ASSURED GUARANTY LTD
Form 10-Q
May 05, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
ý QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2016
Or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition Period from to
Commission File No. 001-32141
ASSURED GUARANTY LTD.
(Exact name of registrant as specified in its charter)

Bermuda	98-0429991
(State or other jurisdiction of incorporation)	(I.R.S. employer identification no.)

30 Woodbourne Avenue
Hamilton HM 08
Bermuda
(Address of principal executive offices)
(441) 279-5700
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of registrant's Common Shares ($0.01 par value) outstanding as of May 2, 2016 was 134,357,143 (includes 62,145 unvested restricted shares).

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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 March 31, 2016	As of December 31, 2015
Assets		
Investment portfolio:		
Fixed-maturity securities, available-for-sale, at fair value (amortized cost of $10,123 and $10,275)	$10,588	$ 10,627
Short-term investments, at fair value	459	396
Other invested assets	167	169
Total investment portfolio	11,214	11,192
Cash	112	166
Premiums receivable, net of commissions payable	662	693
Ceded unearned premium reserve	236	232
Deferred acquisition costs	113	114
Reinsurance recoverable on unpaid losses	72	69
Salvage and subrogation recoverable	206	126
Credit derivative assets	55	81
Deferred tax asset, net	278	276
Current income tax receivable	11	40
Financial guaranty variable interest entities’ assets, at fair value	1,191	1,261
Other assets	302	294
Total assets	$14,452	$ 14,544
Liabilities and shareholders’ equity		
Unearned premium reserve	$3,810	$ 3,996
Loss and loss adjustment expense reserve	1,112	1,067
Reinsurance balances payable, net	58	51
Long-term debt	1,302	1,300
Credit derivative liabilities	489	446
Financial guaranty variable interest entities’ liabilities with recourse, at fair value	1,165	1,225
Financial guaranty variable interest entities’ liabilities without recourse, at fair value	119	124
Other liabilities	284	272
Total liabilities	8,339	8,481
Commitments and contingencies (See Note 14)		
Common stock ($0.01 par value, 500,000,000 shares authorized; 135,083,637 and 137,928,552 shares issued and outstanding)	1	1
Additional paid-in capital	1,269	1,342
Retained earnings	4,519	4,478
Accumulated other comprehensive income, net of tax of $127 and $104	319	237
Deferred equity compensation (320,193 and 320,193 shares)	5	5
Total shareholders’ equity	6,113	6,063

Total liabilities and shareholders' equity	$14,452	$ 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 March 31,	
	2016	2015
Revenues		
Net earned premiums	$183	$142
Net investment income	99	101
Net realized investment gains (losses):		
Other-than-temporary impairment losses	(20)	(5)
Less: portion of other-than-temporary impairment loss recognized in other comprehensive income	(4)	2
Net impairment loss	(16)	(7)
Other net realized investment gains (losses)	3	23
Net realized investment gains (losses)	(13)	16
Net change in fair value of credit derivatives:		
Realized gains (losses) and other settlements	8	21
Net unrealized gains (losses)	(68)	103
Net change in fair value of credit derivatives	(60)	124
Fair value gains (losses) on committed capital securities	(16)	2
Fair value gains (losses) on financial guaranty variable interest entities	18	(7)
Other income (loss)	34	(9)
Total revenues	245	369
Expenses		
Loss and loss adjustment expenses	90	18
Amortization of deferred acquisition costs	4	4
Interest expense	26	25
Other operating expenses	60	56
Total expenses	180	103
Income (loss) before income taxes	65	266
Provision (benefit) for income taxes		
Current	30	13
Deferred	(24)	52
Total provision (benefit) for income taxes	6	65
Net income (loss)	$59	$201
Earnings per share:		
Basic	$0.43	$1.29
Diluted	$0.43	$1.28
Dividends per share	$0.13	$0.12

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 March 31,	
	2016	2015
Net income (loss)	$59	$201
Unrealized holding gains (losses) arising during the period on:		
Investments with no other-than-temporary impairment, net of tax provision (benefit) of $31, and $1	95	18
Investments with other-than-temporary impairment, net of tax provision (benefit) of $(10) and $(2)	(17)	(2)
Unrealized holding gains (losses) arising during the period, net of tax	78	16
Less: reclassification adjustment for gains (losses) included in net income (loss), net of tax provision (benefit) of $(4) and $6	(6)	10
Change in net unrealized gains on investments	84	6
Other, net of tax provision	(2)	(6)
Other comprehensive income (loss)	$82	$0
Comprehensive income (loss)	$141	$201

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 Three Months Ended March 31, 2016

(dollars in millions, except share data)

	Common Shares Outstanding	Common Stock Par Value	Additional 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	—	—	—	59	—	—	59
Dividends ($0.13 per share)	—	—	—	(18)	—	—	(18)
Common stock repurchases	(3,038,928)	0	(75)	—	—	—	(75)
Share-based compensation and other	194,013	0	2	—	—	—	2
Other comprehensive income	—	—	—	—	82	—	82
Balance at March 31, 2016	135,083,637	$ 1	$ 1,269	$ 4,519	$ 319	$ 5	$ 6,113

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)

	Three Months Ended March 31,	
	2016	2015
Net cash flows provided by (used in) operating activities	$(90)	$23
Investing activities		
Fixed-maturity securities:		
Purchases	(296)	(448)
Sales	162	841
Maturities	301	155
Net sales (purchases) of short-term investments	(63)	420
Net proceeds from paydowns on financial guaranty variable interest entities’ assets	66	30
Other	2	3
Net cash flows provided by (used in) investing activities	172	1,001
Financing activities		
Dividends paid	(18)	(19)
Repurchases of common stock	(75)	(152)
Share activity under option and incentive plans	0	(5)
Net paydowns of financial guaranty variable interest entities’ liabilities	(42)	(39)
Repayment of long-term debt	0	(1)
Other	(1)	4
Net cash flows provided by (used in) financing activities	(136)	(212)
Effect of foreign exchange rate changes	0	(2)
Increase (decrease) in cash	(54)	810
Cash at beginning of period	166	75
Cash at end of period	$112	$885
Supplemental cash flow information		
Cash paid (received) during the period for:		
Income taxes	$1	$17
Interest	$7	$7

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)

March 31, 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 March 31, 2016 and cover the three-month period ended March 31, 2016 ("First Quarter 2016") and the three-month period ended March 31, 2015 ("First Quarter 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

Share-Based Payments

In March 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("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 is currently evaluating the effect of adopting this ASU 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 or agreed to acquire two financial guaranty companies within the last 12 months.

CIFG Holding Inc.

On April 12, 2016, AGC entered into an agreement and plan of merger to acquire CIFG Holding Inc. ("CIFG"), the parent of financial guaranty insurer CIFG Assurance North America, Inc. ("CIFG NA"). AGC expects to pay $450 million in cash to acquire CIFG, subject to adjustments as contemplated in the agreement, and the acquisition is expected to be completed mid-2016, subject to receipt of anti-trust and insurance regulatory approvals as well as satisfaction of customary closing conditions. CIFG's stockholders have already approved the acquisition. As part of the transaction, CIFG NA will merge into AGC, which will be the surviving entity. As of December 31, 2015, CIFG had a consolidated insured portfolio of $5.6 billion of net par and approximately $637 million of consolidated qualified statutory capital.

Radian Asset Assurance Inc.

On April 1, 2015 ("Acquisition Date"), 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 gains on settlement of pre-existing relationships.

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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 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 and to AGM in 2014 and the A.M. Best Company, Inc. ("Best") rating was first assigned to Assured Guaranty Re Overseas Ltd. ("AGRO") in 2015, while 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, Standard & Poor's Ratings Services ("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 December 8, 2015 Moody's published credit opinions maintaining its existing insurance financial strength ratings of A2 (stable outlook) on AGM and AGE and A3 (negative outlook) on AGC and AGC's subsidiary Assured Guaranty (UK) Ltd. ("AGUK"). 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 August 3, 2015 and December 10, 2015, KBRA affirmed the AA+ (stable outlook) financial strength ratings of MAC and AGM, respectively.

- On June 29, 2015, S&P affirmed the AA (stable) financial strength ratings of all of AGL's insurance subsidiaries.

- On May 5, 2015, Best assigned to AGRO a financial strength rating of A+ (Stable), which is their second highest rating.

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. Unless 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 constant 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.

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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.

Financial Guaranty
Debt Service Outstanding

	Gross Debt Service Outstanding		Net Debt Service Outstanding	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
	(in millions)			
Public finance	$496,630	$ 515,494	$476,362	$ 494,426
Structured finance	42,012	43,976	40,037	41,915
Total financial guaranty	$538,642	$ 559,470	$516,399	$ 536,341

In addition to the amounts shown in the table above, the Company’s net mortgage guaranty insurance debt service was approximately $107 million as of March 31, 2016 and $102 million as of December 31, 2015, related to loans originated in Ireland. The increase in the net mortgage guaranty insurance debt service is due to exchange rate fluctuations.

Financial Guaranty Portfolio by Internal Rating
As of March 31, 2016

Rating Category	Public Finance U.S. Net Par Outstanding	%	Public Finance Non-U.S. Net Par Outstanding	%	Structured Finance U.S Net Par Outstanding	%	Structured Finance Non-U.S Net Par Outstanding	%	Total Net Par Outstanding	%
	(dollars in millions)									
AAA	$2,541	0.9 %	$688	2.3 %	$13,953	45.8 %	$2,529	49.4 %	$19,711	5.7 %
AA	65,310	23.2	1,969	6.7	7,505	24.7	154	3.0	74,938	21.6
A	145,515	51.6	6,695	22.8	2,584	8.5	551	10.8	155,345	44.7
BBB	60,736	21.5	18,622	63.4	1,279	4.2	1,267	24.7	81,904	23.6
BIG	7,953	2.8	1,411	4.8	5,131	16.8	622	12.1	15,117	4.4
Total net par outstanding (1)	$282,055	100.0%	$29,385	100.0%	$30,452	100.0 %	$5,123	100.0 %	$347,015	100.0%

(1) Excludes $1.5 billion of loss mitigation securities insured and held by the Company as of March 31, 2016, 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. Net Par Outstanding	%	Public Finance Non-U.S. Net Par Outstanding	%	Structured Finance U.S Net Par Outstanding	%	Structured Finance Non-U.S Net Par Outstanding	%	Total 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%

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(1) Excludes $1.5 billion of loss mitigation securities insured and held by the Company as of December 31, 2015, which are primarily BIG.

In addition to amounts shown in the tables above, the Company had outstanding commitments to provide guaranties of $240 million for public finance obligations as of March 31, 2016. The expiration dates for the public finance commitments range between April 1, 2016 and February 25, 2017, with $66 million expiring prior to the date of this filing and an additional $110 million expiring prior to December 31, 2016. 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 March 31, 2016

	BIG Net Par Outstanding				Net Par
	BIG 1	BIG 2	BIG 3	Total BIG	Outstanding
			(in millions)		
U.S. public finance	$4,608	$3,191	$ 154	$ 7,953	$ 282,055
Non-U.S. public finance	882	529	—	1,411	29,385
Structured finance:					
First lien U.S. residential mortgage-backed securities ("RMBS"):					
Prime first lien	192	32	24	248	425
Alt-A first lien	125	66	507	698	1,238
Option ARM	50	7	78	135	235
Subprime	82	281	866	1,229	3,305
Second lien U.S. RMBS	225	47	1,100	1,372	1,474
Total U.S. RMBS	674	433	2,575	3,682	6,677
Triple-X life insurance transactions	—	—	216	216	2,650
Trust preferred securities (“TruPS”)	650	127	—	777	4,296
Student loans	—	68	81	149	1,815
Other structured finance	743	147	39	929	20,137

Total	$7,557	$4,495	$ 3,065	$ 15,117	$ 347,015

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Components of BIG Net Par Outstanding
(Insurance and Credit Derivative Form)
As of December 31, 2015

	BIG Net Par Outstanding				Net Par
	BIG 1	BIG 2	BIG 3	Total BIG	Outstanding
			(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 March 31, 2016

	Net Par Outstanding			Number of Risks(2)		
Description	Financial Guaranty Insurance(1)	Credit Derivative	Total	Financial Guaranty Insurance(1)	Credit Derivative	Total
	(dollars in millions)					
BIG:						
Category 1	$6,585	$ 972	$7,557	202	12	214
Category 2	4,015	480	4,495	86	7	93
Category 3	2,938	127	3,065	129	12	141
Total BIG	$13,538	$ 1,579	$15,117	417	31	448

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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 and various obligations of its related authorities and public corporations aggregating $5.1 billion net par as of March 31, 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.

