 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.

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

On March 30, 2015, AGUS loaned \$200 million to AGC to facilitate the acquisition of Radian Asset on April 1, 2015. AGC repaid the loan in full on April 14, 2015.

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. Such commitment terminates on October 25, 2018 (the "loan termination date"). The unpaid principal amount of each loan will bear interest at a fixed rate equal to 100% of the then applicable Federal short-term or mid-term interest rate, as the case may be, as determined under Internal Revenue Code Sec. 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 by the third anniversary of the loan termination date. No amounts are currently outstanding under the credit facility.

In addition, in 2012 AGUS borrowed \$90 million from its affiliate Assured Guaranty Re Overseas Ltd. to fund the acquisition of MAC. That loan remained outstanding as of September 30, 2016.

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.

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Cash and Investments

As of September 30, 2016, AGL had \$60 million in cash and short-term investments. AGUS and AGMH had a total of \$51 million in cash and short-term investments. In addition, the Company's U.S. holding companies have \$78 million in fixed-maturity securities with weighted average duration of 0.4 years.

Insurance Company Subsidiaries

Liquidity of the insurance company subsidiaries is primarily used to pay for:

- operating expenses,
- claims on the insured portfolio,
- posting of collateral in connection with credit derivatives and reinsurance transactions,
- reinsurance premiums,
- dividends to AGL, AGUS and/or AGMH, as applicable,
- principal of and, where applicable, interest on surplus notes, and
- capital investments in their own subsidiaries, where appropriate.

On June 30, 2016, MAC obtained approval from the New York State Department of Financial Services to repay its \$300 million surplus note to Municipal Assurance Holdings Inc. ("MAC Holdings") and its \$100 million surplus note (plus accrued interest) to AGM. Accordingly, on June 30, 2016, MAC transferred cash and/or marketable securities to (i) MAC Holdings in an aggregate amount equal to \$300 million, and (ii) AGM in an aggregate amount of \$102.5 million. MAC Holdings, upon receipt of such \$300 million from MAC, distributed cash and/or marketable securities in an aggregate amount of \$300 million to its shareholders, AGM and AGC, in proportion to their respective 60.7% and 39.3% ownership interests such that AGM received \$182 million and AGC received \$118 million.

Management believes that its 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.

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

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in millions)			
Public finance	\$(196)	\$(18)	\$(213)	\$(24)
Structured finance:				
U.S. RMBS before benefit for recoveries for breaches of R&W	14	(139)	(183)	(222)
Net benefit for recoveries for breaches of R&W	(9)	26	83	73
U.S. RMBS after benefit for recoveries for breaches of R&W	5	(113)	(100)	(149)
Other structured finance	(23)	(69)	(47)	(65)
Structured finance	(18)	(182)	(147)	(214)
Claims (paid) recovered, net of reinsurance(1)	\$(214)	\$(200)	\$(360)	\$(238)

Includes \$3 million paid and \$5 million paid for consolidated FG VIEs for Third Quarter 2016 and 2015, (1)respectively, and \$9 million paid and \$17 million paid for consolidated FG VIEs for Nine Months 2016 and 2015, respectively.

As of September 30, 2016, the Company had exposure of approximately \$562 million to an infrastructure transaction with refinancing risk. The Company may be required to make claim payments on such exposure, the aggregate amount of the claim payments may be substantial and, although the Company may not experience ultimate loss on it, reimbursement may not occur for an extended time. This transaction involves a long-term infrastructure project that was financed by bonds that mature prior to the expiration of the project concession. The Company expects the cash flows from the project to be sufficient to repay all of the debt over the life of the project concession, and also expects the debt to be refinanced in the market at or prior to its maturity. If the issuer is unable to refinance the debt due to market conditions, the Company may have to pay a claim when the debt matures, and then recover from cash flows produced by the project in the future. The Company generally projects that in most scenarios it will be fully reimbursed for such claim payments. However, the recovery of such amounts is uncertain and may take from 10 to 35 years, depending on the performance of the underlying collateral. As of September 30, 2016, the Company estimated that total claims for the one transaction with significant refinancing risk, assuming no refinancing and based on certain performance assumptions, could be \$562 million on a gross basis; such claims would occur from 2018 through 2022.

