

ASSURED GUARANTY LTD

Form 10-K

February 28, 2014

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

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

For the transition period from to
Commission File Number 001-32141

ASSURED GUARANTY LTD.

(Exact name of Registrant as specified in its charter)

Bermuda

98-0429991

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

30 Woodbourne Avenue
Hamilton HM 08 Bermuda

(441) 279-5700

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

None

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

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

Title of each class	Name of each exchange on which registered
Common Shares, \$0.01 per share	New York Stock Exchange, Inc.

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

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

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

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

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

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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 the definitions 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

(Do not check if a
smaller reporting
company)

Smaller reporting company

Table of Contents

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of Common Shares held by non-affiliates of the Registrant as of the close of business on June 30, 2013 was \$3,659,040,438 (based upon the closing price of the Registrant's shares on the New York Stock Exchange on that date, which was \$22.06). For purposes of this information, the outstanding Common Shares which were owned by all directors and executive officers of the Registrant were deemed to be the only shares of Common Stock held by affiliates.

As of February 21, 2014, 182,355,159 Common Shares, par value \$0.01 per share, were outstanding (including 48,273 unvested restricted shares).

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of Registrant's definitive proxy statement relating to its 2014 Annual General Meeting of Shareholders are incorporated by reference to Part III of this report.

Table of Contents

Forward Looking Statements

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

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

- rating agency action, including a ratings downgrade, a change in outlook, the placement of ratings on watch for downgrade, or a change in rating criteria, at any time, of Assured Guaranty or any of its subsidiaries and/or of transactions that Assured Guaranty’s subsidiaries have insured;
 - reduction in the amount of available insurance opportunities and/or in the demand for Assured Guaranty's insurance;
 - developments in the world’s financial and capital markets that adversely affect obligors’ payment rates, Assured Guaranty’s loss experience, or its exposure to refinancing risk in transactions (which could result in substantial liquidity claims on its guarantees);
 - the possibility that budget shortfalls or other factors will result in credit losses or impairments on obligations of state and local governments that the Company insures or reinsures;
 - the failure of Assured Guaranty to realize insurance loss recoveries or damages through loan putbacks, settlement negotiations or litigation;
 - deterioration in the financial condition of Assured Guaranty’s reinsurers, the amount and timing of reinsurance recoverables actually received and the risk that reinsurers may dispute amounts owed to Assured Guaranty under its reinsurance agreements;
 - increased competition, including from new entrants into the financial guaranty industry;
 - rating agency action on obligors, including sovereign debtors, resulting in a reduction in the value of securities in the Company’s investment portfolio and in collateral posted by and to the Company;
 - the inability of Assured Guaranty to access external sources of capital on acceptable terms;
 - changes in the world’s credit markets, segments thereof or general economic conditions;
 - the impact of market volatility on the mark-to-market of Assured Guaranty’s contracts written in credit default swap form;
 - changes in applicable accounting policies or practices;
 - changes in applicable laws or regulations, including insurance and tax laws;
 - other governmental actions;
 - difficulties with the execution of Assured Guaranty’s business strategy;
 - contract cancellations;
 - loss of key personnel;
 - adverse technological developments;
 - the effects of mergers, acquisitions and divestitures;
 - natural or man-made catastrophes;
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Table of Contents

• other risks and uncertainties that have not been identified at this time;
• management’s response to these factors; and
• other risk factors identified in Assured Guaranty’s filings with the U.S. Securities and Exchange Commission (the “SEC”).

The foregoing review of important factors should not be construed as exhaustive, and should be read in conjunction with the other cautionary statements that are included in this Form 10-K. The Company undertakes no obligation to update publicly or review any forward looking statement, whether as a result of new information, future developments or otherwise, except as required by law. Investors are advised, however, to consult any further disclosures the Company makes on related subjects in the Company’s reports filed with the SEC.

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

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

Convention

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

Table of Contents

ASSURED GUARANTY LTD.

INDEX TO FORM 10-K

	Page
<u>PART I</u>	<u>6</u>
<u>Item 1. Business</u>	<u>6</u>
<u>Overview</u>	<u>6</u>
<u>The Company's Financial Guaranty Portfolio</u>	<u>8</u>
<u>Credit Policy and Underwriting Procedure</u>	<u>11</u>
<u>Risk Management Procedures</u>	<u>12</u>
<u>Importance of Financial Strength Ratings</u>	<u>15</u>
<u>Investments</u>	<u>17</u>
<u>Competition</u>	<u>17</u>
<u>Regulation</u>	<u>18</u>
<u>Tax Matters</u>	<u>32</u>
<u>Description of Share Capital</u>	<u>39</u>
<u>Other Provisions of AGL's Bye-Laws</u>	<u>41</u>
<u>Employees</u>	<u>41</u>
<u>Available Information</u>	<u>42</u>
<u>Item 1A. Risk Factors</u>	<u>43</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>62</u>
<u>Item 2. Properties</u>	<u>62</u>
<u>Item 3. Legal Proceedings</u>	<u>62</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>66</u>
<u>PART II</u>	<u>68</u>
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>68</u>
<u>Item 6. Selected Financial Data</u>	<u>70</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>72</u>
<u>Introduction</u>	<u>72</u>
<u>Executive Summary</u>	<u>72</u>
<u>Results of Operations</u>	<u>78</u>
<u>Non-GAAP Financial Measures</u>	<u>96</u>
<u>Insured Portfolio</u>	<u>100</u>
<u>Exposure to Residential Mortgage Backed Securities</u>	<u>112</u>
<u>Liquidity and Capital Resources</u>	<u>116</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>130</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>135</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>136</u>
<u>Consolidated Balance Sheets as of December 31, 2013 and December 31, 2012</u>	<u>137</u>
<u>Consolidated Statements of Operations for Years Ended December 31, 2013, 2012 and 2011</u>	<u>138</u>
<u>Consolidated Statements of Comprehensive Income for Years Ended December 31, 2013, 2012 and 2011</u>	<u>139</u>
<u>Consolidated Statement of Shareholders' Equity for Years Ended December 31, 2013, 2012 and 2011</u>	<u>140</u>
<u>Consolidated Statements of Cash Flows for Years Ended December 31, 2013, 2012 and 2011</u>	<u>141</u>
<u>Notes to Consolidated Financial Statements</u>	<u>142</u>

<u>1. Business and Basis of Presentation</u>	<u>142</u>
<u>2. Business Changes and Developments</u>	<u>143</u>
<u>3. Outstanding Exposure</u>	<u>145</u>
<u>4. Financial Guaranty Insurance Premiums</u>	<u>155</u>
<u>5. Financial Guaranty Insurance Acquisition Costs</u>	<u>159</u>
<u>6. Expected Loss to be Paid</u>	<u>160</u>
<u>7. Financial Guaranty Insurance Losses</u>	<u>186</u>
<u>8. Fair Value Measurement</u>	<u>193</u>
<u>9. Financial Guaranty Contracts Accounted for as Credit Derivatives</u>	<u>208</u>
<u>10. Consolidation of Variable Interest Entities</u>	<u>215</u>
<u>11. Investments and Cash</u>	<u>218</u>
<u>12. Insurance Company Regulatory Requirements</u>	<u>228</u>
<u>13. Income Taxes</u>	<u>231</u>
<u>14. Reinsurance and Other Monoline Exposures</u>	<u>236</u>
<u>15. Related Party Transactions</u>	<u>241</u>
<u>16. Commitments and Contingencies</u>	<u>241</u>
<u>17. Long-Term Debt and Credit Facilities</u>	<u>245</u>
<u>18. Earnings Per Share</u>	<u>250</u>
<u>19. Shareholders' Equity</u>	<u>251</u>
<u>20. Employee Benefit Plans</u>	<u>253</u>
<u>21. Other Comprehensive Income</u>	<u>260</u>
<u>22. Subsidiary Information</u>	<u>261</u>
<u>23. Quarterly Financial Information (Unaudited)</u>	<u>270</u>
<u>Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	<u>271</u>
<u>Item 9A. Controls and Procedures</u>	<u>271</u>
<u>Item 9B. Other Information</u>	<u>272</u>
<u>PART III</u>	<u>273</u>
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>273</u>
<u>Item 11. Executive Compensation</u>	<u>273</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>273</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>273</u>
<u>Item 14. Principal Accounting Fees and Services</u>	<u>273</u>
<u>PART IV</u>	<u>274</u>
<u>Item 15. Exhibits, Financial Statement Schedules</u>	<u>274</u>

Table of Contents

PART I

ITEM 1. BUSINESS

Overview

Assured Guaranty Ltd. ("AGL" and, together with its subsidiaries, "Assured Guaranty" or the "Company") is a Bermuda-based holding company incorporated in 2003 that provides, through its operating subsidiaries, credit protection products to the United States ("U.S.") and international public finance (including infrastructure) and structured finance markets. The Company applies its credit underwriting judgment, risk management skills and capital markets experience 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. Obligations insured by the Company include bonds issued by U.S. state or municipal governmental authorities; notes issued to finance international infrastructure projects; and asset-backed securities issued by special purpose entities. 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"). The Company also guarantees obligations issued in other countries and regions, including Australia and Western Europe.

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

Assured Guaranty Municipal Corp. AGM is located and domiciled in New York, was organized in 1984 and commenced operations in 1985. Since mid-2008, AGM has provided financial guaranty insurance on debt obligations issued in the U.S. public finance and global infrastructure markets. Previously, AGM also offered insurance and reinsurance in the global structured finance market. AGM formerly was named Financial Security Assurance Inc. It was acquired, together with its holding company Financial Security Assurance Holdings Ltd. (renamed Assured Guaranty Municipal Holdings Inc., "AGMH") and the subsidiaries owned by that holding company, by Assured Guaranty on July 1, 2009.

Municipal Assurance Corp. MAC is located and domiciled in New York and was organized in 2008. Assured Guaranty acquired MAC (formerly named Municipal and Infrastructure Assurance Corporation) on May 31, 2012. On July 16, 2013, Assured Guaranty completed a series of transactions that increased the capitalization of MAC and resulted in MAC assuming a portfolio of geographically diversified U.S. public finance exposure from AGM and AGC. Management believes MAC enhances the Company's overall competitive position because:

- MAC only has exposure to U.S. public finance risk and no exposure to structured finance risk;
- MAC insures only U.S. public finance risk, focusing on investment grade obligations in select sectors of the municipal market;
- MAC had approximately \$1.5 billion of claims-paying resources as of December 31, 2013, consisting of \$834 million of statutory capital and \$671 million of statutory unearned premium reserve; and
- MAC has strong financial strength ratings from two rating agencies: AA+ (stable outlook) from Kroll Bond Rating Agency ("Kroll") and AA- (stable outlook) from Standard & Poor's Rating Services ("S&P").

MAC issued its first financial guaranty insurance policy in August 2013.

Assured Guaranty (Europe) Ltd. AGE is a U.K. incorporated company licensed as a U.K. insurance company and authorized to operate in various countries throughout the European Economic Area ("EEA"). It was organized in 1990 and issued its first financial guarantee in 1994. AGE issues financial guarantees in both the international public finance and structured finance markets and is the primary entity from which the Company writes business in the EEA. As discussed further under "Business" below, AGE has agreed with its regulator that new business it writes would be guaranteed using a co-insurance structure pursuant to which AGE would co-insure municipal and infrastructure transactions with AGM, and structured finance transactions with AGC. AGE must obtain the approval of the Prudential Regulation Authority ("PRA") before it can guarantee any new structured finance transaction.

Table of Contents

Assured Guaranty Corp. AGC is located in New York and domiciled in Maryland, was organized in 1985 and commenced operations in 1988. It is the only financial guaranty insurer providing insurance on debt obligations in the global structured finance market. It also guarantees obligations in the U.S. public finance and international infrastructure markets.

Assured Guaranty Re Ltd. AG Re is incorporated under the laws of Bermuda and is licensed as a Class 3B insurer under the Insurance Act 1978 and related regulations of Bermuda. AG Re owns, indirectly, Assured Guaranty Re Overseas Ltd. ("AGRO"), which is a Bermuda Class 3A and Class C insurer. AG Re and AGRO underwrite financial guaranty reinsurance. They write business as reinsurers of third-party primary insurers and of certain affiliated companies.

Since 2009, the Company has been the most active provider of financial guaranty insurance. The Company's position in the market benefited from its acquisition of AGMH in 2009, its ability to maintain strong financial strength ratings, its strong claims-paying resources, and its ability to achieve recoveries in respect of the claims that it has paid on insured residential mortgage-backed securities. However, since 2009, the Company has continued to face challenges in maintaining its market penetration. The challenges in 2013 were primarily due to:

Sustained low interest rate environment in the U.S. Within the last five years, interest rates in the U.S. had been at low levels by historical standards. Although such interest rates did rise slightly in 2013 from record lows in 2012, they are expected to remain low for the near future. As a result, the difference in yield (or the credit spread) between a bond insured by Assured Guaranty and an uninsured bond has provided comparatively little room for issuer savings and insurance premium, and Assured Guaranty has seen a lower demand for its financial guaranty insurance from issuers than it had prior to 2008.

- Continued low volume of issuance in the U.S. public finance market. According to industry compilations, U.S. municipalities issued only \$311.9 billion of bonds in 2013, 15% less than in 2012. With the exception of 2011, the 2013 volume of issuance in the U.S. public finance market was the lowest since 2001. The decline was caused in part by fewer refunding transactions — approximately \$132 billion in 2013, compared with approximately \$189 billion in 2012. In 2014, the Company expects the volume of issuance to continue to be low, in light of austerity measures municipalities have been implementing in order to address budget shortfalls, including those resulting from increased pension and healthcare costs.
- Increased competition. The Company estimates, based on third party industry compilations, that of the insured U.S. public finance bonds issued in the primary market in 2013, the Company insured approximately 62.3% of the par, while Build America Mutual Assurance Company ("BAM"), a newly formed insurance company that commenced operations in 2012, insured 36.8% of the par. The continued presence in the market of BAM, as well as any other new entrants, may affect the Company's insured volume as well as the amount of premium the Company is able to charge.
- Continued uncertainty over the Company's financial strength ratings. When Assured Guaranty issues a financial guaranty on a debt obligation, the rating agencies generally raise the debt or short-term credit ratings of the obligation to the same rating as the financial strength rating of the Assured Guaranty subsidiary that has guaranteed that obligation. Accordingly, investors in products insured by AGM, AGC, MAC or AGE frequently rely on rating agency ratings, and a failure of the insurer to maintain strong financial strength ratings or uncertainty over such ratings would have a negative impact on the demand for its insurance product. The Company's financial strength ratings have been subject to substantial uncertainty in recent years due to changes in rating agency methodologies for rating financial guaranty insurance companies, periodic rating agency reviews for possible downgrade and actual downgrades. For example, in March 2012, Moody's Investors Service, Inc. ("Moody's") placed the ratings of AGL and its subsidiaries, including the financial

strength ratings of AGL's insurance subsidiaries, on review for possible downgrade. Moody's did not complete its review until January 2013, when it downgraded the financial strength ratings of AGM and AGC from Aa3 to A2 and A3, respectively, and that of AG Re from A1 to Baa1. In February 2014, Moody's affirmed the financial strength ratings and outlooks of AGM and AGC, and affirmed AG Re's financial strength rating but changed AG Re's outlook to negative, citing its vulnerability to adverse developments within its insured portfolio. The uncertainty over the Company's financial strength ratings over time has had a negative effect on the demand for the Company's financial guaranties. If the financial strength rating of one or more of the Company's insurance subsidiaries were reduced below current levels, the Company expects that would reduce the number of transactions that would benefit from the Company's insurance and consequently harm the Company's new business opportunities.

In addition, the Company's business continues to be affected by negative perceptions of the value of the financial guaranty insurance sold by other companies that had been active in the industry. The losses suffered by such other insurers

Table of Contents

resulted in those companies being downgraded to below investment grade levels by the rating agencies and/or subject to intervention by their state insurance regulators. In a number of cases, the state insurance regulators prevented the distressed financial guaranty insurers from paying claims or paying such claims in full; in addition, such financial guaranty insurers were perceived by market participants not to be actively conducting surveillance on transactions or fully exercising rights and remedies to mitigate losses.

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

The Company's Financial Guaranty Portfolio

The Company primarily conducts its business through subsidiaries located in the U.S., Europe and Bermuda. The Company generally insures obligations issued in the U.S., although it has also guaranteed securities issued in Europe, Australia and other international markets.

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

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

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

As an alternative to traditional financial guaranty insurance, the Company also has provided credit protection relating to a particular security or obligor through a credit derivative contract, such as a credit default swap ("CDS"). Under the terms of a CDS, the seller of credit protection agrees to make a specified payment to the buyer of credit protection if one or more specified credit events occurs with respect to a reference obligation or entity. In general, the credit events specified in the Company's CDS are for interest and principal defaults on the reference obligation. One

difference between CDS and traditional primary financial guaranty insurance is that credit default protection is typically provided to a particular buyer of credit protection, who is not always required to own the reference obligation, rather than to all investors in the reference obligation. As a result, the Company's rights and remedies under a CDS may be different and more limited than on a financial guaranty of an entire issuance. Credit derivatives may be preferred by some investors, however, because they generally offer the investor ease of execution and standardized terms as well as more favorable accounting or capital treatment. The Company has not provided credit protection through a CDS since March 2009, other than in connection with loss mitigation and other remediation efforts relating to its existing book of business.

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

Table of Contents

The Company's financial guaranty direct and assumed businesses provide credit enhancement, on public finance, infrastructure and structured finance obligations. For information on the geographic breakdown of the Company's financial guaranty portfolio and on its income and revenue by jurisdiction, see "Geographic Distribution of Net Par Outstanding" in Note 3, Outstanding Exposure, and "Provision for Income Taxes" in Note 13, Income Taxes, of the Financial Statements and Supplementary Data.

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

General Obligation Bonds are full faith and credit bonds that are issued by states, their political subdivisions and other municipal issuers, and are supported by the general obligation of the issuer to pay from available funds and by a pledge of the issuer to levy ad valorem taxes in an amount sufficient to provide for the full payment of the bonds.

Tax-Backed Bonds are obligations that are supported by the issuer from specific and discrete sources of taxation. They include tax-backed revenue bonds, general fund obligations and lease revenue bonds. Tax-backed obligations may be secured by a lien on specific pledged tax revenues, such as a gasoline or excise tax, or incrementally from growth in property tax revenue associated with growth in property values. These obligations also include obligations secured by special assessments levied against property owners and often benefit from issuer covenants to enforce collections of such assessments and to foreclose on delinquent properties. Lease revenue bonds typically are general fund obligations of a municipality or other governmental authority that are subject to annual appropriation or abatement; projects financed and subject to such lease payments ordinarily include real estate or equipment serving an essential public purpose. Bonds in this category also include moral obligations of municipalities or governmental authorities.

Municipal Utility Bonds are obligations of all forms of municipal utilities, including electric, water and sewer utilities and resource recovery revenue bonds. These utilities may be organized in various forms, including municipal enterprise systems, authorities or joint action agencies.

Transportation Bonds include a wide variety of revenue-supported bonds, such as bonds for airports, ports, tunnels, municipal parking facilities, toll roads and toll bridges.

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

Higher Education Bonds are obligations secured by revenue collected by either public or private secondary schools, colleges and universities. Such revenue can encompass all of an institution's revenue, including tuition and fees, or in other cases, can be specifically restricted to certain auxiliary sources of revenue.

Housing Revenue Bonds are obligations relating to both single and multi-family housing, issued by states and localities, supported by cash flow and, in some cases, insurance from entities such as the Federal Housing Administration.

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

Investor-Owned Utility Bonds are obligations primarily backed by investor-owned utilities, first mortgage bond obligations of for-profit electric or water utilities providing retail, industrial and commercial service, and also include

sale-leaseback obligation bonds supported by such entities.

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

A portion of the Company's exposure to tax-backed bonds, municipal utility bonds and transportation bonds constitute "special revenue" bonds under the U.S. Bankruptcy Code. Even if an obligor under a special revenue bond were to seek protection from creditors under Chapter 9 of the U.S. Bankruptcy Code, holders of the special revenue bond should continue to receive timely payments of principal and interest during the bankruptcy proceeding, subject to the special revenues being

Table of Contents

sufficient to pay debt service and the lien on the special revenues being subordinate to the necessary operating expenses of the project or system from which the revenues are derived. While "special revenues" acquired by the obligor after bankruptcy remain subject to the pre-petition pledge, special revenue bonds may be adjusted if their claim is determined to be "undersecured."

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

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

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

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

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

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

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

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

Financial Products is the way in which the Company refers to the guaranteed investment contracts ("GICs") portion of a line of business previously conducted by AGMH that the Company did not acquire when it purchased AGMH in 2009 from Dexia SA. That line of business, which the Company refers to as the former "Financial Products Business" of AGMH, was comprised of its guaranteed investment contracts business, its medium term notes business and the equity payment agreements associated with AGMH's leveraged lease business. When AGMH was still conducting Financial Products Business, AGM issued financial guaranty insurance policies on GICs and in respect of the GIC business; those policies cannot be revoked or canceled. Assured Guaranty is indemnified by Dexia SA and certain of its affiliates ("Dexia") against loss from the former Financial Products Business. The Financial Products Business is currently being run off by Dexia.

Table of Contents

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

Commercial Mortgage-Backed Securities ("CMBS") are obligations backed by pools of commercial mortgages on office, multi-family, retail, hotel, industrial and other specialized or mixed-use properties.

Commercial Receivables Securities are obligations backed by equipment loans or leases, aircraft and aircraft engine financings, business loans and trade receivables. Credit support is derived from the cash flows generated by the underlying obligations, as well as property or equipment values as applicable.

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

Other Structured Finance Obligations are obligations backed by assets not generally described in any of the other described categories. One such type of asset is a tax benefit to be realized by an investor in one of the Federal or state programs that permit such investor to receive a credit against taxes (such as Federal corporate income tax or state insurance premium tax) for making qualified investments in specified enterprises, typically located in designated low-income areas.

Credit Policy and Underwriting Procedure

Credit Policy

The Company establishes exposure limits and underwriting criteria for sectors, countries, single risks and, in the case of structured finance obligations, servicers. Single risk limits are established in relation to the Company's capital base and are based on the Company's assessment of potential frequency and severity of loss as well as other factors, such as historical and stressed collateral performance. Sector limits are based on the Company's assessment of intra-sector correlation, as well as other factors. Country limits are based on long term foreign currency ratings, history of political stability, size and stability of the economy and other factors.

Critical risk factors that the Company would analyze for proposed public finance exposures include, for example, the credit quality of the issuer, the type of issue, the repayment source, the security pledged, the presence of restrictive covenants and the issue's maturity date. The Company also focuses on the ability of obligors to file for bankruptcy or receivership under applicable statutes (and on related statutes that provide for state oversight or fiscal control over financially troubled obligors); the amount of liquidity available to the obligors for debt payment, including the obligors' exposure to derivative contracts and to debt subject to acceleration; and the ability of the obligors to increase revenue. In addition, the Company recently has emphasized an obligor's pension and other post-employment benefits funding policies and practices, the potential impact of the Affordable Care Act, and the risk of a rating agency downgrade of an obligation's underlying uninsured rating. Underwriting considerations also include (1) the classification of the transaction, reflecting economic and social factors affecting that bond type, including the importance of the proposed project to the community, (2) the financial management of the project and of the issuer, (3) the potential refinancing risk, and (4) various legal and administrative factors. In cases where the primary source of repayment is the taxing or rate setting authority of a public entity, such as general obligation bonds, transportation bonds and municipal utility bonds, emphasis is placed on the overall financial strength of the issuer, the economic and demographic characteristics of the taxpayer or ratepayer and the strength of the legal obligation to repay the debt. In cases of not-for-profit institutions, such as healthcare issuers and private higher education issuers, emphasis is placed on the financial stability of the institution, its competitive position and its management experience.

Table of Contents

Structured finance obligations generally present three distinct forms of risk: (1) asset risk, pertaining to the amount and quality of assets underlying an issue; (2) structural risk, pertaining to the extent to which an issue's legal structure provides protection from loss; and (3) execution risk, which is the risk that poor performance by a servicer contributes to a decline in the cash flow available to the transaction. Each risk is addressed in turn through the Company's underwriting process. Generally, the amount and quality of asset coverage required with respect to a structured finance exposure is dependent upon the historic performance of the subject asset class, or those assets actually underlying the risk proposed to be insured or assumed through reinsurance. Future performance expectations are developed from this history, taking into account economic, social and political factors affecting that asset class as well as, to the extent feasible, the subject assets themselves. Conclusions are then drawn about the amount of over-collateralization or other credit enhancement necessary in a particular transaction in order to protect investors (and therefore the insurer or reinsurer) against poor asset performance. In addition, structured securities usually are designed to protect investors (and therefore the guarantor) from the bankruptcy or insolvency of the entity which originated the underlying assets, as well as the bankruptcy or insolvency of the servicer of those assets. The Company conducts extensive due diligence on the assets in its insured transactions.

For international transactions, an analysis of the country or countries in which the risk resides is performed. Such analysis includes an assessment of the political risk as well as the economic and demographic characteristics of the country or countries. For each transaction, the Company performs an assessment of the legal jurisdiction governing the transaction and the laws affecting the underlying assets supporting the obligations.

Underwriting Procedure

Each transaction underwritten by the Company involves persons with different expertise across various departments within the Company. The Company's transaction underwriting teams include both underwriting and legal personnel, who analyze the structure of a potential transaction and the credit and legal issues pertinent to the particular line of business or asset class, and accounting and finance personnel, who review the more complex transactions for compliance with applicable accounting standards and investment guidelines.

In the public finance portion of the Company's financial guaranty direct business, underwriters generally analyze the issuer's historical financial statements and, where warranted, develop stress case projections to test the issuers' ability to make timely debt service payments under stressful economic conditions. In the structured and infrastructure finance portions of the Company's financial guaranty direct business, underwriters generally use computer-based financial models in order to evaluate the ability of the transaction to generate adequate cash flow to service the debt under a variety of scenarios. The models include economically stressed scenarios that the underwriters use for their assessment of the potential credit risk inherent in a particular transaction. Stress models developed internally by the Company's underwriters and reflect both empirical research as well as information gathered from third parties, such as rating agencies or investment banks. The Company may also engage advisors such as consultants and external counsel to assist in analyzing a transaction's financial or legal risks. The Company may also conduct a due diligence review that includes, among other things, a site visit to the project or facility, meetings with issuer management, review of underwriting and operational procedures, file reviews, and review of financial procedures and computer systems.

Upon completion of the underwriting analysis, the underwriter prepares a formal credit report that is submitted to a credit committee for review. An oral presentation is usually made to the committee, followed by questions from committee members and discussion among the committee members and the underwriters. In some cases, additional information may be presented at the meeting or required to be submitted prior to approval. Each credit committee decision is documented and any further requirements, such as specific terms or evidence of due diligence, are noted. The Company currently has four credit committees composed of senior officers of the Company. The committees are organized by asset class, such as for public finance or structured finance, or along regulatory lines, to assess the various potential exposures.

Risk Management Procedures

Organizational Structure

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

Table of Contents

setting the Company's business strategy is a key part of its assessment of management's risk tolerance and also a determination of what constitutes an appropriate level of risk for the Company.

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

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

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

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

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

Workout Committee—This committee receives reports from Surveillance and Workout personnel on transactions that might benefit from active loss mitigation and develops and approves loss mitigation strategies for such transactions.

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

The Company's surveillance personnel are responsible for monitoring and reporting on all transactions in the insured portfolio, including exposures in both the financial guaranty direct and assumed businesses. The primary objective of

the surveillance process is to monitor trends and changes in transaction credit quality, detect any deterioration in credit quality, and recommend remedial actions to management. All transactions in the insured portfolio are assigned internal credit ratings, and surveillance personnel recommend adjustments to those ratings to reflect changes in transaction credit quality.

The Company's workout personnel are responsible for managing workout and loss mitigation situations. They work together with the Company's surveillance personnel to develop and implement strategies on transactions that are experiencing loss or could possibly experience loss. They develop strategies designed to enhance the ability of the Company to enforce its contractual rights and remedies and mitigate potential losses. The Company's workout personnel also engage in negotiation discussions with transaction participants and, when necessary, manage (along with legal personnel) the Company's litigation

Table of Contents

proceedings. They may also make open market purchases of securities that the Company has insured. The Company's workout personnel work with servicers of residential mortgage-backed securities transactions to enhance their performance.

Direct Business

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

Assumed Business

For transactions that the Company has assumed, the ceding insurers are responsible for conducting ongoing surveillance of the exposures that have been ceded to the Company. The Company's surveillance personnel monitor the ceding insurer's surveillance activities on exposures ceded to the Company through a variety of means, including reviews of surveillance reports provided by the ceding insurers, and meetings and discussions with their analysts. The Company's surveillance personnel also monitor general news and information, industry trends and rating agency reports to help focus surveillance activities on sectors or credits of particular concern. For certain exposures, the Company also will undertake an independent analysis and remodeling of the exposure. In the event of credit deterioration of a particular exposure, more frequent reviews of the ceding company's risk mitigation activities are conducted. The Company's surveillance personnel also take steps to ensure that the ceding insurer is managing the risk pursuant to the terms of the applicable reinsurance agreement. To this end, the Company conducts periodic reviews of ceding companies' surveillance activities and capabilities. That process may include the review of the insurer's underwriting, surveillance and claim files for certain transactions.

Ceded Business

As part of its risk management strategy, the Company has sought in the past to obtain third party reinsurance or retrocessions and may also periodically enter into other arrangements to reduce its exposure to risk concentrations, such as for single risk limits, portfolio credit rating or exposure limits, geographic limits or other factors. At December 31, 2013, the Company had ceded approximately 6% of its principal amount outstanding to third party reinsurers.

The Company has obtained reinsurance to increase its underwriting capacity, both on an aggregate-risk and a single-risk basis, to meet internal, rating agency and regulatory risk limits, diversify risks, reduce the need for additional capital, and strengthen financial ratios. The Company receives capital credit for ceded reinsurance based on the reinsurer's ratings in the capital models used by the rating agencies to evaluate the Company's capital position for its financial strength ratings. In addition, a number of the Company's reinsurers are required to pledge collateral to secure their reinsurance obligations to the Company. In some cases, the pledged collateral augments the rating agency credit for the reinsurance provided. In recent years, most of the Company's reinsurers have been downgraded by one or more rating agency, and consequently, the financial strength ratings of many of the reinsurers are below those of

the Company's insurance subsidiaries. While ceding commissions or premium allocation adjustments may compensate in part for such downgrades, the effect of such downgrades, in general, is to decrease the financial benefits of using reinsurance under rating agency capital adequacy models. However, to the extent a reinsurer still has the financial wherewithal to pay, the Company could still benefit from the reinsurance provided.

The Company's ceded reinsurance may be on a quota share, first-loss or excess-of-loss basis. Quota share reinsurance generally provides protection against a fixed specified percentage of all losses incurred by the Company. First-loss reinsurance generally provides protection against a fixed specified percentage of losses incurred up to a specified limit. Excess-of-loss reinsurance generally provides protection against a fixed percentage of losses incurred to the extent that losses incurred exceed a specified limit. Reinsurance arrangements typically require the Company to retain a minimum portion of the risks reinsured.

In past, the Company had both facultative (transaction-by-transaction) and treaty ceded reinsurance contracts with third party reinsurers, generally arranged on an annual basis for new business. The Company also employed "automatic facultative" reinsurance that permitted the Company to apply reinsurance with third party reinsurance to transactions it selected subject to certain limitations. The remainder of the Company's treaty reinsurance provided coverage for a portion, subject in

Table of Contents

certain cases to adjustment at the Company's election, of the exposure from all qualifying policies issued during the term of the treaty. The reinsurer's participation in a treaty was either cancellable annually upon 90 days' prior notice by either the Company or the reinsurer, or had a one-year term. Treaties generally provide coverage for the full term of the policies reinsured during the annual treaty period, except that, upon a financial deterioration of the reinsurer or the occurrence of certain other events, the Company generally has the right to reassume all or a portion of the business reinsured. Reinsurance agreements may be subject to other termination conditions as required by applicable state law.

The Company's treaty and automatic facultative program covering new business with third party reinsurers ended in 2008, but such reinsurance continues to cover ceded business until the expiration of exposure, except that the Company has entered into commutation agreements reassuming portions of the ceded business from certain reinsurers. The Company continues to reinsure occasionally new business on a facultative basis.

AGC, AGM and MAC have entered into an aggregate excess of loss reinsurance facility with a number of reinsurers, effective as of January 1, 2014. The facility covers losses occurring either from January 1, 2014 through December 31, 2021, or January 1, 2015 through December 31, 2022, at the option of AGC, AGM and MAC. It terminates on January 1, 2016, unless AGC, AGM and MAC choose to extend it. 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 have paid approximately \$19 million of premiums during 2014 for the term January 1, 2014 through December 31, 2014 and deposited approximately \$19 million of securities into trust accounts for the benefit of the reinsurers to be used to pay the premium for January 1, 2015 through December 31, 2015. This facility replaces the \$435 million aggregate excess of loss reinsurance facility that AGC and AGM had entered into on January 22, 2012.

Importance of Financial Strength Ratings

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

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

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

Instability of Rating Criteria and Methodologies. Rating agencies purport to issue ratings pursuant to published rating criteria and methodologies. In recent years, the rating agencies have made material changes to their rating criteria and methodologies applicable to financial guaranty insurers, sometimes through formal changes and other times through ad hoc adjustments to the conclusions reached by existing criteria. Furthermore, these criteria and methodology changes are typically implemented without any transition period, making it difficult for an insurer to comply quickly with new standards.

Table of Contents

Increasingly Severe Stress Case Loss Assumptions. A major component in arriving at a financial guaranty insurer's rating has been the rating agency's assessment of the insurer's capital adequacy, with each rating agency employing its own proprietary model. These capital adequacy models include "stress case" loss assumptions for various risks or risk categories. In reaction to the financial crisis, the rating agencies materially increased stress case loss assumptions across numerous risk categories. However, the stress case loss assumptions applied to financial guaranty insurers do not always appear consistent with, and can appear to be materially more severe than, the assumptions the rating agencies use when rating securities in those risk categories.

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

Despite the difficult rating agency process following the financial crisis, the Company has been able to maintain strong financial strength ratings. However, if a substantial downgrade of the financial strength ratings of the Company's insurance subsidiaries were to occur in the future, such downgrade would adversely affect its business and prospects and, consequently, its results of operations and financial condition. The Company believes that if the financial strength ratings of AGM, AGC and/or MAC were downgraded from their current levels, such downgrade could result in downward pressure on the premium that such insurance subsidiary would be able to charge for its insurance. Currently, AGM, AGC and MAC all have financial strength ratings in the double-A category from S&P (AA- (Stable Outlook)). MAC also has a AA+ (Stable) financial strength rating from Kroll, while AGM and AGC have financial strength ratings in the single-A category from Moody's (A2 (Stable Outlook) and A3 (Stable Outlook), respectively). The Company believes that so long as AGM, AGC and/or MAC continues to have financial strength ratings in the double-A category from at least one of the legacy rating agencies (S&P or Moody's), they are likely to be able to continue writing financial guaranty business with a credit quality similar to that historically written. However, if both legacy rating agencies were to reduce the financial strength ratings of AGM, AGC and/or MAC to the single-A level or below, or if either legacy rating agency were to downgrade AGM, AGC and/or MAC below the single-A level, it could be difficult for the Company to originate the current volume of new business with comparable credit characteristics. See "Item 1A. Risk Factors—Risks Related to the Company's Financial Strength and Financial Enhancement Ratings" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for more information about the Company's ratings.

Table of Contents

Investments

Investment income from the Company's investment portfolio is one of the primary sources of cash flows supporting its operations and claim payments. The Company's total investment portfolio was \$10.8 billion and \$11.1 billion as of December 31, 2013 and 2012, respectively, and generated net investment income of \$393 million, \$404 million and \$396 million in 2013, 2012 and 2011, respectively.

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

Approximately 83% of the Company's investment portfolio is externally managed. The performance of the Company's invested assets is subject to the performance of BlackRock Financial Management, Inc., Deutsche Investment Management Americas Inc., General Re-New England Asset Management, Inc. and Wellington Management Company, LLP, its investment managers, in selecting and managing appropriate investments. The Company's portfolio is allocated approximately equally among the four investment managers. The Company's investment managers have discretionary authority over the Company's investment portfolio within the limits of the Company's investment guidelines approved by the Company's Board of Directors. The Company compensates each of these managers based upon a fixed percentage of the market value of the Company's portfolio. During the years ended December 31, 2013, 2012 and 2011, the Company recorded investment management fee expenses of \$8 million, \$9 million, and \$8 million, respectively, related to these managers.

The Company also manages 9% of its investment portfolio internally, either in connection with its loss mitigation or risk management strategy, or because the Company believes a particular security or asset presents an attractive investment opportunity.

The largest component of the Company's internally managed portfolio consists of obligations that the Company purchases in connection with its loss mitigation or risk management strategy for its insured exposure. Purchasing such obligations enables the Company to exercise rights available to holders of the obligations. As part of the loss mitigation strategy, the Board of Directors of the Company approved net purchases of up to \$1.1 billion of securities for loss mitigation purchases. The Company also holds other invested assets that were obtained or purchased as part of negotiated settlements with insured counterparties or under the terms of its financial guaranties. The Company held approximately \$843 million and \$681 million of securities based on their fair value that were obtained for loss mitigation or risk management purposes in its internally managed investment accounts as of December 31, 2013 and December 31, 2012, respectively.

The Company also purchases obligations and assets that it believes constitute good investment opportunities. For example, the Board of Directors of the Company has approved the Company purchasing obligations that have been approved for insurance by the Company's credit committee, up to a maximum of \$200 million for U.S. public finance obligations and of \$100 million for structured finance obligations. These credit-approved obligations may be insured by the Company or uninsured. During 2013, the Company purchased \$630 million par amount outstanding of such credit approved obligations and sold \$619 million in par. During 2012, the Company purchased \$782 million par amount outstanding of such credit approved obligations and sold \$728 million in par. As of December 31, 2013 and 2012, the Company held \$76 million and \$65 million par amount outstanding of such credit approved obligations, respectively.

Competition

Assured Guaranty is the market leader in the financial guaranty industry. Assured Guaranty believes its financial strength, default protection products, credit selection policies, underwriting standards and surveillance procedures make it an attractive provider of financial guaranties.

Its principal competition is in the form of obligations that issuers decide to issue on an uninsured basis. In the U.S. public finance market, when interest rates are low, investors may prefer greater yield over insurance protection, and issuers may find the cost savings from insurance less compelling. In 2013, interest rates were volatile and low by historical standards. In 2012, they were at record lows. In the U.S. public finance market in 2013, only approximately 3.9% of the total volume of issuance was issued on an insured basis. In the international infrastructure finance market, Assured Guaranty competes primarily with privately

Table of Contents

funded executions where no bonds are sold in the public markets. In the asset-backed market, the principal competition comes from credit or structural enhancement embedded in transactions, such as through overcollateralization, first loss insurance, excess spread or other terms and conditions that provide investors with additional collateral or cash flow.

Assured Guaranty is the only financial guaranty company active before the global financial crisis of 2008 that has maintained sufficient financial strength to write new business continuously since the crisis began. As a result of rating agency downgrades of the financial strength ratings of financial guaranty companies that had previously been active in the market, Assured Guaranty faced virtually no bond insurer competition since it acquired AGM, in 2009, through 2012.

Based on industry statistics, the Company estimates that, of the U.S. public finance bonds issued with insurance in 2013, the Company insured approximately 62.3% of the par, while Build America Mutual Assurance Company ("BAM"), which commenced business in 2012, insured approximately 36.8% of the par. BAM is effective in competing with the Company for small to medium sized U.S. public finance transactions in certain sectors and its pricing and underwriting strategies may have a negative impact on the amount of premium the Company is able to charge for its insurance. However, the Company believes it has competitive advantages over BAM due to: AGM's and MAC's larger capital base; AGM's ability to insure larger transactions and issuances in more diverse U.S. bond sectors; and AGM's and MAC's strong financial strength ratings from multiple rating agencies (in the case of AGM, AA- from S&P and A2 from Moody's, and in the case of MAC, AA+ from Kroll and AA- from S&P, compared with BAM's AA solely from S&P).

Another potential competitor to the Company on U.S. public finance transactions is National Public Finance Guarantee Corporation ("National"). In 2009, MBIA Insurance Corporation ("MBIA"), one of the legacy insurers that is not writing new business, transferred its U.S. public finance exposures to its affiliate National. The transfer was challenged in litigation that was not settled until May 2013. Subsequently, S&P has raised National's financial strength rating from BBB to A, noting that S&P no longer viewed MBIA's rating as a limitation on National's rating, and Moody's has upgraded National's financial strength rating from Baa2 to Baa1. National has publicly stated its intention to resume insuring municipal bonds and it is possible it may do so in 2014.

In the global structured finance and infrastructure markets, Assured Guaranty is the only financial guaranty insurance company currently guaranteeing structured financings. Management considers this diversification to be a competitive advantage in the long run because it means the Company is not wholly dependent on conditions in any one market.

In the future, additional new entrants into the financial guaranty industry could reduce the Company's future new business prospects, including by furthering price competition or offering financial guaranty insurance on transactions with structural and security features that are more favorable to the issuers than those required by Assured Guaranty.

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

Regulation

General

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

United States

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

Table of Contents

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

MAC is a New York domiciled insurance company licensed to write financial guaranty insurance and reinsurance in 47 U.S. jurisdictions, including the District of Columbia (with license applications pending in the remaining states). MAC will only insure U.S. public finance debt obligations, focusing on investment grade bonds in select sectors of that market.

AGC is a Maryland domiciled insurance company licensed to write financial guaranty insurance and reinsurance (which is classified in some states as surety or another line of insurance) in 50 U.S. states, the District of Columbia and Puerto Rico. It is registered as a foreign company in Australia and currently operates through a representative office in Sydney. AGC currently intends for the representative office to conduct activities so that it does not have a permanent establishment in Australia.

The Company also owned Assured Guaranty Municipal Insurance Company ("AGMIC"), a New York domiciled insurance company (formerly FSA Insurance Company) that was redomesticated to New York from Oklahoma in 2010. AGMIC never issued any direct policies and its only outstanding business in 2013 was as reinsurer, pursuant to an intercompany reinsurance pooling agreement, of direct business written by AGM. Effective as of July 1, 2013, AGM reassumed such business from AGMIC and the parties terminated such pooling agreement. Effective as of July 16, 2013, AGMIC merged with and into AGM, with AGM as the surviving company of the merger.

In addition, the Company owned Assured Guaranty Mortgage Insurance Company ("AG Mortgage"), a New York domiciled insurance company that was authorized solely to transact mortgage guaranty insurance and reinsurance. AG Mortgage was licensed as a mortgage guaranty insurer in the State of New York and in the District of Columbia, and was an approved or accredited reinsurer in the States of California and Illinois. In 2012, the last policy to which AG Mortgage had exposure expired. In the third quarter of 2013, AG Mortgage surrendered or cancelled, as applicable, its insurance license in the District of Columbia and its accredited reinsurer status in California and Illinois. It is intended that AG Mortgage will be merged with and into AGM, with AGM as the surviving company of the merger, effective as of March 3, 2014.

