

ASSURED GUARANTY LTD
Form 10-Q
May 08, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2015

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

For the transition Period from to

Commission File No. 001-32141

ASSURED GUARANTY LTD.

(Exact name of registrant as specified in its charter)

Bermuda

(State or other jurisdiction

of incorporation)

98-0429991

(I.R.S. employer

identification no.)

30 Woodbourne Avenue

Hamilton HM 08

Bermuda

(Address of principal executive offices)

(441) 279-5700

(Registrant's telephone number, including area code)

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

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 No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of registrant's Common Shares (\$0.01 par value) outstanding as of May 7, 2015 was 150,902,096 (includes 47,517 unvested restricted shares).

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Assured Guaranty Ltd.

Consolidated Balance Sheets (unaudited)

(dollars in millions except per share and share amounts)

	As of March 31, 2015	As of December 31, 2014
Assets		
Investment portfolio:		
Fixed-maturity securities, available-for-sale, at fair value (amortized cost of \$9,310 and \$9,972)	\$9,833	\$10,491
Short-term investments, at fair value	349	767
Other invested assets	132	126
Total investment portfolio	10,314	11,384
Cash	885	75
Premiums receivable, net of commissions payable	700	729
Ceded unearned premium reserve	365	381
Deferred acquisition costs	120	121
Reinsurance recoverable on unpaid losses	77	78
Salvage and subrogation recoverable	128	151
Credit derivative assets	77	68
Deferred tax asset, net	218	260
Financial guaranty variable interest entities' assets, at fair value	1,499	1,402
Other assets	294	276
Total assets	\$14,677	\$14,925
Liabilities and shareholders' equity		
Unearned premium reserve	\$4,127	\$4,261
Loss and loss adjustment expense reserve	787	799
Reinsurance balances payable, net	74	107
Long-term debt	1,304	1,303
Credit derivative liabilities	859	963
Current income tax payable	—	5
Financial guaranty variable interest entities' liabilities with recourse, at fair value	1,278	1,277
Financial guaranty variable interest entities' liabilities without recourse, at fair value	45	142
Other liabilities	317	310
Total liabilities	8,891	9,167
Commitments and contingencies (See Note 14)		
Common stock (\$0.01 par value, 500,000,000 shares authorized; 152,835,331 and 158,306,661 shares issued and outstanding)	2	2
Additional paid-in capital	1,733	1,887
Retained earnings	3,676	3,494
Accumulated other comprehensive income, net of tax of \$149 and \$159	370	370
Deferred equity compensation (320,193 and 320,193 shares)	5	5
Total shareholders' equity	5,786	5,758

Total liabilities and shareholders' equity	\$14,677	\$14,925
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The accompanying notes are an integral part of these consolidated financial statements.

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Assured Guaranty Ltd.

Consolidated Statements of Operations (unaudited)

(dollars in millions except per share amounts)

	Three Months Ended March 31,	
	2015	2014
Revenues		
Net earned premiums	\$142	\$132
Net investment income	101	103
Net realized investment gains (losses):		
Other-than-temporary impairment losses	(5	) (3
Less: portion of other-than-temporary impairment loss recognized in other comprehensive income	2	2
Net impairment loss	(7	) (5
Other net realized investment gains (losses)	23	7
Net realized investment gains (losses)	16	2
Net change in fair value of credit derivatives:		
Realized gains (losses) and other settlements	21	19
Net unrealized gains (losses)	103	(230
Net change in fair value of credit derivatives	124	(211
Fair value gains (losses) on committed capital securities	2	(9
Fair value gains (losses) on financial guaranty variable interest entities	(7	) 157
Other income (loss)	(9	) 21
Total revenues	369	195
Expenses		
Loss and loss adjustment expenses	18	41
Amortization of deferred acquisition costs	4	5
Interest expense	25	20
Other operating expenses	56	60
Total expenses	103	126
Income (loss) before income taxes	266	69
Provision (benefit) for income taxes		
Current	13	21
Deferred	52	6
Total provision (benefit) for income taxes	65	27
Net income (loss)	\$201	\$42
Earnings per share:		
Basic	\$1.29	\$0.23
Diluted	\$1.28	\$0.23
Dividends per share	\$0.12	\$0.11

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

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Assured Guaranty Ltd.

Consolidated Statements of Comprehensive Income (unaudited)

(in millions)

	Three Months Ended March 31,		
	2015	2014	
Net income (loss)	\$201	\$42	
Unrealized holding gains (losses) arising during the period on:			
Investments with no other-than-temporary impairment, net of tax provision (benefit) of \$1 and \$41	18	94	
Investments with other-than-temporary impairment, net of tax provision (benefit) of \$(2) and \$3	(2	) 8
Unrealized holding gains (losses) arising during the period, net of tax	16	102	
Less: reclassification adjustment for gains (losses) included in net income (loss), net of tax provision (benefit) of \$6 and \$(1)	10	(2)
Change in net unrealized gains on investments	6	104	
Other, net of tax provision	(6	) 0
Other comprehensive income (loss)	\$0	\$104	
Comprehensive income (loss)	\$201	\$146	

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

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Assured Guaranty Ltd.

Consolidated Statement of Shareholders' Equity (unaudited)

For the Three Months Ended March 31, 2015

(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, 2014	158,306,661	\$ 2	\$ 1,887	\$ 3,494	\$ 370	\$ 5	\$ 5,758
Net income	—	—	—	201	—	—	201
Dividends (\$0.12 per share)	—	—	—	(19)	—	—	(19)
Common stock repurchases	(5,860,291)	0	(152)	—	—	—	(152)
Share-based compensation and other	388,961	0	(2)	—	—	—	(2)
Other comprehensive income	—	—	—	—	0	—	0
Balance at March 31, 2015	152,835,331	\$ 2	\$ 1,733	\$ 3,676	\$ 370	\$ 5	\$ 5,786

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

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Assured Guaranty Ltd.

Consolidated Statements of Cash Flows (unaudited)

(in millions)

	Three Months Ended March 31,	
	2015	2014
Net cash flows provided by (used in) operating activities	\$23	\$101
Investing activities		
Fixed-maturity securities:		
Purchases	(448	) (517
Sales	841	155
Maturities	155	148
Net sales (purchases) of short-term investments	420	184
Net proceeds from paydowns on financial guaranty variable interest entities' assets	30	286
Other	3	19
Net cash flows provided by (used in) investing activities	1,001	275
Financing activities		
Dividends paid	(19	) (20
Repurchases of common stock	(152	) (35
Share activity under option and incentive plans	(5	) 0
Net paydowns of financial guaranty variable interest entities' liabilities	(39	) (281
Repayment of long-term debt	(1	) (6
Other	4	—
Net cash flows provided by (used in) financing activities	(212	) (342
Effect of foreign exchange rate changes	(2	) 1
Increase (decrease) in cash	810	35
Cash at beginning of period	75	184
Cash at end of period	\$885	\$219
Supplemental cash flow information		
Cash paid (received) during the period for:		
Income taxes	\$17	\$37
Interest	\$7	\$8

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

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Assured Guaranty Ltd.

Notes to Consolidated Financial Statements (unaudited)

March 31, 2015

1. Business and Basis of Presentation

Business

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

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

Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and, in the opinion of management, reflect all adjustments that are of a normal recurring nature, necessary for a fair statement of the financial condition, results of operations and cash flows of the Company and its consolidated financial guaranty variable interest entities (“FG VIEs”) for the periods presented. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These unaudited interim consolidated financial statements are as of March 31, 2015 and cover the three-month period ended March 31, 2015 (“First Quarter 2015”) and the three-month period ended March 31, 2014 (“First Quarter 2014”). Certain financial information that is normally included in annual financial statements prepared in accordance with GAAP, but is not required for interim reporting purposes, has been condensed or omitted. The year-end balance sheet data was derived from audited

financial statements.

The unaudited interim consolidated financial statements include the accounts of AGL, its direct and indirect subsidiaries (collectively, the “Subsidiaries”), and its consolidated FG VIEs. Intercompany accounts and transactions between and among all consolidated entities have been eliminated.

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, 2014, filed with the U.S. Securities and Exchange Commission (the “SEC”).

The Company's principal insurance company subsidiaries are:

Assured Guaranty Municipal Corp. ("AGM"), domiciled in New York;

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

On April 1, 2015, AGC completed the acquisition of all of the issued and outstanding capital stock of financial guaranty insurer Radian Asset Assurance Inc. ("Radian Asset") in return for a payment to Radian Guaranty Inc. of \$804.5 million made from AGC's available funds. Radian Asset was merged with and into AGC, with AGC as the surviving company of the merger. As of March 31, 2015, Radian Asset had approximately \$1.3 billion of qualified statutory capital. The Radian Asset acquisition added \$13.6 billion to net par outstanding on April 1, 2015, and is consistent with one of the Company's key business strategies of building a book of business through acquisitions. The Company is in the process of allocating the purchase price to the assets acquired and liabilities assumed and conforming accounting policies but has not yet completed the acquisition date balance sheet and pro forma financial statements. The Company intends to include this information in its Second Quarter 2015 Form 10-Q.

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

Future Application of Accounting Standards

Consolidation

In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which is intended to improve certain areas of consolidation guidance for legal entities such as limited partnerships, limited liability companies, and securitization structures. The ASU will be effective on January 1, 2016. Early adoption is permitted, including adoption in an interim period. The Company does not expect that ASU 2015-02 will have any material effect on its Consolidated Financial Statements.

Interest

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Topic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The ASU will be effective on January 1, 2016 and should be applied retrospectively. The adoption of this ASU will require the Company to reclassify its debt issuance costs from other assets to long-term debt on the Consolidated Balance Sheet. As of March 31, 2015, the debt issuance costs were approximately \$6 million.

2. Rating Actions

Rating Actions

When a rating agency assigns a public rating to a financial obligation guaranteed by one of AGL's insurance company subsidiaries, it generally awards that obligation the same rating it has assigned to the financial strength of the AGL subsidiary that provides the guaranty. Investors in products insured by AGL's insurance company subsidiaries frequently rely on ratings published by the rating agencies because such ratings influence the trading value of securities and form the basis for many institutions' investment guidelines as well as individuals' bond purchase decisions. Therefore, the Company manages its business with the goal of achieving strong financial strength ratings.

However, the methodologies and models used by rating agencies differ, presenting conflicting goals that may make it inefficient or impractical to reach the highest rating level. The methodologies and models are not fully transparent, contain subjective elements and data (such as assumptions about future market demand for the Company's products) and change frequently. Ratings are subject to continuous review and revision or withdrawal at any time. If the financial strength ratings of one (or more) of the Company's insurance subsidiaries were reduced below current levels, the Company expects it could have adverse effects on the impacted subsidiary's future business opportunities as well as the premiums the impacted subsidiary could charge for its insurance policies.

In the last several years, Standard & Poor's Ratings Services ("S&P") and Moody's Investors Service, Inc. ("Moody's") have changed, multiple times, their financial strength ratings of AGL's insurance subsidiaries, or changed the outlook on such ratings. More recently, Kroll Bond Rating Agency ("KBRA") and A.M. Best Company, Inc. have assigned financial strength

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ratings to some of AGL's insurance subsidiaries. The rating agencies' most recent actions and proposals related to AGL's insurance subsidiaries are:

On March 18, 2014, S&P upgraded the financial strength ratings of all of AGL's insurance subsidiaries to AA (stable outlook) from AA- (stable outlook); it affirmed such ratings in a credit analysis issued on July 2, 2014.

On July 2, 2014, Moody's affirmed the ratings of AGL and its subsidiaries, but changed to negative the outlook of the financial strength ratings of AGC and its subsidiary Assured Guaranty (UK) Ltd. ("AGUK").

On August 4, 2014, KBRA affirmed MAC's AA+ (stable outlook) financial strength rating.

On November 13, 2014, KBRA assigned a financial strength rating of AA+ (stable outlook) to AGM.

On January 20, 2015, Moody's adopted changes to its credit methodology for financial guaranty insurance companies, and on February 18, 2015 Moody's published a credit opinion maintaining its existing ratings of AGL and its subsidiaries under that new methodology.

- Effective April 8, 2015, at the Company's request, Moody's withdrew the financial strength ratings it had assigned to Assured Guaranty Re Ltd. (AG Re) and Assured Guaranty Re Overseas Ltd. ("AGRO").

On May 5, 2015, A.M. Best Company, Inc. assigned a financial strength rating of A+ (Stable) to AGRO.

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

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

Note 6, Financial Guaranty Insurance Losses

Note 8, Financial Guaranty Contracts Accounted for as Credit Derivatives

Note 13, Reinsurance and Other Monoline Exposures

Note 15, Long-Term Debt and Credit Facilities

3. 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 are investment grade at inception, or in the case of restructurings of troubled credits, the Company may underwrite new issuances that one or more of the rating agencies may rate below-investment-grade ("BIG") as part of its loss mitigation strategy. The Company diversifies its insured portfolio across asset classes and, in the structured finance portfolio, requires rigorous subordination or collateralization requirements. Reinsurance is utilized 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.

Structured finance obligations insured by the Company are generally issued by special purpose entities, including variable interest entities ("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 investment grade credits to determine whether any need to be internally downgraded to BIG and refreshes its internal credit ratings on individual credits in quarterly, semi-annual or annual cycles based on the Company's view of the credit's quality, loss potential, volatility and sector. Ratings on credits in sectors identified as under the most stress or with the most potential volatility are reviewed every quarter. The Company's credit ratings on assumed credits are based on the Company's reviews of low-rated credits or credits in volatile sectors, unless such information is not available, in which case, the ceding company's credit rating of the transactions are used. The Company models the performance of many of its structured finance transactions as part of its periodic internal credit rating review of them.

Credits identified as BIG are subjected to further review to determine the probability of a loss. See Note 5, Expected Loss to be Paid, for additional information. Surveillance personnel then assign each BIG transaction to the appropriate BIG surveillance category based upon whether a future loss is expected and whether a claim has been paid. For surveillance purposes, the Company calculates present value using a constant discount rate of 4.5% or 5% depending on the insurance subsidiary. (Risk-free rates are used for calculating the expected loss for financial statement measurement purposes.)

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

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

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

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

Components of Outstanding Exposure

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

The Company purchases securities that it has insured, and for which it has expected losses to be paid, in order to

mitigate the economic effect of insured losses ("loss mitigation securities"). The Company excludes amounts attributable to loss mitigation securities (unless otherwise indicated) from par and Debt Service outstanding, because it manages such securities as investments and not insurance exposure.

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Debt Service Outstanding

	Gross Debt Service Outstanding		Net Debt Service Outstanding	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
	(in millions)			
Public finance	\$565,386	\$587,245	\$533,359	\$553,612
Structured finance	54,546	59,477	51,300	56,010
Total financial guaranty	\$619,932	\$646,722	\$584,659	\$609,622

In addition to the amounts shown in the table above, the Company's net mortgage guaranty insurance debt service was approximately \$113 million as of March 31, 2015 and \$127 million as of December 31, 2014, related to loans originated in Ireland.

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

Rating Category	Public Finance U.S.		Public Finance Non-U.S.		Structured Finance U.S		Structured Finance Non-U.S		Total	
	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%
	(dollars in millions)									
AAA	\$3,563	1.1 %	\$613	2.1 %	\$18,176	47.3 %	\$4,397	57.8 %	\$26,749	6.9 %
AA	86,521	27.6	2,650	9.0	8,360	21.7	377	5.0	97,908	25.2
A	171,308	54.7	7,091	23.9	2,228	5.8	365	4.7	180,992	46.4
BBB	44,110	14.1	17,891	60.4	1,843	4.8	1,746	23.0	65,590	16.9
BIG	7,942	2.5	1,374	4.6	7,823	20.4	721	9.5	17,860	4.6
Total net par outstanding (1)	\$313,444	100.0 %	\$29,619	100.0 %	\$38,430	100.0 %	\$7,606	100.0 %	\$389,099	100.0 %

(1) Excludes \$1.3 billion of loss mitigation securities insured and held by the Company as of March 31, 2015, which are primarily in the BIG category.

Financial Guaranty Portfolio by Internal Rating
As of December 31, 2014

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	\$4,082	1.3 %	\$615	2.0 %	\$20,037	48.7 %	\$5,409	59.6 %	\$30,143	7.5 %
AA	90,464	28.1	2,785	8.9	8,213	19.9	503	5.5	101,965	25.3
A	176,298	54.7	7,192	22.9	2,940	7.1	445	4.9	186,875	46.3

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BBB	43,429	13.5	19,363	61.7	1,795	4.4	1,912	21.1	66,499	16.4
BIG	7,850	2.4	1,404	4.5	8,186	19.9	807	8.9	18,247	4.5
Total net par outstanding (1)	\$322,123	100.0%	\$31,359	100.0%	\$41,171	100.0%	\$9,076	100.0%	\$403,729	100.0%

(1) Excludes \$1.3 billion of loss mitigation securities insured and held by the Company as of December 31, 2014, which are primarily in the BIG category.

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In addition to amounts shown in the tables above, the Company had outstanding commitments to provide guaranties of \$38 million for structured finance and \$410 million for public finance obligations as of March 31, 2015. The structured finance commitments include the unfunded component of pooled corporate and other transactions. The expiration dates for the public finance commitments range between April 9, 2015 and February 25, 2017, with \$210 million expiring prior to the date of this filing and an additional \$75 million expiring prior to December 31, 2015. The commitments are contingent on the satisfaction of all conditions set forth in them and may expire unused or be canceled at the counterparty's request. Therefore, the total commitment amount does not necessarily reflect actual future guaranteed amounts.

Components of BIG Portfolio

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

	BIG Net Par Outstanding			Total BIG	Net Par Outstanding
	BIG 1	BIG 2	BIG 3 (in millions)		
U.S. public finance	\$6,669	\$1,156	\$117	\$7,942	\$313,444
Non-U.S. public finance	863	511	—	1,374	29,619
First lien U.S. residential mortgage-backed securities ("RMBS"):					
Prime first lien	49	59	241	349	454
Alt-A first lien	579	436	763	1,778	2,449
Option ARM	9	53	108	170	374
Subprime	179	529	831	1,539	3,935
Second lien U.S. RMBS:					
Closed-end second lien	—	19	113	132	212
Home equity lines of credit ("HELOCs")	1,235	29	240	1,504	1,654
Total U.S. RMBS	2,051	1,125	2,296	5,472	9,078
Triple-X life insurance transactions	—	—	598	598	3,133
Trust preferred securities ("TruPS")	828	—	327	1,155	4,075
Other structured finance	927	237	155	1,319	29,750
Total	\$11,338	\$3,029	\$3,493	\$17,860	\$389,099

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Components of BIG Net Par Outstanding
(Insurance and Credit Derivative Form)
As of December 31, 2014

	BIG Net Par Outstanding			Total BIG	Net Par Outstanding
	BIG 1	BIG 2	BIG 3 (in millions)		
U.S. public finance	\$6,577	\$1,156	\$117	\$7,850	\$322,123
Non-U.S. public finance	1,402	2	—	1,404	31,359
First lien U.S. RMBS:					
Prime first lien	68	33	252	353	471
Alt-A first lien	585	531	725	1,841	2,532
Option ARM	47	18	118	183	407
Subprime	156	654	765	1,575	4,051
Second lien U.S. RMBS:					
Closed-end second lien	—	19	115	134	218
HELOCs	1,012	36	509	1,557	1,738
Total U.S. RMBS	1,868	1,291	2,484	5,643	9,417
Triple-X life insurance transactions	—	—	598	598	3,133
TruPS	997	—	336	1,333	4,326
Other structured finance	1,021	240	158	1,419	33,371
Total	\$11,865	\$2,689	\$3,693	\$18,247	\$403,729

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

Description	Net Par Outstanding			Number of Risks(2)		
	Financial Guaranty Insurance(1) (dollars in millions)	Credit Derivative	Total	Financial Guaranty Insurance(1)	Credit Derivative	Total
BIG:						
Category 1	\$9,887	\$1,451	\$11,338	164	18	182
Category 2	2,345	684	3,029	73	12	85
Category 3	2,705	788	3,493	119	25	144
Total BIG	\$14,937	\$2,923	\$17,860	356	55	411

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BIG Net Par Outstanding
and Number of Risks
As of December 31, 2014

Description	Net Par Outstanding			Number of Risks(2)		
	Financial Guaranty Insurance(1) (dollars in millions)	Credit Derivative	Total	Financial Guaranty Insurance(1)	Credit Derivative	Total
BIG:						
Category 1	\$10,195	\$1,670	\$11,865	164	18	182
Category 2	2,135	554	2,689	75	14	89
Category 3	2,892	801	3,693	119	24	143
Total BIG	\$15,222	\$3,025	\$18,247	358	56	414

(1) Includes net par outstanding for FG 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 insures general obligation bonds of the Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations aggregating \$4.9 billion net par as of March 31, 2015. The Company rates \$4.7 billion net par of that amount BIG; included in that amount are the obligations of Puerto Rico Highway and Transportation Authority ("PRHTA") and PREPA.

Puerto Rico has experienced significant general fund budget deficits in recent years. These deficits have been covered primarily with the net proceeds of bond issuances, interim financings provided by Government Development Bank for Puerto Rico ("GDB") and, in some cases, one-time revenue measures or expense adjustment measures. In addition to high debt levels, Puerto Rico faces a challenging economic environment.

In June 2014, the Puerto Rico legislature passed the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Recovery Act") in order to provide a legislative framework for certain public corporations experiencing severe financial stress to restructure their debt, including PRHTA and PREPA. Subsequently, the Commonwealth stated PREPA might need to seek relief under the Recovery Act due to liquidity constraints.

In August 2014, PREPA entered into forbearance agreements with the GDB, its bank lenders, and bondholders and financial guaranty insurers (including AGM and AGC) that hold or guarantee more than 60% of PREPA's outstanding bonds, in order to address its near-term liquidity issues. Creditors, including AGM and AGC, agreed not to exercise available rights and remedies until March 31, 2015, and the bank lenders agreed to extend the maturity of two revolving lines of credit to the same date. PREPA agreed it would continue to make principal and interest payments on its outstanding bonds, and interest payments on its lines of credit. It also agreed it would develop a five year business plan and a recovery program in respect of its operations; a preliminary business plan was released in December 2014. Subsequently, the parties have extended these forbearance agreements through June 4, 2015. Creditors, including AGM and AGC, are in discussions among themselves and with PREPA regarding potentially extending the forbearance agreements beyond June 4, 2015, but there can be no assurance that such discussions will result in such an extension. PREPA, during the pendency of the Forbearance Agreement, has suspended deposits into the Debt Service Fund and has utilized amounts on deposit in the Debt Service Reserve Fund to pay debt service due

on its bonds and other obligations through May 8, 2015.

Investors in bonds issued by PREPA filed suit in the United States District Court for the District of Puerto Rico asserting the Recovery Act violates the U.S. Constitution. On February 6, 2015, the U.S. District Court for the District of Puerto Rico ruled the Recovery Act is preempted by the U.S. Bankruptcy Code and is therefore void; on February 19, 2015, the Commonwealth appealed the ruling to the U.S. Court of Appeals for the First Circuit. In addition, the Commonwealth's Resident Commissioner has introduced a bill to the U.S. Congress that, if passed, would enable the Commonwealth to authorize one or more of its public corporations to restructure their debts under chapter 9 of the U.S Bankruptcy Code if they were to become insolvent. The passage of the Recovery Act, its subsequent invalidation, and the introduction of legislation that would

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enable the Commonwealth to authorize chapter 9 protection for its public corporations have resulted in uncertainty among investors about the rights of creditors of the Commonwealth and its related authorities and public corporations.