In addition, the Company has net par exposure of \$4.8 billion to Commonwealth of Puerto Rico transactions, all of which are BIG. Puerto Rico has experienced significant general fund budget deficits in recent years. Beginning in 2016, the Commonwealth has defaulted on obligations to make payments on its debt. In addition to high debt levels, Puerto Rico faces a challenging economic environment. Information regarding the Company's exposure to the Commonwealth of Puerto Rico and its related authorities and public corporations is set forth in "Insured Portfolio-Exposure to Puerto Rico" above.

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 basis and to replicate the terms of a traditional financial guaranty insurance policy. Some contracts the Company entered into as the credit protection seller, however, utilize standard ISDA settlement mechanics of cash settlement (i.e., a process to value the loss of market value of a reference obligation) or physical settlement (i.e., delivery of the reference obligation against payment of principal by the protection seller) in the event of a "credit event," as defined in the relevant contract. Cash settlement or physical settlement generally requires the payment of a larger amount, prior to the maturity of the reference obligation, than would settlement on a "pay-as-you-go" basis, under which the Company would be required to pay scheduled interest shortfalls during the term of the reference obligation and scheduled principal shortfall only at the final maturity of the

reference obligation. As of September 30, 2016, the Company was posting approximately \$130 million to secure its obligations under CDS. Of that amount, approximately \$113 million related to \$0.6 billion in CDS gross par insured where the amount of required collateral is capped and the remaining \$17 million related to \$178 million in CDS gross par insured where the amount of required collateral is based on movements in the mark-to-market valuation of the underlying exposure.

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On July 1, 2016, AGC acquired all of the issued and outstanding capital stock of CIFGH, the parent of financial guaranty insurer CIFG, for \$450.6 million in cash. AGUS previously owned 1.6% of the outstanding shares of CIFGH, for which it received \$7.1 million in consideration from AGC, resulting in a net consolidated purchase price of \$443 million. AGC merged CIFG with and into AGC, with AGC as the surviving company, on July 5, 2016. The CIFG Acquisition added \$4.2 billion of net par insured on July 1, 2016.

Consolidated Cash Flows

Consolidated Cash Flow Summary

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in millions)			
Net cash flows provided by (used in) operating activities before effects of trading securities and FG VIEs consolidation	\$(154)	\$(154)	\$(206)	\$(90)
(Purchases) sales of trading securities, net	—	(1)	—	7
Effect of FG VIEs consolidation	11	11	16	44
Net cash flows provided by (used in) operating activities - reported	(143)	(144)	(190)	(39)
Net cash flows provided by (used in) investing activities before effects of FG VIEs consolidation	131	302	382	556
Effect of FG VIEs consolidation	25	33	551	78
Net cash flows provided by (used in) investing activities - reported	156	335	933	634
Net cash flows provided by (used in) financing activities before effects of FG VIEs consolidation	(68)	(154)	(240)	(480)
Effect of FG VIEs consolidation	(36)	(44)	(567)	(122)
Net cash flows provided by (used in) financing activities - reported (1)	(104)	(198)	(807)	(602)
Effect of exchange rate changes	(1)	(2)	(4)	(2)
Cash at beginning of period	190	75	166	75
Total cash at the end of the period	\$98	\$66	\$98	\$66

(1) Claims paid on consolidated FG VIEs are presented in the consolidated cash flow statements as a component of paydowns on FG VIE liabilities in financing activities as opposed to operating activities.

Excluding net cash flows from purchases and sales of the trading portfolio and the effect of consolidating FG VIEs, cash outflows from operating activities increased in Nine Months 2016 compared with Nine Months 2015 due primarily to claim payments on Puerto Rico bonds, higher accelerated claim payments as a means of mitigating future losses and lower cash received from commutations. This was partially offset by cash received from R&W provider, lower taxes paid and cash received in Nine Months 2016 from certain terminations.

Investing activities were primarily net sales (purchases) of fixed-maturity and short-term investment securities. Investing cash flows in Nine Months 2016 and Nine Months 2015 include inflows of \$590 million and \$114 million for FG VIEs, respectively. The increase in inflows from FG VIEs was due to the proceeds from a paydown of a large transaction. In Third Quarter 2016 the Company paid \$435 million, net of cash acquired, to acquire CIFGH. In the first quarter of 2015, the Company sold securities to fund the acquisition of Radian Asset by AGC and in the second quarter of 2015 the Company paid \$800 million, net of cash acquired, to acquire Radian Asset.

Financing activities consisted primarily of paydowns of FG VIE liabilities and share repurchases. Financing cash flows in Nine Months 2016 and Nine Months 2015 include outflows of \$567 million and \$122 million for FG VIEs, respectively. The increase in outflows from FG VIEs was due to the paydown of a large transaction. Share repurchases

in Nine Months 2016 and 2015 were \$190 million and \$420 million, respectively.