In June 2014, the Puerto Rico legislature passed the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Recovery Act") in order to provide a legislative framework for certain public corporations experiencing severe financial stress to restructure their debt, including Puerto Rico Highway and Transportation Authority ("PRHTA") and Puerto Rico Electric Power Authority ("PREPA"). Subsequently, the Commonwealth stated PREPA might need to seek relief under the Recovery Act due to liquidity constraints. Investors in bonds issued by PREPA filed suit in the United States District Court for the District of Puerto Rico challenging the Recovery Act. On February 6, 2015, the U.S. District Court for the District of Puerto Rico ruled the Recovery Act is preempted by the U.S. Bankruptcy Code and is therefore void. On July 6, 2015, the U.S. Court of Appeals for the First Circuit upheld that ruling, and on December 4, 2015, the U.S. Supreme Court granted petitions for writs of certiorari relating to that ruling. Oral arguments were held on March 22, 2016. Typical Supreme Court practice suggests a decision could be announced in June 2016, but there is no assurance that an opinion will be announced at such time, especially in light of the Supreme Court vacancy.

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, is unpayable and that a comprehensive debt restructuring may be necessary, and he has made similar statements since then.

On September 9, 2015, the Working Group for the Fiscal and Economic Recovery of Puerto Rico (“Working Group”) established by the Governor published its “Puerto Rico Fiscal and Economic Growth Plan” (the “FEGP”). The FEGP included a recommendation that the Commonwealth’s advisors begin to work on a voluntary exchange offer to its

creditors as part of the FEGP.

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 PRHTA, 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 impacted by the Clawback Orders are shown in the table “Puerto Rico Net Par Outstanding” below.

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On January 1, 2016 Puerto Rico Infrastructure Finance Authority ("PRIFA") defaulted on payment of a portion of the interest due on its bonds on that date. For those PRIFA bonds the Company had insured, the Company paid approximately $451 thousand of claims for the interest payments on which PRIFA had defaulted.

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 a moratorium, entity by entity, on debt service payments on debt of the commonwealth and its related authorities and public corporations, as well as instituting a stay against related litigation, among other things. It is possible that a court may find any attempt to exercise the power to declare a moratorium on debt service payments purportedly granted by the Moratorium Act to be unconstitutional, and the impact of any attempt to exercise such power on the Puerto Rico credits insured by the Company is uncertain. Shortly after signing it into law, the Governor used the authority of the Moratorium Act to declare an emergency period with respect to the Government Development Bank (the "GDB"), placing restrictions on its disbursements and certain of its other activities and moving the clearing of payroll of Commonwealth and GDB employees from the GDB.

On April 30, 2016, the Governor signed an order under the Moratorium Act ordering a moratorium on the debt service payment of approximately $422 million due to be made by the GDB on May 2, 2016. On May 1, 2016, the GDB announced a tentative agreement with a group of creditors of the GDB (the "Ad Hoc Group") for a restructuring of GDB's notes and that the GDB would pay the interest due on May 2, 2016. According to the announcement, the Ad Hoc Group agreed to forbear from initiating litigation for 30 days during the pendency of negotiations. The GDB noted in its May 1 announcement that the tentative agreement requires 100% participation of the GDB's creditors and that it would be unlikely to reach that level of participation without a restructuring law enabling it to bind non-consenting creditors. The Company does not insure any debt issued by the GDB.

There have been a number of other proposals, plans and legislative initiatives offered in Puerto Rico and in the United States aimed at addressing Puerto Rico's fiscal issues. Among the responses proposed is a federal financial control board and access to bankruptcy courts or another restructuring mechanism. In addition, the Working Group has made several proposals for voluntary exchanges that include terms such as discounts, extensions and subordination. The final shape and timing of responses to Puerto Rico's distress eventually enacted or implemented by Puerto Rico or the United States, if any, and the impact of any such actions on obligations insured by the Company, is uncertain and may differ substantially from the recommendations of the Working Group or any other proposals or plans described in the press or offered to date or in the future.

S&P, Moody's and Fitch Ratings have lowered the credit rating of the Commonwealth's bonds and on its public corporations several times over the past approximately two years, and the Commonwealth has disclosed its liquidity has been adversely affected by rating agency downgrades and by the limited market access for its debt, and also noted it has relied on short-term financings and interim loans from the GDB and other private lenders, which reliance has constrained its liquidity and increased its near-term refinancing risk.

PREPA

As of March 31, 2016, the Company had $744 million insured net par outstanding of PREPA obligations. On July 1, 2015, PREPA made full payment of the $416 million of principal and interest due on its bonds, including bonds insured by AGM and AGC. However, that payment was conditioned on and facilitated by AGM and AGC agreeing, also on July 1, to purchase a portion of $131 million of interest-bearing bonds to help replenish certain of the operating funds PREPA used to make the $416 million of principal and interest payments. On July 31, 2015, AGM and AGC purchased $74 million aggregate principal amount of those bonds; the bonds were repaid in full in 2016.

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, which enables PREPA to achieve debt relief and more efficient capital markets financing, Assured Guaranty will issue surety insurance policies in an aggregate amount not expected to exceed $113 million in exchange for a market premium and 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. The Company's share of the bridge financing is approximately $15 million. Legislation meeting the requirements of the RSA was enacted on February 16, 2016. The closing of the restructuring transaction, the issuance of the surety bonds and the closing of the bridge financing are subject

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to certain conditions, including confirmation that the enacted legislation meets all requirements of the RSA and 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, the impact of 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.

PRHTA

As of March 31, 2016, the Company had $910 million insured net par outstanding of PRHTA (Transportation revenue) bonds and $369 million net par of PRHTA (Highway revenue) bonds. 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.

Puerto Rico Sales Tax Financing Corporation ("COFINA")

As of March 31, 2016, the Company had $270 million insured net par outstanding of junior COFINA bonds, which are secured by a lien on certain sales and use taxes. There have been proposals from both the Commonwealth and from holders of certain senior COFINA bonds to restructure COFINA debt.

Puerto Rico Convention Center District Authority

As of March 31, 2016, the Company had $164 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.

Puerto Rico Aqueduct and Sewer Authority ("PRASA")

As of March 31, 2016, the Company had $388 million insured par outstanding to PRASA bonds, which are secured by the gross revenues of the system. On September 15, 2015, PRASA entered into a settlement with the U.S. Justice Department 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, it owed its contractors $140 million.

Municipal Finance Agency ("MFA")
As of March 31, 2016, the Company had $387 million net par outstanding of bonds issued by MFA secured by a pledge of local property tax revenues. On October 13, 2015, the Company filed a motion to intervene in litigation between Centro de Recaudación de Ingresos Municipales ("CRIM") and the GDB in which CRIM was seeking to ensure that the pledged tax revenues are, and will continue to be, available to support the MFA bonds. While the Company's motion to intervene was denied, the GDB and CRIM have reported that they executed a new deed of trust that requires the GDB, as fiduciary, to keep the pledged tax revenues separate from any other GDB monies or accounts and that governs the manner in which the pledged revenues may be invested and dispersed.

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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	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
	(in millions)			
Previously Subject to the Voided Recovery Act (1)	$2,965	$ 2,965	$5,090	$ 5,162
Not Previously Subject to the Voided Recovery Act	2,791	2,790	4,398	4,470
Total	$5,756	$ 5,755	$9,488	$ 9,632

(1) On February 6, 2015, the U.S. District Court for the District of Puerto Rico ruled that the Recovery Act is preempted by the U.S. Bankruptcy Code and is therefore void. On July 6, 2015, the U.S. Court of Appeals for the First Circuit upheld that ruling, and on December 4, 2015, the U.S. Supreme Court granted petitions for writs of certiorari relating to that ruling.

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Puerto Rico
Net Par Outstanding

	As of March 31, 2016		As of December 31, 2015	
	Total	Internal Rating	Total	Internal Rating
	(in millions)			
Exposures Previously Subject to the Voided Recovery Act:				
PRHTA (Transportation revenue) (1)	$910	CCC-	$909	CCC-
PREPA	744	CC	744	CC
PRASA	388	CCC	388	CCC
PRHTA (Highway revenue)(1)	369	CCC	370	CCC
PRCCDA (1)	164	CCC-	164	CCC-
Total	2,575		2,575	
Exposures Not Previously Subject to the Voided Recovery Act:				
Commonwealth of Puerto Rico - General Obligation Bonds	1,615	CCC	1,615	CCC
MFA	387	CCC-	387	CCC-
COFINA	270	CCC+	269	CCC+
Puerto Rico Public Buildings Authority	188	CCC	188	CCC
PRIFA (1) (2)	18	C	18	CCC-
University of Puerto Rico	1	CCC-	1	CCC-
Total	2,479		2,478	
Total net exposure to Puerto Rico	$5,054		$5,053	

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(1) The Governor issued executive orders on November 30, 2015, and December 8, 2015, directing the Puerto Rico Department of Treasury and the Puerto Rico Tourism Company to retain or transfer certain taxes and revenues pledged to secure the payment of bonds issued by PRHTA, PRIFA and 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 and revenues is unconstitutional, and demanding declaratory and injunctive relief.

(2) On January 1, 2016 PRIFA defaulted on full payment of a portion of the interest due on its bonds on that date. For those PRIFA bonds the Company had insured, the Company paid approximately $451 thousand of claims for the interest payments on which PRIFA had defaulted.

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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.

Amortization Schedule of Puerto Rico Net Par Outstanding
and Net Debt Service Outstanding
As of March 31, 2016

	Scheduled Net Par Amortization			Scheduled Net Debt Service Amortization		
	Previously Subject to the Voided Recovery Act	Not Previously Subject to the Voided Recovery Act	Total	Previously Subject to the Voided Recovery Act	Not Previously Subject to the Voided Recovery Act	Total
	(in millions)					
2016 (April 1 – June 30)	$0	$ 0	$0	$2	$ 0	$2
2016 (July 1 – September 30)	98	204	302	161	267	428
2016 (October 1 – December 31)	0	0	0	2	0	2
2017	51	171	222	175	288	463
2018	56	123	179	178	232	410
2019	74	130	204	192	232	424
2020	87	183	270	202	280	482
2021	66	59	125	177	146	323
2022	47	68	115	153	152	305
2023	110	40	150	214	123	337
2024	89	85	174	188	164	352
2025	111	85	196	206	159	365
2026-2030	590	353	943	974	660	1,634
2031-2035	583	548	1,131	838	761	1,599
2036-2040	308	271	579	427	355	782
2041-2045	137	159	296	206	174	380
2046-2047	168	—	168	181	—	181
Total	$2,575	$ 2,479	$5,054	$4,476	$ 3,993	$8,469

Exposure to the Selected European Countries

The European countries where the Company has exposure and believes heightened uncertainties exist are: Hungary, Italy, Portugal and Spain (collectively, the “Selected European Countries”). 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.

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Net Direct Economic Exposure to Selected European Countries(1)
As of March 31, 2016

	Hungary	Italy	Portugal	Spain	Total
	(in millions)				
Sub-sovereign exposure(2)	$271	$827	$ 84	$375	$1,557
Non-sovereign exposure(3)	179	458	—	—	637
Total	$450	$1,285	$ 84	$375	$2,194
Total BIG (See Note 5)	$379	$—	$ 84	$375	$838

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(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 and RMBS.