Following the enactment of the Recovery Act, S&P, Moody's and Fitch Ratings lowered the credit rating of the Commonwealth's bonds and the ratings on certain of its public corporations. In February, March and April 2015, Moody's, Fitch Ratings and S&P, respectively, each again lowered the credit rating of the Commonwealth's bonds and the ratings on certain of its public corporations. The Commonwealth has disclosed its liquidity has been adversely affected by rating agency downgrades and by the limited market access for its debt, and also noted it has relied on short-term financings and interim loans from the GDB and other private lenders, which reliance has constrained its liquidity and increased its near-term refinancing risk.

In early 2015, Puerto Rico enacted legislation designed to stabilize PRHTA and improve the liquidity of the GDB. The legislation provides for certain tax revenues that would support PRHTA and require the transfer of certain liabilities and revenues from PHRTA to another authority, as well as allowing the transfer of the operations of poorly performing transit facilities to a new authority.

The following tables show the Company's exposure to general obligation bonds of Puerto Rico and various obligations of its related authorities and public corporations.

Puerto Rico

Gross Par and Gross Debt Service Outstanding

	Gross Par Outstanding		Gross Debt Service Outstanding	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
	(in millions)			
Previously Subject to the Voided Recovery Act (1)	\$3,059	\$3,058	\$5,252	\$5,326
Not Previously Subject to the Voided Recovery Act	2,977	2,977	4,675	4,748
Total	\$6,036	\$6,035	\$9,927	\$10,074

On February 6, 2015, the U.S. District Court for the District of Puerto Rico ruled that the Recovery Act is (1) preempted by the Federal Bankruptcy Code and is therefore void. On February 19, 2015, the Commonwealth appealed the ruling to the U.S. Court of Appeals for the First Circuit.

Table of ContentsPuerto Rico
Net Par Outstanding

	As of March 31, 2015		As of December 31, 2014	
	Total	Internal Rating	Total	Internal Rating
	(in millions)			
Exposures Previously Subject to the Voided Recovery Act:				
PRHTA (Transportation revenue)	\$ 844	BB-	\$ 844	BB-
PREPA	773	B-	772	B-
Puerto Rico Aqueduct and Sewer Authority	384	BB-	384	BB-
PRHTA (Highway revenue)	273	BB	273	BB
Puerto Rico Convention Center District Authority	174	BB-	174	BB-
Total	2,448		2,447	
Exposures Not Previously Subject to the Voided Recovery Act:				
Commonwealth of Puerto Rico - General Obligation Bonds	1,672	BB	1,672	BB
Puerto Rico Municipal Finance Agency	399	BB-	399	BB-
Puerto Rico Sales Tax Financing Corporation	269	BBB	269	BBB
Puerto Rico Public Buildings Authority	100	BB	100	BB
GDB	33	BB	33	BB
Puerto Rico Infrastructure Finance Authority	18	BB-	18	BB-
University of Puerto Rico	1	BB-	1	BB-
Total	2,492		2,492	
Total net exposure to Puerto Rico	\$ 4,940		\$ 4,939	

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The following table shows the scheduled amortization of the general obligation bonds of Puerto Rico and various obligations of its related authorities and public corporations insured and rated BIG by the Company. The Company guarantees payments of interest and principal when those amounts are scheduled to be paid and cannot be required to pay on an accelerated basis. In the event that obligors default on their obligations, the Company would only 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 BIG Net Par Outstanding
and BIG Net Debt Service Outstanding
As of March 31, 2015

	Scheduled BIG Net Par Amortization			Scheduled BIG Net Debt Service Amortization		
	Previously Subject to the Voided Recovery Act	Not Previously Subject to the Voided Recovery Act	Total	Previously Subject to the Voided Recovery Act	Not Previously Subject to the Voided Recovery Act	Total
	(in millions)					
2015 (April 1 - June 30)	\$0	\$0	\$0	\$2	\$1	\$3
2015 (July 1 - September 30)	126	171	297	186	227	413
2015 (October 1 - December 31)	0	33	33	2	35	37
2016	84	183	267	200	287	487
2017	41	166	207	153	262	415
2018	48	109	157	158	195	353
2019	61	126	187	168	207	375
2020	73	182	255	176	258	434
2021	51	58	109	151	123	274
2022	43	67	110	140	129	269
2023	102	39	141	198	99	297
2024	82	78	160	173	136	309
2025-2029	576	340	916	951	566	1,517
2030-2034	440	387	827	696	542	1,238
2035 -2039	397	272	669	525	304	829
2040 -2044	78	12	90	146	13	159
2045 -2047	246	—	246	272	—	272
Total	\$2,448	\$2,223	\$4,671	\$4,297	\$3,384	\$7,681

Exposure to the Selected European Countries

Several European countries continue to experience significant economic, fiscal and/or political strains such that the likelihood of default on obligations with a nexus to those countries may be higher than the Company anticipated when such factors did not exist. The European countries where the Company has exposure and believes heightened uncertainties exist are: Hungary, Italy, Portugal and Spain (collectively, the “Selected European Countries”). The Company is closely monitoring its exposures in the Selected European Countries where it believes heightened uncertainties exist. The Company’s direct economic exposure to the Selected European Countries (based on par for financial guaranty contracts and notional amount for financial guaranty contracts accounted for as derivatives) is

shown in the following table, net of ceded reinsurance.

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Net Direct Economic Exposure to Selected European Countries(1)

As of March 31, 2015

	Hungary (in millions)	Italy	Portugal	Spain	Total
Sovereign and sub-sovereign exposure:					
Non-infrastructure public finance (2)	\$—	\$779	\$91	\$211	\$1,081
Infrastructure finance	265	11	11	120	407
Total sovereign and sub-sovereign exposure	265	790	102	331	1,488
Non-sovereign exposure:					
Regulated utilities	—	210	—	—	210
RMBS	174	234	—	—	408
Total non-sovereign exposure	174	444	—	—	618
Total	\$439	\$1,234	\$102	\$331	\$2,106
Total BIG (See Note 5)	\$370	\$—	\$102	\$331	\$803

(1) While the Company's exposures are shown in U.S. dollars, the obligations the Company insures are in various currencies, primarily Euros. One of the residential mortgage-backed securities included in the table above includes residential mortgages in both Italy and Germany, and only the portion of the transaction equal to the portion of the original mortgage pool in Italian mortgages is shown in the table.

(2) The exposure shown in the "Non-infrastructure public finance" category is from transactions backed by receivable payments from sub-sovereigns in Italy, Spain and Portugal. Sub-sovereign debt is debt issued by a governmental entity or government backed entity, or supported by such an entity, that is other than direct sovereign debt of the ultimate governing body of the country.

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 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 \$355 million to Selected European Countries (plus Greece) in transactions with \$10.0 billion of net par outstanding. The indirect exposure to credits with a nexus to Greece is \$11 million across several highly rated pooled corporate obligations with net par outstanding of \$483 million.

4. Financial Guaranty Insurance Premiums

The portfolio of outstanding exposures discussed in Note 3, Outstanding Exposure, includes financial guaranty contracts that meet the definition of insurance contracts as well as those that meet the definition of a derivative under GAAP. Amounts presented in this note relate only to financial guaranty insurance contracts, unless otherwise noted. See Note 8, Financial Guaranty Contracts Accounted for as Credit Derivatives for amounts that relate to CDS.

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Net Earned Premiums

	First Quarter 2015 (in millions)	2014
Scheduled net earned premiums	\$96	\$107
Acceleration of net earned premiums	41	19
Accretion of discount on net premiums receivable	4	6
Financial guaranty insurance net earned premiums	141	132
Other	1	—
Net earned premiums(1)	\$142	\$132

(1) Excludes \$5 million and \$17 million for First Quarter 2015 and 2014, respectively, related to consolidated FG VIEs.

Components of Unearned Premium Reserve

	As of March 31, 2015 (in millions)			As of December 31, 2014		
	Gross	Ceded	Net(1)	Gross	Ceded	Net(1)
Deferred premium revenue:						
Financial guaranty insurance	\$4,038	\$370	\$3,668	\$4,167	\$387	\$3,780
Other	1	—	1	0	—	0
Deferred premium revenue	\$4,039	\$370	\$3,669	\$4,167	\$387	\$3,780
Contra-paid (2)	88	(5	) 93	94	(6	) 100
Unearned premium reserve	\$4,127	\$365	\$3,762	\$4,261	\$381	\$3,880

(1) Excludes \$125 million and \$125 million of deferred premium revenue, and \$41 million and \$42 million of contra-paid related to FG VIEs as of March 31, 2015 and December 31, 2014, respectively.

(2) See Note 6, "Financial Guaranty Insurance Losses— Insurance Contracts' Loss Information" for an explanation of "contra-paid".

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

	First Quarter	
	2015	2014
	(in millions)	
Beginning of period, December 31	\$729	\$876
Gross premium written, net of commissions on assumed business	36	33
Gross premiums received, net of commissions on assumed business	(36	) (53
Adjustments:		
Changes in the expected term	(6	) (3
Accretion of discount, net of commissions on assumed business	5	7
Foreign exchange translation	(25	) 2
Consolidation/deconsolidation of FG VIEs	(4	) 1
Other adjustments	0	—
End of period, March 31 (1)	\$699	\$863

(1) Excludes \$22 million and \$18 million as of March 31, 2015 and March 31, 2014, respectively, related to consolidated FG VIEs. Excludes \$1 million related to non-financial guaranty line of business as of March 31, 2015.

Foreign exchange translation relates to installment premium receivables denominated in currencies other than the U.S. dollar. Approximately 49% and 51% of installment premiums at March 31, 2015 and December 31, 2014 respectively, are denominated in currencies other than the U.S. dollar, primarily the Euro and British Pound Sterling.

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

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

	As of March 31, 2015 (in millions)
2015 (April 1 – June 30)	\$23
2015 (July 1 – September 30)	24
2015 (October 1 – December 31)	19
2016	74
2017	67
2018	61
2019	57
2020-2024	238
2025-2029	154
2030-2034	108
After 2034	98
Total(1)	\$923

(1) Excludes expected cash collections on FG VIEs of \$28 million.

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Scheduled Financial Guaranty Net Earned Premiums

	As of March 31, 2015 (in millions)
2015 (April 1 – June 30)	\$91
2015 (July 1 – September 30)	89
2015 (October 1 – December 31)	86
2016	334
2017	294
2018	267
2019	244
2020-2024	955
2025-2029	610
2030-2034	373
After 2034	325
Net deferred premium revenue(1)	3,668
Future accretion	198
Total future net earned premiums	\$3,866

(1)Excludes scheduled net earned premiums on consolidated FG VIEs of \$125 million.

Selected Information for Financial Guaranty Policies Paid in Installments

	As of March 31, 2015	As of December 31, 2014	
	(dollars in millions)		
Premiums receivable, net of commission payable	\$699	\$729	
Gross deferred premium revenue	1,334	1,370	
Weighted-average risk-free rate used to discount premiums	3.4	% 3.5	%
Weighted-average period of premiums receivable (in years)	9.4	9.4	

5. Expected Loss to be Paid

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 FG VIEs, by sector, after the benefit for net expected recoveries for contractual breaches of representations and warranties ("R&W"). The Company used weighted average risk-free rates for U.S. dollar denominated obligations that ranged from 0.0% to 2.89% as of March 31, 2015 and 0.0% to 2.95% as of December 31, 2014.

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

	Net Expected Loss to be Paid (Recovered) as of December 31, 2014 (2) (in millions)	Economic Loss Development	(Paid) Recovered Losses (1)	Net Expected Loss to be Paid (Recovered) as of March 31,2015 (2)
Public Finance:				
U.S. public finance	\$303	\$9	\$(2)	) \$310
Non-U.S public finance	45	(3	) —	) 42
Public Finance	348	6	(2	) 352
Structured Finance:				
U.S. RMBS:				
First lien:				
Prime first lien	4	0	(1	) 3
Alt-A first lien	304	(5	) (10	) 289
Option ARM	(16	) 4	(4	) (16
Subprime	303	(1	) (9	) 293
Total first lien	595	(2	) (24	) 569
Second lien:				
Closed-end second lien	8	1	2	11
HELOCs	(19	) 5	4	(10
Total second lien	(11	) 6	6	1
Total U.S. RMBS	584	4	(18	) 570
Triple-X life insurance transactions	161	5	(1	) 165
TruPS	23	(9	) —	14
Other structured finance	57	(8	) 3	52
Structured Finance	825	(8) (16) 801
Subtotal	1,173	(2) (18) 1,153
Other insurance	(4) (1) 6	1
Total	\$1,169	\$(3) \$(12) \$1,154

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Net Expected Loss to be Paid
 After Net Expected Recoveries for Breaches of R&W
 Roll Forward by Sector
 First Quarter 2014

	Net Expected Loss to be Paid (Recovered) as of December 31, 2013 (in millions)	Economic Loss Development	(Paid) Recovered Losses (1)	Net Expected Loss to be Paid (Recovered) as of March 31,2014
Public Finance:				
U.S. public finance	\$264	\$23	\$(6	) \$281
Non-U.S public finance	57	—	—	57
Public Finance	321	23	(6	) 338
Structured Finance:				
U.S. RMBS:				
First lien:				
Prime first lien	21	(3	) —	18
Alt-A first lien	304	8	(4	) 308
Option ARM	(9	) (15	) (4	) (28
Subprime	304	(7	) (2	) 295
Total first lien	620	(17	) (10	) 593
Second lien:				
Closed-end second lien	(11	) 5	2	(4
HELOCs	(116	) 2	5	(109
Total second lien	(127	) 7	7	(113
Total U.S. RMBS	493	(10	) (3	) 480
Triple-X life insurance transactions	75	13	(1	) 87
TruPS	51	(19	) —	32
Other structured finance	45	6	—	51
Structured Finance	664	(10	) (4	) 650
Subtotal	985	13	(10	) 988
Other insurance	(3	) (1	) —	(4
Total	\$982	\$12	\$(10	) \$984

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 \$4 million and \$6 million in loss adjustment expenses ("LAE") for First Quarter 2015 and 2014, respectively.

(2)Includes expected LAE to be paid of \$13 million as of March 31, 2015 and \$16 million as of December 31, 2014.

Table of ContentsNet Expected Recoveries from
Breaches of R&W Rollforward
First Quarter 2015

	Future Net R&W Benefit as of December 31, 2014 (in millions)	R&W Development and Accretion of Discount During 2015	R&W (Recovered) During 2015	Future Net R&W Benefit as of March 31, 2015 (1)
U.S. RMBS:				
First lien:				
Prime first lien	\$2	\$ (1	) \$—	\$ 1
Alt-A first lien	106	(10	) (2	) 94
Option ARM	15	(20	) (15	) (20
Subprime	109	(19	) (3	) 87
Total first lien	232	(50	) (20	) 162
Second lien:				
Closed-end second lien	85	(1	) (1	) 83
HELOC	—	—	—	—
Total second lien	85	(1	) (1	) 83
Total	\$317	\$ (51	) \$ (21	) \$ 245

Net Expected Recoveries from
Breaches of R&W Rollforward
First Quarter 2014

	Future Net R&W Benefit as of December 31, 2013 (in millions)	R&W Development and Accretion of Discount During 2014	R&W (Recovered) During 2014	Future Net R&W Benefit as of March 31, 2014
U.S. RMBS:				
First lien:				
Prime first lien	\$4	\$ (1	) \$—	\$ 3
Alt-A first lien	274	3	(8	) 269
Option ARM	173	9	(30	) 152
Subprime	118	28	—	146
Total first lien	569	39	(38	) 570
Second lien:				
Closed-end second lien	98	(3	) —	95
HELOC	45	12	(1	) 56
Total second lien	143	9	(1	) 151
Total	\$712	\$ 48	\$ (39	) \$ 721

(1) See the section "Breaches of Representations and Warranties" below for eligible assets held in trust.

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

Net Expected Loss to be Paid (Recovered)

By Accounting Model

As of March 31, 2015

	Financial Guaranty Insurance (in millions)	FG VIEs(1)	Credit Derivatives(2)	Total	
Public Finance:					
U.S. public finance	\$310	\$—	\$—	\$310	
Non-U.S. public finance	42	—	—	42	
Public Finance	352	—	—	352	
Structured Finance:					
U.S. RMBS:					
First lien:					
Prime first lien	3	—	—	3	
Alt-A first lien	278	17	(6	) 289
Option ARM	(17) —	1	(16)
Subprime	157	69	67	293	
Total first lien	421	86	62	569	
Second lien:					
Closed-end second lien	(24	) 31	4	11
HELOCs	(15) 5	—	(10)
Total second lien	(39	) 36	4	1
Total U.S. RMBS	382	122	66	570	
Triple-X life insurance transactions	157	—	8	165	
TruPS	0	—	14	14	
Other structured finance	98	—	(46	) 52
Structured Finance	637	122	42	801	
Subtotal	\$989	\$122	\$42	\$1,153	
Other				1	
Total				\$1,154	

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Net Expected Loss to be Paid (Recovered)
By Accounting Model
As of December 31, 2014

	Financial Guaranty Insurance (in millions)	FG VIEs(1)	Credit Derivatives(2)	Total
Public Finance:				
U.S. public finance	\$303	\$—	\$—	\$303
Non-U.S. public finance	45	—	—	45
Public Finance	348	—	—	348
Structured Finance:				
U.S. RMBS:				
First lien:				
Prime first lien	2	—	2	4
Alt-A first lien	288	17	(1	) 304
Option ARM	(15	) —	(1	) (16
Subprime	163	71	69	303
Total first lien	438	88	69	595
Second lien:				
Closed-end second lien	(27	) 31	4	8
HELOCs	(26	) 7	—	(19
Total second lien	(53	) 38	4	(11
Total U.S. RMBS	385	126	73	584
Triple-X life insurance transactions	153	—	8	161
TruPS	1	—	22	23
Other structured finance	102	—	(45	) 57
Structured Finance	641	126	58	825
Subtotal	\$989	\$126	\$58	1,173
Other				(4
Total				\$1,169

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

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

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

Net Economic Loss Development (Benefit)

By Accounting Model

First Quarter 2015

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

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Net Economic Loss Development (Benefit)
By Accounting Model
First Quarter 2014

	Financial Guaranty Insurance (in millions)	FG VIEs(1)	Credit Derivatives(2)	Total
Public Finance:				
U.S. public finance	\$23	\$—	\$—	\$23
Non-U.S. public finance	—	—	—	—
Public Finance	23	—	—	23
Structured Finance:				
U.S. RMBS:				
First lien:				
Prime first lien	—	—	(3	) (3
Alt-A first lien	19	(12	) 1	8
Option ARM	(16	) 1	—	(15
Subprime	(8	) (2	) 3	(7
Total first lien	(5	) (13	) 1	(17
Second lien:				
Closed-end second lien	(1	) 2	4	5
HELOCs	(56	) 58	—	2
Total second lien	(57	) 60	4	7
Total U.S. RMBS	(62	) 47	5	(10
Triple-X life insurance transactions	13	—	—	13
TruPS	(1	) —	(18	) (19
Other structured finance	4	—	2	6
Structured Finance	(46	) 47	(11	) (10
Subtotal	\$(23	) \$47	\$(11	) 13
Other				(1
Total				\$12

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

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

Selected U.S. Public Finance Transactions

The Company insures general obligation bonds of the Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations aggregating \$4.9 billion net par as of March 31, 2015. The Company rates \$4.7 billion net par of that amount 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 3, Outstanding Exposure.

On February 25, 2015, a plan of adjustment resolving the bankruptcy filing of the City of Stockton, California under chapter 9 of the U.S. Bankruptcy Code became effective. As of March 31, 2015, the Company's net exposure subject to the plan consists of \$117 million of pension obligation bonds. As part of the plan settlement, the City will repay the pension obligation bonds from certain fixed payments and certain variable payments contingent on the City's revenue growth. The Company agreed as part of the plan to cancel its \$40 million of the City's lease revenue bonds in

exchange for the irrevocable option to take title to the office building that served as collateral for the lease revenue bonds. The Company also receives net

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rental payments from the office building. The Company no longer reflects the canceled lease revenue bonds as outstanding insured net par, but instead the financial statements reflect an investment in the office building and related lease revenue and expenses. As of March 31, 2015, the office building is carried at approximately \$30 million and is reported as part of Other Assets.

The Company has \$336 million of net par exposure to the Louisville Arena Authority. The bond proceeds were used to construct the KFC Yum Center, home to the University of Louisville men's and women's basketball teams. Actual revenues available for Debt Service are well below original projections, and under the Company's internal rating scale, the transaction is BIG.

In December 2014, the City of Detroit emerged from bankruptcy under chapter 9 of the U.S. Bankruptcy Code. The Company still expects to make debt service payments on the 15.5% of the City's unlimited tax general obligation ("UTGO") that were not exchanged as part of the related settlement. As of March 31, 2015, these bonds had a net par outstanding of \$20 million.

The Company projects that its total net expected loss across its troubled U.S. public finance credits as of March 31, 2015, which incorporated the likelihood of the outcomes mentioned above, will be \$310 million, compared with a net expected loss of \$303 million as of December 31, 2014. Economic loss development in First Quarter 2015 was \$9 million which was primarily attributable to certain Puerto Rico exposures.

Certain Selected European Country 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 regions also to default. The Company's gross exposure to these Spanish and Portuguese credits is \$461 million and \$114 million, respectively and exposure net of reinsurance for Spanish and Portuguese credits is \$331 million and \$102 million, respectively. The Company rates most of these issuers in the BB category due to the financial condition of Spain and Portugal and their dependence on the sovereign. The Company's Hungary exposure is to infrastructure bonds dependent on payments from Hungarian governmental entities and covered mortgage bonds issued by Hungarian banks. The Company's gross exposure to these Hungarian credits is \$465 million and its exposure net of reinsurance is \$439 million, most of which is rated BIG. The Company estimated net expected losses of \$42 million related to these Spanish, Portuguese and Hungarian credits. The positive economic loss development of approximately \$3 million during First Quarter 2015 was primarily related to changes in the exchange rate between the Euro and US Dollar.

Infrastructure Finance

The Company has insured exposure of approximately \$3.0 billion to infrastructure transactions with refinancing risk as to which the Company may need to make claim payments that it did not anticipate paying when the policies were issued. Although the Company may not experience ultimate loss on a particular transaction, the aggregate amount of the claim payments may be substantial and reimbursement may not occur for an extended time. These transactions generally involve long-term infrastructure projects that were financed by bonds that mature prior to the expiration of the project concession. The Company expects the cash flows from these projects to be sufficient to repay all of the debt over the life of the project concession, but also expects the debt to be refinanced in the market at or prior to its maturity. If the issuer is unable to refinance the debt due to market conditions, the Company may have to pay a claim when the debt matures, and then recover its payment from cash flows produced by the project in the future. The Company generally projects that in most scenarios it will be fully reimbursed for such payments. However, the recovery of the payments is uncertain and may take from 10 to 35 years, depending on the transaction and the performance of the underlying collateral. The Company estimates total claims for the two largest transactions with significant refinancing risk, assuming no refinancing, and based on certain performance assumptions could be \$1.7 billion on a gross basis; such claims would be payable from 2017 through 2022.

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 to the projected performance of the collateral over time. The resulting projected claim payments or reimbursements are then discounted using risk-free rates. For transactions where the Company projects it will receive recoveries from providers of R&W, it projects the amount of recoveries and either establishes a recovery for claims already paid or reduces its projected claim payments accordingly.

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The further behind a mortgage borrower falls in making payments, the more likely it is that he or she will default. The rate at which borrowers from a particular delinquency category (number of monthly payments behind) eventually default is referred to as the "liquidation rate." The Company derives its liquidation rate assumptions from observed roll rates, which are the rates at which loans progress from one delinquency category to the next and eventually to default and liquidation. The Company applies liquidation rates to the mortgage loan collateral in each delinquency category and makes certain timing assumptions to project near-term mortgage collateral defaults from loans that are currently delinquent.