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From October 1, 2016 through November 3, 2016, the Company repurchased an additional \$20 million worth of its common shares. On November 2, 2016, in continuation of the Company's capital management strategy of repurchasing its common shares, the Company's Board of Directors approved the repurchase of a \$250 million of common shares, including a specifically authorized repurchase from the Company's Chief Executive Officer and its General Counsel. As of November 3, 2016, the Company had remaining authorization to purchase common shares of \$345 million on a settlement basis. For more information about the Company's share repurchase authorization, including its authorization to repurchase shares from its Chief Executive Officer and General Counsel, and the amounts it repurchased in 2016, see Note 17, Shareholders' Equity, of the Financial Statements.

Commitments and Contingencies

Leases

AGL and its subsidiaries lease office space and certain other items. In 2015, AGM entered into an operating lease for new office space comprising one full floor and one partial floor at 1633 Broadway in New York City. On September 23, 2016, AGM entered into an amendment to that lease to include the remaining portion of the partial floor for the remainder of the lease term. The fixed annual rent, which commences after an initial rent holiday, begins at \$1.1 million per annum, rising in two steps to \$1.3 million for the last five years of the initial term.

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Long-Term Debt Obligations

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 September 30, 2016	As of December 31, 2015	Third Quarter 2015	Nine Months 2015
	(in millions)			
AGUS:				
7% Senior Notes(1)	\$200	\$ 200	\$—	\$ 7
5% Senior Notes(1)	500	500	—	13
Series A Enhanced Junior Subordinated Debentures(2)	150	150	—	5
Total AGUS	850	850	—	25
AGMH(3):				
67/8% QUIBS(1)	100	100	2	5
6.25% Notes(1)	230	230	4	11
5.6% Notes(1)	100	100	1	4
Junior Subordinated Debentures(2)	300	300	—	10
Total AGMH	730	730	7	30
AGM(3):				
AGM Notes Payable	10	12	0	0
Total AGM	10	12	0	0
Total	\$1,590	\$ 1,592	\$7	\$ 55

(1) AGL fully and unconditionally guarantees these obligations

(2) Guaranteed by AGL on a junior subordinated basis.

(3) Principal amounts vary from carrying amounts due primarily to acquisition method fair value adjustments at the AGMH acquisition date, which are accreted or amortized into interest expense over the remaining terms of these obligations.

7% Senior Notes issued by AGUS. 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.

5% Senior Notes issued by AGUS. On June 20, 2014, AGUS issued \$500 million of 5% Senior Notes due 2024 for net proceeds of \$495 million. The notes are guaranteed by AGL. The net proceeds from the sale of the notes were used for general corporate purposes, including the purchase of common shares of AGL.

Series A Enhanced Junior Subordinated Debentures issued by AGUS. On December 20, 2006, AGUS issued \$150 million of Debentures due 2066. The Debentures pay 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 London Interbank Offered Rate ("LIBOR") plus a margin equal to 2.38%. 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.

6 7/8% QUIBS issued by AGMH. On December 19, 2001, AGMH issued \$100 million face amount of 6 7/8% QUIBS due December 15, 2101, which are callable without premium or penalty.

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6.25% Notes issued by AGMH. On November 26, 2002, AGMH issued \$230 million face amount of 6.25% Notes due November 1, 2102, which are callable without premium or penalty in whole or in part.

5.6% Notes issued by AGMH. On July 31, 2003, AGMH issued \$100 million face amount of 5.6% Notes due July 15, 2103, which are callable without premium or penalty in whole or in part.

Junior Subordinated Debentures issued by AGMH. 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. 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.

Recourse Credit Facility

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. The liquidity risk to AGM related to the strip policy portion of the leveraged lease business was previously mitigated by the strip coverage facility described below.

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. 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 do not make the required early termination payments, then AGM would be exposed to possible liquidity claims on gross exposure of approximately \$991 million as of September 30, 2016. 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 September 30, 2016, approximately \$1.5 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.

On July 1, 2009, AGM and Dexia Crédit Local S.A., acting through its New York Branch (“Dexia Crédit Local (NY)”), entered into a credit facility (the “Strip Coverage Facility”). Under the Strip Coverage Facility, Dexia Crédit Local (NY) agreed to make loans to AGM to finance all draws made by lessors on AGM strip policies that were outstanding as of November 13, 2008, up to the commitment amount, which was \$495 million as of the date the Strip Coverage Facility was terminated.