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 $206 million to Selected European Countries (plus Greece) in transactions with $4.1 billion of net par outstanding. The indirect exposure to credits with a nexus to Greece is $6 million across several highly rated pooled corporate obligations with net par outstanding of $231 million.

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 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 2.88% as of March 31, 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

	First Quarter	
	2016	2015
	(in millions)	
Net expected loss to be paid, beginning of period	$1,391	$1,169
Economic loss development due to:		
Accretion of discount	9	7
Changes in discount rates	63	7
Changes in timing and assumptions	(13)	(17)
Total economic loss development	59	(3)
Paid losses	(113)	(12)
Net expected loss to be paid, end of period	$1,337	$1,154

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

	Net Expected Loss to be Paid (Recovered) as of December 31, 2015 (2)	Economic Loss Development	(Paid) Recovered Losses (1)	Net Expected Loss to be Paid (Recovered) as of March 31, 2016 (2)
	(in millions)			
Public Finance:				
U.S. public finance	$771	$ 98	$ (5)	$ 864
Non-U.S. public finance	38	1	—	39
Public Finance	809	99	(5)	903
Structured Finance:				
U.S. RMBS:				
First lien:				
Prime first lien	(2)	0	1	(1)
Alt-A first lien	127	(16)	(75)	36
Option ARM	(28)	(21)	2	(47)
Subprime	251	1	(12)	240
Total first lien	348	(36)	(84)	228
Second lien	61	5	(1)	65
Total U.S. RMBS	409	(31)	(85)	293
Triple-X life insurance transactions	99	4	(1)	102
Student loans	54	(14)	(8)	32
Other structured finance	20	1	(14)	7
Structured Finance	582	(40)	(108)	434
Total	$1,391	$ 59	$ (113)	$ 1,337

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

	Net Expected Loss to be Paid (Recovered) as of December 31, 2014	Economic Loss Development	(Paid) Recovered Losses (1)	Net Expected Loss to be Paid (Recovered) as of March 31, 2015
	(in millions)			
Public Finance:				
U.S. public finance	$303	$ 9	$ (2)	$ 310
Non-U.S. public finance	45	(3)	—	42
Public Finance	348	6	(2)	352
Structured Finance:				
U.S. RMBS:				
First lien:				
Prime first lien	4	0	(1)	3
Alt-A first lien	304	(5)	(10)	289
Option ARM	(16)	4	(4)	(16)
Subprime	303	(1)	(9)	293
Total first lien	595	(2)	(24)	569
Second lien	(11)	6	6	1
Total U.S. RMBS	584	4	(18)	570
Triple-X life insurance transactions	161	5	(1)	165
Student loans	68	(6)	—	62
Other structured finance	8	(12)	9	5
Structured Finance	821	(9)	(10)	802
Total	$1,169	$ (3)	$ (12)	$ 1,154

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(1) 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 recoverable on paid losses included in other assets. The Company paid $2 million and $4 million in loss adjustment expenses ("LAE") for First Quarter 2016 and 2015, respectively.

(2) Includes expected LAE to be paid of $9 million as of March 31, 2016 and $12 million as of December 31, 2015.

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Future Net R&W Benefit Receivable (Payable)(1)

	As of March 31, 2016	As of December 31, 2015
	(in millions)	
U.S. RMBS:		
First lien	$ (30)	$ 0
Second lien	77	79
Total	$ 47	$ 79

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(1) The Company's agreements with providers of breaches 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. See the section "Breaches 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 to pay in claims, 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 March 31, 2016

	Financial Guaranty Insurance	FG VIEs(1) and Other	Credit Derivatives(2)	Total
	(in millions)			
Public Finance:				
U.S. public finance	$ 864	$ —	$ 0	$ 864
Non-U.S. public finance	39	—	—	39
Public Finance	903	—	0	903
Structured Finance:				
U.S. RMBS:				
First lien:				
Prime first lien	2	—	(3)	(1)
Alt-A first lien	19	18	(1)	36
Option ARM	(44)	—	(3)	(47)
Subprime	148	55	37	240
Total first lien	125	73	30	228
Second lien	19	43	3	65
Total U.S. RMBS	144	116	33	293
Triple-X life insurance transactions	91	—	11	102
Student loans	32	—	—	32
Other structured finance	40	2	(35)	7
Structured Finance	307	118	9	434
Total	$ 1,210	$ 118	$ 9	$ 1,337

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Net Expected Loss to be Paid (Recovered)
By Accounting Model
As of December 31, 2015

	Financial Guaranty Insurance	FG VIEs(1) and Other	Credit Derivatives(2)	Total
	(in millions)			
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

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(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
First Quarter 2016

	Financial Guaranty Insurance	FG VIEs(1) and Other	Credit Derivatives(2)	Total
	(in millions)			
Public Finance:				
U.S. public finance	$98	$ —	$ 0	$98
Non-U.S. public finance	1	—	0	1
Public Finance	99	—	0	99
Structured Finance:				
U.S. RMBS:				
First lien:				
Prime first lien	0	—	0	0
Alt-A first lien	(17)	1	0	(16)
Option ARM	(19)	—	(2)	(21)
Subprime	3	0	(2)	1
Total first lien	(33)	1	(4)	(36)
Second lien	2	3	0	5
Total U.S. RMBS	(31)	4	(4)	(31)
Triple-X life insurance transactions	3	—	1	4
Student loans	(14)	—	—	(14)
Other structured finance	4	0	(3)	1
Structured Finance	(38)	4	(6)	(40)
Total	$61	$ 4	$ (6)	$59

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Net Economic Loss Development (Benefit)
By Accounting Model
First Quarter 2015

	Financial Guaranty Insurance	FG VIEs(1) and Other	Credit Derivatives(2)	Total
	(in millions)			
Public Finance:				
U.S. public finance	$9	$ —	$ —	$9
Non-U.S. public finance	(3)	—	—	(3)
Public Finance	6	—	—	6
Structured Finance:				
U.S. RMBS:				
First lien:				
Prime first lien	1	—	(1)	0
Alt-A first lien	2	—	(7)	(5)
Option ARM	1	—	3	4
Subprime	(4)	4	(1)	(1)
Total first lien	—	4	(6)	(2)
Second lien	8	(1)	(1)	6
Total U.S. RMBS	8	3	(7)	4
Triple-X life insurance transactions	4	—	1	5
Student loans	(6)	—	—	(6)
Other structured finance	0	(1)	(11)	(12)
Structured Finance	6	2	(17)	(9)
Total	$12	$ 2	$ (17)	$(3)

(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 $5.1 billion net par as of March 31, 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 March 31, 2016, the Company’s net exposure subject to the plan consists of $115 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 has approximately $21 million of net par exposure as of March 31, 2016 to bonds issued by Parkway East Public Improvement District, which is located in Madison County, Mississippi. The bonds, which are rated BIG, are payable from special assessments on properties within the District, as well as amounts paid under a contribution

agreement with the County in which the County covenants that it will provide funds in the event special assessments are not sufficient to make a debt service payment. The special assessments have not been sufficient to pay debt service in full. In earlier years, the County provided funding to cover the balance of the debt service requirement, but the County now claims that the District's

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failure to reimburse it within the two years stipulated in the contribution agreement means that the County is not required to provide funding until it is reimbursed. On April 27, 2016, the court granted the Company's motion for summary judgment in a declaratory judgment action, agreeing with the Company's interpretation of the County's obligations under the contribution agreement. See "Recovery Litigation" below.

The Company also has $14.6 billion of net par exposure to healthcare transactions. The BIG net par outstanding in this sector is $315 million.

The Company projects that its total net expected loss across its troubled U.S. public finance credits as of March 31, 2016, which incorporated the likelihood of the various outcomes, will be $864 million, compared with a net expected loss of $771 million as of December 31, 2015. Economic loss development in First Quarter 2016 was $98 million, 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 gross exposure to these Spanish and Portuguese credits is $471 million and $90 million, respectively, and exposure net of reinsurance for Spanish and Portuguese credits is $375 million and $84 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 gross exposure to these Hungarian credits is $274 million and its exposure net of reinsurance is $271 million, all of which is rated BIG. The Company estimated net expected losses of $36 million related to these Spanish, Portuguese and Hungarian credits. The economic loss of approximately $1 million during First Quarter 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.

First Quarter 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 March 31, 2016 as it used as of December 31, 2015, but increased severities for specific vintages of Alt-A first lien and subprime 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

	March 31, 2016	December 31, 2015
Current Loans Modified in the Previous 12 Months		
Alt A and Prime	25%	25%
Option ARM	25	25
Subprime	25	25
Current Loans Delinquent in the Previous 12 Months		
Alt A and Prime	25	25
Option ARM	25	25
Subprime	25	25
30 – 59 Days Delinquent		
Alt A and Prime	35	35
Option ARM	40	40
Subprime	45	45
60 – 89 Days Delinquent		
Alt A and Prime	45	45
Option ARM	50	50
Subprime	55	55
90+ Days Delinquent		
Alt A and Prime	55	55
Option ARM	60	60
Subprime	60	60
Bankruptcy		
Alt A and Prime	45	45
Option ARM	50	50
Subprime	40	40
Foreclosure		
Alt A and Prime	65	65
Option ARM	70	70
Subprime	70	70
Real Estate Owned		
All	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 7.5 years after the initial 36-month CDR plateau period, which is the same assumption used at December 31, 2015. 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. 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 March 31, 2016		As of December 31, 2015	
	Range	Weighted Average	Range	Weighted Average
Alt-A First Lien				
Plateau CDR	0.9%-27.8%	6.4%	1.7%-26.4%	6.4%
Intermediate CDR	0.2%-5.6%	1.3%	0.3%-5.3%	1.3%
Period until intermediate CDR	48 months		48 months	
Final CDR	0.0%-1.4%	0.3%	0.1%-1.3%	0.3%
Initial loss severity:				
2005 and prior	60.0%		60.0%	
2006	80.0%		70.0%	
2007	65.0%		65.0%	
Initial conditional prepayment rate ("CPR")	2.7%-31.6%	11.8%	2.7%-32.5%	11.5%
Final CPR(2)	15%		15%	
Option ARM				
Plateau CDR	3.4%-10.6%	7.8%	3.5%-10.3%	7.8%
Intermediate CDR	0.7%-2.1%	1.6%	0.7%-2.1%	1.6%
Period until intermediate CDR	48 months		48 months	
Final CDR	0.2%-0.5%	0.4%	0.2%-0.5%	0.4%
Initial loss severity:				
2005 and prior	60.0%		60.0%	
2006	70.0%		70.0%	
2007	65.0%		65.0%	
Initial CPR	2.0%-13.7%	5.5%	1.5%-10.9%	5.1%
Final CPR(2)	15%		15%	
Subprime				
Plateau CDR	4.2%-14.4%	9.4%	4.7%-13.2%	9.5%
Intermediate CDR	0.8%-2.9%	1.9%	0.9%-2.6%	1.9%
Period until intermediate CDR	48 months		48 months	
Final CDR	0.2%-0.7%	0.4%	0.2%-0.7%	0.4%
Initial loss severity:				
2005 and prior	80.0%		75.0%	
2006	90.0%		90.0%	
2007	90.0%		90.0%	
Initial CPR	0.3%-9.2%	4.2%	0.0%-10.1%	3.6%
Final CPR(2)	15%		15%	

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(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 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 March 31, 2016. The Company used a similar approach to establish its pessimistic and optimistic scenarios as of March 31, 2016 as it used as of 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, $7 million for Option ARM, $43 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 $31 million for Alt-A first liens, $14 million for Option ARM, $59 million for subprime and $0.5 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 $2 million for Alt-A first liens, $19 million for Option ARM, $10 million for subprime and $19 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 $14 million for Alt-A first liens, $31 million for Option ARM, $33 million for subprime and $0.2 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. Most second lien transactions report the amount of loans in five monthly delinquency categories (i.e., 30-59 days past due, 60-89 days past due, 90-119 days past due, 120-149 days past due and 150-179 days past due). The Company estimates the amount of loans that will default over the next five 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 period that follows the embedded five months of losses. Liquidation rates assumed as of March 31, 2016, were from 25% to 100%.