Insurance Holding Company Regulation

AGL and the Assured Guaranty U.S. Subsidiaries are subject to the insurance holding company laws of their jurisdiction of domicile, as well as other jurisdictions where these insurers are licensed to do insurance business. These laws generally require each of the Assured Guaranty U.S. Subsidiaries to register with its respective domestic state insurance department and annually to furnish financial and other information about the operations of companies within their holding company system. Generally, all transactions among companies in the holding company system to which any of the Assured Guaranty U.S. Subsidiaries is a party (including sales, loans, reinsurance agreements and service agreements) must be fair and, if material or of a specified category, such as reinsurance or service agreements, require prior notice and approval or non-disapproval by the insurance department where the applicable subsidiary is domiciled.

Change of Control

Before a person can acquire control of a U.S. domestic insurance company, prior written approval must be obtained from the insurance commissioner of the state where the domestic insurer is domiciled. Generally, state statutes provide that control over a domestic insurer is presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, 10% or more of the voting securities of the domestic

insurer. Prior to granting approval of an application to acquire control of a domestic insurer, the state insurance commissioner will consider such factors as the financial strength of the applicant, the integrity and management of the applicant's board of directors and executive officers, the acquirer's plans for the management of the applicant's board of directors and executive officers, the acquirer's plans for the future operations of the domestic insurer and any anti-competitive results that may arise from the consummation of the acquisition of control. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control involving AGL that some or all of AGL's stockholders might consider to be desirable, including in particular unsolicited transactions.

Table of Contents

State Insurance Regulation

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

The Maryland Insurance Administration (the "MIA"), the regulatory authority of the domiciliary jurisdiction of AGC, conducts a periodic examination of insurance companies domiciled in Maryland every five years. In 2013, the MIA issued an Examination Report with respect to AGC for the five year period ending December 31, 2011; no significant regulatory issues were noted in such report.

The New York State Department of Financial Services (the "NY DFS"), the regulatory authority of the domiciliary jurisdiction of AGM and MAC, and of AGMIC and AG Mortgage (prior to each such company's merger with AGM), also conducts a periodic examination of insurance companies domiciled in New York, also usually at five-year intervals. In 2012, the NY DFS commenced examinations of AGM, MAC, AGMIC and AG Mortgage in order for its examinations of these companies to coincide with the MIA's examination of AGC. In 2013, the NY DFS completed its examinations and issued Reports on Examination of (i) AGM and AG Mortgage for the four-year period ending December 31, 2011; (ii) AGMIC for the five-year period ending December 31, 2011; and (iii) MAC for the period September 26, 2008 through June 30, 2012. The reports also did not note any significant regulatory issues concerning those companies.

State Dividend Limitations

New York. One of the primary source of cash for the payment of debt service and dividends by the Company is the receipt of dividends from AGM. Under the New York Insurance Law, AGM may only pay dividends out of "earned surplus," which is that portion of the company's surplus that represents the net earnings, gains or profits (after deduction of all losses) that have not been distributed to shareholders as dividends or transferred to stated capital or capital surplus, or applied to other purposes permitted by law, but does not include unrealized 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 10% of its policyholders' surplus (as of its last annual or quarterly statement filed with the New York Superintendent) or 100% of its adjusted net investment income during that period. The maximum amount available during 2014 for AGM to pay dividends to its parent AGMH without regulatory approval, after giving effect to dividends paid in the prior 12 months, will be approximately \$173 million. AGM paid dividends of \$163 million and \$30 million during 2013 and 2012, respectively, to AGMH. It did not declare or pay any dividends in 2011 because in connection with the Company's acquisition of AGMH in 2009, it had committed to the NY DFS that AGM would not pay any dividends for a two year period without the prior approval of the New York Superintendent. This constraint has expired.

Maryland. Another primary source of cash for the payment of debt service and dividends by the Company is the receipt of dividends from AGC. Under Maryland's insurance law, AGC may, with prior notice to the MIA, pay an ordinary dividend that, together with all dividends paid in the prior 12 months, does not exceed 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 2014 for AGC to pay ordinary dividends to its parent Assured Guaranty US Holdings Inc. ("AGUS"), after giving effect to dividends paid in the prior 12 months, will be approximately \$69 million. A dividend or distribution to a stockholder in excess of this limitation would constitute an "extraordinary dividend," which must be paid out of "earned surplus" and reported to, and approved by, the MIA prior to payment. "Earned surplus" is that portion of the company's surplus that represents the net earnings, gains or profits (after deduction of all losses) that have not been distributed to shareholders as dividends or transferred to stated capital or capital surplus, or applied to other purposes permitted by law, but does not include unrealized capital gains and appreciation of assets. Currently, AGC does not have any earned surplus and therefore the Company expects AGC only to pay ordinary dividends in 2014. AGC may not pay any dividend or make any distribution, including ordinary dividends, unless

Table of Contents

it notifies the MIA of the proposed payment within five business days following declaration and at least ten days before payment. The MIA may declare that such dividend not be paid if it finds that AGC's policyholders' surplus would be inadequate after payment of the dividend or the dividend could lead AGC to a hazardous financial condition. AGC paid dividends of \$67 million, \$55 million and \$30 million during 2013, 2012 and 2011, respectively, to AGUS.

Contingency Reserves

New York. Under the New York Insurance Law, each of AGM and MAC must establish a contingency reserve to protect policyholders. As financial guaranty insurers, each is required to maintain a contingency reserve:

with respect to policies written prior to July 1, 1989, in an amount equal to 50% of earned premiums less permitted reductions; and

with respect to policies written on and after July 1, 1989, quarterly on a pro rata basis over a period of 20 years for municipal bonds and 15 years for all other obligations, in an amount equal to the greater of 50% of premiums written for the relevant category of insurance or a percentage of the principal guaranteed, varying from 0.55% to 2.50%, depending on the type of obligation guaranteed, until the contingency reserve amount for the category equals the applicable percentage of net unpaid principal. The contingency reserve is then taken down over the same period of time that it was established.

Maryland. In accordance with Maryland insurance law and regulations, AGC also maintains a statutory contingency reserve for the protection of policyholders. The contingency reserve is maintained quarterly on a pro rata basis over a period of 20 years for municipal bonds and 15 years for all other obligations, in an amount equal to the greater of 50% of premiums written for the relevant category of insurance or a percentage of the principal guaranteed, varying from 0.55% to 2.50%, depending on the type of obligation guaranteed, until the contingency reserve amount for the category equals the applicable percentage of net unpaid principal. The contingency reserve is then taken down over the same period of time that it was established.

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

From time to time, AGM and AGC have obtained approval from their regulators to release contingency reserves based on losses and, in the case of AGM, also based on the expiration of its insured exposure. In 2012, AGM obtained NY DFS approval of contingency reserve releases of approximately \$510 million based on the expiration of exposure. In addition, in July 2013, AGM obtained approval from the NY DFS, and AGC obtained approval from the MIA, to reassume in three annual installments all of the outstanding contingency reserves that AGM and AGC, respectively, ceded to its affiliate AG Re and to cease ceding further contingency reserves to AG Re. In July 2013, AGM and AGC each implemented the first of these three annual installments by reassuming approximately \$73 million and \$88 million, respectively, of ceded contingency reserves. These first reassumptions together permitted the release of assets from the AG Re trust accounts securing AG Re's reinsurance of AGM and AGC by approximately \$130 million, after adjusting for increases in the amounts required to be held in such accounts due to changes in asset values, thereby increasing the Company's liquidity. The second and third reassumption installments are intended to be completed on the one and two year anniversaries, respectively, of the first reassumption installment, and are subject to further approval by the NY DFS and MIA.

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

Single and Aggregate Risk Limits

The New York Insurance Law and the Code of Maryland Regulations establish single risk limits for financial guaranty insurers applicable to all obligations issued by a single entity and backed by a single revenue source. For example, under the limit applicable to qualifying asset-backed securities, the lesser of:

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

Table of Contents

the insured unpaid principal (reduced by the extent to which the unpaid principal of the supporting assets exceeds the insured unpaid principal) divided by nine, net of qualifying reinsurance and collateral, may not exceed 10% of the sum of the insurer's policyholders' surplus and contingency reserves, subject to certain conditions.

Under the limit applicable to municipal obligations, the insured average annual debt service for a single risk, net of qualifying reinsurance and collateral, may not exceed 10% of the sum of the insurer's policyholders' surplus and contingency reserves. In addition, insured principal of municipal obligations attributable to any single risk, net of qualifying reinsurance and collateral, is limited to 75% of the insurer's policyholders' surplus and contingency reserves. Single-risk limits are also specified for other categories of insured obligations, and generally are more restrictive than those listed for asset-backed or municipal obligations. Obligations not qualifying for an enhanced single-risk limit are generally subject to the "corporate" limit (applicable to insurance of unsecured corporate obligations) equal to 10% of the sum of the insurer's policyholders' surplus and contingency reserves. For example, "triple-X" and "future flow" securitizations, as well as unsecured investor-owned utility obligations, are generally subject to these "corporate" single-risk limits.

The New York Insurance Law and the Code of Maryland Regulations also establish aggregate risk limits on the basis of aggregate net liability insured as compared with statutory capital. "Aggregate net liability" is defined as outstanding principal and interest of guaranteed obligations insured, net of qualifying reinsurance and collateral. Under these limits, policyholders' surplus and contingency reserves must not be less than a percentage of aggregate net liability equal to the sum of various percentages of aggregate net liability for various categories of specified obligations. The percentage varies from 0.33% for certain municipal obligations to 4% for certain non-investment-grade obligations. As of December 31, 2013, the aggregate net liability of each of AGM, MAC and AGC utilized approximately 34.4%, 57.8% and 25.9% of their respective policyholders' surplus and contingency reserves.

The New York Superintendent has broad discretion to order a financial guaranty insurer to cease new business originations if the insurer fails to comply with single or aggregate risk limits. In practice, the New York Superintendent has shown a willingness to work with insurers to address these concerns.

Group Regulation

In connection with AGL's establishment of tax residence in the United Kingdom, as discussed in greater detail under "Tax Matters" below, AGL has been discussing the regulation of AGL and its subsidiaries as a group with the Prudential Regulation Authority in the U.K. and with the NY DFS. The NY DFS has indicated that it will assume responsibility for regulation of the Assured Guaranty group. Group supervision by the NYDFS would result in additional regulatory oversight over Assured Guaranty, and may subject Assured Guaranty to new regulatory requirements and constraints.

Investments

The Assured Guaranty U.S. Subsidiaries are subject to laws and regulations that require diversification of their investment portfolio and limit the amount of investments in certain asset categories, such as below investment grade fixed-maturity securities, equity real estate, other equity investments, and derivatives. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as non-admitted assets for purposes of measuring surplus, and, in some instances, would require divestiture of such non-qualifying investments. The Company believes that the investments made by the Assured Guaranty U.S. Subsidiaries complied with such regulations as of December 31, 2013. In addition, any investment must be approved by the insurance company's board of directors or a committee thereof that is responsible for supervising or making such investment.

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

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

Table of Contents

ceding insurer for reinsurance obtained from a non-licensed or non-accredited reinsurer to the extent that the reinsurer secures its reinsurance obligations to the ceding insurer by providing a letter of credit, trust fund or other acceptable security arrangement. A few states do not allow credit for reinsurance ceded to non-licensed reinsurers except in certain limited circumstances and others impose additional requirements that make it difficult to become accredited. The Company's reinsurance subsidiaries AG Re and AGRO are not licensed, accredited or approved in any state and have established trusts to secure their reinsurance obligations.

U.S. Federal Regulation

The Company's businesses are subject to direct and indirect regulation under U.S. federal law. In particular, the Dodd-Frank Act could require certain of AGL's subsidiaries to register with the SEC as major security-based swap participants when those registration rules take effect. Major security-based swap participants would need to satisfy the SEC's regulatory capital requirements and would be subject to additional compliance requirements. In addition, certain of AGL's subsidiaries may need to post margin with respect to either future or legacy derivative transactions when rules relating to margin take effect. At this time, AGL does not believe its subsidiaries are required to register with the Commodity Futures Trading Commission ("CFTC") as major swap participants, but their status could change based on official guidance from the CFTC.

Furthermore, pursuant to the Dodd-Frank Act, the Financial Stability Oversight Council ("FSOC") has been charged with identifying certain non-bank financial companies to be subject to supervision by the Board of Governors of the Federal Reserve System. In a parallel international process, the International Association of Insurance Supervisors ("IAIS"), which has been identifying global systemically important insurers ("GSII"), published a proposed assessment methodology that deemed financial guaranty insurance to be an activity that poses increased systemic risk relative to more traditional insurance activities. The Company does not at this time expect to be designated as a Systemically Important Financial Institution ("SIFI") by the FSOC or a GSII by the IAIS, but the Company's status could change pursuant to new criteria from the FSOC or the IAIS.

Bermuda

AG Re and AGRO are each an insurance company currently registered and licensed under the Insurance Act 1978 of Bermuda, amendments thereto and related regulations (collectively, the "Insurance Act"). AG Re is registered and licensed as a Class 3B insurer and AGRO is registered and licensed as a Class 3A insurer and a Class C long-term insurer. The Company also owned Assured Guaranty (Bermuda) Ltd. ("AGBM"), which was registered and licensed as a Class 3 insurer. Effective July 17, 2013, AGBM was merged with and into AG Re with AG Re surviving the merger.

Bermuda Insurance Regulation

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

its long-term business fund (a segregated fund). Each of AG Re and AGRO is required annually to file statutorily mandated financial statements and returns, audited by an auditor approved by the Authority (no approved auditor of an insurer may have an interest in that insurer, other than as an insured, and no officer, servant or agent of an insurer shall be eligible for appointment as an insurer's approved auditor), together with an annual loss reserve opinion of the Authority approved loss reserve specialist and in respect of AGRO, the required actuary's certificate with respect to the long-term business. AG Re is also required to file annual financial statements prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which must be available to the public. As Class 3A insurer, AGRO has received an exemption from the Authority from making such filing. In addition, AG Re is required to file a capital and solvency return that includes the company's Bermuda Solvency Capital Requirement ("BSCR") model (or an approved internal capital model in lieu thereof), a schedule of fixed income investments by rating categories, a schedule of net reserves for losses and loss expense provisions by line of business, a schedule of premiums written by line of business, a schedule of risk management, a schedule of fixed income securities, a schedule of commercial insurer's solvency self assessment ("CISSA"), a schedule of catastrophe risk return, a schedule of loss triangles or reconciliation of net loss reserves

Table of Contents

and a schedule of eligible capital. AG Re is also required to file quarterly financial returns which consist of quarterly unaudited financial statements and details of material intra-group transactions and risk concentrations.

AGRO is also required to file a capital and solvency return that includes, among other details, the company's Bermuda Solvency Capital Requirement—Small and Medium Entities ("BSCR-SME") model (or an approved internal capital model in lieu thereof), the CISSA and a schedule of eligible capital.

Shareholder Controllers

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

Notification of Material Changes

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

No registered insurer shall take any steps to give effect to a material change unless it has first served notice on the Authority that it intends to effect such material change and, before the end of 14 days, either the Authority has notified such company in writing that it has no objection to such change or that period has lapsed without the Authority having issued a notice of objection. A person who fails to give the required notice or who effects a material change, or allows such material change to be effected, before the prescribed period has elapsed or after having received a notice of objection shall be guilty of an offence.

Minimum Solvency Margin and Enhanced Capital Requirements

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

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

In addition, as a Class C long-term insurer, AGRO is required, with respect to its long-term business, to maintain a minimum solvency margin equal to the greater of \$500,000 or 1.5% of its assets for the 2013 financial year. For the purpose of this calculation, assets are defined as the total assets pertaining to its long-term business reported on the balance sheet in the relevant year less the amounts held in a segregated account. AGRO is also required to keep its accounts in respect of its long-term business separate from any accounts kept in respect of any other business and all receipts of its long-term business form part of its long-term business fund.

Each of AG Re and AGRO is required to maintain available statutory capital and surplus at a level equal to or in excess of its applicable enhanced capital requirement, which is established by reference to either its BSCR model or an approved internal capital model. The BSCR model is a risk-based capital model which provides a method for determining an insurer's capital requirements (statutory capital and surplus) by taking into account the risk characteristics of different aspects of the insurer's business. The BSCR formula establish capital requirements for eight categories of risk: fixed income investment risk, equity investment risk, interest rate/liquidity risk, premium risk, reserve risk, credit risk, catastrophe risk and operational

Table of Contents

risk. For each category, the capital requirement is determined by applying factors to asset, premium, reserve, creditor, probable maximum loss and operation items, with higher factors applied to items with greater underlying risk and lower factors for less risky items.

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

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

Restrictions on Dividends and Distributions

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

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

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

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

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

With respect to the declaration and payment of dividends:

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

Margin and Enhanced Capital Requirements" above and "—Minimum Liquidity Ratio" below;

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

Table of Contents

as a Class 3B insurer, AG Re may not declare or pay, in any financial year, dividends of more than 25% of its total statutory capital and surplus (as set out on its previous year's financial statements) unless it files (at least seven days) before payment of such dividends) with the Authority an affidavit stating that it will continue to meet the required margins; and

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

The Companies Act also limits the declaration and payment of dividends and other distributions by Bermuda companies such as AGL and its Bermuda subsidiaries (including AG Re and AGRO). Such companies may only declare and pay a dividend or make a distribution out of contributed surplus (as understood under the Companies Act) if there are reasonable grounds for believing that the company is and after the payment will be able to meet and pay its liabilities as they become due and the realizable value of the company's assets will not be less than its liabilities. The Companies Act also regulates and restricts the reduction and return of capital and paid in share premium, including the repurchase of shares and imposes minimum issued and outstanding share capital requirements.

Based on the limitations above, in 2014 AG Re has the capacity to (i) make capital distributions in an aggregate amount up to \$126 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 \$278 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. For more information concerning AG Re's capacity to pay dividends and or other distributions, see Note 12, Insurance Company Regulatory Requirements, of the Financial Statements and Supplementary Data. The Company does not expect AGRO to declare or pay any dividends or other distributions at this time.

Minimum Liquidity Ratio

The Insurance Act provides a minimum liquidity ratio for general business. An insurer engaged in general business is required to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, accounts and premiums receivable, reinsurance balances receivable and funds held by ceding reinsurers. There are certain categories of assets which, unless specifically permitted by the Authority, do not automatically qualify as relevant assets, such as unquoted equity securities, investments in and advances to affiliates and real estate and collateral loans.

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

Insurance Code of Conduct

Each of AG Re and AGRO is subject to the Insurance Code of Conduct, which establishes duties, standards, procedures and sound business principles which must be complied with by all insurers registered under the Insurance Act. Failure to comply with the requirements under the Insurance Code of Conduct will be a factor taken into account by the Authority in determining whether an insurer is conducting its business in a sound and prudent manner as prescribed by the Insurance Act. Such failure to comply with the requirements of the Insurance Code of Conduct

could result in the Authority exercising its powers of intervention and investigation and will be a factor in calculating the operational risk charge applicable in accordance with the insurer's BSCR model.

Certain Other Bermuda Law Considerations

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

Table of Contents

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

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

Special considerations apply to the Company's Bermuda operations. Under Bermuda law, non-Bermudians, other than spouses of Bermudians and individuals holding permanent resident certificates or working resident certificates, are not permitted to engage in any gainful occupation in Bermuda without a work permit issued by the Bermuda government. A work permit is only granted or extended if the employer can show that, after a proper public advertisement, no Bermudian, spouse of a Bermudian or individual holding a permanent resident certificate or working resident certificate is available who meets the minimum standards for the position. Currently, all of the Company's Bermuda based professional employees who require work permits have been granted work permits by the Bermuda government.

United Kingdom

This section concerns AGE and its affiliates, Assured Guaranty (UK) Ltd. ("AGUK") and Assured Guaranty Finance Overseas Ltd ("AGFOL"), each of which is regulated in the U.K., as well as Assured Guaranty Credit Protection Ltd. ("AGCPL"), which is an authorized representative of AGE. AGUK is a U.K. insurance company that the Company elected to place into runoff.

General

Financial services relating to deposits, insurance, investments and certain other financial products fall under the U.K.'s Financial Services and Markets Act 2000 ("FSMA"), and the entities that provide them are authorized and regulated by the PRA and the Financial Conduct Authority ("FCA"). In addition, the regulatory regime in the U.K. must be consistent with relevant European Union ("EU") legislation, which is either directly applicable in, or must be implemented into national law by, all EU member states. Key EU legislation includes the Markets in Financial Instruments Directive ("MiFID"), which harmonizes the regulatory regime for investment services and activities across the EEA, the Insurance Directives, which harmonize the regulatory regime for, respectively, life (long term) and non-life (general) insurance and the Banking Consolidation Directive, which harmonizes the regulatory regime for credit institutions. The Capital Adequacy Directive ("CAD") contains capital requirements for MiFID firms. Under FSMA, effecting or carrying out contracts of insurance, within a class of general or long-term insurance, by way of business in the U.K., each constitute a "regulated activity" requiring authorization. An authorized insurance company must have permission for each class of insurance business it intends to write.

The PRA and the FCA were established on April 1, 2013 as part of the reform of financial regulation in the U.K. Immediately prior to that date, there was a single statutory regulator for financial services in the U.K., called the Financial Services Authority (“FSA U.K.”). The new regulatory framework was established by the U.K. Financial Services Act 2012. These two new regulatory bodies cover the following areas:

- the PRA, a subsidiary of the Bank of England, is responsible for prudential regulation of key systemically important firms (which includes insurance companies, among others), and
- the FCA is responsible for the prudential regulation of all non-PRA firms, the conduct of business regulation of all firms and the regulation of market conduct.

Table of Contents

These two new regulators inherited the majority of the FSA U.K.'s existing functions. While they co-ordinate and co-operate in some areas, they have separate and independent mandates and separate rule-making and enforcement powers. AGE and AGUK are regulated by both the PRA and the FCA.

The PRA carries out the prudential supervision of insurance companies through a variety of methods, including the collection of information from statistical returns, review of accountants' reports, visits to insurance companies and regular formal interviews. Like the FSA U.K. before it, the PRA has adopted a risk-based approach to the supervision of insurance companies.

The PRA's rules are intended to align capital requirements with the risk profile of each insurance company and ensure adequate diversification of an insurer's or reinsurer's exposures to any credit risks of its reinsurers. AGE has calculated its minimum required capital according to the PRA's individual capital adequacy criteria and is in compliance.

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

- an insurer's head office, and in particular its mind and management, must be in the United Kingdom if it is incorporated in the United Kingdom;

- an insurer's business must be conducted in a prudent manner — in particular the insurer must maintain appropriate financial and non-financial resources;

- the insurer must be fit and proper, and be appropriately staffed; and

- the insurer and its group must be capable of being effectively supervised.

The PRA supervises insurers to judge whether they are acting in a manner consistent with safety and soundness and appropriate policyholder protection, and so whether they meet, and are likely to continue to meet, the threshold conditions. It weights its supervision towards those issues and those insurers that, in its judgment, pose the greatest risk to its objectives. It is forward-looking, assessing its objectives not just against current risks, but also against those that could plausibly arise further ahead and will rely significantly on the judgment of its supervisors. Its risk assessment framework will look at the potential impact of failure of the insurer, its risk context and mitigating factors. Solvency II (discussed below) will bring further changes to the supervisory framework for insurers. The PRA believes its plans are consistent with Solvency II requirements.

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

AGE is authorized to effect and carry out certain classes of general insurance, specifically: classes 14 (credit), 15 (suretyship) and 16 (miscellaneous financial loss) for commercial customers. This scope of permission is sufficient to enable AGE to effect and carry out financial guaranty insurance and reinsurance. The insurance and reinsurance businesses of AGE are subject to close supervision by the PRA. AGE also has permission to arrange and advise on transactions it guarantees, and to take deposits in the context of its insurance business.

Following the Company's decision in 2010 to place AGUK into run-off, the Company has been utilizing AGE as the entity from which to write business in the EEA. It was agreed between management and the then regulator, the FSA U.K., that any new business written by AGE would be guaranteed using a co-insurance structure pursuant to which AGE would co-insure municipal and infrastructure transactions with AGM, and structured finance transactions with AGC. AGE must obtain the approval of the PRA before it can guarantee any new structured finance transaction. AGE's financial guaranty will cover a proportionate share (expected to be approximately 3 to 10%) of the total exposure, and AGM or AGC, as the case may be, will guarantee the remaining exposure under the transaction (subject to compliance with EEA licensing requirements). AGM or AGC, as the case may be, will also issue a second-to-pay guaranty to cover AGE's financial guarantee. AGE also is the principal of AGCPL. AGCPL is not PRA or FCA authorized, but is an appointed representative of AGE. This means AGCPL can carry on advising and arranging activities without a license, because AGE has regulatory responsibility for it.

AGFOL, a subsidiary of AGL, is authorized by the FCA to carry out designated investment business activities in that it may “advise on investments (except on pension transfers and pension opt outs)” relating to most investment instruments. In addition, it may arrange or bring about transactions in investments and make “arrangements with a view to transactions in investments.” In all cases, it may deal only with clients who are eligible counterparties or professional customers (so no retail clients), or, when arranging in relation to insurance contracts, commercial customers. It should be noted that AGFOL is not authorized as an insurer and does not itself take risk in the transactions it arranges or

places, and may not hold funds on behalf

28

Table of Contents

of its customers. AGFOL's permissions also allow it to introduce business to AGC and AGM, so that AGFOL can arrange financial guaranties underwritten by AGC and AGM, even though AGFOL's role will be limited to acting as a pure introducer of business to AGC and AGM. AGFOL is an "Exempt CAD" firm: although it is a MiFID investment firm, it does not have to comply with the CAD. Its activities are limited to receiving and transmitting orders and giving investment advice and it cannot hold client money.

AGCPL is subject to the requirements of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories ("EMIR") which, as a European regulation, is directly applicable in all the member states of the European Union. AGCPL has notified the European Securities and Markets Authority ("ESMA") and the FCA of its status under EMIR as a non-financial counterparty which has exceeded the clearing threshold (an "NFC+") as described in Article 10 of EMIR. As an NFC+, AGCPL is subject to certain requirements under EMIR with respect to its portfolio of derivative contracts including recordkeeping and risk mitigation techniques. Certain requirements have been applicable since March 15, 2013 (timely confirmations and daily valuations), while others have been applicable since September 15, 2013 (dispute resolution, portfolio reconciliation and portfolio compression requirements). In addition, AGCPL will be subject to certain reporting requirements under EMIR with respect to its outstanding portfolio of derivative contracts. Although the start date in respect of the reporting obligation was February 12, 2014, a ninety day grace period applies to the reporting of derivative contracts which were outstanding before August 16, 2012 and which were still outstanding on February 12, 2014. Because all of AGCPL's outstanding derivative contracts fall within this category, AGCPL will not be required to report its derivative contracts until mid-May 2014. AGCPL is the only European entity within the AGL group which has entered into derivative contracts and as such it is the only entity in the group which is directly subject to EMIR. The Company is aware that circumstances exist in which EMIR may apply directly to non-European entities when transacting derivatives, but has determined that these circumstances do not apply to the non-European entities in AGL's group.

Solvency Requirements

The Prudential Sourcebooks require that non-life insurance companies such as AGUK and AGE maintain a margin of solvency at all times in respect of the liabilities of the insurance company, the calculation of which depends on the type and amount of insurance business a company writes. The method of calculation of the solvency margin (known as the minimum capital requirement) is set out in the Prudential Sourcebooks, and for these purposes, the insurer's assets and liabilities are subject to specified valuation rules. If and to the extent that the premiums it collects for specified categories of insurance, such as credit and property, exceed certain specified minimum thresholds, a non-life insurance company must have extra technical provisions, called an equalization reserve, in addition to its minimum capital requirements. The purpose of the equalization reserve, calculated in accordance with the Prudential Sourcebooks, is to ensure that insurers retain additional assets to provide some extra protection against uncertainty as to the amount of claims.

The Prudential Sourcebooks also require that AGUK and AGE calculate and share with the PRA their "enhanced capital requirement" based on risk-weightings applied to assets held and lines of business written. In 2007, the FSA U.K. replaced the individual capital assessment for financial guaranty insurers with a "benchmarker" capital adequacy model devised by the FSA U.K. Should the level of capital of AGUK or AGE fall below the capital requirement as indicated by the benchmarker, the PRA may require the Company to undertake further work, following which Individual Capital Guidance may result. Failure to maintain capital at least equal to the minimum capital requirement in the benchmarker model is one of the grounds on which the wide powers of intervention conferred upon the PRA may be exercised.

The European Union's Solvency II Directive (Directive 2009/138/EC), which itself is to be amended by the proposed Omnibus II Directive (collectively, "Solvency II"), is currently due to be implemented on January 1, 2016. The solvency requirements described above will be replaced at that point. Among other things, Solvency II introduces a revised risk-based prudential regime which includes the following features:

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

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

In many instances, Solvency II is expected to require insurers to maintain a somewhat increased amount of capital to satisfy the new solvency capital requirements. AGE was accepted by the then regulator, the FSA U.K., into the pre-application process and has begun the process to apply for approval from the PRA for use of the “Partial Internal Model” methodology for calculation

Table of Contents

of its solvency capital requirement, which combines standard formulas developed by the European Insurance and Occupational Pensions Authority under the direction of the European Commission, for calculation of certain capital requirements with an internally developed model for calculation of other capital requirements. AGE remains in the pre-application process (now being run by the PRA); however, the formal application process has been delayed due to the delay in the implementation of Solvency II.

In anticipation of Solvency II, the PRA has issued a Supervisory Statement (“Solvency II: applying EIOPA's preparatory guidelines to PRA-authorized firms”, Supervisory Statement 4/13, dated December 12, 2013) requiring certain information to be submitted to it before the 2016 commencement date. AGE and AGUK are among the firms required to submit information to the PRA under this Supervisory Statement.

In addition, a U.K. insurer (which includes a company conducting only reinsurance business) is required to perform and submit to the PRA a group capital adequacy return in respect of its ultimate insurance parent. For groups with an EEA insurance parent, the calculation must show a positive result. AGE and AGUK do not have an EEA insurance parent and, accordingly, do not need to comply with this requirement. However, they do still need to report to the PRA on group capital adequacy at the level of the ultimate insurance parent outside the EEA and, if the report at that level raises concerns, the PRA may take regulatory action.

Further, an insurer is required to report in its annual returns to the PRA all material connected-party transactions (such as intra-group reinsurance whose value is more than the sum of Euro 20,000 and 5% of the insurer's liabilities arising from its general insurance business, net of reinsurance).

Restrictions on Dividend Payments

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 PRA'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.

Reporting Requirements

U.K. insurance companies must prepare their financial statements under the Companies Act 2006, which requires the filing with Companies House of audited financial statements and related reports. In addition, U.K. insurance companies are required to file regulatory returns with the PRA, which include a revenue account, a profit and loss account and a balance sheet in prescribed forms. Under the Prudential Sourcebooks, audited regulatory returns must be filed with the PRA within two months and 15 days of the financial year end (or three months where the delivery of the return is made electronically). As noted above, AGE and AGUK also will submit information to the PRA pursuant to Supervisory Statement 4/13, in anticipation of Solvency II requirements.

Supervision of Management

Individuals who perform one or more “controlled functions” such as significant influence functions or the customer function within authorized firms must be approved by PRA or FCA (as appropriate) to carry out that function. The management of insurance companies falls within the scope of significant influence functions, which require approval from the PRA. Individuals performing these functions are “Approved Persons” for the purpose of Part V of FSMA and staff performing these specified “controlled functions” within an authorized firm must be approved by the PRA.

Change of Control

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

Table of Contents

Intervention and Enforcement

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

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

“Passporting”

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

Fees and Levies

Each of AGUK, AGE and AGFOL is subject to regulatory fees and levies based on its gross premium income and gross technical liabilities. These fees are collected by the FCA (though they relate to regulation by both the PRA and the FCA). The PRA also requires authorized firms, including authorized insurers, to participate in an investors' protection fund, known as the Financial Services Compensation Scheme. The Financial Services Compensation Scheme was established to compensate consumers of financial services firms, including the buyers of insurance, against failures in the financial services industry. Eligible claimants (identified in the Compensation Sourcebook of the PRA Handbook) may be compensated by the Financial Services Compensation Scheme when an authorized insurer is unable, or likely to be unable, to satisfy policyholder claims. General insurance in class 14 (credit) is not protected by the Financial Services Compensation Scheme, nor is reinsurance in any class; however, other direct insurance classes written by AGUK and AGE are covered (namely, classes 15 (suretyship) and 16 (miscellaneous financial loss)).

Material Contracts

AGE's New York affiliate, AGM, currently provides support to AGE through an amended and restated quota share and stop loss reinsurance agreement (the "Reinsurance Agreement") and an amended and restated net worth maintenance agreement (the "Net Worth Agreement"). For transactions closed prior to 2011, AGE typically guaranteed all of the guaranteed obligations directly and AGM reinsured approximately 92% of AGE's retention after cessions to other reinsurers under the quota share cover of the Reinsurance Agreement. In 2011, AGE implemented a co-guarantee structure pursuant to which AGE directly guarantees a portion of the guaranteed obligations in an amount equal to what would have been AGE's pro rata retention percentage under the quota share cover. AGM directly guarantees the balance of the guaranteed obligations and also provides a second-to-pay guarantee for AGE's portion of the guaranteed obligations. AGM's ability to provide such direct guarantees outside of the U.K. is uncertain. See "Passporting" above.

Under the stop loss cover of the Reinsurance Agreement, AGM is required to make payments to AGE when AGE's annual net incurred losses and expenses exceeds AGE's annual net earned premium plus any amounts deducted from AGE's equalization reserve during the year. The stop loss cover has an annual limit of liability equal to 20% of AGE's guaranteed net principal amount outstanding at the prior year-end, plus AGE's guaranteed net principal outstanding at the prior year-end of AGE's two largest transactions.

The quota share and stop loss covers each exclude transactions guaranteed by AGE on or after July 1, 2009 that are not municipal, utility, project finance or infrastructure risks or similar types of risks.

Under the Net Worth Agreement, AGM is obligated to cause AGE to maintain capital resources equal to 110% of the greatest of the amounts as may be required by the PRA as a condition for maintaining its authorization to carry on a financial

31

Table of Contents

guarantee business in the U.K., provided that contributions (a) do not exceed 35% of AGM's policyholders' surplus as determined by the laws of the State of New York, and (b) are in compliance with a provision of the New York Insurance Law requiring notice to or approval by the NY DFS for transactions between affiliates that exceed certain thresholds. AGM has never been required to make any contributions to AGE's capital under the current Net Worth Agreement or its prior net worth maintenance agreement.

AGE and AGM have pending a second amended and restated quota share and stop loss reinsurance agreement (the "Second A&R Reinsurance Agreement") and an second amended and restated net worth maintenance agreement (the "Second A&R Net Worth Agreement"). These agreements have been approved by the PRA, and Moody's and S&P have confirmed that their implementation will not adversely impact AGE's or AGM's ratings. The agreements are under review by the NY DFS, and implementation awaits NY DFS non-disapproval.

The quota share cover of the Second A&R Reinsurance Agreement is unchanged from that in the Reinsurance Agreement. The stop loss cover is replaced entirely by an excess of loss cover. Under the excess of loss cover, AGM will pay AGE quarterly the amount by which AGE's incurred losses calculated in accordance with UK GAAP as reported by AGE in its financial returns filed with the PRA and AGE's paid losses and loss adjustment expenses, in both cases net of all other performing reinsurance, exceed AGE's capital resources under UK law minus of the greatest of the amounts as may be required by the PRA as a condition for maintaining its authorization to carry on a financial guarantee business in the U.K. In addition, the Second A&R Reinsurance Agreement adds the following events permitting AGE to terminate to the existing termination event of a downgrade of AGM's ratings by Moody's below Aa3 or by S&P below AA-: AGM's insolvency, failure to maintain the minimum capital required under AGM's domiciliary jurisdiction, filing a petition in bankruptcy, going into liquidation or rehabilitation or having a receiver appointed. The agreement provides that no amounts are owing under the excess of loss cover or the stop loss cover under the Reinsurance Agreement with respect to any quarter ending prior to the effective date of the Second A&R Reinsurance Agreement.

AGM's obligation to pay under the Second A&R Net Worth Agreement is unchanged from that in the Net Worth Maintenance Agreement, except for the addition of a provision clarifying that any amounts due under this agreement shall take into account all amounts paid or reasonably expected to be paid under the Second A&R Reinsurance Agreement. In addition, termination provisions substantially similar to those in the Second A&R Reinsurance Agreement have been added.

Tax Matters

Taxation of AGL and Subsidiaries

Bermuda

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

to pay a payroll tax and there are other sundry taxes payable, directly or indirectly, to the Bermuda government.

United States

AGL has conducted and intends to continue to conduct substantially all of its foreign operations outside the U.S. and to limit the U.S. contacts of AGL and its foreign subsidiaries (except AGRO and AGE, which have elected to be taxed as U.S. corporations) so that they should not be engaged in a trade or business in the U.S. A foreign corporation, such as AG Re, that is deemed to be engaged in a trade or business in the United States would be subject to U.S. income tax at regular corporate rates, as well as the branch profits tax, on its income which is treated as effectively connected with the conduct of that trade or business, unless the corporation is entitled to relief under the permanent establishment provision of an applicable tax treaty, as discussed below. Such income tax, if imposed, would be based on effectively connected income computed in a manner generally analogous to that applied to the income of a U.S. corporation, except that a foreign corporation would generally be

Table of Contents

entitled to deductions and credits only if it timely files a U.S. federal income tax return. AGL, AG Re and certain of the other foreign subsidiaries have and will continue to file protective U.S. federal income tax returns on a timely basis in order to preserve the right to claim income tax deductions and credits if it is ever determined that they are subject to U.S. federal income tax. The highest marginal federal income tax rates currently are 35% for a corporation's effectively connected income and 30% for the "branch profits" tax.

Under the income tax treaty between the U.S. and the U.K. (the "U.K. Treaty"), AGL would not be subject to U.S. income tax on any income found to be effectively connected with a U.S. trade or business unless that trade or business is conducted through a permanent establishment in the United States. AGL intends to conduct its activities so that it does not have a permanent establishment in the United States. It is AGL's opinion that it will qualify for the benefits of the U.K. Treaty.

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

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

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

Foreign corporations not engaged in a trade or business in the U.S., and those that are engaged in a U.S. trade or business with respect to their non-effectively connected income are nonetheless subject to U.S. withholding tax on certain "fixed or determinable annual or periodic gains, profits and income" derived from sources within the U.S. (such as dividends and certain interest on investments), subject to exemption under the Code or reduction by applicable treaties. The standard non-treaty rate of U.S. withholding tax is currently 30%. The Bermuda Treaty does not reduce the U.S. withholding rate on U.S.-sourced investment income. The U.K. Treaty reduces or eliminates U.S. withholding tax on certain U.S. sourced investment income (to 5% or 0%), including dividends from U.S. companies to U.K. resident persons entitled to the benefit of the U.K. Treaty.

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

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

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

None of AGL or its principal subsidiaries will be subject to any additional U.S. taxes, including withholding tax, as a result of AGL becoming a U.K. tax resident.

United Kingdom

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

Table of Contents

As a company that is not incorporated in the U.K., AGL will be considered tax resident in the U.K. only if it is “centrally managed and controlled” in the U.K. Central management and control constitutes the highest level of control of a company’s affairs. Effective November 6, 2013, the AGL board of directors 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 subject to the tax rules applicable to companies resident in the U.K., including the benefits afforded by the U.K.’s tax treaties.

As a U.K. tax resident, AGL is required to file a corporation tax return with Her Majesty’s Revenue & Customs (“HMRC”). AGL will be subject to U.K. corporation tax in respect of its worldwide profits (both income and capital gains), subject to any applicable exemptions. The main rate of corporation tax is 23% currently; such rate will fall to 21% as of April 1, 2014 and to 20% as of April 1, 2015. 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 current 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, stating an intention to target more accurately profits that should be subject to U.K. taxation and to improve the attractiveness of the U.K. as a location for a holding company of a multinational group. The non-U.K. resident subsidiaries intend to operate in such a manner that their profits are outside the scope of the CFC regime charge. Accordingly, Assured Guaranty does not expect any profits of non-U.K. resident members of the group to be attributed to AGL and taxed in the U.K. under the CFC regime and has obtained clearance from HMRC confirming this on the basis of current facts and intentions.

Taxation of Shareholders

Bermuda Taxation

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

United States Taxation

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

The following summary sets forth the material U.S. federal income tax considerations related to the purchase, ownership and disposition of AGL’s shares. Unless otherwise stated, this summary deals only with holders that are U.S. Persons (as defined below) who purchase their shares and who hold their shares as capital assets within the meaning of section 1221 of the Code. The following discussion is only a discussion of the material U.S. federal income tax matters as described herein and does not purport to address all of the U.S. federal income tax consequences that may be relevant to a particular shareholder in light of such shareholder’s specific circumstances. For example, special rules apply to certain shareholders, such as partnerships, insurance companies, regulated investment companies, real estate investment trusts, financial asset securitization investment trusts, dealers or traders in securities,

tax exempt organizations, expatriates, persons that do not hold their securities in the U.S. dollar, persons who are considered with respect to AGL or any of its foreign subsidiaries as "United States shareholders" for purposes of the controlled foreign corporation ("CFC") rules of the Code (generally, a U.S. Person, as defined below, who owns or is deemed to own 10% or more of the total combined voting power of all classes of AGL or the stock of any of AGL's foreign subsidiaries entitled to vote (i.e., 10% U.S. Shareholders)), or persons who hold the common shares as part of a hedging or conversion transaction or as part of a short-sale or straddle. Any such shareholder should consult their tax advisor.

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

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

Table of Contents

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

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

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

Classification of AGL or its Foreign Subsidiaries as a Controlled Foreign Corporation. Each 10% U.S. Shareholder (as defined below) of a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during a taxable year, and who owns shares in the foreign corporation, directly or indirectly through foreign entities, on the last day of the foreign corporation's taxable year on which it is CFC, must include in its gross income for U.S. federal income tax purposes its pro rata share of the CFC's "subpart F income," even if the subpart F income is not distributed. "Subpart F income" of a foreign insurance corporation typically includes foreign personal holding company income (such as interest, dividends and other types of passive income), as well as insurance and reinsurance income (including underwriting and investment income). A foreign corporation is considered a CFC if 10% U.S. Shareholders own (directly, indirectly through foreign entities or by attribution by application of the constructive ownership rules of section 958(b) of the Code (i.e., "constructively")) more than 50% of the total combined voting power of all classes of voting stock of such foreign corporation, or more than 50% of the total value of all stock of such corporation on any day during the taxable year of such corporation. For purposes of taking into account insurance income, a CFC also includes a foreign insurance company in which more than 25% of the total combined voting power of all classes of stock (or more than 25% of the total value of the stock) is owned by 10% U.S. Shareholders, on any day during the taxable year of such corporation. A "10% U.S. Shareholder" is a U.S. Person who owns (directly, indirectly through foreign entities or constructively) at least 10% of the total combined voting power of all classes of stock entitled to vote of the foreign corporation. AGL believes that because of the dispersion of AGL's share ownership, provisions in AGL's organizational documents that limit voting power (these provisions are described in "Description of Share Capital") and other factors, no U.S. Person who owns shares of AGL directly or indirectly through one or more foreign entities should be treated as owning (directly, indirectly through foreign entities, or constructively), 10% or more of the total voting power of all classes of shares of AGL or any of its foreign subsidiaries. It is possible, however, that the Internal Revenue Service ("IRS") could challenge the effectiveness of these provisions and that a court could sustain such a challenge. In addition, the direct and indirect subsidiaries of AGUS are characterized as CFCs and any subpart F income generated will be included in the gross income of the applicable domestic subsidiaries in the AGL group.

