

ASSURED GUARANTY LTD

Form 10-Q

November 03, 2017

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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 September 30, 2017

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 (I.R.S. employer
of incorporation) 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, a smaller reporting company or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o

Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company) Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 November 1, 2017 was 117,453,849 (includes 50,225 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 September 30, 2017	As of December 31, 2016
Assets		
Investment portfolio:		
Fixed-maturity securities, available-for-sale, at fair value (amortized cost of \$10,045 and \$9,974)	\$ 10,546	\$ 10,233
Short-term investments, at fair value	949	590
Other invested assets	96	162
Total investment portfolio	11,591	10,985
Cash	72	118
Premiums receivable, net of commissions payable	922	576
Ceded unearned premium reserve	108	206
Deferred acquisition costs	105	106
Reinsurance recoverable on unpaid losses	39	80
Salvage and subrogation recoverable	497	365
Credit derivative assets	3	13
Deferred tax asset, net	135	497
Current income tax receivable	72	12
Financial guaranty variable interest entities' assets, at fair value	707	876
Other assets	398	317
Total assets	\$ 14,649	\$ 14,151
Liabilities and shareholders' equity		
Unearned premium reserve	\$ 3,597	\$ 3,511
Loss and loss adjustment expense reserve	1,326	1,127
Reinsurance balances payable, net	45	64
Long-term debt	1,292	1,306
Credit derivative liabilities	305	402
Financial guaranty variable interest entities' liabilities with recourse, at fair value	657	807
Financial guaranty variable interest entities' liabilities without recourse, at fair value	111	151
Other liabilities	438	279
Total liabilities	7,771	7,647
Commitments and contingencies (See Note 14)		
Common stock (\$0.01 par value, 500,000,000 shares authorized; 117,937,242 and 127,988,230 shares issued and outstanding)	1	1
Additional paid-in capital	637	1,060
Retained earnings	5,913	5,289
Accumulated other comprehensive income, net of tax of \$148 and \$70	326	149
Deferred equity compensation	1	5

Total shareholders' equity	6,878	6,504
Total liabilities and shareholders' equity	\$ 14,649	\$ 14,151

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

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Assured Guaranty Ltd.

Consolidated Statements of Operations (unaudited)

(dollars in millions except per share amounts)

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	2016		2016	
Revenues				
Net earned premiums	\$186	\$231	\$512	\$628
Net investment income	99	94	322	291
Net realized investment gains (losses):				
Other-than-temporary impairment losses	(20	) (4	) (23	) (32
Less: portion of other-than-temporary impairment loss recognized in other comprehensive income	(7	) 1	6	(6
Net impairment loss	(13	) (5	) (29	) (26
Other net realized investment gains (losses)	20	3	83	21
Net realized investment gains (losses)	7	(2	) 54	(5
Net change in fair value of credit derivatives:				
Realized gains (losses) and other settlements	(1	) 15	19	47
Net unrealized gains (losses)	59	6	87	(23
Net change in fair value of credit derivatives	58	21	106	24
Fair value gains (losses) on committed capital securities	(4	) (23	) (4	) (50
Fair value gains (losses) on financial guaranty variable interest entities	3	(11	) 25	11
Bargain purchase gain and settlement of pre-existing relationships	—	259	58	259
Other income (loss)	274	(3	) 385	49
Total revenues	623	566	1,458	1,207
Expenses				
Loss and loss adjustment expenses	223	(9	) 354	183
Amortization of deferred acquisition costs	5	4	13	13
Interest expense	24	26	73	77
Other operating expenses	58	65	183	188
Total expenses	310	86	623	461
Income (loss) before income taxes	313	480	835	746
Provision (benefit) for income taxes				
Current	(148	) 18	(102	) 80
Deferred	253	(17	) 259	(18
Total provision (benefit) for income taxes	105	1	157	62
Net income (loss)	\$208	\$479	\$678	\$684
Earnings per share:				
Basic	\$1.75	\$3.63	\$5.56	\$5.10
Diluted	\$1.72	\$3.60	\$5.48	\$5.06
Dividends per share	\$0.1425	\$0.13	\$0.4275	\$0.39

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

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Assured Guaranty Ltd.

Consolidated Statements of Comprehensive Income (unaudited)

(in millions)

	Three Months Ended September 30, 2017		2016		Nine Months Ended September 30, 2017		2016	
Net income (loss)	\$208		\$479		\$678		\$684	
Unrealized holding gains (losses) arising during the period on:								
Investments with no other-than-temporary impairment, net of tax provision (benefit) of \$10, \$(14), \$63 and \$48	27		(33	)	133		146	
Investments with other-than-temporary impairment, net of tax provision (benefit) of \$(7), \$8, \$44 and \$(5)	(15	)	13		81		(10)
Unrealized holding gains (losses) arising during the period, net of tax	12		(20	)	214		136	
Less: reclassification adjustment for gains (losses) included in net income (loss), net of tax provision (benefit) of \$3, \$(1), \$29 and \$(1)	4		0		52		(1)
Change in net unrealized gains (losses) on investments	8		(20	)	162		137	
Other, net of tax provision	3		(5	)	15		(16)
Other comprehensive income (loss)	\$11		\$(25	)	\$177		\$121	
Comprehensive income (loss)	\$219		\$454		\$855		\$805	

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

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Assured Guaranty Ltd.

Consolidated Statement of Shareholders' Equity (unaudited)

For the Nine Months Ended September 30, 2017

(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, 2016	127,988,230	\$ 1	\$ 1,060	\$ 5,289	\$ 149	\$ 5	\$ 6,504
Net income	—	—	—	678	—	—	678
Dividends (\$0.4275 per share)	—	—	—	(53)	—	—	(53)
Common stock repurchases	(10,734,653)	0	(431)	—	—	—	(431)
Share-based compensation and other	683,665	0	8	—	—	(4)	4
Other comprehensive income	—	—	—	—	177	—	177
Other	—	—	—	(1)	—	—	(1)
Balance at September 30, 2017	117,937,242	\$ 1	\$ 637	\$ 5,913	\$ 326	\$ 1	\$ 6,878

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

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Assured Guaranty Ltd.

Consolidated Statements of Cash Flows (unaudited)

(in millions)

	Nine Months Ended September 30,	
	2017	2016
Net cash flows provided by (used in) operating activities	\$354	\$(189)
Investing activities		
Fixed-maturity securities:		
Purchases	(1,615)	(1,028)
Sales	1,128	877
Maturities	689	861
Net sales (purchases) of short-term investments	(240)	80
Net proceeds from paydowns on financial guaranty variable interest entities' assets	117	590
Acquisition of MBIA UK, net of cash acquired (see Note 2)	95	—
Acquisition of CIFG, net of cash acquired	—	(435)
Other	58	(12)
Net cash flows provided by (used in) investing activities	232	933
Financing activities		
Dividends paid	(53)	(52)
Repurchases of common stock	(431)	(190)
Repurchases of common stock to pay withholding taxes	(13)	(2)
Net paydowns of financial guaranty variable interest entities' liabilities	(124)	(567)
Repayment/ extinguishment of long-term debt	(29)	(2)
Proceeds from option exercises	5	6
Net cash flows provided by (used in) financing activities	(645)	(807)
Effect of foreign exchange rate changes	4	(4)
Increase (decrease) in cash and restricted cash	(55)	(67)
Cash and restricted cash at beginning of period (see Note 10)	127	166
Cash and restricted cash at end of period (see Note 10)	\$72	\$99
Supplemental cash flow information		
Cash paid (received) during the period for:		
Income taxes	\$3	\$2
Interest	\$53	\$55

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (unaudited)

September 30, 2017

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

In the past, the Company sold credit protection by issuing policies that guaranteed payment obligations under credit derivatives, primarily credit default swaps (CDS). 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 in the U.S. 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 in the U.S. since 2009. The Company actively pursues opportunities to terminate existing CDS, which terminations have the effect of reducing future fair value volatility in income and/or reducing rating agency capital charges.

Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and, in the opinion of management, reflect all adjustments that are of a normal recurring nature, necessary for a fair statement of the financial condition, results of operations and cash flows of the Company and its consolidated variable interest entities (VIEs) for the periods presented. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These unaudited interim consolidated financial statements are as of September 30, 2017 and cover the three-month period ended September 30, 2017 (Third Quarter 2017), the three-month period ended September 30, 2016 (Third Quarter 2016), the nine-month period ended September 30, 2017 (Nine Months 2017) and the nine-month period ended September 30, 2016 (Nine Months 2016). 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, except Note 18, Subsidiary Information, which reflects transfers of businesses between entities within the consolidated group that occurred in the current reporting period consistently for all prior periods presented.

The unaudited interim consolidated financial statements include the accounts of AGL, its direct and indirect 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, 2016, 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) plc (AGE), organized in the U.K.; and
- ▲ Assured Guaranty Re Ltd. (AG Re) and Assured Guaranty Re Overseas Ltd. (AGRO), domiciled in Bermuda.

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

The Company is actively working to combine the operations of its European subsidiaries, AGE, Assured Guaranty (UK) plc (AGUK), Assured Guaranty (London) plc (AGLN) and CIFG Europe S.A. (CIFGE), through a multi-step transaction, which ultimately is expected to result in AGUK, AGLN and CIFGE transferring their insurance portfolios to and merging with and into AGE. As a preparatory step for the merger, AGE, AGUK and AGLN were re-registered as public limited companies on June 1, 2017. As a further preparatory step, AGUK, AGLN and CIFGE were sold by AGC to AGM and then contributed by AGM to AGE on June 26, 2017. While the Company and its European subsidiaries have received certain regulatory approvals, the combination is subject to further regulatory and court approvals. As a result, the Company cannot predict whether, or when, such combination will be completed.

Adopted Accounting Standards

Statement of Cash Flows

In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the Emerging Issues Task Force), which addresses the presentation of changes in restricted cash and restricted cash equivalents in the statement of cash flows with the objective of reducing the existing diversity in practice. Under the ASU, entities are required to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, the ASU requires a reconciliation be presented either on the face of the statement of cash flows or in the notes to the financial statements showing the totals in the statement of cash flows to the related captions in the balance sheet. The ASU was adopted on January 1, 2017 and was applied retrospectively. The required reconciliation is shown in Note 10, Investments and Cash.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force), which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The ASU was adopted on January 1, 2017 and did not have an effect on the Company's consolidated statements of cash flows for the periods presented.

Share-Based Payments

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment, which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding

requirements, as well as classification in the statement of cash flows. The new guidance requires all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also allows an employer to repurchase more of an employee's shares than it previously could for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The ASU was adopted January 1, 2017 with no material effect on the consolidated financial statements.

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Future Application of Accounting Standards

Income Taxes

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory, which removes the current prohibition against immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. Under the ASU, the selling (transferring) entity is required to recognize a current income tax expense or benefit upon transfer of the asset. Similarly, the purchasing (receiving) entity is required to recognize a deferred tax asset or deferred tax liability, as well as the related deferred tax benefit or expense, upon receipt of the asset. The ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, and early adoption is permitted. The ASU's amendments are to be applied on a modified retrospective basis recognizing the effects in retained earnings as of the beginning of the year of adoption. The Company does not expect this ASU to have a material effect on its consolidated financial statements.

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU are intended to make targeted improvements to GAAP by addressing certain aspects of recognition, measurement, presentation, and disclosure of financial instruments.

Under the ASU, certain equity securities will need to be accounted for at fair value with changes in fair value recognized through net income instead of other comprehensive income (OCI). The Company does not expect that the amendment related to certain equity securities will have a material effect on its consolidated financial statements.

Another amendment pertains to liabilities that an entity has elected to measure at fair value in accordance with the fair value option for financial instruments. For these liabilities, the portion of fair value change related to instrument specific credit risk will be separately presented in OCI as opposed to the income statement. The Company elected the fair value option to account for its consolidated FG VIEs. The Company is evaluating the effect that the ASU will have on its consolidated FG VIEs.

The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Entities will be required to record a cumulative-effect adjustment to the statement of financial position as of the beginning of the fiscal year in which the guidance is adopted.

Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB issued ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Topic 310-20) - Premium Amortization on Purchased Callable Debt Securities. This ASU shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. This ASU has no effect on the accounting for purchased callable debt securities held at a discount. ASU 2017-08 is to be applied using a modified retrospective approach through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect this ASU to have a material effect on its consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU requires lessees to present right-of-use assets and lease liabilities on the balance sheet. ASU 2016-02 is to be applied using a modified retrospective approach at the beginning of the earliest comparative period in the financial statements. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the effect that this ASU will have on its consolidated financial statements.

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Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this ASU are intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions will use forward-looking information to better inform their credit loss estimates as a result of the ASU. While many of the loss estimation techniques applied today will still be permitted, the inputs to those techniques will change to reflect the full amount of expected credit losses. The ASU requires enhanced disclosures to help investors and other financial statement users to better understand significant estimates and judgments used in estimating credit losses, as well as credit quality and underwriting standards of an organization's portfolio.

In addition, the ASU amends the accounting for credit losses on available-for-sale securities and purchased financial assets with credit deterioration. The ASU also eliminates the concept of "other than temporary" from the impairment model for certain available-for-sale securities. Accordingly, the ASU states that an entity must use an allowance approach, must limit the allowance to an amount by which the security's fair value is less than its amortized cost basis, may not consider the length of time fair value has been less than amortized cost, and may not consider recoveries in fair value after the balance sheet date when assessing whether a credit loss exists. For purchased financial assets with credit deterioration, the ASU requires an entity's method for measuring credit losses to be consistent with its method for measuring expected losses for originated and purchased non-credit-deteriorated assets.

The ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For debt securities classified as available-for-sale, entities will be required to record a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is adopted. The changes to the impairment model for available-for-sale securities and changes to purchased financial assets with credit deterioration are to be applied prospectively. The Company is evaluating the effect that this ASU will have on its consolidated financial statements.

2. Acquisitions

MBIA UK Insurance Limited

On January 10, 2017 (the MBIA UK Acquisition Date), AGC completed its acquisition of MBIA UK Insurance Limited (MBIA UK), the U.K. operating subsidiary of MBIA Insurance Corporation (MBIA) (the MBIA UK Acquisition). As consideration for the outstanding shares of MBIA UK plus \$23 million in cash, AGC exchanged all its holdings of notes issued in the Zohar II 2005-1 transaction (Zohar II Notes), which were insured by MBIA. AGC's Zohar II Notes had total outstanding principal of approximately \$347 million and fair value of \$334 million as of the MBIA UK Acquisition Date. The MBIA UK Acquisition added approximately \$12 billion of net par insured on January 10, 2017.

MBIA UK was renamed Assured Guaranty (London) Ltd. and on June 1, 2017, was re-registered as a public limited company (plc). Further, AGLN was sold by AGC to AGM and then contributed by AGM to AGE on June 26, 2017. Please refer to Note 1, Business and Basis of Presentation for additional information on the Company's European subsidiaries combination.

The MBIA UK Acquisition was accounted for under the acquisition method of accounting which requires that the assets and liabilities acquired be recorded at fair value. The Company exercised significant judgment to determine the fair value of the assets it acquired and liabilities it assumed in the MBIA UK Acquisition. The most significant of

these determinations related to the valuation of MBIA UK's financial guaranty insurance contracts. On an aggregate basis, MBIA UK's contractual premiums for financial guaranty insurance contracts were less than the premiums a market participant of similar credit quality would demand to acquire those contracts on the MBIA UK Acquisition Date, particularly for below-investment-grade (BIG) transactions, resulting in a significant amount of the purchase price being allocated to these contracts. For information on the methodology used to measure the fair value of assets acquired and liabilities assumed in the MBIA UK Acquisition, please refer to Note 7, Fair Value Measurement.

The fair value of the Company's stand-ready obligation on the MBIA UK Acquisition Date is recorded in unearned premium reserve. After the MBIA UK Acquisition Date, loss reserves and loss and loss adjustment expenses (LAE) will be recorded when the expected losses for each contract exceeds the remaining unearned premium reserve, in accordance with the

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Company's accounting policy described in the Annual Report on Form 10-K. The expected losses acquired by the Company as part of the MBIA UK Acquisition are included in Note 5, Expected Losses to be Paid.

The excess of the fair value of net assets acquired over the consideration transferred was recorded as a bargain purchase gain in "bargain purchase gain and settlement of pre-existing relationships" in net income. In addition, the Company and MBIA UK had pre-existing reinsurance relationships, which were also effectively settled at fair value on the MBIA UK Acquisition Date. The gain on settlement of these pre-existing reinsurance relationships represents the net difference between the historical assumed balances that were recorded by the Company and the fair value of ceded balances acquired from MBIA UK. The Company believes the bargain purchase gain resulted from MBIA's strategy to address its insurance obligations with regards to the Zohar II Notes, the issuers of which MBIA did not expect would have sufficient funds to repay such notes in full on the scheduled maturity date of such notes in January 2017.

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

	Fair Value of Net Assets Acquired before Settlement of Pre-existing Relationships (in millions)	Net effect of Settlement of Pre-existing Relationships	Net Effect of MBIA UK Acquisition
Purchase price (1)	\$334	\$ —	\$ 334
Identifiable assets acquired:			
Investments	459	—	459
Cash	72	—	72
Premiums receivable, net of commissions payable	274	(4)	270
Other assets	16	(6)	10
Total assets	821	(10)	811
Liabilities assumed:			
Unearned premium reserves	389	(6)	383
Current tax payable	25	—	25
Other liabilities	4	(5)	(1)
Total liabilities	418	(11)	407
Net assets of MBIA UK	403	1	404
Cash acquired from MBIA Holdings	23	—	23
Deferred tax liability	(36)	—	(36)
Net asset effect of MBIA UK Acquisition	390	1	391
Bargain purchase gain and settlement of pre-existing relationships resulting from MBIA UK Acquisition, after-tax	56	1	57
Deferred tax	—	1	1
	\$56	\$ 2	\$ 58

Bargain purchase gain and settlement of pre-existing relationships resulting from
MBIA UK Acquisition, pre-tax

The purchase price of \$334 million was allocated as follows: (1) \$329 million for the purchase of net assets of (1) \$385 million, and (2) the settlement of pre-existing relationships between MBIA UK and Assured Guaranty at a fair value of \$5 million.