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

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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 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 December 31, 2015. For March 31, 2016 the Company used the same general approach it had refined in the fourth quarter of 2015 to calculate the number of additional delinquencies as a function of the number of modified loans in the transaction and the final steady state CDR.

When a second lien loan defaults, there is generally a very low recovery. The Company had assumed as of March 31, 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 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 most recent three quarters) 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 December 31, 2015 and March 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 March 31, 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.

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Key Assumptions in Base Case Expected Loss Estimates
HELOCs (1)

	As of March 31, 2016		As of December 31, 2015	
	Range	Weighted Average	Range	Weighted Average
Plateau CDR	5.3 % - 26.1%	11.9%	4.9 % - 23.5%	10.3%
Final CDR trended down to	0.5 % - 3.2%	1.2%	0.5 % - 3.2%	1.2%
Period until final CDR	34 months		34 months	
Initial CPR	11.0% - 14.9%	11.1%	10.9%	
Final CPR(2)	10.0% - 15.0%	13.3%	10.0% - 15.0%	13.3%
Loss severity	98.0%		98.0%	

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(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 $52 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 $31 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.

The Company has included in its net expected loss estimates as of March 31, 2016 an estimated net benefit of $47 million (net of reinsurance). 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 three 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 March 31, 2016 aggregate lifetime collateral losses on those transactions was $4.4 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 $578 million of collateral held in trust for the Company's benefit.

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Deutsche Bank. Under the Company's 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. As of March 31, 2016, the Company was projecting in its base case that such aggregate lifetime claims would remain below $319 million. In the event aggregate lifetime claims paid exceed $389 million, Deutsche Bank must reimburse the Company for 85% of such claims paid (in excess of $389 million) until such claims paid reach $600 million. Deutsche Bank’s reimbursement obligation is secured by $70 million of collateral held in trust for the Company’s benefit.

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- 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 $49 million of collateral held in trust for the Company's benefit.

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 $2.7 billion of net par exposure to Triple-X life insurance transactions as of March 31, 2016. Two of these transactions, with $216 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 monies 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 March 31, 2016, the Company’s projected net expected loss to be paid is $102 million. The economic loss development during First Quarter 2016 was approximately $4 million, which was due primarily to changes in discount rates and updates to the projected life insurance cash flows.

Student Loan Transactions

The Company has insured or reinsured $1.8 billion net par of student loan securitizations issued by private issuers and that it classifies as structured finance. Of this amount, $149 million is rated BIG. The Company is projecting approximately $32 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 benefit during First Quarter 2016 was approximately $14 million, which was driven primarily by the commutation of certain assumed student loan exposures.

TruPS and other structured finance

The Company's TruPS sector has BIG par of $777 million and all other structured finance BIG par totaled $929 million, comprising primarily transactions backed by perpetual preferred securities, commercial receivables and manufactured housing loans. The Company has expected loss to be paid of $7 million for TruPS and other structured finance transactions as of March 31, 2016. The economic loss development during First Quarter 2016 was $1 million, which was attributable primarily to a commercial receivable transaction downgraded to BIG during First Quarter 2016.

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 Puerto Rico Highways and Transportation Authority, the Puerto Rico Convention Center District Authority and the Puerto Rico Infrastructure Financing Authority. The action is still in its early stages.

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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 March 31, 2016, $21 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. The Court's action is subject to appeal.

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.

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

	First Quarter	
	2016	2015
	(in millions)	
Scheduled net earned premiums	$ 91	$ 96
Acceleration of net earned premiums (1)	89	41
Accretion of discount on net premiums receivable	3	4
Financial guaranty insurance net earned premiums	183	141
Other	0	1
Net earned premiums (2)	$ 183	$ 142

(1) Reflects the unscheduled refunding or termination of the insurance on an insured obligation as well as changes in scheduled earnings due to changes in the expected lives of the insured obligations.

(2) Excludes $5 million and $5 million for First Quarter 2016 and 2015, respectively, related to consolidated FG VIEs.

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Components of Unearned Premium Reserve

	As of March 31, 2016			As of December 31, 2015		
	Gross	Ceded	Net(1)	Gross	Ceded	Net(1)
	(in millions)					
Deferred premium revenue	3,829	241	3,588	4,008	238	3,770
Contra-paid (2)	(19)	(5)	(14)	(12)	(6)	(6)
Unearned premium reserve	$3,810	$236	$3,574	$3,996	$232	$3,764

(1) Excludes $105 million and $110 million of deferred premium revenue, and $29 million and $30 million of contra-paid related to FG VIEs as of March 31, 2016 and December 31, 2015, respectively.

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

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

	First Quarter	
	2016	2015
	(in millions)	
Beginning of period, December 31	$693	$729
Gross premium written, net of commissions on assumed business	41	36
Gross premiums received, net of commissions on assumed business	(49)	(36)
Adjustments:		
Changes in the expected term	(22)	(6)
Accretion of discount, net of commissions on assumed business	0	5
Foreign exchange translation	(1)	(25)
Consolidation/deconsolidation of FG VIEs	0	(4)
End of period, March 31 (1)	$662	$699

(1) Excludes $16 million and $22 million as of March 31, 2016 and March 31, 2015, respectively, related to consolidated FG VIEs. Excludes $1 million related to non-financial guaranty line of business as of March 31, 2015.

Foreign exchange translation relates to installment premium receivables denominated in currencies other than the U.S. dollar. Approximately 55%, 52% and 49% of installment premiums at March 31, 2016, December 31, 2015 and March 31, 2015, respectively, are denominated in currencies other than the U.S. dollar, primarily the Euro and British Pound Sterling.

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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 March 31, 2016
	(in millions)
2016 (April 1 – June 30)	$ 31
2016 (July 1 – September 30)	18
2016 (October 1 – December 31)	17
2017	66
2018	58
2019	55
2020	55
2021-2025	222
2026-2030	147
2031-2035	103
After 2035	82
Total(1)	$ 854

(1) Excludes expected cash collections on FG VIEs of $20 million.

Scheduled Financial Guaranty Insurance Net Earned Premiums

	As of March 31, 2016
	(in millions)
2016 (April 1 – June 30)	$ 92
2016 (July 1 – September 30)	89
2016 (October 1 – December 31)	85
2017	313
2018	290
2019	264
2020	245
2021-2025	955
2026-2030	610
2031-2035	363
After 2035	282
Net deferred premium revenue(1)	3,588
Future accretion	179
Total future net earned premiums	$ 3,767

(1) Excludes scheduled net earned premiums on consolidated FG VIEs of $105 million.

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Selected Information for Financial Guaranty Insurance
Policies Paid in Installments

	As of March 31, 2016	As of December 31, 2015
	(dollars in millions)	
Premiums receivable, net of commission payable	$ 662	$ 693
Gross deferred premium revenue	1,156	1,240
Weighted-average risk-free rate used to discount premiums	3.1 %	3.1 %
Weighted-average period of premiums receivable (in years)	9.4	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 2.88% as of March 31, 2016 and 0.0% to 3.25% as of December 31, 2015. Financial guaranty insurance expected LAE reserve was $8 million as of March 31, 2016 and $10 million as of December 31, 2015.

Loss and LAE Reserve and Salvage and Subrogation Recoverable
Net of Reinsurance
Insurance Contracts

	As of March 31, 2016			As of December 31, 2015		
	Loss and LAE Reserve, net	Salvage and Subrogation Recoverable, net	Net Reserve (Recoverable)	Loss and LAE Reserve, net	Salvage and Subrogation Recoverable, net	Net Reserve (Recoverable)
	(in millions)					
Public Finance:						
U.S. public finance	$695	$ 7	$ 688	$604	$ 7	$ 597
Non-U.S. public finance	27	—	27	25	—	25
Public Finance	722	7	715	629	7	622
Structured Finance:						
U.S. RMBS:						
First lien:						
Prime first lien	2	—	2	2	—	2
Alt-A first lien	35	73	(38)	46	—	46
Option ARM	10	51	(41)	13	42	(29)
Subprime	161	21	140	169	21	148
First lien	208	145	63	230	63	167
Second lien	34	49	(15)	32	53	(21)
Total U.S. RMBS	242	194	48	262	116	146
Triple-X life insurance transactions	85	—	85	82	—	82
Student loans	30	—	30	51	—	51
Other structured finance	32	—	32	48	—	48
Structured Finance	389	194	195	443	116	327
Subtotal	1,111	201	910	1,072	123	949
Other recoverables	—	3	(3)	—	3	(3)
Subtotal	1,111	204	907	1,072	126	946
Effect of consolidating FG VIEs	(71)	—	(71)	(74)	0	(74)
Total (1)	$1,040	$ 204	$ 836	$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 March 31, 2016	As of December 31, 2015
	(in millions)	
Loss and LAE reserve	$1,112	$ 1,067
Reinsurance recoverable on unpaid losses	(72)	(69)
Loss and LAE reserve, net	1,040	998
Salvage and subrogation recoverable	(206)	(126)
Salvage and subrogation payable(1)	5	3
Other recoverables	(3)	(3)
Salvage and subrogation recoverable, net and other recoverable	(204)	(126)
Net reserves (salvage)	$836	$ 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: (1) the contra-paid which represent the claim payments made and recoveries received that have not yet been recognized in the statement of operations, (2) 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 (3) 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 March 31, 2016
	(in millions)
Net expected loss to be paid - financial guaranty insurance (1)	$ 1,210
Contra-paid, net	14
Salvage and subrogation recoverable, net of reinsurance	201
Loss and LAE reserve - financial guaranty insurance contracts, net of reinsurance	(1,038)
Other recoveries	2
Net expected loss to be expensed (present value) (2)	$ 389

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

(2) Excludes $74 million as of March 31, 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 March 31, 2016 (in millions)
2016 (April 1 – June 30)	$ 11
2016 (July 1 – September 30)	10
2016 (October 1 – December 31)	9
Subtotal 2016	30
2017	34
2018	33
2019	30
2020	27
2021-2025	100
2026-2030	70
2031-2035	45
After 2035	20
Net expected loss to be expensed	389
Future accretion	156
Total expected future loss and LAE	$ 545

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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

	First Quarter	
	2016	2015
	(in millions)	
Public Finance:		
U.S. public finance	$97	$13
Non-U.S. public finance	0	5
Public finance	97	18
Structured Finance:		
U.S. RMBS:		
First lien:		
Prime first lien	0	0
Alt-A first lien	8	(2)
Option ARM	(14)	(1)
Subprime	4	0
First lien	(2)	(3)
Second lien	13	10
Total U.S. RMBS	11	7
Triple-X life insurance transactions	3	6
Student loans	(14)	(6)
Other structured finance	0	(2)
Structured finance	0	5
Loss and LAE on insurance contracts before FG VIE consolidation	97	23
Effect of consolidating FG VIEs	(7)	(5)
Loss and LAE	$90	$18

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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 March 31, 2016