The RPII CFC Provisions. The following discussion generally is applicable only if the RPII of AG Re or any other foreign insurance subsidiary that has not made an election under section 953(d) of the Code to be treated as a U.S. corporation for all U.S. federal tax purposes or are CFCs owned directly or indirectly by AGUS (each a "Foreign Insurance Subsidiary" or collectively, with AG Re, the "Foreign Insurance Subsidiaries") determined on a gross basis, is 20% or more of the Foreign Insurance Subsidiary's gross insurance income for the taxable year and the 20%

Ownership Exception (as defined below) is not met. The following discussion generally would not apply for any taxable year in which the Foreign Insurance Subsidiary's gross RPII falls below the 20% threshold or the 20% Ownership Exception is met. Although the Company cannot be certain, it believes that each Foreign Insurance Subsidiary has been, in prior years of operations, and will be, for the foreseeable future, either below the 20% threshold or in compliance with the requirements of 20% Ownership Exception for each tax year.

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

Table of Contents

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

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

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

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

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

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

Table of Contents

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

For taxable years beginning after March 18, 2010, the Code requires that any individual owning an interest in "specified foreign financial assets," including an interest in a foreign entity (such as AGL) that is not held in an account maintained by a financial institution, the value of which in the aggregate exceeds certain thresholds, attach IRS Form 8938 to his or her tax return for the year that provides detailed disclosure of such assets. Penalties may be assessed for failure to comply. Future guidance is expected to provide that certain domestic entities would also be subject to this reporting requirement in the future.

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

Dispositions of AGL's Shares. Subject to the discussions below relating to the potential application of the Code section 1248 and PFIC rules, holders of shares generally should recognize capital gain or loss for U.S. federal income tax purposes on the sale, exchange or other disposition of shares in the same manner as on the sale, exchange or other disposition of any other shares held as capital assets. If the holding period for these shares exceeds one year, any gain will be subject to tax at a current maximum marginal tax rate of 20% for individuals and 35% for corporations. Moreover, gain, if any, generally will be a U.S. source gain and generally will constitute "passive income" for foreign tax credit limitation purposes.

Code section 1248 provides that if a U.S. Person sells or exchanges stock in a foreign corporation and such person owned, directly, indirectly through foreign entities or constructively, 10% or more of the voting power of the corporation at any time during the five-year period ending on the date of disposition when the corporation was a CFC, any gain from the sale or exchange of the shares will be treated as a dividend to the extent of the CFC's earnings and profits (determined under U.S. federal income tax principles) during the period that the shareholder held the shares and while the corporation was a CFC (with certain adjustments). The Company believes that because of the dispersion of AGL's share ownership, provisions in AGL's organizational documents that limit voting power and other factors that no U.S. shareholder of AGL should be treated as owning (directly, indirectly through foreign entities or constructively) 10% or more of the total voting power of AGL; to the extent this is the case this application of Code Section 1248 under the regular CFC rules should not apply to dispositions of AGL's shares. It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge. A 10% U.S. Shareholder may in certain circumstances be required to report a disposition of shares of a CFC by attaching IRS Form 5471 to the U.S. federal income tax or information return that it would normally file for the taxable year in which the disposition occurs. In the event this is determined necessary, AGL will provide a completed IRS Form 5471

or the relevant information necessary to complete the Form. Code section 1248 in conjunction with the RPII rules also applies to the sale or exchange of shares in a foreign corporation if the foreign corporation would be treated as a CFC for RPII purposes regardless of whether the shareholder is a 10% U.S. Shareholder or whether the 20% Ownership Exception or 20% Gross Income Exception applies. Existing proposed regulations do not address whether Code section 1248 would apply if a foreign corporation is not a CFC but the foreign corporation has a subsidiary that is a CFC and that would be taxed as an insurance company if it were a domestic corporation. The Company believes, however, that this application of Code section 1248 under the RPII rules should not apply to dispositions of AGL's shares because AGL will not be directly engaged in the insurance business. The Company cannot be certain, however, that the IRS will not interpret the proposed regulations in a contrary manner or that the Treasury Department will not amend the proposed regulations to provide that these rules will apply to dispositions of common shares. Prospective investors should consult their tax advisors regarding the effects of these rules on a disposition of common shares.

Table of Contents

U.S. shareholders of AGL will not be subject to any additional U.S. taxes, including withholding tax, as a result of AGL becoming U.K. tax resident.

Passive Foreign Investment Companies. In general, a foreign corporation will be a PFIC during a given year if (i) 75% or more of its gross income constitutes "passive income" (the "75% test") or (ii) 50% or more of its assets produce passive income (the "50% test").

If AGL were characterized as a PFIC during a given year, each U.S. Person holding AGL's shares would be subject to a penalty tax at the time of the sale at a gain of, or receipt of an "excess distribution" with respect to, their shares, unless such person (i) is a 10% U.S. Shareholder and AGL is a CFC or (ii) made a "qualified electing fund election" or "mark-to-market" election. It is uncertain that AGL would be able to provide its shareholders with the information necessary for a U.S. Person to make a qualified electing fund election. In addition, if AGL were considered a PFIC, upon the death of any U.S. individual owning common shares, such individual's heirs or estate would not be entitled to a "step-up" in the basis of the common shares that might otherwise be available under U.S. federal income tax laws. In general, a shareholder receives an "excess distribution" if the amount of the distribution is more than 125% of the average distribution with respect to the common shares during the three preceding taxable years (or shorter period during which the taxpayer held common shares). In general, the penalty tax is equivalent to an interest charge on taxes that are deemed due during the period the shareholder owned the common shares, computed by assuming that the excess distribution or gain (in the case of a sale) with respect to the common shares was taken in equal portion at the highest applicable tax rate on ordinary income throughout the shareholder's period of ownership. The interest charge is equal to the applicable rate imposed on underpayments of U.S. federal income tax for such period. In addition, a distribution paid by AGL to U.S. shareholders that is characterized as a dividend and is not characterized as an excess distribution would not be eligible for reduced rates of tax as qualified dividend income.

For the above purposes, passive income generally includes interest, dividends, annuities and other investment income. The PFIC rules provide that income "derived in the active conduct of an insurance business by a corporation which is predominantly engaged in an insurance business... is not treated as passive income." The PFIC provisions also contain a look-through rule under which a foreign corporation shall be treated as if it "received directly its proportionate share of the income..." and as if it "held its proportionate share of the assets..." of any other corporation in which it owns at least 25% of the value of the stock.

The insurance income exception is intended to ensure that income derived by a bona fide insurance company is not treated as passive income, except to the extent such income is attributable to financial reserves in excess of the reasonable needs of the insurance business. The Company expects, for purposes of the PFIC rules, that each of AGL's insurance subsidiaries will be predominantly engaged in an insurance business and is unlikely to have financial reserves in excess of the reasonable needs of its insurance business in each year of operations. Accordingly, none of the income or assets of AGL's insurance subsidiaries should be treated as passive. Additionally, the Company expects that in each year of operations the passive income and assets of AGL's non-insurance subsidiaries will not exceed the 75% test or 50% test amounts in each year of operations with respect to the overall income and assets of AGL and its subsidiaries. Under the look-through rule AGL should be deemed to own its proportionate share of the assets and to have received its proportionate share of the income of its direct and indirect subsidiaries for purposes of the 75% test and the 50% test. As a result, the Company believes that AGL was not and should not be treated as a PFIC. The Company cannot be certain, however, as there are currently no regulations regarding the application of the PFIC provisions to an insurance company and new regulations or pronouncements interpreting or clarifying these rules may be forthcoming, that the IRS will not successfully challenge this position. Prospective investors should consult their tax advisor as to the effects of the PFIC rules.

Foreign tax credit. If U.S. Persons own a majority of AGL's common shares, only a portion of the current income inclusions, if any, under the CFC, RPII and PFIC rules and of dividends paid by AGL (including any gain from the

sale of common shares that is treated as a dividend under section 1248 of the Code) will be treated as foreign source income for purposes of computing a shareholder's U.S. foreign tax credit limitations. The Company will consider providing shareholders with information regarding the portion of such amounts constituting foreign source income to the extent such information is reasonably available. It is also likely that substantially all of the "subpart F income," RPII and dividends that are foreign source income will constitute either "passive" or "general" income. Thus, it may not be possible for most shareholders to utilize excess foreign tax credits to reduce U.S. tax on such income.

Information Reporting and Backup Withholding on Distributions and Disposition Proceeds. Information returns may be filed with the IRS in connection with distributions on AGL's common shares and the proceeds from a sale or other disposition of AGL's common shares unless the holder of AGL's common shares establishes an exemption from the information reporting rules. A holder of common shares that does not establish such an exemption may be subject to U.S. backup withholding tax on these payments if the holder is not a corporation or non-U.S. Person or fails to provide its taxpayer

Table of Contents

identification number or otherwise comply with the backup withholding rules. The amount of any backup withholding from a payment to a U.S. Person will be allowed as a credit against the U.S. Person's U.S. federal income tax liability and may entitle the U.S. Person to a refund, provided that the required information is furnished to the IRS.

Changes in U.S. Federal Income Tax Law Could Materially Adversely Affect AGL or AGL's Shareholders. Legislation has been introduced from time to time in the U.S. Congress intended to eliminate certain perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the U.S. but have certain U.S. connections. For example, legislation has been introduced in Congress to limit the deductibility of reinsurance premiums paid by U.S. companies to foreign affiliates. It is possible that this or similar legislation could be introduced in and enacted by the current Congress or future Congresses that could have an adverse impact on AGL or AGL's shareholders.

Additionally, tax laws and interpretations regarding whether a company is engaged in a U.S. trade or business or whether a company is a CFC or a PFIC or has RPII are subject to change, possibly on a retroactive basis. There are currently no regulations regarding the application of the PFIC rules to an insurance company. Additionally, the regulations regarding RPII are still in proposed form. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming. The Company cannot be certain if, when or in what form such regulations or pronouncements may be provided and whether such guidance will have a retroactive effect.

United Kingdom

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

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

AGL's Tax Residency. AGL is not incorporated in the U.K., but effective November 6, 2013, the AGL Board of Directors 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.

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

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

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

Description of Share Capital

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

Table of Contents

AGL's authorized share capital of \$5,000,000 is divided into 500,000,000 shares, par value U.S. \$0.01 per share, of which 182,306,886 common shares were issued and outstanding as of February 21, 2014. Except as described below, AGL's common shares have no pre-emptive rights or other rights to subscribe for additional common shares, no rights of redemption, conversion or exchange and no sinking fund rights. In the event of liquidation, dissolution or winding-up, the holders of AGL's common shares are entitled to share equally, in proportion to the number of common shares held by such holder, in AGL's assets, if any remain after the payment of all AGL's debts and liabilities and the liquidation preference of any outstanding preferred shares. Under certain circumstances, AGL has the right to purchase all or a portion of the shares held by a shareholder. See "—Acquisition of Common Shares by AGL" below.

Voting Rights and Adjustments

In general, and except as provided below, shareholders have one vote for each common share held by them and are entitled to vote with respect to their fully paid shares at all meetings of shareholders. However, if, and so long as, the common shares (and other of AGL's shares) of a shareholder are treated as "controlled shares" (as determined pursuant to section 958 of the Code) of any U.S. Person and such controlled shares constitute 9.5% or more of the votes conferred by AGL's issued and outstanding shares, the voting rights with respect to the controlled shares owned by such U.S. Person shall be limited, in the aggregate, to a voting power of less than 9.5% of the voting power of all issued and outstanding shares, under a formula specified in AGL's Bye-laws. The formula is applied repeatedly until there is no U.S. Person whose controlled shares constitute 9.5% or more of the voting power of all issued and outstanding shares and who generally would be required to recognize income with respect to AGL under the Code if AGL were a controlled foreign corporation as defined in the Code and if the ownership threshold under the Code were 9.5% (as defined in AGL's Bye-Laws as a "9.5% U.S. Shareholder"). In addition, AGL's Board of Directors may determine that shares held carry different voting rights when it deems it appropriate to do so to (i) avoid the existence of any 9.5% U.S. Shareholder; and (ii) avoid adverse tax, legal or regulatory consequences to AGL or any of its subsidiaries or any direct or indirect holder of shares or its affiliates. "Controlled shares" includes, among other things, all shares of AGL that such U.S. Person is deemed to own directly, indirectly or constructively (within the meaning of section 958 of the Code). Further, these provisions do not apply in the event one shareholder owns greater than 75% of the voting power of all issued and outstanding shares.

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

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

Restrictions on Transfer of Common Shares

AGL's Board of Directors may decline to register a transfer of any common shares under certain circumstances, including if they have reason to believe that any adverse tax, regulatory or legal consequences to the Company, any of its subsidiaries or any of its shareholders or indirect holders of shares or its Affiliates may occur as a result of such

transfer (other than such as AGL's Board of Directors considers de minimis). Transfers must be by instrument unless otherwise permitted by the Companies Act.

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

Acquisition of Common Shares by AGL

Under AGL's Bye-Laws and subject to Bermuda law, if AGL's Board of Directors determines that any ownership of AGL's shares may result in adverse tax, legal or regulatory consequences to AGL, any of AGL's subsidiaries or any of AGL's shareholders or indirect holders of shares or its Affiliates (other than such as AGL's Board of Directors considers de minimis),

Table of Contents

AGL has the option, but not the obligation, to require such shareholder to sell to AGL or to a third party to whom AGL assigns the repurchase right the minimum number of common shares necessary to avoid or cure any such adverse consequences at a price determined in the discretion of the Board of Directors to represent the shares' fair market value (as defined in AGL's Bye-Laws).

Other Provisions of AGL's Bye-Laws

AGL's Board of Directors and Corporate Action

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

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

Generally under AGL's Bye-Laws, the affirmative votes of a majority of the votes cast at any meeting at which a quorum is present is required to authorize a resolution put to vote at a meeting of the Board of Directors, including one relating to a merger, acquisition or business combination. Corporate action may also be taken by a unanimous written resolution of the Board of Directors without a meeting. A quorum shall be at least one-half of directors then in office present in person or represented by a duly authorized representative, provided that at least two directors are present in person.

Shareholder Action

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

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

Amendment

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

Voting of Non-U.S. Subsidiary Shares

If AGL is required or entitled to vote at a general meeting of any of AG Re, AGFOL or any other of its directly held non-U.S. subsidiaries, AGL's Board of Directors shall refer the subject matter of the vote to AGL's shareholders and seek direction from such shareholders as to how they should vote on the resolution proposed by the non-U.S. subsidiary. AGL's Board of Directors in its discretion shall require substantially similar provisions are or will be

contained in the bye-laws (or equivalent governing documents) of any direct or indirect non-U.S. subsidiaries other than U.K. and AGRO.

Employees

As of December 31, 2013, the Company had 326 employees. None of the Company's employees are subject to collective bargaining agreements. The Company believes that employee relations are satisfactory.

Table of Contents

Available Information

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

The Company routinely posts important information for investors on its web site (under assuredguaranty.com/company-statements and, more generally, under the Investor Information and Businesses pages). The Company uses this web site as a means of disclosing material information and for complying with its disclosure obligations under SEC Regulation FD (Fair Disclosure). Accordingly, investors should monitor the Company Statements, Investor Information and Businesses portions of the Company's web site, in addition to following the Company's press releases, SEC filings, public conference calls, presentations and webcasts.

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

Table of Contents

ITEM 1A. RISK FACTORS

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

Risks Related to the Company's Expected Losses

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

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

In addition, if the Company is required to make claim payments, even if it is reimbursed in full over time and does not experience ultimate loss on a particular policy, such claim payments would reduce the Company's invested assets and result in reduced liquidity and net investment income. If the amount of claim payments is significant, the Company's ability to make other claim payments and its financial condition, financial strength ratings and business prospects could be adversely affected.

The Company has exposure 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, if at all. As of December 31, 2013, the Company's insured exposure to such transactions was approximately \$3.0 billion. The transactions generally involve long-term infrastructure projects that were financed by bonds that mature prior to the expiration of the project concession. The Company expected the cash flows from these projects to be sufficient to repay all of the debt over the life of the project concession, but also expected the debt to be refinanced in the market at or prior to its maturity. 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 a long time, ranging from 10 to 35 years, depending on the transaction and the performance of the underlying collateral. For the Company's two largest transactions with significant refinancing risk, assuming no refinancing, the Company estimates, based on certain performance assumptions, that total claims could be \$1.8 billion on a gross basis; such claims would be payable from 2017 through 2022.

The determination of expected loss is an inherently subjective process involving numerous estimates, assumptions and judgments by management, using both internal and external data sources with regard to frequency, severity of loss, economic projections and other factors that affect credit performance. The Company does not use traditional actuarial approaches to determine its estimates of expected losses. Actual losses will ultimately depend on future events or

transaction performance. As a result, the Company's current estimates of probable and estimable losses may not reflect the Company's future ultimate claims paid.

Certain sectors within the Company's insured portfolio have experienced losses far in excess of initial expectations. The Company's loss experience, particularly in respect of its insured RMBS transactions, demonstrated the limited value of historical loss data in predicting future losses. The Company's expected loss models take into account current and expected future trends in loss severities, which for RMBS transactions, contemplate the impact of current and probable foreclosure liquidation expectations, default rates, prepayment speeds, the impact of governmental economic and consumer stimulation programs and other factors impacting the transactional cash flows and ultimately losses. These factors, which are integral elements of the Company's reserve estimation methodology, are updated on a quarterly basis based on current U.S. RMBS performance data. The Company's net par outstanding as of December 31, 2013 and December 31, 2012 for U.S. RMBS was \$13.7 billion and \$17.0 billion, respectively, of which \$7.7 billion and \$9.8 billion, respectively, was rated below investment grade under the Company's rating methodology. For a discussion of the Company's review of its RMBS transactions, see

Table of Contents

"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Consolidated Results of Operations—Losses in the Insured Portfolio."

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

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

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

The ratings assigned by the rating agencies that publish financial strength or financial enhancement ratings on the Company's insurance subsidiaries are subject to frequent review and may be lowered by a rating agency as a result of a number of factors, including, but not limited to, the rating agency's revised stress loss estimates for the Company's insurance portfolio, adverse developments in the Company's or the subsidiaries' financial conditions or results of operations due to underwriting or investment losses or other factors, changes in the rating agency's outlook for the financial guaranty industry or in the markets in which the Company operates, or a revision in the rating agency's capital model or ratings methodology. Their reviews can occur at any time and without notice to the Company and could result in a decision to downgrade, revise or withdraw the financial strength or financial enhancement ratings of AGL's insurance and reinsurance subsidiaries.

Since 2008, each of S&P and Moody's has reviewed and downgraded the financial strength ratings of AGL's insurance and reinsurance subsidiaries, including AGC, AGM and AG Re. In addition, S&P and Moody's have from time to time changed the ratings outlook for certain of the Company's subsidiaries to "negative" from "stable" or have placed such ratings on watch for possible downgrade. For example, in March 2012, Moody's placed the ratings of AGL and its subsidiaries, including the financial strength ratings of AGL's insurance subsidiaries, on review for possible downgrade. Moody's did not complete its review until January 2013, when Moody's downgraded the financial strength ratings of AGM and AGC from Aa3 to A2 and A3, respectively, and that of AG Re from A1 to Baa1. In February 2014, Moody's affirmed the financial strength ratings and outlooks of AGM and AGC, and affirmed AG Re's financial strength rating but changed AG Re's outlook to negative, citing its vulnerability to adverse developments within its insured portfolio.

The Company believes that S&P and Moody's actions and proposals have reduced the Company's new business opportunities and have also affected the value of the Company's product to issuers and investors. The insurance subsidiaries' financial strength ratings are an important competitive factor in the financial guaranty insurance and reinsurance markets. If the financial strength or financial enhancement ratings of one or more of the Company's insurance subsidiaries were reduced below current levels, the Company expects that would reduce the number of

transactions that would benefit from the Company's insurance; consequently, a downgrade could harm the Company's new business production, results of operations and financial condition.

In addition, a downgrade may have a negative impact on the Company in respect of transactions that it has insured or reinsurance that it has assumed. For example, a downgrade of one of the Company's insurance subsidiaries may result in increased claims under financial guaranties such subsidiary has issued. Under variable rate demand obligations insured by AGM, further downgrades past rating levels specified in the transaction documents could result in the municipal obligor paying a higher rate of interest and in such obligations amortizing on a more accelerated basis than expected when the obligations originally were issued; if the municipal obligor is unable to make such interest or principal payments, AGM may receive a claim under its financial guaranty. Under interest rate swaps insured by AGM, further downgrades past specified rating levels could entitle the municipal obligor's swap counterparty to terminate the swap; if the municipal obligor owed a termination payment as a result and were unable to make such payment, AGM may receive a claim if its financial guaranty guaranteed such termination payment. For more information about increased claim payments the Company may potentially make, see Note 7,

Table of Contents

Financial Guaranty Insurance Losses, of the Financial Statements and Supplementary Data, Ratings Impact on Financial Guaranty Business. In certain other transactions, beneficiaries of financial guaranties issued by the Company's insurance subsidiaries may have the right to cancel the credit protection offered by the Company, which would result in the loss of future premium earnings and the reversal of any fair value gains recorded by the Company. In addition, a downgrade of AG Re or AGC could result in certain ceding companies recapturing business that they had ceded to these reinsurers. See "The downgrade of the financial strength ratings of AG Re or of AGC gives certain reinsurance counterparties the right to recapture ceded business, which would lead to a reduction in the Company's unearned premium reserve and related earnings on such reserve" below.

If AGC's financial strength or financial enhancement ratings were downgraded, the Company could be required to post additional collateral under certain of its credit derivative contracts or certain of the Company's counterparties could have a right to terminate such credit derivative contract. See "If AGC's financial strength or financial enhancement ratings were downgraded, the Company could be required to make termination payments or post collateral under certain of its credit derivative contracts, which could impair its liquidity, results of operations and financial condition" below.

If AGM's financial strength or financial enhancement ratings were downgraded, AGM-insured GICs issued by the former AGMH subsidiaries that conducted AGMH's Financial Products Business (the "Financial Products Companies") may come due or may come due absent the provision of collateral by the GIC issuers. The Company relies on agreements pursuant to which Dexia has agreed to guarantee or lend certain amounts, or to post liquid collateral, in regards to AGMH's former financial products business. See "Risks Related to the AGMH Acquisition—The Company has exposure to credit and liquidity risks from Dexia."

Furthermore, if the financial strength ratings of AGE or AGUK were downgraded, AGM or AGC may be required to contribute additional capital to their respective subsidiary pursuant to the terms of the support arrangements for such subsidiaries, including those described under "Material Contracts" in the "Regulation—United Kingdom" section of "Item 1. Business."

If AGC's financial strength or financial enhancement ratings were downgraded, the Company could be required to make termination payments or post collateral under certain of its credit derivative contracts, which could impair its liquidity, results of operations and financial condition.

Within the Company's insured CDS portfolio, the transaction documentation for approximately \$1.7 billion in CDS gross par insured as of December 31, 2013 provides that a downgrade of AGC's financial strength rating below BBB- or Baa3 would constitute a termination event that would allow the relevant CDS counterparty to terminate the affected transactions. As of December 31, 2012, such amount was \$2.0 billion. If the CDS counterparty elected to terminate the affected transactions, AGC could be required to make a termination payment (or may be entitled to receive a termination payment from the CDS counterparty). The Company does not believe that it can accurately estimate the termination payments AGC could be required to make if, as a result of any such downgrade, a CDS counterparty terminated the affected transactions. These payments could have a material adverse effect on the Company's liquidity and financial condition.

The transaction documentation for approximately \$10.3 billion in CDS gross par insured as of December 31, 2013 requires certain of the Company's insurance subsidiaries 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 \$9.9 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 \$347 million of such contracts, the Company 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 December 31, 2013, the Company was posting approximately \$677 million to secure obligations under its CDS exposure, of which approximately \$62 million related to such \$347 million of notional. As of December 31, 2012, the Company was posting approximately \$728 million, of which approximately \$68 million related to \$400 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.

Table of Contents

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

The downgrade of the financial strength ratings of AG Re or of AGC gives certain reinsurance counterparties the right to recapture ceded business, 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 assumed business ceded to AG Re and/or AGC, and in connection therewith, to receive payment from the assuming reinsurer of an amount equal to the reinsurer's 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 December 31, 2013, if each third party company 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 \$293 million and \$61 million, respectively.

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

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

Since 2009, Moody's and S&P have downgraded a number of structured finance securities and public finance bonds, including obligations that the Company insures. Additional obligations in the Company's insured portfolio may be reviewed and downgraded in the future. Downgrades of the Company's insured credits will result in higher capital requirements for the Company under the relevant rating agency capital adequacy model. If the additional amount of capital required to support such exposures is significant, the Company may need to undertake certain actions in order to maintain its ratings, including, but not limited to, raising additional capital (which, if available, may not be available on terms and conditions that are favorable to the Company); curtailing new business; or paying to transfer a

portion of its in-force business to generate rating agency capital. If the Company is unable to complete any of these capital initiatives, it could suffer ratings downgrades. These capital actions or ratings downgrades could adversely affect the Company's results of operations, financial condition, ability to write new business or competitive positioning.

Risks Related to the Financial, Credit and Financial Guaranty Markets

Improvement in the recent difficult conditions in the U.S. and world-wide financial markets has been gradual, and the Company's business, liquidity, financial condition and stock price may continue to be adversely affected.

The Company's loss reserves, profitability, financial position, insured portfolio, investment portfolio, cash flow, statutory capital and stock price could be materially affected by the U.S. and global markets. Upheavals in the financial markets affect economic activity and employment and therefore can affect the Company's business. The global economic outlook remains uncertain, including the overall growth rate of the U.S. economy, the fragile economic recovery in Europe and the

Table of Contents

impact of the gradual tightening of global monetary conditions on emerging markets. These and other risks could materially and negatively affect the Company's ability to access the capital markets, the cost of the Company's debt, the demand for its products, the amount of losses incurred on transactions it guarantees, the value of its investment portfolio, its financial ratings and the price of its common shares.

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

State and local governments that issue some of the obligations the Company insures have experienced significant budget deficits and revenue collection shortfalls that required them to significantly raise taxes and/or cut spending in order to satisfy their obligations. While the U.S. government has provided some financial support and although overall state revenues have increased in recent years, significant budgetary pressures remain, especially at the local government level. Certain local governments, including ones that have issued obligations insured by the Company, have sought protection from creditors under Chapter 9 of the U.S. Bankruptcy Code as a means of restructuring their outstanding debt. If the issuers of the obligations in the Company's public finance portfolio do not have sufficient funds to cover their expenses and are unable or unwilling to raise taxes, decrease spending or receive federal assistance, the Company may experience increased levels of losses or impairments on its public finance obligations, which could materially and adversely affect its business, financial condition and results of operations.

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

One governmental entity with significant economic challenges that the Company is closely following is the Commonwealth of Puerto Rico. Although recent announcements and actions by the current Governor and his administration indicate officials of the Commonwealth are focused on measures that are intended to help Puerto Rico operate within its financial resources and maintain its access to the capital markets, Puerto Rico faces high debt levels, a declining population and an economy that has been in recession since 2006. Puerto Rico has been operating with a structural budget deficit in recent years, and its two largest pension funds are significantly underfunded. In February 2014, S&P, Moody's and Fitch Ratings downgraded much of the debt of Puerto Rico and its related authorities and public corporations to below investment grade, citing various factors including limited liquidity and market access risk. Although Puerto Rico has not defaulted on any of its debt payments and is presently current on debt service payments for the \$5.4 billion net par insured by the Company, if the Company were required to make claim payments on such insured exposure, such payments could have a negative effect on the Company's liquidity and results of operations. Neither Puerto Rico nor its related authorities and public corporations are eligible debtors under Chapter 9 of the U.S. Bankruptcy Code.

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

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

Demand for financial guaranty insurance generally fluctuates with changes in market credit spreads. Credit spreads, which are based on the difference between interest rates on high-quality or "risk free" securities versus those on lower-rated or uninsured securities, fluctuate due to a number of factors and are sensitive to the absolute level of interest rates, current credit experience and investors' risk appetite. Within the last five years, interest rates in the U.S. had been at historically low levels. Although interest rates did rise somewhat in 2013, they are expected to remain low for the near future. When interest rates are low, or when the market is relatively less risk averse, the credit spread between high-quality or insured obligations versus lower-rated or uninsured obligations typically narrows. As a result, financial guaranty insurance typically provides lower interest cost savings to issuers than it would during periods of relatively wider credit spreads. When issuers are less likely to

Table of Contents

use financial guaranties on their new issues when credit spreads are narrow, this results in decreased demand or premiums obtainable for financial guaranty insurance, and a resulting reduction in the Company's results of operations.

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

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

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

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

The Company's reporting currency is the U.S. dollar. The principal functional currencies of AGL's insurance and reinsurance subsidiaries include the U.S. dollar and U.K. sterling. Exchange rate fluctuations relative to the functional currencies may materially impact the Company's financial position, results of operations and cash flows. The Company's non-U.S. subsidiaries maintain both assets and liabilities in currencies different than their functional currency, which exposes the Company to changes in currency exchange rates. In addition, locally-required capital levels are invested in local currencies in order to satisfy regulatory requirements and to support local insurance operations regardless of currency fluctuations.

The principal currencies creating foreign exchange risk are the British pound sterling and the European Union euro. The Company cannot accurately predict the nature or extent of future exchange rate variability between these currencies or relative to the U.S. dollar. Foreign exchange rates are sensitive to factors beyond the Company's control. The Company does not engage in active management, or hedging, of its foreign exchange rate risk. Therefore, fluctuation in exchange rates between these currencies and the U.S. dollar could adversely impact the Company's financial position, results of operations and cash flows.

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

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

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

The Company's operating results are affected, in part, by the performance of its investment portfolio which consists primarily of fixed-income securities and short-term investments. As of December 31, 2013, the fixed-maturity securities and short-term investments had a fair value of approximately \$10.6 billion. Credit losses and changes in interest rates could have an adverse effect on its shareholders' equity and net income. Credit losses result in realized losses on the Company's investment portfolio, which reduce net income and shareholders' equity. Changes in interest rates can affect both shareholders' equity and investment income. For example, if interest rates decline, funds reinvested will earn less than expected, reducing the Company's future investment income compared to the amount it would earn if interest rates had not declined. However, the value of the Company's fixed-rate investments would generally increase if interest rates decreased, resulting in an unrealized gain on investments included in shareholders' equity. Conversely, if interest rates increase, the value of the investment portfolio will be reduced, resulting in unrealized losses that the Company is required to include in shareholders' equity as a change in accumulated other comprehensive income. Accordingly, interest rate increases could reduce the Company's shareholders' equity.

Table of Contents

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

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

Risks Related to the Company's Capital and Liquidity Requirements

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

The Company's capital requirements depend on many factors, primarily related to its in-force book of business and rating agency capital requirements. The Company needs liquid assets to make claim payments on its insured portfolio and to write new business. For example, as discussed in the Risk Factor captioned "Estimates of expected losses are subject to uncertainties and may not be adequate to cover potential paid claims" under Risks Related to the Company's Expected Losses, the Company has substantial exposure to infrastructure transactions with refinancing risk as to which the Company may need to make large claim payments that it did not anticipate paying when the policies were issued. Failure to raise additional capital as needed may result in the Company being unable to write new business and may result in the ratings of the Company and its subsidiaries being downgraded by one or more ratings agency. The Company's access to external sources of financing, as well as the cost of such financing, is dependent on various factors, including the market supply of such financing, the Company's long-term debt ratings and insurance financial strength ratings and the perceptions of its financial strength and the financial strength of its insurance subsidiaries. The Company's debt ratings are in turn influenced by numerous factors, such as financial leverage, balance sheet strength, capital structure and earnings trends. If the Company's need for capital arises because of significant losses, the occurrence of these losses may make it more difficult for the Company to raise the necessary capital.

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

Financial guaranty insurers and reinsurers typically rely on providers of lines of credit, credit swap facilities and similar capital support mechanisms (often referred to as "soft capital") to supplement their existing capital base, or "hard capital." The ratings of soft capital providers directly affect the level of capital credit which the rating agencies give the Company when evaluating its financial strength. The Company currently maintains soft capital facilities with providers having ratings adequate to provide the Company's desired capital credit. For example, effective January 1, 2014, AGC, AGM and MAC entered into a \$450 million aggregate excess of loss reinsurance facility that covers certain U.S. public finance credits insured or reinsured by those companies. However, no assurance can be given that the Company will be able to renew any existing soft capital facilities or that one or more of the rating agencies will not downgrade or withdraw the applicable ratings of such providers in the future. In addition, the Company may not be able to replace a downgraded soft capital provider with an acceptable replacement provider for a variety of reasons, including if an acceptable replacement provider is willing to provide the Company with soft capital commitments or if any adequately-rated institutions are actively providing soft capital facilities. Furthermore, the rating agencies may in the future change their methodology and no longer give credit for soft capital, which may necessitate the Company

having to raise additional capital in order to maintain its ratings.

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

Insurance regulatory authorities impose capital requirements on the Company's insurance subsidiaries. These capital requirements, which include leverage ratios and surplus requirements, may limit the amount of insurance that the Company's subsidiaries may write. The Company's insurance subsidiaries have several alternatives available to control their leverage ratios, including obtaining capital contributions from the Company, purchasing reinsurance or entering into other loss mitigation agreements, or reducing the amount of new business written. However, a material reduction in the statutory capital and surplus of a subsidiary, whether resulting from underwriting or investment losses, a change in regulatory capital requirements or otherwise, or a disproportionate increase in the amount of risk in force, could increase a subsidiary's leverage ratio. This in turn could require that subsidiary to obtain reinsurance for existing business (which may not be available, or may be available on terms that the Company considers unfavorable), or add to its capital base to maintain its financial strength ratings. Failure to maintain regulatory capital levels could limit that subsidiary's ability to write new business.

Table of Contents

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

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

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

If AGL does not pay dividends, the only return on an investment in AGL's shares, if at all, would come from any appreciation in the price of the common shares. Previously, dividends paid to AGL from a U.S. subsidiary would have been subject to a 30% withholding tax. After AGL became tax resident in the United Kingdom, as described under "Tax Matters" in "Item 1. Business," it became subject to the tax rules applicable to companies resident in the U.K., including the benefits afforded by the U.K.'s tax treaties. The income tax treaty between the U.K. and the U.S. reduces or eliminates the U.S. withholding tax on certain U.S. sourced investment income (to 5% or 0%), including dividends from U.S. subsidiaries to U.K. resident persons entitled to the benefits of the treaty.

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

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

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

AGL anticipates that its liquidity needs will be met by the ability of its operating subsidiaries to pay dividends or to make other payments; external financings; investment income from its invested assets; and current cash and short-term investments. The Company expects that its subsidiaries' need for liquidity will be met by the operating cash flows of such subsidiaries; external financings; investment income from their invested assets; and proceeds derived from the sale of its investment portfolio, a significant portion of which is in the form of cash or short-term investments. All of these sources of liquidity are subject to market, regulatory or other factors that may impact the

Company's liquidity position at any time. As discussed above, AGL's insurance subsidiaries are subject to regulatory and rating agency restrictions limiting their ability to declare and to pay dividends and make other payments to AGL. As further noted above, external financing may or may not be available to AGL or its subsidiaries in the future on satisfactory terms.

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

Table of Contents

Risks Related to the AGMH Acquisition

The Company has exposure to credit and liquidity risks from Dexia.

Dexia and the Company have entered into a number of agreements intended to protect the Company from having to pay claims on AGMH's former Financial Products Business, which the Company did not acquire. Dexia has agreed to guarantee certain amounts, lend certain amounts or post liquid collateral for or in respect of AGMH's former Financial Products Business. Dexia SA and Dexia Crédit Local S.A. ("DCL"), jointly and severally, have also agreed to indemnify the Company for losses associated with AGMH's former Financial Products Business, including the ongoing Department of Justice investigations of such business. Furthermore, DCL, acting through its New York Branch, is providing a liquidity facility in order to make loans to AGM to finance the payment of claims under certain financial guaranty insurance policies issued by AGM or its affiliate that relate to the equity portion of leveraged lease transactions insured by AGM. The equity portion of the leveraged lease transactions is part of AGMH's financial guaranty business, which the Company did acquire. However, in connection with the AGMH Acquisition, DCL agreed to provide AGM with a liquidity facility so that AGM could fund its payment of claims made under financial guaranty policies issued in respect of this portion of the business, because the amount of such claims could be large and are generally payable within a short time after AGM receives them. On February 7, 2014, AGM reduced the size of the liquidity facility by \$460 million to approximately \$500 million, after taking into account its experience with its exposure to leveraged lease transactions to date. For a description of the agreements entered into with Dexia and a further discussion of the risks that these agreements are intended to protect against, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Liquidity Arrangements with respect to AGMH's former Financial Products Business."

Despite the execution of such documentation, the Company remains subject to the risk that Dexia may not make payments or securities available (a) on a timely basis, which is referred to as "liquidity risk," or (b) at all, which is referred to as "credit risk," because of the risk of default. Even if Dexia has sufficient assets to pay, lend or post as collateral all amounts when due, concerns regarding Dexia's financial condition or willingness to comply with its obligations could cause one or more rating agencies to view negatively the ability or willingness of Dexia to perform under its various agreements and could negatively affect the Company's ratings.

AGMH and its subsidiaries could be subject to non-monetary consequences arising out of litigation associated with AGMH's former financial products business, which the Company did not acquire.

As noted under "Item 3. Legal Proceedings—Proceedings Related to AGMH's Former Financial Products Business," in November 2006, AGMH received a subpoena from the Antitrust Division of the Department of Justice issued in connection with an ongoing criminal investigation of bid rigging of awards of municipal GICs and other municipal derivatives. Although the subpoena relates to AGMH's former Financial Products Business, which the Company did not acquire, it was issued to AGMH, which the Company did acquire. Furthermore, while Dexia SA and DCL, jointly and severally, have agreed to indemnify the Company against liability arising out of these proceedings, 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.

Risks Related to the Company's Business

The Company's financial guaranty products may subject it to significant risks from individual or correlated credits.

The Company is exposed to the risk that issuers of debt that it insures or other counterparties may default in their financial obligations, whether as a result of insolvency, lack of liquidity, operational failure or other reasons. Similarly, the Company could be exposed to corporate credit risk if a corporation's securities are contained in a

portfolio of collateralized debt obligations ("CDOs") it insures, or if the corporation or financial institution is the originator or servicer of loans, mortgages or other assets backing structured securities that the Company has insured.

In addition, because the Company insures or reinsures municipal bonds, it can have significant exposures to single municipal risks (i.e, the Commonwealth of Puerto Rico). While the Company's risk of a complete loss, where it would have to pay the entire principal amount of an issue of bonds and interest thereon with no recovery, is generally lower than for corporate credits as most municipal bonds are backed by tax or other revenues, there can be no assurance that a single default by a municipality would not have a material adverse effect on its results of operations or financial condition.

The Company's ultimate exposure to a single name may exceed its underwriting guidelines, and an event with respect to a single name may cause a significant loss. The Company seeks to reduce this risk by managing exposure to large single

Table of Contents

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

The Company is exposed to correlation risk across the various assets the Company insures. During periods of strong macroeconomic performance, stress in an individual transaction generally occurs in a single asset class or for idiosyncratic reasons. During a broad economic downturn, a wider range of the Company's insured portfolio could be exposed to stress at the same time. This stress may manifest itself in ratings downgrades, which may require more capital, or in actual losses. In addition, while the Company has experienced catastrophic events in the past without material loss, unexpected catastrophic events may have a material adverse effect upon the Company's insured portfolio and/or its investment portfolios.

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

As of December 31, 2013 and 2012, 13% and 15%, respectively, of the Company's financial guaranty direct exposures were executed as credit derivatives. Traditional financial guaranty insurance provides an unconditional and irrevocable guaranty that protects the holder of a municipal finance or structured finance obligation against non-payment of principal and interest, while credit derivatives provide protection from the occurrence of specified credit events, including non-payment of principal and interest. In general, the Company structures credit derivative transactions such that circumstances giving rise to its obligation to make payments are similar to that for financial guaranty policies and generally occur when issuers fail to make payments on the underlying reference obligations. The tenor of credit derivatives exposures, like exposure under financial guaranty insurance policies, is also generally for as long as the reference obligation remains outstanding.

Nonetheless, credit derivative transactions are governed by International Swaps and Derivatives Association, Inc. ("ISDA") documentation and operate differently from financial guaranty insurance policies. For example, the Company's control rights with respect to a reference obligation under a credit derivative may be more limited than when it issues a financial guaranty insurance policy on a direct primary basis. In addition, a credit derivative may be terminated for a breach of the ISDA documentation or other specific events, unlike financial guaranty insurance policies. In some of the Company's credit derivative transactions with one counterparty, one such specified event is the failure of AGC to maintain specified financial strength ratings. If the counterparty were to terminate the credit derivative transactions, the Company could be required to make a termination payment as determined under the ISDA documentation. In addition, under a limited number of credit derivative contracts, the Company may be required to post eligible securities as collateral, generally cash or U.S. government or agency securities, under specified circumstances. The need to post collateral under many of these transactions is subject to caps that the Company has negotiated with its counterparties, but there are some transactions as to which the Company could be required to post collateral without such a cap based on movements in the mark-to-market valuation of the underlying exposure in excess of contractual thresholds. See "Risks Related to the Company's Financial Strength and Financial Enhancement Ratings—If AGC's financial strength or financial enhancement ratings were downgraded, the Company could be required to make termination payments or post collateral under certain of its credit derivative contracts, which could impair its liquidity, results of operations and financial condition."

Further downgrades of one or more of the Company's reinsurers could reduce the Company's capital adequacy and return on equity. The impairment of other financial institutions also could adversely affect the Company.

At December 31, 2013, the Company had ceded approximately 6% of its principal amount of insurance outstanding to third party reinsurers. In evaluating the credits insured by the Company, securities rating agencies allow capital charge "credit" for reinsurance based on the reinsurers' ratings. In recent years, a number of the Company's reinsurers were downgraded by one or more rating agencies, resulting in decreases in the credit allowed for reinsurance and in the financial benefits of using reinsurance under existing rating agency capital adequacy models. Many of the Company's reinsurers have already been downgraded to single-A or below by one or more rating agencies. The Company could be required to raise additional capital to replace the lost reinsurance credit in order to satisfy rating agency and regulatory capital adequacy and single risk requirements. The rating agencies' reduction in credit for reinsurance could also ultimately reduce the Company's return on equity to the extent that ceding commissions paid to the Company by the reinsurers were not adequately increased to compensate for the effect of any additional capital required. In addition, downgraded reinsurers may default on amounts due to the Company and such reinsurer obligations may not be adequately collateralized, resulting in additional losses to the Company and a reduction in its shareholders' equity and net income.