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There have never been any borrowings under the Strip Coverage Facility, the amount of the leveraged leases covered by the Strip Coverage Facility has declined since July 1, 2009 and, as noted above, to date, none of the leveraged lease transactions in which AGM acts as the strip coverage provider has experienced an early termination due to a lease default. Consequently, and in view of the credit quality of the relevant tax-exempt entities and the cost of the Strip Coverage Facility, the Company determined that maintaining the Strip Coverage Facility was no longer warranted. On July 29, 2016, the parties terminated the facility.

Committed Capital Securities

Each of AGC and AGM have issued \$200 million of CCS pursuant to transactions in which AGC CCS or AGM's Committed Preferred Trust Securities (the "AGM CPS"), as applicable, were issued by custodial trusts created for the primary purpose of issuing such securities, investing the proceeds in high-quality assets and providing put options to AGC or AGM, as applicable. The put options allow AGC and AGM to issue non-cumulative redeemable perpetual preferred securities to the trusts in exchange for cash. For both AGC and AGM, four initial trusts were created, each with an initial aggregate face amount of \$50 million. The Company does not consider itself to be the primary beneficiary of the trusts for either the AGC or AGM CCS and the trusts are not consolidated in Assured Guaranty's financial statements.

The trusts provide AGC and AGM access to new 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 such sale of its 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.

AGC Committed Capital Securities. AGC entered into separate put agreements with four custodial trusts with respect to its CCS in April 2005. The AGC put options have not been exercised through the date of this filing. Initially, all of AGC CCS were issued to a special purpose pass-through trust (the "Pass-Through Trust"). The Pass-Through Trust was dissolved in April 2008 and the AGC CCS were distributed to the holders of the Pass-Through Trust's securities. Neither the Pass-Through Trust nor the custodial trusts are consolidated in the Company's financial statements. Income distributions on the Pass-Through Trust securities and CCS were equal to an annualized rate of one-month LIBOR plus 110 basis points for all periods ending on or prior to April 8, 2008. Following dissolution of the Pass-Through Trust, distributions on the AGC CCS are determined pursuant to an auction process. On April 7, 2008 this auction process failed, thereby increasing the annualized rate on the AGC CCS to one-month LIBOR plus 250 basis points. Distributions on the AGC preferred stock will be determined pursuant to the same process. AGC continues to have the ability to exercise its put option and cause the related trusts to purchase AGC Preferred Stock.

AGM Committed Capital Securities. AGM entered into separate put agreements with four custodial trusts with respect to its CCS in June 2003. The AGM put options have not been exercised through the date of this filing. AGM pays a floating put premium to the trusts, which represents the difference between the commercial paper yield and the winning auction rate (plus all fees and expenses of the trust). If an auction does not attract sufficient clearing bids, however, the auction rate is subject to a maximum rate of one-month LIBOR plus 200 basis points for the next succeeding distribution period. Beginning in August 2007, the AGM CCS required the maximum rate for each of the relevant trusts. AGM continues to have the ability to exercise its put option and cause the related trusts to purchase AGM Preferred Stock.

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 5.2 years as of September 30, 2016 and 5.4 years as of December 31, 2015. 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 Note 10, Investments and Cash, of the Financial Statements.

Fixed-Maturity Securities and Short-Term Investments
by Security Type

	As of September 30, 2016		As of December 31, 2015	
	Amortize Cost	Estimated Fair Value	Amortize Cost	Estimated Fair Value
(in millions)				
Fixed-maturity securities:				
Obligations of state and political subdivisions	\$5,272	\$ 5,669	\$5,528	\$ 5,841
U.S. government and agencies	381	405	377	400
Corporate securities	1,733	1,775	1,505	1,520
Mortgage-backed securities(1):				
RMBS	1,082	1,105	1,238	1,245
CMBS	618	649	506	513
Asset-backed securities	860	892	831	825
Foreign government securities	273	257	290	283
Total fixed-maturity securities	10,219	10,752	10,275	10,627
Short-term investments	528	528	396	396
Total fixed-maturity and short-term investments	\$10,747	\$ 11,280	\$10,671	\$ 11,023

(1) Government-agency obligations were approximately 44% of mortgage backed securities as of September 30, 2016 and 54% as of December 31, 2015, based on fair value.