	BIG Categories								
	BIG 1		BIG 2		BIG 3		Total BIG, Net	Effect of Consolidating FG VIEs	Total
	Gross	Ceded	Gross	Ceded	Gross	Ceded			
	(dollars in millions)								
Number of risks(1)	202	(43)	86	(14)	129	(45)	417	—	417
Remaining weighted-average contract period (in years)	10.1	7.4	13.1	10.4	7.2	5.4	10.6	—	10.6
Outstanding exposure:									
Principal	$7,084	$(499)	$4,461	$(446)	$3,145	$(207)	$13,538	$ —	$13,538
Interest	3,764	(214)	3,058	(233)	962	(44)	7,293	—	7,293
Total(2)	$10,848	$(713)	$7,519	$(679)	$4,107	$(251)	$20,831	$ —	$20,831
Expected cash outflows (inflows)	$337	$(28)	$1,418	$(77)	$1,372	$(58)	$2,964	$ (345)	$2,619
Potential recoveries									
Undiscounted R&W	97	(2)	(42)	1	(88)	5	(29)	6	(23)
Other(3)	(590)	16	(250)	10	(631)	25	(1,420)	190	(1,230)
Total potential recoveries	(493)	14	(292)	11	(719)	30	(1,449)	196	(1,253)
Subtotal	(156)	(14)	1,126	(66)	653	(28)	1,515	(149)	1,366
Discount	153	(3)	(288)	14	29	(94)	(189)	33	(156)
Present value of expected cash flows	$(3)	$(17)	$838	$(52)	$682	$(122)	$1,326	$ (116)	$1,210
Deferred premium revenue	$280	$(10)	$156	$(7)	$380	$(33)	$766	$ (96)	$670
Reserves (salvage)	$(96)	$(12)	$717	$(47)	$352	$(8)	$906	$ (71)	$835

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

	BIG Categories								
	BIG 1		BIG 2		BIG 3		Total BIG, Net	Effect of Consolidating FG VIEs	Total
	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)	(441)	14	(118)	7	(587)	19	(1,106)	175	(931)
Total potential recoveries	(372)	12	(167)	8	(672)	24	(1,167)	182	(985)
Subtotal	14	(30)	991	(52)	792	(29)	1,686	(161)	1,525
Discount	91	3	(286)	12	(58)	(89)	(327)	41	(286)
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

(1) A risk represents the aggregate of the financial guaranty policies that share the same revenue source for purposes of 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 $176 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 $430 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 March 31, 2016, AGM and AGC had insured approximately $5.5 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 $1.7 billion as of March 31, 2016 were terminated, the assets of the GIC issuers (which had an aggregate market value which exceed the liabilities by $0.8 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 First Quarter 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

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, 2 and 3.

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 March 31, 2016, the Company used models to price 36 fixed-maturity securities (which were purchased or obtained for loss mitigation or other risk management purposes), which were 9.8% or $1,080 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 depreciation/appreciation 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 March 31, 2016 and December 31, 2015, other invested assets include investments carried and measured at fair value on a recurring basis of $53 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 invested assets also include fixed-maturity securities classified as trading carried as Level 2.

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 broker-dealer quotes for the outstanding securities, 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 March 31, 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 0.44% to 2.06% at March 31, 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)

	As of March 31, 2016	As of December 31, 2015
Based on actual collateral specific spreads	14 %	13 %
Based on market indices	72 %	73 %
Provided by the CDS counterparty	14 %	14 %
Total	100 %	100 %

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(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 18% and 20% based on number of deals, of the Company's CDS contracts are fair valued using this minimum premium as of March 31, 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 × 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 × 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 March 31, 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	$5,776	$—	$5,769	$7
U.S. government and agencies	405	—	405	—
Corporate securities	1,525	—	1,451	74
Mortgage-backed securities:				
RMBS	1,239	—	879	360
CMBS	556	—	556	—
Asset-backed securities	811	—	172	639
Foreign government securities	276	—	276	—
Total fixed-maturity securities	10,588	—	9,508	1,080
Short-term investments	459	332	127	—
Other invested assets (1)	12	—	5	7
Credit derivative assets	55	—	—	55
FG VIEs' assets, at fair value	1,191	—	—	1,191
Other assets	93	26	21	46
Total assets carried at fair value	$12,398	$358	$9,661	$2,379
Liabilities:				
Credit derivative liabilities	$489	$—	$—	$489
FG VIEs' liabilities with recourse, at fair value	1,165	—	—	1,165
FG VIEs' liabilities without recourse, at fair value	119	—	—	119
Total liabilities carried at fair value	$1,773	$—	$—	$1,773

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Fair Value Hierarchy of Financial Instruments Carried at Fair Value
As of December 31, 2015

	Fair Value	Fair Value Hierarchy		
		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

(1) Excluded from the table above are investments funds of $45 million and $45 million as of March 31, 2016 and 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 First Quarter 2016 and 2015.

Fair Value Level 3 Rollforward
Recurring Basis
First 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 December 31, 2015	$8	$71	$348	$657	$60	$1,261	$65	$(365)	$(1,225)	$(124)
Total pretax realized and unrealized gains/(losses) recorded in: (1)										
Net income (loss)	0 (2)	2 (2)	(2) (2)	1 (2)	0 (2)	(4) (3)	(16) (4)	(60) (6)	21 (3)	2 (3)
Other comprehensive income (loss)	0	1	(5)	(5)	0	—	0	—	—	—
Purchases	—	—	34	—	—	—	—	—	—	—
Settlements	(1)	—	(15)	(14)	(60)	(66)	—	(9)	39	3
FG VIE consolidations	—	—	—	—	—	—	—	—	—	—
FG VIE deconsolidations	—	—	0	—	—	0	—	—	0	—
Fair value as of March 31, 2016	$7	$74	$360	$639	$—	$1,191	$49	$(434)	$(1,165)	$(119)
Change in unrealized gains/(losses) related to financial instruments held as of March 31, 2016	$0	$1	$(6)	$(5)	$—	$4	$(16)	$(79)	$21	$1

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Fair Value Level 3 Rollforward
Recurring Basis
First Quarter 2015

	Fixed-Maturity Securities								
	Obligations of State and Political Subdivisions	Corporate Securities	RMBS	Asset-Backed Securities	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, 2014	$38	$ 79	$425	$ 228	$1,398	$ 37	$ (895)	$(1,277)	$ (142)
Total pretax realized and unrealized gains/(losses) recorded in: (1)									
Net income (loss)	3 (2)	2 (2)	9 (2)	(2) (2)	23 (3)	2 (4)	124 (6)	93 (3)	(5) (3)
Other comprehensive income (loss)	(2)	(2)	5	1	—	1	—	—	—
Purchases	—	—	9	—	—	—	—	—	—
Settlements	(31)	(7)	—	(65)	(1)	(30)	—	(11)	37	2
FG VIE consolidations	—	—	—	—	104	—	—	(131)	—
FG VIE deconsolidations	—	—	—	—	—	—	—	—	—
Fair value as of March 31, 2015	$8	$ 79	$383	$ 226	$1,495	$ 40	$ (782)	$(1,278)	$ (145)
Change in unrealized gains/(losses) related to financial instruments held as of March 31, 2015	$0	$ (2)	$7	$ 1	$34	$ 3	$ 103	$(6)	$ (4)

(1) Realized and unrealized gains (losses) from changes in values of Level 3 financial instruments represent gains (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 March 31, 2016

Financial Instrument Description (1)	Fair Value at March 31, 2016 (in millions)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Assets (2):				
Fixed-maturity securities (3):				
Corporate securities	$ 74	Yield	20.2%	
RMBS	360	CPR	1.0 %-9.8%	2.8%
		CDR	4.8 %-12.8%	9.7%
		Loss severity	65.0%-100.0%	78.0%
		Yield	3.9 %-8.9%	6.0%
Asset-backed securities:				
Investor owned utility	71	Cash flow receipts	100.0%	
		Collateral recovery period	2.7 years	
		Discount factor	7.0%	
Triple-X life insurance transactions	321	Yield	3.5 %-7.3%	4.9%
Collateralized debt obligations ("CDO")	247	Yield	15.0%	
FG VIEs’ assets, at fair value	1,191	CPR	2.5 %-8.6%	5.1%
		CDR	1.2 %-23.1%	5.6%
		Loss severity	40.0%-100.0%	86.8%
		Yield	3.5 %-20.9%	6.8%
Other assets	46	Quotes from third party pricing	$51 -$54	$53
		Term (years)	5 years	

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Financial Instrument Description (1)	Fair Value at March 31, 2016 (in millions)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Liabilities:				
Credit derivative liabilities, net	(434)	Year 1 loss estimates	0.0 % - 41.0%	0.8%
		Hedge cost (in bps)	25.5 - 231.8	52.8
		Bank profit (in bps)	3.8 - 1,544.4	112.3
		Internal floor (in bps)	7.0 - 100.0	18.2
		Internal credit rating	AAA - CCC	AA+
FG VIEs' liabilities, at fair value	(1,284)	CPR	2.5 % - 8.6%	5.1%
		CDR	1.2 % - 23.1%	5.6%
		Loss severity	40.0 % - 100.0%	86.8%
		Yield	3.5 % - 20.9%	5.9%

(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 $7 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	

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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
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%

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(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.

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 March 31, 2016		As of December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in millions)			
Assets:				
Fixed-maturity securities	$10,588	$ 10,588	$10,627	$ 10,627
Short-term investments	459	459	396	396
Other invested assets (1)	150	152	150	152
Credit derivative assets	55	55	81	81
FG VIEs' assets, at fair value	1,191	1,191	1,261	1,261
Other assets	211	211	206	206
Liabilities:				
Financial guaranty insurance contracts (2)	3,804	9,500	3,998	8,712
Long-term debt	1,302	1,500	1,300	1,512
Credit derivative liabilities	489	489	446	446
FG VIEs' liabilities with recourse, at fair value	1,165	1,165	1,225	1,225
FG VIEs' liabilities without recourse, at fair value	119	119	124	124
Other liabilities	73	73	9	9

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(1) Includes investments not carried at fair value with a carrying value of $93 million and $93 million as of March 31, 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.

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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. 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 5.0 years at March 31, 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 March 31, 2016				As of December 31, 2015			
	Net Par Outstanding	Original Subordination (1)	Current Subordination (1)	Weighted Average Credit Rating	Net Par Outstanding	Original Subordination (1)	Current Subordination (1)	Weighted Average Credit Rating
	(dollars in millions)							
Pooled corporate obligations:								
Collateralized loan obligation/collateral bond obligations	$5,197	30.7 %	42.8 %	AAA	$5,873	30.9 %	42.3 %	AAA
Synthetic investment grade pooled corporate	7,127	21.7	19.4	AAA	7,108	21.7	19.4	AAA
TruPS CDOs	3,394	45.6	42.9	A-	3,429	45.8	42.6	A-
Market value CDOs of corporate obligations	1,113	17.0	27.8	AAA	1,113	17.0	30.1	AAA
Total pooled corporate obligations	16,831	29.0	31.9	AAA	17,523	29.2	32.3	AAA
U.S. RMBS:								
Option ARM and Alt-A first lien	336	10.5	12.8	AA-	351	10.5	12.7	AA-
Subprime first lien	951	27.7	45.0	AA	981	27.7	45.2	AA
Prime first lien	169	10.9	0.0	BB	177	10.9	0.0	BB
Closed-end second lien	16	—	—	CCC	17	—	—	CCC
Total U.S. RMBS	1,472	24.1	37.3	A+	1,526	24.1	37.4	A+
CMBS	496	44.7	53.8	AAA	530	44.8	52.6	AAA
Other	6,067	—	—	A	6,015	—	—	A
Total	$24,866			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.

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 collateralized loan obligation ("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 $1.8 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 $4.3 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 March 31, 2016 Net Par Outstanding	% of Total	As of December 31, 2015 Net Par Outstanding	% of Total
	(dollars in millions)			
AAA	$14,302	57.5 %	$14,808	57.9 %
AA	4,624	18.6	4,821	18.8
A	2,253	9.1	2,144	8.4
BBB	2,108	8.5	2,212	8.6
BIG	1,579	6.3	1,609	6.3
Credit derivative net par outstanding	$24,866	100.0 %	$25,594	100.0 %

Fair Value of Credit Derivatives

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

	First Quarter 2016	First Quarter 2015
	(in millions)	
Realized gains on credit derivatives	$10	$23
Net credit derivative losses (paid and payable) recovered and recoverable and other settlements	(2)	(2)
Realized gains (losses) and other settlements on credit derivatives	8	21
Net change in unrealized gains (losses) on credit derivatives:		
Pooled corporate obligations	(48)	17
U.S. RMBS	(15)	75
CMBS	0	0
Other	(5)	11
Net change in unrealized gains (losses) on credit derivatives	(68)	103
Net change in fair value of credit derivatives	$(60)	$124

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

First Quarter 2016	First Quarter 2015
(in millions)	

Net par of terminated credit derivative contracts	$ —	$ 93
Realized gains on credit derivatives	0	11

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During First Quarter 2016, unrealized fair value losses were generated primarily in the trust preferred, and U.S. RMBS prime first lien and subprime sectors, due to wider implied net spreads. The wider implied net spreads were primarily a result of the decreased cost to buy protection on AGC and AGM, particularly for the one year and five year CDS spreads. 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. Unrealized fair value losses in the Other Sector were generated primarily by a price decline on a hedge the Company has against another financial guarantor. These losses were partially offset by an unrealized fair value gain on a terminated toll road securitization.