Mortgage borrowers that are not more than one payment behind (generally considered performing borrowers) have demonstrated an ability and willingness to pay throughout the recession and mortgage crisis, and as a result are viewed as less likely to default than delinquent borrowers. Performing borrowers that eventually default will also need to progress through delinquency categories before any defaults occur. The Company projects how many of the currently performing loans will default and when they will default, by first converting the projected near term defaults of delinquent borrowers derived from liquidation rates into a vector of conditional default rates ("CDR"), then projecting how the conditional default rates will develop over time. Loans that are defaulted pursuant to the conditional default rate after the near-term liquidation of currently delinquent loans represent defaults of currently performing loans and projected re-performing loans. A conditional default rate is the outstanding principal amount of defaulted loans liquidated in the current month divided by the remaining outstanding amount of the whole pool of loans (or "collateral pool balance"). The collateral pool balance decreases over time as a result of scheduled principal payments, partial and whole principal prepayments, and defaults.

In order to derive collateral pool losses from the collateral pool defaults it has projected, the Company applies a loss severity. The loss severity is the amount of loss the transaction experiences on a defaulted loan after the application of net proceeds from the disposal of the underlying property. The Company projects loss severities by sector based on its experience to date. The Company continues to update its evaluation of these exposures as new information becomes available.

The Company has been enforcing claims for breaches of R&W regarding the characteristics of the loans included in the collateral pools. The Company calculates a credit for R&W recoveries to include in its cash flow projections. Where the Company has an agreement with an R&W provider (such as its agreements with Bank of America, Deutsche Bank and UBS, which are described in more detail under "Breaches of Representations and Warranties" below), that credit is based on the agreement or potential agreement. Where the Company does not have an agreement with the R&W provider but the Company believes the R&W provider to be economically viable, the Company estimates what portion of its past and projected future claims it believes will be reimbursed by that provider.

The Company projects the overall future cash flow from a collateral pool by adjusting the payment stream from the principal and interest contractually due on the underlying mortgages for the collateral losses it projects as described above; assumed voluntary prepayments; and servicer advances. The Company then applies an individual model of the structure of the transaction to the projected future cash flow from that transaction's collateral pool to project the Company's future claims and claim reimbursements for that individual transaction. Finally, the projected claims and reimbursements are discounted using risk-free rates. The Company runs several sets of assumptions regarding mortgage collateral performance, or scenarios, and probability weights them.

The ultimate performance of the Company's RMBS transactions remains highly uncertain, may differ from the Company's projections and may be subject to considerable volatility due to the influence of many interrelated factors that are difficult to predict, including the level and timing of loan defaults, changes in housing prices, results from the Company's loss mitigation activities and other variables. The Company will continue to monitor the performance of its RMBS exposures and will adjust its RMBS loss projection assumptions and scenarios based on actual performance and management's view of future performance. If actual experience differs from the Company's assumptions, the losses

incurred could be materially different from the estimate.

The Company's RMBS loss projection methodology assumes that the housing and mortgage markets will continue improving. Each period the Company makes a judgment as to whether to change the assumptions it uses to make RMBS loss projections based on its observation during the period of the performance of its insured transactions (including early stage delinquencies, late stage delinquencies and loss severity) as well as the residential property market and economy in general, and, to the extent it observes changes, it makes a judgment as whether those changes are normal fluctuations or part of a trend.

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First Quarter 2015 U.S. RMBS Loss Projections

Based on its observation during the period of the performance of its insured transactions (including early stage delinquencies, late stage delinquencies and loss severity) as well as the residential property market and economy in general, the Company chose to use the same general assumptions to project RMBS losses as of March 31, 2015 as it used as of December 31, 2014, except that, for its first lien RMBS loss projections it again this quarter shortened by three months the period it is projecting it will take in the base case to reach the final CDR.

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 have been modified or have been delinquent in the previous 12 months, are two or more payments behind, are in foreclosure or that have been foreclosed and so the RMBS issuer owns the underlying real estate). 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 year the Company reviews the most recent twenty-four months of this data and adjusts its liquidation rates based on its observations. The following table shows liquidation assumptions for various non-performing categories.

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First Lien Liquidation Rates

	March 31, 2015	December 31, 2014
Current Loans Modified in the Previous 12 Months		
Alt A and Prime	25%	25%
Option ARM	25	25
Subprime	25	25
Current Loans Delinquent in the Previous 12 Months		
Alt A and Prime	25	25
Option ARM	25	25
Subprime	25	25
30 – 59 Days Delinquent		
Alt A and Prime	35	35
Option ARM	40	40
Subprime	35	35
60 – 89 Days Delinquent		
Alt A and Prime	50	50
Option ARM	55	55
Subprime	40	40
90+ Days Delinquent		
Alt A and Prime	60	60
Option ARM	65	65
Subprime	55	55
Bankruptcy		
Alt A and Prime	45	45
Option ARM	50	50
Subprime	40	40
Foreclosure		
Alt A and Prime	75	75
Option ARM	80	80
Subprime	70	70
Real Estate Owned		
All	100	100

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

In the base case, after the initial 36-month CDR plateau period, each transaction's CDR is projected to improve over 12 months to an intermediate CDR (calculated as 20% of its CDR plateau); that intermediate CDR is held constant for 36 months and then trails off in steps to a final CDR of 5% of the CDR plateau. In the base case, the Company assumes the final CDR will be reached eight years and three months after the initial 36-month CDR plateau period, which is three months shorter than assumed as of December 31, 2014 but the same calendar date as it assumed as of

June 30, 2014. Under the Company's methodology, defaults projected to occur in the first 36 months represent defaults that can be attributed to loans that were modified or delinquent in the last 12 months or that are currently delinquent or in foreclosure, while the defaults projected to occur using the projected CDR trend after the first 36 month period represent defaults attributable to borrowers that are currently performing or are projected to reperform.

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Another important driver of loss projections is loss severity, which is the amount of loss the transaction incurs on a loan after the application of net proceeds from the disposal of the underlying property. Loss severities experienced in first lien transactions have reached historic high levels, and the Company is assuming in the base case that these high levels generally will continue for another 18 months. The Company determines its initial loss severity based on actual recent experience. 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. Beginning for December 31, 2014, the Company differentiated the loss severity assumptions depending on the vintage of the transaction, as shown in the table below.

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

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

	As of March 31, 2015		Weighted Average	As of December 31, 2014		Weighted Average
	Range			Range		
Alt-A First Lien						
Plateau CDR	2.6	%– 13.1%	7.4%	2.0	%– 13.4%	7.3%
Intermediate CDR	0.5	%– 2.6%	1.5%	0.4	%– 2.7%	1.5%
Period until intermediate CDR	48 months			48 months		
Final CDR	0.1	%– 0.7%	0.3%	0.1	%– 0.7%	0.3%
Initial loss severity:						
2005 and prior	60.0%			60.0%		
2006	70.0%			70.0%		
2007	65.0%			65.0%		
Initial conditional prepayment rate ("CPR")	2.7	%– 22.4%	8.1%	1.7	%– 21.0%	7.7%
Final CPR(2)	15.0	%– 22.4%	15.2%	15%		
Option ARM						
Plateau CDR	4.5	%– 12.9%	9.9%	4.3	%– 14.2%	10.6%
Intermediate CDR	0.9	%– 2.6%	2.0%	0.9	%– 2.8%	2.1%
Period until intermediate CDR	48 months			48 months		
Final CDR	0.2	%– 0.6%	0.5%	0.2	%– 0.7%	0.5%
Initial loss severity:						
2005 and prior	60.0%			60.0%		
2006	70.0%			70.0%		
2007	65.0%			65.0%		
Initial CPR	1.8	%– 12.7%	4.9%	1.1	%– 11.8%	4.9%
Final CPR(2)	15%			15%		
Subprime						
Plateau CDR	4.8	%– 14.4%	10.2%	4.9	%– 15.0%	10.6%
Intermediate CDR	1.0	%– 2.9%	2.0%	1.0	%– 3.0%	2.1%
Period until intermediate CDR	48 months			48 months		
Final CDR	0.2	%– 0.7%	0.4%	0.2	%– 0.7%	0.4%
Initial loss severity:						
2005 and prior	75.0%			75.0%		
2006	90.0%			90.0%		
2007	90.0%			90.0%		
Initial CPR	0.0	%– 9.7%	4.7%	0.0	%– 10.5%	6.1%
Final CPR(2)	15%			15%		

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

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

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 conditional default rate, 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

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interest owed on the insured obligations). The assumption for the voluntary CPR follows a similar pattern to that of the conditional default rate. 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 assumptions are the same as those the Company used for December 31, 2014.

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 conditional default rate returned to its modeled equilibrium, which was defined as 5% of the initial conditional default rate. The Company also stressed CPR and the speed of recovery of loss severity rates. The Company probability weighted a total of five scenarios (including its base case) as of March 31, 2015. The Company used a similar approach to establish its pessimistic and optimistic scenarios as of March 31, 2015 as it used as of December 31, 2014, increasing and decreasing the periods of stress from those used in the base case.

In a somewhat more stressful environment than that of the base case, where the conditional default rate plateau was extended six months (to be 42 months long) before the same more gradual conditional default rate recovery and loss severities were assumed to recover over 4.5 rather than 2.5 years (and subprime loss severities were assumed to recover only to 60% and Option ARM and Alt A loss severities to only 45%), expected loss to be paid would increase from current projections by approximately \$38 million for Alt-A first liens, \$2 million for Option ARM, \$72 million for subprime and \$1 million for prime transactions.

In an even more stressful scenario where loss severities were assumed to rise and then recover over nine years and the initial ramp-down of the conditional default rate was assumed to occur over 15 months and other assumptions were the same as the other stress scenario, expected loss to be paid would increase from current projections by approximately \$84 million for Alt-A first liens, \$12 million for Option ARM, \$99 million for subprime and \$4 million for prime transactions.

In a scenario with a somewhat less stressful environment than the base case, where conditional default rate recovery was somewhat less gradual, expected loss to be paid would decrease from current projections by approximately \$0.4 million for Alt-A first lien, \$14 million for Option ARM, \$11 million for subprime and \$0.1 million for prime transactions.

In an even less stressful scenario where the conditional default rate plateau was six months shorter (30 months, effectively assuming that liquidation rates would improve) and the conditional default rate recovery was more pronounced, (including an initial ramp-down of the conditional default rate over nine months), expected loss to be paid would decrease from current projections by approximately \$26 million for Alt-A first lien, \$26 million for Option ARM, \$47 million for subprime and \$0.5 million for prime transactions.

U.S. Second Lien RMBS Loss Projections: HELOCs and Closed-End Second Lien

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

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 second lien U.S. RMBS.

Table of ContentsKey Assumptions in Base Case Expected Loss Estimates
Second Lien RMBS(1)

HELOC key assumptions	As of March 31, 2015			As of December 31, 2014		
	Range		Weighted Average	Range		Weighted Average
Plateau CDR	2.3	%– 7.5%	4.4%	2.8	%– 6.8%	4.1%
Final CDR trended down to Period until final CDR	0.5	%– 3.2%	1.2%	0.5	%– 3.2%	1.2%
Initial CPR	34 months			34 months		
Final CPR(2)	6.9	%– 23.2%	10.2%	6.9	%– 21.8%	11.0%
Loss severity	10.0	%– 23.2%	15.2%	15.0	%– 21.8%	15.5%
	90.0	%– 98.0%	90.4%	90.0	%– 98.0%	90.4%

Closed-end second lien key assumptions	As of March 31, 2015			As of December 31, 2014		
	Range		Weighted Average	Range		Weighted Average
Plateau CDR	4.7	%– 12.4%	6.9%	5.5	%– 12.5%	7.2%
Final CDR trended down to Period until final CDR	3.5	%– 9.1%	4.9%	3.5	%– 9.1%	4.9%
Initial CPR	34 months			34 months		
Final CPR(2)	3.4	%– 11.8%	7.6%	2.8	%– 13.9%	9.9%
Loss severity	15%			15%		
	98%			98%		

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

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

In second lien transactions the projection of near-term defaults from currently delinquent loans is relatively straightforward because loans in second lien transactions are generally “charged off” (treated as defaulted) by the securitization’s servicer once the loan is 180 days past due. Most second lien transactions report the amount of loans in five monthly delinquency categories (i.e., 30-59 days past due, 60-89 days past due, 90-119 days past due, 120-149 days past due and 150-179 days past due). The Company estimates the amount of loans that will default over the next five months by calculating current representative liquidation rates (the percent of loans in a given delinquency status that are assumed to ultimately default) from selected representative transactions and then applying an average of the preceding twelve months’ liquidation rates to the amount of loans in the delinquency categories. The amount of loans projected to default in the first through fifth months is expressed as a CDR. The first four months’ CDR is calculated by applying the liquidation rates to the current period past due balances (i.e., the 150-179 day balance is liquidated in the first projected month, the 120-149 day balance is liquidated in the second projected month, the 90-119 day balance is liquidated in the third projected month and the 60-89 day balance is liquidated in the fourth projected month). For the fifth month the CDR is calculated using the average 30-59 day past due balances for the prior three months, adjusted as necessary to reflect one-time service events. The fifth month CDR is then used as the basis for the plateau period that follows the embedded five months of losses.

For the base case scenario, the CDR (the “plateau CDR”) was held constant for one month. Once the plateau period has ended, the CDR is assumed to gradually trend down in uniform increments to its final long-term steady state CDR. (The long-term steady state CDR is calculated as the constant CDR that would have yielded the amount of losses

originally expected at underwriting.) In the base case scenario, the time over which the CDR trends down to its final CDR is 28 months. Therefore, the total stress period for second lien transactions is 34 months, comprising five months of delinquent data, a one month plateau period and 28 months of decrease to the steady state CDR, the same as of December 31, 2014.

HELOC loans generally permit the borrower to pay only interest for an initial period (often ten years) and, after that period, require the borrower to make both the monthly interest payment and a monthly principal payment, and so increase the borrower's aggregate monthly payment. Some of the HELOC loans underlying the Company's insured HELOC transactions have reached their principal amortization period. The Company has observed that for loans reaching their principal

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amortization period planned servicer intervention is not completely effective. Thus, most of the HELOC projections incorporate an assumption that 7.5% of loans reaching their amortization periods will default around the time of the payment increase. These projected defaults are in addition to those generated using the CDR curve as described above. This assumption is the same as December 31, 2014.

When a second lien loan defaults, there is generally a very low recovery. The Company had assumed as of December 31, 2014 that it will recover only 10% of the collateral defaulting in the future and declining additional amounts on post-default receipts on previously defaulted collateral. This is the same as at December 31, 2014.

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, the current CPR (based on experience of the most recent three quarters) is assumed to continue until the end of the plateau before gradually increasing to the final CPR over the same period the CDR decreases. For transactions where the initial CPR is higher than the final CPR, the initial CPR is held constant and the final CPR is not used. The final CPR is assumed to be 15% for both HELOC and closed-end second lien transactions, which is lower than the historical average but reflects the Company's continued uncertainty about the projected performance of the borrowers in these transactions. This pattern is consistent with how the Company modeled the CPR at December 31, 2014. 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 and HELOC draw rates (the amount of new advances provided on existing HELOCs expressed as a percentage of the current pool balance). These variables have been relatively stable and in the relevant ranges have less impact on the projection results than the variables discussed above. However, in a number of HELOC transactions the servicers have been modifying poorly performing loans from floating to fixed rates, and, as a result, rising interest rates would negatively impact the excess spread available from these modified loans to support the transactions. The Company incorporated these modifications in its assumptions.

In estimating expected losses, the Company modeled and probability weighted three possible CDR curves applicable to the period preceding the return to the long-term steady state CDR using the same approaches and weightings as it did as of December 31, 2014. The Company believes that the level of the elevated CDR and the length of time it will persist is the primary driver behind the likely amount of losses the collateral will suffer. The Company continues to evaluate the assumptions affecting its modeling results.

The Company's base case assumed a one 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 four months and increasing the ramp-down by five months to 33 months (for a total stress period of 42 months) would increase the expected loss by approximately \$14 million for HELOC transactions and \$1 million for closed-end second lien transactions. On the other hand, keeping the CDR plateau at one month but decreasing the length of the CDR ramp-down to 18 months (for a total stress period of 24 months) would decrease the expected loss by approximately \$14 million for HELOC transactions and \$1 million for closed-end second lien transactions.

Breaches of Representations and Warranties

Generally, when mortgage loans are transferred into a securitization, the loan originator(s) and/or sponsor(s) provide R&W that the loans meet certain characteristics, and a breach of such R&W often requires that the loan be repurchased from the securitization. In many of the transactions the Company insures, it is in a position to enforce these R&W provisions. The Company has pursued breaches of R&W on a loan-by-loan basis or in cases where a provider of R&W refused to honor its repurchase obligations, the Company sometimes chose to initiate litigation. The

Company's success in pursuing these strategies permitted the Company to enter into agreements with R&W providers under which those providers made payments to the Company, agreed to make payments to the Company in the future, and / or repurchased loans from the transactions, all in return for releases of related liability by the Company. In some instances, the entity providing the R&W (or an affiliate of that entity) also benefited from credit protection sold by the Company through a CDS, and the Company entered into an agreement terminating the CDS protection it provided (and so avoiding future losses on that transaction), again in return for releases of related liability by the Company and in certain instances other consideration. Such agreements with R&W providers provide the Company with many of the benefits of pursuing the R&W claims on a loan by loan basis or through litigation, but without the related expense and uncertainty. The Company continues to pursue these strategies against R&W providers with which it does not yet have agreements.

Through March 31, 2015, the Company has caused entities providing R&Ws to pay, or agree to pay, or to terminate insurance protection on future projected losses of, approximately \$4.2 billion (gross of reinsurance) in respect of their R&W

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liabilities for transactions in which the Company has provided insurance and included in its net expected loss estimates as of March 31, 2015 an estimated net benefit of \$245 million, (net of reinsurance). Most of this net benefit is projected to be received pursuant to existing agreements with R&W providers, although some is projected to be received in connection with transactions where the company does not yet have such an agreement. Most of the amount projected to be received pursuant to existing agreements with R&W providers benefits from eligible assets placed in trusts to collateralize the R&W provider's future reimbursement obligation, with the amount of such collateral subject to increase or decrease from time to time as determined by rating agency requirements. Currently the Company has agreements with three counterparties where a future reimbursement obligation is collateralized by eligible assets held in trust:

Bank of America. Under the Company's agreement with Bank of America Corporation and certain of its subsidiaries ("Bank of America"), Bank of America agreed to reimburse the Company for 80% of claims on the first lien transactions covered by the agreement that the Company pays in the future, until the aggregate lifetime collateral losses (not insurance losses or claims) on those transactions reach \$6.6 billion. As of March 31, 2015 aggregate lifetime collateral losses on those transactions was \$4.2 billion, and the Company was projecting in its base case that such collateral losses would eventually reach \$5.2 billion. Bank of America's reimbursement obligation is secured by \$569 million of collateral held in trust for the Company's benefit.

Deutsche Bank. Under the Company's May 2012 agreement with Deutsche Bank AG and certain of its affiliates (collectively, "Deutsche Bank"), Deutsche Bank agreed to reimburse the Company for certain claims it pays in the future on eight first and second lien transactions, including 80% of claims it pays on those transactions until the aggregate lifetime claims (before reimbursement) reach \$319 million. As of March 31, 2015, the Company was projecting in its base case that such aggregate lifetime claims would remain below \$319 million. In the event aggregate lifetime claims paid exceed \$389 million, Deutsche Bank must reimburse the Company for 85% of such claims paid (in excess of \$389 million) until such claims paid reach \$600 million.

When the agreement was first signed, Deutsche Bank was also required to reimburse AGC for future claims it pays on certain RMBS securitizations. AGC and Deutsche Bank terminated one of the securitization transactions on October 10, 2013, another on September 12, 2014 and two more in the fourth quarter of 2014. In the fourth quarter of 2014, AGC and Deutsche Bank also terminated one other BIG transaction under which AGC had provided credit protection to Deutsche Bank through a CDS. In connection with the 2014 terminations, AGC and Deutsche Bank agreed to terminate Deutsche Bank's reimbursement obligation on all of the RMBS securitizations, and AGC made a termination payment to Deutsche Bank and released some of the collateral that had been held in trust. Deutsche Bank remains liable to reimburse the Company for certain claims it pays on eight first and second lien transactions, as described above, and such reimbursement obligation remains secured by \$78 million of collateral held in trust for the Company's benefit.

UBS. On May 6, 2013, the Company entered into an agreement with UBS Real Estate Securities Inc. and affiliates ("UBS") and a third party resolving the Company's claims and liabilities related to specified RMBS transactions that were issued, underwritten or sponsored by UBS and insured by AGM or AGC under financial guaranty insurance policies. Under the agreement, UBS agreed to reimburse the Company for 85% of future losses on three first lien RMBS transactions, and such reimbursement obligation is secured by \$95 million of collateral held in trust for the Company's benefit.

For the expected recovery from breaches of R&W in transactions not covered by agreements as of March 31, 2015, the Company did not incorporate any gain contingencies from potential litigation in its estimated repurchases. The amount the Company will ultimately recover related to such contractual R&W is uncertain and subject to a number of factors including the counterparty's ability to pay, the number and loss amount of loans determined to have breached R&W and, potentially, negotiated settlements or litigation recoveries. As such, the Company's estimate of recoveries

is uncertain and actual amounts realized may differ significantly from these estimates. In arriving at the expected recovery from breaches of R&W not already covered by agreements, the Company considered the creditworthiness of the provider of the R&W, the number of breaches found on defaulted loans, the success rate in resolving these breaches across those transactions where material repurchases have been made and the potential amount of time until the recovery is realized. The calculation of expected recovery from breaches of such contractual R&W involved a variety of scenarios which ranged from the Company recovering substantially all of the losses it incurred due to violations of R&W to the Company realizing limited recoveries. These scenarios were probability weighted in order to determine the recovery incorporated into the Company's estimate of expected losses. This approach was used for both loans that had already defaulted and those assumed to default in the future. The Company adjusts the calculation of its expected recovery from breaches of R&W based on changing facts and circumstances with respect to each counterparty and transaction.

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The Company uses the same RMBS projection scenarios and weightings to project its future R&W benefit as it uses to project RMBS losses on its portfolio. To the extent the Company increases its loss projections, the R&W benefit (whether pursuant to an R&W agreement or not) generally will also increase, subject to the agreement limits and thresholds described above. Similarly, to the extent the Company decreases its loss projections, the R&W benefit (whether pursuant to an R&W agreement or not) generally will also decrease, subject to the agreement limits and thresholds described above.

The number of risks subject to R&W recovery is 30, with related net debt service of 2.1 billion as of March 31, 2015 compared to 29 with related net debt service of \$2.1 billion as of December 31, 2014. Included in these amounts is net debt service related to transactions not yet subject to an agreement. A risk represents the aggregate of the financial guaranty policies that share the same revenue source for purposes of making Debt Service payments.

The following table provides a breakdown of the development and accretion amount in the roll forward of estimated recoveries associated with claims for breaches of R&W.

Components of R&W Development

	First Quarter 2015	2014
	(in millions)	
Estimated increase (decrease) in defaults that will result in additional (lower) breaches ⁽¹⁾	\$(52	) \$0
Inclusion or removal of deals with breaches of R&W during period	0	—
Change in recovery assumptions	—	10
Settlements and anticipated settlements	—	35
Accretion of discount on balance	1	3
Total	\$(51	) \$48

⁽¹⁾ The negative R&W development is offset by higher anticipated cash flows in the covered transactions that were related to a third party settlement.