Revenue and net income related to MBIA UK from the MBIA UK Acquisition Date through September 30, 2017 included in the consolidated statement of operations were approximately \$176 million and \$129 million, respectively, including the bargain purchase gain, settlement of pre-existing relationships, quarterly activity and realized gain on the disposition of AGC's Zohar II Notes. For Nine Months 2017, the Company recognized transaction expenses related to the MBIA UK Acquisition of \$7 million comprising primarily legal and financial advisors fees.

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Unaudited Pro Forma Results of Operations

The following unaudited pro forma information presents the combined results of operations of Assured Guaranty and MBIA UK as if the acquisition had been completed on January 1, 2016, as required under GAAP. The pro forma accounts include the estimated historical results of the Company and MBIA UK and pro forma adjustments primarily comprising the earning of the unearned premium reserve and the expected losses that would be recognized in net income for each prior period presented, as well as the accounting for bargain purchase gain, settlement of pre-existing relationships, the realized gain on the disposition of the Zohar II Notes and MBIA UK acquisition related expenses, all net of tax at the applicable statutory rate.

The unaudited pro forma combined financial information is presented for illustrative purposes only and does not indicate the financial results of the combined company had the companies actually been combined as of January 1, 2016, nor is it indicative of the results of operations in future periods. The Company did not include any pro forma combined financial information for 2017 as substantially all of MBIA UK's results of operations for 2017 are included in Nine Months 2017 consolidated statements of operations.

Unaudited Pro Forma Results of Operations

	Nine Months 2016 (in millions, except per share amounts)
Pro forma revenues	\$ 1,358
Pro forma net income	796
Pro forma earnings per share (EPS):	
Basic	5.93
Diluted	5.89

CIFG Holding Inc.

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

Please refer to Note 2, Acquisitions, 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, 2016 for additional information on the acquisition of CIFG Holding Inc., including the purchase price and the allocation of the purchase price to net assets acquired and the resulting bargain purchase gain and the loss on settlement of pre-existing relationships.

3. Ratings

The financial strength ratings (or similar ratings) for the Company's insurance companies, along with the date of the most recent rating action (or confirmation) by the rating agency, are shown in the table below. Ratings are subject to continuous rating agency review and revision or withdrawal at any time. In addition, 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.

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	S&P Global Ratings, a division of Standard & Poor's Financial Services LLC	Kroll Bond Rating Agency	Moody's Investors Service, Inc.	A.M. Best Company, Inc.
AGM	AA (stable) (6/26/17)	AA+ (stable) (12/14/16)	A2 (stable) (8/8/16)	—
AGC	AA (stable) (6/26/17)	AA (stable) (9/20/16)	(1)	—
MAC	AA (stable) (6/26/17)	AA+ (stable) (7/14/17)	—	—
AG Re	AA (stable) (6/26/17)	—	—	—
AGRO	AA (stable) (6/26/17)	—	—	A+ (stable) (6/15/17)
AGE	AA (stable) (6/26/17)	—	A2 (stable) (8/8/16)	—
AGUK	AA (stable) (6/26/17)	—	(1)	—
AGLN	BB (positive) (1/12/17)	—	(2)	—
CIFGE	—	—	—	—

AGC requested that Moody's Investors Service, Inc. (Moody's) withdraw its financial strength ratings of AGC and (1)AGUK in January 2017, but Moody's denied that request. Moody's continues to rate AGC A3 (stable) and AGUK A3; Moody's put AGUK on review for upgrade on June 27, 2017, following its transfer to AGM.

Assured Guaranty did not request that Moody's rate AGLN. Moody's continues to rate AGLN, and upgraded its (2)rating to Baa2 (stable) on January 13, 2017, following its acquisition by AGC, and then to Baa1 on review for further upgrade on June 27, 2017, following its transfer to AGM.

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, please refer to Note 6, Contracts Accounted for as Insurance, and Note 13, Reinsurance and Other Monoline Exposures.

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 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.

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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 insured portfolio 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 ratings of the transactions are used.

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

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

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

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

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

Components of Outstanding Exposure

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

The Company purchases securities that it has insured, and for which it has expected losses to be paid, in order to mitigate the economic effect of insured losses (loss mitigation securities). The Company excludes amounts attributable to loss mitigation securities (unless otherwise indicated) from par and debt service outstanding, which amounts are included in the investment portfolio, because it manages such securities as investments and not insurance

exposure. As of September 30, 2017 and December 31, 2016, the Company excluded \$2.0 billion and \$2.1 billion, respectively, of net par related to loss mitigation securities (which are mostly BIG), and other loss mitigation strategies. The following table presents the gross and net debt service for financial guaranty contracts.

Table of ContentsFinancial Guaranty
Debt Service Outstanding

	Gross Debt Service Outstanding September 30, 2017		Net Debt Service Outstanding September 30, 2017	
	2017	2016	2017	2016
	(in millions)			
Public finance	\$407,539	\$ 425,849	\$399,347	\$ 409,447
Structured finance	17,464	29,151	17,377	28,088
Total financial guaranty	\$425,003	\$ 455,000	\$416,724	\$ 437,535

In addition to amounts shown in the tables above, the Company had outstanding commitments to provide guaranties of \$43 million as of the date of this filing. The commitments are contingent on the satisfaction of all conditions set forth in them and may expire unused or be canceled at the counterparty's request. Therefore, the total commitment amount does not necessarily reflect actual future guaranteed amounts.

Financial Guaranty Portfolio by Internal Rating
As of September 30, 2017

Rating Category	Public Finance U.S.			Public Finance Non-U.S.			Structured Finance U.S			Structured Finance Non-U.S			Total		
	Net Par			Net Par			Net Par			Net Par			Net Par		
	Outstanding			Outstanding			Outstanding			Outstanding			Outstanding		
	%			%			%			%			%		
	(dollars in millions)														
AAA	\$915	0.4	%	\$2,523	5.9	%	\$2,333	17.8	%	\$419	25.0	%	\$6,190	2.2	%
AA	33,614	15.4		301	0.7		4,853	36.9		76	4.5		38,844	14.1	
A	124,332	57.0		13,657	32.0		1,778	13.5		268	15.9		140,035	50.8	
BBB	52,021	23.8		23,965	56.1		724	5.5		762	45.3		77,472	28.1	
BIG	7,334	3.4		2,281	5.3		3,454	26.3		157	9.3		13,226	4.8	
Total net par outstanding (1)	\$218,216	100.0%		\$42,727	100.0%		\$13,142	100.0%		\$1,682	100.0%		\$275,767	100.0%	

(1) The September 30, 2017 amounts include \$13.0 billion of net par from the MBIA UK Acquisition. Please refer to Note 13, Reinsurance and Other Monoline Exposures, for the effect of commutations on net par outstanding.

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

Rating Category	Public Finance U.S.			Public Finance Non-U.S.			Structured Finance U.S			Structured Finance Non-U.S			Total		
	Net Par		% Outstanding	Net Par		% Outstanding	Net Par		% Outstanding	Net Par		% Outstanding	Net Par		% Outstanding
	(dollars in millions)														
AAA	\$2,066	0.8	%	\$2,221	8.4	%	\$9,757	44.2	%	\$1,447	47.0	%	\$15,491	5.2	%
AA	46,420	19.0		170	0.6		5,773	26.2		127	4.1		52,490	17.7	
A	133,829	54.7		6,270	23.8		1,589	7.2		456	14.8		142,144	48.0	

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BBB	55,103	22.5	16,378	62.1	879	4.0	759	24.6	73,119	24.7
BIG	7,380	3.0	1,342	5.1	4,059	18.4	293	9.5	13,074	4.4
Total net par outstanding	\$244,798	100.0%	\$26,381	100.0%	\$22,057	100.0%	\$3,082	100.0%	\$296,318	100.0%

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Components of BIG Portfolio

Components of BIG Net Par Outstanding

(Insurance and Credit Derivative Form)

As of September 30, 2017

	BIG Net Par Outstanding			Net Par	
	BIG 1	BIG 2	BIG 3	Total BIG	Outstanding
	(in millions)				
Public finance:					
U.S. public finance	\$2,563	\$662	\$ 4,109	\$ 7,334	\$ 218,216
Non-U.S. public finance	2,007	274	—	2,281	42,727
Public finance	4,570	936	4,109	9,615	260,943
Structured finance:					
U.S. Residential mortgage-backed securities (RMBS)	177	354	2,338	2,869	5,064
Triple-X life insurance transactions	—	—	85	85	2,058
Trust preferred securities (TruPS)	239	—	—	239	1,455
Other structured finance	186	157	75	418	6,247
Structured finance	602	511	2,498	3,611	14,824
Total	\$5,172	\$1,447	\$ 6,607	\$ 13,226	\$ 275,767

Components of BIG Net Par Outstanding

(Insurance and Credit Derivative Form)

As of December 31, 2016

	BIG Net Par Outstanding			Net Par	
	BIG 1	BIG 2	BIG 3	Total BIG	Outstanding
	(in millions)				
Public finance:					
U.S. public finance	\$2,402	\$3,123	\$ 1,855	\$ 7,380	\$ 244,798
Non-U.S. public finance	1,288	54	—	1,342	26,381
Public finance	3,690	3,177	1,855	8,722	271,179
Structured finance:					
U.S. RMBS	197	493	2,461	3,151	5,637
Triple-X life insurance transactions	—	—	126	126	2,057
TruPS	304	126	—	430	1,892
Other structured finance	304	263	78	645	15,553
Structured finance	805	882	2,665	4,352	25,139
Total	\$4,495	\$4,059	\$ 4,520	\$ 13,074	\$ 296,318

Table of ContentsBIG Net Par Outstanding
and Number of Risks
As of September 30, 2017

Description	Net Par Outstanding			Number of Risks(2)		
	Financial	Credit	Total	Financial	Credit	Total
	Guaranty	Derivative		Guaranty	Derivative	
	Insurance(1)	(1)		Insurance(1)	(1)	
	(dollars in millions)					
BIG:						
Category 1	\$4,628	\$ 544	\$5,172	150	9	159
Category 2	1,382	65	1,447	48	4	52
Category 3	6,520	87	6,607	151	8	159
Total BIG	\$12,530	\$ 696	\$13,226	349	21	370

BIG Net Par Outstanding
and Number of Risks
As of December 31, 2016

Description	Net Par Outstanding			Number of Risks(2)		
	Financial	Credit	Total	Financial	Credit	Total
	Guaranty	Derivative		Guaranty	Derivative	
	Insurance(1)	(1)		Insurance(1)	(1)	
	(dollars in millions)					
BIG:						
Category 1	\$3,861	\$ 634	\$4,495	165	10	175
Category 2	3,857	202	4,059	79	6	85
Category 3	4,383	137	4,520	148	9	157
Total BIG	\$12,101	\$ 973	\$13,074	392	25	417

(1) Includes net par outstanding for VIEs.

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

Exposure to Puerto Rico

The Company has insured exposure to general obligation bonds of the Commonwealth of Puerto Rico (Puerto Rico or the Commonwealth) and various obligations of its related authorities and public corporations aggregating \$5.0 billion net par as of September 30, 2017, all of which are rated BIG. This amount includes \$389 million related to the 2017 commutations of previously ceded business. Please refer to Note 13, Reinsurance and Other Monoline Exposures, for more information. In recent years, Puerto Rico has experienced significant general fund budget deficits and a challenging economic environment. Beginning on January 1, 2016, a number of Puerto Rico credits have defaulted on bond payments, and the Company has now paid claims on most of its Puerto Rico credits as shown in the table "Puerto Rico Net Par Outstanding" below.

On November 30, 2015 and December 8, 2015, Governor García Padilla of Puerto Rico (the Former Governor) issued executive orders (Clawback Orders) directing the Puerto Rico Department of Treasury and the Puerto Rico Tourism Company to "claw back" certain taxes pledged to secure the payment of bonds issued by the Puerto Rico Highways and Transportation Authority (PRHTA), Puerto Rico Infrastructure Financing Authority (PRIFA), and Puerto Rico Convention Center District Authority (PRCCDA). The Puerto Rico credits insured by the Company subject to clawback are shown in the table "Puerto Rico Net Par Outstanding" below.

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

On January 2, 2017, Ricardo Antonio Rosselló Nevares (the Governor) took office, replacing the Former Governor. On January 29, 2017, the Governor signed the Puerto Rico Emergency and Fiscal Responsibility Act (Emergency Act) that, among other things, defined an emergency period that has since been extended to December 31, 2017, continued diversion of collateral away from bonds the Company insures, and defined the powers and duties of the Fiscal Agency and Financial Advisory Authority (FAFAA).

In mid-March 2017, the Oversight Board certified Puerto Rico's fiscal plan, dated March 13, 2017 (Fiscal Plan). The Fiscal Plan provides only approximately \$7.9 billion for Commonwealth debt service over the next ten years, an amount less than scheduled debt service for such period. The Fiscal Plan itself acknowledges that there are a number of legal and contractual issues not addressed by the Fiscal Plan. On April 28, 2017, the Oversight Board approved fiscal plans for Puerto Rico Electric Power Authority (PREPA) and PRHTA, and directed Puerto Rico Aqueduct and Sewer Authority (PRASA) to amend its proposed plan in several ways. The Oversight Board approved the amended PRASA plan on June 30, 2017. The PRHTA plan assumes that PRHTA will not pay any debt service at least through 2026. The PRASA plan assumes it will pay only approximately 65% of its debt service through 2026. The Company does not believe the fiscal plans of PRHTA or PRASA in their current forms comply with certain mandatory requirements of PROMESA.

On May 3, 2017, the Oversight Board filed a petition with the Federal District Court of Puerto Rico for the Commonwealth under Title III of PROMESA. Title III of PROMESA provides for a process analogous to a voluntary bankruptcy process under chapter 9 of the United States Bankruptcy Code (Bankruptcy Code). On May 5, 2017, the Oversight Board certified a filing under Title III of PROMESA for the Puerto Rico Sales Tax Financing Corporation (COFINA). On May 21, 2017, the Board filed a petition under Title III of PROMESA for PRHTA. On July 2, 2017, after the rejection by the Oversight Board and termination by PREPA of the Restructuring Support Agreement (RSA) described below, the Oversight Board commenced proceedings for PREPA under Title III of PROMESA.

The Company believes that a number of the actions taken by the Commonwealth, the Oversight Board and others with respect to obligations the Company insures are illegal or unconstitutional or both, and has taken legal action, and may take additional legal action in the future, to enforce its rights with respect to these matters. Please see "Puerto Rico Recovery Litigation" below.

Judge Laura Taylor Swain of the Southern District of New York was selected by Chief Justice John Roberts of the United States Supreme Court to preside over any proceedings under PROMESA. Judge Swain has selected a team of five federal judges to act as mediators for certain issues and disputes.

On September 20, 2017, Hurricane Maria made landfall in Puerto Rico as a Category 4 hurricane on the Saffir-Simpson scale, causing loss of life and widespread devastation in the Commonwealth. Damage to the Commonwealth's infrastructure, including the power grid, water system and transportation system, was extensive, with the entire island being without power in the aftermath of the storm. Officials continue to assess the extent of the damage, but rebuilding and economic recovery are expected to take years. While the federal government is expected to provide very substantial resources for relief and rebuilding -- which is expected to help economic activity and address the Commonwealth's infrastructure needs in the intermediate and longer term -- economic activity in general

and tourism in particular, as well as tax collections, are all expected to decline in the short term. Out migration to the mainland is also expected to increase, at least initially.

Litigation and mediation related to the Commonwealth's debt have been delayed by Hurricane Maria. The final form and timing of responses to Puerto Rico's financial distress and the devastation of Hurricane Maria eventually taken by the federal government or implemented under the auspices of PROMESA and the Oversight Board or otherwise, and the final impact, after resolution of legal challenges, of any such responses on obligations insured by the Company, are uncertain.

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The Company groups its Puerto Rico exposure into three categories:

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

Public Corporations – Certain Revenues Potentially Subject to Clawback. The Company includes in this category the debt of public corporations for which applicable law permits the Commonwealth to claw back, subject to certain conditions and for the payment of public debt, at least a portion of the revenues supporting the bonds the Company insures. As a constitutional condition to clawback, available Commonwealth revenues for any fiscal year must be insufficient to pay Commonwealth debt service before the payment of any appropriations for that year. The Company believes that this condition has not been satisfied to date, and accordingly that the Commonwealth has not to date been entitled to claw back revenues supporting debt insured by the Company. Prior to the enactment of PROMESA, the Company sued various Puerto Rico governmental officials in the United States District Court, District of Puerto Rico asserting that Puerto Rico's attempt to "claw back" pledged taxes is unconstitutional, and demanding declaratory and injunctive relief. Please see "Puerto Rico Recovery Litigation" below.

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

Constitutionally Guaranteed

General Obligation. As of September 30, 2017, the Company had \$1,419 million insured net par outstanding of the general obligations of Puerto Rico, which are supported by the good faith, credit and taxing power of the Commonwealth. On July 1, 2016, despite the requirements of Article VI of its Constitution, the Commonwealth defaulted on most of the debt service payment due that day, and the Company made its first claim payments on these bonds, and has continued to make claim payments on these bonds. As noted above, the Oversight Board filed a petition under Title III of PROMESA with respect to the Commonwealth.

Puerto Rico Public Buildings Authority (PBA). As of September 30, 2017, the Company had \$141 million insured net par outstanding of PBA bonds, which are supported by a pledge of the rents due under leases of government facilities to departments, agencies, instrumentalities and municipalities of the Commonwealth, and that benefit from a Commonwealth guaranty supported by a pledge of the Commonwealth's good faith, credit and taxing power. On July 1, 2016, despite the requirements of Article VI of its Constitution, the PBA defaulted on most of the debt service payment due that day, and the Company made its first claim payments on these bonds, and has continued to make claim payments on these bonds.

Public Corporations - Certain Revenues Potentially Subject to Clawback

PRHTA. As of September 30, 2017, the Company had \$882 million insured net par outstanding of PRHTA (transportation revenue) bonds and \$495 million insured net par of PRHTA (highways revenue) bonds. The transportation revenue bonds are secured by a subordinate gross lien on gasoline and gas oil and diesel oil taxes, motor vehicle license fees and certain tolls, plus a first lien on up to \$120 million annually of taxes on crude oil, unfinished oil and derivative products. The highways revenue bonds are secured by a gross lien on gasoline and gas oil and diesel oil taxes, motor vehicle license fees and certain tolls. The non-toll revenues consisting of excise taxes and fees collected by the Commonwealth on behalf of PRHTA and its bondholders that are statutorily allocated to PRHTA and its bondholders are potentially subject to clawback. Despite the presence of funds in relevant debt service accounts that the Company believes should have been employed to fund debt service, PRHTA defaulted on the full July 1, 2017 insured debt service payment, and the Company made its first claim payments on these bonds. As noted

above, on April 28, 2017, the Oversight Board approved a fiscal plan for PRHTA that PRHTA will not pay any debt service at least through 2026. The Company does not believe the PRHTA fiscal plan in its current form complies with certain mandatory requirements of PROMESA.