During First Quarter 2015, unrealized fair value gains were generated primarily in the U.S. RMBS prime first lien and Option ARM sectors. The change in fair value of credit derivatives in First Quarter 2015 was primarily due to 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 First Quarter 2015. In addition, there were unrealized gains in the TruPS CDO and Other sectors as result of price improvements on the underlying collateral. The changes in the Company's CDS spreads did not have a material impact during the quarter.

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.

CDS Spread on AGC and AGM
Quoted price of CDS contract (in basis points)

	As of March 31, 2016	As of December 31, 2015	As of March 31, 2015	As of December 31, 2014
Five-year CDS spread:				
AGC	307	376	317	323
AGM	309	366	341	325
One-year CDS spread				
AGC	105	139	60	80
AGM	102	131	80	85

Fair Value of Credit Derivatives Assets (Liabilities)
and Effect of AGC and AGM
Credit Spreads

	As of March 31, 2016	As of December 31, 2015
	(in millions)	

Fair value of credit derivatives before effect of AGC and AGM credit spreads	$(1,509)	$ (1,448)
Plus: Effect of AGC and AGM credit spreads	1,075	1,083
Net fair value of credit derivatives (1)	$(434)	$ (365)

The fair value of CDS contracts at March 31, 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 2005-2007 vintages of prime first lien, Alt-A, Option ARM, subprime RMBS deals as well as TruPS and pooled corporate securities. Comparing March 31, 2016 with December 31, 2015, there was a widening of spreads primarily related to the Company's TruPS obligations which resulted in mark to market deterioration.

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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 and to increased demand for credit protection against AGC and AGM as the result of its financial guaranty volume, 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.

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 6) for contracts accounted for as derivatives.

Net Fair Value and Expected Losses
of Credit Derivatives by Sector

Asset Type	Fair Value of Credit Derivative Asset (Liability), net		Expected Loss to be (Paid) Recovered	
	As of March 31, 2016	As of December 31, 2015	As of March 31, 2016	As of December 31, 2015
	(in millions)			
Pooled corporate obligations	$ (131)	$ (82)	$ (4)	$ (5)
U.S. RMBS	(113)	(98)	(33)	(38)
CMBS	0	0	—	—
Other	(190)	(185)	28	27
Total	$ (434)	$ (365)	$ (9)	$ (16)

Ratings Sensitivities of Credit Derivative Contracts

Within the Company's insured CDS portfolio, the transaction documentation for approximately $3.7 billion in CDS gross par insured as of March 31, 2016 requires AGC to post eligible collateral to secure its obligations to make payments under such contracts. 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 $3.5 billion 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 $575 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 $219 million 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 March 31, 2016, the Company was posting approximately $308 million to secure its obligations under CDS, of which approximately $23 million related to the $219 million of notional described above, as to which the obligation to collateralize is not capped. In contrast, 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 notional 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 March 31, 2016

Credit Spreads(1)	Estimated Net Fair Value (Pre-Tax)	Estimated Change in Gain/(Loss) (Pre-Tax)
	(in millions)	
100% widening in spreads	$(883)	$ (449)
50% widening in spreads	(658)	(224)
25% widening in spreads	(547)	(113)
10% widening in spreads	(479)	(45)
Base Scenario	(434)	—
10% narrowing in spreads	(392)	42
25% narrowing in spreads	(329)	105
50% narrowing in spreads	(226)	208

(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

	First Quarter	
	2016	2015
Beginning of the period, December 31	34	32
Consolidated (1)	—	1
Deconsolidated (1)	(1)	—
End of the period, September 30	33	33

(1) Net loss on deconsolidation was de minimis in First Quarter 2016, and net loss on consolidation was $26 million in First Quarter 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 $146 million at March 31, 2016 and $154 million at December 31, 2015. The aggregate unpaid principal of the FG VIEs’ assets was approximately $776 million greater than the aggregate fair value at March 31, 2016, excluding the effect of R&W settlements. 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 March 31, 2016 that was recorded in the consolidated statements of operations for First Quarter 2016 were gains of $34 million The change in the instrument-specific credit risk of the FG VIEs’ assets held as of March 31, 2015 that was recorded in the consolidated statements of operations for First Quarter 2015 were gains of $18 million. 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 $1,382 million and $1,436 million as of March 31, 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 $407 million greater than the aggregate fair value of the FG VIEs’ liabilities as of March 31, 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 March 31, 2016		As of December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
	(in millions)			
With recourse:				
U.S. RMBS first lien	$457	$ 495	$506	$ 521
U.S. RMBS second lien	189	250	194	273
Life insurance	339	339	347	347
Manufactured housing	81	81	84	84
Total with recourse	1,066	1,165	1,131	1,225
Without recourse	125	119	130	124
Total	$1,191	$ 1,284	$1,261	$ 1,349

The consolidation of FG VIEs has a significant effect on net income and shareholders' equity due to (1) changes in fair value gains (losses) on FG VIE assets and liabilities, (2) the elimination of premiums and losses related to the AGC and AGM FG VIE liabilities with recourse and (3) 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

	First Quarter	
	2016	2015
	(in millions)	
Net earned premiums	$ (5)	$ (5)
Net investment income	(5)	(3)
Net realized investment gains (losses)	1	0
Fair value gains (losses) on FG VIEs	18	(7)
Loss and LAE	6	5
Effect on income before tax	15	(10)
Less: tax provision (benefit)	5	(4)
Effect on net income (loss)	$ 10	$ (6)
Effect on cash flows from operating activities	$ 6	$ 18

As of March 31,	As of December 31, 2015

	2016	
	(in millions)	
Effect on shareholders’ equity (decrease) increase	$(12)	$ (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 First Quarter 2016, the Company recorded a pre-tax net fair value gain on consolidated FG VIEs of $18 million. The primary driver of the gain was price appreciation on the FG VIE assets during the quarter resulting from improvements in the underlying collateral.

During First Quarter 2015, the Company recorded a pre-tax net fair value loss on consolidated FG VIEs of $7 million. The primary driver of the loss was a pre-tax net fair value loss of $26 million on the consolidation of one new FG VIE. The net fair value loss on consolidation was partially offset by price appreciation on the FG VIE assets during the quarter 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 March 31, 2016 and December 31, 2015, the Company had financial guaranty contracts outstanding for approximately 720 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 $98 million and $99 million as of March 31, 2016 and December 31, 2015, respectively.

Net Investment Income

	First Quarter	
	2016	2015
	(in millions)	
Income from fixed-maturity securities managed by third parties	$79	$82
Income from internally managed securities:		
Fixed maturities	17	15
Other	5	6
Gross investment income	101	103
Investment expenses	(2)	(2)
Net investment income	$99	$101

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Net Realized Investment Gains (Losses)

	First Quarter	
	2016	2015
	(in millions)	
Gross realized gains on available-for-sale securities	$6	$24
Gross realized gains on other assets in investment portfolio	—	1
Gross realized losses on available-for-sale securities	(2)	(1)
Gross realized losses on other assets in investment portfolio	(1)	(1)
Other-than-temporary impairment	(16)	(7)
Net realized investment gains (losses)	$(13)	$16

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

	First Quarter	
	2016	2015
	(in millions)	
Balance, beginning of period	$108	$124
Additions for credit losses on securities for which an other-than-temporary-impairment was not previously recognized	1	—
Reductions for securities sold and other settlement during the period	(2)	(21)
Additions for credit losses on securities for which an other-than-temporary-impairment was previously recognized	0	3
Balance, end of period	$107	$106

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Investment Portfolio

Fixed-Maturity Securities and Short-Term Investments
by Security Type
As of March 31, 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	51 %	$ 5,417	$ 360	$ (1)	$ 5,776	$ 3	AA
U.S. government and agencies	4	379	26	0	405	—	AA+
Corporate securities	14	1,473	69	(17)	1,525	(11)	A-
Mortgage-backed securities(4):	0						
RMBS	11	1,222	37	(20)	1,239	(13)	A
CMBS	5	531	25	0	556	—	AAA
Asset-backed securities	8	821	3	(13)	811	(11)	B+
Foreign government securities	3	280	5	(9)	276	—	AA+
Total fixed-maturity securities	96	10,123	525	(60)	10,588	(32)	A+
Short-term investments	4	459	0	0	459	—	AAA
Total investment portfolio	100 %	$ 10,582	$ 525	$ (60)	$ 11,047	$ (32)	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 (3)
	(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.

(3) Ratings in the tables above represent the lower of the Moody’s and S&P classifications except for bonds purchased 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 52% of mortgage backed securities as of March 31, 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 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 March 31, 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	$58	$ 0	$ 87	$ (1)	$145	$ (1)
U.S. government and agencies	7	0	—	—	7	0
Corporate securities	78	(2)	122	(15)	200	(17)
Mortgage-backed securities:						
RMBS	123	(5)	182	(15)	305	(20)
CMBS	7	0	5	0	12	0
Asset-backed securities	456	(13)	—	—	456	(13)
Foreign government securities	91	(4)	53	(5)	144	(9)
Total	$820	$ (24)	$ 449	$ (36)	$1,269	$ (60)
Number of securities (1)		110		82		185
Number of securities with other-than-temporary impairment		12		6		18

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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	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 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.

Of the securities in an unrealized loss position for 12 months or more as of March 31, 2016, eleven securities had unrealized losses greater than 10% of book value. The total unrealized loss for these securities as of March 31, 2016 was $26 million. The Company has determined that the unrealized losses recorded as of March 31, 2016 are 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 March 31, 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 March 31, 2016

	Amortized Cost	Estimated Fair Value
	(in millions)	
Due within one year	$469	$ 470
Due after one year through five years	1,654	1,719
Due after five years through 10 years	2,195	2,320
Due after 10 years	4,052	4,284
Mortgage-backed securities:		
RMBS	1,222	1,239
CMBS	531	556
Total	$10,123	$ 10,588

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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 $300 million and $283 million as of March 31, 2016 and December 31, 2015, respectively, based on fair value. 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 $1,550 million and $1,411 million as of March 31, 2016 and December 31, 2015, respectively, based on fair value.

The fair value of the Company's pledged securities to secure its obligations under its CDS exposure totaled $308 million and $305 million as of March 31, 2016 and December 31, 2015, respectively.

No material investments of the Company were non-income producing for First Quarter 2016 and First Quarter 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 13% and 13% of the investment portfolio, on a fair value basis as of March 31, 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 (assets purchased for loss mitigation purposes). 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 March 31, 2016	As of December 31, 2015
	(in millions)	
Assets purchased for loss mitigation and other risk management purposes:		
Fixed-maturity securities, at fair value	$1,264	$ 1,266
Other invested assets	112	114
Other	55	55
Total	$1,431	$ 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 $236 million, of which approximately $32 million is estimated to be available for distribution in the second 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 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 $24 million is available for distribution in the second 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.

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 is $140 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 March 31, 2016, AG Re had unencumbered assets of approximately $594 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

	First Quarter	
	2016	2015
	(in millions)	
Dividends paid by AGC to AGUS	$ —	$ 20
Dividends paid by AGM to AGMH	95	66
Dividends paid by AG Re to AGL	25	50
Repayment of surplus note by AGM to AGMH	—	25

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

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("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.