Table of Contents

The Company also has exposure to counterparties in various industries, including banks, hedge funds and other investment vehicles in its insured transactions. Many of these transactions expose the Company to credit risk in the event its counterparty fails to perform its obligations.

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

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

Risks Related to GAAP and Applicable Law

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

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

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

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

results.

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

Changes in or the issuance of new accounting standards, as well as any changes in the interpretation of current accounting guidance, may have an adverse effect on the Company's reported financial results, including future revenues, and may influence the types and/or volume of business that management may choose to pursue.

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

The Company's businesses are subject to direct and indirect regulation under state insurance laws, federal securities, commodities and tax laws affecting public finance and asset backed obligations, and federal regulation of derivatives, as well as

53

Table of Contents

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

In particular, regulations under the Dodd-Frank Act impose requirements on activities that AGL's subsidiaries may engage in that involve "swaps," as defined under that Act. Although final product rules published by the CFTC and SEC in August 2012 established an insurance safe-harbor that provides that AGM's and AGC's financial guaranty insurance policies are not generally deemed swaps under the Dodd-Frank Act and are therefore not subject to regulation under the Act as swaps, regulations under the Act could require certain of AGL's subsidiaries to register with the CFTC or the SEC as a "major swap participant" ("MSP") or "major security-based swap participant" ("MSBSP"), respectively, as a result of either the legacy financial guaranty insurance policies and derivatives portfolios or new activities. MSPs or MSBSPs would need to satisfy the regulatory capital requirements of the applicable agency and would be subject to additional compliance requirements. The Company has analyzed the exposures created by its legacy financial guaranty insurance policies and derivatives portfolio and determined its subsidiaries do not need to register as an MSP with the CFTC at this time, based on the historical sizes of those exposures. However, in the event such swap exposure exceeds the triggers, then one or more of AGL's subsidiaries may be required to register as an MSP with the CFTC. The SEC has not adopted final rules for MSBSP registration yet, but when such rules are issued, one or more of AGL's subsidiaries may be required to register as an MSBSP with the SEC. In addition, certain of AGL's subsidiaries may need to post margin with respect to either future or legacy derivative transactions when rules relating to margin take effect. While the CFTC and SEC have indicated that they do not intend to require margin for legacy derivative transactions, when the CFTC and SEC adopt margin requirements, it is possible the CFTC and SEC will take the position that amendments to existing swaps will cause the amended swaps to be treated as new swaps for purposes of these margin rules and certain other new regulatory requirements. Such an expansion of the margin and other regulatory requirements to amendments of existing swaps may impede the Company's ability to amend insured derivative transactions in connection with loss mitigation efforts or municipal refunding transactions. The magnitude of capital and/or margin requirements could be substantial and, as discussed in "Risks Related to the Company's Capital and Liquidity Requirements —The Company may require additional capital from time to time, including from soft capital and liquidity credit facilities, which may not be available or may be available only on unfavorable terms," there can be no assurance that the Company will be able to obtain, or obtain on favorable terms, such additional capital as may be required by the Dodd-Frank Act.

Furthermore, pursuant to the Dodd-Frank Act, the FSOC has been charged with identifying certain non-bank financial companies to be subject to supervision by the Board of Governors of the Federal Reserve System. In a parallel international process, the IAIS, which has been identifying GSII, published a proposed assessment methodology that deemed financial guaranty insurance to be an activity that poses increased systemic risk relative to more traditional insurance activities. The Company does not at this time expect to be designated as a SIFI by the FSOC or a GSII by the IAIS, but the Company's status could change pursuant to new criteria from the FSOC or the IAIS.

In addition, a Federal Insurance Office ("FIO") has been established to develop federal policy relating to insurance matters. The FIO is conducting a study for submission to the U.S. Congress on how to modernize and improve insurance regulation in the U.S. Moreover, various federal regulatory agencies have proposed and adopted additional regulations in furtherance of the Dodd-Frank Act provisions. To the extent these or other requirements ultimately apply to the Company, they could require the Company to change how it conducts and manages its business, including subjecting it to higher capital requirements, and could adversely affect it.

The foregoing requirements, as well as others that could be applied to the Company as a result of the legislation, could limit the Company's ability to conduct certain lines of business and/or subject the Company to enhanced business conduct standards and/or otherwise adversely affect its future results of operations. Because many provisions of the Dodd-Frank Act are being implemented through agency rulemaking processes, a number of which have not been completed, the Company's assessment of the legislation's impact on its business remains uncertain and is subject to change.

In addition, the decline in the financial strength of many financial guaranty insurers has caused government officials to examine the suitability of some of the complex securities guaranteed by financial guaranty insurers. For example, the New York Department of Financial Services ("NY DFS") had announced that it would develop new rules and regulations for the financial guaranty industry. On September 22, 2008, the NY DFS issued Circular Letter No. 19 (2008) (the "Circular Letter"), which established best practices guidelines for financial guaranty insurers effective January 1, 2009. Although the Company is not

Table of Contents

aware of any current efforts by the NY DFS to propose legislation to formalize these guidelines, any such legislation may limit the amount of new structured finance business that AGC may write.

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

From time to time, legislators have called for changes to the Internal Revenue Code in order to limit or eliminate the Federal income tax exclusion for municipal bond interest. Such a change is expected to increase the cost of borrowing for state and local governments, and as a result, to cause a decrease in infrastructure spending by states and municipalities. Municipalities may issue a lower volume of bonds, and in particular may be less likely to refund existing debt, in which case, the amount of bonds that can benefit from insurance might also be reduced.

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

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

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

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

Risks Related to Taxation

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

Any material change in the U.S. tax treatment of municipal securities, the imposition of a national sales tax or a flat tax in lieu of the current federal income tax structure in the U.S., or changes in the treatment of dividends, could adversely affect the market for municipal obligations and, consequently, reduce the demand for financial guaranty insurance and reinsurance of such obligations.

Changes in U.S. federal, state or local laws that materially adversely affect the tax treatment of municipal securities or the market for those securities, or other changes negatively affecting the municipal securities market, also may adversely impact the Company's investment portfolio, a significant portion of which is invested in tax-exempt instruments. These adverse changes may adversely affect the value of the Company's tax-exempt portfolio, or its liquidity.

Table of Contents

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

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

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

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

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

Each 10% U.S. shareholder of a foreign corporation that is a controlled foreign corporation ("CFC") for an uninterrupted period of 30 days or more during a taxable year, and who owns shares in the foreign corporation directly or indirectly through foreign entities on the last day of the foreign corporation's taxable year on which it is a CFC, must include in its gross income for U.S. federal income tax purposes its pro rata share of the CFC's "subpart F income," even if the subpart F income is not distributed. In addition, upon a sale of shares of a CFC, 10% U.S. shareholders may be subject to U.S. federal income tax on a portion of their gain at ordinary income rates.

The Company believes that because of the dispersion of the share ownership in AGL, provisions in AGL's Bye-Laws that limit voting power, contractual limits on voting power and other factors, no U.S. Person who owns AGL's shares directly or indirectly through foreign entities should be treated as a 10% U.S. shareholder of AGL or of any of its foreign subsidiaries. It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge, in which case such U.S. Person may be subject to taxation under U.S. tax rules.

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

If:

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

• the gross RPII of AG Re or any other AGL foreign subsidiary engaged in the insurance business that has not made an election under section 953(d) of the Code to be treated as a U.S. corporation for all U.S. tax purposes or are CFCs owned directly or indirectly by AGUS (each, with AG Re, a "Foreign Insurance Subsidiary") were to equal or exceed

20% of such Foreign Insurance Subsidiary's gross insurance income in any taxable year; and

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

then a U.S. Person who owns AGL's shares (directly or indirectly through foreign entities) on the last day of the taxable year would be required to include in its income for U.S. federal income tax purposes such person's pro rata share of such Foreign Insurance Subsidiary's RPII for the entire taxable year, determined as if such RPII were distributed proportionately only to U.S. Persons at that date, regardless of whether such income is distributed. In addition, any RPII that is includible in the income of a U.S. tax-exempt organization may be treated as unrelated business taxable income.

Table of Contents

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

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

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

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

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

If AGL is considered a passive foreign investment company ("PFIC") for U.S. federal income tax purposes, a U.S. Person who owns any shares of AGL will be subject to adverse tax consequences that could materially adversely affect its investment, including subjecting the investor to both a greater tax liability than might otherwise apply and an interest charge. The Company believes that AGL is not, and currently does not expect AGL to become, a PFIC for U.S. federal income tax purposes; however, there can be no assurance that AGL will not be deemed a PFIC by the IRS.

There are currently no regulations regarding the application of the PFIC provisions to an insurance company. New regulations or pronouncements interpreting or clarifying these rules may be forthcoming. The Company cannot predict what impact, if any, such guidance would have on an investor that is subject to U.S. federal income taxation.

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

Legislation has been introduced in the U.S. Congress intended to eliminate certain perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the U.S. but have certain U.S. connections. For example, legislation has been introduced in Congress to limit the deductibility of reinsurance premiums paid by U.S. insurance companies to foreign affiliates and impose additional limits on deductibility of interest of foreign owned U.S. corporations. Another legislative proposal would treat a foreign corporation that is primarily managed and controlled in the U.S. as a U.S. corporation for U.S. federal income tax purposes. Further, legislation has previously been introduced to override the reduction or elimination of the U.S. withholding tax on certain U.S. source investment income under a tax treaty in the case of a deductible related party payment made by a U.S. member of a foreign controlled group to a foreign member of the group organized in a tax treaty country to the extent that the ultimate foreign parent corporation would not enjoy the treaty benefits with respect to such payments. It is possible that this or similar legislation could be introduced in and enacted by the current Congress or future Congresses that could have an adverse impact on the Company or the Company's shareholders.

Table of Contents

U.S. federal income tax laws and interpretations regarding whether a company is engaged in a trade or business within the U.S. is a PFIC, or whether U.S. Persons would be required to include in their gross income the "subpart F income" of a CFC or RPII are subject to change, possibly on a retroactive basis. There currently are no regulations regarding the application of the PFIC rules to insurance companies, and the regulations regarding RPII are still in proposed form. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming. The Company cannot be certain if, when, or in what form such regulations or pronouncements may be implemented or made, or whether such guidance will have a retroactive effect.

Recharacterization by the Internal Revenue Service of the Company's U.S. federal tax treatment of losses on the Company's CDS portfolio can adversely affect the Company's financial position.

As part of the Company's financial guaranty business, the Company has sold credit protection by insuring CDS entered into with various financial institutions. Assured Guaranty's CDS portfolio has experienced significant cumulative fair value losses which are only deductible for U.S. federal income tax purposes upon realization and, consequently, generate a significant deferred tax asset based on the Company's intended treatment of such losses as ordinary insurance losses upon realization. The U.S. federal income tax treatment of CDS is an unsettled area of the tax law. As such, it is possible that the Internal Revenue Service may decide that the losses generated by the Company's CDS business should be characterized as capital rather than ordinary insurance losses, which could materially adversely affect the Company's financial condition.

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

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

AGMH likely experienced an ownership change under Section 382 of the Code.

In connection with the AGMH Acquisition, AGMH likely experienced an "ownership change" within the meaning of Section 382 of the Code. The Company has concluded that the Section 382 limitations as discussed in "An ownership change under Section 382 of the Code could have adverse U.S. federal tax consequences" are unlikely to have any material tax or accounting consequences. However, this conclusion is based on a variety of assumptions, including the Company's estimates regarding the amount and timing of certain deductions and future earnings, any of which could be incorrect. Accordingly, there can be no assurance that these limitations would not have an adverse effect on the Company's financial condition or that such adverse effects would not be material.

A change in AGL's U.K. tax residency status or its ability to otherwise qualify for the benefits of income tax treaties to which the U.K. is a party could adversely affect an investment in AGL's common shares. AGL is not incorporated in the U.K. and, accordingly, can only be resident in the U.K. for U.K. tax purposes if it is "centrally managed and controlled" in the U.K. Central management and control constitutes the highest level of control of a company's affairs. AGL believes that it will be entitled to take advantage of the benefits of income tax treaties to which the U.K. is a party on the basis that it has established central management and control in the U.K. AGL has obtained confirmation that there is a low risk of challenge to its residency status from HMRC under the facts as they

stand today. The board of directors intends to manage the affairs of AGL in such a way as to maintain its status as a company that is tax-resident in the U.K. for U.K. tax purposes and to qualify for the benefits of income tax treaties to which the U.K. is a party. However, the concept of central management and control is a case-law concept that is not comprehensively defined in U.K. statute. In addition, it is a question of fact. Moreover, tax treaties may be revised in a way that causes AGL to fail to qualify for benefits thereunder. Accordingly, a change in relevant U.K. tax law or in tax treaties to which the U.K. is a party, or in AGL's central management and control as a factual matter, or other events, could adversely affect the ability of Assured Guaranty to manage its capital in the efficient manner that it contemplated in establishing U.K. tax residence.

Table of Contents

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

As a U.K. tax resident, AGL is subject to U.K. corporation tax in respect of its worldwide profits (both income and capital gains), subject to applicable exemptions. The main rate of corporation tax is 23% currently.

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

With respect to capital gains, if AGL were to dispose of shares in its direct subsidiaries or if it were deemed to have done so, it may realize a chargeable gain for U.K. tax purposes. Any tax charge would be based on AGL's original acquisition cost. It is anticipated that any such future gain should qualify for exemption under the substantial shareholding exemption in Schedule 7AC to the Taxation of Chargeable Gains Act 1992. However, the availability of such exemption would depend on facts at the time of disposal, in particular the "trading" nature of the activities of the Assured Guaranty group and of the relevant subsidiary. There is no statutory definition of what constitutes "trading" activities for this purpose and in practice reliance is placed on the published guidance of HMRC.

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

The financial results of our operations may be affected by measures taken in response to the OECD BEPS project. On July 19, 2013, the Organisation for Economic Co-operation and Development published its Action Plan on Base Erosion and Profit Shifting (the "BEPS Action Plan"), in an attempt to coordinate multilateral action on international tax rules. The recommended actions include an examination of the definition of a "permanent establishment" and the rules for attributing profit to a permanent establishment. Other recommended actions relate to the goal of ensuring that transfer pricing outcomes are in line with value creation, noting that the current rules may facilitate the transfer of risks or capital away from countries where the economic activity takes place. Any changes in U.S. or U.K. tax law in response to the BEPS Action Plan could adversely affect Assured Guaranty's liability to tax.

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

Under the U.K. "controlled foreign company" regime, the income profits of non-U.K. resident companies may, in certain circumstances, be attributed to controlling U.K. resident shareholders for U.K. corporation tax purposes. A new CFC regime was introduced with effect for CFC accounting periods beginning on or after January 1, 2013. The non-U.K. resident members of the Assured Guaranty group intend to operate and manage their levels of capital in such a manner that their profits would not be taxed on AGL under the U.K. CFC regime. Assured Guaranty has obtained clearance from HMRC that none of the profits of the non-U.K. resident members of the Assured Guaranty group should be subject to U.K. tax as a result of attribution under the CFC regime on the facts as they currently stand. However, a change in the way in which Assured Guaranty operates or any further change in the CFC regime, resulting in an attribution to AGL of any of the income profits of any of AGL's non-U.K. resident subsidiaries for U.K. corporation tax purposes, could adversely affect Assured Guaranty's financial results of operations.

Becoming resident in the U.K. for tax purposes may subject Assured Guaranty to additional regulatory requirements with which it may have difficulty complying or which may constrain or limit its ability to take certain actions.

In connection with AGL's establishment of tax residence in the U.K., AGL has been discussing the regulation of AGL and its subsidiaries as a group with the Prudential Regulation Authority in the U.K. and with the NY DFS. The NY DFS has indicated that it will assume responsibility for regulation of the Assured Guaranty group. Group supervision by the NY DFS would result in additional regulatory oversight over Assured Guaranty, and may subject Assured Guaranty to new regulatory requirements and constraints. If the PRA determines that, notwithstanding the NY DFS becoming Assured Guaranty's group regulator, AGL's head office is in the U.K. based upon it having a tax residence there, then AGL may be subject to additional capital and compliance requirements that it must satisfy. If Assured Guaranty is unable to satisfy these additional regulatory requirements, it may not be able to effectuate the efficient management of capital that it contemplated in establishing U.K. tax residence.

Table of Contents

Risks Related to AGL's Common Shares

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

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

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

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

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

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

Additionally, unlike indebtedness, where principal and interest customarily are payable on specified due dates, in the case of common shares, dividends are payable only when and if declared by AGL's board of directors or a duly authorized committee of the board. Further, the common shares place no restrictions on its business or operations or on its ability to incur indebtedness or engage in any transactions, subject only to the voting rights available to stockholders generally.

There may be future sales or other dilution of AGL's equity, which may adversely affect the market price of its common shares.

Future sales or other issuances of AGL's equity may adversely affect the market price of its common shares. In addition, based on a Schedule 13D/A filed by WL Ross Group, L.P. on June 4, 2013 reporting the amount of securities beneficially owned as of May 31, 2013, the Company calculates that WL Ross Group, L.P. and its affiliates owned 8.2% of AGL's common shares as of February 21, 2014. WL Ross Group, L.P. and its affiliates have registration rights with respect to AGL common shares. A sale of a significant portion of such holdings could adversely affect the market price of AGL's common shares.

Table of Contents

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

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

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

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

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

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

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

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

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

Existing reinsurance agreement terms may make it difficult to effect a change of control of AGL.

Some of the Company's reinsurance agreements have change of control provisions that are triggered if a third party acquires a designated percentage of AGL's shares. If a change of control provision is triggered, the ceding company may recapture some or all of the reinsurance business ceded to the Company in the past. Any such recapture could adversely affect the Company's shareholders' equity, future income or financial strength or debt ratings. These provisions may discourage potential acquisition proposals and may delay, deter or prevent a change of control of AGL, including through transactions that some or all of the shareholders might consider to be desirable.

Table of Contents

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The principal executive offices of AGL and AG Re consist of approximately 8,250 square feet of office space located in Hamilton, Bermuda; the lease for this space expires in April 2015 and is renewable at the option of the Company. In addition, the Company occupies approximately 110,000 square feet of office space in New York City; the lease for this office space expires in April 2026. The Company also occupies another approximately 21,000 square feet of office space in London and Sydney, and two offices in San Francisco and Irvine, California. Management believes that the office space is adequate for its current and anticipated needs.

ITEM 3. LEGAL PROCEEDINGS

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

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

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 6, Expected Loss to be Paid, of the Financial Statements and Supplementary Data, as of the date of this filing, AGC and AGM have filed complaints against certain sponsors and underwriters of RMBS securities that AGC or AGM had insured, alleging, among other claims, that such persons had breached representations and warranties ("R&W") 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.

Proceedings Relating to the Company's Financial Guaranty Business

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

Beginning in July 2008, AGM and various other financial guarantors were named in complaints filed in the Superior Court for the State of California, City and County of San Francisco by a number of plaintiffs. Subsequently, plaintiffs' counsel filed amended complaints against AGM and AGC and added additional plaintiffs. These complaints alleged that the financial guaranty insurer defendants (i) participated in a conspiracy in violation of California's antitrust laws to maintain a dual credit rating scale that misstated the credit default risk of municipal bond issuers and created market demand for municipal bond insurance, (ii) participated in risky financial transactions in other lines of business that damaged each insurer's financial condition (thereby undermining the value of each of their guaranties), and (iii) failed to adequately disclose the impact of those transactions on their financial condition. In addition to their antitrust claims, various plaintiffs asserted claims for breach of the covenant of good faith and fair dealing, fraud, unjust enrichment, negligence, and negligent misrepresentation. At hearings held in July and October 2011 relating to AGM, AGC and the other defendants' demurrer, the court overruled the demurrer on the following claims: breach of contract, violation

of California's antitrust statute and of its unfair business practices law, and fraud. The remaining claims were dismissed. On December 2, 2011, AGM, AGC and the other bond insurer defendants filed an anti-SLAPP ("Strategic Lawsuit Against Public Participation") motion to strike the complaints under California's Code of Civil Procedure. On July 9, 2013, the court entered its order denying in part and granting in part the bond insurers' motion to strike. As a result of the order, the causes of action that remain against AGM and AGC are: claims of breach of contract and fraud, brought by the City of San Jose, the City of Stockton, East Bay Municipal Utility District and Sacramento Suburban Water District, relating to the failure to disclose the impact of risky financial transactions on their financial condition; and a claim of breach of the unfair business practices law brought by The Jewish Community Center of San Francisco. On September 9, 2013,

Table of Contents

plaintiffs filed an appeal of the anti-SLAPP ruling on the California antitrust statute. On September 30, 2013, AGC, AGM and the other bond insurer defendants filed a notice of cross-appeal. The complaints generally seek unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss or range of loss, if any, that may arise from these lawsuits.

On November 28, 2011, Lehman Brothers International (Europe) (in administration) ("LBIE") sued AG Financial Products Inc. ("AGFP"), an affiliate of AGC which in the past had provided credit protection to counterparties under 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. With respect to the 28 credit derivative transactions, AGFP calculated that LBIE owes AGFP approximately \$25 million, whereas LBIE asserted in the complaint that AGFP owes LBIE a termination payment of approximately \$1.4 billion. LBIE is seeking unspecified damages. 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. The Company cannot reasonably estimate the possible loss, if any, that may arise from this lawsuit.

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 seek 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. AGM believes the terminations of the CDS and the calculation of the termination payment amounts were consistent with the terms of the ISDA master agreements between the parties. 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, 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 on insured certificates issued in the MASTR Adjustable Rate Mortgages Trust 2007-3 securitization. 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.

Previously, AGM, together with other financial institutions and other parties, including bond insurers, had been named as defendants in a civil action brought in the circuit court of Jefferson County, Alabama relating to the County's problems meeting its sewer debt obligations: Charles E. Wilson vs. JPMorgan Chase & Co et al (filed in the Circuit Court of Jefferson County, Alabama), Case No. 01-CV-2008-901907.00. The action was brought in August 2008 on behalf of rate payers, tax payers and citizens residing in Jefferson County, and alleged conspiracy and fraud in connection with the issuance of the County's debt. The complaint sought equitable relief, unspecified monetary damages, interest, attorneys' fees and other costs. In January 2011, the circuit court issued an order denying a motion by the bond insurers and other defendants to dismiss the action. The defendants, including the bond insurers, petitioned the Alabama Supreme Court for a writ of mandamus to the circuit court vacating such order and directing the dismissal with prejudice of plaintiffs' claims for lack of standing. While awaiting a ruling from the Alabama Supreme Court, Jefferson County filed for bankruptcy and the Alabama Supreme Court entered a stay pending the resolution of the bankruptcy. In November 2013, the United States Bankruptcy Court approved a bankruptcy plan that included dismissal of the pending claims in state court. On January 13, 2014, the circuit court entered an order dismissing the claims against AGM and the other defendants and on January 17, 2014, the Supreme Court of Alabama entered an order dismissing the petition for writ of mandamus.

Table of Contents

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 DCL, jointly and severally, have agreed to indemnify the Company against liability arising out of the proceedings described below in the "—Proceedings Related to AGMH's Former Financial Products Business" section, 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 is 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.

In addition, AGMH had received a "Wells Notice" from the staff of the Philadelphia Regional Office of the SEC in February 2008 relating to the investigation concerning the bidding of municipal GICs and other municipal derivatives. The Wells Notice indicated that the SEC staff was considering recommending that the SEC authorize the staff to bring a civil injunctive action and/or institute administrative proceedings against AGMH, alleging violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and Section 17(a) of the Securities Act. On January 8, 2014, the SEC issued a letter stating that it had concluded the investigation as to AGMH and, based on the information it had as of such date, it did not intend to recommend an enforcement action by the SEC against AGMH.

In July 2010, a former employee of AGM who had been involved in AGMH's former Financial Products Business was indicted along with two other persons with whom he had worked at Financial Guaranty Insurance Company. Such former employee and the other two persons were convicted on fraud conspiracy counts. After appeal, their convictions were reversed by a three-judge panel of the U.S. Court of Appeals for the Second Circuit in November 2013. In January 2014, the Department of Justice petitioned the U.S. Court of Appeals for the Second Circuit for a panel rehearing and a rehearing en banc of the appeal.

Lawsuits Relating to Former Financial Products Business

During 2008, nine putative class action lawsuits were filed in federal court alleging federal antitrust violations in the municipal derivatives industry, seeking damages and alleging, among other things, a conspiracy to fix the pricing of, and manipulate bids for, municipal derivatives, including GICs. These cases have been coordinated and consolidated for pretrial proceedings in the U.S. District Court for the Southern District of New York as MDL 1950, In re Municipal Derivatives Antitrust Litigation, Case No. 1:08-cv-2516 ("MDL 1950").

Five of these cases named both AGMH and AGM: (a) Hinds County, Mississippi v. Wachovia Bank, N.A.; (b) Fairfax County, Virginia v. Wachovia Bank, N.A.; (c) Central Bucks School District, Pennsylvania v. Wachovia Bank, N.A.; (d) Mayor and City Council of Baltimore, Maryland v. Wachovia Bank, N.A.; and (e) Washington County, Tennessee v. Wachovia Bank, N.A. In April 2009, the MDL 1950 court granted the defendants' motion to dismiss on the federal claims, 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 complaints in these lawsuits

Table of Contents

generally seek unspecified monetary damages, interest, attorneys' fees and other costs. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from these lawsuits.

Four of the 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.

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.

Table of Contents

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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Executive Officers of the Company

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

Name	Age	Position(s)
Dominic J. Frederico	61	President and Chief Executive Officer; Deputy Chairman
James M. Michener	61	General Counsel and Secretary
Robert B. Mills	64	Chief Operating Officer
Russell B. Brewer II	56	Chief Surveillance Officer
Robert A. Bailenson	47	Chief Financial Officer
Bruce E. Stern	59	Executive Officer
Howard W. Albert	54	Chief Risk Officer

Dominic J. Frederico has been President and Chief Executive Officer of AGL since December 2003. Mr. Frederico served as Vice Chairman of ACE Limited from June 2003 until April 2004 and served as President and Chief Operating Officer of ACE Limited and Chairman of ACE INA Holdings, Inc. from November 1999 to June 2003. Mr. Frederico was a director of ACE Limited from 2001 until his retirement from that board in May 2005.

Mr. Frederico has also served as Chairman, President and Chief Executive Officer of ACE INA Holdings, Inc. from May 1999 through November 1999. Mr. Frederico previously served as President of ACE Bermuda Insurance Ltd. from July 1997 to May 1999, Executive Vice President, Underwriting from December 1996 to July 1997, and as Executive Vice President, Financial Lines from January 1995 to December 1996. Prior to joining ACE Limited, Mr. Frederico spent 13 years working for various subsidiaries of American International Group ("AIG").

Mr. Frederico completed his employment at AIG after serving as Senior Vice President and Chief Financial Officer of AIG Risk Management. Before that, Mr. Frederico was Executive Vice President and Chief Financial Officer of UNAT, a wholly owned subsidiary of AIG headquartered in Paris, France.

James M. Michener has been General Counsel and Secretary of AGL since February 2004. Prior to joining Assured Guaranty, Mr. Michener was General Counsel and Secretary of Travelers Property Casualty Corp. from January 2002 to February 2004. From April 2001 to January 2002, Mr. Michener served as general counsel of Citigroup's Emerging Markets business. Prior to joining Citigroup's Emerging Markets business, Mr. Michener was General Counsel of Travelers Insurance from April 2000 to April 2001 and General Counsel of Travelers Property Casualty Corp. from May 1996 to April 2000.

Robert B. Mills has been Chief Operating Officer of AGL since June 2011. Mr. Mills was Chief Financial Officer of AGL from January 2004 until June 2011. Prior to joining Assured Guaranty, Mr. Mills was Managing Director and Chief Financial Officer—Americas of UBS AG and UBS Investment Bank from April 1994 to January 2004, where he was also a member of the Investment Bank Board of Directors. Previously, Mr. Mills was with KPMG from 1971 to 1994, where his responsibilities included being partner-in-charge of the Investment Banking and Capital Markets practice.

Russell B. Brewer II has been Chief Surveillance Officer of AGL since November 2009 and Chief Surveillance Officer of AGC and AGM since July 2009. Mr. Brewer has been with AGM since 1986. Mr. Brewer was Chief Risk Management Officer of AGM from September 2003 until July 2009 and Chief Underwriting Officer of AGM from September 1990 until September 2003. Mr. Brewer was also a member of the Executive Management Committee of AGM. He was a Managing Director of AGMH from May 1999 until July 2009. From March 1989 to August 1990, Mr. Brewer was Managing

Table of Contents

Director, Asset Finance Group, of AGM. Prior to joining AGM, Mr. Brewer was an Associate Director of Moody's Investors Service, Inc.

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

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

Howard W. Albert has been Chief Risk Officer of AGL since May 2011. Prior to that, he was Chief Credit Officer of AGL from 2004 to April 2011. Mr. Albert joined Assured Guaranty in September 1999 as Chief Underwriting Officer of Capital Re Company, the predecessor to AGC. Before joining Assured Guaranty, he was a Senior Vice President with Rothschild Inc. from February 1997 to August 1999. Prior to that, he spent eight years at Financial Guaranty Insurance Company from May 1989 to February 1997, where he was responsible for underwriting guaranties of asset-backed securities and international infrastructure transactions. Prior to that, he was employed by Prudential Capital, an investment arm of The Prudential Insurance Company of America, from September 1984 to April 1989, where he underwrote investments in asset-backed securities, corporate loans and project financings.

Table of Contents

PART II

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

AGL's common shares are listed on the New York Stock Exchange under symbol "AGO." The table below sets forth, for the calendar quarters indicated, the reported high and low sales prices and amount of any cash dividends declared.

Common Stock Prices and Dividends

	2013			2012		
	Sales Price		Cash	Sales Price		Cash
	High	Low	Dividends	High	Low	Dividends
First Quarter	\$21.30	\$13.95	\$0.10	\$19.04	\$13.20	\$0.09
Second Quarter	24.73	18.92	0.10	16.58	11.17	0.09
Third Quarter	23.64	18.42	0.10	15.83	11.29	0.09
Fourth Quarter	24.81	17.80	0.10	14.80	12.48	0.09

On February 21, 2013, the closing price for AGL's common shares on the NYSE was \$23.08, and the approximate number of shareholders of record at the close of business on that date was 111.

AGL is a holding company whose principal source of income is dividends from its operating subsidiaries. The ability of the operating subsidiaries to pay dividends to AGL and AGL's ability to pay dividends to its shareholders are each subject to legal and regulatory restrictions. The declaration and payment of future dividends will be at the discretion of AGL's Board of Directors and will be dependent upon the Company's profits and financial requirements and other factors, including legal restrictions on the payment of dividends and such other factors as the Board of Directors deems relevant. For more information concerning AGL's dividends, please refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption "Liquidity and Capital Resources" and Note 12, Insurance Company Regulatory Requirements, of the Financial Statements and Supplementary Data.

Recent Purchases

During 2013, under the Company's prior \$315 million share repurchase authorization, the Company had repurchased a total of 12.5 million common shares for approximately \$264 million at an average price of \$21.12 per share. This included 5.0 million common shares purchased on June 5, 2013 from funds associated with WL Ross & Co. LLC and its affiliates (collectively, the "WLR Funds") and Wilbur L. Ross, Jr., a director of the Company, for \$109.7 million. This share purchase reduced the WLR Funds' and Mr. Ross's ownership of AGL's common shares to approximately 14.9 million common shares, or to approximately 8.2% of its total common shares outstanding, from approximately 10.5% of such outstanding common shares.

On November 11, 2013, the Company's prior share repurchase authorization was replaced by a new share repurchase authorization of \$400 million. The Company expects the repurchases to be made from time to time in the open market or in privately negotiated transactions. The timing, form and amount of the share repurchases under the program are at the discretion of management and will depend on a variety of factors, including availability of funds at the holding companies, market conditions, the Company's capital position, legal requirements and other factors. The repurchase program may be modified, extended or terminated by the Board of Directors at any time. It does not have an expiration date.

During the three months ended December 31, 2013, the Company did not repurchase any shares under its share repurchase program or in connection with the payment of employee withholding taxes due in connection with the vesting of restricted stock awards.

Performance Graph

Set forth below are a line graph and a table comparing the dollar change in the cumulative total shareholder return on AGL's common shares from December 31, 2008 through December 31, 2013 as compared to the cumulative total return of the Standard & Poor's 500 Stock Index and the cumulative total return of the Standard & Poor's 500 Financials Index. The chart and table depict the value on December 31, 2008, December 31, 2009, December 31, 2010, December 31, 2011, December 31, 2012 and December 31, 2013 of a \$100 investment made on December 31, 2008, with all dividends reinvested:

Table of Contents

	Assured Guaranty	S&P 500 Index	S&P 500 Financial Index
12/31/2008	\$ 100.00	\$ 100.00	\$ 100.00
12/31/2009	193.65	126.45	117.15
12/31/2010	159.12	145.49	131.36
12/31/2011	119.69	148.56	108.95
12/31/2012	133.06	172.32	140.26
12/31/2013	224.66	228.12	190.18

Source: Bloomberg

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read together with the other information contained in this Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included elsewhere in this Form 10-K. Results of operations of AGMH are included for periods beginning July 1, 2009, which we refer to as the Acquisition Date. Certain prior year balances have been reclassified to conform to the current year's presentation.

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(dollars in millions, except per share amounts)				
Statement of operations data:					
Revenues:					
Net earned premiums ⁽¹⁾	\$752	\$853	\$920	\$1,187	\$930
Net investment income ⁽¹⁾	393	404	396	361	262
Net realized investment gains (losses) ⁽¹⁾	52	1	(18	) (2	) (33
Realized gains and other settlements on credit derivatives	(42	) (108	) 6	153	164
Net unrealized gains (losses) on credit derivatives	107	(477	) 554	(155	) (338
Fair value gains (losses) on committed capital securities	10	(18	) 35	9	(123
Fair value gains (losses) on financial guaranty variable interest entities ⁽¹⁾	346	191	(146	) (274	) (1
Other income (loss)	(10	) 108	58	34	56
Total revenues	1,608	954	1,805	1,313	917
Expenses:					
Loss and loss adjustment expenses ⁽¹⁾	154	504	448	412	394
Amortization of deferred acquisition costs ⁽²⁾	12	14	17	22	44
Assured Guaranty Municipal Holdings Inc. acquisition-related expenses	—	—	—	7	92
Interest expense	82	92	99	100	63
Goodwill and settlement of pre-existing relationship	—	—	—	—	23
Other operating expenses ⁽²⁾	218	212	212	238	192
Total expenses	466	822	776	779	808
Income (loss) before (benefit) provision for income taxes	1,142	132	1,029	534	109
Provision (benefit) for income taxes	334	22	256	50	29
Net income (loss)	808	110	773	484	80
Less: Noncontrolling interest of variable interest entities	—	—	—	—	(2
Net income (loss) attributable to Assured Guaranty Ltd.	\$808	\$110	\$773	\$484	\$82
Earnings (loss) per share:					
Basic	\$4.32	\$0.58	\$4.21	\$2.63	\$0.64
Diluted	\$4.30	\$0.57	\$4.16	\$2.56	\$0.63
Dividends per share	\$0.40	\$0.36	\$0.18	\$0.18	\$0.18

Table of Contents

	As of December 31,				
	2013	2012	2011	2010	2009
	(dollars in millions, except per share amounts)				
Balance sheet data (end of period):					
Assets:					
Investments and cash	\$ 10,969	\$ 11,223	\$ 11,314	\$ 10,849	\$ 11,013
Premiums receivable, net of commissions payable	876	1,005	1,003	1,168	1,418
Ceded unearned premium reserve	452	561	709	822	1,078
Salvage and subrogation recoverable	174	456	368	1,032	395
Credit derivative assets	94	141	153	185	217
Total assets	16,287	17,242	17,709	19,370	16,449
Liabilities and shareholders' equity:					
Unearned premium reserve	4,595	5,207	5,963	6,973	8,381
Loss and loss adjustment expense reserve	592	601	679	574	300
Reinsurance balances payable, net	148	219	171	274	212
Long-term debt	816	836	1,038	1,053	1,066
Credit derivative liabilities	1,787	1,934	1,457	2,055	1,759
Total liabilities	11,172	12,248	13,057	15,700	12,995
Accumulated other comprehensive income	160	515	368	112	142
Shareholders' equity attributable to Assured Guaranty Ltd.	5,115	4,994	4,652	3,670	3,455
Shareholders' equity	5,115	4,994	4,652	3,670	3,454
Book value per share	28.07	25.74	25.52	19.97	18.76
Consolidated statutory financial information ⁽³⁾ :					
Contingency reserve	\$ 2,934	\$ 2,364	\$ 2,571	\$ 2,288	\$ 1,879
Policyholders' surplus	3,202	3,579	3,116	2,627	2,962
Claims paying resources ⁽⁴⁾	12,147	12,328	12,839	12,630	13,051
Outstanding Exposure:					
Net debt service outstanding	\$ 690,535	\$ 780,356	\$ 844,447	\$ 926,698	\$ 958,037
Net par outstanding	459,107	518,772	556,830	616,686	640,194

(1) Accounting guidance for variable interest entities ("VIEs") changed effective January 1, 2010. As a result, amounts are not comparable.

(2) Accounting guidance restricting the types and amounts of financial guaranty insurance contract acquisition costs that may be deferred was adopted and retrospectively applied effective January 1, 2012.

(3) Prepared in accordance with accounting practices prescribed or permitted by U.S. insurance regulatory authorities, for all insurance subsidiaries.

(4) Claims paying resources is calculated as the sum of statutory policyholders' surplus, statutory contingency reserve, statutory unearned premium reserves, statutory loss and LAE reserves, present value of installment premium on financial guaranty and credit derivatives, discounted at 6%, and standby lines of credit/stop loss. Total claims paying resources is used by the Company to evaluate the adequacy of capital resources.

Table of Contents

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

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

Introduction

The Company provides credit protection products to the U.S. and international public finance (including infrastructure) and structured finance markets. The Company applies its credit underwriting judgment, risk management skills and capital markets experience 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. Obligations insured by the Company include bonds issued by U.S. state or municipal governmental authorities; notes issued to finance international infrastructure projects; and asset-backed securities issued by special purpose entities. 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 U.K. The Company also guarantees obligations issued in other countries and regions, including Australia and Western Europe.

Executive Summary

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

Economic Environment

Business conditions have been difficult for the entire financial guaranty insurance industry since mid-2007, and the industry continues to face challenges in maintaining its market penetration. After a number of years in which Assured Guaranty was essentially the only active financial guarantor, a second monoline guarantor insured a number of small and medium-size issuances in 2013. The Company believes that the presence of a new financial guaranty insurer led to marginally higher overall insurance penetration of the U.S. municipal bond market while also displacing the Company in certain insured transactions.

The overall economic environment in the U.S. has consistently, albeit slowly, recovered over the last few years in a volatile market environment. Indicators such as lower mortgage delinquency rates and increasing housing prices reflected gradual improvement in the housing market. Notably, the stock market rose to record levels during 2013. Still, unemployment rates remained relatively high, leading the Federal Reserve to maintain its program of quantitative easing to keep interest rates low and stimulate economic activity. Although the Federal Reserve began to taper its quantitative easing program in December 2013, management expects the Federal Reserve to do so at a measured pace and to employ conventional methods to maintain a low interest environment until it considers the unemployment problem addressed. A persistently low interest rate environment would continue to present challenges

for the financial guaranty industry but could help stabilize municipal issuance volume following a 15% decline in new issuances in 2013.

Although few municipalities have fully rebuilt reserves to pre-recession levels, most have been taking steps to address the ongoing fiscal challenges they have experienced since the global credit crisis of 2008 and the ensuing recession. This includes, in many cases, significant unfunded pension and retiree healthcare liabilities. Revenues at the state level have been rebounding in general, and while the strength of the housing recovery varies from region to region, property tax and other revenues have stabilized for most local governments. Although municipal defaults remain rare, a small number of municipal credits have sought, though not always obtained, bankruptcy protection.

Table of Contents

Municipal bankruptcy is an area of law that is relatively undeveloped due to the relatively low frequency of such cases. The Company has been active in efforts to resolve municipal bankruptcy cases involving Jefferson County, Alabama and the cities of Stockton, California, and Detroit, Michigan. It has also been closely monitoring legal proceedings in other municipal bankruptcy cases in various states. In the cases of Jefferson County and Stockton, as well as the receivership of Harrisburg, Pennsylvania, final or preliminary settlements have been reached. The publicity surrounding high-profile defaults and bankruptcy filings, especially those few where bond insurers are paying claims, provides evidence of the value of bond insurance; the Company believes this may stimulate demand for its product, especially at the retail level.

The Company is also closely following developments in the Commonwealth of Puerto Rico, which has significant economic challenges. Although recent announcements and actions by the current Governor and his administration indicate officials of the Commonwealth are focused on measures that are intended to help Puerto Rico operate within its financial resources and maintain its access to capital markets, Puerto Rico faces high debt levels, a declining population and an economy that has been in recession since 2006. For additional information on the Company's exposure to Puerto Rico, please refer to "Insured Portfolio— Exposure to Puerto Rico" below.

Although annual new-money issuance volume in the U.S. public finance market changed little from 2012 to 2013, total new issue volume decreased in 2013 because refunding volume decreased approximately 30%. Additionally, the political appetite for incurring new debt was constrained as municipal budgets are still in a recovery mode from the financial recession. Low interest rates tend to suppress demand for bond insurance as the potential savings for issuers are less compelling and some investors prefer to forgo insurance in favor of greater yield.

In the international arena, troubled Eurozone countries continue to be a source of stress in global equity and debt markets. Following the 2011 restructuring of the sovereign debt of Greece, debt costs in Portugal, Spain and Italy remain elevated, although they have declined substantially since the European Central Bank's August 2, 2012 announcement that it would undertake outright monetary transactions in support of Eurozone sovereign bonds. Fiscal austerity programs initiated to address the problems in those and other European Union ("EU") countries have constrained economic growth, although a number of countries are in the process of emerging from recession. The rating agencies have downgraded many European sovereign credits. The Company's exposure to troubled Eurozone countries is described in "—Results of Operations—Consolidated Results of Operations—Losses in the Insured Portfolio" and "—Insured Portfolio—Selected European Exposures."

The economic environment since 2008 has had a significant negative impact on the demand by investors for financial guaranty policies, and it is uncertain when or if demand for financial guaranties will return to their pre-economic crisis level. In particular, there was limited new issue activity and also limited demand for financial guaranties in 2013 and 2012 in both the global structured finance and international infrastructure finance markets. In the latter, however, the Company's three U.K. public-private partnership transactions in the second half of 2013 may signal that demand for capital market infrastructure financings, which have typically required financial guarantees, may be returning. In general, the Company expects that global structured finance and international infrastructure opportunities will increase in the future as the global economy recovers, interest rates rise, more issuers return to the capital markets for financings and institutional investors again utilize financial guaranties.