PRCCDA. As of September 30, 2017, the Company had \$152 million insured net par outstanding of PRCCDA bonds, which are secured by certain hotel tax revenues. These revenues are sensitive to the level of economic activity in the area and are potentially subject to clawback. There were sufficient funds in the PRCCDA bond accounts to make only partial payments on the July 1, 2017 PRCCDA bond payments guaranteed by the Company, and the Company made its first claim payments on these bonds.

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PRIFA. As of September 30, 2017, the Company had \$18 million insured net par outstanding of PRIFA bonds, which are secured primarily by the return to Puerto Rico of federal excise taxes paid on rum. These revenues are potentially subject to the clawback. The Company made its first claim payment on PRIFA bonds in January 2016, and has continued to make claim payments on PRIFA bonds.

Other Public Corporations

PREPA. As of September 30, 2017, the Company had \$853 million insured net par outstanding of PREPA obligations, which are secured by a lien on the revenues of the electric system.

On December 24, 2015, AGM and AGC entered into an 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) would be supported by securitization bonds issued by a special purpose corporation and secured by a transition charge assessed on ratepayers.

In March 2017, the Governor indicated a desire to modify certain aspects of the RSA. On April 6, 2017, the Governor announced that an agreement in principle had been reached to supplement the RSA. As supplemented, the RSA called for AGM and AGC to provide surety insurance policies aggregating approximately \$113 million (\$14 million for AGC and \$99 million for AGM) to support the securitization bonds contemplated by the RSA, to extend the maturity of all of the relending financing provided in 2016, and to provide \$120 million of principal payment deferrals in 2018 through 2023. In addition, the RSA as supplemented provided for a consensual restructuring under Title VI of PROMESA.

The Oversight Board did not certify the RSA under Title VI of PROMESA as the Company believes is required by PROMESA, but rather, on July 2, 2017, commenced proceedings for PREPA under Title III of PROMESA. PREPA defaulted on its July 1, 2017 debt service payments, and the Company made its first claim payments on these bonds to bondholders as a result of these defaults. The Company believes that a number of the actions taken by the Commonwealth, the Oversight Board and others with respect to the PREPA obligations it insures and the RSA are illegal or unconstitutional or both, and has taken legal action, and may take additional legal action in the future, to enforce its rights with respect to these matters. Please see “Puerto Rico Recovery Litigation” below.

PRASA. As of September 30, 2017, the Company had \$373 million of insured net par outstanding to PRASA bonds, which are secured by a lien on the gross revenues of the water and sewer system. On September 15, 2015, PRASA entered into a settlement with the U.S. Department of Justice and the U.S. Environmental Protection Agency that requires it to spend \$1.6 billion to upgrade and improve its sewer system island-wide. The PRASA bond accounts contained sufficient funds to make the PRASA bond payments due through the date of this filing that were guaranteed by the Company, and those payments were made in full. As noted above, on April 28, 2017, the Oversight Board considered a fiscal plan for PRASA that assumes PRASA will pay only approximately 65% of its debt service through 2026, and approved the amended plan on June 30, 2017. Because PRASA has several categories of debt outstanding and the Company insures only PRASA debt with a senior lien on gross revenues of PRASA, it is unclear whether (or to what extent, if any) the payment of only 65% of debt service through 2026 would result in a reduction in PRASA payments of Company-insured debt. The Company does not believe the PRASA fiscal plan in its current form complies with certain mandatory requirements of PROMESA.

Municipal Finance Agency (MFA). As of September 30, 2017, the Company had \$360 million net par outstanding of bonds issued by MFA secured by a lien on local property tax revenues. The MFA bond accounts contained sufficient funds to make the MFA bond payments due through the date of this filing that were guaranteed by the Company, and those payments were made in full.

COFINA. As of September 30, 2017, the Company had \$272 million insured net par outstanding of junior COFINA bonds, which are secured primarily by a second lien on certain sales and use taxes. As noted above, the Oversight Board filed a petition on behalf of the Commonwealth under Title III of PROMESA. COFINA defaulted on its August 1, 2017 insured debt service payment, and the Company made its first claim payments on these bonds.

University of Puerto Rico (U of PR). As of September 30, 2017, the Company had \$1 million insured net par outstanding of U of PR bonds, which are general obligations of the university and are secured by a subordinate lien on the proceeds, profits and other income of the University, subject to a senior pledge and lien for the benefit of outstanding university system revenue bonds. As of the date of this filing, all debt service payments on U of PR bonds insured by the Company have been made.

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Puerto Rico Recovery Litigation

The Company believes that a number of the actions taken by the Commonwealth, the Oversight Board and others with respect to obligations it insures are illegal or unconstitutional or both, and has taken legal action, and may take additional legal action in the future, to enforce its rights with respect to these matters.

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 (Federal District Court in Puerto Rico) to invalidate the executive orders issued by the Former 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 claw back certain taxes and revenues pledged to secure the payment of bonds issued by the PRHTA, the PRCCDA and the PRIFA. The Commonwealth defendants filed a motion to dismiss the action for lack of subject matter jurisdiction, which the Court denied on October 4, 2016. On October 14, 2016, the Commonwealth defendants filed a notice of PROMESA automatic stay. While the PROMESA automatic stay expired on May 1, 2017, on May 17, 2017, the Court stayed the action under Title III of PROMESA.

On May 3, 2017, AGM and AGC filed in the Federal District Court in Puerto Rico an adversary complaint seeking a judgment that the Commonwealth's Fiscal Plan violates various sections of PROMESA and the Contracts, Takings and Due Process Clauses of the U.S. Constitution, an injunction enjoining the Commonwealth and Oversight Board from presenting or proceeding with confirmation of any plan of adjustment based on the Fiscal Plan, and a stay on the confirmation of any plan of adjustment based on the Fiscal Plan pending development of a fiscal plan that complies with PROMESA and the U.S. Constitution. On October 6, 2017, AGC and AGM voluntarily withdrew without prejudice the complaint, based on their expectation that the Fiscal Plan would be modified as a result of Hurricane Maria.

On May 16, 2017, The Bank of New York Mellon, as trustee for the bonds issued by COFINA, filed an adversary complaint for interpleader and declaratory relief with the Federal District Court in Puerto Rico to resolve competing and conflicting demands made by various groups of COFINA bondholders, insurers of certain COFINA Bonds and COFINA, regarding funds held by the trustee for certain COFINA bond debt service payments scheduled to occur on and after June 1, 2017. On May 19, 2017, an order to show cause was entered permitting AGC and AGM to intervene in this matter. While AGM has insured COFINA Bonds, AGC has not.

On June 3, 2017, AGC and AGM filed an adversary complaint in Federal District Court in Puerto Rico seeking (i) a judgment declaring that the application of pledged special revenues to the payment of the PRHTA Bonds is not subject to the PROMESA Title III automatic stay and that the Commonwealth has violated the special revenue protections provided to the PRHTA Bonds under the Bankruptcy Code; (ii) an injunction enjoining the Commonwealth from taking or causing to be taken any action that would further violate the special revenue protections provided to the PRHTA Bonds under the Bankruptcy Code; and (iii) an injunction ordering the Commonwealth to remit the pledged special revenues securing the PRHTA Bonds in accordance with the terms of the special revenue provisions set forth in the Bankruptcy Code.

On June 26, 2017, AGM and AGC filed a complaint in Federal District Court in Puerto Rico seeking (i) a declaratory judgment that the PREPA RSA is a "Preexisting Voluntary Agreement" under Section 104 of PROMESA and the Oversight Board's failure to certify the PREPA RSA is an unlawful application of Section 601 of PROMESA; (ii) an injunction enjoining the Oversight Board from unlawfully applying Section 601 of PROMESA and ordering it to certify the PREPA RSA; and (iii) a writ of mandamus requiring the Oversight Board to comply with its duties under PROMESA and certify the PREPA RSA. On July 21, 2017, in light of its PREPA Title III petition on July 2, 2017, the Oversight Board filed a notice of stay under PROMESA.

On July 18, 2017, AGM and AGC filed a motion for relief from the automatic stay in the PREPA Title III bankruptcy proceeding and a form of complaint seeking the appointment of a receiver for PREPA. That motion was denied on September 14, 2017. AGM and AGC filed a notice of appeal on September 28, 2017.

On August 7, 2017, AGC and AGM filed an adversary complaint in Federal District Court in Puerto Rico seeking, among other things, judgment against defendants (i) declaring that the application of pledged special revenues to the payment of the PREPA Bonds is not subject to the PROMESA Title III automatic stay and that the Commonwealth has violated the special revenue protections provided to the PREPA Bonds under the Bankruptcy Code; (ii) declaring that capital expenditures and all other expenses that do not constitute current, reasonable and necessary operating expenses may not be paid from pledged special revenues prior to the payment of debt service on the PREPA Bonds, and (iii) enjoining defendants from taking or causing to be taken any action that would further violate the special revenue protections provided to the PREPA Bonds under

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the Bankruptcy Code; and (iv) ordering defendants to remit the pledged special revenues securing the PREPA Bonds in accordance with the terms of the special revenue provisions set forth in the Bankruptcy Code. On October 13, 2017, AGC and AGM voluntarily withdrew without prejudice the complaint, in order to allow PREPA to focus on emergency efforts to restore electricity to the island's residents and businesses in the wake of Hurricane Maria.

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

Puerto Rico

Gross Par and Gross Debt Service Outstanding

	Gross Par Outstanding		Gross Debt Service Outstanding	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
	(in millions)			
Exposure to Puerto Rico	\$5,186	\$ 5,435	\$8,516	\$ 9,038

Puerto Rico

Net Par Outstanding (1)

	As of September 30, 2017	As of December 31, 2016
	(in millions)	
Commonwealth Constitutionally Guaranteed		
Commonwealth of Puerto Rico - General Obligation Bonds (2) (3)	\$1,419	\$ 1,476
PBA (2)	141	169
Public Corporations - Certain Revenues Potentially Subject to Clawback		
PRHTA (Transportation revenue) (2) (3)	882	918
PRHTA (Highways revenue) (2) (3)	495	350
PRCCDA (2)	152	152
PRIFA (2)	18	18
Other Public Corporations		
PREPA (2) (3)	853	724
PRASA	373	373
MFA	360	334
COFINA (2) (3)	272	271
U of PR	1	1
Total net exposure to Puerto Rico	\$4,966	\$ 4,786

(1) The September 30, 2017 amounts include \$389 million (which comprises \$36 million of General Obligation Bonds, \$134 million of PREPA, \$144 million of PRHTA (Highways revenue), and \$75 million of MFA) related to 2017 commutations of previously ceded business. Please refer to Note 13, Reinsurance and Other Monoline Exposures, for more information.

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

(3) As of the date of this filing, the Oversight Board has certified a filing under Title III of PROMESA for these credits.

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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 September 30, 2017

	Scheduled Net Par Amortization (in millions)	Scheduled Net Debt Service Amortization (in millions)
2017 (October 1 - December 31)	\$0	\$ 3
2018 (January 1 - March 31)	0	123
2018 (April 1 - June 30)	0	3
2018 (July 1 - September 30)	200	322
2018 (October 1 - December 31)	0	3
Subtotal 2018	200	451
2019	223	464
2020	285	516
2021	147	364
2022-2026	1,045	1,995
2027-2031	981	1,655
2032-2036	1,250	1,669
2037-2041	417	588
2042-2047	418	492
Total	\$4,966	\$ 8,197

Exposure to the U.S. Virgin Islands

The Company has \$498 million insured net par outstanding to the U.S. Virgin Islands and its related authorities (USVI), of which it rates \$224 million BIG. The \$274 million USVI net par the Company rates investment grade is comprised primarily of bonds secured by a lien on matching fund revenues related to excise taxes on products produced in the USVI and exported to the U.S., primarily rum. The \$224 million BIG USVI net par comprises (a) Public Finance Authority bonds secured by a gross receipts tax and the general obligation, full faith and credit pledge of the USVI and (b) bonds of the Virgin Islands Water and Power Authority secured by a net revenue pledge of the electric system.

Hurricane Irma caused significant damage in St. John and St. Thomas, while Hurricane Maria made landfall on St. Croix as a Category 4 hurricane on the Saffir-Simpson scale, causing loss of life and substantial damage to St. Croix's businesses and infrastructure, including the power grid. The USVI is benefiting from the federal response to this year's hurricanes and has made its debt service payments to date.

Exposure to the Selected European Countries

The European countries where the Company has exposure and believes heightened uncertainties exist are: Hungary, Italy, Portugal, Spain and Turkey (collectively, the Selected European Countries). The Company's direct economic exposure to the Selected European Countries, based on par, 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 September 30, 2017

	Hungary	Italy	Portugal	Spain	Turkey	Total
	(in millions)					
Sub-sovereign exposure(2)	\$214	\$1,034	\$ 75	\$456	\$ —	\$1,779
Non-sovereign exposure(3)	125	449	—	—	200	774
Total	\$339	\$1,483	\$ 75	\$456	\$ 200	\$2,553
Total BIG (See Note 5)	\$262	\$—	\$ 75	\$456	\$ —	\$793

(1) While exposures are shown in U.S. dollars, the obligations are in various currencies, primarily euros.

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

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

When the Company directly insures an obligation, it assigns the obligation to a geographic location or locations based on its view of the geographic location of the risk. The Company may also have direct exposures to the Selected European Countries in business assumed from unaffiliated monoline insurance companies, in which case the Company depends upon geographic information provided by the primary insurer.

The Company's \$200 million net insured par exposure in Turkey is to DPR securitizations sponsored by a major Turkish bank. These DPR securitizations were established outside of Turkey and involve payment orders in U.S. dollars, pounds sterling and euros from persons outside of Turkey to beneficiaries in Turkey who are customers of the sponsoring bank. The sponsoring bank's correspondent banks have agreed to remit all such payments to a trustee-controlled account outside Turkey, where debt service payments for the DPR securitization are given priority over payments to the sponsoring bank.

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 \$46 million to Selected European Countries in transactions with \$0.7 billion of net par outstanding.

Non-Financial Guaranty Insurance

The Company provided capital relief triple-X excess of loss life reinsurance on approximately \$540 million of exposure as of September 30, 2017 and \$390 million as of December 31, 2016. The triple-X excess of loss life reinsurance exposure is expected to increase to approximately \$1.2 billion prior to September 30, 2036.

In addition, the Company started providing reinsurance on aircraft residual value insurance (RVI) policies in the first quarter of 2017 and had net exposure of \$116 million to such reinsurance as of September 30, 2017.

The capital relief triple-X excess of loss life reinsurance and aircraft residual value reinsurance are all rated investment grade internally. This non-financial guaranty exposure has a similar risk profile to the Company's other structured finance investment grade exposure written in financial guaranty form.

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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. In the case of its assumed business, the Company may conduct its own analysis as just described or, depending on the Company's view of the potential size of any loss and the information available to the Company, the Company may use loss estimates provided by ceding insurers. The Company monitors the performance of its transactions with expected losses and each quarter the Company's loss reserve committees review and refresh their loss projection assumptions and scenarios and the probabilities they assign to those scenarios based on actual developments during the quarter and their view of future performance.

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. As a result, the Company's estimate of ultimate losses on a policy is subject to significant uncertainty over the life of the insured transaction. Credit performance can be adversely affected by economic, fiscal and financial market variability over the long life of most contracts.

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 reporting period, 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 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 Loss 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, 2016.

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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 expected recoveries/ (payables) for breaches of representations and warranties (R&W) and other expected recoveries. The Company used risk-free rates for U.S. dollar denominated obligations that ranged from 0.0% to 2.94% with a weighted average of 2.27% as of September 30, 2017 and 0.0% to 3.23% with a weighted average of 2.73% as of December 31, 2016.