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

	First Quarter	
	2016	2015
	(in millions)	
Expected tax provision (benefit) at statutory rates in taxable jurisdictions	$18	$77
Tax-exempt interest	(13)	(14)
Change in liability for uncertain tax positions	0	1
Other	1	1
Total provision (benefit) for income taxes	$6	$65
Effective tax rate	10.0%	24.2%

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.

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The following table presents pretax income and revenue by jurisdiction.

Pretax Income (Loss) by Tax Jurisdiction

	First Quarter	
	2016	2015
	(in millions)	
United States	$55	$223
Bermuda	17	50
U.K.	(7)	(7)
Total	$65	$266

Revenue by Tax Jurisdiction

	First Quarter	
	2016	2015
	(in millions)	
United States	$205	$300
Bermuda	42	73
U.K.	(2)	(4)
Total	$245	$369

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

Valuation Allowance

As part of the Radian Asset Acquisition, the Company acquired $11 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 Oversees US Holdings Inc. has open tax years of 2012 forward. The Company's U.K. subsidiaries are not currently under examination and have open tax years of 2014 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 $0.4 million for First Quarter 2016 and $1 million for 2015. As of March 31, 2016 and December 31, 2015, the Company has accrued $5.8 million and $5.4 million of interest, respectively.

The total amount of unrecognized tax benefits as of March 31, 2016 and December 31, 2015, that would affect the effective tax rate, if recognized, was $46 million and $45 million, respectively.

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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.

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 March 31, 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 $50 million and $33 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.

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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

	First Quarter	
	2016	2015
	(in millions)	
Premiums Written:		
Direct	$21	$29
Assumed	(2)	3
Ceded	(17)	0
Net	$2	$32
Premiums Earned:		
Direct	$190	$148
Assumed	8	10
Ceded	(15)	(16)
Net	$183	$142
Loss and LAE:		
Direct	$109	$26
Assumed	(14)	(7)
Ceded	(5)	(1)
Net	$90	$18

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 March 31, 2016, based on fair value, the Company had fixed-maturity securities in its investment portfolio consisting of $157 million insured by National Public Finance Guarantee Corporation ("National"), $139 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 March 31, 2016 these bonds had a fair value of $247 million insured by MBIA Insurance Corp. and $127 million insured by FGIC UK Limited.

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Exposure by Reinsurer

Reinsurer	Ratings at May 3, 2016		Par Outstanding (1) As of March 31, 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	$4,960	$ —	$ 30
Tokio Marine & Nichido Fire Insurance Co., Ltd. (2)	Aa3 (4)	A+ (4)	4,171	—	—
Syncora Guarantee Inc. (2)	WR	WR	2,411	1,319	700
Mitsui Sumitomo Insurance Co. Ltd. (2)	A1	A+ (4)	1,718	—	—
ACA Financial Guaranty Corp.	NR (5)	WR	700	38	—
Ambac	WR	WR	117	3,892	9,589
National (6)	A3	AA-	—	5,139	5,065
MBIA	(7)	(7)	—	1,591	428
FGIC	(8)	(8)	—	1,437	636
Ambac Assurance Corp. Segregated Account	NR	NR	—	86	823
CIFG Assurance North America Inc.	WR	WR	—	43	2,784
Other (2)	Various	Various	76	776	128
Total			$14,153	$ 14,321	$ 20,183

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(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 March 31, 2016 was approximately $436 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 Corp. rated B by S&P and B3 by Moody's and MBIA U.K. Insurance Ltd. rated BB by S&P and Ba2 by Moody's.

(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 March 31, 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	$—	$ (6)	$ —	$ 25
Tokio Marine & Nichido Fire Insurance Co., Ltd.	—	(11)	—	44
Syncora Guarantee Inc.	15	(21)	—	5
Mitsui Sumitomo Insurance Co. Ltd.	—	(3)	—	18
Ambac	39	—	(3)	—
National	6	—	(4)	—
MBIA	5	—	(10)	—
FGIC	4	—	(15)	—
Ambac Assurance Corp. Segregated Account	10	—	(46)	—
CIFG Assurance North America Inc.	0	—	(63)	—
Other	—	(12)	—	—
Total	$79	$ (53)	$ (141)	$ 92

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

Legal Proceedings

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

In addition, in the ordinary course of their respective businesses, certain of the Company's subsidiaries assert claims in legal proceedings against third parties to recover losses paid in prior periods or prevent losses in the future. For example, as described in the "Recovery Litigation" section of Note 5, Expected Loss to be Paid, 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. Also, in December 2008, the Company filed a claim in the Supreme Court of the State of New York against an investment manager in a transaction it insured alleging breach of fiduciary duty, gross negligence and breach of contract. The amounts, if any, the Company will recover in 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. LBIE's administrators disclosed in an

April 10, 2015 report to LBIE’s unsecured creditors that LBIE's valuation expert has calculated LBIE's 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. Notwithstanding the range calculated by LBIE's valuation expert, the Company cannot reasonably estimate the possible loss, if any, that may arise from this lawsuit.

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 against AGM, among others, relating to the right of AGM to be reimbursed from certain cashflows for principal claims paid in respect of insured certificates. 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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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 are against entities that the Company did acquire. While Dexia SA and Dexia Crédit Local S.A., jointly and severally, have agreed to indemnify the Company against liability arising out 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.

Governmental Investigations into Former Financial Products Business

AGMH and/or AGM have 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. AGMH has been responding to such requests. AGMH may receive additional inquiries from these or other regulators and expects to provide additional information to such regulators regarding their inquiries in the future. 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. Pursuant to that subpoena, AGMH has furnished to the Department of Justice records and other information with respect to AGMH's municipal GIC business. The ultimate loss that may arise from these investigations remains uncertain.

Lawsuits Relating to Former Financial Products Business

During 2008, nine putative class action lawsuits were filed in federal court 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 cases have been coordinated and consolidated for pretrial proceedings in the U.S. District Court for the Southern District of New York as MDL 1950, In re Municipal Derivatives Antitrust Litigation, Case No. 1:08-cv-2516 ("MDL 1950"). Five of these cases named both AGMH and AGM: (a) Hinds County, Mississippi v. Wachovia Bank, N.A.; (b) Fairfax County, Virginia v. Wachovia Bank, N.A.; (c) Central Bucks School District, Pennsylvania v. Wachovia Bank, N.A.; (d) Mayor and City Council of Baltimore, Maryland v. Wachovia Bank, N.A.; and (e) Washington County, Tennessee v. Wachovia Bank, N.A. In April 2009, the MDL 1950 court granted the defendants' motion to dismiss on the federal claims for these five cases, but granted leave for the plaintiffs to file an amended complaint. The Corrected Third Consolidated Amended Class Action Complaint, filed on October 9, 2013, lists neither AGM nor AGMH as a named defendant or a co-conspirator. The complaint generally seeks unspecified monetary damages, interest, attorneys' fees and other costs. The other four cases named AGMH (but not AGM) and also alleged that the defendants violated California state antitrust law and common law by engaging in illegal bid-rigging and market allocation, thereby depriving the cities or municipalities of competition in the awarding of GICs and ultimately resulting in the cities paying higher fees for these products: (f) City of Oakland, California v. AIG Financial Products Corp.; (g) County of Alameda, California v. AIG Financial Products Corp.; (h) City of Fresno, California v. AIG Financial Products Corp.; and (i) Fresno County Financing

Authority v. AIG Financial Products Corp. When the four plaintiffs filed a consolidated complaint in September 2009, the plaintiffs did not name AGMH as a defendant. However, the complaint does describe some of AGMH's and AGM's activities. The consolidated complaint generally seeks unspecified monetary damages, interest, attorneys' fees and other costs. In April 2010, the MDL 1950 court granted in part and denied in part the named defendants' motions to dismiss this consolidated complaint. On September 22, 2015, the remaining parties to the putative class action reported to the MDL 1950 Court that settlements in principle had been reached, and a motion for preliminary approval of those putative class claims was filed on February 24, 2016. The parties have reported that final settlement with those remaining defendants would resolve the putative class case. The settlement fairness hearing for those putative class cases is scheduled for July 8, 2016. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from these lawsuits.

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In 2008, AGMH and AGM also were named in five non-class action lawsuits originally filed in the California Superior Courts alleging violations of California law related to the municipal derivatives industry: (a) City of Los Angeles, California v. Bank of America, N.A.; (b) City of Stockton, California v. Bank of America, N.A.; (c) County of San Diego, California v. Bank of America, N.A.; (d) County of San Mateo, California v. Bank of America, N.A.; and (e) County of Contra Costa, California v. Bank of America, N.A. Amended complaints in these actions were filed in September 2009, adding a federal antitrust claim and naming AGM (but not AGMH) and AGUS, among other defendants. These cases have been transferred to the Southern District of New York and consolidated with MDL 1950 for pretrial proceedings. In late 2009, AGM and AGUS, among other defendants, were named in six additional non-class action cases filed in federal court, which also have been coordinated and consolidated for pretrial proceedings with MDL 1950; one was voluntarily dismissed with prejudice in October 2010, leaving five that are currently pending: (f) City of Riverside, California v. Bank of America, N.A.; (g) Los Angeles World Airports v. Bank of America, N.A.; (h) Redevelopment Agency of the City of Stockton v. Bank of America, N.A.; (i) Sacramento Suburban Water District v. Bank of America, N.A.; and (j) County of Tulare, California v. Bank of America, N.A. The MDL 1950 court denied AGM and AGUS's motions to dismiss the eleven complaints that were pending as of April 2010. Amended complaints were filed in May 2010. The complaints in these lawsuits generally seek or sought unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from the remaining lawsuits.

In May 2010, AGM and AGUS, among other defendants, were named in five additional non-class action cases filed in federal court in California: (a) City of Richmond, California v. Bank of America, N.A. (filed on May 18, 2010, N.D. California); (b) City of Redwood City, California v. Bank of America, N.A. (filed on May 18, 2010, N.D. California); (c) Redevelopment Agency of the City and County of San Francisco, California v. Bank of America, N.A. (filed on May 21, 2010, N.D. California); (d) East Bay Municipal Utility District, California v. Bank of America, N.A. (filed on May 18, 2010, N.D. California); and (e) City of San Jose and the San Jose Redevelopment Agency, California v. Bank of America, N.A (filed on May 18, 2010, N.D. California). These cases have also been transferred to the Southern District of New York and consolidated with MDL 1950 for pretrial proceedings. In September 2010, AGM and AGUS, among other defendants, were named in a sixth additional non-class action filed in federal court in New York, but which alleges violation of New York's Donnelly Act in addition to federal antitrust law: Active Retirement Community, Inc. d/b/a Jefferson's Ferry v. Bank of America, N.A. (filed on September 21, 2010, E.D. New York), which has also been transferred to the Southern District of New York and consolidated with MDL 1950 for pretrial proceedings. In December 2010, AGM and AGUS, among other defendants, were named in a seventh additional non-class action filed in federal court in the Central District of California, Los Angeles Unified School District v. Bank of America, N.A., and in an eighth additional non-class action filed in federal court in the Southern District of New York, Kendal on Hudson, Inc. v. Bank of America, N.A. These cases also have been consolidated with MDL 1950 for pretrial proceedings. The complaints in these lawsuits generally seek unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from these lawsuits.

In January 2011, AGM and AGUS, among other defendants, were named in an additional non-class action case filed in federal court in New York, which alleges violation of New York's Donnelly Act in addition to federal antitrust law: Peconic Landing at Southold, Inc. v. Bank of America, N.A. This case has been consolidated with MDL 1950 for pretrial proceedings. The complaint in this lawsuit generally seeks unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from this lawsuit.