In 2013 and 2012, the Company continued to be affected by a negative perception of financial guaranty insurers arising from the financial distress suffered by other companies in the industry during the financial crisis. In November 2011, S&P downgraded the financial strength ratings of AGM and AGC to AA- (Stable Outlook) under its revised criteria. In January 2013, after a ten-month review, Moody's assigned the following lower financial strength ratings: A2 (Stable) for AGM, A3 (Stable) for AGC, and Baa1 (Stable) for AG Re. In February 2014, Moody's affirmed the A2 (Stable) for AGM and the A3 (Stable) for AGC, but changed the outlook on the Baa1 for AG Re from stable to negative. The Company believes that Moody's review for possible downgrade of the financial strength ratings of

Assured Guaranty that lasted throughout most of 2012 contributed to a reduction in the demand for the Company's insurance product during that year. In a sign that the impact of the Moody's downgrade has been limited, AGC's and AGM's credit spreads were narrower at June 30, 2013 than at January 1, 2013 by 49% and 32%, respectively. In the second half of 2013, other market factors affected AGC's and AGM's credit spreads, which were 32% and 2% tighter at December 31, 2013 than at January 1, 2013. The higher the Company's credit spread, the lower the perceived benefit of the Company's guaranty is to certain investors. If investors view the Company as being only marginally less risky, or perhaps even as risky, as the uninsured security, they may require almost as much, or as much, yield on a security insured by the Company as on a comparable security offered without insurance by the same issuer. Accordingly, issuers may be unwilling to pay a premium for the Company to insure their securities if the insurance does not lower the costs of borrowing. Although high compared with their pre-2007 levels, both AGC's and AGM's credit spreads were 9% and 16%, respectively, of their March 2009 peaks as of December 31, 2013.

Table of Contents

Financial Performance of Assured Guaranty

Financial Results

	Year Ended December 31,		
	2013	2012	Change
	(in millions, except per share amounts)		
Selected income statement data			
Net earned premiums	\$752	\$853	\$(101)
Net investment income	393	404	(11)
Realized gains (losses) and other settlements on credit derivatives	(42)	(108)	66
Net unrealized gains (losses) on credit derivatives	107	(477)	584
Fair value gains (losses) on financial guaranty variable interest entities	346	191	155
Loss and loss adjustment expenses	(154)	(504)	350
Other operating expenses	(218)	(212)	(6)
Net income (loss)	808	110	698
Diluted earnings per share	\$4.30	\$0.57	\$3.73
Selected non-GAAP measures(1)			
Operating income	\$609	\$535	\$74
Operating income per share	\$3.25	\$2.81	\$0.44
Present value of new business production ("PVP")	\$141	\$210	\$(69)

Please refer to "—Non-GAAP Financial Measures" for a definition of the financial measures that were not (1) promulgated in accordance with GAAP and a reconciliation of the non-GAAP financial measure and the most directly comparable GAAP financial measure, if available.

Net Income (Loss)

There are several primary drivers of volatility in reported net income or loss that are not necessarily indicative of credit impairment or improvement, or ultimate economic gains or losses: changes in credit spreads of insured credit derivative obligations and financial guaranty variable interest entities' ("FG VIEs") assets and liabilities, changes in the Company's own credit spreads, and changes in risk-free rates used to discount expected losses. Changes in credit spreads have the most significant effect on changes in fair value of credit derivatives and FG VIE assets and liabilities. In addition to these factors, changes in expected losses, the timing of refundings and terminations, realized gains and losses on the investment portfolio (including other-than-temporary impairments), the effects of large settlements or transactions, and the effects of the Company's various loss mitigation strategies, among other factors, may also have a significant effect on reported net income or loss in a given reporting period.

Net income for 2013 increased to \$808 million from \$110 million in 2012 due primarily to unrealized gains on credit derivatives, compared to unrealized losses in 2012, lower loss and loss adjustment expenses and higher FG VIE gains. The unrealized gains on credit derivatives for 2013 were due to the termination of two large policies, the run-off of par outstanding and underlying asset price appreciation, while in 2012, the unrealized losses were due to the decline in the credit spreads on AGC and AGM. In 2013, the FG VIE gains were the result of R&W benefits on several VIE assets as a result of settlements with various counterparties during the year. The decline in loss and loss adjustment expenses is due to lower U.S. RMBS losses and lower non-U.S. public finance losses (2012 included losses on European exposures), partially offset by U.S. public finance losses. Net earned premiums in 2013 declined compared to 2012 due to the scheduled amortization of the insured portfolio.

Operating Income and Adjusted Book Value

In 2013, operating income, a non-GAAP financial measure, was \$609 million, compared with \$535 million in 2012. The increase in operating income was primarily due to lower loss expense. As of December 31, 2013, adjusted book value and adjusted book value per share, both of which are non-GAAP financial measures, were \$9.0 billion and \$49.58, respectively, compared to \$9.2 billion and \$47.17 as of December 31, 2012. Share repurchases in 2013 reduced adjusted book value, but increased adjusted book value per share by \$1.84. See Note 19, Shareholders' Equity, of the Financial Statements and

Table of Contents

Supplementary Data for additional detail about the common shares that the Company has repurchased in 2013 and see "-Non-GAAP Financial Measures" below for a description of these non-GAAP financial measures.

Key Business Strategies

In 2013, the Company's key business strategies were comprised of: loss mitigation; new business development; and the development of a strategy to manage capital more efficiently within the Assured Guaranty group.

Loss Mitigation

The Company continued its risk remediation strategies in 2013, which lowered losses and improved its rating agency capital position. The Company believes that it is often in a better position to manage the risks in its insured portfolio and to mitigate losses from troubled credits than a bondholder or security holder would be, due to its knowledge about the terms of the insured transactions, its surveillance and workout resources and, in some instances, the remedies available to it as an insurer.

In an effort to recover losses the Company experienced in its insured U.S. RMBS portfolio, the Company pursues R&W providers by enforcing R&W provisions in contracts, negotiating agreements with R&W providers relating to those provisions and, where appropriate, initiating litigation against R&W providers. See Note 6, Expected Loss to be Paid, of the Financial Statements and Supplementary Data, for a discussion of the R&W settlements the Company has entered into and the litigation proceedings the Company has initiated against R&W providers and other parties. In 2013, the Company entered into several RMBS settlements that contributed \$289 million to the R&W development. The Company's loss mitigation efforts in respect of its U.S. RMBS exposure over the past several years have resulted in R&W providers paying or agreeing to pay, pursuant to settlement agreements and/or following favorable court decisions, an aggregate of \$3.6 billion (gross of reinsurance) in respect of R&W. The Company believes these results are significant and will enable it to pursue more effectively R&W providers for U.S. RMBS transactions it has insured.

In addition, the Company has been focused on the quality of servicing of the mortgage loans underlying its insured RMBS transactions. Servicing influences collateral performance and ultimately the amount (if any) of the Company's insured losses. The Company has established a group to mitigate RMBS losses by influencing mortgage servicing, including, if possible, causing the transfer of servicing or establishing special servicing arrangements. "Special servicing" is an industry term referencing more intense servicing applied to delinquent loans aimed at mitigating losses; special servicing arrangements provide incentives to a servicer to achieve better performance on the mortgage loans it services. As of December 31, 2013, the Company's net insured par of the transactions subject to a servicing transfer was \$2.3 billion and the net insured par of the transactions subject to a special servicing arrangement was \$843 million.

In the public finance and infrastructure finance arena, the Company has been able to negotiate consensual restructurings with various obligors. During 2013, the Company reached agreements with respect to its exposures to Mashantucket Pequot Tribe; Jefferson County, Alabama; Stockton, California and Harrisburg, Pennsylvania. The agreement with respect to Stockton, California is still subject to Bankruptcy Court approval. In connection with the Jefferson County and Harrisburg settlements, the Company insured new revenue bonds for both municipalities, and the premium it was paid was included as part of the 2013 PVP below. See "Selected U.S. Public Finance Transactions" in Note 6, Expected Loss to be Paid, of the Financial Statements and Supplementary Data, for a discussion of the respective arrangements reached.

The Company is also continuing to purchase attractively priced BIG obligations that it has insured. These purchases resulted in a reduction of net expected loss to be paid of \$573 million as of December 31, 2013. As of December 31, 2013, the fair value of assets purchased for loss mitigation purposes (excluding the value of the Company's insurance)

was \$537 million, with a par of \$1,652 million (including bonds related to FG VIEs of \$98 million in fair value and \$695 million in par).

New Business Development

In July 2013, the Company completed a series of transactions that enabled it to begin offering financial guaranty insurance through MAC, an insurer that will only underwrite U.S. public finance risk, focusing on investment grade obligations in select sectors of the municipal market. The Company increased the capitalization of MAC, which it had acquired in May 2012, and ceded to it a portfolio of geographically diversified U.S. public finance exposure from AGM and AGC. The Company believes MAC enhances its overall competitive position because it was able to begin operations with capital consisting of \$400 million in surplus, \$300 million in surplus notes issued to its parent Municipal Assurance Holdings Inc. ("MAC Holdings") and \$100 million in surplus notes issued to AGM, and with a seasoned book of U.S. public finance business totaling \$111 billion in assumed par; it has a future stream of investment income and premiums earnings; and it has no structured finance exposure. MAC has obtained financial strength ratings of AA+ (stable outlook) from Kroll and AA- (stable

Table of Contents

outlook) from S&P. It has also obtained licenses to provide financial guaranty insurance and reinsurance in 47 U.S. jurisdictions, including the District of Columbia. MAC issued its first financial guaranty insurance policy in August 2013. Additional information about the transactions the Company effected to establish MAC is set out in Note 12, Insurance Company Regulatory Requirements, of the Financial Statements and Supplementary Data.

In 2013, the Company continued to focus on new business production. During the year, it issued financial guaranty insurance policies and financial guarantees in all of its markets: U.S. public finance, structured finance, and international infrastructure. The average internal rating of the gross par written by the Company in 2013 was A-.

New Business Production

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
PVP(1):			
Public Finance—U.S.			
Assumed from Radian Asset Assurance Inc.	\$—	\$22	\$—
Direct	116	144	173
Public Finance—non-U.S.	18	1	3
Structured Finance—U.S.	7	43	60
Structured Finance—non-U.S.	—	—	7
Total PVP	\$141	\$210	243
Gross Par Written:			
Public Finance—U.S.			
Assumed from Radian Asset Assurance Inc.	\$—	\$1,797	\$—
Direct	8,671	14,364	15,092
Public Finance—non-U.S.	392	35	127
Structured Finance—U.S.	287	620	1,673
Structured Finance—non-U.S.	—	—	—
Total gross par written	\$9,350	\$16,816	16,892

PVP represents the present value of estimated future earnings primarily on new financial guaranty contracts written (1) in the period, before consideration of cessions to reinsurers. See “--Non-GAAP Financial Measures--PVP or Present Value of New Business Production” for a definition of this non-GAAP financial measure.

In the Company’s U.S. public finance business, PVP and gross par written have declined over the past three years due to the low interest rate environment in the U.S., which results in lower demand for financial guaranty insurance from issuers; the low volume of new issuance in the U.S. public finance market, which results in fewer insurable bonds; increased competition from a new financial guaranty insurer; and uncertainty over the financial strength ratings of AGM and AGC. However, the Company believes there will be continued demand for its insurance in this market because for those exposures that the Company guarantees, it undertakes the tasks of credit selection, analysis, negotiation of terms, surveillance and, if necessary, loss mitigation. The Company believes that its insurance encourages retail investors, who typically have fewer resources than the Company for analyzing municipal bonds, to purchase such bonds; enables institutional investors to operate more efficiently; and allows smaller, less well-known issuers to gain market access on a more cost-effective basis.

The following tables present summarized information about the U.S. municipal market's new debt issuance volume and the Company's share of that market over the past three years.

Table of ContentsU.S. Municipal Market Data
Based on Sale Date

	Year Ended December 31, 2013		2012		2011	
	Par	Number of issues	Par	Number of issues	Par	Number of issues
	(dollars in billions, except number of issues)					
New municipal bonds issued	\$311.9	10,558	\$366.7	12,544	\$285.2	10,176
Total insured	12.1	1,025	13.2	1,159	15.2	1,228
Insured by AGC, AGM and MAC	7.5	488	13.2	1,157	15.2	1,228

Industry Penetration Rates
U.S. Municipal Market

	Year Ended December 31,		
	2013	2012	2011
Market penetration par	3.9%	3.6%	5.3%
Market penetration based on number of issues	9.7	9.2	12.1
% of single A par sold	11.0	11.9	15.8
% of single A transactions sold	30.6	29.5	37.8
% of under \$25 million par sold	10.9	11.7	14.7
% of under \$25 million transactions sold	10.7	10.3	13.2

U.S. public finance PVP, which increased in 2013, included written business related to the Jefferson County, Alabama and Harrisburg, Pennsylvania debt restructurings. Structured finance PVP decreased in 2013; in that market, AGC guaranteed transactions related to equipment leases and state insurance premium tax credits. International infrastructure PVP increased to \$18 million due to the guarantee of three U.K. infrastructure transactions, the first wrapped U.K. infrastructure bonds since 2008.

The Company has entered into several commutation agreements over the past three years to reassume previously ceded books of business resulting in an increase to net unearned premiums of \$100 million and an increase in net par of \$18.5 billion.

Capital Management

The Company reviewed strategies for improving the efficiency of its management of capital within the Assured Guaranty group and decided that AGL would become tax resident in the United Kingdom, while remaining a Bermuda-based company and continuing to carry on its administrative and head office functions in Bermuda. As a U.K. tax resident company, AGL will be subject to the tax rules applicable to companies resident in the U.K. For more information about AGL becoming a U.K. tax resident, see the "Tax Matters" section of "Item 1. Business."

The Company has utilized its capital to repurchase its common shares. As of December 31, 2013, the Company's share repurchase authorization was \$400 million. In 2013, the Company had repurchased a total of 12.5 million common shares for approximately \$264 million at an average price of \$21.12 per share. The Company expects future share repurchases, if any, to be made from time to time in the open market or in privately negotiated transactions. The timing, form and amount of the share repurchases under the program are at the discretion of management and will depend on a variety of factors, including availability of funds at the holding companies, market conditions, the

Company's capital position, legal requirements and other factors. The repurchase program may be modified, extended or terminated by the Board of Directors at any time. It does not have an expiration date. See Note 19, Shareholders' Equity, of the Financial Statements and Supplementary Data, for additional information about the Company's repurchases of its common shares.

In order to reduce leverage, and possibly rating agency capital charges, the Company has mutually agreed with beneficiaries to terminate selected financial guaranty insurance and credit derivative contracts. In particular, the Company has targeted investment grade securities for which claims are not expected but which carry a disproportionately large rating agency

Table of Contents

capital charge. The Company terminated \$7.1 billion in net par in 2013, \$4.1 billion in net par in 2012 and \$12.8 billion in net par in 2011.

Results of Operations

Estimates and Assumptions

The Company's consolidated financial statements include amounts that are determined using estimates and assumptions. The actual amounts realized could ultimately be materially different from the amounts currently provided for in the Company's consolidated financial statements. Management believes the most significant items requiring inherently subjective and complex estimates are expected losses, including assumptions for breaches of R&W, fair value estimates, other-than-temporary impairment, deferred income taxes, and premium revenue recognition. The following discussion of the results of operations includes information regarding the estimates and assumptions used for these items and should be read in conjunction with the notes to the Company's consolidated financial statements.

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

The Company carries a portion of its assets and liabilities at fair value, the majority of which are measured at fair value on a recurring basis. Level 3 assets, consisting primarily of financial guaranty variable interest entities' assets, credit derivative assets and investments, represented approximately 25% of total assets measured at fair value on a recurring basis as of December 31, 2013 and 2012. All of the Company's liabilities measured at fair value on a recurring basis as of December 31, 2013 and 2012 are Level 3. See Note 8, Fair Value Measurement, of the Financial Statements and Supplementary Data for additional information about assets and liabilities classified as Level 3.

Table of Contents

Consolidated Results of Operations

Consolidated Results of Operations

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Revenues:			
Net earned premiums	\$752	\$853	\$920
Net investment income	393	404	396
Net realized investment gains (losses)	52	1	(18)
Net change in fair value of credit derivatives:			
Realized gains (losses) and other settlements	(42)	(108)	6)
Net unrealized gains (losses)	107	(477)	554)
Net change in fair value of credit derivatives	65	(585)	560)
Fair value gains (losses) on committed capital securities ("CCS")	10	(18)	35)
Fair value gains (losses) on FG VIEs	346	191	(146)
Other income (loss)	(10)	108)	58
Total revenues	1,608	954	1,805
Expenses:			
Loss and LAE	154	504	448
Amortization of deferred acquisition costs	12	14	17
Interest expense	82	92	99
Other operating expenses	218	212	212
Total expenses	466	822	776
Income (loss) before provision for income taxes	1,142	132	1,029
Provision (benefit) for income taxes	334	22	256
Net income (loss)	\$808	\$110	\$773

Table of Contents

Net Earned Premiums

Net earned premiums are recognized over the contractual lives, or in the case of homogeneous pools of insured obligations, the remaining expected lives, of financial guaranty insurance contracts. The Company estimates remaining expected lives of its insured obligations and makes prospective adjustments for such changes in expected lives.

Net Earned Premiums

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Financial guaranty:			
Public finance			
Scheduled net earned premiums and accretion	\$292	\$339	\$360
Accelerations(1)	207	250	125
Total public finance	499	589	485
Structured finance			
Scheduled net earned premiums and accretion	195	263	433
Accelerations(1)	56	—	—
Total structured finance(2)	251	263	433
Other	2	1	2
Total net earned premiums	\$752	\$853	\$920

(1) Reflects the unscheduled refunding of an insured obligation or the termination of the insurance on an insured obligation.

(2) Excludes \$60 million, \$153 million and \$75 million for 2013, 2012 and 2011, respectively, related to consolidated FG VIEs.

2013 compared with 2012: Net earned premiums decreased compared with 2012 due primarily to the scheduled amortization of the insured portfolio offset in part by higher premium accelerations due to refundings and terminations. At December 31, 2013, \$4.2 billion of net deferred premium revenue remained to be earned over the life of the insurance contracts. Scheduled net earned premiums are expected to decrease each year unless replaced by a higher amount of new business or reassumptions of previously ceded business. See Note 4, Financial Guaranty Insurance Premiums, of the Financial Statements and Supplementary Data, for the expected timing of future premium earnings.

2012 compared with 2011: Net earned premiums decreased compared with 2011 due primarily to the scheduled amortization of the structured finance insured portfolio, offset in part by an increase in premium accelerations due to refundings and terminations. Refundings were higher due to the low interest rate environment, which encourages refinancings of relatively more expensive debt obligations with lower cost debt obligations. At December 31, 2012, \$4.8 billion of net deferred premium revenue remained to be earned over the life of the insurance contracts. Before considering the elimination of premiums related to consolidated FG VIEs, net earned premiums increased primarily due to the acceleration of \$82 million in net earned premiums on two transactions that are accounted for as FG VIEs, for which the Company's financial guaranty insurance obligation was terminated.

Net Investment Income

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

Table of Contents

Net Investment Income (1)

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Income from fixed-maturity securities managed by third parties	\$322	\$346	\$359
Income from internally managed securities:			
Fixed maturities	74	60	39
Other invested assets	5	6	6
Other	0	1	1
Gross investment income	401	413	405
Investment expenses	(8	) (9	) (9
Net investment income	\$393	\$404	\$396

(1) Net investment income excludes \$13 million for 2013 and 2012 and \$8 million for 2011 related to consolidated FG VIEs.

2013 compared with 2012: Net investment income decreased primarily due to lower reinvestment rates, partially offset by higher income earned on loss mitigation bonds, which the Company generally purchased at a discount resulting in higher yields. The overall pre-tax book yield was 3.79% at December 31, 2013 and 3.85% at December 31, 2012, respectively.

2012 compared with 2011: Net investment income increased primarily due to higher income earned on loss mitigation bonds, which the Company generally purchased at a discount and which carry high investment yields. Income earned on the externally managed portfolio declined due to a lower fixed maturity balance and lower reinvestment rates. The overall pre-tax book yield was 3.85% at December 31, 2012 and 4.00% at December 31, 2011, respectively.

Net Realized Investment Gains (Losses)

The table below presents the components of net realized investment gains (losses). See Note 11, Investments and Cash, of the Financial Statements and Supplementary Data.

Net Realized Investment Gains (Losses)

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Gross realized gains on investment portfolio	\$113	\$43	\$37
Gross realized losses on investment portfolio	(19	) (25	) (10
Other-than-temporary impairment (1)	(42	) (17	) (45
Net realized investment gains (losses)	\$52	\$1	\$(18

(1) Net realized investment gains (losses) reported in accordance with GAAP exclude other-than-temporary impairment related to consolidated FG VIEs of \$2 million for 2013, \$4 million for 2012 and \$12 million for 2011.

The increase in gross realized gains on investment portfolio in 2013 when compared to 2012 was due to sales of assets acquired as part of negotiated settlements, bonds purchased for loss mitigation purposes and other invested assets. Other-than-temporary impairment for all three years was primarily attributable to securities that were acquired for loss mitigation purposes.

Other Income

Other income is comprised of recurring items such as foreign exchange remeasurement gains and losses, ancillary fees on financial guaranty policies such as commitment, consent and processing fees, and other revenue items on financial guaranty insurance and reinsurance contracts such as commutation gains on re-assumptions of previously ceded business.

81

Table of Contents

Other Income (Loss)

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Foreign exchange gain (loss) on remeasurement of premium receivable and loss reserves	\$(1)	\$22	\$(5)
Commutation gains (losses)	2	82	32
Other	(11)	4	31
Total other income (loss)	\$(10)	\$108	\$58

Over the past several years, the Company has entered into several commutations in order to reassume previously ceded books of business from its reinsurers, as discussed in Note 14, Reinsurance and Other Monoline Exposures, of the Financial Statements and Supplementary Data.

Other income includes the R&W settlement benefit for transactions where the Company had recovered more than its expected lifetime losses due to a negotiated agreement with an R&W provider. Such excess may not be recorded as an offset to loss and LAE under GAAP.

Other Operating Expenses and Amortization of Deferred Acquisition Costs

2013 compared with 2012: Other operating expenses increased primarily due to higher employee compensation and benefits. In 2012, the employee compensation and benefits were impacted by the reduction of the bonus and Performance Retention Plan ("PRP") accruals.

2012 compared with 2011: Other operating expenses in 2012 were relatively consistent with 2011. Deferral rates were 6.4% in 2012 compared to 7.3% in 2011.

Losses in the Insured Portfolio

The insured portfolio includes policies accounted for under three separate accounting models depending on the characteristics of the contract and the Company's control rights. Please refer to Note 6, Expected Loss to be Paid, of the Financial Statements and Supplementary Data, for a discussion of the accounting policies, assumptions and methodologies used in calculating the expected loss to be paid for all contracts. For a discussion of the measurement and recognition accounting policies under GAAP for each type of contract, see the following in Item 8, Financial Statements and Supplementary Data:

- Notes 4, 5 and 7 for financial guaranty insurance,
- Note 9 for credit derivatives,
- Note 10 for consolidated FG VIE, and
- Note 8 for fair value methodologies for credit derivatives and FG VIE assets and liabilities.

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

The surveillance process for identifying transactions with expected losses is described in the notes to the consolidated financial statements. In the third quarter of 2013, the Company refined the definitions of its BIG surveillance categories to be consistent with its new approach to assigning internal credit ratings. See "Refinement of Approach to Internal Credit Ratings and Surveillance Categories" in Note 3, Outstanding Exposure, of the Financial Statements and Supplementary Data. More extensive monitoring and intervention is employed for all BIG surveillance categories, with internal credit ratings reviewed quarterly. 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.

Table of Contents

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.

BIG Net Par Outstanding
and Number of Risks

Description	Net Par Outstanding as of December 31, 2013 2012 (dollars in millions)		Number of Risks (1) as of December 31, 2013 2012	
	BIG:			
Category 1	\$14,751	\$10,820	210	196
Category 2	3,949	4,617	101	103
Category 3	3,838	6,860	146	160
Total BIG	\$22,538	\$22,297	457	459

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

The increase in BIG net par outstanding was due primarily to the downgrade of most of the Company's insured Puerto Rico credits from investment grade to the BIG 1 category, offset in part by the run off of BIG U.S. RMBS exposures.

Net Expected Loss

Net expected loss to be paid consists primarily of the present value of future: expected claim payments, expected recoveries of excess spread in the transaction structures, cessions to reinsurers, and expected recoveries for breaches of R&W and the effects of other loss mitigation strategies. Current risk free rates are used to discount expected losses at the end of each reporting period and therefore changes in such rates from period to period affect the expected loss estimates reported. The effect of changes in discount rates are included in net economic loss development, however, economic loss development attributable to changes in discount rates is not indicative of credit impairment or improvement. Assumptions used in the determination of the net expected loss to be paid such as delinquency, severity, and discount rates and expected timeframes to recovery in the mortgage market were consistent by sector regardless of the accounting model used. The primary drivers of changes in expected loss to be paid are discussed below.

The primary difference between net economic loss development and loss expense included in operating income relates to the consideration of deferred premium revenue in the calculation of loss reserves and loss expense. For financial guaranty insurance contracts, a loss is generally recorded only when expected losses exceed deferred premium revenue. Therefore, the timing of loss recognition does not necessarily coincide with the timing of the actual credit impairment or improvement reported in net economic loss development. AGM's U.S. RMBS transactions generally have the largest deferred premium revenue balances because of the purchase accounting adjustments that were made in 2009 in connection with Assured Guaranty's purchase of AGM, and therefore the largest differences between net economic loss development and loss expense relate to AGM policies. See "-Losses Incurred" below.

Table of Contents

Economic Loss Development (1)

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
U.S. RMBS before benefit for recoveries for breaches of R&W	\$140	\$367	\$1,039
Net benefit for recoveries for breaches of R&W	(296	) (179	) (1,038
U.S. RMBS after benefit for recoveries for breaches of R&W	(156	) 188	1
Other structured finance	(34	) (28	) 80
Public finance	256	295	43
Other	(10	) (17) —
Total	\$56	\$438	\$124

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

Claims (Paid) Recovered (1)

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
U.S. RMBS before benefit for recoveries for breaches of R&W	\$(587	) \$(996	) \$(1,051
Net benefit for recoveries for breaches of R&W	954	459	1,059
U.S. RMBS after benefit for recoveries for breaches of R&W	367	(537	) 8
Other structured finance	(134	) (39	) (26
Public finance (2)	6	(303	) (65
Other	10	12	—
Total	\$249	\$(867	) \$(83

(1) Includes cash paid and recovered, as well as non-cash settlement of claims such as those negotiated in restructurings where the Company receives securities instead of cash.

(2) The largest component of claims paid in 2012 was related to exposure to Greek sovereign debt which has been fully settled.

Net Expected Loss to be Paid

	As of	As of
	December 31,	December 31,
	2013	2012
	(in millions)	
U.S. RMBS before benefit for recoveries for breaches of R&W	\$1,205	\$1,652
Net benefit for recoveries for breaches of R&W	(712	) (1,370
U.S. RMBS after benefit for recoveries for breaches of R&W	493	282
Other structured finance	171	339
Public finance	321	59
Other	(3	) (3
Total	\$982	\$677

2013 Net Economic Loss Development

Total economic loss development was \$56 million in 2013, primarily due to U.S. public finance losses related to Detroit, Puerto Rico and Harrisburg, partially offset by favorable development in U.S. RMBS due to the various settlements

84

Table of Contents

during the year. Excluding the settlements, U.S. RMBS loss development was primarily due to the change in assumptions for first liens. The risk-free rates used to discount expected losses ranged from 0.0% to 4.44% as of December 31, 2013 compared with 0.0% to 3.28% as of December 31, 2012.

U.S. Public Finance Economic Loss Development: The Company insures general obligation bonds of the Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations aggregating \$5.4 billion net par. The Company rates \$5.2 billion net par of that amount BIG. Although recent announcements and actions by the current Governor and his administration indicate officials of the Commonwealth are focused on measures that are intended to help Puerto Rico operate within its financial resources and maintain its access to the capital markets, Puerto Rico faces significant challenges, including high debt levels, a declining population and an economy that has been in recession since 2006. Puerto Rico has been operating with a structural budget deficit in recent years, and its two largest pension funds are significantly underfunded. In February 2014, S&P, Moody's and Fitch Ratings downgraded much of the debt of Puerto Rico and its related authorities and public corporations to below investment grade, citing various factors including limited liquidity and market access risk. The Commonwealth has not defaulted on any of its debt. Neither Puerto Rico nor its related authorities and public corporations are eligible debtors under Chapter 9 of the U.S. Bankruptcy Code. 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 "Insured Portfolio—Exposure to Puerto Rico" below.

Many U.S. municipalities and related entities continue to be under increased pressure, and a few have filed for protection under the U.S. Bankruptcy Code, entered into state processes designed to help municipalities in fiscal distress or otherwise indicated they may consider not meeting their obligations to make timely payments on their debts. Given some of these developments, and the circumstances surrounding each instance, the ultimate outcome cannot be certain and may lead to an increase in defaults on some of the Company's insured public finance obligations. The Company will continue to analyze developments in each of these matters closely. The municipalities whose obligations the Company has insured that have filed for protection under Chapter 9 of the U.S. Bankruptcy Code are: Detroit, Michigan; Jefferson County, Alabama; and Stockton, California. The City Council of Harrisburg, Pennsylvania had also filed a purported bankruptcy petition, which was later dismissed by the bankruptcy court; a receiver for the City of Harrisburg was appointed by the Commonwealth Court of Pennsylvania on December 2, 2011. In 2013, the Company reached agreements with Jefferson County, Harrisburg and Stockton. See "Selected U.S. Public Finance Transactions" in Note 6, Expected Loss to be Paid, of the Financial Statements and Supplementary Data, for a discussion of respective arrangements reached.

The net par outstanding for these and all other BIG rated U.S. public finance obligations was \$9.1 billion as of December 31, 2013 and \$4.6 billion as of December 31, 2012. The Company projects that its total future expected net loss across its troubled U.S. public finance credits as of December 31, 2013 will be \$264 million, up from \$7 million as of December 31, 2012.

U.S. RMBS Economic Loss Development: 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 or 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.

The Company's RMBS loss projection methodology assumes that the housing and mortgage markets will continue improving. Each quarter 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 quarter of the performance of its insured transactions (including early stage delinquencies, late stage delinquencies and, for first liens, 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 to whether those changes are normal fluctuations or part of a trend. Based on such observations the Company chose to use the same general approach (with the refinements described below) to project RMBS losses as of December 31, 2013 as it used as of December 31, 2012. The Company's use of the same general methodology to project RMBS losses as of December 31, 2013 as it used as of December 31, 2012 was consistent with its view at December 31, 2013 that the housing and mortgage market recovery was occurring at a slower pace than it anticipated at December 31, 2012.

The Company refined its first lien RMBS loss projection methodology as of December 31, 2013 to model explicitly the behavior of borrowers with loans that had been modified. The Company has observed that mortgage loan servicers were modifying more mortgage loans (reducing or forbearing from collecting interest or principal or both due on mortgage loans) to reduce the borrowers' monthly payments and so improve their payment performance than was the case before the mortgage crisis. Borrowers who are current based on their new, reduced monthly payments are generally reported as current, but are more

Table of Contents

likely to default than borrowers who are current and whose loans have not been modified. The Company believes modified loans are most likely to default again during the first year after modification. The Company set its liquidation rate assumptions as of December 31, 2012 based on observed roll rates and with modification activity in mind. As of December 31, 2013 the Company made a number of refinements to its first lien RMBS loss projection assumptions to treat loan modifications explicitly. Specifically, in the base case approach, it:

- established a liquidation rate assumption for loans reported as current but that had been reported as modified in the previous 12 months,

- assumed that currently delinquent loans that did not roll to liquidation would behave like modified loans, and so applied the modified loan liquidation rate to them,

- increased from two to three years the period over which it calculates the initial conditional default rate ("CDR") based on assumed liquidations of non-performing loans and modified loans, to account for the longer period modified loans will take to default,

- increased the period it assumes the transactions will experience the initial loss severity assumption before it improves and the period during which the transaction will experience low voluntary prepayment rates,

- established an assumption for servicers not to advance loan payments on all delinquent loans

The methodology and revised assumptions the Company uses to project first lien RMBS losses and the scenarios it employs are described in more detail Note 6, Expected Loss to be Paid, of the Financial Statements and Supplementary Data. The refinement in assumptions described above resulted in a reduction of the initial CDRs but the application of the initial CDRs for a longer period, which generally resulted in a higher amount of loans being liquidated at the initial CDR under the refined assumptions than under the initial CDR under the previous assumptions. The Company estimated the impact of all of the refinements to its assumptions described above to be an increase of expected losses of approximately \$8 million (before adjustments for settlements or loss mitigation purchases) by running on the first lien RMBS portfolio as of December 31, 2013 base case assumptions similar to what it used as of December 31, 2012 and comparing those results to the results from the refined assumptions.

During 2013 the Company observed improvements in the performance of its second lien RMBS transactions that, when viewed in the context of their performance prior to 2013, suggested those transactions were beginning to respond to the improvements in the residential property market and economy being widely reported by market observers. Based on such observations, in projecting losses for second lien RMBS the Company chose to decrease by two months in its base scenario and by three months in its optimistic scenario the period it assumed it would take the mortgage market to recover as compared to December 31, 2012. Also during 2013 the Company observed material improvements in the delinquency measures of certain second lien RMBS for which the servicing had been transferred, and made certain adjustments on just those transactions to reflect its view that much of this improvement was due to loan modifications and reinstatements made by the new servicer and that such recently modified and reinstated loans may have a higher likelihood of defaulting again. The methodology and assumptions the Company uses to project second lien RMBS losses and the scenarios it employs are described in more detail in Note 6, Expected Loss to be Paid, of the Financial Statements and Supplementary Data.

The Company observed some improvement in delinquency trends in most of its RMBS transactions during 2013, with some of that improvement in second liens driven by servicing transfers it effectuated. Such improvement is naturally transmitted to its projections for each individual RMBS transaction, since the projections are based on the delinquency performance of the loans in that individual transaction.

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. Soon after the Company observed the deterioration in the performance of its insured RMBS following the deterioration of the residential mortgage and property markets, the Company began using internal resources as well as third party forensic underwriting firms and legal firms to pursue breaches of R&W on a loan-by-loan basis. Where a provider of R&W refused to honor its repurchase obligations, the Company sometimes chose to initiate litigation. See "Recovery Litigation—RMBS Transactions," section of Note 6, Expected Loss to be Paid, of the Financial Statements and Supplementary Data. 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. Such agreements provide

Table of Contents

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.

Using these strategies, through December 31, 2013 the Company has caused entities providing R&Ws to pay or agree to pay approximately \$3.6 billion (gross of reinsurance) in respect of their R&W liabilities for transactions in which the Company has provided insurance.

	(in millions)
Agreement amounts already received	\$2,608
Agreement amounts projected to be received in the future	425
Repurchase amounts paid into the relevant RMBS prior to settlement (1)	578
Total R&W payments, gross of reinsurance	\$3,611

(1) These amounts were paid into the relevant RMBS transactions (rather than to the Company as in most settlements) and distributed in accordance with the priority of payments set out in the relevant transaction documents. Because the Company may insure only a portion of the capital structure of a transaction, such payments will not necessarily directly benefit the Company dollar-for-dollar, especially in first lien transactions.

Based on this success, the Company has included in its net expected loss estimates as of December 31, 2013 an estimated net benefit related to breaches of R&W of \$712 million, which includes \$413 million from agreements with R&W providers and \$299 million in transactions where the Company does not yet have such an agreement, all net of reinsurance.

Developments in the Company's R&W recovery efforts are included in economic loss development. The following table provides a breakdown of the development and accretion amount in the roll forward of estimated recoveries associated with alleged breaches of R&W.

Components of R&W Development

	Year Ended December 31, 2013 (in millions)
Inclusion (removal) of deals with breaches of R&W during period	\$6
Change in recovery assumptions as the result of additional file review and recovery success	(6)
Estimated increase (decrease) in defaults that will result in additional (lower) breaches	(8)
Results of settlements	289
Accretion of discount on balance	15
Total	\$296

Infrastructure: 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. For more information about this risk, see the Risk Factor captioned "Estimates of expected losses are subject to uncertainties and may not be adequate to cover potential paid claims" under Risks Related to the Company's Expected Losses in "Item 1A. Risk Factors."

2012 Net Economic Loss Development

Total economic loss development in 2012 was \$438 million, which was primarily driven by losses on its troubled European exposures, particularly a \$189 million loss in relation to the Company's Greek sovereign bond exposures and loss development on Spanish sub-sovereign exposures, higher U.S. RMBS and U.S. public finance losses, offset in part by positive developments in the TruPS portfolio. Changes in discount rates did not have a significant effect on economic loss development in 2012 as the risk-free rates used to discount expected losses ranged from 0.0% to 3.28% as of December 31, 2012 compared with 0.0% to 3.27% as of December 31, 2011.

Table of Contents

Based on the Company's observation during 2012 of the performance of its insured transactions (including early stage delinquencies, late stage delinquencies and, for first liens, loss severity) as well as the residential property market and economy in general, the Company chose to use essentially the same assumptions and scenarios to project RMBS loss as of December 31, 2012 as it used as of December 31, 2011, except that as compared to December 31, 2011:

• in its most optimistic scenario, it reduced by three months the period it assumed it would take the mortgage market to recover; and

• in its most pessimistic scenario, it increased by three months the period it assumed it would take the mortgage market to recover.

The Company's use of essentially the same assumptions and scenarios to project RMBS losses as of December 31, 2012 and December 31, 2011 was consistent with its view at December 31, 2012 that the housing and mortgage market recovery was occurring at a slower pace than it anticipated at December 31, 2011. The Company's changes during 2012 to the period it would take the mortgage market to recover in its most optimistic scenario and its most pessimistic scenario allowed it to consider a wider range of possibilities for the speed of the recovery. Since the Company's projections for each RMBS transaction are based on the delinquency performance of the loans in that individual RMBS transaction, improvement or deterioration in that aspect of a transaction's performance impacts the projections for that transaction. The methodology the Company used to project RMBS losses and the scenarios it employs are described in more detail in Note 6, Expected Loss to be Paid, of the Financial Statements and Supplementary Data.

Developments in the Company's R&W recovery efforts are also included in economic loss development. The following table provides a breakdown of the development and accretion amount in the roll forward of estimated recoveries associated with alleged breaches of R&W.

Components of R&W Development

	Year Ended December 31, 2012 (in millions)	
Inclusion (removal) of deals with breaches of R&W during period	\$(3)
Change in recovery assumptions as the result of additional file review and recovery success	(10)
Estimated increase (decrease) in defaults that will result in additional (lower) breaches	63	
Results of settlements and judgments	120	
Accretion of discount on balance	9	
Total	\$179	

The net par outstanding for BIG rated U.S. public finance obligations, including Jefferson County, Alabama and Stockton, California, was \$4.6 billion as of December 31, 2012 and \$4.5 billion as of December 31, 2011. The Company projected that its total future expected net loss across its troubled U.S. public finance credits (after projected recoveries of claims already paid) was \$7 million as of December 31, 2012, down from \$16 million as of December 31, 2011.

2011 Net Economic Loss Development

Net economic loss development in 2011 was \$124 million, which was driven primarily by non-U.S. RMBS structured finance and non U.S public finance obligations. In the non U.S. RMBS structured finance portfolio, economic loss

development was primarily driven by the decline in risk free rates used to discount expected losses. Loss development in life insurance and film securitizations also contributed to the net loss development, offset in part by positive development in the TruPS portfolio. Economic loss development in the non- U.S. public finance portfolio was comprised mainly of the probability weighted loss estimate on exposures to Greek sovereign debt based on information available at that time. In the U.S. RMBS portfolio, loss development was offset by positive developments in actual and expected recoveries for breaches of R&W. Changes in discount rates had a significant effect on the economic loss development in 2011 as the rates ranged from 0.0% to 3.27% as of December 31, 2011 compared with 0.0% to 5.34% as of December 31, 2010.

During each quarter of 2011 also the Company made a judgment as to whether to change the assumptions it used to make RMBS loss projections based on its observation during the quarter of the performance of its insured transactions (including early stage delinquencies, late stage delinquencies and, for first liens, loss severity) as well as the residential property

Table of Contents

market and economy in general, and, to the extent it observed changes, it made a judgment as whether those changes were normal fluctuations or part of a trend. Based on such observations, the Company chose to use essentially the same assumptions and scenarios to project RMBS loss as of December 31, 2011 as it used as of December 31, 2010, except that as compared to December 31, 2010:

- based on its observation of the slow mortgage market recovery, the Company increased its base case expected period for reaching the final conditional default rate in second lien transactions and adjusted the probability weightings it applied to second lien scenarios from year-end 2010 to reflect the changes to those scenarios;

also based on its observation of the slow mortgage market recovery the Company added a more stressful first lien scenario at year-end 2011 reflecting an even slower potential recovery in the housing and mortgage markets, making what had prior to that been a stress scenario its base scenario;

- based on its observation of increased loss severity rates, the Company increased its projected loss severity rates in various of its first lien scenarios; and

based on its observation of liquidation rates, the Company decreased the liquidation rates it applied to non-performing loans.

The Company's use of essentially the same methodology and scenarios to project RMBS losses as of December 31, 2011 and as at December 31, 2010 was consistent with its view at December 31, 2011 that the housing and mortgage market recovery was occurring at a slower pace than it anticipated at December 31, 2010. Since the Company's projections for each RMBS transaction are based on the delinquency performance of the loans in that individual RMBS transaction, improvement or deterioration in that aspect of a transaction's performance impacts the projections for that transaction.

Developments in the Company's R&W recovery efforts are also included in economic loss development. The following table provides a breakdown of the development and accretion amount in the roll forward of estimated recoveries associated with alleged breaches of R&W.

Components of R&W Development

	Year Ended December 31, 2011 (in millions)
Inclusion (removal) of deals with breaches of R&W during period	\$115
Change in recovery assumptions as the result of additional file review and recovery success	218
Estimated increase (decrease) in defaults that will result in additional (lower) breaches	17
Results of settlements	668
Accretion of discount on balance	20
Total	\$1,038

Losses Incurred

For transactions accounted for as financial guaranty insurance under GAAP, each transaction's expected loss to be expensed, net of estimated R&W recoveries, is compared with the deferred premium revenue of that transaction. Generally, when the expected loss to be expensed exceeds the deferred premium revenue, a loss is recognized in the income statement for the amount of such excess.

When the Company measures operating income, a non-GAAP financial measure, it calculates the credit derivative and FG VIE losses incurred in a similar manner. Changes in fair value in excess of expected loss that are not indicative of economic deterioration or improvement are not included in operating income.