Net Expected Loss to be Paid
Roll Forward

	Third Quarter		Nine Months		
	2017	2016	2017	2016	
	(in millions)				
Net expected loss to be paid, beginning of period	\$1,297	\$1,326	\$1,198	\$1,391	
Net expected loss to be paid on the MBIA UK portfolio as of January 10, 2017	—	—	21	—	
Net expected loss to be paid on the CIFG portfolio as of July 1, 2016	—	22	—	22	
Economic loss development (benefit) due to:					
Accretion of discount	8	5	24	20	
Changes in discount rates	(6	) (29	) 28	79
Changes in timing and assumptions	202	(20) 246	(62)
Total economic loss development (benefit)	204	(44	) 298	37
Net (paid) recovered losses	(209) (214) (225) (360)
Net expected loss to be paid, end of period	\$1,292	\$1,090	\$1,292	\$1,090	

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Net Expected Loss to be Paid
Roll Forward by Sector
Third Quarter 2017

	Net Expected Loss to be Paid (Recovered) as of June 30, 2017 (in millions)		Economic Loss (Paid) Development / Recovered (Benefit) Losses (1)		Net Expected Loss to be Paid (Recovered) as of September 30, 2017 (2)
Public finance:					
U.S. public finance	\$1,044	\$ 229	\$ (227	)	\$ 1,046
Non-U.S. public finance	42	0	5		47
Public finance	1,086	229	(222	)	1,093
Structured finance:					
U.S. RMBS	182	(19	)	13	176
Triple-X life insurance transactions	(4	) (1	) (2	) (7)
Other structured finance	33	(5	)	2	30
Structured finance	211	(25	)	13	199
Total	\$1,297	\$ 204	\$ (209	)	\$ 1,292

Net Expected Loss to be Paid
Roll Forward by Sector
Third Quarter 2016

	Net Expected Loss to be Paid (Recovered) as of June 30, 2016 (in millions)		Net Expected Loss to be Paid (Recovered) on CIFG as of July 1, 2016 (in millions)		Economic Loss (Paid) Development / Recovered (Benefit) Losses (1)		Net Expected Loss to be Paid (Recovered) as of September 30, 2016
Public finance:							
U.S. public finance	\$963	\$ 40	\$ 9		\$ (196	)	\$ 816
Non-U.S. public finance	37	2	(1	)	—		38
Public finance	1,000	42	8		(196	)	854
Structured finance:							
U.S. RMBS	192	(22	)	(27	)	5	148
Triple-X life insurance transactions	100	—		(23	)	(23	) 54
Other structured finance	34	2		(2)	0	34
Structured finance	326	(20)	(52)	(18) 236
Total	\$1,326	\$ 22	\$ (44)	\$ (214)	\$ 1,090

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Net Expected Loss to be Paid
Roll Forward by Sector
Nine Months 2017

	Net Expected Loss to be Paid (Recovered) as of December 31, 2016 (2)	Net Expected Loss to be Paid on MBIA UK as of January 10, 2017	Economic Loss Development / (Benefit)	(Paid) Recovered Losses (1)	Net Expected Loss to be Paid (Recovered) as of September 30, 2017 (2)
(in millions)					
Public finance:					
U.S. public finance	\$871	\$ —	\$ 431	\$ (256)	\$ 1,046
Non-U.S. public finance	33	13	(4)	5	47
Public finance	904	13	427	(251)	1,093
Structured finance:					
U.S. RMBS	206	—	(70)	40	176
Triple-X life insurance transactions	54	—	(56)	(5)	(7)
Other structured finance	34	8	(3)	(9)	30
Structured finance	294	8	(129)	26	199
Total	\$1,198	\$ 21	\$ 298	\$ (225)	\$ 1,292

Net Expected Loss to be Paid
Roll Forward by Sector
Nine Months 2016

	Net Expected Loss to be Paid (Recovered) as of December 31, 2015	Net Expected Loss to be Paid (Recovered) as of July 1, 2016	Economic Loss Development / (Benefit)	(Paid) Recovered Losses (1)	Net Expected Loss to be Paid (Recovered) as of September 30, 2016
(in millions)					
Public finance:					
U.S. public finance	\$771	\$ 40	\$ 218	\$ (213)	\$ 816
Non-U.S. public finance	38	2	(2)	—	38
Public finance	809	42	216	(213)	854
Structured finance:					
U.S. RMBS	409	(22)	(139)	(100)	148
Triple-X life insurance transactions	99	—	(21)	(24)	54
Other structured finance	74	2	(19)	(23)	34
Structured finance	582	(20)	(179)	(147)	236
Total	\$1,391	\$ 22	\$ 37	\$ (360)	\$ 1,090

(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 \$7 million and \$3 million in LAE for Third Quarter 2017 and 2016, respectively and \$16 million and \$12 million in LAE for Nine Months 2017 and 2016, respectively.

(2) Includes expected LAE to be paid of \$23 million as of September 30, 2017 and \$12 million as of December 31, 2016.

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The following table presents the present value of net expected loss to be paid and the net economic loss development for all contracts by accounting model.

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

	Net Expected Loss to be Paid (Recovered)		Net Economic Loss Development (Benefit)			
	As of September 30, 2017	As of December 31, 2016	Third Quarter 2017	Third Quarter 2016	Nine Months 2017	Nine Months 2016
	(in millions)					
Financial guaranty insurance	\$1,205	\$ 1,083	\$207	\$ (35)	\$ 328	\$ 66
FG VIEs (1) and other	93	105	(2)	(3)	(6)	(6)
Credit derivatives (2)	(6)	10	(1)	(6)	(24)	(23)
Total	\$1,292	\$ 1,198	\$204	\$ (44)	\$ 298	\$ 37

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

(2) Refer to Note 8, 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 \$5.0 billion net par as of September 30, 2017, 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.

As of September 30, 2017, the Company has insured \$346 million net par outstanding of general obligation bonds issued by the City of Hartford, Connecticut, which has recently experienced financial distress. The Company rates \$345 million net par of that BIG, with the remainder being a second-to-pay policy rated investment grade. The mayor of Hartford announced that the city would be unable to meet its financial obligations by early November 2017 if the State of Connecticut failed to enact a budget, and hired bankruptcy consultants. On October 31, 2017, the State adopted a budget providing for substantial payments to the City, placing the City under State oversight and providing an avenue for the City to issue debt backed by the State.

The Company has approximately \$19 million of net par exposure as of September 30, 2017 to bonds issued by Parkway East Public Improvement District (District), which is located in Madison County, Mississippi (the County). 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 subsequently claimed the District's 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 May 31, 2017, the United States Court of Appeals for the Fifth Circuit reversed a district court ruling favorable to the

Company in its declaratory judgment action disputing the County's interpretation. See "Recovery Litigation" below.

On February 25, 2015, a plan of adjustment resolving the bankruptcy filing of the City of Stockton, California under chapter 9 of the U.S. Bankruptcy Code became effective. As of September 30, 2017, the Company's net par subject to the plan consists of \$113 million of pension obligation bonds. As part of the plan of adjustment, the City will repay any claims paid on the pension obligation bonds from certain fixed payments and certain variable payments contingent on the City's revenue growth.

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The Company projects that its total net expected loss across its troubled U.S. public finance credits as of September 30, 2017 including those mentioned above, which incorporated the likelihood of the various outcomes, will be \$1.0 billion, compared with a net expected loss of \$871 million as of December 31, 2016. Economic loss development in Third Quarter 2017 was \$229 million and economic loss development for Nine Months 2017 was \$431 million, which was primarily attributable to Puerto Rico exposures.

Selected Non - U.S. Public Finance Transactions

The Company insures and reinsures credits with sub-sovereign exposure to various Spanish and Portuguese issuers where a Spanish and Portuguese sovereign default may cause the sub-sovereigns also to default. The Company's exposure net of reinsurance to these Spanish and Portuguese credits is \$456 million and \$75 million, respectively. The Company rates all of these exposures BIG due to the financial condition of Spain and Portugal and their dependence on the sovereign. The Company's Hungary exposure is to infrastructure bonds dependent on payments from Hungarian governmental entities. The Company's exposure, net of reinsurance, to these Hungarian credits is \$214 million, all of which is rated BIG.

As part of the MBIA UK Acquisition, the Company now also insures an obligation backed by the availability and toll revenues of a major arterial road into a city in the U.K. with \$218 million of net par outstanding as of September 30, 2017. This transaction has been underperforming due to lower traffic volume and higher costs compared with expectations at underwriting.

These transactions, together with other non-U.S. public finance insured obligations, had expected loss to be paid of \$47 million as of September 30, 2017, compared with \$33 million as of December 31, 2016. The MBIA UK Acquisition added \$13 million of net expected loss as of January 2017. There was little economic loss development during Third Quarter 2017. The economic benefit of approximately \$4 million during Nine Months 2017 was due mainly to the improved internal outlook of certain European sovereigns and sub-sovereign entities.

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 expected R&W recoveries to the projected performance of the collateral over time. The resulting projected claim payments or reimbursements are then discounted using risk-free rates.

Third Quarter 2017 U.S. RMBS Loss Projections

Based on its observation during the period of the performance of its insured transactions (including delinquencies, liquidation rates and loss severities) as well as the residential property market and economy in general, the Company chose to make the changes to the assumptions it uses to project RMBS losses shown in the tables of assumptions in the sections below.

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

The majority of projected losses in first lien RMBS transactions are expected to come from non-performing mortgage loans (those that are or in the past twelve months have been two or more payments behind, have been modified, are in foreclosure, or have been foreclosed upon). Changes in the amount of non-performing loans from the amount projected in the previous period are one of the primary drivers of loss development in this portfolio. In order to determine the number of defaults resulting from these delinquent and foreclosed loans, the Company applies a

liquidation rate assumption to loans in each of various non-performing categories. The Company arrived at its liquidation rates based on data purchased from a third party provider and assumptions about how delays in the foreclosure process and loan modifications may ultimately affect the rate at which loans are liquidated. Each quarter the Company reviews the most recent twelve months of this data and (if necessary) adjusts its liquidation rates based on its observations. The following table shows liquidation assumptions for various non-performing categories.

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First Lien Liquidation Rates

	September 30, 2017	June 30, 2017	December 31, 2016
Delinquent/Modified in the Previous 12 Months			
Alt A and Prime	20%	20%	25%
Option ARM	20	20	25
Subprime	20	20	25
30 – 59 Days Delinquent			
Alt A and Prime	30	30	35
Option ARM	35	35	35
Subprime	40	40	40
60 – 89 Days Delinquent			
Alt A and Prime	40	40	45
Option ARM	45	45	50
Subprime	50	45	50
90+ Days Delinquent			
Alt A and Prime	50	50	55
Option ARM	55	55	55
Subprime	55	55	55
Bankruptcy			
Alt A and Prime	45	45	45
Option ARM	50	50	50
Subprime	40	40	40
Foreclosure			
Alt A and Prime	65	60	65
Option ARM	65	65	65
Subprime	65	65	65
Real Estate Owned			
All	100	100	100

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

In the most heavily weighted scenario (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 5.75 years after the initial 36-month CDR plateau period. Under the Company's methodology, defaults projected to occur in the first 36 months represent defaults that can be attributed to loans that were modified or delinquent in the last 12 months or that are currently delinquent or in foreclosure, while the defaults projected to occur using the projected CDR trend after the first 36 month period represent defaults attributable to borrowers that are currently performing or are projected to reperform.

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

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generally will continue for another 18 months. The Company determines its initial loss severity based on actual recent experience. Each quarter the Company reviews available data and (if necessary) adjusts its severities based on its observations. 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.

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

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

	As of September 30, 2017		As of June 30, 2017			As of December 31, 2016	
	Range	Weighted Average	Range	Weighted Average		Range	Weighted Average
Alt A and Prime							
Plateau CDR	1.0% - 11.0%	5.1%	1.1% - 10.3%	5.1 %		1.0% - 13.5%	5.7%
Final CDR	0.0% - 0.5%	0.3%	0.1% - 0.5%	0.3 %		0.0% - 0.7%	0.3%
Initial loss severity:							
2005 and prior	60%		60%			60%	
2006	80%		80%			80%	
2007+	70%		70%			70%	
Option ARM							
Plateau CDR	2.4% - 6.6%	5.3%	3.7% - 6.7%	5.4 %		3.2% - 7.0%	5.6%
Final CDR	0.1% - 0.3%	0.3%	0.2% - 0.3%	0.3 %		0.2% - 0.3%	0.3%
Initial loss severity:							
2005 and prior	60%		60%			60%	
2006	70%		70%			70%	
2007+	75%		75%			75%	
Subprime							
Plateau CDR	3.6% - 13.1%	7.9%	3.8% - 13.1%	7.8 %		2.8% - 14.1%	8.1%
Final CDR	0.2% - 0.7%	0.4%	0.2% - 0.7%	0.4 %		0.1% - 0.7%	0.4%
Initial loss severity:							
2005 and prior	80%		80%			80%	
2006	90%		90%			90%	
2007+	95%		95%			90%	

(1) Represents variables for the base case.

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 conditional prepayment rate (CPR) follows a similar pattern to that of the CDR. The current level of voluntary prepayments is assumed to continue for the plateau period before gradually increasing over 12 months to the final CPR, which is assumed to be 15% in the base case. For transactions where the initial CPR is higher than the final CPR, the initial CPR is held constant and the final CPR is not used. These CPR assumptions are the same as those the Company used for June 30, 2017 and

December 31, 2016.

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

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stressed CPR and the speed of recovery of loss severity rates. The Company probability weighted a total of five scenarios as of September 30, 2017. The Company used a similar approach to establish its pessimistic and optimistic scenarios as of September 30, 2017 as it used as of June 30, 2017 and December 31, 2016, increasing and decreasing the periods of stress from those used in the base case.

In the Company's most 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, expected loss to be paid would increase from current projections by approximately \$24 million for Alt-A first liens, \$9 million for Option ARM, \$41 million for subprime and \$1 million for prime transactions.

In the Company's least 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 \$11 million for Alt-A first liens, \$21 million for Option ARM, \$22 million for subprime and \$0.1 million for prime transactions.

U.S. Second Lien RMBS Loss Projections

Second lien RMBS transactions include both home equity lines of credit (HELOC) and closed end second lien mortgages. 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 loss severity.

In second lien transactions the projection of near-term defaults from currently delinquent loans is relatively straightforward because loans in second lien transactions are generally "charged off" (treated as defaulted) by the securitization's servicer once the loan is 180 days past due. The Company estimates the amount of loans that will default over the next six months by calculating current representative liquidation rates. A liquidation rate is the percent of loans in a given cohort (in this instance, delinquency category) that ultimately default. Similar to first liens, the Company then calculates a CDR for six months, which is the period over which the currently delinquent collateral is expected to be liquidated. That CDR is then used as the basis for the plateau CDR period that follows the embedded plateau losses.

For the base case scenario, the CDR (the plateau CDR) was held constant for six months. Once the plateau period has ended, the CDR is assumed to gradually trend down in uniform increments to its final long-term steady state CDR. (The long-term steady state CDR is calculated as the constant CDR that would have yielded the amount of losses originally expected at underwriting.) In the base case scenario, the time over which the CDR trends down to its final CDR is 28 months. Therefore, the total stress period for second lien transactions is 34 months, comprising six months of delinquent data and 28 months of decrease to the steady state CDR, the same as of June 30, 2017 and December 31, 2016.

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. This causes the borrower's total monthly payment to increase, sometimes substantially, at the end of the initial interest-only period. In the prior periods, as the HELOC loans underlying the Company's insured HELOC transactions reached their principal amortization period, the Company incorporated an assumption that a percentage of loans reaching their principal amortization periods would default around the time of the payment increase.

Most of the HELOC loans underlying the Company's insured HELOC transactions are now past their interest only reset date, although a significant number of HELOC loans were modified to extend the interest only period for another five years. As a result, in Third Quarter 2017, the Company eliminated the CDR increase that was applied when such loans reached their principal amortization period. In addition, based on the average performance history, starting in Third Quarter 2017, the Company applied a CDR floor of 2.5% for the future steady state CDR on all its HELOC transactions and reduced the liquidation rate assumption for selected vintages.

When a second lien loan defaults, there is generally a very low recovery. The Company assumed as of September 30, 2017 that it will generally recover only 2% of the collateral defaulting in the future and declining additional amounts of post-default receipts on previously defaulted collateral. This is the same assumption used as of June 30, 2017 and December 31, 2016.

The rate at which the principal amount of loans is prepaid may impact both the amount of losses projected as well as the amount of excess spread. In the base case, an average CPR (based on experience of the past year) is assumed to continue

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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 (in the base case), which is lower than the historical average but reflects the Company's continued uncertainty about the projected performance of the borrowers in these transactions. For transactions where the initial CPR is higher than the final CPR, the initial CPR is held constant and the final CPR is not used. This pattern is generally consistent with how the Company modeled the CPR as of June 30, 2017 and December 31, 2016. 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 have less impact on the projection results than the variables discussed above. However, in a number of HELOC transactions the servicers have been modifying poorly performing loans from floating to fixed rates, and, as a result, rising interest rates would negatively impact the excess spread available from these modified loans to support the transactions. The Company incorporated these modifications in its assumptions.

In estimating expected losses, the Company modeled and probability weighted five possible CDR curves applicable to the period preceding the return to the long-term steady state CDR. The Company used five scenarios at September 30, 2017 and December 31, 2016. 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.

The Company believes the most important driver of its projected second lien RMBS losses is the performance of its 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.

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

	As of September 30, 2017		As of June 30, 2017			As of December 31, 2016	
	Range	Weighted Average	Range	Weighted Average		Range	Weighted Average
Plateau CDR	5.2 %- 22.0%	11.3%	3.2 %- 22.6%	13.3 %		3.5 %- 24.8%	13.6%
Final CDR trended down to	2.5 %- 3.2%	2.5%	0.5 %- 3.2%	1.3 %		0.5 %- 3.2%	1.3%
Liquidation rates:							
Delinquent/Modified in the Previous 12 Months	20%		20%			25%	
30 – 59 Days Delinquent	45		45			50	
60 – 89 Days Delinquent	60		65			65	
90+ Days Delinquent	75		80			80	
Bankruptcy	55		55			55	
Foreclosure	70		75			75	
Real Estate Owned	100		100			100	
Loss severity	98%		98%			98%	

(1) Represents variables for the base case.

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) would increase the expected loss by approximately \$13 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 \$14 million for HELOC transactions.

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Breaches of Representations and Warranties

As of September 30, 2017, the Company had a net R&W payable of \$3 million to R&W counterparties, compared to an R&W payable of \$6 million as of December 31, 2016.

Triple-X Life Insurance Transactions

The Company had \$2.1 billion of net par exposure to financial guaranty triple-X life insurance transactions as of September 30, 2017, of which two transactions with \$85 million in net par are rated BIG. The triple-X life insurance transactions are based on discrete blocks of individual life insurance business. In older vintage triple-X life insurance transactions, which include the two BIG-rated transactions, the amounts raised by the sale of the notes insured by the Company were used to capitalize a special purpose vehicle that provides reinsurance to a life insurer or reinsurer. The amounts have been invested since 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 available, including estimates of future investment performance, and projected credit impairments on the invested assets and performance of the blocks of life insurance business at September 30, 2017, the Company projected net expected recoveries of \$7 million. The economic benefit during Third Quarter 2017 was approximately \$1 million, which was due primarily to improved performance in some of the underlying assets in which the transactions have invested. The economic benefit during Nine Months 2017 was approximately \$56 million, which was due primarily to a settlement with the former investment manager of the two BIG transactions.

Student Loan Transactions

The Company has insured or reinsured \$1.4 billion net par of student loan securitizations issued by private issuers that are classified as structured finance. Of this amount, \$116 million is rated BIG. The Company is projecting approximately \$34 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 development during Third Quarter 2017 was approximately \$1 million, which was driven primarily by a lower probability of certain deals being commuted. The economic loss development during Nine Months 2017 was approximately \$2 million, which was driven primarily by changes in the discount rates and a lower probability of certain deals being commuted.

Recovery Litigation

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.

Public Finance Transactions

The Company has asserted claims in a number of legal proceedings in connection with its exposure to Puerto Rico. Please refer to Note 4, Outstanding Exposure, for a discussion of the Company's exposure to Puerto Rico and related recovery litigation being pursued by the Company.