In September 2009, the Attorney General of the State of West Virginia filed a lawsuit (Circuit Ct. Mason County, W. Va.) against Bank of America, N.A. alleging West Virginia state 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. An amended complaint in this action was filed in June 2010, adding a

federal antitrust claim and naming AGM (but not AGMH) and AGUS, among other defendants. This case has been removed to federal court as well as transferred to the S.D.N.Y. and consolidated with MDL 1950 for pretrial proceedings. AGM and AGUS answered West Virginia's Second Amended Complaint on November 11, 2013. The complaint in this lawsuit generally seeks civil penalties, unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from this lawsuit.

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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 March 31, 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	496	500	495
Series A Enhanced Junior Subordinated Debentures	150	150	150	150
Total AGUS	850	843	850	842
AGMH:				
67/8% QUIBS	100	69	100	69
6.25% Notes	230	140	230	140
5.6% Notes	100	56	100	56
Junior Subordinated Debentures	300	182	300	180
Total AGMH	730	447	730	445
AGM:				
Notes Payable	11	12	12	13
Total AGM	11	12	12	13
Total	$1,591	$ 1,302	$1,592	$ 1,300

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. The liquidity risk to AGM related to the strip policy portion of the leveraged lease business is 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 $1.1 billion as of March 31, 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. It is difficult to determine the probability that AGM will have to pay strip provider claims or the likely aggregate amount of such claims. At March 31, 2016, approximately $1.4 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.

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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 is currently $495 million.

Fundings under this facility are subject to certain conditions precedent, and their repayment is collateralized by a security interest that AGM granted to Dexia Crédit Local (NY) in amounts that AGM recovers—from the tax-exempt entity, or from asset sale proceeds—following its payment of strip policy claims. On June 30, 2014, AGM and Dexia Crédit Local (NY) agreed to shorten the duration of the facility. Accordingly, the Strip Coverage Facility will terminate upon the earliest to occur of an AGM change of control, the reduction of the commitment amount to $0 in accordance with the terms of the facility, and June 30, 2024 (rather than the original maturity date of January 31, 2042).

The Strip Coverage Facility's financial covenants require that AGM and its subsidiaries maintain:

- a maximum debt-to-capital ratio of 30%; and
- a minimum net worth of 75% of consolidated net worth as of July 1, 2009, plus, beginning June 30, 2015 and on each anniversary of such date, an amount equal to the product of (i) 25% of the aggregate consolidated net income (or loss) for the period beginning July 2, 2009 and ending on June 30, 2014 and (ii) a fraction, the numerator of which is the commitment amount as of the relevant calculation date and the denominator of which is $1 billion.

The Company was in compliance with all financial covenants as of March 31, 2016.

The Strip Coverage Facility contains restrictions on AGM, including, among other things, in respect of its ability to incur debt, permit liens, pay dividends or make distributions, dissolve or become party to a merger or consolidation. Most of these restrictions are subject to exceptions. The Strip Coverage Facility has customary events of default, including (subject to certain materiality thresholds and grace periods) payment default, bankruptcy or insolvency proceedings and cross-default to other debt agreements.

As of March 31, 2016, no amounts were outstanding under this facility, nor have there been any borrowings during the life of this 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 March 31, 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 March 31, 2016 the put option had not been exercised.

The Company does not consider itself to be the primary beneficiary of the trusts. See Note 7, Fair Value Measurement, –Other Assets–Committed Capital Securities, for a fair value measurement discussion.

16. Earnings Per Share

Computation of Earnings Per Share

	First Quarter	
	2016	2015
	(in millions)	
Basic earnings per share ("EPS"):		
Net income (loss) attributable to AGL	$59	$201
Less: Distributed and undistributed income (loss) available to nonvested shareholders	1	0
Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries, basic	$58	$201
Basic shares	136.2	155.8
Basic EPS	$0.43	$1.29
Diluted EPS:		
Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries, basic	$58	$201
Plus: Re-allocation of undistributed income (loss) available to nonvested shareholders of AGL and subsidiaries	0	0
Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries, diluted	$58	$201
Basic shares	136.2	155.8
Dilutive securities:		
Options and restricted stock awards	0.8	1.0
Diluted shares	137.0	156.8
Diluted EPS	$0.43	$1.28

Potentially dilutive securities excluded from computation of EPS because of antidilutive effect	0.8	0.7

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17. Shareholders' Equity

Other Comprehensive Income

The following tables present the changes in each component of accumulated other comprehensive income ("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
First Quarter 2016

	Net Unrealized Gains (Losses) on Investments with no Other-Than-Temporary Impairment	Net Unrealized Gains (Losses) on Investments with Other-Than-Temporary Impairment	Cumulative Translation Adjustment	Cash Flow Hedge	Total Accumulated Other Comprehensive Income
	(in millions)				
Balance, December 31, 2015	$260	$ (15)	$ (16)	$ 8	$ 237
Other comprehensive income (loss) before reclassifications	95	(17)	(2)	—	76
Amounts reclassified from AOCI to:					
Net realized investment gains (losses)	(4)	17	—	—	13
Net investment income	(3)	—	—	—	(3)
Interest expense	—	—	—	0	0
Total before tax	(7)	17	—	0	10
Tax (provision) benefit	2	(6)	—	0	(4)
Total amount reclassified from AOCI, net of tax	(5)	11	—	0	6
Net current period other comprehensive income (loss)	90	(6)	(2)	0	82
Balance, March 31, 2016	$350	$ (21)	$ (18)	$ 8	$ 319

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Changes in Accumulated Other Comprehensive Income by Component
First 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	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	18	(2)	(5)	—	11
Amounts reclassified from AOCI to:					
Net realized investment gains (losses)	(20)	4	—	—	(16)
Interest expense	—	—	—	(1)	(1)
Total before tax	(20)	4	—	(1)	(17)
Tax (provision) benefit	7	(1)	—	0	6
Total amount reclassified from AOCI, net of tax	(13)	3	—	(1)	(11)
Net current period other comprehensive income (loss)	5	1	(5)	(1)	0
Balance, March 31, 2015	$372	$ 5	$ (15)	$ 8	$ 370

Share Repurchase

The following table presents share repurchases by quarter 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 - through May 4, 2016)	793,672	20	25.20
Total 2016	3,832,600	95	24.80
Cumulative repurchases since the beginning of 2013	61,754,559	$ 1,504	$ 24.36

On February 24, 2016, the Board of Directors approved a $250 million share repurchase authorization. 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. As of March 31, 2016, the Company's remaining share repurchase authorization was $230 million, and as of May 4, 2016, it was approximately $210 million.

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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 MARCH 31, 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	$ 80	$ 94	$ 23	$ 11,489	$ (360)	$ 11,326
Investment in subsidiaries	6,003	5,570	4,077	389	(16,039)	—
Premiums receivable, net of commissions payable	—	—	—	792	(130)	662
Ceded unearned premium reserve	—	—	—	1,236	(1,000)	236
Deferred acquisition costs	—	—	—	172	(59)	113
Reinsurance recoverable on unpaid losses	—	—	—	491	(419)	72
Credit derivative assets	—	—	—	163	(108)	55
Deferred tax asset, net	—	40	—	368	(130)	278
Intercompany receivable	—	—	—	90	(90)	—
Financial guaranty variable interest entities' assets, at fair value	—	—	—	1,191	—	1,191
Other	34	46	28	645	(234)	519
TOTAL ASSETS	$ 6,117	$ 5,750	$ 4,128	$ 17,026	$ (18,569)	$ 14,452
LIABILITIES AND SHAREHOLDERS' EQUITY						
Unearned premium reserves	$ —	$ —	$ —	$ 4,914	$ (1,104)	$ 3,810
Loss and LAE reserve	—	—	—	1,605	(493)	1,112
Long-term debt	—	842	447	13	—	1,302
Intercompany payable	—	90	—	300	(390)	—
Credit derivative liabilities	—	—	—	597	(108)	489
Deferred tax liabilities, net	—	—	90	—	(90)	—
Financial guaranty variable interest entities' liabilities, at fair value	—	—	—	1,284	—	1,284
Other	4	26	18	655	(361)	342
TOTAL LIABILITIES	4	958	555	9,368	(2,546)	8,339
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO ASSURED GUARANTY LTD.	6,113	4,792	3,573	7,269	(15,634)	6,113
Noncontrolling interest	—	—	—	389	(389)	—
TOTAL SHAREHOLDERS' EQUITY	6,113	4,792	3,573	7,658	(16,023)	6,113
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 6,117	$ 5,750	$ 4,128	$ 17,026	$ (18,569)	$ 14,452

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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 MARCH 31, 2016
(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
REVENUES						
Net earned premiums	$ —	$ —	$ —	$ 192	$ (9)	$ 183
Net investment income	0	0	0	100	(1)	99
Net realized investment gains (losses)	0	—	—	(12)	(1)	(13)
Net change in fair value of credit derivatives:						
Realized gains (losses) and other settlements	—	—	—	8	0	8
Net unrealized gains (losses)	—	—	—	(68)	—	(68)
Net change in fair value of credit derivatives	—	—	—	(60)	0	(60)
Bargain purchase gain and settlement of pre-existing relationships	—	—	—	—	—	—
Other	0	—	—	36	—	36
TOTAL REVENUES	0	0	0	256	(11)	245
EXPENSES						
Loss and LAE	—	—	—	93	(3)	90
Amortization of deferred acquisition costs	—	—	—	7	(3)	4
Interest expense	—	13	13	3	(3)	26
Other operating expenses	8	0	1	52	(1)	60
TOTAL EXPENSES	8	13	14	155	(10)	180
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET EARNINGS OF SUBSIDIARIES	(8)	(13)	(14)	101	(1)	65
Total (provision) benefit for income taxes	—	5	5	(16)	0	(6)
Equity in net earnings of subsidiaries	67	50	77	9	(203)	—
NET INCOME (LOSS)	$ 59	$ 42	$ 68	$ 94	$ (204)	$ 59
Less: noncontrolling interest	—	—	—	9	(9)	—
NET INCOME (LOSS) ATTRIBUTABLE TO ASSURED GUARANTY LTD.	$ 59	$ 42	$ 68	$ 85	$ (195)	$ 59
COMPREHENSIVE INCOME (LOSS)	$ 141	$ 80	$ 92	$ 178	$ (350)	$ 141

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
AND COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2015
(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
REVENUES						
Net earned premiums	$ —	$ —	$ —	$ 140	$ 2	$ 142
Net investment income	0	0	0	104	(3)	101
Net realized investment gains (losses)	0	0	0	19	(3)	16
Net change in fair value of credit derivatives:						
Realized gains (losses) and other settlements	—	—	—	21	0	21
Net unrealized gains (losses)	—	—	—	103	—	103
Net change in fair value of credit derivatives	—	—	—	124	0	124
Other	—	—	—	(14)	—	(14)
TOTAL REVENUES	0	0	0	373	(4)	369
EXPENSES						
Loss and LAE	—	—	—	18	0	18
Amortization of deferred acquisition costs	—	—	—	6	(2)	4
Interest expense	—	13	13	4	(5)	25
Other operating expenses	8	0	0	48	0	56
TOTAL EXPENSES	8	13	13	76	(7)	103
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET EARNINGS OF SUBSIDIARIES	(8)	(13)	(13)	297	3	266
Total (provision) benefit for income taxes	—	5	5	(72)	(3)	(65)
Equity in net earnings of subsidiaries	209	163	92	9	(473)	—
NET INCOME (LOSS)	$ 201	$ 155	$ 84	$ 234	$ (473)	$ 201
Less: noncontrolling interest	—	—	—	9	(9)	—
NET INCOME (LOSS) ATTRIBUTABLE TO ASSURED GUARANTY LTD.	$ 201	$ 155	$ 84	$ 225	$ (464)	$ 201
COMPREHENSIVE INCOME (LOSS)	$ 201	$ 134	$ 80	$ 233	$ (447)	$ 201

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 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	$ 166	$ 17	$ 88	$ (74)	$ (287)	$ (90)
Cash flows from investing activities						
Fixed-maturity securities:						
Purchases	(4)	(11)	—	(281)		