Expected loss to be paid, as discussed above under "Losses in the Insured Portfolio", is an important liquidity measure in that it provides the present value of amounts that the Company expects to pay or recover in future periods. Expected loss to be expensed is important because it presents the Company's projection of incurred losses that will be recognized in future periods as deferred premium revenue amortizes into income on financial guaranty insurance policies. Expected loss to be paid

Table of Contents

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

The following tables present the loss and LAE recorded in the consolidated statements of operations by sector for non-derivative contracts and the loss expense recorded under non-GAAP operating income respectively. Amounts presented are net of reinsurance.

Loss and LAE Reported
on the Consolidated Statements of Operations

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
U.S. RMBS	\$ (4)	\$ 308	\$ 389
Other structured finance	(35)	(7)	118)
Public finance	214	285	48
Other	—	(17)	—
Total insurance contracts before FG VIE consolidation	175	569	555
Effect of consolidating FG VIEs	(21)	(65)	(107)
Total loss and LAE	\$ 154	\$ 504	\$ 448

Loss Expense Non-GAAP Operating

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
U.S. RMBS	\$ 8	\$ 369	\$ 365
Other structured finance	(36)	(40)	99)
Public finance	212	284	29
Other	(10)	(17)	—
Total	\$ 174	\$ 596	\$ 493

Reconciliation of Loss and LAE to Non-GAAP Loss Expense

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Loss and LAE	\$ 154	\$ 504	\$ 448
Credit derivative loss expense	(1)	28	(62)
FG VIE loss expense	21	64	107
Loss expense included in operating income	\$ 174	\$ 596	\$ 493

In 2013, losses incurred were due primarily to U.S. public finance, including Detroit, Puerto Rico and Harrisburg partially offset by positive developments in structured finance, primarily "XXX" life insurance transactions and U.S. RMBS. The positive developments in U.S. RMBS were primarily due to the settlement of several R&W claims. Changes in risk-free rates used to discount losses also affected loss expense for long-dated transactions, however this component of loss expense does not reflect actual credit impairment or improvement in the period.

Table of Contents

In 2012 and 2011, U.S. RMBS insured transactions generated the majority of the losses, partially offset by R&W recoveries and negotiated loss sharing agreements. The incurred loss in public finance in 2012 was primarily due to the Company's Greek sovereign exposures.

For financial guaranty contracts accounted for as insurance, the amounts reported in the GAAP financial statements may only reflect a portion of the current period's economic development and may also include a portion of prior-period economic development. The difference between economic loss development on financial guaranty insurance contracts and loss and LAE recognized in GAAP income is essentially loss development and accretion for financial guaranty insurance contracts that is, or was previously, absorbed in unearned premium reserve. Such amounts have not yet been recognized in income.

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

Financial Guaranty Insurance
Net Expected Loss to be Expensed
As of December 31, 2013

	In GAAP Reported Income (in millions)	In Non-GAAP Operating Income
2014	\$42	\$53
2015	41	52
2016	33	42
2017	30	39
2018	27	35
2014-2018	173	221
2019-2023	99	120
2024-2028	56	68
2029-2033	36	44
After 2033	27	36
Net expected loss to be expensed (1)	391	489
Discount	406	457
Total future value	\$797	\$946

(1) Net expected loss to be expensed for GAAP reported income is different than non-GAAP operating income by the amount related to consolidated FG VIEs.

Net Change in Fair Value of Credit Derivatives

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

Except for net estimated credit impairments (i.e., net expected payments), the unrealized gains and losses on credit derivatives are expected to reduce to zero as the exposure approaches its maturity date. Changes in the fair value of

the Company's credit derivatives that do not reflect actual or expected claims or credit losses have no impact on the Company's statutory claims paying resources, rating agency capital or regulatory capital positions. Expected losses to be paid in respect of contracts accounted for as credit derivatives are included in the discussion above "—Losses in the Insured Portfolio."

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

Table of Contents

sheet date. Generally, a widening of the CDS prices traded on AGC and AGM has an effect of offsetting unrealized losses that result from widening general market credit spreads, while a narrowing of the CDS prices traded on AGC and AGM has an effect of offsetting unrealized gains that result from narrowing general market credit spreads.

There are typically no quoted prices for the Company's instruments or similar instruments as financial guaranty contracts do not typically trade in active markets. Observable inputs other than quoted market prices exist; however, these inputs reflect contracts that do not contain terms and conditions similar to those in the credit derivatives issued by the Company. Therefore, the valuation of the Company's credit derivative contracts requires the use of models that contain significant, unobservable inputs, and are classified as Level 3 in the fair value hierarchy. See Note 8, Fair Value Measurement, of the Financial Statements and Supplemental Data.

The fair value of the Company's credit derivative contracts represents the difference between the present value of remaining net premiums the Company expects to receive or pay for the credit protection under the contract and the estimated present value of premiums that a financial guarantor of comparable credit-worthiness would hypothetically charge or pay the Company 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, interest rates, the credit ratings of referenced entities, the Company's own credit risk and remaining contractual cash flows.

The models used to determine fair value are primarily developed internally based on market conventions for similar transactions that the Company observed in the past. There has been very limited new issuance activity in this market over the past three years and as of December 31, 2013, market prices for the Company's credit derivative contracts were generally not available. Inputs to the estimate of fair value include various market indices, credit spreads, the Company's own credit spread, and estimated contractual payments.

Management considers the non-standard terms of its credit derivative contracts in determining the fair value of these contracts. These terms differ from more standardized credit derivatives sold by companies outside of 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. Because of these terms and conditions, the fair value of the Company's credit derivatives may not reflect the same prices observed in an actively traded market of CDS that do not contain terms and conditions similar to those observed in the financial guaranty market. The Company considers R&W claim recoveries in determining the fair value of its CDS contracts.

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 to determine the fair value of these credit derivative products, actual experience may differ from the estimates reflected in the Company's consolidated financial statements and the differences may be material.

Net Change in Fair Value of Credit Derivatives

Gain (Loss)

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Net credit derivative premiums received and receivable	\$119	\$127	\$185
Net ceding commissions (paid and payable) received and receivable	2	1	3
Realized gains on credit derivatives	121	128	188
Terminations	0	(1) (23

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Net credit derivative losses (paid and payable) recovered and recoverable	(163)	(235)	(159)
Total realized gains (losses) and other settlements on credit derivatives	(42	)	(108	)	6	
Net change in unrealized gains (losses) on credit derivatives	107		(477	)	554	
Net change in fair value of credit derivatives	\$65		\$(585	)	\$560	

Net credit derivative premiums have declined in 2013 and 2012 due primarily to the decline in the net par outstanding to \$54.5 billion at December 31, 2013 from \$70.8 billion at December 31, 2012 and \$85.0 billion at December 31, 2011.

Table of Contents

The table below sets out the net par amount of credit derivative contracts that the Company and its counterparties agreed to terminate on a consensual basis.

Net Par and Accelerations of Credit Derivative Revenues
from Terminations of CDS Contracts

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Net par of terminated CDS contracts	\$4,054	\$2,264	\$11,543
Accelerations of credit derivative revenues	21	3	25

In 2013, in addition to the agreements to terminate CDS transactions discussed above, in connection with loss mitigation efforts, the Company terminated a CDS transaction that referenced a film securitization after paying the counterparty \$120 million which was recorded in realized gains (losses) and other settlements on credit derivatives, with a corresponding release of the unrealized loss recorded in unrealized gains (losses) on credit derivatives of \$127 million for a net change in fair value of credit derivatives of \$7 million.

Net Change in Unrealized Gains (Losses)
on Credit Derivatives
By Sector

Asset Type	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Pooled corporate obligations	\$(32	) \$59	\$39
U.S. RMBS	(69	) (551	) 381
CMBS	0	2	11
Other (1)	208	13	123
Total	\$107	\$(477	) \$554

(1) "Other" includes all other U.S. and international asset classes, such as commercial receivables, international infrastructure, international RMBS securities, and pooled infrastructure securities.

During 2013, unrealized fair value gains were generated in the "other" sector primarily as a result of the termination of a film securitization transaction and a U.K. infrastructure transaction, as well as price improvement on a XXX life securitization transaction. These unrealized gains were partially offset by unrealized fair value losses in the prime first lien, Alt-A, Option ARM and subprime RMBS sectors 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. These transactions were pricing above their floor levels (or the minimum rate at which the Company would consider assuming these risks based on historical experience); therefore when the cost of purchasing CDS protection on AGC, 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 credit protection also decreased slightly during 2013, but did not lead to significant fair value losses, as the majority of AGM policies continue to price at floor levels.

During 2012, U.S. RMBS unrealized fair value losses were generated primarily in the prime first lien, Alt-A, Option ARM and subprime RMBS sectors primarily as a result of the decreased cost to buy protection in AGC's name as the

market cost of AGC's credit protection decreased. These transactions were pricing above their floor levels therefore when the cost of purchasing CDS protection on AGC decreased, the implied spreads that the Company would expect to receive on these transactions increased. The cost of AGM's credit protection also decreased during 2012, but did not lead to significant fair value losses, as the majority of AGM policies continue to price at floor levels. In addition, 2012 included an \$85 million unrealized gain relating to R&W benefits from the agreement with Deutsche Bank.

Table of Contents

In 2011, U.S. RMBS unrealized fair value gains were generated primarily in the Option ARM, Alt-A, prime first lien and subprime sectors primarily as a result of the increased cost to buy protection in AGC's name as the market cost of AGC's credit protection increased. These transactions were pricing above their floor levels; therefore when the cost of purchasing CDS protection on AGC increased, the implied spreads that the Company would expect to receive on these transactions decreased. The unrealized fair value gain in "other" primarily resulted from tighter implied net spreads on a XXX life securitization transaction and a film securitization, which also resulted from the increased cost to buy protection in AGC's name, referenced above. The cost of AGM's credit protection also increased during the year, but did not lead to significant fair value gains, as the majority of AGM policies continue to price at floor levels.

Increases in AGC's credit spreads generally resulted in unrealized gains due to tighter implied net spreads, and decreases in AGC's credit spreads generally resulted in unrealized losses due to wider implied net spreads. See the tables below for the 5 Year and 1 Year CDS spreads on AGC and AGM.

Five-Year CDS Spread
on AGC and AGM

Quoted price of CDS contract (in basis points)

	As of December 31, 2013	As of December 31, 2012	As of December 31, 2011
AGC	460	678	1,140
AGM	525	536	778

One-Year CDS Spread
on AGC and AGM

Quoted price of CDS contract (in basis points)

	As of December 31, 2013	As of December 31, 2012	As of December 31, 2011
AGC	185	270	965
AGM	220	257	538

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

	Year Ended December 31, 2013 2012 2011 (in millions)		
Change in unrealized gains (losses) of credit derivatives:			
Before considering implication of the Company's credit spreads	\$1,374	\$798	\$(68)
Resulting from change in the Company's credit spreads	(1,267)	(1,275)	) 622
After considering implication of the Company's credit spreads	\$107	\$(477)	) \$554

Management believes that the trading level of AGC's and AGM's credit spreads is due to the correlation between AGC's and AGM's risk profile, the current risk profile of the broader financial markets, and to increased demand for credit protection against AGC and AGM, relative to pre-financial crisis levels, as the result of its financial guaranty volume, as well as the overall lack of liquidity in the CDS market. Offsetting the benefit attributable to AGC's and AGM's credit spread were higher credit spreads in the fixed income security markets relative to pre-financial crisis

levels. The higher credit spreads in the fixed income security market are due to the lack of liquidity in the high-yield CDO, trust preferred securities CDO ("TruPS CDOs"), and collateralized loan obligation ("CLO") markets as well as continuing market concerns over the 2005-2008 vintages of RMBS.

Table of Contents

Interest Expense

For the years ended December 31, 2013 and December 31, 2012, interest expense decreased due to the retirement of the AGUS 8.5% Senior Notes on June 1, 2012 (see Note 17, Long-Term Debt and Credit Facilities, of the Financial Statements and Supplementary Data). The following table presents the components of interest expense.

Interest Expense

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Debt issued by AGUS	\$23	\$31	\$39
Debt issued by AGMH	54	54	54
Notes payable by AGM	5	7	6
Total	\$82	\$92	\$99

Provision for Income Tax

Deferred income tax assets and liabilities are established for the temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities using enacted rates in effect for the year in which the differences are expected to reverse. Such temporary differences relate principally to unrealized gains and losses on investments and credit derivatives, FG VIE fair value adjustments, loss and LAE reserve, unearned premium reserve and tax attributes for net operating losses, alternative minimum tax ("AMT") credits and foreign tax credits. As of December 31, 2013 and December 31, 2012, the Company had a net deferred income tax asset of \$688 million and \$721 million, respectively. As of December 31, 2013, the Company has foreign tax credits carried forward of \$37 million which expire in 2018 through 2021 and AMT credits of \$90 million which do not expire. Foreign tax credits of \$22 million are from its acquisition of AGMH on July 1, 2009 ("AGMH Acquisition"); the Internal Revenue Code limits the amount of credits the Company may utilize each year.

Provision for Income Taxes and Effective Tax Rates

	Year Ended December 31,			
	2013	2012	2011	
	(in millions)			
Total provision (benefit) for income taxes	\$334	\$22	\$256	
Effective tax rate	29.2	% 16.5	% 24.9	%

The Company's effective tax rates reflect the proportion of income recognized by each of the Company's operating subsidiaries, with U.S. subsidiaries taxed at the U.S. marginal corporate income tax rate of 35%, U.K. subsidiaries taxed at the U.K. blended marginal corporate tax rate of 23.25% 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. The Company's overall corporate effective tax rate fluctuates based on the distribution of taxable income across these jurisdictions. 2013 and 2012 had disproportionate losses and income across jurisdictions, offset by tax-exempt interest, and are the primary reasons for the 29.2% and 16.5% effective tax rates, respectively.

Financial Guaranty Variable Interest Entities

As of December 31, 2013 and 2012, the Company consolidated, 40 and 33 VIEs, respectively. The table below presents the effects on reported GAAP income resulting from consolidating these FG VIEs and eliminating their related insurance and investment accounting entries and, in total, represents a difference between GAAP reported net income and non-GAAP operating income attributable to FG VIEs. The consolidation of FG VIEs has a significant effect on net income and shareholders' equity due to (1) changes in fair value gains (losses) on FG VIE assets and liabilities, (2) the eliminations 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

Table of Contents

eliminated. See “—Non-GAAP Financial Measures—Operating Income” below and Note 10, Consolidation of Variable Interest Entities, of the Financial Statements and Supplementary Data for more details.

Effect of Consolidating FG VIEs on Net Income (Loss)

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Net earned premiums	\$(60)	\$(153)	\$(75)
Net investment income	(13)	(13)	(8)
Net realized investment gains (losses)	2	4	12
Fair value gains (losses) on FG VIEs	346	191	(146)
Loss and LAE	21	65	107
Total pretax effect on net income	296	94	(110)
Less: tax provision (benefit)	103	32	(38)
Total effect on net income (loss)	\$193	\$62	\$(72)

Fair value gains (losses) on FG VIEs represent the net change in fair value on the consolidated FG VIEs' assets and liabilities. In 2013, the Company recorded a pre-tax net fair value gain of consolidated FG VIEs of \$346 million. The gain was primarily driven by R&W benefits received on several VIE assets as a result of settlements with various counterparties throughout the year. These R&W settlements resulted in a gain of approximately \$265 million. The remainder of the gain was driven by price appreciation on the Company's FG VIE assets during the year resulting from improvements in the underlying collateral, as well as large principal paydowns made on the Company's FG VIEs.

In 2012, the Company recorded a pre-tax fair value gain on FG VIEs of \$191 million. The majority of this gain, approximately \$166 million, is a result of a R&W benefit received on several VIE assets as a result of a settlement with Deutsche Bank that closed in 2012. While prices continued to appreciate during the period on the Company's FG VIE assets and liabilities, gains in the second half of the year were primarily driven by large principal paydowns made on the Company's FG VIEs.

The 2011 pre-tax fair value losses on consolidated FG VIEs of \$146 million were driven by the unrealized loss on consolidation of eight new VIEs, as well as two existing transactions in which the fair value of the underlying collateral depreciated, while the price of the wrapped senior bonds was largely unchanged from the prior year.

Expected losses to be paid (recovered) in respect of consolidated FG VIEs were \$60 million of expected losses to be paid as December 31, 2013, \$96 million of expected losses to be recovered as of December 31, 2012, and \$107 million of expected losses to be recovered as of December 31, 2011, are included in the discussion of “—Losses in the Insured Portfolio.”

Non-GAAP Financial Measures

To reflect the key financial measures management analyzes in evaluating the Company's operations and progress towards long-term goals, the Company discusses both measures promulgated in accordance with GAAP and measures not promulgated in accordance with GAAP (“non-GAAP financial measures”). Although the financial measures identified as non-GAAP should not be considered substitutes for GAAP measures, management considers them key performance indicators and employs them as well as other factors in determining compensation. Non-GAAP financial measures, therefore, provide investors with important information about the key financial measures management utilizes in measuring its business. The primary limitation of non-GAAP financial measures is the potential lack of

comparability to those of other companies, which may define non-GAAP measures differently because there is limited literature with respect to such measures. Three of the primary non-GAAP financial measures analyzed by the Company's senior management are: operating income, adjusted book value and PVP.

Management and the board of directors utilize non-GAAP financial measures in evaluating the Company's financial performance and as a basis for determining senior management incentive compensation. By providing these non-GAAP financial measures, investors, analysts and financial news reporters have access to the same information that management reviews internally. In addition, Assured Guaranty's presentation of non-GAAP financial measures is consistent with how

Table of Contents

analysts calculate their estimates of Assured Guaranty's financial results in their research reports on Assured Guaranty and with how investors, analysts and the financial news media evaluate Assured Guaranty's financial results.

The following paragraphs define each non-GAAP financial measure and describe why it is useful. A reconciliation of the non-GAAP financial measure and the most directly comparable GAAP financial measure, if available, is also presented below.

Operating Income

Reconciliation of Net Income (Loss)
to Operating Income

	Year Ended December 31,			
	2013	2012	2011	
Net income (loss)	\$808	\$110	\$773	
Less after-tax adjustments:				
Realized gains (losses) on investments	40	(4	) (20
Non-credit impairment unrealized fair value gains (losses) on credit derivatives	(40	) (486	) 244
Fair value gains (losses) on CCS	7	(12	) 23
Foreign exchange gains (losses) on remeasurement of premiums receivable and loss and LAE reserves	(1	) 15	(3
Effect of consolidating FG VIEs	193	62	(72	
Operating income	\$609	\$535	\$601	
Effective tax rate on operating income	26.7	% 25.0	% 24.4	%

Operating income for 2013 increased due primarily to lower losses, offset in part by lower net earned premiums and commutation gains in 2012.

Operating income for 2012 declined due primarily to higher losses, offset in part by higher gains on commutations of previously ceded business and higher net earned premiums from accelerations which were due to negotiated terminations and refundings. The primary driver of the increase in loss expense was the loss on Greek sovereign debt exposures, offset in part by lower losses in the TruPS portfolio.

Management believes that operating income is a useful measure because it clarifies the understanding of the underwriting results of the Company's financial guaranty business, and also includes financing costs and net investment income, and enables investors and analysts to evaluate the Company's financial results as compared with the consensus analyst estimates distributed publicly by financial databases. Operating income is defined as net income (loss) attributable to AGL, as reported under GAAP, adjusted for the following:

1) Elimination of the after-tax realized gains (losses) on the Company's investments, except for gains and losses on securities classified as trading. The timing of realized gains and losses, which depends largely on market credit cycles, can vary considerably across periods. The timing of sales is largely subject to the Company's discretion and influenced by market opportunities, as well as the Company's tax and capital profile. Trends in the underlying profitability of the Company's business can be more clearly identified without the fluctuating effects of these transactions.

2) Elimination of the after-tax non-credit impairment unrealized fair value gains (losses) on credit derivatives, which is the amount in excess of the present value of the expected estimated economic credit losses, and non-economic payments. Such fair value adjustments are heavily affected by, and in part fluctuate with, changes in market interest rates, credit spreads and other market factors and are not expected to result in an economic gain or loss. Additionally, such adjustments present all financial guaranty contracts on a more consistent basis of accounting, whether or not they are subject to derivative accounting rules.

Table of Contents

3) Elimination of the after-tax fair value gains (losses) on the Company's CCS. Such amounts are heavily affected by, and in part fluctuate with, changes in market interest rates, credit spreads and other market factors and are not expected to result in an economic gain or loss.

4) Elimination of the after-tax foreign exchange gains (losses) on remeasurement of net premium receivables and loss and LAE reserves. Long-dated receivables constitute a significant portion of the net premium receivable balance and represent the present value of future contractual or expected collections. Therefore, the current period's foreign exchange remeasurement gains (losses) are not necessarily indicative of the total foreign exchange gains (losses) that the Company will ultimately recognize.

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

Adjusted Book Value and Operating Shareholders' Equity

Management also uses adjusted book value to measure the intrinsic value of the Company, excluding franchise value. Growth in adjusted book value is one of the key financial measures used in determining the amount of certain long term compensation to management and employees and used by rating agencies and investors.

Reconciliation of Shareholders' Equity
to Adjusted Book Value

	As of December 31, 2013		As of December 31, 2012	
	Total	Per Share	Total	Per Share
	(dollars in millions, except per share amounts)			
Shareholders' equity	\$5,115	\$28.07	\$4,994	\$25.74
Less after-tax adjustments:				
Effect of consolidating FG VIEs	(172)	(0.95)	(348)	(1.79)
Non-credit impairment unrealized fair value gains (losses) on credit derivatives	(1,052)	(5.77)	(988)	(5.09)
Fair value gains (losses) on CCS	30	0.16	23	0.12
Unrealized gain (loss) on investment portfolio excluding foreign exchange effect	145	0.80	477	2.45
Operating shareholders' equity	6,164	33.83	5,830	30.05
After-tax adjustments:				
Less: Deferred acquisition costs	161	0.88	165	0.85
Plus: Net present value of estimated net future credit derivative revenue	146	0.80	220	1.14
Plus: Net unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed	2,884	15.83	3,266	16.83
Adjusted book value	\$9,033	\$49.58	\$9,151	\$47.17

As of December 31, 2013, shareholders' equity increased to \$5.1 billion from \$5.0 billion at December 31, 2012 due to net income in 2013, partially offset by share repurchases, a decline in fair value on the available-for-sale portfolio and dividends. Operating shareholders' equity increased due primarily to positive operating income in 2013, which was

partially offset by the share repurchases and dividends. Adjusted book value decreased mainly due to share repurchases, dividends and economic loss development. Adjusted book value per share increased due to the repurchase of 12.5 million common shares as of December 31, 2013.

Table of Contents

Management believes that operating shareholders' equity is a useful measure because it presents the equity of the Company with all financial guaranty contracts accounted for on a more consistent basis and excludes fair value adjustments that are not expected to result in economic loss. Many investors, analysts and financial news reporters use operating shareholders' equity as the principal financial measure for valuing AGL's current share price or projected share price and also as the basis of their decision to recommend buying or selling AGL's common shares. Many of the Company's fixed income investors also use operating shareholders' equity to evaluate the Company's capital adequacy. Operating shareholders' equity is the basis of the calculation of adjusted book value (see below). Operating shareholders' equity is defined as shareholders' equity attributable to Assured Guaranty Ltd., as reported under GAAP, adjusted for the following:

- 1) Elimination of the effects of consolidating FG VIEs in order to present all financial guaranty contracts on a more consistent basis of accounting, whether or not GAAP requires consolidation. GAAP requires the Company to consolidate certain VIEs that have issued debt obligations insured by the Company even though the Company does not own such VIEs.
- 2) Elimination of the after-tax non-credit impairment unrealized fair value gains (losses) on credit derivatives, which is the amount in excess of the present value of the expected estimated economic credit losses, and non-economic payments. Such fair value adjustments are heavily affected by, and in part fluctuate with, changes in market interest rates, credit spreads and other market factors and are not expected to result in an economic gain or loss.
- 3) Elimination of the after-tax fair value gains (losses) on the Company's CCS. Such amounts are heavily affected by, and in part fluctuate with, changes in market interest rates, credit spreads and other market factors and are not expected to result in an economic gain or loss.
- 4) Elimination of the after-tax unrealized gains (losses) on the Company's investments that are recorded as a component of accumulated other comprehensive income ("AOCI") (excluding foreign exchange remeasurement). The AOCI component of the fair value adjustment on the investment portfolio is not deemed economic because the Company generally holds these investments to maturity and therefore should not recognize an economic gain or loss.

Management believes that adjusted book value is a useful measure because it enables an evaluation of the net present value of the Company's in-force premiums and revenues in addition to operating shareholders' equity. The premiums and revenues included in adjusted book value will be earned in future periods, but actual earnings may differ materially from the estimated amounts used in determining current adjusted book value due to changes in foreign exchange rates, prepayment speeds, terminations, credit defaults and other factors. Many investors, analysts and financial news reporters use adjusted book value to evaluate AGL's share price and as the basis of their decision to recommend, buy or sell the AGL common shares. Adjusted book value is operating shareholders' equity, as defined above, further adjusted for the following:

- 1) Elimination of after-tax deferred acquisition costs, net. These amounts represent net deferred expenses that have already been paid or accrued and will be expensed in future accounting periods.
- 2) Addition of the after-tax net present value of estimated net future credit derivative revenue. See below.
- 3) Addition of the after-tax value of the unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed, net of reinsurance. This amount represents the expected future net earned premiums, net of expected losses to be expensed, which are not reflected in GAAP equity.

Net Present Value of Estimated Net Future Credit Derivative Revenue

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

Table of Contents

PVP or Present Value of New Business Production

Reconciliation of PVP to Gross Written Premiums

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Total PVP	\$ 141	\$ 210	\$ 243
Less: Financial guaranty installment premium PVP	26	45	69
Total: Financial guaranty upfront gross written premiums	115	165	174
Plus: Financial guaranty installment gross written premiums and other GAAP adjustments	8	88	(47)
Total gross written premiums	\$ 123	\$ 253	\$ 127

Management believes that PVP is a useful measure because it enables the evaluation of the value of new business production for the Company by taking into account the value of estimated future installment premiums on all new contracts underwritten in a reporting period as well as premium supplements and additional installment premium on existing contracts as to which the issuer has the right to call the insured obligation but has not exercised such right, whether in insurance or credit derivative contract form, which GAAP gross premiums written and the net credit derivative premiums received and receivable portion of net realized gains and other settlements on credit derivatives (“Credit Derivative Revenues”) do not adequately measure. PVP in respect of financial guaranty contracts written in a specified period is defined as gross upfront and installment premiums received and the present value of gross estimated future installment premiums, in each case, discounted at 6%. For purposes of the PVP calculation, management discounts estimated future installment premiums on insurance contracts at 6%, while under GAAP, these amounts are discounted at a risk free rate. Additionally, under GAAP, management records future installment premiums on financial guaranty insurance contracts covering non-homogeneous pools of assets based on the contractual term of the transaction, whereas for PVP purposes, management records an estimate of the future installment premiums the Company expects to receive, which may be based upon a shorter period of time than the contractual term of the transaction. Actual future net earned or written premiums and Credit Derivative Revenues may differ from PVP due to factors including, but not limited to, changes in foreign exchange rates, prepayment speeds, terminations, credit defaults, or other factors that affect par outstanding or the ultimate maturity of an obligation.

Insured Portfolio

The following tables present the insured portfolio by asset class net of cessions to reinsurers. It includes all financial guaranty contracts outstanding as of the dates presented, regardless of the form written (i.e. credit derivative form or traditional financial guaranty insurance form) or the applicable accounting model (i.e. insurance, derivative or VIE consolidation).

Table of Contents

Net Par Outstanding and Average Internal Rating by Sector

Sector	As of December 31, 2013				As of December 31, 2012			
	Net Par Outstanding (including loss mitigation bonds)	Loss Mitigation Bonds	Net Par Outstanding (excluding loss mitigation bonds)	Avg. Rating	Net Par Outstanding (including loss mitigation bonds)	Loss Mitigation Bonds	Net Par Outstanding (excluding loss mitigation bonds)	Avg. Rating
Public finance:								
U.S.:								
General obligation	\$155,277	\$ —	\$155,277	A+	\$169,985	\$ —	\$169,985	A+
Tax backed	66,856	32	66,824	A+	73,787	38	73,749	A+
Municipal utilities	56,324	—	56,324	A	62,116	—	62,116	A
Transportation	30,830	—	30,830	A	33,799	—	33,799	A
Healthcare	16,132	—	16,132	A	17,838	—	17,838	A
Higher education	14,071	—	14,071	A	15,770	—	15,770	A+
Infrastructure finance	4,114	—	4,114	BBB	4,210	—	4,210	BBB
Housing	3,386	—	3,386	A+	4,633	—	4,633	AA-
Investor-owned utilities	991	—	991	A-	1,069	—	1,069	A-
Other public finance—U.S.	4,232	—	4,232	A	4,760	—	4,760	A
Total public finance—U.S.	352,213	32	352,181	A	387,967	38	387,929	A
Non-U.S.:								
Infrastructure finance	14,703	—	14,703	BBB	15,812	—	15,812	BBB
Regulated utilities	11,205	—	11,205	BBB+	12,494	—	12,494	BBB+
Pooled infrastructure	2,520	—	2,520	A	3,200	—	3,200	AA-
Other public finance—non-U.S.	5,570	—	5,570	A	6,034	—	6,034	A
Total public finance—non-U.S.	33,998	—	33,998	BBB+	37,540	—	37,540	BBB+
Total public finance	386,211	32	386,179	A	425,507	38	425,469	A
Structured finance:								
U.S.:								
Pooled corporate obligations	31,325	—	31,325	AAA	41,886	—	41,886	AAA
RMBS	14,559	838	13,721	BBB-	17,827	792	17,035	BB+
CMBS and other commercial real estate related exposures	3,952	—	3,952	AAA	4,247	—	4,247	AAA
Insurance securitizations	3,360	325	3,035	A-	3,113	170	2,943	BBB+
Financial products	2,709	—	2,709	AA-	3,653	—	3,653	AA-
Consumer receivables	2,198	—	2,198	BBB+	2,369	—	2,369	BBB+
Commercial receivables	911	—	911	A-	1,025	—	1,025	BBB+
Structured credit	69	—	69	BB	319	121	198	B
Other structured finance—U.S.	987	—	987	A-	1,179	—	1,179	BBB+
	60,070	1,163	58,907	AA-	75,618	1,083	74,535	AA-

Total structured finance—U.S.								
Non-U.S.:								
Pooled corporate obligations	11,058	—	11,058	AAA	14,813	—	14,813	AAA
Commercial receivables	1,263	—	1,263	BBB+	1,463	—	1,463	A-
RMBS	1,146	—	1,146	AA-	1,424	—	1,424	AA-
Structured credit	176	—	176	BBB	591	—	591	BBB
CMBS and other commercial real estate related exposures	—	—	—	—	100	—	100	AAA
Other structured finance—non-U.S.	378	—	378	AAA	377	—	377	AAA
Total structured finance—non-U.S.	14,021	—	14,021	AA+	18,768	—	18,768	AA+
Total structured finance	74,091	1,163	72,928	AA	94,386	1,083	93,303	AA-
Total net par outstanding	\$460,302	\$ 1,195	\$459,107	A	\$519,893	\$ 1,121	\$518,772	A+

The December 31, 2013 and 2012 amounts above include \$38.1 billion and \$47.4 billion, respectively, of AGM structured finance net par outstanding. AGM has not insured a mortgage-backed transaction since January 2008 and announced its complete withdrawal from the structured finance market in August 2008. The structured finance transactions that remain in AGM's insured portfolio are of double-A average underlying credit quality, according to the Company's internal rating system.

Table of Contents

Management expects AGM's structured finance portfolio to run-off rapidly: 29% by year-end 2014, 62% by year end 2016, and 85% by year-end 2018.

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

Financial Guaranty Portfolio by Internal Rating

As of December 31, 2013

Rating Category (1)	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	\$4,998	1.4	%	\$1,016	3.0	%	\$32,317	54.9	%	\$9,684	69.1	%	\$48,015	10.5	%
AA	107,503	30.5		422	1.2		9,431	16.0		577	4.1		117,933	25.7	
A	192,841	54.8		9,453	27.9		2,580	4.4		742	5.3		205,616	44.8	
BBB	37,745	10.7		21,499	63.2		3,815	6.4		1,946	13.9		65,005	14.1	
BIG	9,094	2.6		1,608	4.7		10,764	18.3		1,072	7.6		22,538	4.9	
Total net par outstanding (excluding loss mitigation bonds)	\$352,181	100.0	%	\$33,998	100.0	%	\$58,907	100.0	%	\$14,021	100.0	%	\$459,107	100.0	%
Loss Mitigation Bonds	32			—			1,163			—			1,195		
Total net par outstanding (including loss mitigation bonds)	\$352,213			\$33,998			\$60,070			\$14,021			\$460,302		

Financial Guaranty Portfolio by Internal Rating

As of December 31, 2012

Rating Category (1)	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	\$4,502	1.2	%	\$1,706	4.5	%	\$42,187	56.6	%	\$13,169	70.2	%	\$61,564	11.9	%
AA	124,525	32.1		875	2.3		9,543	12.8		722	3.9		135,665	26.1	

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A	210,124	54.1	9,781	26.1	4,670	6.3	1,409	7.5	225,984	43.6
BBB	44,213	11.4	22,885	61.0	3,737	5.0	2,427	12.9	73,262	14.1
BIG	4,565	1.2	2,293	6.1	14,398	19.3	1,041	5.5	22,297	4.3
Total net par outstanding (excluding loss mitigation bonds)	\$387,929	100.0%	\$37,540	100.0%	\$74,535	100.0%	\$18,768	100.0%	\$518,772	100.0%
Loss Mitigation Bonds	38		—		1,083		—		1,121	
Total net par outstanding (including loss mitigation bonds)	\$387,967		\$37,540		\$75,618		\$18,768		\$519,893	

(1) In the third quarter of 2013, the Company adjusted its approach to assigning internal ratings. See "Refinement of Approach to Internal Credit Ratings and Surveillance Categories" in Note 3, Outstanding Exposure, of the Financial Statements and Supplementary Data. This approach is reflected in the "Financial Guaranty Portfolio by Internal Rating" tables as of both December 31, 2013 and December 31, 2012.

Previously, the Company had included securities purchased for loss mitigation purposes in its invested assets portfolio and its financial guaranty insured portfolio. Beginning in the third quarter of 2013, the Company began excluding such loss

Table of Contents

mitigation securities from its disclosure about its financial guaranty insured portfolio (unless otherwise indicated); it has taken this approach as of both December 31, 2013 and December 31, 2012. In addition, under the terms of certain credit derivative contracts, the referenced obligations in such contracts have been delivered to the Company and they therefore are included in the investment portfolio. Such amounts are still included in the financial guaranty insured portfolio and totaled \$195 million and \$220 million in gross par outstanding as of December 31, 2013 and 2012, respectively.

The tables below show the Company's ten largest U.S. public finance, U.S. structured finance and non-U.S. exposures by revenue source, excluding related related authorities and public corporations, as of December 31, 2013:

Ten Largest U.S. Public Finance Exposures
by Revenue Source
As of December 31, 2013

	Net Par Outstanding	Percent of Total U.S. Public Finance Net Par Outstanding	Rating
	(dollars in millions)		
New Jersey (State of)	\$3,980	1.1	% A+
California (State of)	3,356	0.9	% A-
New York (City of) New York	3,064	0.9	% AA-
Chicago (City of) Illinois	2,681	0.8	% A-
Massachusetts (Commonwealth of)	2,521	0.7	% AA
New York (State of)	2,408	0.7	% A+
Miami-Dade County Florida Aviation Authority - Miami International Airport	2,146	0.6	% A
Puerto Rico General Obligation, Appropriations and Guarantees of the Commonwealth	2,119	0.6	% BB
Port Authority of New York and New Jersey	2,034	0.6	% AA-
Illinois (State of)	1,987	0.6	% A-
Total of top ten U.S. public finance exposures	\$26,296	7.5	%

Ten Largest U.S. Structured Finance Exposures
As of December 31, 2013

	Net Par Outstanding	Percent of Total U.S. Structured Finance Net Par Outstanding	Rating
	(dollars in millions)		
Fortress Credit Opportunities I, LP.	\$1,328	2.2	% AA
Synthetic Investment Grade Pooled Corporate CDO	1,188	2.0	% AAA
Stone Tower Credit Funding	994	1.7	% AAA
Synthetic High Yield Pooled Corporate CDO	978	1.7	% AAA
Synthetic Investment Grade Pooled Corporate CDO	767	1.3	% AAA
Synthetic Investment Grade Pooled Corporate CDO	763	1.3	% AAA
Synthetic Investment Grade Pooled Corporate CDO	756	1.3	% AAA
Synthetic Investment Grade Pooled Corporate CDO	745	1.3	% AAA

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Synthetic High Yield Pooled Corporate CDO	734	1.2	% AAA
Synthetic Investment Grade Pooled Corporate CDO	655	1.1	% AAA
Total of top ten U.S. structured finance exposures	\$8,908	15.1	%

103

Table of ContentsTen Largest Non-U.S. Exposures
As of December 31, 2013

	Net Par Outstanding	Percent of Total Non-U.S. Net Par Outstanding	Rating
	(dollars in millions)		
Province of Quebec	\$2,386	5.0	% A+
Thames Water Utilities Finance Plc	1,499	3.1	% A-
Sydney Airport Finance Company Pty Limited	1,309	2.7	% BBB
Channel Link Enterprises Finance PLC	978	2.0	% BBB
Southern Gas Networks PLC	893	1.9	% BBB
Societe des Autoroutes du Nord et de l'Est de la France	858	1.8	% BBB+
Capital Hospitals	814	1.7	% BBB-
Campania Region	752	1.6	% BBB-
Artesian Finance II Plc (Southern)	727	1.5	% A-
International Infrastructure Pool	700	1.4	% A-
Total of top ten non-U.S. exposures	\$10,916	22.7	%

Table of Contents

Financial Guaranty Portfolio by Geographic Area

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

Geographic Distribution
of Financial Guaranty Portfolio
As of December 31, 2013

	Number of Risks	Net Par Outstanding (dollars in millions)	Percent of Total Net Par Outstanding	
U.S.:				
U.S. Public Finance:				
California	1,492	\$52,704	11.5	%
New York	1,035	28,582	6.2	
Pennsylvania	1,059	28,475	6.2	
Texas	1,269	27,249	5.9	
Illinois	881	24,138	5.3	
Florida	422	21,773	4.7	
New Jersey	656	14,462	3.2	
Michigan	713	14,250	3.1	
Georgia	204	9,364	2.0	
Ohio	554	8,763	1.9	
Other states and U.S. territories	4,517	122,421	26.7	
Total U.S. public finance	12,802	352,181	76.7	
U.S. Structured finance (multiple states)	963	58,907	12.8	
Total U.S.	13,765	411,088	89.5	
Non-U.S.:				
United Kingdom	115	21,405	4.7	
Australia	29	5,598	1.2	
Canada	10	3,851	0.8	
France	21	3,614	0.8	
Italy	10	1,808	0.4	
Other	100	11,743	2.6	
Total non-U.S.	285	48,019	10.5	
Total	14,050	\$459,107	100.0	%

Selected European Exposure

Several European countries have experienced 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 Company has identified those European countries where it has exposure and where it believes heightened uncertainties exist to be: Greece, Hungary, Ireland, Italy, Portugal and Spain (the "Selected European Countries"). The Company selected these European countries based on its view that their credit fundamentals have weakened as a result of the global financial crisis, as well as on published reports identifying countries that may be experiencing reduced demand for their sovereign debt in the current environment. See "—Selected European Countries" below for an explanation of the circumstances in each country leading the Company to select that country for further discussion.

Table of Contents

Direct Economic Exposure to the Selected European Countries

The Company's direct economic exposure to the Selected European Countries (based on par for financial guaranty contracts and notional amount for financial guaranty contracts accounted for as derivatives) is shown in the following tables, both gross and net of ceded reinsurance:

Gross Direct Economic Exposure
to Selected European Countries(1)
As of December 31, 2013

	Hungary (in millions)	Ireland	Italy	Portugal	Spain	Total
Sovereign and sub-sovereign exposure:						
Non-infrastructure public finance	\$—	\$—	\$1,372	\$114	\$441	\$1,927
Infrastructure finance	411	—	19	12	159	601
Sub-total	411	—	1,391	126	600	2,528
Non-sovereign exposure:						
Regulated utilities	—	—	254	—	—	254
RMBS	234	144	379	—	—	757
Sub-total	234	144	633	—	—	1,011
Total	\$645	\$144	\$2,024	\$126	\$600	\$3,539
Total BIG	\$645	\$—	\$—	\$126	\$600	\$1,371

Net Direct Economic Exposure
to Selected European Countries(1)
As of December 31, 2013

	Hungary (in millions)	Ireland	Italy	Portugal	Spain	Total
Sovereign and sub-sovereign exposure:						
Non-infrastructure public finance	\$—	\$—	\$1,024	\$98	\$275	\$1,397
Infrastructure finance	384	—	18	12	155	569
Sub-total	384	—	1,042	110	430	1,966
Non-sovereign exposure:						
Regulated utilities	—	—	234	—	—	234
RMBS	224	144	315	—	—	683
Sub-total	224	144	549	—	—	917
Total	\$608	\$144	\$1,591	\$110	\$430	\$2,883
Total BIG	\$608	\$—	\$—	\$110	\$430	\$1,148

(1) While the Company's exposures are shown in U.S. dollars, the obligations the Company insures are in various currencies, including U.S. dollars, Euros and British pounds sterling. Included in both tables above is \$144 million of reinsurance assumed on a 2004 - 2006 pool of Irish residential mortgages that is part of the Company's remaining legacy mortgage reinsurance business. 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 tables.

As of December 31, 2013, the Company does not guarantee any sovereign bonds of the Selected European Countries, although the payments for many of the non-infrastructure and infrastructure finance credits originate with sovereigns

or sub-sovereigns. 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.

Table of Contents

The tables above include the par amount of financial guaranty contracts accounted for as derivatives of \$145 million with a fair value of \$6 million, net of reinsurance. The Company's credit derivative transactions are governed by ISDA documentation, and the Company is required to make a loss payment on them only upon the occurrence of one or more defined credit events with respect to the referenced securities or loans.

The Company purchases reinsurance in the ordinary course to cover both its financial guaranty insurance and credit derivative exposures. Aside from this type of coverage the Company does not purchase credit default protection to manage the risk in its financial guaranty business. Rather, the Company has reduced its risks by ceding a portion of its business (including its financial guaranty contracts accounted for as derivatives) to third-party reinsurers that are generally required to pay their proportionate share of claims paid by the Company, and the net amounts shown above are net of such third-party reinsurance (reinsurance of financial guaranty contracts accounted for as derivatives is accounted for as a purchased derivative). See Note 14, Reinsurance and Other Monoline Exposures, of the Financial Statements and Supplementary Data.

Indirect Exposure to Selected European Countries

The Company has excluded in the exposure tables above its indirect economic exposure to the Selected European Countries through insurance it provides on (a) pooled corporate and (b) commercial receivables transactions. The Company considers economic exposure to a Selected European Country to be indirect when that exposure relates to only a small portion of an insured transaction that otherwise is not related to that Selected European Country.