Triple-X Life Insurance Transactions

The Company's \$3.1 billion net par of Triple-X life insurance transactions as of March 31, 2015 include \$598 million rated BIG in two transactions. The Triple-X life insurance transactions are based on discrete blocks of individual life insurance business.

In older vintage Triple-X transactions, which include the Company's two BIG Triple-X transactions, the monies raised by the sale of the notes insured by the Company were used to capitalize a special purpose vehicle that provides reinsurance to a life insurer or reinsurer. The monies are invested at inception in accounts managed by third-party investment managers. In the case of the two BIG Triple-X life insurance transactions, material amounts of their assets were invested in U.S. RMBS. Based on its analysis of the information currently available, including estimates of future investment performance, and projected credit impairments on the invested assets and performance of the blocks of life insurance business at March 31, 2015, the Company's projected net expected loss to be paid is \$165 million. The economic loss development during First Quarter 2015 was approximately \$5 million, which was due primarily to changes in the risk free rates used to discount the losses and life insurance projections.

Trust Preferred Securities Collateralized Debt Obligations

The Company has insured or reinsured \$4.1 billion of net par (72% of which is in CDS form) of collateralized debt obligations (“CDOs”) backed by TruPS and similar debt instruments, or “TruPS CDOs.” Of the \$4.1 billion, \$1.2 billion is rated BIG. The underlying collateral in the TruPS CDOs consists of subordinated debt instruments such as TruPS issued by bank holding companies and similar instruments issued by insurance companies, real estate investment trusts (“REITs”) and other real estate related issuers.

The Company projects losses for TruPS CDOs by projecting the performance of the asset pools across several scenarios (which it weights) and applying the CDO structures to the resulting cash flows. At March 31, 2015, the Company has

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projected expected losses to be paid for TruPS CDOs of \$14 million. During First Quarter 2015, there was positive economic development of approximately \$9 million, which was due primarily to improving collateral performance during the quarter.

Manufactured Housing

The Company insures or reinsures a total of \$215 million net par of securities backed by manufactured housing loans, of which \$155 million is rated BIG. The Company has expected loss to be paid of \$25 million as of March 31, 2015. The economic loss development during First Quarter 2015 was immaterial.

Student Loan Transactions

The Company has insured or reinsured \$2.5 billion net par of student loan securitizations, of which \$1.8 billion was issued by private issuers and classified as asset-backed and \$0.7 billion was issued by public authorities and classified as public finance. Of these amounts, \$193 million and \$90 million, respectively, are rated BIG. The Company is projecting approximately \$75 million of net expected loss to be paid in these portfolios. 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 positive economic development during First Quarter 2015 was approximately \$8 million, which was due to a partial commutation by the underlying insurer.

Recovery Litigation

RMBS Transactions

In November 2014, AGM and its affiliate AGC reached a confidential settlement with DLJ Mortgage Capital, Inc., Credit Suisse First Boston Mortgage Securities Corp. and Credit Suisse Securities (USA) LLC to resolve a lawsuit relating to six first lien U.S. RMBS transactions. AGM and AGC sought damages for alleged breaches of representations and warranties in respect of the underlying loans in these transactions, and failure to cure or repurchase defective loans identified by AGM and AGC. On November 25, 2014, the parties filed a joint stipulation discontinuing the lawsuit with prejudice. However, on November 20, 2014, U.S. Bank National Association, as trustee for the transactions, had filed a motion to intervene as a plaintiff in the lawsuit. On November 26, 2014, the trustee submitted a letter stating that the joint stipulation is ineffective and that the lawsuit may be discontinued only by court order, and requesting an opportunity to review and potentially oppose the settlement. On March 5, 2015 the Court denied the motion to intervene.

Triple-X Life Insurance Transactions

In December 2008, AGUK filed an action against J.P. Morgan Investment Management Inc. ("JPMIM"), the investment manager in the Orkney Re II transaction, in the Supreme Court of the State of New York alleging that JPMIM engaged in breaches of fiduciary duty, gross negligence and breaches of contract based upon its handling of the investments of Orkney Re II. After AGUK's claims were dismissed with prejudice in January 2010, AGUK was successful in its subsequent motions and appeals and, as of December 2011, all of AGUK's claims for breaches of fiduciary duty, gross negligence and contract were reinstated in full. Separately, at the trial court level, discovery is ongoing.

Public Finance Transactions

On November 1, 2013, Radian Asset commenced a declaratory judgment action in the U.S. District Court for the Southern District of Mississippi against Madison County, Mississippi (the "County") and the Parkway East Public

Improvement District (the "District") to establish its rights under a contribution agreement from the County supporting the District's Special Assessment Bonds, Series 2005, insured by Radian Asset, with \$21.8 million outstanding on March 31, 2015. The County maintains that its payment obligation is limited to two years of annual debt service, while Radian Asset contends no such limitation applies. On April 20, 2015, the Court issued an order addressing cross-motions for partial summary judgment filed by Radian Asset and the County, and denied the County's motion for summary judgment that its payment obligation lasts only two years. On May 1, 2015, AGC paid its first claim on the District's bonds.

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6. Financial Guaranty Insurance Losses

Insurance Contracts' Loss Information

The following table provides balance sheet information on loss and LAE reserves and salvage and subrogation recoverable, net of reinsurance. The Company used weighted average risk-free rates for U.S. dollar denominated financial guaranty insurance obligations that ranged from 0.0% to 2.89% as of March 31, 2015 and 0.0% to 2.95% as of December 31, 2014. Financial guaranty insurance expected LAE reserve was \$10 million as of March 31, 2015 and \$12 million as of December 31, 2014.

Loss and LAE Reserve and Salvage and Subrogation Recoverable

Net of Reinsurance

Insurance Contracts

	As of March 31, 2015			As of December 31, 2014		
	Loss and LAE Reserve, net (in millions)	Salvage and Subrogation Recoverable, net	Net Reserve (Recoverable)	Loss and LAE Reserve, net	Salvage and Subrogation Recoverable, net	Net Reserve (Recoverable)
Public Finance:						
U.S. public finance	\$253	\$8	\$245	\$243	\$8	\$235
Non-U.S. public finance	28	—	28	30	—	30
Public Finance	281	8	273	273	8	265
Structured Finance:						
U.S. RMBS:						
First lien:						
Prime first lien	2	—	2	2	—	2
Alt-A first lien	80	—	80	87	—	87
Option ARM	24	42	(18)	28	40	(12)
Subprime	159	6	153	166	8	158
First lien	265	48	217	283	48	235
Second lien:						
Closed-end second lien	5	37	(32)	4	39	(35)
HELOCs	2	29	(27)	3	39	(36)
Second lien	7	66	(59)	7	78	(71)
Total U.S. RMBS	272	114	158	290	126	164
Triple-X life insurance transactions	144	—	144	140	—	140
TruPS	—	—	—	0	—	0
Other structured finance	90	—	90	96	2	94
Structured Finance	506	114	392	526	128	398
Financial guaranty	787	122	665	799	136	663
Other recoverables	—	7	(7)	—	13	(13)
Subtotal	787	129	658	799	149	650
Effect of consolidating FG VIEs	(78)	(1)	(77)	(80)	(1)	(79)
Subtotal	709	128	581	719	148	571
Other	1	—	1	2	6	(4)
Total (1)	\$710	\$128	\$582	\$721	\$154	\$567

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

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The following table reconciles the reported gross and ceded reserve and salvage and subrogation amount to the financial guaranty net reserves (salvage) in the financial guaranty BIG transaction loss summary tables.

Components of Net Reserves (Salvage)

Insurance Contracts

	As of March 31, 2015	As of December 31, 2014
	(in millions)	
Loss and LAE reserve	\$787	\$799
Reinsurance recoverable on unpaid losses	(77	) (78
Loss and LAE reserve, net	710	721
Salvage and subrogation recoverable	(128	) (151
Salvage and subrogation payable(1)	7	10
Other recoverables	(7	) (13
Salvage and subrogation recoverable, net and other recoverable	(128	) (154
Subtotal	582	567
Less: other (non-financial guaranty business)	1	(4
Net reserves (salvage) - financial guaranty	\$581	\$571

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

Balance Sheet Classification of

Net Expected Recoveries for Breaches of R&W

Insurance Contracts

	As of March 31, 2015			As of December 31, 2014		
	For all Financial Guaranty Insurance Contracts (in millions)	Effect of Consolidating FG VIEs	Reported on Balance Sheet(1)	For all Financial Guaranty Insurance Contracts	Effect of Consolidating FG VIEs	Reported on Balance Sheet(1)
Salvage and subrogation recoverable, net	\$2	\$—	\$ 2	\$20	\$—	\$ 20
Loss and LAE reserve, net	146	(8	) 138	185	(8	) 177

(1) The remaining benefit for R&W is either recorded at fair value in FG VIE assets, or not recorded on the balance sheet until the total loss, net of R&W, exceeds unearned premium reserve.

The table below provides a reconciliation of net expected loss to be paid to net expected loss to be expensed. Expected loss to be paid differs from expected loss to be expensed due to: (1) the contra-paid which represent the claim payments made and recoveries received that have not yet been recognized in the statement of operations, (2) salvage and subrogation recoverable for transactions that are in a net recovery position where the Company has not yet received recoveries on claims previously paid (having the effect of reducing net expected loss to be paid by the amount of the previously paid claim and the expected recovery), but will have no future income effect (because the previously paid claims and the corresponding recovery of those claims will offset in income in future periods), and

(3) loss reserves that have already been established (and therefore expensed but not yet paid).

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Net Expected Loss to be Expensed
Financial Guaranty Insurance Contracts

	As of March 31, 2015 (in millions)
Net expected loss to be paid	\$1,111
Less: net expected loss to be paid for FG VIEs	122
Total	989
Contra-paid, net	(93)
Salvage and subrogation recoverable, net of reinsurance	121
Loss and LAE reserve, net of reinsurance	(709)
Other recoveries	7
Net expected loss to be expensed (present value) (1)	\$315

(1) Excludes \$86 million as of March 31, 2015, related to consolidated FG VIEs.

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 refundings, accelerations, commutations, changes in expected lives and updates to loss estimates. This table excludes amounts related to FG VIEs, which are eliminated in consolidation.

Net Expected Loss to be Expensed
Financial Guaranty Insurance Contracts

	As of March 31, 2015 (in millions)
2015 (April 1 – June 30)	\$7
2015 (July 1 – September 30)	9
2015 (October 1 – December 31)	11
Subtotal 2015	27
2016	36
2017	27
2018	25
2019	23
2020-2024	77
2025-2029	45
2030-2034	34
After 2034	21
Net expected loss to be expensed	315
Discount	389
Total expected future loss and LAE	\$704

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

Loss and LAE
Reported on the

Consolidated Statements of Operations

	First Quarter 2015 (in millions)	2014	
Public Finance:			
U.S. public finance	\$13	\$26	
Non-U.S. public finance	5	1	
Public finance	18	27	
Structured Finance:			
U.S. RMBS:			
First lien:			
Prime first lien	0	0	
Alt-A first lien	(2	) 7	
Option ARM	(1	) (8)
Subprime	0	(8)
First lien	(3	) (9)
Second lien:			
Closed-end second lien	1	—	
HELOCs	9	8	
Second lien	10	8	
Total U.S. RMBS	7	(1)
Triple-X life insurance transactions	6	13	
TruPS	(1	) (1)
Other structured finance	(6	) 3	
Structured finance	6	14	
Subtotal	24	41	
Other	(1	) (1)
Loss and LAE on insurance contracts before FG VIE consolidation	23	40	
Effect of consolidating FG VIEs	(5) 1	
Loss and LAE	\$18	\$41	

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

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

	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)	164	(61)	73	(15)	119	(38)	356	—	356
Remaining weighted-average contract period (in years)	9.8	7.2	8.7	7.2	9.9	7.3	10.1	—	10.1
Outstanding exposure:									
Principal	\$11,993	\$(2,106)	\$2,701	\$(356)	\$2,847	\$(142)	\$14,937	\$—	\$14,937
Interest	6,082	(792)	1,262	(127)	1,013	(45)	7,393	—	7,393
Total(2)	\$18,075	\$(2,898)	\$3,963	\$(483)	\$3,860	\$(187)	\$22,330	\$—	\$22,330
Expected cash outflows (inflows)	\$1,655	\$(616)	\$759	\$(84)	\$1,721	\$(91)	\$3,344	\$(343)	\$3,001
Potential recoveries									
Undiscounted R&W	(1)	(1)	(47)	2	(133)	7	(173)	8	(165)
Other(3)	(1,583)	600	(271)	18	(449)	47	(1,638)	180	(1,458)
Total potential recoveries	(1,584)	599	(318)	20	(582)	54	(1,811)	188	(1,623)
Subtotal	71	(17)	441	(64)	1,139	(37)	1,533	(155)	1,378
Discount	(7)	0	(96)	10	(336)	7	(422)	33	(389)
Present value of expected cash flows	\$64	\$(17)	\$345	\$(54)	\$803	\$(30)	\$1,111	\$(122)	\$989
Deferred premium revenue	\$402	\$(75)	\$104	\$(6)	\$268	\$(25)	\$668	\$(111)	\$557
Reserves (salvage)(4)	\$(10)	\$(7)	\$269	\$(52)	\$468	\$(10)	\$658	\$(77)	\$581

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Financial Guaranty Insurance
 BIG Transaction Loss Summary
 As of December 31, 2014

	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)	164	(59)	75	(15)	119	(38)	358	—	358
Remaining weighted-average contract period (in years)	9.9	7.4	10.1	8.9	9.6	6.9	10.3	—	10.3
Outstanding exposure:									
Principal	\$12,358	\$(2,163)	\$2,421	\$(286)	\$3,067	\$(175)	\$15,222	\$—	\$15,222
Interest	6,350	(838)	1,274	(121)	1,034	(48)	7,651	—	7,651
Total(2)	\$18,708	\$(3,001)	\$3,695	\$(407)	\$4,101	\$(223)	\$22,873	\$—	\$22,873
Expected cash outflows (inflows)	\$1,762	\$(626)	\$763	\$(77)	\$1,716	\$(75)	\$3,463	\$(345)	\$3,118
Potential recoveries									
Undiscounted R&W	(39)	0	(48)	2	(171)	9	(247)	8	(239)
Other(3)	(1,687)	608	(206)	5	(404)	30	(1,654)	177	(1,477)
Total potential recoveries	(1,726)	608	(254)	7	(575)	39	(1,901)	185	(1,716)
Subtotal	36	(18)	509	(70)	1,141	(36)	1,562	(160)	1,402
Discount	3	0	(117)	11	(353)	9	(447)	34	(413)
Present value of expected cash flows	\$39	\$(18)	\$392	\$(59)	\$788	\$(27)	\$1,115	\$(126)	\$989
Deferred premium revenue	\$378	\$(70)	\$119	\$(6)	\$312	\$(33)	\$700	\$(116)	\$584
Reserves (salvage)(4)	\$(42)	\$(5)	\$278	\$(53)	\$482	\$(10)	\$650	\$(79)	\$571

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 draws on HELOCs.

(4) See table "Components of net reserves (salvage)."

Ratings Impact on Financial Guaranty Business

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

For example, AGM has issued financial guaranty insurance policies in respect of the obligations of municipal obligors under interest rate swaps. Under the swaps, AGM insures periodic payments owed by the municipal obligors to the bank counterparties. Under certain of the swaps, AGM also insures termination payments that may be owed by the municipal obligors to the bank counterparties. If (i) AGM has been downgraded below the rating trigger set forth in a swap under which it has insured the termination payment, which rating trigger varies on a transaction by transaction basis; (ii) the municipal obligor has the right to cure by, but has failed in, posting collateral, replacing AGM or otherwise curing the downgrade of AGM; (iii) the transaction documents include as a condition that an event of default or termination event with respect to the municipal obligor has occurred, such as the rating of the municipal obligor being downgraded past a specified level, and such condition has been met; (iv) the bank counterparty has elected to terminate the swap; (v) a termination payment is payable by the municipal obligor; and (vi) the municipal obligor has failed to make the termination payment payable by it, then AGM would be required to pay the termination payment due by the municipal obligor, in an amount not to exceed the policy limit set forth in the financial guaranty insurance policy. At AGM's current financial strength ratings, if the conditions giving rise to the

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obligation of AGM to make a termination payment under the swap termination policies were all satisfied, then AGM could pay claims in an amount not exceeding approximately \$163 million in respect of such termination payments. Taking into consideration whether the rating of the municipal obligor is below any applicable specified trigger, if the financial strength ratings of AGM were further downgraded below "A" by S&P or below "A2" by Moody's, and the conditions giving rise to the obligation of AGM to make a payment under the swap policies were all satisfied, then AGM could pay claims in an additional amount not exceeding approximately \$416 million in respect of such termination payments.

As another example, with respect to variable rate demand obligations ("VRDOs") for which a bank has agreed to provide a liquidity facility, a downgrade of AGM or AGC may provide the bank with the right to give notice to bondholders that the bank will terminate the liquidity facility, causing the bondholders to tender their bonds to the bank. Bonds held by the bank accrue interest at a "bank bond rate" that is higher than the rate otherwise borne by the bond (typically the prime rate plus 2.00% — 3.00%, and capped at the lesser of 25% and the maximum legal limit). In the event the bank holds such bonds for longer than a specified period of time, usually 90-180 days, the bank has the right to demand accelerated repayment of bond principal, usually through payment of equal installments over a period of not less than five years. In the event that a municipal obligor is unable to pay interest accruing at the bank bond rate or to pay principal during the shortened amortization period, a claim could be submitted to AGM or AGC under its financial guaranty policy. As of March 31, 2015, AGM and AGC had insured approximately \$5.9 billion net par of VRDOs, of which approximately \$0.3 billion of net par constituted VRDOs issued by municipal obligors rated BBB- or lower pursuant to the Company's internal rating. The specific terms relating to the rating levels that trigger the bank's termination right, and whether it is triggered by a downgrade by one rating agency or a downgrade by all rating agencies then rating the insurer, vary depending on the transaction.

In addition, AGM may be required to pay claims in respect of AGMH's former financial products business if Dexia SA and its affiliates, from which the Company had purchased AGMH and its subsidiaries, do not comply with their obligations following a downgrade of the financial strength rating of AGM. Most of the guaranteed investment contracts ("GICs") insured by AGM allow the GIC holder to terminate the GIC and withdraw the funds in the event of a downgrade of AGM below A3 or A-, with no right of the GIC issuer to avoid such withdrawal by posting collateral or otherwise enhancing its credit. Each GIC contract stipulates the thresholds below which the GIC issuer must post eligible collateral, along with the types of securities eligible for posting and the collateralization percentage applicable to each security type. These collateralization percentages range from 100% of the GIC balance for cash posted as collateral to, typically, 108% for asset-backed securities. If the entire aggregate accreted GIC balance of approximately \$2.1 billion as of March 31, 2015 were terminated, the assets of the GIC issuers (which had an aggregate accreted principal of approximately \$3.3 billion and an aggregate market value of approximately \$3.2 billion) would be sufficient to fund the withdrawal of the GIC funds.

7. Fair Value Measurement

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

Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on either internally developed models that primarily use, as inputs, market-based or independently sourced market parameters, including but not limited to yield curves, interest rates and debt prices or with the assistance of an independent third-party using a discounted cash flow approach and the third party's proprietary pricing models. In

addition to market information, models also incorporate transaction details, such as maturity of the instrument and contractual features designed to reduce the Company's credit exposure, such as collateral rights as applicable.

Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, the Company's creditworthiness and constraints on liquidity. As markets and products develop and the pricing for certain products becomes more or less transparent, the Company may refine its methodologies and assumptions. During First Quarter 2015, 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 calculation 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.

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The fair value hierarchy is determined based on whether the inputs to valuation techniques used to measure fair value are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Company estimates of market assumptions. The fair value hierarchy prioritizes model inputs into three broad levels as follows, with Level 1 being the highest and Level 3 the lowest. An asset or liability's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation.

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

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

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

Transfers between Levels 1, 2 and 3 are recognized at the end of the period when the transfer occurs. The Company reviews the classification between Levels 1, 2 and 3 quarterly to determine whether a transfer is necessary. During the periods presented, there were no transfers between Level 1, 2 and 3.

Measured and Carried at Fair Value

Fixed-Maturity Securities and Short-Term Investments

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

Short-term investments, that are traded in active markets, are classified within Level 1 in the fair value hierarchy and are 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.

Prices determined based on models where at least one significant model assumption or input is unobservable, are considered to be Level 3 in the fair value hierarchy. As of March 31, 2015, the Company used models to price 34 fixed-maturity securities (which were purchased for loss mitigation or other management purposes), which was 6.8% or \$696 million of the Company's fixed-maturity securities and short-term investments at fair value. Certain Level 3 securities were priced with the assistance of an independent third-party. The pricing is based on a discounted cash flow approach using the third-party's proprietary pricing models. The models use inputs such as projected prepayment speeds; severity assumptions; recovery lag assumptions; estimated default rates (determined on the basis of an analysis of collateral attributes, historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); home price depreciation/appreciation rates based on macroeconomic forecasts and recent trading activity. The yield used to discount the projected cash flows is determined by reviewing various attributes of the bond including collateral type, weighted average life, sensitivity to losses, vintage, and convexity, in conjunction with market data on comparable securities. Significant changes to any of these inputs could materially change the expected timing of cash flows within these securities which is a significant factor in determining the fair value of the securities.

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Other Invested Assets

As of March 31, 2015 and December 31, 2014, other invested assets include investments carried and measured at fair value on a recurring basis of \$102 million and \$95 million, respectively, and include primarily investments in the global property catastrophe risk market and investment in a fund that invests primarily in senior loans and bonds. Both of these investments were classified as Level 3. Other invested assets also include fixed-maturity securities classified as trading carried as Level 2.

Other Assets

Committed Capital Securities

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

Supplemental Executive Retirement Plans

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

Financial Guaranty Contracts Accounted for as Credit Derivatives

The Company's credit derivatives consist primarily of insured CDS contracts, and also include interest rate swaps that fall under derivative accounting standards requiring fair value accounting through the statement of operations. The Company does 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; however, the Company has mutually agreed with various counterparties to terminate certain CDS transactions. Such terminations generally are not completed at fair value but instead for an amount that approximates the present value of future premiums or for an amount negotiated as part of an R&W settlement.

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

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

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

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The fair value of the Company's credit derivative contracts represents the difference between the present value of remaining premiums the Company expects to receive or pay and the estimated present value of premiums that a financial guarantor of comparable credit-worthiness would hypothetically charge or pay at the reporting date for the same protection. The fair value of the Company's credit derivatives depends on a number of factors, including notional amount of the contract, expected term, credit spreads, changes in interest rates, the credit ratings of referenced entities, the Company's own credit risk and remaining contractual cash flows. The expected remaining contractual premium cash flows are the most readily observable inputs since they are based on the CDS contractual terms. Credit spreads capture the effect of recovery rates and performance of underlying assets of these contracts, among other factors. Consistent with previous years, market conditions at March 31, 2015 were such that market prices of the Company's CDS contracts were not available.

Management considers factors such as current prices charged for similar agreements, when available, performance of underlying assets, life of the instrument, and the nature and extent of activity in the financial guaranty credit derivative marketplace. The assumptions that management uses to determine the fair value may change in the future due to market conditions. Due to the inherent uncertainties of the assumptions used in the valuation models, actual experience may differ from the estimates reflected in the Company's consolidated financial statements and the differences may be material.