On November 1, 2013, Radian Asset Assurance Inc. (Radian Asset) commenced a declaratory judgment action in the U.S. District Court for the Southern District of Mississippi against Madison County, Mississippi and the Parkway East Public Improvement District to establish its rights under a contribution agreement from the County supporting certain special assessment bonds issued by the District and insured by Radian Asset (now AGC). As of September 30, 2017, \$19 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 County appealed the District Court's summary judgment ruling to the United States Court of Appeals for the Fifth Circuit, and on May 31, 2017, the appellate court reversed the District Court's ruling and remanded the matter to the District Court.

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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 alleged that JPMIM engaged in breaches of fiduciary duty, gross negligence and breaches of contract based upon its handling of the Orkney investments. The trial commenced on March 13, 2017. During a court-ordered mediation session on March 25, 2017, the parties agreed to settle the litigation and subsequently filed a stipulation of discontinuance of the court proceedings with prejudice. The parties have agreed to keep the terms of the settlement confidential.

RMBS Transactions

On February 5, 2009, U.S. Bank National Association, as indenture trustee (U.S. Bank), CIFG Assurance North America Inc. (CIFGNA), as insurer of the Class Ac Notes, and Syncora Guarantee Inc. (Syncora), as insurer of the Class Ax Notes, filed a complaint in the Supreme Court of the State of New York against GreenPoint Mortgage Funding, Inc. (GreenPoint) alleging GreenPoint breached its R&W with respect to the underlying mortgage loans in the GreenPoint Mortgage Funding Trust 2006-HE1 transaction. On March 3, 2010, the court dismissed CIFGNA's and Syncora's causes of action on standing grounds. On December 16, 2013, GreenPoint moved to dismiss the remaining claims of U.S. Bank on the grounds that it too lacked standing. U.S. Bank cross-moved for partial summary judgment striking GreenPoint's defense that U.S. Bank lacked standing to directly pursue claims against GreenPoint. On January 28, 2016, the court denied GreenPoint's motion for summary judgment and granted U.S. Bank's cross-motion for partial summary judgment, finding that as a matter of law U.S. Bank has standing to directly assert claims against GreenPoint. Oral argument on GreenPoint's appeal was heard by the New York Appellate Division, First Department, on May 2, 2017. CIFGNA originally had \$500 million insured net par exposure to this transaction; \$19 million insured net par remains outstanding at September 30, 2017.

On November 26, 2012, CIFGNA filed a complaint in the Supreme Court of the State of New York against JP Morgan Securities LLC (JP Morgan) for material misrepresentation in the inducement of insurance and common law fraud, alleging that JP Morgan fraudulently induced CIFGNA to insure \$400 million of securities issued by ACA ABS CDO 2006-2 Ltd. and \$325 million of securities issued by Libertas Preferred Funding II, Ltd. On June 26, 2015, the Court dismissed with prejudice CIFGNA's material misrepresentation in the inducement of insurance claim and dismissed without prejudice CIFGNA's common law fraud claim. On September 24, 2015, the Court denied CIFGNA's motion to amend but allowed CIFGNA to re-plead a cause of action for common law fraud. On November 20, 2015, CIFGNA filed a motion for leave to amend its complaint to re-plead common law fraud. On April 29, 2016, CIFGNA filed an appeal to reverse the Court's decision dismissing CIFGNA's material misrepresentation in the inducement of insurance claim. On November 29, 2016, the Appellate Division of the Supreme Court of the State of New York ruled that the Court's decision dismissing with prejudice CIFGNA's material misrepresentation in the inducement of insurance claim should be modified to grant CIFGNA leave to re-plead such claim. On February 27, 2017, AGC (as successor to CIFGNA) filed an amended complaint which includes a claim for material misrepresentation in the inducement of insurance.

6. Contracts Accounted for as Insurance

Premiums

The portfolio of outstanding exposures discussed in Note 4, Outstanding Exposure, includes contracts that meet the definition of insurance contracts, contracts that meet the definition of a derivative, and contracts that are accounted for as consolidated FG VIEs. Amounts presented in this note relate to insurance contracts. Please refer to Note 8, 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.

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Net Earned Premiums

	Third Quarter		Nine Months	
	2017	2016	2017	2016
	(in millions)			
Scheduled net earned premiums	\$96	\$101	\$296	\$285
Accelerations:				
Refundings	84	105	189	267
Terminations	3	21	15	65
Total Accelerations	87	126	204	332
Accretion of discount on net premiums receivable	3	4	11	11
Financial guaranty insurance net earned premiums	186	231	511	628
Other	0	—	1	0
Net earned premiums (1)	\$186	\$231	\$512	\$628

(1) Excludes \$3 million and \$4 million for Third Quarter 2017 and 2016, respectively, and \$11 million and \$12 million for Nine Months 2017 and 2016, respectively, related to consolidated FG VIEs.

Components of Unearned Premium Reserve

	As of September 30, 2017			As of December 31, 2016		
	Gross	Ceded	Net(1)	Gross	Ceded	Net(1)
	(in millions)					
Deferred premium revenue(2)	\$3,647	\$ 107	\$3,540	\$3,548	\$ 206	\$3,342
Contra-paid (3)	(50)	1	(51)	(37)	0	(37)
Unearned premium reserve	\$3,597	\$ 108	\$3,489	\$3,511	\$ 206	\$3,305

(1) Excludes \$79 million and \$90 million of deferred premium revenue, and \$18 million and \$25 million of contra-paid related to FG VIEs as of September 30, 2017 and December 31, 2016, respectively.

(2) Includes \$7 million of non- financial guaranty as of September 30, 2017. As of December 31, 2016, non-financial guaranty deferred premium revenue was de minimis.

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

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

	Nine Months	
	2017	2016
	(in millions)	
December 31, FG activity	\$576	\$693
Premiums receivable from acquisitions (see Note 2)	270	18
Gross written premiums on new business, net of commissions on assumed business	225	111
Gross premiums received, net of commissions on assumed business	(216)	(155)
Adjustments:		
Changes in the expected term	0	(39)
Accretion of discount, net of commissions on assumed business	13	5
Foreign exchange translation	54	(25)
Subtotal (1)	922	608
Other	0	0
September 30,	\$922	\$608

(1) Excludes \$10 million and \$11 million as of September 30, 2017 and September 30, 2016, respectively, related to consolidated FG VIEs.

Foreign exchange translation relates to installment premiums receivable denominated in currencies other than the U.S. dollar . Approximately 71%, 50% and 52% of installment premiums at September 30, 2017, December 31, 2016 and September 30, 2016, respectively, are denominated in currencies other than the U.S. dollar, primarily the euro and pound sterling.

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

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

	As of September 30, 2017 (in millions)
2017 (October 1 – December 31)	\$ 32
2018	95
2019	82
2020	80
2021	78
2022-2026	306
2027-2031	212
2032-2036	120
After 2036	120

Total(1) \$ 1,125

(1) Excludes expected cash collections on FG VIEs of \$13 million.

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Scheduled Financial Guaranty Insurance Net Earned Premiums

	As of September 30, 2017 (in millions)
2017 (October 1 – December 31)	\$ 92
2018	348
2019	300
2020	271
2021	249
2022-2026	963
2027-2031	620
2032-2036	373
After 2036	317
Net deferred premium revenue(1)	3,533
Future accretion	197
Total future net earned premiums	\$ 3,730

(1) Excludes scheduled net earned premiums on consolidated FG VIEs of \$79 million.

Selected Information for Financial Guaranty Insurance
Policies Paid in Installments

	As of September 30, 2017 (dollars in millions)	As of December 31, 2016 (dollars in millions)
Premiums receivable, net of commission payable	\$ 922	\$ 576
Gross deferred premium revenue	1,241	1,041
Weighted-average risk-free rate used to discount premiums	2.4 %	3.0 %
Weighted-average period of premiums receivable (in years)	9.3	9.1

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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 risk-free rates for U.S. dollar denominated financial guaranty insurance obligations that ranged from 0.0% to 2.94% with a weighted average of 2.27% as of September 30, 2017 and 0.0% to 3.23% with a weighted average of 2.74% as of December 31, 2016.

Loss and LAE Reserve and Salvage and Subrogation Recoverable

Net of Reinsurance

Insurance Contracts

	As of September 30, 2017			As of December 31, 2016		
	Loss and Salvage and			Loss and Salvage and		
	LAE	Subrogation	Net Reserve	LAE	Subrogation	Net Reserve
	Reserve, Recoverable,	Reserve, Recoverable,	(Recoverable)	Reserve, Recoverable,	Reserve, Recoverable,	(Recoverable)
	net	net		net	net	
	(in millions)					
Public finance:						
U.S. public finance	\$984	\$ 196	\$ 788	\$711	\$ 86	\$ 625
Non-U.S. public finance	21	—	21	21	—	21
Public finance	1,005	196	809	732	86	646
Structured finance:						
U.S. RMBS	269	252	17	283	262	21
Triple-X life insurance transactions	15	28	(13)	36	—	36
Other structured finance	52	—	52	60	—	60
Structured finance	336	280	56	379	262	117
Subtotal	1,341	476	865	1,111	348	763
Other recoverable (payable)	—	3	(3)	—	(1)	1
Subtotal	1,341	479	862	1,111	347	764
Elimination of losses attributable to FG VIEs	(54)	—	(54)	(64)	—	(64)
Total (1)	\$1,287	\$ 479	\$ 808	\$1,047	\$ 347	\$ 700

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

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Components of Net Reserves (Salvage)

	As of September 30, 2017	As of December 31, 2016
	(in millions)	
Loss and LAE reserve	\$1,326	\$ 1,127
Reinsurance recoverable on unpaid losses	(39)	(80)
Loss and LAE reserve, net	1,287	1,047
Salvage and subrogation recoverable	(497)	(365)
Salvage and subrogation payable(1)	21	17
Other payable (recoverable)	(3)	1
Salvage and subrogation recoverable, net, and other recoverable	(479)	(347)
Net reserves (salvage)	\$808	\$ 700

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

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

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

	As of September 30, 2017 (in millions)
Net expected loss to be paid - financial guaranty insurance (1)	\$ 1,205
Contra-paid, net	51
Salvage and subrogation recoverable, net of reinsurance	476
Loss and LAE reserve - financial guaranty insurance contracts, net of reinsurance	(1,286)
Other recoverable (payable)	3
Net expected loss to be expensed (present value) (2)	\$ 449

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

(2) Excludes \$55 million as of September 30, 2017, related to consolidated FG VIEs.

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

Net Expected Loss to be Expensed
Financial Guaranty Insurance Contracts

	As of September 30, 2017 (in millions)
2017 (October 1 – December 31)	\$ 9
Subtotal 2017	9
2018	40
2019	37
2020	38
2021	34
2022-2026	143
2027-2031	86
2032-2036	46
After 2036	16
Net expected loss to be expensed	449
Future accretion	205
Total expected future loss and LAE	\$ 654

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

Loss and LAE
Reported on the
Consolidated Statements of Operations

	Third Quarter		Nine Months	
	2017	2016	2017	2016
	(in millions)			
Public finance:				
U.S. public finance	\$233	\$20	\$424	\$233
Non-U.S. public finance	0	—	(3)	(1)
Public finance	233	20	421	232
Structured finance:				
U.S. RMBS	(4)	(2)	(14)	(3)
Triple-X life insurance transactions	(2)	(24)	(48)	(22)
Other structured finance	(3)	(3)	0	(20)
Structured finance	(9)	(29)	(62)	(45)
Loss and LAE on insurance contracts before FG VIE consolidation	224	(9)	359	187
Gain (loss) related to FG VIE consolidation	(1)	0	(5)	(4)
Loss and LAE	\$223	\$(9)	\$354	\$183

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

Financial Guaranty Insurance
BIG Transaction Loss Summary
As of September 30, 2017

	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)	150	(22)	48	(3)	151	(44)	349	—	349
Remaining weighted-average contract period (in years)	8.7	7.1	14.1	2.9	9.6	9.3	9.8	—	9.8
Outstanding exposure:									
Principal	\$4,727	\$(99)	\$1,390	\$(8)	\$6,715	\$(195)	\$12,530	\$ —	\$12,530
Interest	2,239	(42)	1,051	(1)	3,218	(89)	6,376	—	6,376
Total(2)	\$6,966	\$(141)	\$2,441	\$(9)	\$9,933	\$(284)	\$18,906	\$ —	\$18,906
Expected cash outflows (inflows)	\$192	\$(5)	\$418	\$(1)	\$3,174	\$(83)	\$3,695	\$ (309)	\$3,386
Potential recoveries(3)	(494)	20	(80)	0	(1,662)	46	(2,170)	194	(1,976)
Subtotal	(302)	15	338	(1)	1,512	(37)	1,525	(115)	1,410
Discount	62	(4)	(96)	0	(192)	2	(228)	23	(205)
Present value of expected cash flows	\$(240)	\$11	\$242	\$(1)	\$1,320	\$(35)	\$1,297	\$ (92)	\$1,205

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Deferred premium revenue	\$ 116	\$(5)	\$ 135	\$ 0	\$ 573	\$(6)	\$ 813	\$ (77)	\$ 736
Reserves (salvage)	\$(284)	\$ 12	\$ 188	\$ 0	\$ 975	\$(30)	\$ 861	\$ (54)	\$ 807

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Financial Guaranty Insurance
 BIG Transaction Loss Summary
 As of December 31, 2016

	BIG Categories								
	BIG 1		BIG 2		BIG 3		Total	Effect of	Total
	Gross	Ceded	Gross	Ceded	Gross	Ceded	BIG, Net	Consolidating	FG VIEs
	(dollars in millions)								
Number of risks(1)	165	(35)	79	(11)	148	(49)	392	—	392
Remaining weighted-average contract period (in years)	8.6	7.0	13.2	10.5	8.1	6.0	10.1	—	10.1
Outstanding exposure:									
Principal	\$4,187	\$(326)	\$4,273	\$(416)	\$4,703	\$(320)	\$12,101	\$ —	\$12,101
Interest	1,932	(140)	2,926	(219)	1,867	(87)	6,279	—	6,279
Total(2)	\$6,119	\$(466)	\$7,199	\$(635)	\$6,570	\$(407)	\$18,380	\$ —	\$18,380
Expected cash outflows (inflows)	\$172	\$(19)	\$1,404	\$(86)	\$1,435	\$(65)	\$2,841	\$ (326)	\$2,515
Potential recoveries(3)	(440)	23	(146)	4	(743)	45	(1,257)	198	(1,059)
Subtotal	(268)	4	1,258	(82)	692	(20)	1,584	(128)	1,456
Discount	61	(4)	(355)	19	(114)	(4)	(397)	24	(373)
Present value of expected cash flows	\$(207)	\$0	\$903	\$(63)	\$578	\$(24)	\$1,187	\$ (104)	\$1,083
Deferred premium revenue	\$131	\$(5)	\$246	\$(6)	\$476	\$(30)	\$812	\$ (86)	\$726
Reserves (salvage)	\$(255)	\$5	\$738	\$(58)	\$343	\$(10)	\$763	\$ (64)	\$699

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

(2) Includes BIG amounts related to FG VIEs.

(3) Includes excess spread and R&W receivables and payables.

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 counterparties exercise contractual rights triggered by the downgrade against insured obligors, and the insured obligors are unable to pay. There have been no material changes to the Company's potential claims under interest rate swaps, variable rate demand obligations or guaranteed investment contracts since the filing with the SEC of AGL's Annual Report on Form 10-K for the year ended December 31, 2016.

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.

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Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, the Company's creditworthiness and constraints on liquidity. As markets and products develop and the pricing for certain products becomes more or less transparent, the Company may refine its methodologies and assumptions. During Nine Months 2017, 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's or liability's categorization is based on the lowest level of significant input to its valuation.

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

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

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

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

presented, there were no transfers between Level 1 and Level 2. There were no transfers into Level 3 during Third Quarter 2017. There was a transfer of a fixed-maturity security from Level 2 into Level 3 during Nine Month 2017 because starting in the second quarter of 2017 the price of the security includes a significant unobservable assumption. There were transfers of fixed-maturity securities from Level 2 into Level 3 during Third Quarter 2016 and Nine Months 2016 because of a lack of observability relating to the valuation inputs and collateral pricing.

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.

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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.

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.

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

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

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

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

As of September 30, 2017, the Company used models to price 91 fixed-maturity securities (primarily securities that were purchased or obtained for loss mitigation or other risk management purposes), which were 11% or \$1,266 million of the Company's fixed-maturity securities and short-term investments at fair value. Most Level 3 securities were priced with the assistance of an independent third-party. The pricing is based on a discounted cash flow approach using the third-party's proprietary pricing models. The models use inputs such as projected prepayment speeds; severity assumptions; recovery lag assumptions; estimated default rates (determined on the basis of an analysis of collateral attributes, historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); home price appreciation/depreciation rates based on macroeconomic forecasts and recent trading activity. The yield used to discount the projected cash flows is determined by reviewing various attributes of the bond including collateral type, weighted average life, sensitivity to losses, vintage, and convexity, in conjunction with market data on comparable securities. Significant changes to any of these inputs could materially change the expected timing of cash flows within these securities which is a significant factor in determining the fair value of the securities.

Other Invested Assets

As of September 30, 2017 and December 31, 2016, other invested assets include investments carried and measured at fair value on a recurring basis of \$50 million and \$52 million, respectively, and include primarily an investment in the global property catastrophe risk market and an investment in a fund that invests primarily in senior loans and bonds. Fair values for the majority of these investments are based on their respective net asset value (NAV) per share or

equivalent.

Other Assets

Committed Capital Securities

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

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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.

Contracts Accounted for as Credit Derivatives

The Company's credit derivatives consist primarily of insured CDS contracts, and also include interest rate swaps 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 CDS 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. In transactions where the counterparty does not have the right to terminate, such transactions are generally terminated for an amount that approximates the present value of future premiums or for a negotiated amount, rather than at fair value.

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 generally 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, 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 transactions 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 how the Company's own credit spread affects the pricing of its transactions.

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

The fair value of the Company's credit derivative contracts represents the difference between the present value of remaining premiums the Company expects to receive or pay and the estimated present value of premiums that a financial guarantor of comparable credit-worthiness would hypothetically charge or pay at the reporting date for the same protection. The fair value of the Company's credit derivatives depends on a number of factors, including notional amount of the contract, expected term, credit spreads, changes in interest rates, the credit ratings of referenced entities,

the Company's own credit risk and remaining contractual cash flows. The expected remaining contractual premium cash flows are the most readily observable inputs since they are based on the CDS contractual terms. Credit spreads capture the effect of recovery rates and performance of underlying assets of these contracts, among other factors. Consistent with previous years, market conditions at September 30, 2017 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.