The Company's pooled corporate obligations are highly diversified in terms of obligors and, except in the case of TruPS CDOs or transactions backed by perpetual preferred securities, highly diversified in terms of industry. Most pooled corporate obligations are structured to limit exposure to any given obligor and any given non-U.S. country or region. The insured pooled corporate transactions generally benefit from embedded credit enhancement which allows a transaction a certain level of losses in the underlying collateral without causing the Company to pay a claim. Some pooled corporate obligations include investments in companies with a nexus to the Selected European Countries.

The Company's commercial receivable transactions excluded in the exposure tables above are rail car lease transactions and aircraft lease transactions where some of the lessees have a nexus with the Selected European Countries. Like the pooled corporate transactions, the commercial receivable transactions generally benefit from embedded credit enhancement which allows a transaction a certain level of losses in the underlying collateral without causing the Company to pay a claim.

The following table shows the Company's indirect economic exposure to the Selected European Countries in pooled corporate obligations and commercial receivable transactions. The amount shown in the table is calculated by multiplying the amount insured by the Company (based on par for financial guaranty contracts and notional amount for financial guaranty contracts accounted for as derivatives) times the percent of the relevant collateral pool reported as having a nexus to the Selected European Countries:

Indirect Exposure to Selected European Countries

As of December 31, 2013

	Greece	Ireland	Italy	Portugal	Spain	Total	
	(dollars in millions)						
Pooled corporate							
Gross par (\$ in millions)	\$ 17	\$ 112	\$ 181	\$ 15	\$ 542	\$ 867	
Net par (\$ in millions)	\$ 17	\$ 96	\$ 165	\$ 15	\$ 488	\$ 781	
Average proportion	2.2	% 1.6	% 2.7	% 1.0	% 4.9	% 3.2	%

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Commercial receivables							
Gross par (\$ in millions)	\$—	\$20	\$54	\$14	\$2	\$90	
Net par (\$ in millions)	\$—	\$19	\$52	\$13	\$2	\$86	
Average proportion	—	% 4.2	% 8.9	% 2.4	% 1.8	% 5.1	%

The table above includes, in the pooled corporate category, exposure from primarily non-U.S. pooled corporate transactions insured by the Company. Many primarily U.S. pooled corporate obligations permit investments of up to 10% or 15% (or occasionally 20%) of the pool in non-U.S. (or non-U.S. or -Canadian) collateral. Given the relatively low level of

107

Table of Contents

permitted international investments in these transactions and their generally high current credit quality, they are excluded from the table above.

Selected European Countries

The Company follows and analyzes public information regarding developments in countries to which the Company has exposure, including the Selected European Countries, and utilizes this information to evaluate risks in its financial guaranty portfolio. Because the Company guarantees payments under its financial guaranty contracts, its analysis is focused primarily on the risk of payment defaults by these countries or obligors in these countries. However, material developments having an economic impact with respect to the Selected European Countries would also impact the fair value of insurance contracts accounted for as derivatives and with a nexus to those countries.

The Republic of Hungary is rated “BB” and “Ba1” by S&P and Moody’s, respectively. The country continues to face significant economic and political challenges. The Company’s sovereign and sub-sovereign exposure to Hungarian credits includes an infrastructure financing dependent on payments by government agencies. The Company rates this exposure (\$384 million net par) below investment grade. The Company is closely monitoring developments with respect to the ability and willingness of these entities to meet their payment obligations. The Company’s non-sovereign exposure to Hungary comprises primarily covered mortgage bonds issued by Hungarian banks. The Company rates the covered bonds (\$224 million net par) below investment grade.

The Kingdom of Spain is rated “BBB-” by S&P and was upgraded to “Baa2” on February 21, 2014 by Moody’s. While its recession was longer and deeper than most other European countries, there are recent signs that the economic environment in Spain is stabilizing. The Company’s sovereign and sub-sovereign exposure to Spanish credits includes infrastructure financings dependent on payments by sub-sovereigns and government agencies, financings dependent on lease and other payments by sub-sovereigns and government agencies, and an issuance by a regulated utility. The Company rates most (\$430 million aggregate net par) of its exposure to sovereign and sub-sovereign credits in Spain below investment grade. The Company is closely monitoring developments with respect to the ability and willingness of these entities to meet their payment obligations.

The Republic of Portugal is rated “BB” and “Ba3” by S&P and Moody’s, respectively. The country continues to face difficulties regarding its fiscal imbalances, high indebtedness and the difficult macroeconomic situation but has made progress in terms of fiscal consolidation and structural reforms. The Company’s exposure to sovereign and sub-sovereign Portuguese credits includes financings dependent on lease payments by sub-sovereigns and government agencies and infrastructure financings dependent on payments by sub-sovereigns and government agencies. The Company rates four of these transactions (\$110 million aggregate net par) below investment grade. The Company is closely monitoring developments with respect to the ability and willingness of these entities to meet their payment obligations.

The Republic of Ireland is currently rated “BBB+” and “Baa3” by S&P and Moody’s, respectively. Moody’s upgraded its rating from “Ba1” in January 2014, the two main drivers for the upgrade being: (1) the growth potential of the Irish economy, which together with ongoing fiscal consolidation is expected to bring government debt ratios down from their recent peak; and (2) the Irish government’s exit from its EU International Monetary Fund support program on schedule, with improved solvency and restored market access. The Company’s exposure to Irish credits includes exposure in a pool of infrastructure financings dependent on payments by a sub-sovereign and mortgage reinsurance on a pool of Irish residential mortgages originated in 2004-2006 left from its legacy mortgage reinsurance business. Only \$7 million of the Company’s exposure to Ireland is below investment grade, and it is indirect in non-sovereign pooled corporate transactions.

The Republic of Italy is rated “BBB” and “Baa2” by S&P and Moody’s, respectively. Even though its recession has eased somewhat in recent months, the country continues to face significant economic and political challenges. The Company’s sovereign and sub-sovereign exposure to Italy depends on payments by Italian governmental entities in connection with infrastructure financings or for services already rendered. The Company’s non-sovereign Italian exposure is comprised primarily of securities backed by Italian residential mortgages or in one case a government-sponsored water utility. The Company is closely monitoring the ability and willingness of these obligors to make timely payments on their obligations.

The Hellenic Republic of Greece is rated “B-” and “Caa3” by S&P and Moody’s, respectively. In November, 2013, Moody’s upgraded its rating from “C” reflecting a combination of the significant fiscal consolidation that has taken place under Greece’s structural adjustment program, the improvement in Greece’s medium-term economic outlook, and the significant reduction of the government’s interest burden following previous restructuring. As of December 31, 2013 the Company no longer had any direct economic exposure to Greece, although it does still have small, indirect exposures as described above under "Indirect Exposure to Selected European Countries".

Table of Contents

Identifying Exposure to Selected European Countries

When the Company directly insures an obligation, it assigns the obligation to a geographic location or locations based on its view of the geographic location of the risk. For most exposures this can be a relatively straight-forward determination as, for example, a debt issue supported by availability payments for a toll road in a particular country. The Company may also assign portions of a risk to more than one geographic location as it has, for example, in a residential mortgage backed security backed by residential mortgage loans in both Germany and Italy. The Company may also have exposures to the Selected European Countries in business assumed from other monoline insurance companies. See Note 14, Reinsurance and Other Monoline Exposure, of the Financial Statements and Supplementary Data. In the case of assumed business, the Company depends upon geographic information provided by the primary insurer.

The Company also has indirect exposure to the Selected European Countries through structured finance transactions backed by pools of corporate obligations or receivables, such as lease payments, with a nexus to such countries. In most instances, the trustees and/or servicers for such transactions provide reports that identify the domicile of the underlying obligors in the pool (and the Company relies on such reports), although occasionally such information is not available to the Company. The Company has reviewed transactions through which it believes it may have indirect exposure to the Selected European Countries that is material to the transaction and included in the tables above the proportion of the insured par equal to the proportion of obligors so identified as being domiciled in a Selected European Country. The Company may also have indirect exposures to Selected European Countries in business assumed from other monoline insurance companies. However, in the case of assumed business, the primary insurer generally does not provide information to the Company permitting it to geographically allocate the exposure proportionally to the domicile of the underlying obligors.

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 \$5.4 billion net par and \$6.8 billion of gross par. The Company rates \$5.2 billion net par and \$6.5 billion of gross par of that amount BIG. The following table shows the Company's exposure to general obligation bonds of Puerto Rico and various obligations of its related authorities and public corporations as of December 31, 2013.

Net Exposure to Puerto Rico
As of December 31, 2013

	Net Par Outstanding (in millions)	Internal Rating
Commonwealth of Puerto Rico - General Obligation Bonds	\$ 1,885	BB
Puerto Rico Highways and Transportation Authority (Transportation revenue)	869	BB-
Puerto Rico Electric Power Authority	860	BB-
Puerto Rico Municipal Finance Authority	450	BB-
Puerto Rico Aqueduct and Sewer Authority	384	BB-
Puerto Rico Highways and Transportation Authority (Highway revenue)	302	BB
Puerto Rico Sales Tax Financing Corporation	268	A-
Puerto Rico Convention Center District Authority	185	BB-
Puerto Rico Public Buildings Authority	139	BB
Puerto Rico Public Finance Corporation	44	B

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Government Development Bank for Puerto Rico	33	BB
Puerto Rico Infrastructure Financing Authority	18	BB-
University of Puerto Rico	1	BB-
Total	\$5,438	BB

The following table shows the net par and estimated 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

109

Table of Contents

guarantees payments of interest and principal when those amounts are scheduled to be paid and cannot be required to pay on an accelerated basis. The column labeled “Estimated BIG Net Debt Service Amortization” shows the total amount of principal and interest due in the period indicated and represents the maximum net amount the Company would be required to pay on BIG Puerto Rico exposures in a given period assuming the obligors paid nothing on all of those obligations in that period. The column labeled “Estimated BIG Ending Net Debt Service Outstanding” is simply the arithmetic total of all of the principal and interest payments remaining for the remaining life of such obligations, and represents the maximum amount the Company would be required to pay if none of the obligors ever paid anything for the remaining life of the obligations.

BIG Net Par Outstanding
and BIG Net Debt Service Outstanding of Puerto Rico
Amortization Schedule
As of December 31, 2013

	Estimated BIG Net Par Amortization (in millions)	Estimated BIG Ending Net Par Outstanding	Estimated BIG Net Debt Service Amortization	Estimated BIG Ending Net Debt Service Outstanding
2013 (as of December 31)		\$5,171		\$8,547
2014 (January 1 – March 31)	\$—	5,171	\$66	8,481
2014 (April 1 – June 30)	—	5,171	66	8,415
2014 (July 1 – September 30)	242	4,929	306	8,109
2014 (October 1 – December 31)	—	4,929	63	8,046
2015	364	4,565	608	7,438
2016	289	4,276	515	6,923
2017	208	4,068	421	6,502
2018	160	3,908	363	6,139
2014-2018	1,263	3,908	2,408	6,139
2019-2023	921	2,987	1,780	4,359
2024-2028	979	2,008	1,622	2,737
2029-2033	706	1,302	1,141	1,596
After 2033	1,302	—	1,596	—
Total	\$5,171		\$8,547	

Recent announcements and actions by the Governor and his administration indicate officials of the Commonwealth are focused on measures to help Puerto Rico operate within its financial resources and maintain its access to the capital markets. All Puerto Rico credits insured by the Company are current on their debt service payments, and we expect them to continue to make their debt service payments. Neither Puerto Rico nor its related authorities and public corporations are eligible debtors under Chapter 9 of the U.S. Bankruptcy Code. However, Puerto Rico faces high debt levels, a declining population and an economy that has been in recession since 2006. Puerto Rico has been operating with a structural budget deficit in recent years, and its two largest pension funds are significantly underfunded.

In January 2014 the Company downgraded most of its insured Puerto Rico credits to BIG, reflecting the economic and financial challenges facing the Commonwealth and due to concerns that the rating agencies would downgrade Puerto Rico and limit its access to credit. Subsequently, in February 2014, S&P, Moody's and Fitch Ratings downgraded much of the debt of Puerto Rico and its related authorities and public corporations to BIG, citing various factors including limited liquidity and market access risk. Under the Company's loss estimation process it established an expected loss for its BIG Puerto Rico exposures taking into account estimates of the probability and severity of default

of each issuer.

Following their downgrade of Puerto Rico, Moody's formally affirmed their ratings for AGM (A2, stable outlook) and AGC (A3, stable outlook). Moody's also affirmed their ratings for AG Re (Baa1) but changed their outlook for the rating to negative. Similarly, S&P published an analysis of Assured Guaranty's Puerto Rico exposure, which concluded that, following S&P's downgrade of the Commonwealth, Assured Guaranty's stress case capital charge would increase by approximately \$65 million and that Assured Guaranty continued to have substantial excess capital.

110

Table of Contents

Financial Guaranty Portfolio by Issue Size

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

Public Finance Portfolio by Issue Size

As of December 31, 2013

Original Par Amount Per Issue	Number of Issues	Net Par Outstanding	% of Public Finance Net Par Outstanding	
	(dollars in millions)			
Less than \$10 million	17,802	\$50,930	13.2	%
\$10 through \$50 million	6,640	115,492	29.9	%
\$50 through \$100 million	1,263	69,035	17.9	%
\$100 million to \$200 million	546	61,053	15.8	%
\$200 million or greater	324	89,669	23.2	%
Total	26,575	\$386,179	100.0	%

Structured Finance Portfolio by Issue Size

As of December 31, 2013

Original Par Amount Per Issue	Number of Issues	Net Par Outstanding	% of Structured Finance Net Par Outstanding	
	(dollars in millions)			
Less than \$10 million	267	\$123	0.2	%
\$10 through \$50 million	482	6,499	8.9	%
\$50 through \$100 million	154	5,824	8.0	%
\$100 million to \$200 million	216	15,032	20.6	%
\$200 million or greater	225	45,450	62.3	%
Total	1,344	\$72,928	100.0	%

Exposures by Reinsurer

Ceded par outstanding represents the portion of insured risk ceded to other reinsurers. Under these relationships, the Company cedes a portion of its insured risk in exchange for a premium paid to the reinsurer. The Company remains primarily liable for all risks it directly underwrites and is required to pay all gross claims. It then seeks reimbursement from the reinsurer for its proportionate share of claims. The Company may be exposed to risk for this exposure if it were required to pay the gross claims and not be able to collect ceded claims from an assuming company experiencing financial distress. A number of the financial guaranty insurers to which the Company has ceded par have experienced financial distress and as a result been downgraded by the rating agencies. In addition, state insurance regulators have intervened with respect to some of these insurers.

Assumed par outstanding represents the amount of par assumed by the Company from other monolines. Under these relationships, the Company assumes a portion of the ceding company's insured risk in exchange for a premium. The Company may be exposed to risk in this portfolio in that the Company may be required to pay losses without a

corresponding premium in circumstances where the ceding company is experiencing financial distress and is unable to pay premiums.

In addition to assumed and ceded reinsurance arrangements, the Company may also have exposure to 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. See Note 14, Reinsurance and Other Monoline Exposures, of the Financial Statements and Supplementary Data.

Table of Contents

Exposure by Reinsurer

Reinsurer	Ratings at February 24, 2014		Par Outstanding As of December 31, 2013		
	Moody's Reinsurer Rating	S&P Reinsurer Rating	Ceded Par Outstanding(1)	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	\$8,331	\$—	\$30
Tokio Marine & Nichido Fire Insurance Co., Ltd.	Aa3 (3)	AA- (3)	7,279	—	—
Radian Asset Assurance Inc.	Ba1	B+	4,709	38	1,082
Syncora Guarantee Inc.	WR	WR	4,201	1,771	162
Mitsui Sumitomo Insurance Co. Ltd.	A1	A+ (3)	2,144	—	—
ACA Financial Guaranty Corp.	NR (5)	WR	809	5	9
Swiss Reinsurance Co.	Aa3	AA-	346	—	—
Ambac Assurance Corporation (4)	WR	WR	85	6,118	17,859
CIFG Assurance North America Inc.	WR	WR	2	178	5,048
MBIA Inc.	(4)	(4)	—	10,292	7,386
Financial Guaranty Insurance Co.	WR	WR	—	2,329	1,315
Other	Various	Various	882	2,099	46
Total			\$28,788	\$22,830	\$32,937

(1) Includes \$3,172 million in ceded par outstanding 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) MBIA Inc. includes various subsidiaries which are rated A and B by S&P and Baa1, B1 and B3 by Moody's. Ambac Assurance Corporation includes policies in their general and segregated account.

(5) Represents "Not Rated."

In accordance with U.S. statutory accounting requirements and U.S. insurance laws and regulations, in order for the Company to receive credit for liabilities ceded to reinsurers domiciled outside of the U.S., such reinsurers must secure their liabilities to the Company. All of the unauthorized reinsurers in the table above post collateral for the benefit of the Company in an amount at least equal to the sum of their ceded unearned premium reserve, loss reserves and contingency reserves all calculated on a statutory basis of accounting. In addition, certain authorized reinsurers in the table above post collateral on terms negotiated with the Company. Collateral may be in the form of letters of credit or trust accounts. The total collateral posted by all non-affiliated reinsurers as of December 31, 2013 is approximately \$658 million.

Exposure to Residential Mortgage-Backed Securities

The tables below provide information on the risk ratings and certain other risk characteristics of the Company's financial guaranty insurance and credit derivative RMBS exposures as of December 31, 2013. U.S. RMBS exposures represent 3% of the total net par outstanding and BIG U.S. RMBS represent 34% of total BIG net par outstanding. The tables presented provide information with respect to the underlying performance indicators of this book of business. See Note 6, Expected Loss to be Paid, of the Financial Statements and Supplementary Data, for a discussion of expected losses to be paid on U.S. RMBS exposures.

Net par outstanding in the following tables is based on values as of December 31, 2013. Previously, the Company had included securities purchased for loss mitigation purposes in its invested assets portfolio and its financial guaranty insured

Table of Contents

portfolio. Beginning in the third quarter of 2013, the Company excludes such loss mitigation securities from its disclosure about its financial guaranty insured portfolio (unless otherwise indicated); it has taken this approach as of both December 31, 2013 and December 31, 2012. In addition, under the terms of certain credit derivative contracts, the referenced obligations in such contracts have been delivered to the Company and they therefore are included in the investment portfolio. Such amounts are still included in the financial guaranty insured portfolio and totaled \$195 million and \$220 million in gross par outstanding as of December 31, 2013 and 2012, respectively. All performance information such as pool factor, subordination, cumulative losses and delinquency is based on December 31, 2013 information obtained from third parties and/or provided by the trustee and may be subject to revision as updated or additional information is obtained.

Pool factor in the following tables is the percentage of the current collateral balance divided by the original collateral balance of the transactions at inception.

Subordination in the following tables represents the sum of subordinate tranches and overcollateralization, expressed as a percentage of total transaction size and does not include any benefit from excess spread collections that may be used to absorb losses. Many of the closed-end-second lien RMBS transactions insured by the Company have unique structures whereby the collateral may be written down for losses without a corresponding write-down of the obligations insured by the Company. Many of these transactions are currently undercollateralized, with the principal amount of collateral being less than the principal amount of the obligation insured by the Company. The Company is not required to pay principal shortfalls until legal maturity (rather than making timely principal payments), and takes the undercollateralization into account when estimating expected losses for these transactions.

Cumulative losses in the following tables are defined as net charge-offs on the underlying loan collateral divided by the original collateral balance.

60+ day delinquencies in the following tables are defined as loans that are greater than 60 days delinquent and all loans that are in foreclosure, bankruptcy or real estate owned divided by current collateral balance.

U.S. Prime First Lien in the tables below includes primarily prime first lien plus an insignificant amount of other miscellaneous RMBS transactions.

Distribution of U.S. RMBS by Internal Rating and Type of Exposure as of December 31, 2013

Ratings (1):	Prime First Lien (in millions)	Closed End Second Lien	HELOC	Alt-A First Lien	Option ARM	Subprime First Lien	Total Net Par Outstanding
AAA	\$1	\$0	\$20	\$218	\$4	\$2,210	\$2,453
AA	98	98	99	407	290	1,675	2,668
A	1	0	9	12	21	146	189
BBB	38	—	254	224	23	155	694
BIG	402	146	1,897	2,728	598	1,945	7,717
Total exposures	\$541	\$244	\$2,279	\$3,590	\$937	\$6,130	\$13,721

In the third quarter of 2013, the Company adjusted its approach to assigning internal ratings. See "Refinement of (1) Approach to Internal Credit Ratings and Surveillance Categories" in Note 3, Outstanding Exposure, of the Financial Statements and Supplementary Data.

Table of Contents

Distribution of U.S. RMBS by Year Insured and Type of Exposure as of December 31, 2013

Year insured:	Prime First Lien	Closed End Second Lien	HELOC	Alt-A First Lien	Option ARM	Subprime First Lien	Total Net Par Outstanding
	(in millions)						
2004 and prior	\$22	\$1	\$191	\$76	\$25	\$1,213	\$1,527
2005	162	—	556	528	43	200	1,490
2006	92	52	692	317	76	2,486	3,715
2007	264	192	839	1,663	737	2,157	5,852
2008	—	—	—	1,005	56	73	1,135
Total exposures	\$541	\$244	\$2,279	\$3,590	\$937	\$6,130	\$13,721

Distribution of U.S. RMBS by Internal Rating⁽¹⁾ and Year Insured as of December 31, 2013

Year insured:	AAA Rated	AA Rated	A Rated	BBB Rated	BIG Rated	Total
	(dollars in millions)					
2004 and prior	\$978	\$124	\$41	\$69	\$315	\$1,527
2005	103	177	2	90	1,118	1,490
2006	1,292	1,211	80	110	1,022	3,715
2007	9	1,099	66	425	4,254	5,852
2008	71	56	—	—	1,008	1,135
Total exposures	\$2,453	\$2,668	\$189	\$694	\$7,717	\$13,721
% of total	17.9	% 19.4	% 1.4	% 5.1	% 56.2	% 100.0

In the third quarter of 2013, the Company adjusted its approach to assigning internal ratings. See "Refinement of (1) Approach to Internal Credit Ratings and Surveillance Categories" in Note 3, Outstanding Exposure, of the Financial Statements and Supplementary Data.

Distribution of Financial Guaranty Direct U.S. RMBS

Insured January 1, 2005 or Later by Exposure Type, Average Pool Factor, Subordination, Cumulative Losses and 60+ Day Delinquencies as of December 31, 2013

U.S. Prime First Lien

Year insured:	Net Par Outstanding	Pool Factor	Subordination	Cumulative Losses	60+ Day Delinquencies	Number of Transactions
	(dollars in millions)					
2005	\$159	22.4	% 5.4	% 2.6	% 12.2	% 6
2006	92	45.9	% 8.3	% 0.9	% 18.8	% 1
2007	264	32.6	% 2.3	% 6.8	% 18.2	% 1
2008	—	—	% —	% —	% —	% —
Total	\$516	31.8	% 4.3	% 4.5	% 16.5	% 8

Table of Contents

U.S. Closed End Second Lien

Year insured:	Net Par Outstanding (dollars in millions)	Pool Factor	Subordination	Cumulative Losses	60+ Day Delinquencies	Number of Transactions
2005	\$—	—	% —	% —	% —	% —
2006	43	10.3	% —	% 60.8	% 4.6	% 1
2007	192	12.0	% —	% 70.3	% 6.0	% 8
2008	—	—	% —	% —	% —	% —
Total	\$235	11.7	% —	% 68.6	% 5.7	% 9

U.S. HELOC

Year insured:	Net Par Outstanding (dollars in millions)	Pool Factor	Subordination	Cumulative Losses	60+ Day Delinquencies	Number of Transactions
2005	\$518	11.0	% 3.3	% 18.8	% 4.9	% 5
2006	677	19.6	% 4.3	% 38.8	% 3.9	% 7
2007	839	24.3	% 1.9	% 40.4	% 3.4	% 8
2008	—	—	% —	% —	% —	% —
Total	\$2,034	19.4	% 3.0	% 34.4	% 3.9	% 20

U.S. Alt-A First Lien

Year insured:	Net Par Outstanding (dollars in millions)	Pool Factor	Subordination	Cumulative Losses	60+ Day Delinquencies	Number of Transactions
2005	\$526	23.4	% 8.8	% 7.7	% 17.0	% 20
2006	317	29.0	% 0.0	% 22.7	% 37.0	% 7
2007	1,663	36.8	% 0.6	% 18.5	% 28.2	% 11
2008	1,005	34.9	% 13.1	% 17.2	% 25.7	% 5
Total	\$3,512	33.6	% 5.3	% 16.9	% 26.6	% 43

U.S. Option ARMs

Year insured:	Net Par Outstanding (dollars in millions)	Pool Factor	Subordination	Cumulative Losses	60+ Day Delinquencies	Number of Transactions
2005	\$38	15.2	% 11.8	% 10.4	% 16.2	% 2
2006	71	26.6	% —	% 19.4	% 30.8	% 5
2007	737	36.1	% 0.9	% 23.0	% 29.4	% 11
2008	56	37.9	% 49.7	% 17.8	% 23.0	% 1
Total	\$902	34.6	% 4.3	% 21.8	% 28.5	% 19

Table of Contents

U.S. Subprime First Lien

Year insured:	Net Par Outstanding (dollars in millions)	Pool Factor	Subordination	Cumulative Losses	60+ Day Delinquencies	Number of Transactions
2005	\$192	32.7	% 15.3	% 9.6	% 26.9	% 3
2006	2,481	17.4	% 62.4	% 20.5	% 31.5	% 4
2007	2,157	39.6	% 8.2	% 28.3	% 40.0	% 13
2008	73	50.6	% 13.5	% 24.3	% 28.8	% 1
Total	\$4,904	28.3	% 36.0	% 23.5	% 35.1	% 21

Liquidity and Capital Resources

Liquidity Requirements and Sources -- AGL and its Holding Company Subsidiaries

The liquidity of AGL, AGUS and AGMH is largely dependent on dividends from their operating subsidiaries and their access to external financing. The liquidity requirements of these entities include the payment of operating expenses, interest on debt issued by AGUS and AGMH, and dividends on AGL's common shares. AGL and its holding company subsidiaries may also require liquidity to make periodic capital investments in their operating subsidiaries or, in the case of AGL, to repurchase its common shares pursuant to its share repurchase authorization. In the ordinary course of business, the Company evaluates its liquidity needs and capital resources in light of holding company expenses and dividend policy, as well as rating agency considerations. The Company also subjects its cash flow projections and its assets to a stress test, maintaining a liquid asset balance of one time its stressed operating company net cash flows. Management believes that AGL will have sufficient liquidity to satisfy its needs over the next twelve months.

AGL and Holding Company Subsidiaries
Significant Cash Flow Items

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Dividends and return of capital from subsidiaries	\$424	\$286	\$166
Proceeds from issuance of common shares	—	173	—
Dividends paid to AGL shareholders	(75)	(69)	(33)
Repurchases of common shares	(264)	(24)	(23)
Interest paid	(70)	(77)	(85)
Acquisition of MAC, net of cash acquired	—	(91)	—
Loans from subsidiaries	—	173	—
Payment of long-term debt	(7)	(173)	—

Dividends

The Company anticipates that for the next twelve months, amounts paid by AGL's direct and indirect insurance company subsidiaries as dividends or other distributions will be a major source of its liquidity. The insurance company subsidiaries' ability to pay dividends depends upon their financial condition, results of operations, cash requirements, and compliance with rating agency requirements, and is also subject to restrictions contained in the insurance laws and related regulations of their states of domicile. Dividend restrictions applicable to AGC and AGM, and to AG Re and AGRO, are described under the "Regulation -- United States -- State Dividend Limitations" and

"Regulation -- Bermuda -- Restrictions on Dividends and Distributions" sections of "Item 1. Business."

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 2014 for AGC to pay ordinary dividends to AGUS, after giving effect to dividends paid in the prior 12 months, will be approximately \$69 million.

116

Table of Contents

Under New York's insurance law, AGM may only pay dividends out of "earned surplus" and may pay dividends without the prior approval of the New York Superintendent that, together with all dividends paid in the prior 12 months, does not exceed 10% of its policyholders' surplus (as of its last annual or quarterly statement filed with the New York Superintendent) or 100% of its adjusted net investment income during that period. The maximum amount available during 2014 for AGM to pay dividends to AGMH without regulatory approval, after giving effect to dividends paid in the prior 12 months, will be approximately \$173 million.

AG Re, based on regulatory capital requirements, has \$600 million in excess capital and surplus. However, dividends are paid out of an insurer's statutory surplus and cannot exceed that surplus; AG Re's outstanding statutory surplus is \$278 million. In addition, annual dividends cannot exceed 25% of total statutory capital and surplus, which is \$281 million, without AG Re certifying to the Bermuda Monetary Authority that it will continue to meet required margins. As of December 31, 2013, AG Re had unencumbered assets of approximately \$238 million. Such amount will fluctuate during the quarter based upon factors including the market value of previously posted assets and additional ceded reserves, if any.

Generally, dividends paid by a U.S. company to a Bermuda holding company are subject to a 30% withholding tax. After AGL became tax resident in the United Kingdom, as described in the "Tax Matters" section of "Item 1 Business," it became subject to the tax rules applicable to companies resident in the U.K., including the benefits afforded by the U.K.'s tax treaties. The income tax treaty between the U.K. and the U.S. reduces or eliminates the U.S. withholding tax on certain U.S. sourced investment income (to 5% or 0%), including dividends from U.S. subsidiaries to U.K. resident persons entitled to the benefits of the treaty.

Dividends and Surplus Notes

By Principal Insurance Company Subsidiaries

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Dividends paid by AGC to AGUS	\$67	\$55	\$30
Dividends paid by AGM to AGMH	163	30	—
Dividends paid by AG Re to AGL	144	151	86
Repayment of surplus note by AGM to AGMH	50	50	50
Issuance of surplus notes by MAC to AGM and MAC Holdings	(400) —	—

External Financing

From time to time, AGL and its subsidiaries have sought external debt or equity financing in order to meet their obligations. External sources of financing may or may not be available to the Company, and if available, the cost of such financing may not be acceptable to the Company.

Intercompany Loans

From time to time, AGL and its subsidiaries have entered into intercompany loan facilities. For example, on October 25, 2013, AGL, as borrower, and AGUS, as lender, entered into a revolving credit facility pursuant to which AGL may, from time to time, borrow up to \$225 million in the aggregate from AGUS for general corporate purposes. Such commitment terminates on October 25, 2018 (the "loan termination date"). The unpaid principal amount of each loan will bear interest at a fixed rate equal to 100% of the then applicable Federal short-term or mid-term interest rate, as the case may be, as determined under Internal Revenue Code Sec. 1274(d), and interest on all loans will be computed

for the actual number of days elapsed on the basis of a year consisting of 360 days. Accrued interest on all loans will be paid on the last day of each June and December, beginning on December 31, 2013, and at maturity. AGL must repay the then unpaid principal amounts of the loans by the third anniversary of the loan termination date. No amounts are currently outstanding under the credit facility.

In addition, in connection with the acquisition of MAC, AGUS entered into a loan agreement with its affiliate AGRO in 2012 to borrow \$90 million in order to fund the purchase price. That loan remained outstanding as of December 31, 2013. Furthermore, AGUS obtained the following funds from its subsidiaries in 2012 to complete the remarketing of the \$172.5 million principal amount of 8.50% Senior Notes due 2012 that it had issued in 2009 in connection with the acquisition of

Table of Contents

AGHM: (1) \$82.5 million loaned from its affiliate AGBM, (2) \$50 million in dividends from AGMH, and (3) \$40 million in dividends from AGC. The \$82.5 million loan was repaid in full in July 2013 with a combination of the outstanding common stock of MAC and cash.

Available Cash and Short-Term Investments

As of December 31, 2013, AGL had \$33 million in cash and short-term investments with a weighted average duration of 0.1 years. AGUS and AGMH had a total of \$113 million in cash, short-term investments and common stock and \$115 million in fixed-maturity securities with weighted average duration of 1.5 years.

Liquidity Requirements and Sources -- Insurance Company Subsidiaries

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

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

Management believes that its subsidiaries' liquidity needs for the next twelve months can be met from current cash, short-term investments and operating cash flow, including premium collections and coupon payments as well as scheduled maturities and paydowns from their respective investment portfolios. The Company targets a balance of its most liquid assets including cash and short-term securities, Treasuries, agency RMBS and pre-refunded municipal bonds equal to 1.5 times its projected operating company cash flow needs over the next four quarters. The Company intends to hold and has the ability to hold temporarily impaired debt securities until the date of anticipated recovery.

Beyond the next twelve months, the ability of the operating subsidiaries to declare and pay dividends may be influenced by a variety of factors, including market conditions, insurance regulations and rating agency capital requirements and general economic conditions.

Insurance policies issued provide, in general, that payments of principal, interest and other amounts insured may not be accelerated by the holder of the obligation. Amounts paid by the Company therefore are typically in accordance with the obligation's original payment schedule, unless the Company accelerates such payment schedule, at its sole option. CDS may provide for acceleration of amounts due upon the occurrence of certain credit events, subject to single-risk limits specified in the insurance laws of the State of New York. These constraints prohibit or limit acceleration of certain claims according to Article 69 of the New York Insurance Law and serve to reduce the Company's liquidity requirements.

Payments made in settlement of the Company's obligations arising from its insured portfolio may, and often do, vary significantly from year-to-year, depending primarily on the frequency and severity of payment defaults and whether the Company chooses to accelerate its payment obligations in order to mitigate future losses.

Claims Paid (Recovered)

Year Ended December 31,		
2013	2012	2011

Claims paid before R&W recoveries, net of reinsurance	\$705	\$1,326	\$1,142
R&W recoveries	(954	) (459	) (1,059
Claims paid (recovered), net of reinsurance(1)	\$(249	) \$867	\$83

(1) Includes amounts paid and recovered on consolidated FG VIEs as follows: \$189 million in recoveries in 2013, \$38 million in recoveries in 2012, and \$200 million in payments for 2011. Claims recovered include invested assets received as part of a restructuring. See Note 6, Expected Loss to be Paid, of the Financial Statements and Supplementary Data.

Table of Contents

The Company has exposure 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, if at all. As of December 31, 2013, the Company's insured exposure to such transactions was approximately \$3.0 billion. The Company generally projects that in most scenarios it will be fully reimbursed for claim payments it makes on such exposure. However, the recovery of the payments is uncertain and may take a long time, ranging from 10 to 35 years, depending on the transaction and the performance of the underlying collateral. For the Company's two largest transactions with significant refinancing risk, assuming no refinancing of the insured obligations, the Company estimates, based on certain performance assumptions, that total claims could be \$1.8 billion on a gross basis; such claims would be payable from 2017 through 2022.

In addition, the Company has net par exposure of \$5.4 billion to the Commonwealth of Puerto Rico, of which \$5.2 billion net par is rated BIG by the Company. Although the Commonwealth has not defaulted on any of its debt, it faces significant challenges, including high debt levels, a declining population and an economy that has been in recession since 2006. In February 2014, S&P, Moody's and Fitch Ratings downgraded much of the debt of Puerto Rico and its related authorities and public corporations to below investment grade, citing various factors including limited liquidity and market access risk. Information regarding the Company's exposure to the Commonwealth of Puerto Rico and its related authorities and public corporations is set forth in "Insured Portfolio-Exposure to Puerto Rico" above.

The terms of the Company's CDS contracts generally are modified from standard CDS contract forms approved by ISDA in order to provide for payments on a scheduled basis and to replicate the terms of a traditional financial guaranty insurance policy. Some contracts the Company entered into as the credit protection seller, however, utilize standard ISDA settlement mechanics of cash settlement (i.e., a process to value the loss of market value of a reference obligation) or physical settlement (i.e., delivery of the reference obligation against payment of principal by the protection seller) in the event of a "credit event," as defined in the relevant contract. Cash settlement or physical settlement generally requires the payment of a larger amount, prior to the maturity of the reference obligation, than would settlement on a "pay-as-you-go" basis, under which the Company would be required to pay scheduled interest shortfalls during the term of the reference obligation and scheduled principal shortfall only at the final maturity of the reference obligation. The Company's CDS contracts also generally provide that if events of default or termination events specified in the CDS 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 the CDS contract prior to maturity. The Company may be required to make a termination payment to its swap counterparty upon such termination. In addition, under certain of the Company's CDS, the Company may be obligated to collateralize its obligations under the CDS if it does not maintain financial strength ratings above the negotiated rating level specified in the CDS documentation.

Consolidated Cash Flows

Consolidated Cash Flow Summary

	Year Ended December 31,		
	2013	2012	2011
Net cash flows provided by (used in) operating activities	\$244	\$(165)	) \$676
Net cash flows provided by (used in) investing activities	681	943	561
Net cash flows provided by (used in) financing activities	(878)) (856)) (1,132)
Effect of exchange rate changes	(1)) 1	2

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Cash at beginning of period	138	215	108
Total cash at the end of the period	\$184	\$138	\$215

Claims paid on consolidated FG VIEs are presented in the consolidated cash flow statements as a component of paydowns on FG VIE liabilities in financing activities as opposed to operating activities. Excluding consolidated FG VIEs, cash inflows from operating activities in 2013 compared to cash outflows for 2012 were mainly due to lower claim payments (net of R&W recoveries), partially offset by lower premiums due to lower business production and higher taxes in 2013. Excluding consolidated FG VIEs, cash outflows from operating activities for 2012 compared to cash inflows for 2011 were mainly due higher net claim payments in 2012, offset in part by cash received on two commutations of \$190 million. Losses

Table of Contents

paid in 2012 include claims related to Greek sovereign exposures. Cash inflows from operating activities in 2011 were due mainly to cash proceeds received from the Company's settlement agreement with Bank of America.

Investing activities were primarily net sales (purchases) of fixed-maturity and short-term investment securities. Investing cash flows in 2013, 2012 and 2011 include inflows of \$663 million, \$545 million and \$760 million for FG VIEs, respectively. The 2013 amount also include proceeds from sales of third party surplus notes and other invested assets. In 2012 the Company paid \$91 million to acquire MAC and received \$56 million from a payment of a note receivable.

Financing activities consisted primarily of paydowns of FG VIE liabilities. Financing cash flows in 2013, 2012 and 2011 include outflows of \$511 million, \$724 million and \$1,053 million for FG VIEs, respectively.

In 2013, the Company paid \$264 million to repurchase 12.5 million common shares; in 2012, the Company paid \$24 million to repurchase 2.1 million common shares; and in 2011, the Company paid \$23 million to repurchase 2.0 million common shares. As of December 31, 2013, the Company is authorized to repurchase \$400 million common shares. For more information about the Company's share repurchase authorization and the amounts it repurchased in 2013, see Note 19, Shareholders' Equity, of the Financial Statements and Supplementary Data.

Commitments and Contingencies

Leases

AGL and its subsidiaries are party to various lease agreements. The principal executive offices of AGL and AG Re consist of approximately 8,250 square feet of office space located in Hamilton, Bermuda; the lease for this space expires in April 2015. The principal place of business of AGM, AGC, MAC and the Company's other U.S. based subsidiaries is located in New York City, where the Company leases approximately 110,000 square feet of office space under an agreement that expires in April 2026. In addition, the Company occupies another approximately 21,000 square feet of office space in London and Sydney, and two offices in San Francisco and Irvine, California; those leases expire at various dates through 2016. See “–Contractual Obligations” for lease payments due by period. Rent expense was \$9.9 million in 2013, \$10.0 million in 2012 and \$10.7 million in 2011.

Table of Contents

Long-Term Debt Obligations

The principal outstanding and interest paid on long-term debt issued by AGUS and AGMH were as follows:

Principal Outstanding
and Interest Paid on Long-Term Debt

	Principal Amount		Interest Paid		
	As of December 31, 2013	2012	2013	2012	2011
	(in millions)				
AGUS:					
7.0% Senior Notes	\$200	\$200	\$14	\$14	\$14
8.50% Senior Notes(1)	—	—	—	7	15
Series A Enhanced Junior Subordinated Debentures	150	150	10	10	10
Total AGUS	350	350	24	31	39
AGMH(1):					
67/8% QUIBS	100	100	7	7	7
6.25% Notes	230	230	14	14	14
5.60% Notes	100	100	6	6	6
Junior Subordinated Debentures	300	300	19	19	19
Total AGMH	730	730	46	46	46
AGM(2):					
Notes Payable	34	61	6	8	7
Total AGM	34	61	6	8	7
Total	\$1,114	\$1,141	\$76	\$85	\$92

(1) On June 1, 2012, AGUS retired all of the 8.5% Senior Notes. See Note 17, Long-Term Debt and Credit Facilities, of the Financial Statements and Supplementary Data.

Principal amounts vary from carrying amounts due primarily to acquisition method fair value adjustments at the (2) Acquisition Date, which are accreted or amortized into interest expense over the remaining terms of these obligations.

AGL fully and unconditionally guarantees the following obligations:

7.0% Senior Notes issued by AGUS

6 7/8% Quarterly Income Bonds Securities (“QUIBS”) issued by AGMH

6.25% Notes issued by AGMH

5.60% Notes issued by AGMH

In addition, AGL guarantees, on a junior subordinated basis, AGUS’s Series A, Enhanced Junior Subordinated Debentures and AGMH’s outstanding Junior Subordinated Debentures.

7.0% Senior Notes issued by AGUS. On May 18, 2004, AGUS issued \$200 million of 7.0% senior notes due 2034 (“7.0% Senior Notes”) for net proceeds of \$197 million. Although the coupon on the Senior Notes is 7.0%%, the effective rate is approximately 6.4%%, taking into account the effect of a cash flow hedge.

Series A Enhanced Junior Subordinated Debentures issued by AGUS. On December 20, 2006, AGUS issued \$150 million of the Debentures due 2066. The Debentures pay a fixed 6.4% rate of interest until December 15, 2016, and thereafter pay a floating rate of interest, reset quarterly, at a rate equal to three month London Interbank Offered Rate ("LIBOR") plus a margin equal to 2.38%. AGUS may select at one or more times to defer payment of interest for one or more consecutive periods for up to ten years. Any unpaid interest bears interest at the then applicable rate. AGUS may not defer interest past the maturity date.

Table of Contents

6 7/8% QUIBS issued by AGMH. On December 19, 2001, AGMH issued \$100 million face amount of 6 7/8% QUIBS due December 15, 2101, which are callable without premium or penalty.

6.25% Notes issued by AGMH. On November 26, 2002, AGMH issued \$230 million face amount of 6.25% Notes due November 1, 2102, which are callable without premium or penalty in whole or in part.

5.60% Notes issued by AGMH. On July 31, 2003, AGMH issued \$100 million face amount of 5.60% Notes due July 15, 2103, which are callable without premium or penalty in whole or in part.