Assumptions and Inputs

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

- Gross spread.
- The allocation of gross spread among:
 - the profit the originator, usually an investment bank, realizes for putting the deal together and funding the transaction ("bank profit");
 - premiums paid to the Company for the Company's credit protection provided ("net spread"); and
 - the cost of CDS protection purchased by the originator to hedge their counterparty credit risk exposure to the Company ("hedge cost").
- The weighted average life which is based on Debt Service schedules.

The rates used to discount future expected premium cash flows ranged from 0.18% to 2.32% at March 31, 2015 and 0.26% to 2.70% at December 31, 2014.

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

Collateral specific spreads obtained from third-party, independent market sources are un-published spread quotes from market participants or market traders who are not trustees. Management obtains this information as the result of direct communication with these sources as part of the valuation process.

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

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

- Actual collateral specific credit spreads (if up-to-date and reliable market-based spreads are available).

• Deals priced or closed during a specific quarter within a specific asset class and specific rating. There were no deals closed during the period presented.

• Credit spreads interpolated based upon market indices.

• Credit spreads provided by the counterparty of the CDS.

• Credit spreads extrapolated based upon transactions of similar asset classes, similar ratings, and similar time to maturity.

Information by Credit Spread Type (1)

	As of March 31, 2015	As of December 31, 2014	
Based on actual collateral specific spreads	9	% 9	%
Based on market indices	81	% 82	%
Provided by the CDS counterparty	10	% 9	%
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 deal. This curve indicates expected credit spreads at each indicative level on the related market index. For transactions with unique terms or characteristics where no price quotes are available, management extrapolates credit spreads based on a similar transaction for which the Company has received a spread quote from one of the first three sources within the Company's spread hierarchy. This alternative transaction will be within the same asset class, have similar underlying assets, similar credit ratings, and similar time to maturity. The Company then calculates the percentage of relative spread change quarter over quarter for the alternative transaction. This percentage change is then applied to the historical credit spread of the transaction for which no price quote was received in order to calculate the transactions' current spread. Counterparties determine credit spreads by reviewing new issuance pricing for specific asset classes and receiving price quotes from their trading desks for the specific asset in question. These quotes are validated by cross-referencing quotes received from one market source with those quotes received from another market source to ensure reasonableness.

The premium the Company receives is referred to as the “net spread.” The Company’s pricing model takes into account not only how credit spreads on risks that it assumes affect pricing, but also how the Company’s own credit spread affects the pricing of its deals. The Company’s own credit risk is factored into the determination of net spread based on the impact of changes in the quoted market price for credit protection bought on the Company, as reflected by quoted market prices on CDS referencing AGC or AGM. For credit spreads on the Company’s name the Company obtains the quoted price of CDS contracts traded on AGC and AGM from market data sources published by third parties. The cost to acquire CDS protection referencing AGC or AGM affects the amount of spread on CDS deals that the Company retains and, hence, their fair value. As the cost to acquire CDS protection referencing AGC or AGM increases, the amount of premium the Company retains on a deal generally decreases. As the cost to acquire CDS protection referencing AGC or AGM decreases, the amount of premium the Company retains on a deal generally increases. In the Company’s valuation model, the premium the Company captures is not

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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 20% and 21% based on number of deals, of the Company's CDS contracts are fair valued using this minimum premium as of March 31, 2015 and December 31, 2014, respectively. The percentage of deals that price using the minimum premiums fluctuates due to changes in AGM's and AGC's credit spreads. In general when AGM's and AGC's credit spreads narrow, the cost to hedge AGM's and AGC's name declines and more transactions price above previously established floor levels. Meanwhile, when AGM's and AGC's credit spreads widen, the cost to hedge AGM's and AGC's name increases causing more transactions to price at previously established floor levels. The Company corroborates the assumptions in its fair value model, including the portion of exposure to AGC and AGM hedged by its counterparties, with independent third parties each reporting period. The current level of AGC's and AGM's own credit spread has resulted in the bank or deal originator hedging a significant portion of its exposure to AGC and AGM. This reduces the amount of contractual cash flows AGC and AGM can capture as premium for selling its protection.

The amount of premium a financial guaranty insurance market participant can demand is inversely related to the cost of credit protection on the insurance company as measured by market credit spreads assuming all other assumptions remain constant. This is because the buyers of credit protection typically hedge a portion of their risk to the financial guarantor, due to the fact that the contractual terms of the Company's contracts typically do not require the posting of collateral by the guarantor. The extent of the hedge depends on the types of instruments insured and the current market conditions.

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

Example

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

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

In Scenario 1, the gross spread is 185 basis points. The bank or deal originator captures 115 basis points of the original gross spread and hedges 10% of its exposure to AGC, when the CDS spread on AGC was 300 basis points (300 basis

points $\times 10\%$ = 30 basis points). Under this scenario the Company receives premium of 40 basis points, or 22% of the gross spread.

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

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

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Strengths and Weaknesses of Model

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

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

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

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

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

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

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

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

At March 31, 2015 and December 31, 2014, the markets for the inputs to the model were highly illiquid, which impacts their reliability.

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

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

Fair Value Option on FG VIEs' Assets and Liabilities

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

The FG VIEs issued securities collateralized by first lien and second lien RMBS as well as loans and receivables. The lowest level input that is significant to the fair value measurement of these assets and liabilities was a Level 3 input (i.e., unobservable), therefore management classified them as Level 3 in the fair value hierarchy. Prices are generally determined with the assistance of an independent third-party. The pricing is based on a discounted cash flow approach and the third-party's proprietary pricing models. The models to price the FG VIEs' liabilities used, where appropriate, inputs such as estimated prepayment speeds; market values of the assets that collateralize the securities; estimated default rates (determined on the basis of an analysis of collateral attributes, historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); yields implied by market prices for

similar securities; house price depreciation/appreciation rates based on macroeconomic forecasts and, for those liabilities insured by the Company, the benefit from the Company's insurance policy guaranteeing the timely payment of principal and interest, taking into account the timing of the potential default and the Company's own credit rating. The third-party also utilizes an internal model to determine an appropriate yield at which to discount the cash flows of the security, by factoring in collateral types, weighted-average lives, and other structural attributes specific to the security being priced. The expected yield is further calibrated by utilizing algorithms designed to aggregate market color, received by the third-party, on comparable bonds.

The fair value of the Company's FG VIE assets is generally sensitive to changes related to estimated prepayment speeds; estimated default rates (determined on the basis of an analysis of collateral attributes such as: historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); discount rates implied by market prices for similar securities; and house price depreciation/appreciation rates based on macroeconomic forecasts.

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Significant changes to some of these inputs could materially change the market value of the FG VIE's assets and the implied collateral losses within the transaction. In general, the fair value of the FG VIE asset is most sensitive to changes in the projected collateral losses, where an increase in collateral losses typically leads to a decrease in the fair value of FG VIE assets, while a decrease in collateral losses typically leads to an increase in the fair value of FG VIE assets. These factors also directly impact the fair value of the Company's FG VIE liabilities.

The fair value of the Company's FG VIE liabilities is also generally sensitive to changes relating to estimated prepayment speeds; market values of the underlying assets; estimated default rates (determined on the basis of an analysis of collateral attributes such as: historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); discount rates implied by market prices for similar securities; and house price depreciation/appreciation rates based on macroeconomic forecasts. In addition, the Company's FG VIE liabilities with recourse are also sensitive to changes in the Company's implied credit worthiness. Significant changes to any of these inputs could materially change the timing of expected losses within the insured transaction which is a significant factor in determining the implied benefit from the Company's insurance policy guaranteeing the timely payment of principal and interest for the tranches of debt issued by the FG VIE that is insured by the Company. In general, extending the timing of expected loss payments by the Company into the future typically leads to a decrease in the value of the Company's insurance and a decrease in the fair value of the Company's FG VIE liabilities with recourse, while a shortening of the timing of expected loss payments by the Company typically leads to an increase in the value of the Company's insurance and an increase in the fair value of the Company's FG VIE liabilities with recourse.

Not Carried at Fair Value

Financial Guaranty Insurance Contracts

The fair value of the Company's financial guaranty contracts accounted for as insurance was 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. This amount was based on the pricing assumptions management has observed for portfolio transfers and acquisitions that have occurred in the financial guaranty market and included 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 Company determines discounted future cash flows using market driven discount rates and a variety of assumptions, including a projection of the LIBOR rate, prepayment and default assumptions, and AGM CDS spreads. The fair value measurement was classified as Level 3 in the fair value hierarchy because there is a reliance on significant unobservable inputs to the valuation model, including the discount rates, prepayment and default assumptions, loss severity and recovery on delinquent loans.

Other Invested Assets

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

Other Assets and Other Liabilities

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

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Financial Instruments Carried at Fair Value

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

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

	Fair Value (in millions)	Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Assets:				
Investment portfolio, available-for-sale:				
Fixed-maturity securities				
Obligations of state and political subdivisions	\$5,458	\$—	\$5,450	\$8
U.S. government and agencies	497	—	497	—
Corporate securities	1,399	—	1,320	79
Mortgage-backed securities:				
RMBS	1,185	—	802	383
Commercial mortgage-backed securities ("CMBS")	600	—	600	—
Asset-backed securities	401	—	175	226
Foreign government securities	293	—	293	—
Total fixed-maturity securities	9,833	—	9,137	696
Short-term investments	349	172	177	—
Other invested assets (1)	107	0	26	81
Credit derivative assets	77	—	—	77
FG VIEs' assets, at fair value (2)	1,495	—	—	1,495
Other assets	84	30	17	37
Total assets carried at fair value	\$11,945	\$202	\$9,357	\$2,386
Liabilities:				
Credit derivative liabilities	\$859	\$—	\$—	\$859
FG VIEs' liabilities with recourse, at fair value	1,278	—	—	1,278
FG VIEs' liabilities without recourse, at fair value	145	—	—	145
Total liabilities carried at fair value	\$2,282	\$—	\$—	\$2,282

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As of December 31, 2014

	Fair Value (in millions)	Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Assets:				
Investment portfolio, available-for-sale:				
Fixed-maturity securities				
Obligations of state and political subdivisions	\$5,795	\$—	\$5,757	\$38
U.S. government and agencies	665	—	665	—
Corporate securities	1,368	—	1,289	79
Mortgage-backed securities:				
RMBS	1,285	—	860	425
CMBS	659	—	659	—
Asset-backed securities	417	—	189	228
Foreign government securities	302	—	302	—
Total fixed-maturity securities	10,491	—	9,721	770
Short-term investments	767	359	408	—
Other invested assets (1)	100	0	17	83
Credit derivative assets	68	—	—	68
FG VIEs' assets, at fair value (2)	1,398	—	—	1,398
Other assets	78	26	17	35
Total assets carried at fair value	\$12,902	\$385	\$10,163	\$2,354
Liabilities:				
Credit derivative liabilities	\$963	\$—	\$—	\$963
FG VIEs' liabilities with recourse, at fair value	1,277	—	—	1,277
FG VIEs' liabilities without recourse, at fair value	142	—	—	142
Total liabilities carried at fair value	\$2,382	\$—	\$—	\$2,382

(1) Includes Level 3 mortgage loans that are recorded at fair value on a non-recurring basis.

(2) Exclude restricted cash.

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Changes in Level 3 Fair Value Measurements

The table below presents a roll forward of the Company's Level 3 financial instruments carried at fair value on a recurring basis during First Quarter 2015 and 2014.

Fair Value Level 3 Rollforward

Recurring Basis

First Quarter 2015

	Fixed-Maturity Securities																
	Obligations of State and Political Subdivisions	Corporate Securities	RMBS	Asset-Backed Securities	Other Invested Assets	FG VIEs' Assets at Fair Value	Other Assets	Credit Derivative Asset (Liability), net(5)	FG VIEs' Liabilities with Recourse, at Fair Value	FG VIEs' Liabilities without Recourse, at Fair Value							
	(in millions)																
Fair value as of December 31, 2014	\$38	\$79	\$425	\$228	\$78	\$1,398	\$35	\$(895)	\$(1,277)	\$(142)							
Total pretax realized and unrealized gains/(losses) recorded in:																	
Net income (loss)	3	(2)	2	(2)	(2)	(4)	(2)	23	(3)	2	(4)	124	(6)	93	(3)	(5)	(3)
Other comprehensive income (loss)	(2)	(2)	5	1	2	—	—	—	—	—	—	—	—	—	—	—	—
Purchases	—	—	9	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Settlements	(31)	(7)	—	(65)	(1)	0	(30)	—	(11)	37	2	—	—	—	—	—	—
FG VIE consolidations	—	—	—	—	—	104	—	—	(131)	—	—	—	—	—	—	—	—
FG VIE deconsolidations	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Fair value as of March 31, 2015	\$8	\$79	\$383	\$226	\$76	\$1,495	\$37	\$(782)	\$(1,278)	\$(145)							
Change in unrealized gains/(losses) related to financial instruments held as of March 31, 2015	\$0	\$(2)	\$7	\$1	\$2	\$34	\$2	\$103	\$(6)	\$(4)							

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Fair Value Level 3 Rollforward
Recurring Basis
First Quarter 2014

	Fixed-Maturity Securities									
	Obligations of State and Political Subdivisions	Corporate Securities	RMBS	Asset-Backed Securities	Other Invested Assets	FG VIEs' Assets at Fair Value	Other Assets	Credit Derivative Asset (Liability), net(5)	FG VIEs' Liabilities with Recourse, at Fair Value	FG VIEs' Liabilities without Recourse, at Fair Value
	(in millions)									
Fair value as of December 31, 2013	\$36	\$136	\$290	268	\$2	\$2,565	\$46	\$(1,693)	\$(1,790)	\$(1,081)
Total pretax realized and unrealized gains/(losses) recorded in:(1)										
Net income (loss)	1	(2)3	(2)4	(2)7	(2)—	82	(3)(9)	(4)(211)	(6)(72)	(3)(9)
Other comprehensive income (loss)	1	4	14	8	1	—	—	—	—	—
Purchases	—	—	53	—	45 (7)	—	—	—	—	—
Settlements	—	(5)	(15)	(31)	—	(286)	—	(19)	269	12
FG VIE consolidations	—	—	—	—	—	—	—	—	—	—
FG VIE deconsolidations	—	—	13	—	—	(1,104)	—	—	247	977
Fair value as of March 31, 2014	\$38	\$138	\$359	\$252	\$48	\$1,257	\$37	\$(1,923)	\$(1,346)	\$(101)
Change in unrealized gains/(losses) related to financial instruments held as of March 31, 2014	\$1	\$4	\$15	\$7	\$1	\$25	\$(9)	\$(232)	\$(28)	\$(10)

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.

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

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

(7) Includes a non-cash transaction.

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Level 3 Fair Value Disclosures

Quantitative Information About Level 3 Fair Value Inputs
At March 31, 2015

Financial Instrument Description (1)	Fair Value at March 31, 2015 (in millions)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Assets:				
Fixed-maturity securities:				
Obligations of state and political subdivisions	\$8	Rate of inflation	1.0 % - 3.0%	2.0%
		Cash flow receipts	0.5 % - 20.9%	12.9%
		Yield	4.6%	
		Collateral recovery period	4 months - 8.3 years	4.3 years
Corporate securities	79	Yield	18.0%	
RMBS	383	CPR	0.3 % - 7.5%	3.4%
		CDR	2.4 % - 11.6%	5.5%
		Loss severity	50.0 % - 100.0%	72.4%
		Yield	4.2 % - 10.0%	5.9%
Asset-backed securities:				
Investor owned utility	96	Cash flow receipts	100.0%	
		Collateral recovery period	3.8 years	
		Discount factor	7.0%	
Triple-X life insurance transactions	130	Yield	6.8%	
		Discount for lack of liquidity	20.0%	
Other invested assets	81	Recovery on delinquent loans	40.0%	
		Default rates	0.0 % - 7.0%	6.1%
		Loss severity	40.0 % - 75.0%	68.7%
		Prepayment speeds	6.0 % - 15.0%	12.0%
		Net asset value (per share)	\$966 - \$1,147	\$1,046
FG VIEs' assets, at fair value	1,495	CPR	0.3 % - 11.0%	2.6%
		CDR	1.7 % - 13.1%	4.2%
		Loss severity	36.0 % - 100.0%	64.2%
		Yield	2.7 % - 16.7%	6.4%

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Financial Instrument Description (1)	Fair Value at March 31, 2015 (in millions)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Other assets	37	Quotes from third party pricing Term (years)	\$51 - \$60 5 years	\$56
Liabilities:				
Credit derivative liabilities, net	(782)	Year 1 loss estimates Hedge cost (in bps) Bank profit (in bps) Internal floor (in bps) Internal credit rating	0.0 %- 50.0% 15.0 - 255.8 1.0 - 990.0 7.0 - 100.0 AAA - CCC	1.7% 57.4 124.8 16.3 AA
FG VIEs' liabilities, at fair value	(1,423)	CPR CDR Loss severity Yield	0.3 %- 11.0% 1.7 %- 13.1% 36.0 %- 100.0% 2.7 %- 16.7%	2.6% 4.2% 64.2% 5.5%

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

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Quantitative Information About Level 3 Fair Value Inputs

At December 31, 2014

Financial Instrument Description (1)	Fair Value at December 31, 2014 (in millions)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Assets:				
Fixed-maturity securities:				
		Rate of inflation	1.0 % - 3.0%	2.0%
		Cash flow receipts	0.5 % - 74.3%	63.0%
Obligations of state and political subdivisions	\$ 38	Discount rates	4.6 % - 8.0%	7.3%
		Collateral recovery period	1 month - 34 years	28 years
Corporate securities	79	Yield	17.8%	
		CPR	0.3 % - 8.1%	3.3%
RMBS	425	CDR	2.7 % - 10.6%	5.3%
		Loss severity	52.6 % - 100.0%	75.2%
		Yield	4.7 % - 11.7%	6.4%
Asset-backed securities:				
		Cash flow receipts	100%	
Investor owned utility	95	Collateral recovery period	4 years	
		Discount factor	7.0%	
Triple-X life insurance transactions	133	Yield	7.3%	
		Discount for lack of liquidity	20.0%	
		Recovery on delinquent loans	40.0%	
Other invested assets	83	Default rates	0.0 % - 7.0%	5.8%
		Loss severity	40.0 % - 75.0%	68.3%
		Prepayment speeds	5.0 % - 15.0%	12.3%
		Net asset value (per share)	\$ 965 - \$ 1,159	\$ 1,082
		CPR	0.3 % - 11.0%	3.3%
FG VIEs' assets, at fair value	1,398	CDR	1.6 % - 11.8%	5.1%
		Loss severity	40.0 % - 100.0%	82.2%
		Yield	2.7 % - 17.7%	7.9%

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Financial Instrument Description (1)	Fair Value at December 31, 2014 (in millions)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Other assets	35	Quotes from third party pricing Term (years)	\$52 - \$61 5 years	\$57
Liabilities:				
	(895)	Year 1 loss estimates	0.0 % - 93.0%	2.1%
		Hedge cost (in bps)	20.0 - 243.8	61.5
Credit derivative liabilities, net		Bank profit (in bps)	1.0 - 994.4	127.0
		Internal floor (in bps)	7.0 - 100.0	15.9
		Internal credit rating	AAA - CCC	AA+
		CPR	0.3 % - 11.0%	3.3%
FG VIEs' liabilities, at fair value	(1,419)	CDR	1.6 % - 11.8%	5.1%
		Loss severity	40.0 % - 100.0%	82.2%
		Yield	2.7 % - 17.7%	5.8%

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

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

Fair Value of Financial Instruments

	As of March 31, 2015		As of December 31, 2014	
	Carrying Amount (in millions)	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Fixed-maturity securities	\$9,833	\$9,833	\$10,491	\$10,491
Short-term investments	349	349	767	767
Other invested assets	114	116	108	110
Credit derivative assets	77	77	68	68
FG VIEs' assets, at fair value	1,495	1,495	1,398	1,398
Other assets	189	189	184	184
Liabilities:				
Financial guaranty insurance contracts(1)	3,719	6,343	3,823	6,205
Long-term debt	1,304	1,609	1,303	1,603
Credit derivative liabilities	859	859	963	963
FG VIEs' liabilities with recourse, at fair value	1,278	1,278	1,277	1,277
FG VIEs' liabilities without recourse, at fair value	145	145	142	142
Other liabilities	72	72	27	27

- (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.

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8. Financial Guaranty Contracts Accounted for as Credit Derivatives

Credit Derivatives

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

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

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Credit Derivative Net Par Outstanding by Sector

The estimated remaining weighted average life of credit derivatives was 4.7 years at March 31, 2015 and 4.7 years at December 31, 2014. The components of the Company's credit derivative net par outstanding are presented below.

Credit Derivatives
Subordination and Ratings

Asset Type	As of March 31, 2015				As of December 31, 2014			
	Net Par Outstanding	Original Subordination (%)	Current Subordination (%)	Weighted Average Credit Rating	Net Par Outstanding	Original Subordination (%)	Current Subordination (%)	Weighted Average Credit Rating
(dollars in millions)								
Pooled corporate obligations:								
Collateralized loan obligation/collateral bond obligations	\$10,372	32.0	37.7	AAA	\$11,688	32.0	36.9	AAA
Synthetic investment grade pooled corporate TruPS CDOs	6,363	22.3	20.2	AAA	7,640	22.6	20.6	AAA
Market value CDOs of corporate obligations	2,948	45.6	37.5	BBB-	3,119	45.3	35.8	BBB-
Total pooled corporate obligations	1,052	17.0	15.7	AAA	1,174	19.1	20.7	AAA
U.S. RMBS:								
Option ARM and Alt-A first lien	20,735	30.2	31.2	AAA	23,621	30.1	30.7	AAA
Subprime first lien	1,321	16.2	10.5	BB+	1,378	16.3	10.7	BB+
Prime first lien	1,315	31.3	49.9	A	1,366	31.1	50.5	A
Closed-end second lien	213	10.9	0.0	B	223	10.9	0.0	B
Total U.S. RMBS	19	—	—	CCC	19	—	—	CCC
CMBS	2,868	24.8	33.3	BBB	2,986	24.8	33.9	BBB
Other	1,785	35.9	45.5	AAA	1,952	35.3	43.6	AAA
Total	6,343	—	—	A	6,437	—	—	A
	\$31,731			AA	\$34,996			AA+

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

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

The Company's TruPS CDO asset pools are generally less diversified by obligors and industries than the typical CLO asset pool. Also, the underlying collateral in TruPS CDOs consists primarily of subordinated debt instruments such as TruPS issued by bank holding companies and similar instruments issued by insurance companies, REITs 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.

The Company's exposure to "Other" CDS contracts is also highly diversified. It includes \$1.9 billion of exposure to one pooled infrastructure transaction comprising diversified pools of international infrastructure project transactions and loans to regulated utilities. These pools were all structured with underlying credit enhancement sufficient for the Company to attach at AAA levels at origination. The remaining \$4.4 billion of exposure in "Other" CDS contracts comprises numerous deals

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across various asset classes, such as commercial receivables, international RMBS, infrastructure, regulated utilities and consumer receivables.