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The following tables summarize, for all fixed-maturity securities in an unrealized loss position as of September 30, 2016 and December 31, 2015, the aggregate fair value and gross unrealized loss by length of time the amounts have continuously been in an unrealized loss position.

Fixed-Maturity Securities
Gross Unrealized Loss by Length of Time
As of September 30, 2016

	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	\$180	\$ (1)	\$ 7	\$ 0	\$187	\$ (1)
U.S. government and agencies	52	0	—	—	52	0
Corporate securities	237	(6)	85	(34)	322	(40)
Mortgage-backed securities:						
RMBS	64	(2)	149	(14)	213	(16)
CMBS	102	(1)	—	—	102	(1)
Asset-backed securities	28	0	210	(10)	238	(10)
Foreign government securities	98	(7)	74	(15)	172	(22)
Total	\$761	\$ (17)	\$ 525	\$ (73)	\$1,286	\$ (90)
Number of securities (1)		219		52		263
Number of securities with other-than-temporary impairment		5		12		17

Fixed-Maturity Securities
Gross Unrealized Loss by Length of Time
As of December 31, 2015

	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	\$316	\$ (10)	\$ 7	\$ 0	\$323	\$ (10)
U.S. government and agencies	77	0	—	—	77	0
Corporate securities	381	(8)	95	(15)	476	(23)
Mortgage-backed securities:						
RMBS	438	(8)	90	(14)	528	(22)
CMBS	140	(2)	2	0	142	(2)
Asset-backed securities	517	(10)	—	—	517	(10)
Foreign government securities	97	(4)	82	(7)	179	(11)
Total	\$1,966	\$ (42)	\$ 276	\$ (36)	\$2,242	\$ (78)
Number of securities(1)		335		71		396
Number of securities with other-than-temporary impairment		9		4		13

(1) The number of securities does not add across because lots consisting of the same securities have been purchased at different times and appear in both categories above (i.e., less than 12 months and 12 months or more). If a security

appears in both categories, it is counted only once in the total column.

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Of the securities in an unrealized loss position for 12 months or more as of September 30, 2016, 28 securities had unrealized losses greater than 10% of book value. The total unrealized loss for these securities as of September 30, 2016 was \$60 million. As of December 31, 2015, of the securities in an unrealized loss position for 12 months or more, nine securities had unrealized losses greater than 10% of book value with unrealized loss amount of \$26 million. The Company has determined that the unrealized losses recorded as of September 30, 2016 and December 31, 2015 were yield related and not the result of other-than-temporary-impairment.

Changes in interest rates affect the value of the Company's fixed-maturity portfolio. As interest rates fall, the fair value of fixed-maturity securities generally increases and as interest rates rise, the fair value of fixed-maturity securities generally decreases. The Company's portfolio of fixed-maturity securities consists primarily of high-quality, liquid instruments.

The amortized cost and estimated fair value of the Company's available-for-sale fixed-maturity securities, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Distribution of Fixed-Maturity Securities
by Contractual Maturity
As of September 30, 2016

	Amortized Cost	Estimated Fair Value
	(in millions)	
Due within one year	\$416	\$ 436
Due after one year through five years	1,928	1,974
Due after five years through 10 years	2,110	2,216
Due after 10 years	4,065	4,372
Mortgage-backed securities:		
RMBS	1,082	1,105
CMBS	618	649
Total	\$10,219	\$ 10,752

The following table summarizes the ratings distributions of the Company's investment portfolio as of September 30, 2016 and December 31, 2015. Ratings reflect the lower of the Moody's and S&P classifications, except for bonds purchased for loss mitigation or other risk management strategies, which use Assured Guaranty's internal ratings classifications.

Distribution of
Fixed-Maturity Securities by Rating

Rating	As of September 30, 2016	As of December 31, 2015
AAA	12.2 %	10.8 %
AA	55.3	59.0
A	18.1	17.6
BBB	2.0	0.9
BIG(1)	12.0	11.4

Not rated	0.4		0.3	
Total	100.0	%	100.0	%

(1) Comprised primarily of loss mitigation and other risk management assets. See Note 10, Investments and Cash, of the Financial Statements.

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The investment portfolio contains securities and cash that are either held in trust for the benefit of third party reinsurers in accordance with statutory requirements, invested in a guaranteed investment contract for future claims payments, placed on deposit to fulfill state licensing requirements, or otherwise restricted in the amount of \$299 million and \$283 million, based on fair value, as of September 30, 2016 and December 31, 2015, respectively. The investment portfolio also contains securities that are held in trust by certain AGL subsidiaries for the benefit of other AGL subsidiaries in accordance with statutory and regulatory requirements in the amount of \$1,485 million and \$1,411 million, based on fair value, as of September 30, 2016 and December 31, 2015, respectively.