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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 structuring and funding the transaction (bank profit);
 - 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 its 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 1.36% to 2.53% at September 30, 2017 and 1.00% to 2.55% at December 31, 2016.

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 unpublished 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).
-

Transactions 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.

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Information by Credit Spread Type (1)

	As of September 30, 2017		As of December 31, 2016	
Based on actual collateral specific spreads	12	%	7	%
Based on market indices	53	%	77	%
Provided by the CDS counterparty	35	%	16	%
Total	100	%	100	%

(1) Based on par.

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 transaction. 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 transaction's 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 transactions. 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 transactions 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 transaction generally decreases. As the cost to acquire CDS protection referencing AGC or AGM decreases, the amount of premium the Company retains on a transaction 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 46%, 34% and 26% based on number of transactions, of the Company's CDS contracts are fair valued using this minimum premium as of September 30, 2017, June 30, 2017 and December 31, 2016, respectively. The percentage of transactions 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 transaction 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

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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 transactions 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.

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 transaction 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 ($300 \text{ basis points} \times 10\% = 30 \text{ basis points}$). 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 transaction 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 ($1,760 \text{ basis points} \times 25\% = 440 \text{ basis points}$). 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.

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• 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 any 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 are 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.

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. Please refer to 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 Company's own credit risk. 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); yields 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.

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

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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.

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 fair value measurement was classified as Level 3 in the fair value hierarchy.

Other Invested Assets

As of December 31, 2016, other invested assets not carried at fair value consisted primarily of an investment in a guaranteed investment contract. The fair value of the guaranteed investment contract approximated its carrying value due to its short term nature and was classified as Level 2 in the fair value hierarchy.

Other Assets and Other Liabilities

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

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Financial Instruments Carried at Fair Value

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

Fair Value Hierarchy of Financial Instruments Carried at Fair Value

As of September 30, 2017

	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	\$5,705	\$—	\$5,623	\$82
U.S. government and agencies	270	—	270	—
Corporate securities	1,976	—	1,910	66
Mortgage-backed securities:				
RMBS	881	—	535	346
Commercial mortgage-backed securities (CMBS)	562	—	562	—
Asset-backed securities	852	—	80	772
Foreign government securities	300	—	300	—
Total fixed-maturity securities	10,546	—	9,280	1,266
Short-term investments	949	629	320	—
Other invested assets (1)	7	—	0	7
Credit derivative assets	3	—	—	3
FG VIEs' assets, at fair value	707	—	—	707
Other assets	117	24	35	58
Total assets carried at fair value	\$12,329	\$653	\$9,635	\$2,041
Liabilities:				
Credit derivative liabilities	\$305	\$—	\$—	\$305
FG VIEs' liabilities with recourse, at fair value	657	—	—	657
FG VIEs' liabilities without recourse, at fair value	111	—	—	111
Total liabilities carried at fair value	\$1,073	\$—	\$—	\$1,073

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Fair Value Hierarchy of Financial Instruments Carried at Fair Value

As of December 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	\$5,432	\$—	\$5,393	\$39
U.S. government and agencies	440	—	440	—
Corporate securities	1,613	—	1,553	60
Mortgage-backed securities:				
RMBS	987	—	622	365
CMBS	583	—	583	—
Asset-backed securities	945	—	140	805
Foreign government securities	233	—	233	—
Total fixed-maturity securities	10,233	—	8,964	1,269
Short-term investments	590	319	271	—
Other invested assets (1)	8	—	0	8
Credit derivative assets	13	—	—	13
FG VIEs' assets, at fair value	876	—	—	876
Other assets	114	24	28	62
Total assets carried at fair value	\$11,834	\$343	\$9,263	\$2,228
Liabilities:				
Credit derivative liabilities	\$402	\$—	\$—	\$402
FG VIEs' liabilities with recourse, at fair value	807	—	—	807
FG VIEs' liabilities without recourse, at fair value	151	—	—	151
Total liabilities carried at fair value	\$1,360	\$—	\$—	\$1,360

Excluded from the table above are investment funds of \$47 million and \$48 million as of September 30, 2017 and (1)December 31, 2016, respectively, measured using NAV per share. Includes Level 3 mortgage loans that are recorded at fair value on a non-recurring basis.

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Changes in Level 3 Fair Value Measurements

The table below presents a roll forward of the Company's Level 3 financial instruments carried at fair value on a recurring basis during Third Quarter 2017 and 2016 and Nine Months 2017 and 2016.

Fair Value Level 3 Rollforward

Recurring Basis

Third Quarter 2017

	Fixed-Maturity Securities							FG VIEs' Liabilities with Recourse, at Fair Value	FG VIEs' Liabilities without Recourse, at Fair Value
	Obligations of State and Political Subdivisions	Corporate Securities	RMBS	Asset-Backed Securities	FG VIEs' Assets at Fair Value	Other (7)	Credit Derivative Asset (Liability), net (5)		
	(in millions)								
Fair value as of June 30, 2017	\$91	\$ 63	\$357	\$ 656	\$ 757	\$65	\$ (361)	\$ (689)	\$ (131)
Total pretax realized and unrealized gains/(losses) recorded in: (1)									
Net income (loss)	(8)	(2)1	(2)5	(2)15	(2)4	(3)(4)	(4)58	(6)(3)	(3)(1) (3)
Other comprehensive income (loss)	(1)	2	(1)	2	—	0	—	—	—
Purchases	—	—	13	106	—	—	—	—	—
Settlements	—	—	(28)	(7)	(36)	—	1	35	3
FV VIE deconsolidations	—	—	—	—	(18)	—	—	0	18
Transfers into Level 3	—	—	—	—	—	—	—	—	—
Fair value as of September 30, 2017	\$82	\$ 66	\$346	\$ 772	\$ 707	\$61	\$ (302)	\$ (657)	\$ (111)
Change in unrealized gains/(losses) related to financial instruments held as of September 30, 2017	\$(1)	\$ 2	\$0	\$ 2	\$ 10	(3)\$(4)	(4)\$ 51	(6)\$(3)	(3)\$(1) (3)

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Fair Value Level 3 Rollforward
Recurring Basis
Third Quarter 2016

Fixed-Maturity Securities

	Obligations of State and Political Subdivisions	Corporate Securities	RMBS	Asset- Backed Securities	FG VIEs' Assets at Fair Value	Other (7)	Credit Derivative Asset (Liability), net (5)	FG VIEs' Liabilities with Recourse, at Fair Value	FG VIEs' Liabilities without Recourse, at Fair Value
	(in millions)								
Fair value as of June 30, 2016	\$41	\$ 58	\$349	\$ 564	\$ 814	\$38	\$ (396)	\$ (790)	\$ (115)
CIFG Acquisition	1	—	20	36	—	—	(67)	—	—
Total pretax realized and unrealized gains/(losses) recorded in: (1)									
Net income (loss)	1	(2)0	(2)3	(2)9	(2)20	(3)(23)	(4)21	(6)(21)	(3)(18)
Other comprehensive income (loss)	0	0	2	47	—	0	—	—	—
Purchases	—	—	24	53	—	—	—	—	—
Settlements	0	—	(15)	(40)	(34)	—	(39)	33	3
FG VIE consolidations	—	—	—	—	97	—	—	(54)	(43)
FG VIE deconsolidations	—	—	—	—	(20)	—	—	—	20
Transfers into Level 3	—	—	—	22	—	—	—	—	—
Fair value as of September 30, 2016	\$43	\$ 58	\$383	\$ 691	\$ 877	\$15	\$ (481)	\$ (832)	\$ (153)
Change in unrealized gains/(losses) related to financial instruments held as of September 30, 2016	\$0	\$ 0	\$1	\$ 47	\$ 29	(3)\$(23)(4)	\$(5)	(6)\$(18)	(3)\$(17)

Fair Value Level 3 Rollforward
Recurring Basis
Nine Months 2017

Fixed-Maturity Securities

	Obligations of State and Political Subdivisions	Corporate Securities	RMBS	Asset- Backed Securities	FG VIEs' Assets at Fair Value	Other (7)	Credit Derivative Asset (Liability), net (5)	FG VIEs' Liabilities with Recourse, at Fair Value	FG VIEs' Liabilities without Recourse, at Fair Value
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	(in millions)								
Fair value as of December 31, 2016	\$39	\$ 60	\$365	\$ 805	\$ 876	\$65	\$ (389)	\$ (807)	\$ (151)
MBIA UK Acquisition—	—	—	—	7	—	—	—	—	—
Total pretax realized and unrealized gains/(losses) recorded in: (1)									
Net income (loss)	(6)	(2)4	(2)23	(2)100	(2)32	(3)(4)	(4)106	(6)(14)	(3)(4)
Other comprehensive income (loss)	(4)	2	25	60	—	0	—	—	—
Purchases	—	—	42	162	—	—	—	—	—
Settlements	(2)	—	(109)	(362)	(117)	—	(19)	113	11
FG VIE consolidations—	—	—	—	—	21	—	—	0	(21)
FG VIE deconsolidations	—	—	—	—	(105)	—	—	51	54
Transfers into Level 3	55	—	—	—	—	—	—	—	—
Fair value as of September 30, 2017	\$82	\$ 66	\$346	\$ 772	\$ 707	\$61	\$ (302)	\$ (657)	\$ (111)
Change in unrealized gains/(losses) related to financial instruments held as of September 30, 2017	\$ (4)	\$ 2	\$25	\$ 126	\$ 50	(3)\$ (4)	(4)\$ 63	(6)\$ (12)	(3)\$ (4)

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Fair Value Level 3 Rollforward
Recurring Basis
Nine Months 2016

	Fixed-Maturity Securities								FG VIEs' Liabilities with Recourse, at Fair Value	FG VIEs' Liabilities without Recourse, at Fair Value
	Obligations of State and Political Subdivisions	Corporate Securities	RMBS	Asset-Backed Securities	Short-Term Investments	FG VIEs' Assets at Fair Value	Other (7)	Credit Derivative Asset (Liability), net (5)		
	(in millions)									
Fair value as of December 31, 2015	\$8	\$71	\$348	\$657	\$60	\$1,261	\$65	\$(365)	\$(1,225)	\$(124)
CIFG Acquisition	1	—	20	36	0	—	—	(67)	—	—
Total pretax realized and unrealized gains/(losses) recorded in: (1)										
Net income (loss)	1	(2)4	(2)5	(2)20	(2)0	(2)129	(3)(50)	(4)24	(6)(112)	(3)(14)
Other comprehensive income (loss)	1	(17)	0	37	0	—	0	—	—	—
Purchases	33	—	64	53	—	—	—	—	—	—
Settlements	(1)	—	(54)	(134)	(60)	(590)	—	(73)	559	8
FG VIE consolidations	—	—	—	—	—	97	—	—	(54)	(43)
FG VIE deconsolidations	—	—	0	—	—	(20)	—	—	—	20
Transfers into Level 3	—	—	—	22	—	—	—	—	—	—
Fair value as of September 30, 2016	\$43	\$58	\$383	\$691	\$0	\$877	\$15	\$(481)	\$(832)	\$(153)
Change in unrealized gains/(losses) related to financial instruments held as of September 30, 2016	\$1	\$(17)	\$(1)	\$37	\$0	\$44	(3)\$(50)(4)\$(104)(6)\$1			(3)\$(14)

- Realized and unrealized gains (losses) from changes in values of Level 3 financial instruments represent gains
- (1)(losses) from changes in values of those financial instruments only for the periods in which the instruments were classified as Level 3.
 - (2)Included in net realized investment gains (losses) and net investment income.
 - (3)Included in fair value gains (losses) on FG VIEs.
 - (4)Recorded in fair value gains (losses) on CCS, net realized investment gains (losses), 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 and other income.
 - (7)Includes CCS and other invested assets.

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Level 3 Fair Value Disclosures

Quantitative Information About Level 3 Fair Value Inputs

At September 30, 2017

Financial Instrument Description (1)	Fair Value at September 30, 2017 (in millions)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Assets (2):				
Fixed-maturity securities:				
Obligations of state and political subdivisions	\$ 82	Yield	4.3 % - 39.0%	15.9%
Corporate securities	66	Yield	20.8%	
RMBS	346	CPR	1.2 % - 17.4%	6.0%
		CDR	2.0 % - 8.5%	6.1%
		Loss severity	40.0 % - 100.0%	78.5%
		Yield	3.8 % - 9.0%	5.7%
Asset-backed securities:				
Triple-X life insurance transactions	609	Yield	6.1 % - 6.4%	6.3%
Collateralized loan obligations (CLO) /TruPS	104	Yield	2.5 % - 4.5%	3.3%
Others	59	Yield	10.7%	
FG VIEs' assets, at fair value	707	CPR	3.5 % - 13.0%	9.3%
		CDR	1.6 % - 22.2%	4.3%
		Loss severity	55.0 % - 100.0%	78.4%
		Yield	3.6 % - 14.9%	6.5%
Other assets	58	Implied Yield Term (years)	4.8 % - 5.5% 10 years	5.1%
Liabilities:				
Credit derivative liabilities, net	(302)	Year 1 loss estimates	0.0 % - 59.0%	3.4%
		Hedge cost (in bps)	20.3 - 142.5	54.0
		Bank profit (in bps)	3.8 - 825.0	102.9
		Internal floor (in bps)	7.0 - 100.0	24.9
		Internal credit rating	AAA - CCC	AA-
FG VIEs' liabilities, at fair value	(768)	CPR	3.5 % - 13.0%	9.3%
		CDR	1.6 % - 22.2%	4.3%
		Loss severity	55.0 % - 100.0%	78.4%
		Yield	3.1 % - 14.9%	4.9%

(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.

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Quantitative Information About Level 3 Fair Value Inputs

At December 31, 2016

Financial Instrument Description (1)	Fair Value at December 31, 2016 (in millions)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Assets (2):				
Fixed-maturity securities:				
Obligations of state and political subdivisions	\$ 39	Yield	4.3 %-22.8%	11.1%
Corporate securities	60	Yield	20.1%	
RMBS	365	CPR	1.6 %-17.0%	4.6%
		CDR	1.5 %-10.1%	6.7%
		Loss severity	30.0 %-100.0%	77.8%
		Yield	3.3 %-9.7%	6.0%
Asset-backed securities:				
Triple-X life insurance transactions	425	Yield	5.7 %-6.0%	5.8%
Collateralized debt obligations (CDO)	332	Yield	10.0%	
CLO/TruPS	19	Yield	1.5 %-4.8%	3.1%
Others	29	Yield	7.2%	
FG VIEs' assets, at fair value	876	CPR	3.5 %-12.0%	7.8%
		CDR	2.5 %-21.6%	5.7%
		Loss severity	35.0 %-100.0%	78.6%
		Yield	2.9 %-20.0%	6.5%
Other assets	62	Implied Yield Term (years)	4.5 %-5.1% 10 years	4.8%
Liabilities:				
Credit derivative liabilities, net	(389)	Year 1 loss estimates	0.0 %-38.0%	1.3%
		Hedge cost (in bps)	7.2 -118.1	24.5
		Bank profit (in bps)	3.8 -825.0	61.8
		Internal floor (in bps)	7.0 -100.0	13.9
		Internal credit rating	AAA -CCC	AA+
FG VIEs' liabilities, at fair value	(958)	CPR	3.5 %-12.0%	7.8%
		CDR	2.5 %-21.6%	5.7%
		Loss severity	35.0 %-100.0%	78.6%
		Yield	2.4 %-20.0%	5.0%

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

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

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

Fair Value of Financial Instruments

	As of September 30, 2017		As of December 31, 2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in millions)			
Assets:				
Fixed-maturity securities	\$10,546	\$10,546	\$10,233	\$10,233
Short-term investments	949	949	590	590
Other invested assets	62	64	146	147
Credit derivative assets	3	3	13	13
FG VIEs' assets, at fair value	707	707	876	876
Other assets	291	291	205	205
Liabilities:				
Financial guaranty insurance contracts (1)	3,402	8,311	3,483	8,738
Long-term debt	1,292	1,636	1,306	1,546
Credit derivative liabilities	305	305	402	402
FG VIEs' liabilities with recourse, at fair value	657	657	807	807
FG VIEs' liabilities without recourse, at fair value	111	111	151	151
Other liabilities	220	220	12	12

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

8. 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). The credit derivative portfolio also includes interest rate swaps.

Credit derivative transactions are governed by ISDA documentation and have different characteristics from financial guaranty insurance contracts. For example, the Company's control rights with respect to a reference obligation under a credit derivative may be more limited than when the Company issues a financial guaranty insurance contract. In addition, there are more circumstances under which the Company may be obligated to make payments. Similar to a financial guaranty insurance contract, the Company would be obligated to pay if the obligor failed to make a scheduled payment of principal or interest in full. However, the Company may also be required to pay if the obligor becomes bankrupt or if the reference obligation were restructured if, after negotiation, those credit events are specified in the documentation for the credit derivative transactions. Furthermore, the Company may be required to make a payment due to an event that is unrelated to the performance of the obligation referenced in the credit derivative. If events of default or termination events specified in the credit derivative documentation were to occur, the non-defaulting or the non-affected party, which may be either the Company or the counterparty, depending upon the circumstances, may decide to terminate a credit derivative prior to maturity. In that case, the Company may be required to make a termination payment to its swap counterparty upon such termination. Absent such an event of default or termination event, the Company may not unilaterally terminate a CDS contract; however, the Company on occasion has mutually agreed with various counterparties to terminate certain CDS transactions.

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Credit Derivative Net Par Outstanding by Sector

The estimated remaining weighted average life of credit derivatives was 10.2 years at September 30, 2017 and 5.3 years at December 31, 2016. The components of the Company's credit derivative net par outstanding are presented below.