Distribution of Credit Derivative Net Par Outstanding by Internal Rating

Ratings	As of March 31, 2015		As of December 31, 2014		
	Net Par Outstanding (dollars in millions)	% of Total	Net Par Outstanding	% of Total	
AAA	\$19,132	60.3	% \$21,817	62.3	%
AA	5,195	16.4	5,398	15.4	
A	1,865	5.9	1,982	5.7	
BBB	2,616	8.2	2,774	8.0	
BIG	2,923	9.2	3,025	8.6	
Credit derivative net par outstanding	\$31,731	100.0	% \$34,996	100.0	%

Fair Value of Credit Derivatives

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

	First Quarter 2015	2014
	(in millions)	
Realized gains on credit derivatives (1)	\$23	\$20
Net credit derivative losses (paid and payable) recovered and recoverable and other settlements	(2	) (1
Realized gains (losses) and other settlements on credit derivatives	21	19
Net change in unrealized gains (losses) on credit derivatives:		
Pooled corporate obligations	17	(58
U.S. RMBS	75	(140
CMBS	0	0
Other	11	(32
Net change in unrealized gains (losses) on credit derivatives	103	(230
Net change in fair value of credit derivatives	\$124	\$(211

(1) Includes realized gain due to terminations of CDS contracts of \$11 million and \$0.2 million for First Quarter 2015 and First Quarter 2014, respectively. Net par of \$93 million and \$1.1 billion were terminated in First Quarter 2015 and First Quarter 2014, respectively. CDS terminations reflect a payment received from the resolution of a dispute related to a termination of CDS in 2008.

During First Quarter 2015, unrealized fair value gains were generated primarily in the U.S. RMBS prime first lien and Option ARM sectors. The change in fair value of credit derivatives in First Quarter 2015 was primarily due to a refinement in methodology to address an instance in a U.S. RMBS transaction where the Company now expects recoveries. This refinement resulted in approximately \$49 million in fair value gains in First Quarter 2015. In addition, there were unrealized gains in the TruPS CDO and Other sectors as result of price improvements on the underlying collateral. The changes in the Company's CDS spreads did not have a material impact during the quarter.

During First Quarter 2014, unrealized fair value losses were generated primarily in the U.S. RMBS prime first lien, Alt-A, Option ARM and subprime sectors, as well as pooled corporate obligations, 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 name as the market cost of AGC's credit protection decreased significantly during the period. These transactions were pricing at or above their floor levels; therefore when the cost of purchasing CDS protection on AGC, which management refers to as the CDS spread on AGC, decreased, the implied spreads that the Company would expect to receive on these transactions increased. The cost of AGM's

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credit protection also decreased during First Quarter 2014 generating unrealized fair value losses on a Triple-X life insurance securitization transaction, due to wider implied net spreads. This did not have a significant impact on the remainder of AGM's portfolio, as a significant portion of AGM's policies continue to price at floor levels.

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.

Five-Year CDS Spread
on AGC and AGM

Quoted price of CDS contract (in basis points)

	As of March 31, 2015	As of December 31, 2014	As of March 31, 2014	As of December 31, 2013
AGC	317	323	291	460
AGM	341	325	305	525

One-Year CDS Spread
on AGC and AGM

Quoted price of CDS contract (in basis points)

	As of March 31, 2015	As of December 31, 2014	As of March 31, 2014	As of December 31, 2013
AGC	60	80	55	185
AGM	80	85	70	220

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

	As of March 31, 2015	As of December 31, 2014
	(in millions)	
Fair value of credit derivatives before effect of AGC and AGM credit spreads	\$ (1,820)	\$ (2,029)
Plus: Effect of AGC and AGM credit spreads	1,038	1,134
Net fair value of credit derivatives	\$ (782)	\$ (895)

The fair value of CDS contracts at March 31, 2015, before considering the implications of AGC's and AGM's credit spreads, is a direct result of continued wide credit spreads in the fixed income security markets and ratings downgrades. The asset classes that remain most affected are 2005-2007 vintages of prime first lien, Alt-A, Option ARM, subprime RMBS deals as well as TruPS and pooled corporate securities. Comparing March 31, 2015 with

December 31, 2014, there was a narrowing of spreads primarily related to Alt-A first lien, Option ARM, and subprime RMBS transactions, as well as the Company's pooled corporate obligations. This narrowing of spreads combined with the runoff of par outstanding and termination of CDS contracts, resulted in a gain of approximately \$209 million, before taking into account AGC's or AGM's credit spreads.

Management believes that the trading level of AGC's and AGM's credit spreads over the past several years has been due to the correlation between AGC's and AGM's risk profile and the current risk profile of the broader financial markets and to increased demand for credit protection against AGC and AGM as the result of its financial guaranty volume, as well as the overall lack of liquidity in the CDS market. Offsetting the benefit attributable to AGC's and AGM's credit spread were higher

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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 by Sector

Asset Type	Fair Value of Credit Derivative Asset (Liability), net		Expected Loss to be (Paid) Recovered (1)	
	As of March 31, 2015	As of December 31, 2014	As of March 31, 2015	As of December 31, 2014
	(in millions)			
Pooled corporate obligations	\$ (22)	\$ (49)	\$ (13)	\$ (23)
U.S. RMBS	(419)	(494)	(66)	(73)
CMBS	0	0	—	—
Other	(341)	(352)	37	38
Total	\$ (782)	\$ (895)	\$ (42)	\$ (58)

(1) Includes R&W benefit of \$75 million as of March 31, 2015 and \$86 million as of December 31, 2014.

Ratings Sensitivities of Credit Derivative Contracts

Within the Company's insured CDS portfolio, the transaction documentation for approximately \$5.7 billion in CDS gross par insured as of March 31, 2015 requires AGC and AGRO to post eligible collateral to secure its obligations to make payments under such contracts. Eligible collateral is generally cash or U.S. government or agency securities; eligible collateral other than cash is valued at a discount to the face amount.

For approximately \$5.5 billion of such contracts, AGC has negotiated caps such that the posting requirement cannot exceed a certain fixed amount, regardless of the mark-to-market valuation of the exposure or the financial strength ratings of AGC. For such contracts, AGC need not post on a cash basis more than \$665 million, although the value of the collateral posted may exceed such fixed amount depending on the advance rate agreed with the counterparty for the particular type of collateral posted.

For the remaining approximately \$241 million of such contracts, AGC or AGRO could be required from time to time to post additional collateral without such cap based on movements in the mark-to-market valuation of the underlying exposure.

As of March 31, 2015, the Company posted approximately \$356 million to secure obligations under its CDS exposure, of which approximately \$21 million related to such \$241 million of notional. As of December 31, 2014, the Company posted approximately \$376 million, of which approximately \$25 million related to \$242 million of notional where AGC or AGRO could be required to post additional collateral based on movements in the mark-to-market valuation of the underlying exposure.

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Sensitivity to Changes in Credit Spread

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

Effect of Changes in Credit Spread

As of March 31, 2015

Credit Spreads(1)	Estimated Net Fair Value (Pre-Tax) (in millions)	Estimated Change in Gain/(Loss) (Pre-Tax)
100% widening in spreads	\$(1,590)	) \$(808)
50% widening in spreads	(1,186)	) (404)
25% widening in spreads	(986)	) (204)
10% widening in spreads	(864)	) (82)
Base Scenario	(782)) —
10% narrowing in spreads	(706)	) 76
25% narrowing in spreads	(593)	) 189
50% narrowing in spreads	(407)	) 375

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

9. Consolidated Variable Interest Entities

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 cash flows that are in excess of the interest payments on the debt issued by the special purpose entity. Such excess spread is typically distributed through the transaction's cash flow waterfall and may be used to create additional credit enhancement, applied to redeem debt issued by the special purpose entities, including VIEs (thereby, creating additional overcollateralization), or distributed to equity or other investors in the transaction.

Assured Guaranty is not primarily liable for the debt obligations issued by the VIEs it insures and would only be required to make payments on those insured debt obligations in the event that the issuer of such debt obligations defaults on any principal or interest due and only for the amount of the shortfall. AGL's and its Subsidiaries' creditors do not have any rights with regard to the collateral supporting the debt issued by the FG VIEs. Proceeds from sales, maturities, prepayments and interest from such underlying collateral may only be used to pay Debt Service on VIE liabilities. Net fair value gains and losses on FG VIEs are expected to reverse to zero at maturity of the VIE debt,

except for net premiums received and net claims paid by Assured Guaranty under the financial guaranty insurance contract. The Company's estimate of expected loss to be paid for FG VIEs is included in Note 5, Expected Loss to be Paid.

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

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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.

Consolidated FG VIEs

Number of FG VIEs Consolidated

	First Quarter 2015	2014	
Beginning of the period, December 31	32	40	
Consolidated (1)	1	—	
Deconsolidated (1)	—	(7)
Matured	—	(2)
End of the period, March 31	33	31	

Net loss on consolidation was \$26 million in First Quarter 2015, and net gain on deconsolidation was \$120 million (1) in First Quarter 2014, and recorded in “fair value gains (losses) on FG VIEs” in the consolidated statement of operations.

The total unpaid principal balance for the FG VIEs' assets that were over 90 days or more past due was approximately \$218 million at March 31, 2015 and \$183 million at December 31, 2014. The aggregate unpaid principal of the FG VIEs' assets was approximately \$942 million greater than the aggregate fair value at March 31, 2015, excluding the effect of R&W settlements. The aggregate unpaid principal of the FG VIEs' assets was approximately \$941 million greater than the aggregate fair value at December 31, 2014, excluding the effect of R&W settlements. The change in the instrument-specific credit risk of the FG VIEs' assets held as of March 31, 2015 that was recorded in the consolidated statements of operations for First Quarter 2015 were gains of \$18 million. The change in the instrument-specific credit risk of the FG VIEs' assets held as of March 31, 2014 that was recorded in the consolidated statements of operations for First Quarter 2014 were gains of \$58 million. To calculate the instrument specific credit risk, the changes in the fair value of the FG VIE assets are allocated between those changes that are due to the instrument specific credit risk and those are due to other factors, including interest rates. The instrument specific credit risk amount is determined by using expected contractual cash flows versus current expected cash flows discounted at original contractual rate. The net present value is calculated by discounting the expected cash flows of the underlying security, excluding the Company's financial guaranty insurance, at the relevant effective interest rate.

The unpaid principal for FG VIE liabilities with recourse was \$2,017 million and \$1,912 million as of March 31, 2015 and December 31, 2014, respectively. FG VIE liabilities with recourse will mature at various dates ranging from 2025 to 2046. The aggregate unpaid principal balance of the FG VIE liabilities with and without recourse was approximately \$1,014 million greater than the aggregate fair value of the FG VIEs' liabilities as of March 31, 2015. The aggregate unpaid principal balance was approximately \$916 million greater than the aggregate fair value of the FG VIEs' liabilities as of December 31, 2014.

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

Consolidated FG VIEs
By Type of Collateral

	As of March 31, 2015		As of December 31, 2014	
	Assets	Liabilities	Assets	Liabilities
	(in millions)			
With recourse:				
U.S. RMBS first lien	\$739	\$591	\$632	\$581
U.S. RMBS second lien	228	322	238	327
Other	365	365	369	369
Total with recourse	1,332	1,278	1,239	1,277
Without recourse	167	145	163	142
Total	\$1,499	\$1,423	\$1,402	\$1,419

The consolidation of FG VIEs has a significant effect on net income and shareholder's equity due to (1) changes in fair value gains (losses) on FG VIE assets and liabilities, (2) the elimination of premiums and losses related to the AGC and AGM FG VIE liabilities with recourse and (3) the elimination of investment balances related to the Company's purchase of AGC and AGM insured FG VIE debt. Upon consolidation of a FG VIE, the related insurance and, if applicable, the related investment balances, are considered intercompany transactions and therefore eliminated. Such eliminations are included in the table below to present the full effect of consolidating FG VIEs.

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

	First Quarter	
	2015	2014
Net earned premiums	\$(5)	\$(17)
Net investment income	(3)	(3)
Fair value gains (losses) on FG VIEs	(7)	157)
Other income (loss)	0	(2)
Loss and LAE	5	(1)
Effect on net income before tax	(10)	134)
Less: tax provision (benefit)	(4)	47)
Effect on net income (loss)	\$(6)	\$87)
Effect on cash flows from operating activities	\$18	\$(8)
	As of March 31, 2015	As of December 31, 2014
	(in millions)	
Effect on shareholders' equity (decrease) increase	\$(49)	\$(44)

Fair value gains (losses) on FG VIEs represent the net change in fair value on the consolidated FG VIEs' assets and liabilities. During First Quarter 2015, the Company recorded a pre-tax net fair value loss on consolidated FG VIEs of \$7 million. The primary driver of the loss was a pre-tax net fair value loss of \$26 million on the consolidation of one new FG VIE. The net fair value loss on consolidation was partially offset by net mark-to-market gains due to price application on the FG VIE assets during the quarter resulting from improvements in the underlying collateral.

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During First Quarter 2014, the Company recorded a pre-tax net fair value gain of consolidated FG VIEs of \$157 million. The primary driver of this gain, \$120 million, was a result of the deconsolidation of seven VIEs. There was an additional gain of \$37 million resulting from the Company exercising its option to accelerate two second lien RMBS VIEs. These two VIEs were treated as maturities during the period.

Non-Consolidated VIEs

As of March 31, 2015 and December 31, 2014, the Company had issued financial guaranty contracts for approximately 900 and 930 VIEs, respectively, that it did not consolidate. To date, the Company's analyses have indicated that it does not have a controlling financial interest in any other VIEs and, as a result, they are not consolidated in the consolidated financial statements. 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 3, 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 was \$93 million and \$98 million as of March 31, 2015 and December 31, 2014, respectively.

Net Investment Income

	First Quarter 2015	2014
	(in millions)	
Income from fixed-maturity securities managed by third parties	\$82	\$80
Income from internally managed securities:		
Fixed maturities	15	20
Other invested assets	6	5
Gross investment income	103	105
Investment expenses	(2	) (2
Net investment income	\$101	\$103

Net Realized Investment Gains (Losses)

	First Quarter 2015	2014
	(in millions)	
Gross realized gains on available-for-sale securities	\$24	\$4
Gross realized gains on other assets in investment portfolio	1	5
Gross realized losses on available-for-sale securities	(1	) (2
Gross realized losses on other assets in investment portfolio	(1	) 0
Other-than-temporary impairment	(7) (5
Net realized investment gains (losses)	\$16	\$2

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

Roll Forward of Credit Losses
in the Investment Portfolio

	First Quarter 2015 (in millions)	2014
Balance, beginning of period	\$124	\$80
Additions for credit losses on securities for which an other-than-temporary-impairment was not previously recognized	—	1
Reductions for securities sold and other settlement during the period	(21) —
Additions for credit losses on securities for which an other-than-temporary-impairment was previously recognized	3	4
Balance, end of period	\$106	\$85

Investment Portfolio

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

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	52	% \$5,099	\$361	\$(2	) \$5,458	\$ 4	AA
U.S. government and agencies	5	464	33	0	497	—	AA+
Corporate securities	14	1,340	65	(6	) 1,399	(4	) A
Mortgage-backed securities(4):	0						
RMBS	12	1,145	56	(16	) 1,185	5	A
CMBS	6	573	27	0	600	—	AAA
Asset-backed securities	4	394	7	—	401	3	BBB-
Foreign government securities	3	295	6	(8	) 293	0	AA+
Total fixed-maturity securities	96	9,310	555	(32	) 9,833	8	AA-
Short-term investments	4	349	0	0	349	—	AAA

Total investment
portfolio

100 % \$9,659 \$555 \$(32) \$10,182 \$ 8 AA-

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by Security Type
As of December 31, 2014

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	% \$5,416	\$380	\$(1	) \$5,795	\$ 7	AA
U.S. government and agencies	6	635	31	(1	) 665	—	AA+
Corporate securities	12	1,320	53	(5	) 1,368	(2	) A
Mortgage-backed securities(4):							
RMBS	12	1,255	51	(21	) 1,285	0	A-
CMBS	6	639	20	0	659	—	AAA
Asset-backed securities	4	411	9	(3	) 417	3	BBB-
Foreign government securities	3	296	8	(2	) 302	—	AA+
Total fixed-maturity securities	93	9,972	552	(33	) 10,491	8	AA-
Short-term investments	7	767	0	0	767	0	AA+
Total investment portfolio	100	% \$10,739	\$552	\$(33	) \$11,258	\$ 8	AA-

(1) Based on amortized cost.

(2) Accumulated OCI. See also Note 17, Shareholders' Equity.

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

(4) Government-agency obligations were approximately 47% of mortgage backed securities as of March 31, 2015 and 44% as of December 31, 2014 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. Securities rated lower than A-/A3 by S&P or Moody's are not eligible to be purchased for the Company's portfolio unless acquired for loss mitigation or risk management strategies.

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

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

Fixed-Maturity Securities

Gross Unrealized Loss by Length of Time

As of March 31, 2015

	Less than 12 months		12 months or more		Total Fair Value	Unrealized Loss
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss		
	(dollars in millions)					
Obligations of state and political subdivisions	\$189	\$(2)	) \$5	\$0	\$194	\$(2)
U.S. government and agencies	26	0	) 12	0	38	0
Corporate securities	194	(6)	) 5	0	199	(6)
Mortgage-backed securities:						
RMBS	94	(1)	) 85	(15)	) 179	(16)
CMBS	21	0	) 2	0	23	0
Asset-backed securities	—	—) —	—	—	—
Foreign government securities	156	(8)	) —	—	156	(8)
Total	\$680	\$(17)	) \$109	\$(15)	) \$789	\$(32)
Number of securities (1)		166		24		187
Number of securities with other-than-temporary impairment		2		3		5

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Fixed-Maturity Securities
Gross Unrealized Loss by Length of Time
As of December 31, 2014

	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	\$64	\$0	\$25	\$(1)	\$89	\$(1)
U.S. government and agencies	139	0	68	(1)	207	(1)
Corporate securities	189	(3)	104	(2)	293	(5)
Mortgage-backed securities:						
RMBS	205	(3)	159	(18)	364	(21)
CMBS	36	0	19	0	55	0
Asset-backed securities	56	(2)	18	(1)	74	(3)
Foreign government securities	108	(2)	0	0	108	(2)
Total	\$797	\$(10)	\$393	\$(23)	\$1,190	\$(33)
Number of securities (1)		125		82		198
Number of securities with other-than-temporary impairment		3		7		10

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

Of the securities in an unrealized loss position for 12 months or more as of March 31, 2015, four securities had unrealized losses greater than 10% of book value. The total unrealized loss for these securities as of March 31, 2015 was \$14 million. The Company has determined that the unrealized losses recorded as of March 31, 2015 are yield related and not the result of other-than-temporary-impairment.

The amortized cost and estimated fair value of available-for-sale fixed maturity securities by contractual maturity as of March 31, 2015 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Distribution of Fixed-Maturity Securities
by Contractual Maturity
As of March 31, 2015

	Amortized Cost (in millions)	Estimated Fair Value
Due within one year	\$156	\$158
Due after one year through five years	1,706	1,763
Due after five years through 10 years	2,146	2,288

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Due after 10 years	3,584	3,839
Mortgage-backed securities:		
RMBS	1,145	1,185
CMBS	573	600
Total	\$9,310	\$9,833

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The investment portfolio and miscellaneous other assets/liabilities contain securities and cash that are either held in trust for the benefit of third party reinsurers in accordance with statutory requirements, placed on deposit to fulfill state licensing requirements, or otherwise restricted in the amount of \$215 million and \$236 million as of March 31, 2015 and December 31, 2014, respectively, based on fair value. The investment portfolio also contains securities that are held in trust by certain AGL subsidiaries for the benefit of other AGL subsidiaries in accordance with statutory and regulatory requirements in the amount of \$1,420 million and \$1,395 million as of March 31, 2015 and December 31, 2014, respectively, based on fair value.

The fair value of the Company's pledged securities to secure its obligations under its CDS exposure totaled \$356 million and \$376 million as of March 31, 2015 and December 31, 2014, respectively.

No material investments of the Company were non-income producing for First Quarter 2015 and First Quarter 2014, respectively.

Internally Managed Portfolio

The investment portfolio tables shown above include both assets managed externally and internally. In the table below, more detailed information is provided for the component of the total investment portfolio that is internally managed (excluding short-term investments). The internally managed portfolio, as defined below, represents approximately 8% and 8% of the investment portfolio, on a fair value basis as of March 31, 2015 and December 31, 2014, respectively. The internally managed portfolio consists primarily of the Company's investments in securities for (i) loss mitigation purposes, (ii) other risk management purposes and (iii) where the Company believes a particular security presents an attractive investment opportunity.

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

Internally Managed Portfolio
Carrying Value

	As of March 31, 2015 (in millions)	As of December 31, 2014
Assets purchased for loss mitigation and other risk management purposes:		
Fixed-maturity securities	721	835
Other invested assets	41	46
Other	91	79
Total	\$853	\$960

11. Insurance Company Regulatory RequirementsContingency Reserves

On July 15, 2013, AGM and its wholly-owned subsidiary AGE (together, the "AGM Group") and AGC, were notified that the New York State Department of Financial Services ("NYDFS") and the Maryland Insurance Administration ("MIA") do not object to the AGM Group and AGC, respectively, reassuming contingency reserves in the amount of

approximately \$250 million, in the case of the AGM Group, and \$267 million, in the case of AGC, that they had ceded to AG Re and electing to cease ceding future contingency reserves to AG Re. The insurance regulators permitted the AGM Group and AGC to reassume the contingency reserves in increments over three years. As of March 31, 2015, the AGM Group and AGC had reassumed an aggregate of \$428 million. One more installment remains to be reassumed in the third quarter of 2015, subject to the prior approval of the NYDFS, in the case of the AGM Group, and the MIA and the NYDFS, in the case of AGC.

With respect to the regular, quarterly contributions to contingency reserves required by the applicable Maryland and New York laws and regulations, such laws and regulations permit the discontinuation of such quarterly contributions to a company's contingency reserves when such company's aggregate contingency reserves for a particular line of business (i.e., municipal or non-municipal) exceed the sum of the company's outstanding principal for each specified category of obligations within the

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particular line of business multiplied by the specified contingency reserve factor for each such category. In accordance with such laws and regulations, and with the approval of the MIA and the NYDFS, respectively, AGC ceased making quarterly contributions to its contingency reserves for both municipal and non-municipal business and AGM ceased making quarterly contributions to its contingency reserves for non-municipal business, in each case beginning in the fourth quarter of 2014. Such cessations are expected to continue for as long as AGC and AGM satisfy the foregoing condition for their applicable line(s) of business.

Dividend Restrictions and Capital Requirements

Under New York insurance law, AGM may only pay dividends out of "earned surplus", which is the portion of a company's surplus that represents the net earnings, gains or profits (after deduction of all losses) that have not been distributed to shareholders as dividends or transferred to stated capital or capital surplus, or applied to other purposes permitted by law, but does not include unrealized appreciation of assets. AGM may pay dividends without the prior approval of the New York Superintendent of Financial Services ("New York Superintendent") that, together with all dividends declared or distributed by it during the preceding 12 months, does not exceed the lesser of 10% of its policyholders' surplus (as of the 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 2015 for AGM to distribute as dividends without regulatory approval is estimated to be approximately \$221 million, of which approximately \$40 million is estimated to be available for distribution in the second quarter of 2015.

Under Maryland's insurance law, AGC may, with prior notice to the Maryland Insurance Commissioner, pay an ordinary dividend that, together with all dividends paid in the prior 12 months, does not exceed 10% of its policyholders' surplus (as of the prior December 31) or 100% of its adjusted net investment income during that period. The maximum amount available during 2015 for AGC to distribute as ordinary dividends will be approximately \$90 million, of which approximately \$16 million is available for distribution in the second quarter of 2015.

MAC is a New York domiciled insurance company subject to the same dividend limitations described above for AGM. The Company does not currently anticipate that MAC will distribute any dividends.

Any distribution (including repurchase of shares) of any share capital, contributed surplus or other statutory capital) that would reduce AG Re's 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 \$279 million, without AG Re certifying to the Authority that it will continue to meet required margins. Based on the foregoing limitations, in 2015 AG Re has the capacity to (i) make capital distributions in an aggregate amount up to \$127 million without the prior approval of the Authority and (ii) declare and pay dividends in an aggregate amount up to the limit of its outstanding statutory surplus, which is \$271 million. Such dividend capacity is further limited by the actual amount of AG Re's unencumbered assets, which amount changes from time to time due in part to collateral posting requirements. As of March 31, 2015, AG Re had unencumbered assets of approximately \$588 million.