The fair value of the Company's pledged securities to secure its obligations under its CDS exposure totaled \$130 million and \$305 million as of September 30, 2016 and December 31, 2015, respectively.

Liquidity Arrangements with respect to AGMH's former Financial Products Business

AGMH's former financial products segment had been in the business of borrowing funds through the issuance of guaranteed investment contracts ("GICs") and medium term notes and reinvesting the proceeds in investments that met AGMH's investment criteria. The financial products business also included the equity payment undertaking agreement portion of the leveraged lease business, as described further below in "—Leveraged Lease Business."

The GIC Business

Until November 2008, AGMH, through its financial products business, offered GICs to municipalities and other market participants. The GICs were issued through certain non-insurance subsidiaries of AGMH. In return for an initial payment, each GIC entitles its holder to receive the return of the holder's invested principal plus interest at a specified rate, and to withdraw principal from the GIC as permitted by its terms. AGM insures the payment obligations on all these GICs.

The proceeds of GICs were loaned to AGMH's former subsidiary FSA Asset Management LLC ("FSAM"). FSAM in turn invested these funds in fixed-income obligations (the "FSAM assets").

AGM's insurance policies on the GICs remain in place, and must remain in place until each GIC is terminated, even though AGMH no longer holds any ownership interest in FSAM or the GIC issuers.

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. In addition to the surviving agreements described below, AGM benefits from a guaranty jointly and severally issued by Dexia SA and Dexia Crédit Local S.A. to AGM that guarantees the payment obligations of AGM under its insurance policies related to the GIC business, and an indemnification agreement between AGM, Dexia SA and Dexia Crédit Local S.A. that protects AGM from other losses arising out of or as a result of the GIC business.

To support the primary payment obligations under the GICs, each of Dexia SA and Dexia Crédit Local S.A. are party to a put contract. Pursuant to the put contract, FSAM may put an amount of its FSAM assets to Dexia SA and Dexia Crédit Local S.A. in exchange for funds that FSAM would in turn make available to meet demands for payment under the GICs. The amount that could be put varies depending on the type of trigger event in question. To secure their obligations under this put contract, Dexia SA and Dexia Crédit Local S.A. are required to post eligible highly liquid collateral having an aggregate value (subject to agreed reductions and advance rates) equal to at least the excess of (i) the aggregate principal amount of all outstanding GICs over (ii) the aggregate mark-to-market value of FSAM's assets.

As of September 30, 2016, approximately 26.5% of the FSAM assets (measured by aggregate principal balance) were in cash or were obligations backed by the full faith and credit of the U.S.

As of September 30, 2016, the aggregate accreted GIC balance was approximately \$1.6 billion, compared with approximately \$10.2 billion as of December 31, 2009. As of September 30, 2016, and with respect to the FSAM assets, the aggregate accreted principal was approximately \$2.4 billion, the aggregate market value was approximately \$2.3 billion and the aggregate market value after agreed reductions was approximately \$1.6 billion. Cash and positive derivative value exceeded the negative derivative values and other projected costs by approximately \$147 million. Accordingly, as of September 30, 2016, the aggregate fair market value of the assets supporting the GIC business (disregarding the agreed upon reductions) plus cash and positive derivative value exceeded by nearly \$0.9 billion the aggregate principal amount of all outstanding GICs and certain other business and hedging costs of the GIC business. Even after applying the agreed upon reductions to the fair market value

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of the assets, the aggregate value of the assets supporting the GIC business plus cash and positive derivative value exceeded the aggregate principal amount of all outstanding GICs and certain other business and hedging costs of the GIC business. Accordingly, no posting of collateral was required under the primary put contract.

To provide additional support, Dexia Crédit Local S.A. provides a liquidity commitment to FSAM to lend against FSAM assets under a revolving credit agreement. As of September 30, 2016 the commitment totaled \$1.4 billion, of which approximately \$0.8 billion was drawn. The agreement requires the commitment remain in place, generally until the GICs have been paid in full.