Credit Derivatives

Asset Type	As of September 30, 2017		As of December 31, 2016	
	Weighted		Weighted	
	Net Par	Average	Net Par	Average
	Outstanding	Credit Rating	Outstanding	Credit Rating
(dollars in millions)				
Pooled corporate obligations:				
CLO/collateralized bond obligations	\$ 199	AAA	\$2,022	AAA
Synthetic investment grade pooled corporate	547	AAA	7,224	AAA
TruPS CDOs	898	A-	1,179	BBB+
Total pooled corporate obligations	1,644	AA	10,425	AAA
U.S. RMBS	1,003	AA	1,142	AA-
Pooled infrastructure	1,553	AAA	1,513	AAA
Infrastructure finance	847	BBB+	1,021	BBB+
Other(1)	2,488	A-	2,896	A
Total	\$7,535	AA-	\$16,997	AA+

(1) This comprises numerous transactions across various asset classes, such as commercial receivables, international RMBS, regulated utilities and consumer receivables.

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. A large portion of the Company's pooled corporate exposure consists of CLO or synthetic pooled corporate obligations. Most of these CLOs have an average obligor size of less than 1% of the total transaction and typically restrict the maximum exposure to any one industry to approximately 10%. The Company's exposure also benefits from embedded credit enhancement in the transactions which allows a transaction to sustain a certain level of losses in the underlying collateral, further insulating the Company from industry specific concentrations of credit risk on these transactions.

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.

Distribution of Credit Derivative Net Par Outstanding by Internal Rating

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Ratings	As of September 30, 2017			As of December 31, 2016		
	Net Par Outstanding	% of Total		Net Par Outstanding	% of Total	
	(dollars in millions)					
AAA	\$2,956	39.3	%	\$10,967	64.6	%
AA	1,247	16.5		2,167	12.7	
A	1,628	21.6		1,499	8.8	
BBB	1,008	13.4		1,391	8.2	
BIG	696	9.2		973	5.7	
Credit derivative net par outstanding	\$7,535	100.0	%	\$16,997	100.0	%

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Fair Value of Credit Derivatives

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

	Third Quarter 2017	2016	Nine Months 2017	2016
	(in millions)			
Realized gains on credit derivatives	\$4	\$11	\$15	\$39
Net credit derivative losses (paid and payable) recovered and recoverable and other settlements	(5)	4	4	8
Realized gains (losses) and other settlements	(1)	15	19	47
Net unrealized gains (losses):				
Pooled corporate obligations	35	3	41	(37)
U.S. RMBS	11	(12)	24	0
Pooled infrastructure	(1)	4	4	10
Infrastructure finance	0	1	2	0
Other	14	10	16	4
Net unrealized gains (losses)	59	6	87	(23)
Net change in fair value of credit derivatives	\$58	\$21	\$106	\$24

Terminations and Settlements
of Direct Credit Derivative Contracts

	Third Quarter 2017	2016	Nine Months 2017	2016
	(in millions)			
Net par of terminated credit derivative contracts	\$40	\$1,071	\$273	\$3,507
Realized gains on credit derivatives	0	3	0	11
Net credit derivative losses (paid and payable) recovered and recoverable and other settlements	(3)	—	(15)	—
Net unrealized gains (losses) on credit derivatives	8	11	24	81

During Third Quarter 2017, unrealized fair value gains were generated primarily as a result of CDS terminations in the Other sector, run-off of net par outstanding, and tighter implied net spreads. The tighter implied net spreads were primarily a result of price improvements on the underlying collateral of the Company's CDS and the increased cost to buy protection in AGC's and AGM's name as the market cost of AGC's and AGM's credit protection increased during the period. For those CDS transactions that were pricing at or above their floor levels, when the cost of purchasing CDS protection on AGC and AGM, which management refers to as the CDS spread on AGC and AGM, increased, the implied net spreads that the Company would expect to receive on these transactions decreased.

During Nine Months 2017, unrealized fair value gains were generated primarily as a result of CDS terminations, run-off of net par outstanding, and tighter implied net spreads. The tighter implied spreads were primarily a result of price improvements on the underlying collateral of the Company's CDS and the increased cost to buy protection in AGC's and AGM's name as the market cost of AGC's and AGM's credit protection increased during the period. For those CDS transactions that were pricing at or above their floor levels, when the cost of purchasing CDS protection on

AGC and AGM increased, the implied net spreads that the Company would expect to receive on these transactions decreased.

During Third Quarter 2016, unrealized fair value gains were generated primarily as a result of CDS terminations in the pooled corporate and other sectors and price improvements on the underlying collateral of the Company's CDS. This was the primary driver of the unrealized fair value gains in the pooled corporate CLO, and other sectors. The unrealized fair value gains were partially offset by unrealized losses resulting from wider implied net spreads across all sectors. The wider implied net

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spreads were primarily a result of the decreased cost to buy protection in AGC's and AGM's name, particularly for the one year CDS spread, as the market cost of AGC's and AGM's credit protection decreased significantly during the period. For those CDS transactions that were pricing at or above their floor levels, when the cost of purchasing CDS protection on AGC and AGM decreased, the implied spreads that the Company would expect to receive on these transactions increased.

During Nine Months 2016, unrealized fair value losses were generated primarily in the trust preferred sector, due to wider implied net spreads. The wider implied net spreads were primarily a result of the decreased cost to buy protection in AGC's and AGM's name, particularly for the one year and five year CDS spread, as the market cost of AGC's and AGM's credit protection decreased during the period. For those CDS transactions that were pricing at or above their floor levels, when the cost of purchasing CDS protection on AGC and AGM decreased, the implied spreads that the Company would expect to receive on these transactions increased. The unrealized fair value losses were partially offset by unrealized fair value gains which resulted from the terminations of several CDS transactions during the period. The majority of the CDS transactions were terminated as a result of settlement agreements with the relevant CDS counterparties.

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 September 30, 2017	As of June 30, 2017	As of December 31, 2016	As of September 30, 2016	As of June 30, 2016	As of December 31, 2015
Five-year CDS spread:						
AGC	190	136	158	170	265	376
AGM	190	140	158	170	265	366
One-year CDS spread						
AGC	81	15	35	31	45	139
AGM	81	15	29	31	47	131

Fair Value of Credit Derivatives Assets (Liabilities)

and Effect of AGC and AGM

Credit Spreads

	As of September 30, 2017	As of December 31, 2016
	(in millions)	
Fair value of credit derivatives before effect of AGC and AGM credit spreads	\$(630)	\$(811)
Plus: Effect of AGC and AGM credit spreads	328	422

Net fair value of credit derivatives	\$(302) \$ (389)
--------------------------------------	-------------------

The fair value of CDS contracts at September 30, 2017, before considering the implications of AGC's and AGM's credit spreads, is a direct result of continued wide credit spreads in the fixed income security markets and ratings downgrades. The asset classes that remain most affected are TruPS and pooled corporate securities as well as 2005-2007 vintages of Alt-A, Option ARM and subprime RMBS transactions. The mark to market benefit between September 30, 2017 and December 31, 2016, resulted primarily from several CDS terminations and a narrowing of credit spreads related to the Company's TruPS and U.S. RMBS obligations.

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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. 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 5) for contracts accounted for as derivatives.

Net Fair Value and Expected Losses
of Credit Derivatives

	As of September 30, 2017	As of December 31, 2016
	(in millions)	
Fair value of credit derivative asset (liability), net	\$(302)	\$ (389)
Expected loss to be (paid) recovered	6	(10)

Collateral Posting for Certain Credit Derivative Contracts

The transaction documentation for \$502 million of the CDS insured by AGC requires AGC to post collateral, in some cases subject to a cap, to secure its obligation 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. The table below summarizes AGC's CDS collateral posting requirements as of September 30, 2017 and December 31, 2016.

AGC Insured CDS Collateral Posting Requirements

	As of September 30, 2017	As of December 31, 2016
	(in millions)	
Gross par of CDS with collateral posting requirement	\$502	\$ 690
Maximum posting requirement	469	674
Collateral posted	18	116

The reduction in the collateral posting requirement is primarily attributable to the termination in February 2017 by the Company of its remaining CDS contracts with one of its counterparties as to which it had a posting requirement; the CDS contracts related to approximately \$183 million in gross par and \$73 million of collateral posted as of December 31, 2016.

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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

A of September 30, 2017

Credit Spreads(1)	Estimated Fair Value (Pre-Tax) (in millions)	Estimated Change in Fair Value (Pre-Tax) (in millions)
100% widening in spreads	\$(531)	\$ (229)
50% widening in spreads	(417)	(115)
25% widening in spreads	(359)	(57)
10% widening in spreads	(325)	(23)
Base Scenario	(302)	—
10% narrowing in spreads	(279)	23
25% narrowing in spreads	(245)	57
50% narrowing in spreads	(188)	114

(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

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

Number of FG VIEs Consolidated

	Nine Months 20172016	
Beginning of the period, December 31	32	34
Consolidated	1	1
Deconsolidated	(2)	(2)
Matured	—	(1)
End of the period, September 30	31	32

The total unpaid principal balance for the FG VIEs' assets that were over 90 days or more past due was approximately \$102 million at September 30, 2017 and \$137 million at December 31, 2016. The aggregate unpaid principal of the FG VIEs' assets was approximately \$369 million greater than the aggregate fair value at September 30, 2017. The aggregate unpaid principal of the FG VIEs' assets was approximately \$432 million greater than the aggregate fair value at December 31, 2016.

The change in the instrument-specific credit risk of the FG VIEs' assets held as of September 30, 2017 that was recorded in the consolidated statements of operations for Third Quarter 2017 and Nine Months 2017 were gains of \$8 million and gains of \$32 million, respectively. The change in the instrument-specific credit risk of the FG VIEs' assets held as of September 30, 2016 that was recorded in the consolidated statements of operations for Third Quarter 2016 and Nine Months 2016 were gains of \$1 million and gains of \$36 million, respectively. To calculate the instrument specific credit risk, the changes in the fair value of the FG VIE assets are allocated between changes that are due to the instrument specific credit risk and changes due to other factors, including interest rates. The instrument specific credit risk amount is determined by using expected contractual cash flows versus current expected cash flows discounted at original contractual rate. The net present value is calculated by discounting the expected cash flows of the underlying security, at the relevant effective interest rate.

The unpaid principal for FG VIE liabilities with recourse, which represent obligations insured by AGC or AGM, was \$705 million and \$871 million as of September 30, 2017 and December 31, 2016, 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 \$75 million greater than the aggregate fair value of the FG VIEs' liabilities as of September 30, 2017. The aggregate unpaid principal balance was approximately \$109 million greater than the aggregate fair value of the FG VIEs' liabilities as of December 31, 2016.

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

Consolidated FG VIEs

By Type of Collateral

	As of September 30, 2017		As of December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
	(in millions)			
With recourse:				
U.S. RMBS first lien	\$378	\$ 400	\$473	\$ 509
U.S. RMBS second lien	150	188	178	223
Manufactured housing	68	69	74	75
Total with recourse	596	657	725	807
Without recourse	111	111	151	151
Total	\$707	\$ 768	\$876	\$ 958

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

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

	Third Quarter 2017 2016		Nine Months 2017 2016	
	(in millions)			
Net earned premiums	\$(3)	\$(4)	\$(11)	\$(12)
Net investment income	(2)	(1)	(4)	(8)
Net realized investment gains (losses)	0	0	0	1
Fair value gains (losses) on FG VIEs	3	(11)	25	11
Loss and LAE	1	(1)	5	3
Effect on income before tax	(1)	(17)	15	(5)
Less: tax provision (benefit)	0	(6)	5	(2)
Effect on net income (loss)	\$(1)	\$(11)	\$10	\$(3)
Effect on cash flows from operating activities	\$6	\$11	\$16	\$16

As of
September 30, 2016

30,
2017
(in millions)

Effect on shareholders' equity (decrease) increase \$ 1 \$ (9)

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Fair value gains (losses) on FG VIEs represent the net change in fair value on the consolidated FG VIEs' assets and liabilities. During Third Quarter 2017 and Nine Months 2017, the Company recorded pre-tax net fair value gains on consolidated FG VIEs of \$3 million and \$25 million, respectively. During Third Quarter 2017, the primary driver of the gain was price depreciation on the FG VIE recourse liabilities during the quarter resulting from the Company's credit risk. During the Nine Months 2017, the primary driver of the gain is price appreciation on the FG VIE assets resulting from improvements in the underlying collateral.

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

Other Consolidated VIEs

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

Non-Consolidated VIEs

As of September 30, 2017 and December 31, 2016, the Company had financial guaranty contracts outstanding for approximately 520 and 600 VIEs, respectively, that it did not consolidate based on the Company's analyses which indicate that it is not the primary beneficiary of any other VIEs. 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 \$102 million and \$91 million as of September 30, 2017 and December 31, 2016, respectively.

Net Investment Income

	Third Quarter		Nine Months	
	2017	2016	2017	2016
	(in millions)			
Income from fixed-maturity securities managed by third parties	\$74	\$75	\$224	\$231
Income from internally managed securities:				
Fixed maturities (1)	27	19	100	58
Other	1	2	5	8

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Gross investment income	102	96	329	297
Investment expenses	(3)	(2)	(7)	(6)
Net investment income	\$99	\$94	\$322	\$291

(1) Nine Months 2017 includes accretion on Zohar II Notes.

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Net Realized Investment Gains (Losses)

	Third Quarter		Nine Months	
	2017	2016	2017	2016
	(in millions)			
Gross realized gains on available-for-sale securities (1)	\$23	\$4	\$92	\$24
Gross realized losses on available-for-sale securities	(3)	(1)	(9)	(3)
Net realized gains (losses) on other invested assets	0	0	0	0
Other-than-temporary impairment	(13)	(5)	(29)	(26)
Net realized investment gains (losses)	\$7	\$(2)	\$54	\$(5)

(1) Nine Months 2017 includes a gain on Zohar II Notes used as consideration for the MBIA UK Acquisition. Please refer to Note 2, Acquisitions.

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 OCI.

Roll Forward of Credit Losses
in the Investment Portfolio

	Third Quarter		Nine Months	
	2017	2016	2017	2016
	(in millions)			
Balance, beginning of period	\$145	\$108	\$134	\$108
Additions for credit losses on securities for which an other-than-temporary-impairment was not previously recognized	3	1	6	3
Reductions for securities sold and other settlements	0	—	(4)	(4)
Additions for credit losses on securities for which an other-than-temporary-impairment was previously recognized	5	1	17	3
Balance, end of period	\$153	\$110	\$153	\$110

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Investment Portfolio

Fixed-Maturity Securities and Short-Term Investments

by Security Type

As of September 30, 2017

Investment Category	Percent of Total(1)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	AOCI(2) Gain (Loss) on Securities with Other-Than-Temporary Impairment	Weighted Average Credit Rating (3)
(dollars in millions)							
Fixed-maturity securities:							
Obligations of state and political subdivisions	49 %	\$ 5,445	\$ 277	\$ (17)	\$ 5,705	\$ 21	AA-
U.S. government and agencies	2	256	14	0	270	0	AA+
Corporate securities	18	1,932	62	(18)	1,976	(6)	A+
Mortgage-backed securities(4):	0						
RMBS	8	866	27	(12)	881	2	BBB+
CMBS	5	551	15	(4)	562	—	AAA
Asset-backed securities	6	682	170	0	852	143	B
Foreign government securities	3	313	6	(19)	300	—	AA
Total fixed-maturity securities	91	10,045	571	(70)	10,546	160	A+
Short-term investments	9	948	1	0	949	—	AAA
Total investment portfolio	100 %	\$ 10,993	\$ 572	\$ (70)	\$ 11,495	\$ 160	A+

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Fixed-Maturity Securities and Short-Term Investments
by Security Type
As of December 31, 2016

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
(dollars in millions)							
Fixed-maturity securities:							
Obligations of state and political subdivisions	50 %	\$ 5,269	\$ 202	\$ (39)	\$ 5,432	\$ 13	AA
U.S. government and agencies	4	424	17	(1)	440	—	AA+
Corporate securities	15	1,612	32	(31)	1,613	(8)	A-
Mortgage-backed securities(4):							
RMBS	9	998	27	(38)	987	(21)	A-
CMBS	5	575	13	(5)	583	—	AAA
Asset-backed securities	8	835	110	0	945	33	B
Foreign government securities	3	261	4	(32)	233	—	AA
Total fixed-maturity securities	94	9,974	405	(146)	10,233	17	A+
Short-term investments	6	590	0	0	590	—	AAA
Total investment portfolio	100 %	\$ 10,564	\$ 405	\$ (146)	\$ 10,823	\$ 17	A+

(1) Based on amortized cost.

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

Ratings in the tables above represent the lower of the Moody's and S&P Global Ratings, a division of Standard & Poor's Financial Services LLC (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 39% of mortgage backed securities as of September 30, 2017 and 42% as of December 31, 2016 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.

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

Fixed-Maturity Securities

Gross Unrealized Loss by Length of Time

As of September 30, 2017

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(dollars in millions)					
Obligations of state and political subdivisions	\$445	\$ (10)	\$ 253	\$ (7)	\$ 698	\$ (17)
U.S. government and agencies	114	0	4	0	118	0
Corporate securities	136	(1)	252	(17)	388	(18)
Mortgage-backed securities:						
RMBS	107	(1)	170	(11)	277	(12)
CMBS	50	0	76	(4)	126	(4)
Asset-backed securities	66	0	3	0	69	0
Foreign government securities	35	(1)	147	(18)	182	(19)
Total	\$953	\$ (13)	\$ 905	\$ (57)	\$ 1,858	\$ (70)
Number of securities (1)		292		230		513
Number of securities with other-than-temporary impairment		9		14		23

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Fixed-Maturity Securities

Gross Unrealized Loss by Length of Time

As of December 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	\$1,110	\$ (38)	\$ 6	\$ (1)	\$1,116	\$ (39)
U.S. government and agencies	87	(1)	—	—	87	(1)
Corporate securities	492	(11)	118	(20)	610	(31)
Mortgage-backed securities:						
RMBS	391	(23)	94	(15)	485	(38)
CMBS	165	(5)	—	—	165	(5)
Asset-backed securities	36	0	0	0	36	0
Foreign government securities	44	(5)	114	(27)	158	(32)
Total	\$2,325	\$ (83)	\$ 332	\$ (63)	\$2,657	\$ (146)
Number of securities (1)		622		60		676
Number of securities with other-than-temporary impairment		8		9		17

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

Of the securities in an unrealized loss position for 12 months or more as of September 30, 2017, 28 securities had unrealized losses greater than 10% of book value. The total unrealized loss for these securities as of September 30, 2017 was \$26 million. As of December 31, 2016, of the securities in an unrealized loss position for 12 months or more, 41 securities had unrealized losses greater than 10% of book value with an unrealized loss of \$59 million. The Company has determined that the unrealized losses recorded as of September 30, 2017 were yield-related and not the result of other-than-temporary-impairment.