U.K. company law prohibits each of AGE and AGUK from declaring a dividend to its shareholders unless it has "profits available for distribution." The determination of whether a company has profits available for distribution is based on its accumulated realized profits less its accumulated realized losses. While the U.K. insurance regulatory laws impose no statutory restrictions on a general insurer's ability to declare a dividend, the Prudential Regulation Authority's capital requirements may in practice act as a restriction on dividends. The Company does not expect AGE or AGUK to distribute any dividends at this time.

Dividends and Surplus Notes

By Insurance Company Subsidiaries

	First Quarter 2015	2014
	(in millions)	
Dividends paid by AGC to AGUS	\$20	\$—
Dividends paid by AGM to AGMH	66	—
Dividends paid by AG Re to AGL	50	62
Repayment of surplus note by AGM to AGMH	25	25

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12. Income Taxes

Overview

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

In November 2013, AGL became tax resident in the U.K. although it will remain a Bermuda-based company and its administrative and head office functions will continue to be carried on in Bermuda. As a company that is not incorporated in the U.K., AGL currently intends to manage the affairs of AGL in such a way as to establish and maintain its status as a company that is tax resident in the U.K. As a U.K. tax resident company, AGL is required to file a corporation tax return with Her Majesty's Revenue & Customs ("HMRC"). AGL is subject to U.K. corporation tax in respect of its worldwide profits (both income and capital gains), subject to any applicable exemptions. AGL has also registered in the U.K. to report its Value Added Tax ("VAT") liability. The current rate of VAT is 20%. Assured Guaranty does not expect that becoming U.K. tax resident will result in any material change in the group's overall tax charge. Assured Guaranty expects that the dividends AGL receives from its direct subsidiaries will be exempt from U.K. corporation tax due to the exemption in section 931D of the U.K. Corporation Tax Act 2009. In addition, any dividends paid by AGL to its shareholders should not be subject to any withholding tax in the U.K. The U.K. government implemented a new tax regime for "controlled foreign companies" ("CFC regime") effective January 1, 2013. Assured Guaranty does not expect any profits of non-U.K. resident members of the group to be taxed under the CFC regime and has obtained a clearance from HMRC confirming this on the basis of current facts.

For the periods beginning on July 1, 2009 and forward, AGMH files a consolidated federal income tax return with AGUS, AGC, AG Financial Products Inc. ("AGFP") and AG Analytics Inc. ("AGUS consolidated tax group"). Beginning on May 12, 2012, MAC also joined the AGUS consolidated tax group. Assured Guaranty Overseas US Holdings Inc. and its subsidiaries AGRO and AG Intermediary Inc., file their own consolidated federal income tax return.

Provision for Income Taxes

The Company's provision for income taxes for interim financial periods is not based on an estimated annual effective rate due, for example, to the variability in fair value of its credit derivatives, which prevents the Company from projecting a reliable estimated annual effective tax rate and pretax income for the full year 2015. 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 20.25% unless subject to U.S. tax by election or as a U.S. controlled foreign corporation, and no taxes for the Company's Bermuda subsidiaries unless subject to U.S. tax by election or as a U.S. controlled foreign corporation. For periods subsequent to April 1, 2015, the U.K. corporation tax rate has been reduced to 20%, for the period April 1, 2014 to April 1, 2015 the U.K. corporation tax rate was 21% resulting in a blended tax rate of 20.25% in 2015, and prior to April 1, 2014, the U.K. corporation tax rate was 23% resulting in a blended tax rate of 21.5% in 2014. 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.

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Effective Tax Rate Reconciliation

	First Quarter			
	2015	2014		
	(in millions)			
Expected tax provision (benefit) at statutory rates in taxable jurisdictions	\$77	\$38		
Tax-exempt interest	(14	) (14)	
Change in liability for uncertain tax positions	1	1		
Other	1	2		
Total provision (benefit) for income taxes	\$65	\$27		
Effective tax rate	24.2	% 38.8		%

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

The following table presents pretax income and revenue by jurisdiction.

Pretax Income (Loss) by Tax Jurisdiction

	First Quarter			
	2015	2014		
	(in millions)			
United States	\$223	\$113		
Bermuda	50	(37)	
U.K.	(7	) (7)	
Total	\$266	\$69		

Revenue by Tax Jurisdiction

	First Quarter			
	2015	2014		
	(in millions)			
United States	\$300	\$195		
Bermuda	73	1		
U.K.	(4	) (1)	
Total	\$369	\$195		

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

Valuation Allowance

The Company came to the conclusion that it is more likely than not that its 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 operating 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.

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Audits

AGUS has open tax years with the U.S. Internal Revenue Service (“IRS”) for 2009 forward and is currently under audit for the 2009-2012 tax years. The IRS concluded its field work with respect to tax years 2006 through 2008 without adjustment. On February 20, 2013 the IRS notified AGUS that the Joint Committee on Taxation completed its review of the 2006 through 2008 tax years and has accepted the results of the IRS examination without exception. Assured Guaranty Overseas US Holdings Inc. has open tax years of 2010 forward. The IRS concluded its field work with respect to tax year through 2009 for AGMH and subsidiaries while members of the Dexia Holdings Inc. consolidated tax group without adjustment. The Company's U.K. subsidiaries are not currently under examination and have open tax years of 2012 forward.

Uncertain Tax Positions

The Company's policy is to recognize interest and penalties related to uncertain tax positions in income tax expense and has accrued \$0.5 million for First Quarter 2015 and \$1 million for 2014. As of March 31, 2015 and December 31, 2014, the Company has accrued \$5 million and \$4.5 million of interest, respectively.

The total amount of unrecognized tax benefits as of March 31, 2015 and December 31, 2014, that would affect the effective tax rate, if recognized, was \$29 million and \$28 million, respectively.

13. Reinsurance and Other Monoline Exposures

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

Assumed and Ceded Business

The Company assumes business from other monoline financial guaranty companies. Under these relationships, the Company assumes a portion of the ceding company’s insured risk in exchange for a premium. The Company may be exposed to risk in this portfolio in that the Company may be required to pay losses without a corresponding premium in circumstances where the ceding company is experiencing financial distress and is unable to pay premiums. The Company’s facultative and treaty agreements are generally subject to termination at the option of the ceding company:

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

- upon certain changes of control of the Company.

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

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

The downgrade of the financial strength ratings of AG Re or of AGC gives certain ceding companies the right to recapture business they had ceded to AG Re and AGC, which would lead to a reduction in the Company's unearned premium reserve and related earnings on such reserve. With respect to a significant portion of the Company's in-force financial guaranty assumed business, based on AG Re's and AGC's current ratings and subject to the terms of each reinsurance agreement, the third party ceding company may have the right to recapture business it had ceded to AG Re and/or AGC, and in connection therewith, to receive payment from AG Re or AGC of an amount equal to the statutory unearned premium (net of ceding commissions) and statutory loss reserves (if any) associated with that business, plus, in certain cases, an additional ceding commission. As of March 31, 2015, 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 \$81 million and \$48 million, respectively.

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The Company has Ceded Business to non-affiliated companies to limit its exposure to risk. Under these relationships, the Company cedes a portion of its insured risk in exchange for a premium paid to the reinsurer. The Company remains primarily liable for all risks it directly underwrites and is required to pay all gross claims. It then seeks reimbursement from the reinsurer for its proportionate share of claims. The Company may be exposed to risk for this exposure if it were required to pay the gross claims and not be able to collect ceded claims from an assuming company experiencing financial distress. A number of the financial guaranty insurers to which the Company has ceded par have experienced financial distress and been downgraded by the rating agencies as a result. In addition, state insurance regulators have intervened with respect to some of these insurers. The Company's ceded contracts generally allow the Company to recapture Ceded Business after certain triggering events, such as reinsurer downgrades.

In First Quarter 2014, the Company entered into commutation agreements to reassume previously ceded business consisting of approximately \$856 million par of almost exclusively U.S. public finance and European (predominantly UK) utility and infrastructure exposures outstanding as of February 28, 2014. For such reassumptions, the Company received the statutory unearned premium outstanding as of the commutation dates plus, in one case, a commutation premium. There were no commutations in First Quarter 2015.

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

Effect of Reinsurance on Statement of Operations

	First Quarter 2015	2014
	(in millions)	
Premiums Written:		
Direct	\$29	\$31
Assumed(1)	3	(1)
Ceded	0	(24)
Net	\$32	\$6
Premiums Earned:		
Direct	\$148	\$140
Assumed	10	11
Ceded	(16)	(19)
Net	\$142	\$132
Loss and LAE:		
Direct	\$26	\$34
Assumed	(7)	6
Ceded	(1)	1
Net	\$18	\$41

(1) Negative assumed premiums written were due to change in expected Debt Service schedules.

Other Monoline Exposures

In addition to assumed and ceded reinsurance arrangements, the Company may also have exposure to some financial guaranty reinsurers (i.e., monolines) in other areas. Second-to-pay insured par outstanding represents transactions the Company has insured that were previously insured by other monolines. The Company underwrites such transactions

based on the underlying insured obligation without regard to the primary insurer. Another area of exposure is in the investment portfolio where the Company holds fixed-maturity securities that are wrapped by monolines and whose value may decline based on the rating of the monoline. As of March 31, 2015, based on fair value, the Company had fixed-maturity securities in its investment portfolio consisting of \$291 million insured by National Public Finance Guarantee Corporation ("NPFGC"), \$247 million insured by Ambac Assurance Corporation ("Ambac") and \$32 million insured by other guarantors.

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Exposure by Reinsurer

Reinsurer	Ratings at May 6, 2015		Par Outstanding (1) As of March 31, 2015		
	Moody's Reinsurer Rating	S&P Reinsurer Rating	Ceded Par Outstanding	Second-to- Pay Insured Par Outstanding	Assumed Par Outstanding
(dollars in millions)					
American Overseas Reinsurance Company Limited (f/k/a Ram Re)	WR (2)	WR	\$6,363	\$—	\$30
Tokio Marine & Nichido Fire Insurance Co., Ltd.	Aa3 (3)	AA- (3)	5,006	—	—
Radian Asset (4)	WR	NR	3,984	18	620
Syncora Guarantee Inc.	WR	WR	3,522	1,451	160
Mitsui Sumitomo Insurance Co. Ltd.	A1	A+ (3)	1,995	—	—
ACA Financial Guaranty Corp.	NR (5)	WR	745	1	—
Swiss Reinsurance Co.	Aa3	AA-	91	—	—
Ambac	WR	WR	82	4,796	13,281
NPFGC (6)	A3	AA-	—	6,061	5,724
MBIA	(7)	(7)	—	2,465	484
Financial Guaranty Insurance Co.	WR	WR	—	2,008	809
Ambac Assurance Corp. Segregated Account	NR	NR	—	105	936
CIFG Assurance North America Inc.	WR	WR	—	102	4,177
Other	Various	Various	199	804	45
Total			\$21,987	\$17,811	\$26,266

(1) Includes par related to insured credit derivatives.

(2) Represents "Withdrawn Rating."

(3) The Company has structural collateral agreements satisfying the triple-A credit requirement of S&P and/or Moody's.

(4) On April 1, 2015, AGC consummated the acquisition of Radian Asset and merged Radian Asset with and into AGC, with AGC as the surviving company of the merger.

(5) Represents "Not Rated."

(6) NPFGC is rated AA+ by KBRA.

(7) MBIA includes subsidiaries MBIA Insurance Corp. rated B by S&P and B2 by Moody's and MBIA U.K. Insurance Ltd. rated B by S&P and Ba2 by Moody's.

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Amounts Due (To) From Reinsurers
As of March 31, 2015

	Assumed Premium, net of Commissions (in millions)	Ceded Premium, net of Commissions	Assumed Expected Loss and LAE	Ceded Expected Loss and LAE
American Overseas Reinsurance Company Limited (f/k/a Ram Re)	\$—	\$(7)	\$—	\$10
Tokio Marine & Nichido Fire Insurance Co., Ltd.	—	(12)	—	45
Radian Asset	—	(12)	—	18
Syncora Guarantee Inc.	—	(27)	—	4
Mitsui Sumitomo Insurance Co. Ltd.	—	(3)	—	14
Swiss Reinsurance Co.	—	(2)	—	6
Ambac	43	—	(18)	—
Ambac Assurance Corp. Segregated Account	12	—	(77)	—
CIFG Assurance North America Inc.	—	—	(7)	—
MBIA	6	—	(10)	—
NPFGC	6	—	(7)	—
Financial Guaranty Insurance Co.	4	—	(2)	—
Other	2	(4)	—	—
Total	\$73	\$(67)	\$(121)	\$97

Excess of Loss Reinsurance Facility

AGC, AGM and MAC entered into an aggregate excess of loss reinsurance facility with a number of reinsurers, effective as of January 1, 2014. Currently, the facility covers losses occurring from January 1, 2015 through December 31, 2021, subject to the payment of certain additional premium by AGC, AGM and MAC on or before January 1, 2016. If AGC, AGM and MAC elect not to pay such additional premium, the facility terminates on January 1, 2016. The facility covers certain U.S. public finance credits insured or reinsured by AGC, AGM and MAC as of September 30, 2013, excluding credits that were rated non-investment grade as of December 31, 2013 by Moody's or S&P or internally by AGC, AGM or MAC and is subject to certain per credit limits. Among the credits excluded are those associated with the Commonwealth of Puerto Rico and its related authorities and public corporations. The facility attaches when AGC's, AGM's and MAC's net losses (net of AGC's and AGM's reinsurance (including from affiliates) and net of recoveries) exceed \$1.5 billion in the aggregate. The facility covers a portion of the next \$500 million of losses, with the reinsurers assuming pro rata in the aggregate \$450 million of the \$500 million of losses and AGC, AGM and MAC jointly retaining the remaining \$50 million of losses. The reinsurers are required to be rated at least AA- or to post collateral sufficient to provide AGM, AGC and MAC with the same reinsurance credit as reinsurers rated AA-. AGM, AGC and MAC are obligated to pay the reinsurers their share of recoveries relating to losses during the coverage period in the covered portfolio. AGC, AGM and MAC paid approximately \$19 million of premiums for the term January 1, 2014 through December 31, 2014 and also paid approximately \$19 million of premiums for the term January 1, 2015 through December 31, 2015.

14. Commitments and Contingencies

Legal Proceedings

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

The Company establishes accruals for litigation and regulatory matters to the extent it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation and regulatory matters where a loss may be

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reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established, but if the matter is material, it is disclosed, including matters discussed below. The Company reviews relevant information with respect to its litigation and regulatory matters on a quarterly, and annual basis and updates its accruals, disclosures and estimates of reasonably possible loss based on such reviews.

In addition, in the ordinary course of their respective businesses, certain of the Company's subsidiaries assert claims in legal proceedings against third parties to recover losses paid in prior periods. For example, as described in the "Recovery Litigation" section of Note 5, Expected Loss to be Paid, in December 2008, the Company filed a claim in the Supreme Court of the State of New York against an investment manager in a transaction it insured alleging breach of fiduciary duty, gross negligence and breach of contract; discovery on the matter is ongoing. In the past, AGC and AGM have filed complaints against certain sponsors and underwriters of RMBS securities that AGC or AGM had insured, alleging that such persons had breached representations and warranties in the transaction documents, failed to cure or repurchase defective loans and/or violated state securities laws. The amounts, if any, the Company will recover in proceedings to recover losses are uncertain, and recoveries, or failure to obtain recoveries, in any one or more of these proceedings during any quarter or year could be material to the Company's results of operations in that particular quarter or year.

Litigation

Proceedings Relating to the Company's Financial Guaranty Business

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

On November 28, 2011, Lehman Brothers International (Europe) (in administration) ("LBIE") sued AGFP, an affiliate of AGC which in the past had provided credit protection to counterparties under credit default swaps. AGC acts as the credit support provider of AGFP under these credit default swaps. LBIE's complaint, which was filed in the Supreme Court of the State of New York, alleged that AGFP improperly terminated nine credit derivative transactions between LBIE and AGFP and improperly calculated the termination payment in connection with the termination of 28 other credit derivative transactions between LBIE and AGFP. Following defaults by LBIE, AGFP properly terminated the transactions in question in compliance with the requirements of the agreement between AGFP and LBIE, and calculated the termination payment. AGFP calculated that LBIE owes AGFP approximately \$30 million in connection with the termination of the credit derivative transactions, whereas LBIE asserted in the complaint that AGFP owes LBIE a termination payment of approximately \$1.4 billion. On February 3, 2012, AGFP filed a motion to dismiss certain of the counts in the complaint, and on March 15, 2013, the court granted AGFP's motion to dismiss the count relating to improper termination of the nine credit derivative transactions and denied AGFP's motion to dismiss the count relating to the remaining transactions. In their April 10, 2015 report to LBIE's unsecured creditors, LBIE's administrators disclosed that LBIE's valuation expert has calculated LBIE's damages in aggregate for the 28 transactions to range between a minimum of approximately \$200 million and a maximum of approximately \$500 million, depending on what adjustment, if any, is made for AGFP's credit risk and excluding any applicable interest. Discovery has been ongoing and motions for summary judgment are due in September 2015. The Company cannot reasonably estimate the possible loss, if any, that may arise from this lawsuit.

On September 25, 2013, Wells Fargo Bank, N.A., as trust administrator of the MASTR Adjustable Rate Mortgages Trust 2007-3, filed an interpleader complaint in the U.S. District Court for the Southern District of New York against AGM, among others, relating to the right of AGM to be reimbursed from certain cashflows for principal claims paid in respect of insured certificates. The Company estimates that an adverse outcome to the interpleader proceeding could increase losses on the transaction by approximately \$10 - \$20 million, net of expected settlement payments and reinsurance in force.

On May 28, 2014, Houston Casualty Company Europe, Seguros y Reseguros, S.A. (“HCCE”) notified Radian Asset that it was demanding arbitration against Radian Asset in connection with housing cooperative losses presented to Radian Asset by HCCE under several years of quota-share surety reinsurance contracts. HCCE claims AGC, as successor to Radian Asset, is required to pay to it, as ceding company, among other amounts, its share of certain current and future housing cooperative losses, together with certain fees, expenses and costs relating thereto. HCCE has presented approximately €14 million in claims to AGC through March 31, 2015. HCCE is still in the process of settling additional similar claims, so the aggregate ultimate amount the ceding company will claim is uncertain. The reinsurance contract provides for arbitration in Madrid and is governed by Spanish law. Arbitration proceedings may commence in 2015.

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Proceedings Resolved Since December 31, 2014

On November 19, 2012, Lehman Brothers Holdings Inc. ("LBHI") and Lehman Brothers Special Financing Inc. ("LBSF") commenced an adversary complaint and claim objection in the United States Bankruptcy Court for the Southern District of New York against Credit Protection Trust 283 ("CPT 283"), FSA Administrative Services, LLC, as trustee for CPT 283, and AGM, in connection with CPT 283's termination of a CDS between LBSF and CPT 283. CPT 283 terminated the CDS as a consequence of LBSF failing to make a scheduled payment owed to CPT 283, which termination occurred after LBHI filed for bankruptcy but before LBSF filed for bankruptcy. The CDS provided that CPT 283 was entitled to receive from LBSF a termination payment in that circumstance of approximately \$43.8 million (representing the economic equivalent of the future fixed payments CPT 283 would have been entitled to receive from LBSF had the CDS not been terminated), and CPT 283 filed proofs of claim against LBSF and LBHI (as LBSF's credit support provider) for such amount. LBHI and LBSF sought to disallow and expunge (as impermissible and unenforceable penalties) CPT 283's proofs of claim against LBHI and LBSF and recover approximately \$67.3 million, which LBHI and LBSF allege was the mark-to-market value of the CDS to LBSF (less unpaid amounts) on the day CPT 283 terminated the CDS, plus interest, attorney's fees, costs and other expenses. On the same day, LBHI and LBSF also commenced an adversary complaint and claim objection against Credit Protection Trust 207 ("CPT 207"), FSA Administrative Services, LLC, as trustee for CPT 207, and AGM, in connection with CPT 207's termination of a CDS between LBSF and CPT 207. Similarly, the CDS provided that CPT 207 was entitled to receive from LBSF a termination payment in that circumstance of \$492,555. LBHI and LBSF seek to disallow and expunge CPT 207's proofs of claim against LBHI and LBSF and recover approximately \$1.5 million. On January 30, 2015, the parties signed an agreement pursuant to which LBHI and LBSF dismissed their litigation related to CPT 283's and CPT 207's CDS terminations and the parties agreed that CPT 283 and CPT 207 have a total allowed claim in bankruptcy against LBSF and LBHI of \$20 million.

Proceedings Related to AGMH's Former Financial Products Business

The following is a description of legal proceedings involving AGMH's former Financial Products Business. Although the Company did not acquire AGMH's former Financial Products Business, which included AGMH's former GIC business, medium term notes business and portions of the leveraged lease businesses, certain legal proceedings relating to those businesses are against entities that the Company did acquire. While Dexia SA and Dexia Crédit Local S.A., jointly and severally, have agreed to indemnify the Company against liability arising out of the proceedings described below, such indemnification might not be sufficient to fully hold the Company harmless against any injunctive relief or civil or criminal sanction that is imposed against AGMH or its subsidiaries.

Governmental Investigations into Former Financial Products Business

AGMH and/or AGM have received subpoenas duces tecum and interrogatories or civil investigative demands from the Attorneys General of the States of Connecticut, Florida, Illinois, Massachusetts, Missouri, New York, Texas and West Virginia relating to their investigations of alleged bid rigging of municipal GICs. AGMH has been responding to such requests. AGMH may receive additional inquiries from these or other regulators and expects to provide additional information to such regulators regarding their inquiries in the future. In addition,

AGMH received a subpoena from the Antitrust Division of the Department of Justice in November 2006 issued in connection with an ongoing criminal investigation of bid rigging of awards of municipal GICs and other municipal derivatives; and

AGM received a subpoena from the SEC in November 2006 related to an ongoing industry-wide investigation concerning the bidding of municipal GICs and other municipal derivatives.

Pursuant to the subpoenas, AGMH has furnished to the Department of Justice and SEC records and other information with respect to AGMH's municipal GIC business. The ultimate loss that may arise from these investigations remains

uncertain.

Lawsuits Relating to Former Financial Products Business

During 2008, nine putative class action lawsuits were filed in federal court alleging federal antitrust violations in the municipal derivatives industry, seeking damages and alleging, among other things, a conspiracy to fix the pricing of, and manipulate bids for, municipal derivatives, including GICs. These cases have been coordinated and consolidated for pretrial proceedings in the U.S. District Court for the Southern District of New York as MDL 1950, In re Municipal Derivatives Antitrust Litigation, Case No. 1:08-cv-2516 (“MDL 1950”). Five of these cases named both AGMH and AGM: (a) Hinds County, Mississippi v. Wachovia Bank, N.A.; (b) Fairfax County, Virginia v. Wachovia Bank, N.A.; (c) Central Bucks School

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District, Pennsylvania v. Wachovia Bank, N.A.; (d) Mayor and City Council of Baltimore, Maryland v. Wachovia Bank, N.A.; and (e) Washington County, Tennessee v. Wachovia Bank, N.A. In April 2009, the MDL 1950 court granted the defendants' motion to dismiss on the federal claims, but granted leave for the plaintiffs to file an amended complaint. The Corrected Third Consolidated Amended Class Action Complaint, filed on October 9, 2013, lists neither AGM nor AGMH as a named defendant or a co-conspirator. The complaint generally seeks unspecified monetary damages, interest, attorneys' fees and other costs. The other four cases named AGMH (but not AGM) and also alleged that the defendants violated California state antitrust law and common law by engaging in illegal bid-rigging and market allocation, thereby depriving the cities or municipalities of competition in the awarding of GICs and ultimately resulting in the cities paying higher fees for these products: (f) City of Oakland, California v. AIG Financial Products Corp.; (g) County of Alameda, California v. AIG Financial Products Corp.; (h) City of Fresno, California v. AIG Financial Products Corp.; and (i) Fresno County Financing Authority v. AIG Financial Products Corp. When the four plaintiffs filed a consolidated complaint in September 2009, the plaintiffs did not name AGMH as a defendant. However, the complaint does describe some of AGMH's and AGM's activities. The consolidated complaint generally seeks unspecified monetary damages, interest, attorneys' fees and other costs. In April 2010, the MDL 1950 court granted in part and denied in part the named defendants' motions to dismiss this consolidated complaint. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from these lawsuits.