Despite the put contract and revolving credit agreement, and the significant portion of FSAM assets comprised of highly liquid securities backed by the full faith and credit of the United States, AGM remains subject to the risk that Dexia SA and its affiliates may not make payments or securities available (i) on a timely basis, which is referred to as “liquidity risk,” or (ii) at all, which is referred to as “credit risk,” because of the risk of default. Even if the Dexia entities have sufficient assets to pay all amounts when due (either under the GICs, or under the guarantee, the put contract and the revolving credit agreement), one or more rating agencies may view negatively the ability or willingness of Dexia SA and its affiliates to perform under their various agreements, which could negatively affect AGM’s ratings.

If Dexia SA or its affiliates do not fulfill their contractual obligations, the GIC issuers may not have the financial ability to pay upon the withdrawal of GIC funds or post collateral or make other payments in respect of the GICs, thereby resulting in claims upon the AGM financial guaranty insurance policies. If AGM is required to pay a claim due to a failure of the GIC issuers to pay amounts in respect of the GICs, AGM is subject to the risk that the GICs will not be paid from funds received from Dexia SA and its affiliates before it is required to make payment under its financial guaranty policies or that it will not receive the guaranty payment at all.

A downgrade of the financial strength rating of AGM could trigger a payment obligation of AGM in respect to AGMH's former GIC business. Most of the GICs insured by AGM allow for the withdrawal of GIC funds in the event of a downgrade of AGM, unless the relevant GIC issuer posts collateral or otherwise enhances its credit. Most GICs insured by AGM allow for the termination of the GIC contract and a withdrawal of GIC funds at the option of the GIC holder in the event of a downgrade of AGM below a specified threshold, generally below A- by S&P or A3 by Moody's, with no right of the GIC issuer to avoid such withdrawal by posting collateral or otherwise enhancing its credit. Each GIC contract stipulates the thresholds below which the GIC issuer must post eligible collateral, along with the types of securities eligible for posting and the collateralization percentage applicable to each security type. These collateralization percentages range from 100% of the GIC balance for cash posted as collateral to, typically, 108% for asset-backed securities. FSAM is expected to have sufficient eligible and liquid assets to satisfy any expected withdrawal and collateral posting obligations resulting from future rating actions affecting AGM.

The Medium Term Notes Business

In connection with the acquisition of AGMH, Dexia Crédit Local S.A. agreed to fund, on behalf of AGM, 100% of all policy claims made under financial guaranty insurance policies issued by AGM in relation to the medium term notes issuance program of FSA Global Funding Limited. Such agreement is set out in a Separation Agreement, dated as of July 1, 2009, between Dexia Crédit Local S.A., AGM, FSA Global Funding and Premier International Funding Co., and in a funding guaranty and a reimbursement guaranty that Dexia Crédit Local S.A. issued for the benefit of AGM. Under the funding guaranty, Dexia Crédit Local S.A. guarantees to pay to or on behalf of AGM amounts equal to the payments required to be made under policies issued by AGM relating to the medium term notes business. Under the reimbursement guaranty, Dexia Crédit Local S.A. guarantees to pay reimbursement amounts to AGM for payments it makes following a claim for payment under an obligation insured by a policy it has issued. Notwithstanding Dexia Crédit Local S.A.’s obligation to fund 100% of all policy claims under those policies, AGM has a separate obligation to remit to Dexia Crédit Local S.A. a certain percentage (ranging from 0% to 25%) of those policy claims. AGM, the

Company and related parties are also protected against losses arising out of or as a result of the medium term note business through an indemnification agreement with Dexia Crédit Local S.A. As of September 30, 2016, FSA Global Funding Limited had approximately \$739 million of medium term notes outstanding.

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Leveraged Lease Business

Under the Strip Coverage Facility entered into in connection with the acquisition of AGMH, Dexia Credit Local (NY) agreed to make loans to AGM to finance all draws made by lessors on certain AGM strip policies issued in connection with the leveraged lease business. The leveraged lease business, the AGM strip policies and the Strip Coverage Facility are described further under "Commitments and Contingencies-Recourse Credit Facility" above. There have never been any borrowings under the Strip Coverage Facility, the amount of the leveraged leases covered by the Strip Coverage Facility has declined since July 1, 2009 and, to date, none of the leveraged lease transactions in which AGM acts as the strip coverage provider has experienced an early termination due to a lease default. Consequently, and in view of the credit quality of the relevant tax-exempt entities and the cost of the Strip Coverage Facility, the Company determined that maintaining the Strip Coverage Facility was no longer warranted. On July 29, 2016, the parties terminated the Strip Coverage Facility.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for an updated sensitivity analysis for credit derivatives and expected losses on contracts accounted for as insurance. For other quantitative and qualitative disclosures about market risk, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk", of our Company's Annual Report on Form 10-K for the year ended December 31, 2015. There were no material changes in market risk since December 31, 2015.