The amortized cost and estimated fair value of available-for-sale fixed maturity securities by contractual maturity as of September 30, 2017 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Distribution of Fixed-Maturity Securities
by Contractual Maturity
As of September 30, 2017

	Amortized Cost	Estimated Fair Value
	(in millions)	
Due within one year	\$249	\$ 250
Due after one year through five years	1,518	1,552
Due after five years through 10 years	2,280	2,365
Due after 10 years	4,581	4,936
Mortgage-backed securities:		

RMBS	866	881
CMBS	551	562
Total	\$ 10,045	\$ 10,546

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Based on fair value, investments and restricted cash that are either held in trust for the benefit of third party ceding insurers in accordance with statutory requirements, placed on deposit to fulfill state licensing requirements, or otherwise restricted total \$286 million and \$285 million, as of September 30, 2017 and December 31, 2016, respectively. The investment portfolio also contains securities that are held in trust by certain AGL subsidiaries for the benefit of other AGL subsidiaries in accordance with statutory and regulatory requirements in the amount of \$1,676 million and \$1,420 million, based on fair value as of September 30, 2017 and December 31, 2016, respectively.

The fair value of the Company's pledged securities to secure its obligations under its CDS exposure totaled \$18 million and \$116 million as of September 30, 2017 and December 31, 2016, respectively. Please refer to Note 8. Contracts Accounted for as Credit Derivatives, for more information.

No material investments of the Company were non-income producing for Nine Months 2017 and Nine Months 2016, respectively.

Externally Managed Portfolio

The majority of the investment portfolio is managed by five 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. The Company's investment guidelines generally do not permit its outside managers to purchase securities rated lower than A- by S&P or A3 by Moody's, excluding a 5% allocation to corporate securities not rated lower than BBB by S&P or Baa2 by Moody's.

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 11% and 15% of the investment portfolio, on a fair value basis as of September 30, 2017 and December 31, 2016, 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 (loss mitigation securities), at discounted prices. 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). During 2016, the Company established an alternative investments group to focus on deploying a portion of the Company's excess capital to pursue acquisitions and develop new business opportunities that complement the Company's financial guaranty business, are in line with its risk profile and benefit from its core competencies. The alternative investments group has been investigating a number of such opportunities, including, among others, both controlling and non-controlling investments in investment managers.

Internally Managed Portfolio Carrying Value

As of
September
30,
2017
(in millions)

As of
December
31, 2016

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Assets purchased for loss mitigation and other risk management purposes:

Fixed-maturity securities, at fair value	\$1,220	\$ 1,492
Other invested assets	20	107
Other	76	55
Total	\$1,316	\$ 1,654

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Cash and Restricted Cash

The following table provides a reconciliation of the cash reported on the consolidated balance sheets and the cash and restricted cash reported in the statements of cash flows.

Cash and Restricted Cash

	As of September 30, 2017	As of December 31, 2016	As of September 30, 2016	As of December 31, 2015
	(in millions)			
Cash	\$72	\$ 118	\$ 98	\$ 166
Restricted cash (1)	0	9	1	0
Total cash and restricted cash	\$72	\$ 127	\$ 99	\$ 166

(1) Amounts relate to cash held in trust accounts and are reported in other assets in consolidated balance sheets. Please refer to Note 13, Reinsurance and Other Monoline Exposures, for more information.

11. Insurance Company Regulatory Requirements

Dividend Restrictions and Capital Requirements

Under New York insurance law, AGM and MAC may only pay dividends out of "earned surplus," which is the portion of the company's surplus that represents the net earnings, gains or profits (after deduction of all losses) that have not been distributed to shareholders as dividends, transferred to stated capital or capital surplus, or applied to other purposes permitted by law, but does not include unrealized appreciation of assets. AGM and MAC may each pay dividends without the prior approval of the New York Superintendent of Financial Services (New York Superintendent) that, together with all dividends declared or distributed by it during the preceding 12 months, do not exceed the lesser of 10% of its policyholders' surplus (as of its last annual or quarterly statement filed with the New York Superintendent) or 100% of its adjusted net investment income during that period.

The maximum amount available during 2017 for AGM to distribute as dividends without regulatory approval is estimated to be approximately \$196 million. Of such \$196 million, approximately \$54 million is available for distribution in the fourth quarter of 2017. Through August 25, 2017, MAC paid \$36 million in dividends based on dividend capacity at that point. After the \$250 million share repurchase on September 25, 2017, as discussed below, MAC has no additional dividend capacity for the remainder of 2017.

Under Maryland's insurance law, AGC may, with prior notice to the Maryland Insurance Commissioner, pay an ordinary dividend that, together with all dividends paid in the prior 12 months, does not exceed the lesser of 10% of its policyholders' surplus (as of the prior December 31) or 100% of its adjusted net investment income during that period. The maximum amount available during 2017 for AGC to distribute as ordinary dividends is approximately \$107 million. Of such \$107 million, approximately \$41 million is available for distribution in the fourth quarter of 2017.

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 \$314 million, without AG Re certifying to the Authority that it will continue to meet required margins. As of December 31, 2016, the Authority now requires insurers to prepare statutory financial statements in accordance with the particular accounting principles adopted by the insurer (which, in the case of AG Re, are U.S. GAAP), subject to certain adjustments. As a result of this new requirement, certain assets previously non-admitted by AG Re are now admitted, resulting in an increase to AG Re's statutory capital and surplus limitation. Based on the foregoing limitations, in 2017 AG Re has the capacity to (i) make capital distributions in an aggregate amount up to \$128 million without the prior approval of the Authority and (ii) declare and pay dividends in an aggregate amount up to approximately \$314 million as of September 30, 2017. Such dividend capacity is further limited by the actual amount of AG Re's unencumbered assets, which amount changes from time to time due in part to collateral posting requirements. As of September 30, 2017, AG Re had unencumbered assets of approximately \$572 million.

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U.K. company law prohibits each of AGE, AGLN 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. In addition, AGLN currently must confirm that the Prudential Regulation Authority does not object to the payment of any dividend to its parent company before AGLN makes any dividend payment.

Dividends and Repayments

By Insurance Company Subsidiaries

	Third Quarter 2017	Third Quarter 2016	Nine Months 2017	Nine Months 2016
	(in millions)			
Dividends paid by AGC to AGUS	\$15	\$15	\$66	\$38
Dividends paid by AGM to AGMH	63	65	142	192
Dividends paid by AG Re to AGL	45	35	125	85
Dividends paid by MAC to MAC Holdings (1)	12	—	36	—
Repayment of surplus note by MAC to AGM	—	—	—	100
Repayment of surplus note by MAC to MAC Holdings (1)	—	—	—	300
Redemption of common stock by MAC to MAC Holdings (1)	250	—	250	—

(1) MAC Holdings distributed nearly the entire amounts to AGM and AGC, in proportion to their ownership percentages.

Stock Redemption by MAC

On August 17, 2017, the New York Superintendent approved MAC's request to repurchase 64,322 of its shares of common stock from its direct parent, MAC Holdings, for approximately \$250 million. MAC implemented the stock redemption plan on September 25, 2017, transferring approximately \$104 million in cash and \$146 million in marketable securities to MAC Holdings, which then distributed such assets to its shareholders, AGM and AGC, in proportion to their respective 61% and 39% ownership interests, such that AGM received approximately \$152 million (\$6 million in cash and \$146 million in securities) and AGC received approximately \$98 million (all in cash). Each share repurchased by MAC was retired and ceased to be an authorized share. Pursuant to MAC's Amended and Restated Charter, the par value of MAC's remaining shares of common stock issued and outstanding increased automatically in order to maintain MAC's total paid-in capital at \$15 million.

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, has elected under Section 953(d) of the U.S. Internal Revenue Code (the Code) to be taxed as a U.S. domestic corporation.

In November 2013, AGL became tax resident in the U.K. although it remains a Bermuda-based company and its administrative and head office functions continue to be carried on in Bermuda. 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 is 19% beginning April 1, 2017.

AGUS files a consolidated federal income tax return with all of its U.S. subsidiaries. AGE, the Company's U.K. subsidiary, had previously elected under Section 953(d) of the Code to be taxed as a U.S. company. In January 2017, AGE filed

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a request with the U.S. Internal Revenue Service (IRS) to revoke the election, which was approved in May 2017. As a result of the revocation of the Section 953(d) election, AGE will no longer be liable to pay future U.S. taxes beginning in 2017.

On January 10, 2017, AGC purchased MBIA UK, a U.K.-based insurance company. After the purchase, MBIA UK changed its name to AGLN and continues to file its tax returns in the U.K. as a separate entity. For additional information on the MBIA UK Acquisition, please refer to Note 2, Acquisitions. 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 2017. 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. blended marginal corporate tax rate of 19.25% unless taxed as a U.S. controlled foreign corporation, and no taxes for the Company's Bermuda Subsidiaries unless subject to U.S. tax by election. For periods subsequent to April 1, 2017, the U.K. corporation tax rate has been reduced to 19%. For the periods between April 1, 2015 and March 31, 2017, the U.K. corporation tax rate was 20%. 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

	Third Quarter		Nine Months	
	2017	2016	2017	2016
	(in millions)			
Expected tax provision (benefit) at statutory rates in taxable jurisdictions	\$ 116	\$ 150	\$ 245	\$ 234
Tax-exempt interest	(12)	(12)	(36)	(38)
Gain on bargain purchase	—	(125)	(20)	(125)
State taxes	1	0	7	1
Change in liability for uncertain tax positions	8	8	(27)	10
Effect of provision to tax return filing adjustments	(8)	(16)	(8)	(16)
Other	0	(4)	(4)	(4)
Total provision (benefit) for income taxes	\$ 105	\$ 1	\$ 157	\$ 62
Effective tax rate	33.6 %	0.3 %	18.8 %	8.3 %

The change in liability for uncertain tax positions for Nine Months 2017 is driven by the closure of the 2009 – 2012 IRS Audit, see "Audits" below for further discussion.

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

	Third Quarter		Nine Months	
	2017	2016	2017	2016
	(in millions)			
United States	\$337	\$432	\$713	\$681
Bermuda	(18)	56	143	88
U.K.	(6)	(8)	(21)	(23)
Total	\$313	\$480	\$835	\$746

Revenue by Tax Jurisdiction

	Third Quarter		Nine Months	
	2017	2016	2017	2016
	(in millions)			
United States	\$566	\$499	\$1,305	\$1,041
Bermuda	61	69	165	170
U.K.	(4)	(2)	(12)	(4)
Total	\$623	\$566	\$1,458	\$1,207

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 \$19 million of foreign tax credits (FTC) which will expire in 2020. In addition, AGE had \$1 million of FTC prior to revoking its election to be taxed as a U.S. company in 2017. 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

As of September 30, 2017, AGUS had open tax years with the IRS for 2013 to present. In December 2016, the IRS issued a Revenue Agent Report (RAR) which did not identify any material adjustments that were not already accounted for in the prior periods. In April 2017, the Company received a final letter from the IRS to close the audit with no additional findings or changes, and as a result the Company released previously recorded uncertain tax position reserves and accrued interest of approximately \$37 million in the second quarter of 2017. Assured Guaranty

Oversees US Holdings Inc. has open tax years of 2014 forward. The Company's U.K. subsidiaries are not currently under examination and have open tax years of 2015 forward. CIFGNA, which was acquired by AGC during 2016, is not currently under examination and has open tax years of 2014 to present. The Company's French subsidiary, CIFGE, is not currently under examination and has open years of 2014 to present.

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Uncertain Tax Positions

The Company's policy is to recognize interest related to uncertain tax positions in income tax expense and has accrued \$1.2 million for Nine Months 2017 and \$2 million for the full year 2016. As of September 30, 2017 and December 31, 2016, the Company has accrued \$2 million and \$7 million of interest, respectively.

The total amount of reserves for unrecognized tax positions, including accrued interest, as of September 30, 2017 and December 31, 2016 that would affect the effective tax rate, if recognized, was \$30 million and \$57 million, respectively. The reduction in reserves is driven by the closure of the 2009- 2012 IRS Audit.

13. Reinsurance and Other Monoline Exposures

The Company assumes exposure (Assumed Business) and may cede portions of exposure it has insured (Ceded Business) in exchange for premiums, net of ceding commissions. Substantially all of the Company's Assumed Business and Ceded Business relates to financial guaranty insurance, except for a modest amount that relates to non-financial guaranty business assumed by AGRO. The Company historically entered into, and with respect to new business originated by AGRO continues to enter into, ceded reinsurance contracts in order to obtain greater business diversification and reduce the net potential loss from large risks.

The following table presents the components of premiums and losses reported in the consolidated statements of operations and the contribution of the Company's Assumed and Ceded Businesses (both financial guaranty and non-financial guaranty).

Effect of Reinsurance on Statement of Operations

	Third Quarter		Nine Months	
	2017	2016	2017	2016
	(in millions)			
Premiums Written:				
Direct	\$46	\$17	\$227	\$80
Assumed (1)	(1)	(1)	8	(9)
Ceded (2)	27	0	37	(17)
Net	\$72	\$16	\$272	\$54
Premiums Earned:				
Direct	\$186	\$237	\$516	\$647
Assumed	6	6	20	19
Ceded	(6)	(12)	(24)	(38)
Net	\$186	\$231	\$512	\$628
Loss and LAE:				
Direct	\$231	\$7	\$377	\$217
Assumed	(1)	(1)	(1)	(4)
Ceded	(7)	(15)	(22)	(30)
Net	\$223	\$(9)	\$354	\$183

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

(2) Positive ceded premiums written were due to commutations and changes in expected debt service schedules.

In addition to the items presented in the table above, the Company records in the consolidated statements of operations, the effect of assumed and ceded credit derivative exposures. These amounts were losses of \$0.2 million in Third Quarter 2017, \$25 million in Third Quarter 2016, \$0.8 million for Nine Months 2017 and \$26 million for Nine Months 2016.

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Amounts Due (To) From All Reinsurers

As of September 30, 2017

	Assumed Premium, net of Commissions (in millions)	Ceded Premium, net of Commissions	Assumed Expected Loss to be Paid	Ceded Expected Loss to be Paid
Reinsurers rated investment grade	\$5	\$ —	\$ 1	\$ —
Reinsurers rated BIG or not rated:				
American Overseas Reinsurance Company Limited	—	(4)	—	36
Syncora	13	(18)	—	(11)
Ambac	31	—	1	—
MBIA	0	—	(3)	—
Financial Guaranty Insurance Company and FGIC UK Limited	3	—	(16)	—
Ambac Assurance Corp. Segregated Account	6	—	(46)	—
Subtotal	53	(22)	(64)	25
Other	0	(3)	—	—
Total	\$58	\$ (25)	\$ (63)	\$ 25

Assumed and Ceded Financial Guaranty Business

The Company assumes financial guaranty business (Assumed Financial Guaranty Business) from third party insurers, primarily other monoline financial guaranty companies. Under these relationships, the Company assumes a portion of the ceding company's insured risk in exchange for a portion of the ceding company's premium for the insured risk (typically, net of a ceding commission). 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 Financial Guaranty 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 Assumed Financial Guaranty 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 required payment. As of September 30, 2017, 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 \$49 million and \$16 million, respectively.

The Company has ceded financial guaranty business to non-affiliated companies to limit its exposure to risk. Under these relationships, the Company ceded a portion of its insured risk to the reinsurer in exchange for the reinsurer receiving a

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share of the Company's premiums for the insured risk (typically, net of a ceding commission). The Company remains primarily liable for all risks it directly underwrites and is required to pay all gross claims. It then seeks reimbursement from the reinsurer for its proportionate share of claims. The Company may be exposed to risk for this exposure if it were required to pay the gross claims and not be able to collect ceded claims from an assuming company experiencing financial distress. 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 financial guaranty business after certain triggering events, such as reinsurer downgrades.

During the first quarter of 2017, the Company entered into a commutation agreement to reassume the entire portfolio previously ceded to one of its unaffiliated reinsurers, consisting predominantly (over 97%) of U.S. public finance and international public and project finance exposures. During Third Quarter 2017, the Company entered into two commutation agreements. In one case, it reassumed the entire portfolio previously ceded to one of its unaffiliated reinsurers under quota share reinsurance, consisting predominantly of U.S. public finance and international public and project finance exposures. In the other case, it reassumed a portion of the portfolio previously ceded to one of its other unaffiliated reinsurers. The table below summarizes the effect of commutations.

Commutations of Ceded Reinsurance Contracts

	Third Quarter 2017	2016	Nine Months 2017	2016
	(in millions)			
Increase (decrease) in net unearned premium reserve	\$62	\$	—\$ 80	\$ —
Increase (decrease) in net par outstanding	3,452	8	4,628	28
Commutation gains (losses)	255	8	328	8

Other Exposures to Monoline Financial Guaranty Insurers

In addition to the Company's assumed and ceded reinsurance arrangements with other monoline financial guaranty insurers, the Company may also have exposure to such companies in other areas. Second-to-pay insured par outstanding represents transactions the Company has insured that were previously insured by such other monoline financial guaranty insurers. The Company underwrites such transactions based on the underlying insured obligation without regard to the primary insurer. Another area of exposure is in the investment portfolio where the Company holds fixed-maturity securities that are wrapped by monolines and whose value may change based on the rating of the monoline. As of September 30, 2017, based on fair value, the Company had fixed-maturity securities in its investment portfolio consisting of \$98 million insured by National Public Finance Guarantee Corporation (National), \$69 million insured by Ambac and \$8 million insured by other guarantors.

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Reinsurance and Other Exposures to Monolines

Reinsurer	Par Outstanding As of September 30, 2017	
	Ceded Par Outstanding (1)	Second-to- Pay Insured Par Outstanding (2)
	(in millions)	
Reinsurers rated investment grade:		
National	\$—\$ 3,245	\$ 2,730
Subtotal	—3,245	2,730
Reinsurers rated BIG or not rated:		
American Overseas Reinsurance Company Limited (3)	2,445	—
Syncora (3)	1,974	1,156
ACA Financial Guaranty Corp.	208—	10
Ambac and Ambac Assurance UK Limited	112,902	1,927
MBIA	—137	565
Financial Guaranty Insurance Company and FGIC UK Limited	—275	821