In 2008, AGMH and AGM also were named in five non-class action lawsuits originally filed in the California Superior Courts alleging violations of California law related to the municipal derivatives industry: (a) City of Los Angeles, California v. Bank of America, N.A.; (b) City of Stockton, California v. Bank of America, N.A.; (c) County of San Diego, California v. Bank of America, N.A.; (d) County of San Mateo, California v. Bank of America, N.A.; and (e) County of Contra Costa, California v. Bank of America, N.A. Amended complaints in these actions were filed in September 2009, adding a federal antitrust claim and naming AGM (but not AGMH) and AGUS, among other defendants. These cases have been transferred to the Southern District of New York and consolidated with MDL 1950 for pretrial proceedings. In late 2009, AGM and AGUS, among other defendants, were named in six additional non-class action cases filed in federal court, which also have been coordinated and consolidated for pretrial proceedings with MDL 1950: (f) City of Riverside, California v. Bank of America, N.A.; (g) Sacramento Municipal Utility District v. Bank of America, N.A.; (h) Los Angeles World Airports v. Bank of America, N.A.; (i) Redevelopment Agency of the City of Stockton v. Bank of America, N.A.; (j) Sacramento Suburban Water District v. Bank of America, N.A.; and (k) County of Tulare, California v. Bank of America, N.A. The MDL 1950 court denied AGM and AGUS's motions to dismiss these eleven complaints in April 2010. Amended complaints were filed in May 2010. On October 29, 2010, AGM and AGUS were voluntarily dismissed with prejudice from the Sacramento Municipal Utility District case only. The complaints in these lawsuits generally seek or sought unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from the remaining lawsuits.

In May 2010, AGM and AGUS, among other defendants, were named in five additional non-class action cases filed in federal court in California: (a) City of Richmond, California v. Bank of America, N.A. (filed on May 18, 2010, N.D. California); (b) City of Redwood City, California v. Bank of America, N.A. (filed on May 18, 2010, N.D. California); (c) Redevelopment Agency of the City and County of San Francisco, California v. Bank of America, N.A. (filed on May 21, 2010, N.D. California); (d) East Bay Municipal Utility District, California v. Bank of America, N.A. (filed on May 18, 2010, N.D. California); and (e) City of San Jose and the San Jose Redevelopment Agency, California v. Bank of America, N.A. (filed on May 18, 2010, N.D. California). These cases have also been transferred to the Southern District of New York and consolidated with MDL 1950 for pretrial proceedings. In September 2010, AGM and AGUS, among other defendants, were named in a sixth additional non-class action filed in federal court in New York, but which alleges violation of New York's Donnelly Act in addition to federal antitrust law: Active Retirement Community, Inc. d/b/a Jefferson's Ferry v. Bank of America, N.A. (filed on September 21, 2010, E.D. New York), which has also been transferred to the Southern District of New York and consolidated with MDL 1950 for pretrial

proceedings. In December 2010, AGM and AGUS, among other defendants, were named in a seventh additional non-class action filed in federal court in the Central District of California, Los Angeles Unified School District v. Bank of America, N.A., and in an eighth additional non-class action filed in federal court in the Southern District of New York, Kendal on Hudson, Inc. v. Bank of America, N.A. These cases also have been consolidated with MDL 1950 for pretrial proceedings. The complaints in these lawsuits generally seek unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from these lawsuits.

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

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In September 2009, the Attorney General of the State of West Virginia filed a lawsuit (Circuit Ct. Mason County, W. Va.) against Bank of America, N.A. alleging West Virginia state antitrust violations in the municipal derivatives industry, seeking damages and alleging, among other things, a conspiracy to fix the pricing of, and manipulate bids for, municipal derivatives, including GICs. An amended complaint in this action was filed in June 2010, adding a federal antitrust claim and naming AGM (but not AGMH) and AGUS, among other defendants. This case has been removed to federal court as well as transferred to the S.D.N.Y. and consolidated with MDL 1950 for pretrial proceedings. AGM and AGUS answered West Virginia's Second Amended Complaint on November 11, 2013. The complaint in this lawsuit generally seeks civil penalties, unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from this lawsuit.

15. Long-Term Debt and Credit Facilities

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

Principal and Carrying Amounts of Debt

	As of March 31, 2015		As of December 31, 2014	
	Principal	Carrying Value	Principal	Carrying Value
	(in millions)			
AGUS:				
7.0% Senior Notes	\$200	\$198	\$200	\$198
5.0% Senior Notes	500	499	500	499
Series A Enhanced Junior Subordinated Debentures	150	150	150	150
Total AGUS	850	847	850	847
AGMH:				
67/8% QUIBS	100	68	100	68
6.25% Notes	230	139	230	139
5.60% Notes	100	55	100	55
Junior Subordinated Debentures	300	177	300	175
Total AGMH	730	439	730	437
AGM:				
Notes Payable	15	18	16	19
Total AGM	15	18	16	19
Total	\$1,595	\$1,304	\$1,596	\$1,303

Recourse Credit Facilities

2009 Strip Coverage Facility

In connection with the Company's acquisition of AGMH and its subsidiaries from Dexia Holdings Inc., AGM agreed to retain the risks relating to the debt and strip policy portions of the leveraged lease business. The liquidity risk to AGM related to the strip policy portion of the leveraged lease business is mitigated by the strip coverage facility described below.

In a leveraged lease transaction, a tax-exempt entity (such as a transit agency) transfers tax benefits to a tax-paying entity by transferring ownership of a depreciable asset, such as subway cars. The tax-exempt entity then leases the asset back from its new owner.

If the lease is terminated early, the tax-exempt entity must make an early termination payment to the lessor. A portion of this early termination payment is funded from monies that were pre-funded and invested at the closing of the leveraged lease transaction (along with earnings on those invested funds). The tax-exempt entity is obligated to pay the remaining, unfunded portion of this early termination payment (known as “strip coverage”) from its own sources. AGM issued financial guaranty insurance policies (known as “strip policies”) that guaranteed the payment of these unfunded strip coverage amounts to the lessor, in the event that a tax-exempt entity defaulted on its obligation to pay this portion of its early termination payment. AGM can then seek reimbursement of its strip policy payments from the tax-exempt entity, and can also sell the transferred depreciable asset and reimburse itself from the sale proceeds.

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Currently, all the leveraged lease transactions in which AGM acts as strip coverage provider are breaching a rating trigger related to AGM and are subject to early termination. However, early termination of a lease does not result in a draw on the AGM policy if the tax-exempt entity makes the required termination payment. If all the leases were to terminate early and the tax-exempt entities do not make the required early termination payments, then AGM would be exposed to possible liquidity claims on gross exposure of approximately \$1.2 billion as of March 31, 2015. To date, none of the leveraged lease transactions that involve AGM has experienced an early termination due to a lease default and a claim on the AGM policy. It is difficult to determine the probability that AGM will have to pay strip provider claims or the likely aggregate amount of such claims. At March 31, 2015, approximately \$1.4 billion of cumulative strip par exposure had been terminated since 2008 on a consensual basis. The consensual terminations have resulted in no claims on AGM.

On July 1, 2009, AGM and Dexia Crédit Local S.A., acting through its New York Branch (“Dexia Crédit Local (NY)”), entered into a credit facility (the “Strip Coverage Facility”). Under the Strip Coverage Facility, Dexia Crédit Local (NY) agreed to make loans to AGM to finance all draws made by lessors on AGM strip policies that were outstanding as of November 13, 2008, up to the commitment amount. The commitment amount of the Strip Coverage Facility was \$1 billion at closing of the Company's acquisition of AGMH. AGM has reduced the maximum commitment amount from time to time, after taking into account its experience with its exposure to leveraged lease transactions. Most recently, as of June 30, 2014, AGM reduced the maximum commitment amount to \$495 million and agreed with Dexia Crédit Local (NY) that the commitment amount would no longer amortize on a scheduled monthly basis.

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

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

- a maximum debt-to-capital ratio of 30%; and

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

The Company was in compliance with all financial covenants as of March 31, 2015.

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

As of March 31, 2015, no amounts were outstanding under this facility, nor have there been any borrowings during the life of this facility.

Intercompany Credit Facility and Intercompany Debt

On October 25, 2013, AGL, as borrower, and AGUS, as lender, entered into a revolving credit facility pursuant to which AGL may, from time to time, borrow for general corporate purposes. Under the credit facility, AGUS committed to lend a principal amount not exceeding \$225 million in the aggregate. Such commitment terminates on the October 25, 2018 (the "loan termination date"). The unpaid principal amount of each loan will bear interest at a fixed rate equal to 100% of the then applicable Federal short-term or mid-term interest rate, as the case may be, as determined under Internal Revenue Code Sec. 1274(d), and interest on all loans will be computed for the actual number of days elapsed on the basis of a year consisting of 360 days. Accrued interest on all loans will be paid on the last day of each June and December, beginning on December 31, 2013, and at maturity. AGL must repay the then unpaid principal amounts of the loans by the third anniversary of the loan termination date. No amounts are currently outstanding under the credit facility.

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

In addition, in 2012 AGUS borrowed \$90 million from its affiliate Assured Guaranty Re Overseas Ltd. to fund the acquisition of MAC. That loan remained outstanding as of March 31, 2015.

Committed Capital Securities

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

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

Distributions on the AGC preferred stock will be determined pursuant to the same process.

In June 2003, \$200 million of “AGM CPS”, money market preferred trust securities, were issued by trusts created for the primary purpose of issuing the AGM CPS, investing the proceeds in high-quality commercial paper and selling put options to AGM, allowing AGM to issue the trusts non-cumulative redeemable perpetual preferred stock (the “AGM Preferred Stock”) of AGM in exchange for cash. There are four trusts, each with an initial aggregate face amount of \$50 million. These trusts hold auctions every 28 days, at which time investors submit bid orders to purchase AGM CPS. If AGM were to exercise a put option, the applicable trust would transfer the portion of the proceeds attributable to principal received upon maturity of its assets, net of expenses, to AGM in exchange for AGM Preferred Stock. AGM pays a floating put premium to the trusts, which represents the difference between the commercial paper yield and the winning auction rate (plus all fees and expenses of the trust). If an auction does not attract sufficient clearing bids, however, the auction rate is subject to a maximum rate of one-month LIBOR plus 200 basis points for the next succeeding distribution period. Beginning in August 2007, the AGM CPS required the maximum rate for each of the relevant trusts. AGM continues to have the ability to exercise its put option and cause the related trusts to purchase AGM Preferred Stock. The trusts provide AGM access to new capital at its sole discretion through the exercise of the put options. As of March 31, 2015 the put option had not been exercised. The Company does not consider itself to be the primary beneficiary of the trusts. See Note 7, Fair Value Measurement, –Other Assets–Committed Capital Securities, for a fair value measurement discussion.

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16. Earnings Per Share

Computation of Earnings Per Share

	First Quarter	
	2015	2014
	(in millions, except per share amounts)	
Basic earnings per share ("EPS"):		
Net income (loss) attributable to AGL	\$201	\$42
Less: Distributed and undistributed income (loss) available to nonvested shareholders	0	0
Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries, basic	\$201	\$42
Basic shares	155.8	182.1
Basic EPS	\$1.29	\$0.23
Diluted EPS:		
Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries, basic	\$201	\$42
Plus: Re-allocation of undistributed income (loss) available to nonvested shareholders of AGL and subsidiaries	0	—
Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries, diluted	\$201	\$42
Basic shares	155.8	182.1
Effect of dilutive securities:		
Options and restricted stock awards	1.0	1.0
Diluted shares	156.8	183.1
Diluted EPS	\$1.28	\$0.23
Potentially dilutive securities excluded from computation of EPS because of antidilutive effect	0.7	1.5

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17. Shareholders' Equity

Other Comprehensive Income

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

Changes in Accumulated Other Comprehensive Income by Component
First Quarter 2015

	Net Unrealized Gains (Losses) on Investments with no Other-Than-Temporary Impairment (in millions)	Net Unrealized Gains (Losses) on Investments with Other-Than-Temporary Impairment	Cumulative Translation Adjustment	Cash Flow Hedge	Total Accumulated Other Comprehensive Income
Balance, December 31, 2014	\$ 367	\$ 4	\$(10)	\$ 9	\$ 370
Other comprehensive income (loss) before reclassifications	18	(2)	(5)	—	11
Amounts reclassified from AOCI to:					
Net realized investment gains (losses)	(20)	4	—	—	(16)
Interest expense	—	—	—	(1)	(1)
Total before tax	(20)	4	—	(1)	(17)
Tax (provision) benefit	7	(1)	—	0	6
Total amount reclassified from AOCI, net of tax	(13)	3	—	(1)	(11)
Net current period other comprehensive income (loss)	5	1	(5)	(1)	0
Balance, March 31, 2015	\$ 372	\$ 5	\$(15)	\$ 8	\$ 370

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First Quarter 2014

	Net Unrealized Gains (Losses) on Investments with no Other-Than-Temporary Impairment (in millions)	Net Unrealized Gains (Losses) on Investments with Other-Than-Temporary Impairment	Cumulative Translation Adjustment	Cash Flow Hedge	Total Accumulated Other Comprehensive Income
Balance, December 31, 2013	\$ 178	\$ (24)	\$(3)	\$ 9	\$ 160
Other comprehensive income (loss) before reclassifications	94	8	1	—	103
Amounts reclassified from AOCI to:					
Net realized investment gains (losses)	(2)	5	—	—	3
Interest expense	—	—	—	0	0
Total before tax	(2)	5	—	0	3
Tax (provision) benefit	1	(2)	—	(1)	(2)
Total amount reclassified from AOCI, net of tax	(1)	3	—	(1)	1
Net current period other comprehensive income (loss)	93	11	1	(1)	104
Balance, March 31, 2014	\$ 271	\$ (13)	\$(2)	\$ 8	\$ 264

Share Repurchase

The following table presents share repurchases by quarter since January 2013.

Share Repurchases

Period	Number of Shares Repurchased	Total Payments(in millions)	Average Price Paid Per Share
2013	12,512,759	\$264	\$21.12
2014 (January 1 - March 31)	1,350,443	35	25.92
2014 (April 1 - June 30)	7,051,842	177	25.14
2014 (July 1 - September 30)	9,623,309	226	23.47
2014 (October 1 - December 31)	6,388,187	152	23.83
Total 2014	24,413,781	590	24.17
2015 (January 1 - March 31)	5,860,291	152	25.87
Total 2015 (through March 31)	5,860,291	152	25.87
2015 (April 1 - through May 8)	2,058,927	56	27.36
Total 2015	7,919,218	208	26.26
Cumulative repurchases since the beginning of 2013	44,845,758	\$1,062	\$23.69

As of May 8, 2015, approximately \$2 million of capacity remains from the August 6, 2014 \$400 million share repurchase authorization. On May 6, 2015, AGL's Board of Directors approved the repurchase of an incremental \$400 million of common shares.

The Company expects to repurchase shares from time to time in the open market or in privately negotiated transactions. The timing, form and amount of the share repurchases under the program are at the discretion of management and will depend on a variety of factors, including free funds available at the parent company, market conditions, the Company's

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capital position, legal requirements and other factors. The repurchase program may be modified, extended or terminated by the Board of Directors at any time. It does not have an expiration date.

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18. Subsidiary Information

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

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF MARCH 31, 2015
(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
ASSETS						
Total investment portfolio and cash	\$ 47	\$ 82	\$ 23	\$ 11,347	\$ (300)	\$ 11,199
Investment in subsidiaries	5,722	5,087	3,955	350	(15,114)	—
Premiums receivable, net of commissions payable	—	—	—	830	(130)	700
Ceded unearned premium reserve	—	—	—	1,430	(1,065)	365
Deferred acquisition costs	—	—	—	184	(64)	120
Reinsurance recoverable on unpaid losses	—	—	—	344	(267)	77
Credit derivative assets	—	—	—	262	(185)	77
Deferred tax asset, net	—	56	—	251	(89)	218
Intercompany receivable	—	200	—	90	(290)	—
Financial guaranty variable interest entities' assets, at fair value	—	—	—	1,499	—	1,499
Other	21	79	31	522	(231)	422
TOTAL ASSETS	\$ 5,790	\$ 5,504	\$ 4,009	\$ 17,109	\$ (17,735)	\$ 14,677
LIABILITIES AND SHAREHOLDERS' EQUITY						
Unearned premium reserves	\$ —	\$ —	\$ —	\$ 5,173	\$ (1,046)	\$ 4,127
Loss and LAE reserve	—	—	—	1,062	(275)	787
Long-term debt	—	847	439	18	—	1,304
Intercompany payable	—	90	—	500	(590)	—
Credit derivative liabilities	—	—	—	1,044	(185)	859
Deferred tax liabilities, net	—	—	93	—	(93)	—
Financial guaranty variable interest entities' liabilities, at fair value	—	—	—	1,423	—	1,423
Other	4	23	22	702	(360)	391
TOTAL LIABILITIES	4	960	554	9,922	(2,549)	8,891
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO ASSURED GUARANTY LTD.	5,786	4,544	3,455	6,837	(14,836)	5,786
Noncontrolling interest	—	—	—	350	(350)	—
	5,786	4,544	3,455	7,187	(15,186)	5,786

TOTAL SHAREHOLDERS'
EQUITY

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 5,790	\$5,504	\$4,009	\$17,109	\$(17,735)	\$ 14,677
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CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2014
(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
ASSETS						
Total investment portfolio and cash	\$ 126	\$204	\$47	\$11,382	\$ (300)	\$ 11,459
Investment in subsidiaries	5,612	5,072	3,965	339	(14,988)	—
Premiums receivable, net of commissions payable	—	—	—	864	(135)	729
Ceded unearned premium reserve	—	—	—	1,469	(1,088)	381
Deferred acquisition costs	—	—	—	186	(65)	121
Reinsurance recoverable on unpaid losses	—	—	—	338	(260)	78
Credit derivative assets	—	—	—	277	(209)	68
Deferred tax asset, net	—	54	—	295	(89)	260
Intercompany receivable	—	—	—	90	(90)	—
Financial guaranty variable interest entities' assets, at fair value	—	—	—	1,402	—	1,402
Other	27	77	27	538	(242)	427
TOTAL ASSETS	\$ 5,765	\$5,407	\$4,039	\$17,180	\$ (17,466)	\$ 14,925
LIABILITIES AND SHAREHOLDERS' EQUITY						
Unearned premium reserves	\$ —	\$ —	\$ —	\$5,328	\$ (1,067)	\$ 4,261
Loss and LAE reserve	—	—	—	1,066	(267)	799
Long-term debt	—	847	437	19	—	1,303
Intercompany payable	—	90	—	300	(390)	—
Credit derivative liabilities	—	—	—	1,172	(209)	963
Deferred tax liabilities, net	—	—	94	—	(94)	—
Financial guaranty variable interest entities' liabilities, at fair value	—	—	—	1,419	—	1,419
Other	7	9	16	764	(374)	422
TOTAL LIABILITIES	7	946	547	10,068	(2,401)	9,167
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO ASSURED GUARANTY LTD.	5,758	4,461	3,492	6,773	(14,726)	5,758
Noncontrolling interest	—	—	—	339	(339)	—
TOTAL SHAREHOLDERS' EQUITY	5,758	4,461	3,492	7,112	(15,065)	5,758
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 5,765	\$5,407	\$4,039	\$17,180	\$ (17,466)	\$ 14,925

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

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

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
AND COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2014
(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)	
REVENUES							
Net earned premiums	\$ —	\$ —	\$ —	\$ 131	\$ 1	\$ 132	
Net investment income	0	0	0	105	(2	) 103
Net realized investment gains (losses)	0	—	0	4	(2	) 2
Net change in fair value of credit derivatives:							
Realized gains (losses) and other settlements	—	—	—	19	0	19	
Net unrealized gains (losses)	—	—	—	(230) —	(230)
Net change in fair value of credit derivatives	—	—	—	(211) 0	(211)
Other	—	—	—	169	—	169	
TOTAL REVENUES	0	0	0	198	(3	) 195
EXPENSES							
Loss and LAE	—	—	—	39	2	41	
Amortization of deferred acquisition costs	—	—	—	6	(1	) 5
Interest expense	—	7	13	5	(5	) 20
Other operating expenses	8	0	0	53	(1	) 60
TOTAL EXPENSES	8	7	13	103	(5	) 126
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET EARNINGS OF SUBSIDIARIES	(8	) (7	) (13	) 95	2	69
Total (provision) benefit for income taxes	—	2	5	(33) (1) (27)
Equity in net earnings of subsidiaries	50	87	169	8	(314) —	
NET INCOME (LOSS)	\$ 42	\$ 82	\$ 161	\$ 70	\$ (313	) \$ 42
Less: noncontrolling interest	—	—	—	8	(8) —	
NET INCOME (LOSS) ATTRIBUTABLE TO ASSURED GUARANTY LTD.	\$ 42	\$ 82	\$ 161	\$ 62	\$ (305) \$ 42	
COMPREHENSIVE INCOME (LOSS)	\$ 146	\$ 165	\$ 212	\$ 258	\$ (635) \$ 146	

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
 FOR THE THREE MONTHS ENDED MARCH 31, 2015
 (in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
Net cash flows provided by (used in) operating activities	\$ 97	\$ 127	\$ 59	\$ 34	\$ (294)	\$ 23
Cash flows from investing activities						
Fixed-maturity securities:						
Purchases	—	(46)	(6)	(396)	—	(448)
Sales	—	122	11	708	—	841
Maturities	—	4	—	151	—	155
Sales (purchases) of short-term investments, net	79	43	19	279	—	420
Net proceeds from financial guaranty variable entities' assets	—	—	—	30	—	30
Intercompany debt	—	(200)	—	—	200	—
Investment in subsidiary	—	—	25	—	(25)	—
Other	—	—	—	3	—	3
Net cash flows provided by (used in) investing activities	79	(77)	49	775	175	1,001
Cash flows from financing activities						
Return of capital	—	—	—	(25)	25	—
Dividends paid	(19)	(50)	(108)	(136)	294	(19)
Repurchases of common stock	(152)	—	—	—	—	(152)
Share activity under option and incentive plans	(5)	—	—	—	—	(5)
Net paydowns of financial guaranty variable entities' liabilities	—	—	—	(39)	—	(39)
Payment of long-term debt	—	—	—	(1)	—	(1)
Intercompany debt	—	—	—	200	(200)	—
Other	—	—	—	4	—	4
Net cash flows provided by (used in) financing activities	(176)	(50)	(108)	3	119	(212)
Effect of exchange rate changes	—	—	—	(2)	—	(2)
Increase (decrease) in cash	—	—	—	810	—	810
Cash at beginning of period	0	0	4	71	—	75
Cash at end of period	\$ 0	\$ 0	\$ 4	\$ 881		