ITEM 4. CONTROLS AND PROCEDURES

Assured Guaranty's management, with the participation of AGL's President and Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are effective in recording, processing, summarizing and reporting, within the time periods specified in the Securities and Exchange Commission's rules and forms, information required to be disclosed by AGL in the reports that it files or submits under the Exchange Act and ensuring that such information is accumulated and communicated to management, including the President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of September 30, 2016. Based on their evaluation as of September 30, 2016 covered by this Form 10-Q, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective.

On July 1, 2016 the Company acquired CIFG Holding Inc. and its subsidiaries. See Note 2 to the unaudited consolidated financial statements in Item 1. The Company has extended its Section 404 compliance program under the Sarbanes-Oxley Act of 2002 and the applicable rules and regulations under such Act to include the integration of CIFG Holding Inc. and its subsidiaries' financial data into the Company's existing systems, processes and related controls, as well as the new processes and controls to accommodate the business combination accounting and financial consolidation of CIFG Holding Inc. and its subsidiaries during the Company's quarter ended September 30, 2016.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is subject to legal proceedings and claims, as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 and the quarter ended June 30, 2016, and in Note 14 to the Consolidated Financial Statements, Commitments and Contingencies – Legal Proceedings contained in this Form 10-Q, which note includes discussion of developments that occurred during the three months ended September 30, 2016.

ITEM 1A. RISK FACTORS

Please refer to the risk factors set forth in Part I, "Item 1A. Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, and Part II, "Item 1A Risk Factors" of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016. There have been no material changes to the risk factors disclosed in such Annual Report and Quarterly Report during the three months ended September 30, 2016.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer's Purchases of Equity Securities

The following table reflects purchases of AGL common shares made by the Company during Third Quarter 2016.

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)
July 1 - July 31	766,247	\$ 25.88	766,247	\$ 150,170,690
August 1 - August 31	739,107	\$ 27.29	739,107	\$ 130,000,051
September 1 - September 30	544,875	\$ 27.53	544,875	\$ 115,000,076
Total	2,050,229	\$ 26.83	2,050,229	

After giving effect to repurchases since the beginning of 2013 through November 3, 2016, the Company has repurchased a total of 66.0 million common shares for approximately \$1,619 million, excluding commissions, at an average price of \$24.52 per share. On February 24, 2016, the Company's Board of Directors approved a \$250 million share repurchase authorization, and on November 2, 2016, it approved an incremental \$250 million share (1) repurchase authorization, including a specifically authorized repurchase from the Company's Chief Executive Officer and its General Counsel. See Note 17, Shareholders' Equity, of the Financial Statements, for additional information about the Company's repurchases of its common shares, including the details of the authorization of repurchases from its Chief Executive Officer and General Counsel. As of November 3, 2016, \$345 million of total capacity remained from the authorizations, on a settlement basis.

(2) Excludes commissions.

ITEM 6. EXHIBITS.

See Exhibit Index for a list of exhibits filed with this report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

ASSURED GUARANTY LTD.
(Registrant)

Dated November 4, 2016 By: /s/ ROBERT A. BAIENSON

Robert A. Bailenson
Chief Financial Officer (Principal Financial and
Accounting Officer and Duly Authorized Officer)

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EXHIBIT INDEX

Exhibit Number	Description of Document
10.1	Share Purchase Agreement relating to the sale and purchase of MBIA UK Insurance Limited, dated September 29, 2016, between MBIA UK (Holdings) Limited and Assured Guaranty Corp.
31.1	Certification of CEO Pursuant to Exchange Act Rules 13A-14 and 15D-14, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO Pursuant to Exchange Act Rules 13A-14 and 15D-14, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.1	The following financial information from Assured Guaranty Ltd.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 formatted in XBRL: (i) Consolidated Balance Sheets at September 30, 2016 and December 31, 2015; (ii) Consolidated Statements of Operations for the Three and Nine Months ended September 30, 2016 and 2015; (iii) Consolidated Statements of Comprehensive Income for the Three and Nine Months ended September 30, 2016 and 2015 (iv) Consolidated Statement of Shareholders' Equity for the Nine Months ended September 30, 2016; (v) Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2016 and 2015; and (vi) Notes to Consolidated Financial Statements.