Junior Subordinated Debentures issued by AGMH. On November 22, 2006, AGMH issued \$300 million face amount of Junior Subordinated Debentures with a scheduled maturity date of December 15, 2036 and a final repayment date of December 15, 2066. The final repayment date of December 15, 2066 may be automatically extended up to four times in five-year increments provided certain conditions are met. The debentures are redeemable, in whole or in part, at any time prior to December 15, 2036 at their principal amount plus accrued and unpaid interest to the date of redemption or, if greater, the make-whole redemption price. Interest on the debentures will accrue from November 22, 2006 to December 15, 2036 at the annual rate of 6.40%. If any amount of the debentures remains outstanding after December 15, 2036, then the principal amount of the outstanding debentures will bear interest at a floating interest rate equal to one-month LIBOR plus 2.215% until repaid. AGMH may elect at one or more times to defer payment of interest on the debentures for one or more consecutive interest periods that do not exceed ten years. In connection with the completion of this offering, AGMH entered into a replacement capital covenant for the benefit of persons that buy, hold or sell a specified series of AGMH long-term indebtedness ranking senior to the debentures. Under the covenant, the debentures will not be repaid, redeemed, repurchased or defeased by AGMH or any of its subsidiaries on or before the date that is twenty years prior to the final repayment date, except to the extent that AGMH has received proceeds from the sale of replacement capital securities. The proceeds from this offering were used to pay a dividend to the shareholders of AGMH.

Notes Payable issued by AGM. In order to mitigate certain financial guaranty insurance losses, special purpose entities that AGM consolidates ("refinancing vehicles") borrowed funds from the former AGMH subsidiaries that conducted AGMH's Financial Products Business (the "Financial Products Companies"). The Company refers to such debt as the "Notes Payable." The Financial Products Companies issued guaranteed investment contracts that AGM insured, and loaned the proceeds to the refinancing vehicles. The refinancing vehicles used the proceeds from the Notes Payable to purchase certain obligations insured by AGM or collateral underlying such obligations and reimbursed AGM for its claim payments, in exchange for AGM assigning to the refinancing vehicles certain of its rights against the trusts in the applicable transactions.

Recourse Credit Facility

In connection with the AGMH Acquisition, AGM agreed to retain the risks relating to the debt and strip policy portions of the leveraged lease business. The liquidity risk to AGM related to the strip policy portion of the leveraged lease business is mitigated by the strip coverage facility described below.

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

If the lease is terminated early, the tax-exempt entity must make an early termination payment to the lessor. A portion of this early termination payment is funded from monies that were pre-funded and invested at the closing of the leveraged lease transaction (along with earnings on those invested funds). The tax-exempt entity is obligated to pay the remaining, unfunded portion of this early termination payment (known as the "strip coverage") from its own sources.

AGM issued financial guaranty insurance policies (known as “strip policies”) that guaranteed the payment of these unfunded strip coverage amounts to the lessor, in the event that a tax-exempt entity defaulted on its obligation to pay this portion of its early termination payment. AGM can then seek reimbursement of its strip policy payments from the tax-exempt entity, and can also sell the transferred depreciable asset and reimburse itself from the sale proceeds.

Currently, all the leveraged lease transactions in which AGM acts as strip coverage provider are breaching a rating trigger related to AGM and are subject to early termination. However, early termination of a lease does not result in a draw on the AGM policy if the tax-exempt entity makes the required termination payment. If all the leases were to terminate early and the tax-exempt entities do not make the required early termination payments, then AGM would be exposed to possible liquidity claims on gross exposure of approximately \$1.5 billion as of December 31, 2013. 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

Table of Contents

claims. At December 31, 2013, approximately \$1.2 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. (“DCL”), 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 AGMH Acquisition but is scheduled to amortize over time. As of December 31, 2013, the maximum commitment amount of the Strip Coverage Facility had amortized to approximately \$968 million and as of February 1, 2014, such maximum commitment amount had amortized further to approximately \$960 million. On February 7, 2014, AGM reduced the maximum commitment amount by \$460 million to approximately \$500 million, after taking into account its experience with its exposure to leveraged lease transactions to date.

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. 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, and 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 maintain a minimum net worth of 75% of consolidated net worth as of July 1, 2009, plus, starting July 1, 2014, (i) 25% of the aggregate consolidated net income (or loss) for the period beginning July 1, 2009 and ending on June 30, 2014 or, (2) zero, if the commitment amount has been reduced to \$750 million as described above. The Company is in compliance with all financial covenants as of December 31, 2013.

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 December 31, 2013, no amounts were outstanding under this facility, nor have there been any borrowings during the life of this facility.

Committed Capital Securities

Each of AGC and AGM have issued \$200 million of committed capital securities pursuant to transactions in which AGC CCS or AGM’s Committed Preferred Trust Securities (the “AGM CPS”), as applicable, were issued by custodial trusts created for the primary purpose of issuing such securities, investing the proceeds in high-quality assets and providing put options to AGC or AGM, as applicable. The put options allow AGC and AGM to issue non-cumulative redeemable perpetual preferred securities to the trusts in exchange for cash. For both AGC and AGM, four initial trusts were created, each with an initial aggregate face amount of \$50 million. The Company does not consider itself to be the primary beneficiary of the trusts for either the AGC or AGM committed capital securities and the trusts are not consolidated in Assured Guaranty's financial statements.

The trusts provide AGC and AGM access to new capital at their respective sole discretion through the exercise of the put options. Upon AGC's or AGM's exercise of its put option, the relevant trust will liquidate its portfolio of eligible assets and use the proceeds to purchase the AGC or AGM preferred stock, as applicable. AGC or AGM may use the

proceeds from such sale of its preferred stock to the trusts for any purpose, including the payment of claims. The put agreements have no scheduled termination date or maturity. However, each put agreement will terminate if (subject to certain grace periods) in the event specified events occur.

AGC Committed Capital Securities. AGC entered into separate put agreements with four custodial trusts with respect to its committed capital securities in April 2005. The AGC put options have not been exercised through the date of this filing. Initially, all of AGC committed capital securities were issued to a special purpose pass-through trust (the "Pass-Through Trust"). The Pass-Through Trust was dissolved in April 2008 and the AGC committed capital securities were distributed to the holders of the Pass-Through Trust's securities. Neither the Pass-Through Trust nor the custodial trusts are consolidated in the Company's financial statements. Income distributions on the Pass-Through Trust securities and committed capital securities were equal to an annualized rate of one-month LIBOR plus 110 basis points for all periods ending on or prior to April 8, 2008.

Table of Contents

Following dissolution of the Pass-Through Trust, distributions on the AGC committed capital securities are determined pursuant to an auction process. On April 7, 2008 this auction process failed, thereby increasing the annualized rate on the AGC committed capital securities to one-month LIBOR plus 250 basis points. Distributions on the AGC preferred stock will be determined pursuant to the same process. AGC continues to have the ability to exercise its put option and cause the related trusts to purchase AGC Preferred Stock.

AGM Committed Capital Securities. AGM entered into separate put agreements with four custodial trusts with respect to its committed capital securities in June 2003. The AGM put options have not been exercised through the date of this filing. AGM pays a floating put premium to the trusts, which represents the difference between the commercial paper yield and the winning auction rate (plus all fees and expenses of the trust). If an auction does not attract sufficient clearing bids, however, the auction rate is subject to a maximum rate of one-month LIBOR plus 200 basis points for the next succeeding distribution period. Beginning in August 2007, the AGM committed capital securities 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.

Contractual Obligations

The following table summarizes the Company's obligations under its contracts, including debt and lease obligations, and also includes estimated claim payments, based on its loss estimation process, under financial guaranty policies it has issued.

	As of December 31, 2013				Total
	Less Than 1 Year (in millions)	1-3 Years	3-5 Years	After 5 Years	
Long-term debt:					
7.0% Senior Notes	\$ 14	\$ 28	\$ 28	\$ 415	\$ 485
Series A Enhanced Junior Subordinated Debentures	10	19	19	610	658
6 ⁷ / ₈ % QUIBS	7	14	14	670	705
6.25% Notes	14	29	29	1,436	1,508
5.60% Notes	6	11	11	573	601
Junior Subordinated Debentures	19	38	38	1,223	1,318
Notes Payable	13	15	11	0	39
Operating lease obligations(1)	8	16	15	59	98
Other compensation plans(3)	17	1	—	—	18
Estimated financial guaranty claim payments(2)	389	703	159	1,913	3,164
Total	\$ 497	\$ 874	\$ 324	\$ 6,899	\$ 8,594

(1) Operating lease obligations exclude escalations in building operating costs and real estate taxes.

Financial guaranty claim payments represent estimated undiscounted expected cash outflows under direct and assumed financial guaranty contracts, whether accounted for as insurance or credit derivatives, including claim payments under contracts in consolidated FG VIEs. The amounts presented are not reduced for cessions under reinsurance contracts. Amounts include any benefit anticipated from excess spreads within the contracts but do not reflect any benefit for recoveries under breaches of R&W.

(3)

Amount excludes approximately \$47 million of liabilities under various supplemental retirement plans, which are fair valued and payable at the time of termination of employment by either employer or employee. Amount also excludes approximately \$38 million of liabilities under AGL 2004 long term incentive plan, which are fair valued and payable at the time of termination of employment by either employer or employee with change of control. Given the nature of these awards, we are unable to determine the year in which they will be paid.

Table of Contents

Investment Portfolio

The Company's principal objectives in managing its investment portfolio are to preserve the highest possible ratings for each operating company; to manage investment risk within the context of the underlying portfolio of insurance risk; to maintain sufficient liquidity to cover unexpected stress in the insurance portfolio; and to maximize after-tax net investment income.

Fixed-Maturity Securities and Short-Term Investments

The Company's fixed-maturity securities and short-term investments had a duration of 4.9 years as of December 31, 2013 and 4.3 years as of December 31, 2012. Generally, the Company's fixed-maturity securities are designated as available-for-sale. For more information about the Investment Portfolio and a detailed description of the Company's valuation of investments see Note 11, Investments and Cash, of the Financial Statements and Supplementary Data.

Fixed-Maturity Securities and Short-Term Investments
by Security Type

	As of December 31, 2013		As of December 31, 2012	
	Amortized Cost (in millions)	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Fixed-maturity securities:				
Obligations of state and political subdivisions	\$4,899	\$5,079	\$5,153	\$5,631
U.S. government and agencies	674	700	732	794
Corporate securities	1,314	1,340	930	1,010
Mortgage-backed securities(1):				
RMBS	1,160	1,122	1,281	1,266
CMBS	536	549	482	520
Asset-backed securities	605	608	482	531
Foreign government securities	300	313	286	304
Total fixed-maturity securities	9,488	9,711	9,346	10,056
Short-term investments	904	904	817	817
Total fixed-maturity and short-term investments	\$10,392	\$10,615	\$10,163	\$10,873

(1) Government-agency obligations were approximately 50% of mortgage backed securities as of December 31, 2013 and 61% as of December 31, 2012, based on fair value.

Table of Contents

The following tables summarize, for all fixed-maturity securities in an unrealized loss position as of December 31, 2013 and December 31, 2012, 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 December 31, 2013

	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	\$781	\$(39)	\$5	\$0	\$786	\$(39)
U.S. government and agencies	173	(6)	—	—	173	(6)
Corporate securities	401	(18)	3	0	404	(18)
Mortgage-backed securities:						
RMBS	414	(21)	186	(51)	600	(72)
CMBS	121	(4)	—	—	121	(4)
Asset-backed securities	196	(2)	42	(5)	238	(7)
Foreign government securities	54	(1)	1	0	55	(1)
Total	\$2,140	\$(91)	\$237	\$(56)	\$2,377	\$(147)
Number of securities		425		33		458
Number of securities with OTTI		13		11		24

Fixed-Maturity Securities

Gross Unrealized Loss by Length of Time

As of December 31, 2012

	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	\$79	\$(11)	\$—	\$—	\$79	\$(11)
U.S. government and agencies	62	0	—	—	62	0
Corporate securities	25	0	—	—	25	0
Mortgage-backed securities:						
RMBS	108	(19)	121	(58)	229	(77)
CMBS	5	0	—	—	5	0
Asset-backed securities	16	0	35	(10)	51	(10)
Foreign government securities	8	0	—	—	8	0
Total	\$303	\$(30)	\$156	\$(68)	\$459	\$(98)
Number of securities		58		16		74
Number of securities with OTTI		5		6		11

Of the securities in an unrealized loss position for 12 months or more as of December 31, 2013, eleven securities had an unrealized loss greater than 10% of book value. The total unrealized loss for these securities as of December 31, 2013 was \$52 million. The Company has determined that the unrealized losses recorded as of December 31, 2013 are

yield related and not the result of other-than-temporary impairment.

126

Table of Contents

Changes in interest rates affect the value of the Company's fixed maturity portfolio. As interest rates fall, the fair value of fixed-maturity securities increases and as interest rates rise, the fair value of fixed-maturity securities decreases. The Company's portfolio of fixed-maturity securities consists primarily of high-quality, liquid instruments.

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

Distribution of Fixed-Maturity Securities
by Contractual Maturity
As of December 31, 2013

	Amortized Cost (in millions)	Estimated Fair Value
Due within one year	\$272	\$275
Due after one year through five years	1,662	1,734
Due after five years through 10 years	2,420	2,505
Due after 10 years	3,438	3,526
Mortgage-backed securities:		
RMBS	1,160	1,122
CMBS	536	549
Total	\$9,488	\$9,711

The following table summarizes the ratings distributions of the Company's investment portfolio as of December 31, 2013 and December 31, 2012. Ratings reflect the lower of the Moody's and S&P classifications, except for bonds purchased for loss mitigation or risk management strategies, which use Assured Guaranty's internal ratings classifications.

Distribution of
Fixed-Maturity Securities by Rating

Rating	As of December 31, 2013		As of December 31, 2012	
AAA	16.5	%	18.5	%
AA	57.5		61.3	
A	17.6		14.3	
BBB	0.9		0.4	
BIG(1)	7.5		5.5	
Total	100.0	%	100.0	%

(1) Comprised primarily of loss mitigation and other risk management assets. See Note 11, Investments and Cash, of the Financial Statements and Supplementary Data.

Table of Contents

The following table presents the fair value of securities with third-party guaranties.

Summary of Investments with
Third-Party Guaranties (1)
at Fair Value

Guarantor	As of December 31, 2013 (in millions)
National Public Finance Guarantee Corporation	\$461
Ambac Assurance Corporation	455
CIFG Assurance North America Inc.	19
Berkshire Hathaway Assurance Corporation	5
Syncora Guarantee Inc.	3
Total	\$943

(1)99.2% of these securities had investment grade ratings based on the lower of Moody's and S&P.

Under agreements with its cedants and in accordance with statutory requirements, the Company maintains fixed-maturity securities and cash in trust accounts for the benefit of reinsured companies, which amounted to \$377 million and \$368 million as of December 31, 2013 and December 31, 2012, respectively, based on fair value. In addition, to fulfill state licensing requirements, the Company has placed on deposit eligible securities of \$19 million and \$27 million as of December 31, 2013 and December 31, 2012, respectively.

Under certain derivative contracts, the Company is required to post eligible securities as collateral. The need to post collateral under these transactions is generally based on mark-to-market valuations in excess of contractual thresholds. The fair market value of the Company's pledged securities totaled \$677 million and \$660 million as of December 31, 2013 and December 31, 2012, respectively.

Liquidity Arrangements with respect to AGMH's former Financial Products Business

AGMH's former financial products segment had been in the business of borrowing funds through the issuance of GICs and medium term notes and reinvesting the proceeds in investments that met AGMH's investment criteria. The financial products business also included the equity payment undertaking agreement portion of the leveraged lease business, as described further below in "—Leveraged Lease Business."

The GIC Business

Until November 2008, AGMH, through its financial products business, offered GICs to municipalities and other market participants. The GICs were issued through AGMH's non-insurance subsidiaries (the "GIC Issuers") FSA Capital Management Services LLC, FSA Capital Markets Services LLC and FSA Capital Markets Services (Caymans) Ltd. In return for an initial payment, each GIC entitles its holder to receive the return of the holder's invested principal plus interest at a specified rate, and to withdraw principal from the GIC as permitted by its terms. AGM insures the GIC Issuer's payment obligations on all GICs issued by the applicable GIC Issuer.

The proceeds of GICs issued by the GIC Issuers were loaned to AGMH's former subsidiary FSA Asset Management LLC ("FSAM"). FSAM in turn invested these funds in fixed-income obligations (primarily residential mortgage-backed securities, but also short-term investments, securities issued or guaranteed by U.S. government

sponsored agencies, taxable municipal bonds, securities issued by utilities, infrastructure-related securities, collateralized debt obligations, other asset-backed securities and foreign currency denominated securities) (the “FSAM assets”).

Prior to the completion of the AGMH Acquisition, AGMH sold its ownership interest in the GIC Issuers and FSAM to Dexia Holdings. Even though AGMH no longer owns the GIC Issuers or FSAM, AGM’s guarantees of the GICs remain in place, and must remain in place until each GIC is terminated.

In June 2009, in connection with the AGMH Acquisition, Dexia SA, Dexia Holdings’ ultimate parent, and certain of its affiliates, entered into a number of agreements intended to mitigate the credit, interest rate and liquidity risks associated with

Table of Contents

the GIC business and the related AGM guarantees. Some of those agreements have since terminated or expired, or been modified. In addition to the surviving agreements described below, AGM benefits from a guaranty jointly and severally issued by Dexia SA and DCL to AGM that guarantees the payment obligations of AGM under its policies related to the GIC business, and an indemnification agreement between AGM, Dexia SA and DCL that protects AGM from other losses arising out of or as a result of the GIC business.

To support the payment obligations of FSAM and the GIC Issuers, each of Dexia SA and DCL are party to an ISDA Master Agreement, including an associated schedule, confirmation and credit support annex (the “Non-Guaranteed Put Contract”), the economic effect of which is that Dexia SA and DCL jointly and severally guarantee (i) the scheduled payments of interest and principal in relation to a specified portfolio of FSAM assets, (ii) Dexia’s obligation to provide liquidity or liquid collateral under the committed liquidity lending facilities provided by Dexia affiliates, and (iii) to make certain payments in the event of an insolvency of Dexia S.A. Pursuant to the Non-Guaranteed Put Contract, FSAM may put an amount of FSAM assets to Dexia SA and DCL in exchange for funds. The amount that could be put varies depending on the type of trigger event in question. In an asset default scenario, the amount payable generally covers at least the amount of the losses on the FSAM assets (by non-payment, writedown or realized loss). For other trigger events, the amount payable generally is at least the amount due and unpaid under the committed liquidity facilities, the principal amount of the FSAM assets, and the outstanding principal balance of the GICs. Dexia S.A. and DCL also benefit from certain grace periods and procedural rights under the Non-Guaranteed Put Contract. To secure the Non-Guaranteed Put Contract, Dexia SA and DCL will, pursuant to the credit support annex thereto, post eligible highly liquid collateral having an aggregate value (subject to agreed reductions) equal to at least the excess of (i) the aggregate principal amount of all outstanding GICs over (ii) the aggregate mark-to-market value of FSAM’s assets. The agreed-to advance rates applicable to the value of FSAM assets range from 98% to 82% percent for obligations backed by the full faith and credit of the United States, sovereign obligations of the United Kingdom, Germany, the Netherlands, France or Belgium, obligations guaranteed by the Federal Deposit Insurance Corporation (FDIC) and for mortgage securities issued or guaranteed by U.S. sponsored agencies, and range from 75% to 0% for the other FSAM assets. As of December 31, 2013, approximately 30% of the FSAM Assets (measured by aggregate principal balance) was in cash or were obligations backed by the full faith and credit of the United States.

As of December 31, 2013, the aggregate accreted GIC balance was approximately \$2.7 billion. As of the same date and with respect to the FSAM assets that are covered by the primary put contract, the aggregate accreted principal was approximately \$4.0 billion, the aggregate market value was approximately \$3.8 billion and the aggregate market value after agreed reductions was approximately \$2.7 billion. Cash and net derivative value constituted another \$0.6 billion of assets. Accordingly, as of December 31, 2013, the aggregate fair value (after agreed reductions) of the assets supporting the GIC business exceeded the aggregate principal amount of all outstanding GICs and certain other business and hedging costs of the GIC business. Therefore, no posting of collateral was required under the credit support annex applicable to the primary put contract. Under the terms of that credit support annex, the collateral posting is recalculated on a weekly basis according to the formula set forth in the credit support annex, and a collateral posting is required whenever the collateralization levels tested by the formula are not satisfied, subject to a threshold of \$5 million.

To provide additional support, Dexia affiliates provide liquidity commitments to lend against the FSAM assets, generally until the GICs have been paid in full. The liquidity commitments comprise:

an amended and restated revolving credit agreement (the “Liquidity Facility”) pursuant to which DCL commits to provide funds to FSAM. As a result of agreed reductions and GIC amortization as of December 31, 2013 the commitments totaled \$3.8 billion of (which approximately \$1.3 billion was drawn), and

a master repurchase agreement (the “Repurchase Facility Agreement” and, together with the Liquidity Facility, the “Guaranteed Liquidity Facilities”) pursuant to which DCL will provide up to \$3.5 billion of funds in exchange for the

transfer by FSAM to DCL of FSAM securities that are not eligible to satisfy collateralization obligations of the GIC Issuers under the GICs. As of December 31, 2013, no amounts were outstanding under the Repurchase Facility Agreement.

Despite the execution of the Non-Guaranteed Put Contract and the Guaranteed Liquidity Facilities, and the significant portion of FSAM assets comprised of highly liquid securities backed by the full faith and credit of the United States, AGM remains subject to the risk that Dexia may not make payments or securities available (i) on a timely basis, which is referred to as “liquidity risk,” or (ii) at all, which is referred to as “credit risk,” because of the risk of default. Even if Dexia has sufficient assets to pay all amounts when due, concerns regarding Dexia’s financial condition or willingness to comply with their obligations could cause one or more rating agencies to view negatively the ability or willingness of Dexia and its affiliates to perform under their various agreements and could negatively affect AGM’s ratings.

Table of Contents

If Dexia or its affiliates do not fulfill the contractual obligations, the GIC issuers may not have the financial ability to pay upon the withdrawal of GIC funds or post collateral or make other payments in respect of the GICs, thereby resulting in claims upon the AGM financial guaranty insurance policies. If AGM is required to pay a claim due to a failure of the GIC issuers to pay amounts in respect of the GICs, AGM is subject to the risk that the GICs will not be paid from funds received from Dexia before it is required to make payment under its financial guaranty policies or that it will not receive the guaranty payment at all.

One situation in which AGM may be required to pay claims in respect of AGMH's former financial products business if Dexia SA and its affiliates do not comply with their obligations is following a downgrade of the financial strength rating of AGM. Most of the GICs insured by AGM allow for the withdrawal of GIC funds in the event of a downgrade of AGM, unless the relevant GIC issuer posts collateral or otherwise enhances its credit. Most GICs insured by AGM allow for the termination of the GIC contract and a withdrawal of GIC funds at the option of the GIC holder in the event of a downgrade of AGM below a specified threshold, generally below A- by S&P or A3 by Moody's, with no right of the GIC issuer to avoid such withdrawal by posting collateral or otherwise enhancing its credit. Each GIC contract stipulates the thresholds below which the GIC issuer must post eligible collateral, along with the types of securities eligible for posting and the collateralization percentage applicable to each security type. These collateralization percentages range from 100% of the GIC balance for cash posted as collateral to, typically, 108% for asset-backed securities. There are expected to be sufficient eligible and liquid assets within the GIC business to satisfy any withdrawal and collateral posting obligations that would be expected to arise as a result of potential future rating action affecting AGM.

The Medium Term Notes Business

In connection with the AGMH Acquisition, DCL agreed to fund, on behalf of AGM and AGBM, 100% of all policy claims made under financial guaranty insurance policies issued by AGM and AGBM in relation to the medium term notes issuance program of FSA Global Funding Limited. Such agreement is set out in a Separation Agreement, dated as of July 1, 2009, between DCL, AGM, AGBM, FSA Global Funding and Premier International Funding Co., and in a funding guaranty and a reimbursement guaranty that DCL issued for the benefit of AGM and AGBM. Under the funding guaranty, DCL guarantees to pay to or on behalf of AGM or AGBM amounts equal to the payments required to be made under policies issued by AGM or AGBM relating to the medium term notes business. Under the reimbursement guaranty, DCL guarantees to pay reimbursement amounts to AGM or AGBM for payments they make following a claim for payment under an obligation insured by a policy they have issued. Notwithstanding DCL's obligation to fund 100% of all policy claims under those policies, AGM and AGBM have a separate obligation to remit to DCL a certain percentage (ranging from 0% to 25%) of those policy claims. AGM, the Company and related parties are also protected against losses arising out of or as a result of the medium term note business through an indemnification agreement with DCL. As of December 31, 2013, FSA Global Funding Limited had approximately \$1.5 billion of notes outstanding.

Leveraged Lease Business

Under the Strip Coverage Facility entered into in connection with the AGMH Acquisition, Dexia Credit Local (NY) agreed to make loans to AGM to finance all draws made by lessors on certain AGM strip policies issued in connection with the leveraged lease business. AGM may request advances under the Strip Coverage Facility without any explicit limit on the number of loan requests, provided that the aggregate principal amount of loans outstanding as of any date may not initially exceed the commitment amount. The leveraged lease business, the AGM strip policies and the Strip Coverage Facility are described further under "Commitments and Contingencies—Recourse Credit Facility" above.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of adverse changes in earnings, cash flow or fair value as a result of changes in the value of financial instruments. The Company's primary market risk exposures include interest rate risk, foreign currency exchange rate risk and credit spread risk. The Company's primary exposure to market risk is summarized below:

• The fair value of credit derivatives within the financial guaranty portfolio of insured obligations which fluctuate based on changes in credit spreads of the underlying obligations and the Company's own credit spreads.

• The Investment Portfolio's fair value is primarily driven by changes in interest rates and also affected by changes in credit spreads.

Table of Contents

The Investment Portfolio also contains foreign denominated securities whose value fluctuates based on changes in foreign exchange rates.

Premiums receivable include foreign denominated receivables whose carrying value fluctuates based on changes in foreign exchange rates.

The fair value of the assets and liabilities of consolidated FG VIE's may fluctuate based on changes in prepayment spreads, default rates, interest rates, and house price depreciation/appreciation.

Sensitivity of Credit Derivatives to Credit Risk

Unrealized gains and losses on credit derivatives are a function of changes in the estimated fair value of the Company's credit derivative contracts. If credit spreads of the underlying obligations change, the fair value of the related credit derivative changes. Market liquidity could also impact valuations of the underlying obligations. As such, Assured Guaranty experiences mark-to-market gains or losses. The Company considers the impact of its own credit risk, together with credit spreads on the risk that it assumes through CDS contracts, in determining their fair value. The Company determines its own credit risk based on quoted CDS prices traded on the Company at each balance sheet date. The quoted price of CDS contracts traded on AGC at December 31, 2013 and December 31, 2012 was 460 bps and 678 bps, respectively. The quoted price of CDS contracts traded on AGM at December 31, 2013 and December 31, 2012 was 525 bps and 536 bps, respectively. Historically, the price of CDS traded on AGC and AGM moves directionally the same as general market spreads, although this may not always be the case. An overall narrowing of spreads generally results in an unrealized gain on credit derivatives for the Company, and an overall widening of spreads generally results in an unrealized loss for the Company. In certain circumstances, due to the fact that spread movements are not perfectly correlated, the narrowing or widening of the price of CDS traded on AGC and AGM can have a more significant financial statement impact than the changes in underlying collateral prices.

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 structure 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 generally holds these credit derivative contracts to maturity. The unrealized gains and losses on derivative financial instruments will reduce to zero as the exposure approaches its maturity date, unless there is a payment default on the exposure or early termination. Given these facts, the Company does not actively hedge these exposures.

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

Credit Spreads(1)	As of December 31, 2013	
	Estimated Net Fair Value (Pre-Tax) (in millions)	Estimated Change in Gain/(Loss)(Pre-Tax)
100% widening in spreads	\$ (3,499	) \$ (1,806)
50% widening in spreads	(2,596	) (903)
25% widening in spreads	(2,145	) (452)

10% widening in spreads	(1,874	) (181)
Base Scenario	(1,693) —	
10% narrowing in spreads	(1,527	) 166	
25% narrowing in spreads	(1,276	) 417	
50% narrowing in spreads	(860	) 833	

Table of Contents

Credit Spreads(1)	As of December 31, 2012	
	Estimated Net Fair Value (Pre-Tax) (in millions)	Estimated Change in Gain/(Loss)(Pre-Tax)
100% widening in spreads	\$ (3,765	) \$ (1,972)
50% widening in spreads	(2,777	) (984)
25% widening in spreads	(2,283	) (490)
10% widening in spreads	(1,987	) (194)
Base Scenario	(1,793) —
10% narrowing in spreads	(1,634	) 159
25% narrowing in spreads	(1,402	) 391
50% narrowing in spreads	(1,028	) 765

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

Sensitivity of Investment Portfolio to Interest Rate Risk

Interest rate risk is the risk that financial instruments' values will change due to changes in the level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship. The Company is exposed to interest rate risk primarily in its investment portfolio. As interest rates rise for an available-for-sale investment portfolio, the fair value of fixed income securities decreases. The Company's policy is generally to hold assets in the investment portfolio to maturity. Therefore, barring credit deterioration, interest rate movements do not result in realized gains or losses unless assets are sold prior to maturity. The Company does not hedge interest rate risk, however, interest rate fluctuation risk is managed through the investment guidelines which limit duration and prevent investment in high volatility sectors.

Interest rate sensitivity in the investment portfolio can be estimated by projecting a hypothetical instantaneous increase or decrease in interest rates. The following table presents the estimated pre-tax change in fair value of the Company's fixed-maturity securities and short-term investments from instantaneous parallel shifts in interest rates.

Sensitivity to Change in Interest Rates on the Investment Portfolio

As of December 31, 2013

	Change in Interest Rates					
	300 Basis Point Decrease (in millions)	200 Basis Point Decrease	100 Basis Point Decrease	100 Basis Point Increase	200 Basis Point Increase	300 Basis Point Increase
Estimated change in fair value	\$ 953	\$ 768	\$ 446	\$ (499)	\$ (984)	\$ (1,434)

As of December 31, 2012

	Change in Interest Rates					
	300 Basis Point Decrease (in millions)	200 Basis Point Decrease	100 Basis Point Decrease	100 Basis Point Increase	200 Basis Point Increase	300 Basis Point Increase

Estimated change in fair value	\$576	\$532	\$382	\$(478) \$(970) \$(1,456)
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Sensitivity of Other Areas to Interest Rate Risk

Fluctuation in interest rates also affects the demand for the Company's product. When interest rates are lower or when the market is otherwise relatively less risk averse, the spread between insured and uninsured obligations typically narrows and, as a result, financial guaranty insurance typically provides lower cost savings to issuers than it would during periods of

Table of Contents

relatively wider spreads. These lower cost savings generally lead to a corresponding decrease in demand and premiums obtainable for financial guaranty insurance. Changes in interest rates also impact the amount of our losses and could impact the amount of infrastructure exposures that can be refinanced in the future. In addition, increases in prevailing interest rate levels can lead to a decreased volume of capital markets activity and, correspondingly, a decreased volume of insured transactions.

Sensitivity of Investment Portfolio to Foreign Exchange Rate Risk

Foreign exchange risk is the risk that a financial instrument's value will change due to a change in the foreign currency exchange rates. The Company has foreign denominated securities in its investment portfolio. Securities denominated in currencies other than U.S. Dollar were 4.0% and 3.7% of the fixed-maturity securities and short-term investments as of December 31, 2013 and 2012, respectively. The Company's material exposure is to changes in the dollar/pound sterling exchange rate. Changes in fair value of available-for-sale investments attributable to changes in foreign exchange rates are recorded in other comprehensive income.

Sensitivity to Change in Foreign Exchange Rates on the Investment Portfolio
As of December 31, 2013

	Change in Foreign Exchange Rates					
	30% Decrease (in millions)	20% Decrease	10% Decrease	10% Increase	20% Increase	30% Increase
Estimated change in fair value	\$(131)	\$(87)	\$(44)	\$44	\$87	\$131

As of December 31, 2012

	Change in Foreign Exchange Rates					
	30% Decrease (in millions)	20% Decrease	10% Decrease	10% Increase	20% Increase	30% Increase
Estimated change in fair value	\$(119)	\$(79)	\$(40)	\$40	\$79	\$119

Sensitivity of Premiums Receivable to Foreign Exchange Rate Risk

The Company has foreign denominated premium receivables. The Company's material exposure is to changes in dollar/Pound Sterling and dollar/Euro exchange rates.

Sensitivity to Change in Foreign Exchange Rates
on Premium Receivable, Net of Reinsurance
As of December 31, 2013

	Change in Foreign Exchange Rates					
	30% Decrease (in millions)	20% Decrease	10% Decrease	10% Increase	20% Increase	30% Increase
Estimated change in carrying value	\$(108)	\$(72)	\$(36)	\$36	\$72	\$108

As of December 31, 2012

	Change in Foreign Exchange Rates					
	30% Decrease (in millions)	20% Decrease	10% Decrease	10% Increase	20% Increase	30% Increase
Estimated change in carrying value	\$(116)	\$(77)	\$(39)	\$39	\$77	\$116

Table of Contents

Sensitivity of FG VIE Assets and Liabilities to Market Risk

The fair value of the Company's FG VIE assets is sensitive to changes relating 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); recoveries from excess spread, discount rates implied by market prices for similar securities; and house price depreciation/appreciation rates based on macroeconomic forecasts. Significant changes to any 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 assets 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 the Company's FG VIE assets, while a decrease in collateral losses typically leads to an increase in the fair value of the Company's 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 sensitive to changes relating to 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 such as: historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); recoveries from excess spread, 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 to 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 FG VIE tranches insured by the Company. In general, when the timing of expected loss payments by the Company is extended into the future, this 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.

Table of Contents

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

<u>Report of Independent Registered Public Accounting Firm</u>	<u>136</u>
<u>Consolidated Balance Sheets as of December 31, 2013 and 2012</u>	<u>137</u>
<u>Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011</u>	<u>138</u>
<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2012 and 2011</u>	<u>139</u>
<u>Consolidated Statements of Shareholders' Equity for the years ended December 31, 2013, 2012 and 2011</u>	<u>140</u>
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011</u>	<u>141</u>
<u>Notes to Consolidated Financial Statements</u>	<u>142</u>

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Assured Guaranty Ltd.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Assured Guaranty Ltd. and its subsidiaries at December 31, 2013 and December 31, 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York
February 28, 2014

Table of Contents

Assured Guaranty Ltd.

Consolidated Balance Sheets

(dollars in millions except per share and share amounts)

	As of December 31, 2013	As of December 31, 2012
Assets		
Investment portfolio:		
Fixed-maturity securities, available-for-sale, at fair value (amortized cost of \$9,488 and \$9,346)	\$9,711	\$10,056
Short-term investments, at fair value	904	817
Other invested assets	170	212
Total investment portfolio	10,785	11,085
Cash	184	138
Premiums receivable, net of commissions payable	876	1,005
Ceded unearned premium reserve	452	561
Deferred acquisition costs	124	116
Reinsurance recoverable on unpaid losses	36	58
Salvage and subrogation recoverable	174	456
Credit derivative assets	94	141
Deferred tax asset, net	688	721
Financial guaranty variable interest entities' assets, at fair value	2,565	2,688
Other assets	309	273
Total assets	\$16,287	\$17,242
Liabilities and shareholders' equity		
Unearned premium reserve	\$4,595	\$5,207
Loss and loss adjustment expense reserve	592	601
Reinsurance balances payable, net	148	219
Long-term debt	816	836
Credit derivative liabilities	1,787	1,934
Current income tax payable	44	—
Financial guaranty variable interest entities' liabilities with recourse, at fair value	1,790	2,090
Financial guaranty variable interest entities' liabilities without recourse, at fair value	1,081	1,051
Other liabilities	319	310
Total liabilities	11,172	12,248
Commitments and contingencies (See Note 16)		
Common stock (\$0.01 par value, 500,000,000 shares authorized; 182,177,866 and 194,003,297 shares issued and outstanding)	2	2
Additional paid-in capital	2,466	2,724
Retained earnings	2,482	1,749
Accumulated other comprehensive income, net of tax of \$71 and \$198	160	515
Deferred equity compensation (320,193 and 320,193 shares)	5	4
Total shareholders' equity	5,115	4,994
Total liabilities and shareholders' equity	\$16,287	\$17,242

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

Table of Contents

Assured Guaranty Ltd.

Consolidated Statements of Operations

(dollars in millions except per share amounts)

	Year Ended December 31,		
	2013	2012	2011
Revenues			
Net earned premiums	\$752	\$853	\$920
Net investment income	393	404	396
Net realized investment gains (losses):			
Other-than-temporary impairment losses	(32	) (58	) (84
Less: portion of other-than-temporary impairment loss recognized in other comprehensive income	10	(41	) (39
Other net realized investment gains (losses)	94	18	27
Net realized investment gains (losses)	52	1	(18
Net change in fair value of credit derivatives:			
Realized gains (losses) and other settlements	(42	) (108	) 6
Net unrealized gains (losses)	107	(477	) 554
Net change in fair value of credit derivatives	65	(585	) 560
Fair value gains (losses) on committed capital securities	10	(18	) 35
Fair value gains (losses) on financial guaranty variable interest entities	346	191	(146
Other income (loss)	(10	) 108	58
Total revenues	1,608	954	1,805
Expenses			
Loss and loss adjustment expenses	154	504	448
Amortization of deferred acquisition costs	12	14	17
Interest expense	82	92	99
Other operating expenses	218	212	212
Total expenses	466	822	776
Income (loss) before income taxes	1,142	132	1,029
Provision (benefit) for income taxes			
Current	157	57	(127
Deferred	177	(35	) 383
Total provision (benefit) for income taxes	334	22	256
Net income (loss)	\$808	\$110	\$773
Earnings per share:			
Basic	\$4.32	\$0.58	\$4.21
Diluted	\$4.30	\$0.57	\$4.16
Dividends per share	\$0.40	\$0.36	\$0.18

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

Table of Contents

Assured Guaranty Ltd.

Consolidated Statements of Comprehensive Income

(in millions)

	Year Ended December 31,		
	2013	2012	2011
Net income (loss)	\$808	\$110	\$773
Unrealized holding gains (losses) arising during the period on:			
Investments with no other-than-temporary impairment, net of tax provision (benefit) of \$(106), \$56 and \$105	(309	) 148	234
Investments with other-than-temporary impairment, net of tax provision (benefit) of \$(17), \$(2) and \$5	(35	) (7	) 9
Unrealized holding gains (losses) arising during the period, net of tax	344	) 141	243
Less: reclassification adjustment for gains (losses) included in net income (loss), net of tax provision (benefit) of \$5, \$(7) and \$(7)	14	(4	) (14
Change in net unrealized gains on investments	(358	) 145	257
Other, net of tax provision	3	2	(1
Other comprehensive income (loss)	\$(355	) \$147	\$256
Comprehensive income (loss)	\$453	\$257	\$1,029

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

Table of Contents

Assured Guaranty Ltd.

Consolidated Statements of Shareholders' Equity

Years Ended December 31, 2013, 2012 and 2011

(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, 2010	183,744,655	\$2	\$2,586	\$968	\$ 112	\$ 2	\$3,670
Net income	—	—	—	773	—	—	773
Dividends (\$0.18 per share)	—	—	—	(33)	—	—	(33)
Common stock repurchases	(2,000,000)	—	(23)	—	—	—	(23)
Share-based compensation and other	491,143	—	7	—	—	2	9
Other comprehensive income	—	—	—	—	256	—	256
Balance at December 31, 2011	182,235,798	2	2,570	1,708	368	4	4,652
Net income	—	—	—	110	—	—	110
Dividends (\$0.36 per share)	—	—	—	(69)	—	—	(69)
Common stock issuance, net	13,428,770	—	173	—	—	—	173
Common stock repurchases	(2,066,759)	—	(24)	—	—	—	(24)
Share-based compensation and other	405,488	—	5	—	—	—	5
Other comprehensive income	—	—	—	—	147	—	147
Balance at December 31, 2012	194,003,297	2	2,724	1,749	515	4	4,994
Net income	—	—	—	808	—	—	808
Dividends (\$0.40 per share)	—	—	—	(75)	—	—	(75)
Common stock repurchases	(12,512,759)	—	(264)	—	—	—	(264)
Share-based compensation and other	687,328	—	6	—	—	1	7
	—	—	—	—	(355)	—	(355)

Other comprehensive
loss

Balance at December 31, 2013	182,177,866	\$2	\$2,466	\$2,482	\$ 160	\$ 5	\$5,115
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The accompanying notes are an integral part of these consolidated financial statements.

140

Table of Contents

Assured Guaranty Ltd.
Consolidated Statements of Cash Flows
(in millions)

	Year Ended December 31,		
	2013	2012	2011
Operating Activities:			
Net Income	\$808	\$110	\$773
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Non-cash interest and operating expenses	19	18	20
Net amortization of premium (discount) on investments	(8	) 8	23
Provision (benefit) for deferred income taxes	177	(35	) 383
Net realized investment losses (gains)	(52	) (1	) 18
Net unrealized losses (gains) on credit derivatives	(107	) 477	(554
Fair value loss (gains) on committed capital securities	(10	) 18	(35
Change in deferred acquisition costs	(8	) 18	18
Change in premiums receivable, net of commissions payable	86	48	138
Change in ceded unearned premium reserve	109	141	102
Change in unearned premium reserve	(612	) (749	) (998
Change in loss and loss adjustment expense reserve, net	136	(258	) 636
Change in current income tax	30	129	(182
Change in financial guaranty variable interest entities' assets and liabilities, net	(295	) (7	) 352
(Purchases) sales of trading securities, net	(16	) (59	) (6
Other	(13	) (23	) (12
Net cash flows provided by (used in) operating activities	244	(165	) 676
Investing activities			
Fixed-maturity securities:			
Purchases	(1,886	) (1,649	) (2,308
Sales	1,029	912	1,107
Maturities	883	1,105	663
Net sales (purchases) of short-term investments	(87	) 29	320
Net proceeds from paydowns on financial guaranty variable interest entities' assets	663	545	760
Acquisition of MAC, net of cash acquired	—	(91) —
Other	79	92	19
Net cash flows provided by (used in) investing activities	681	943	561
Financing activities			
Proceeds from issuances of common stock	—	173	—
Dividends paid	(75	) (69	) (33
Repurchases of common stock	(264	) (24	) (23
Share activity under option and incentive plans	(1	) (3	) (1
Net paydowns of financial guaranty variable interest entities' liabilities	(511	) (724	) (1,053
Repayment of long-term debt	(27	) (209	) (22
Net cash flows provided by (used in) financing activities	(878	) (856	) (1,132
Effect of exchange rate changes	(1	) 1	2
Increase (decrease) in cash	46	(77	) 107
Cash at beginning of period	138	215	108
Cash at end of period	\$184	\$138	\$215

Supplemental cash flow information

Cash paid (received) during the period for:

Income taxes	\$110	\$(24	)	\$34
Interest	\$76	\$85		\$92

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

141

Table of Contents

Assured Guaranty Ltd.

Notes to Consolidated Financial Statements

December 31, 2013, 2012 and 2011

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. Obligations insured by the Company include bonds issued by U.S. state or municipal governmental authorities; notes issued to finance international infrastructure projects; and asset-backed securities issued by special purpose entities. 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”). The Company also guarantees obligations issued in other countries and regions, including Australia and Western Europe.

In the past, the Company had 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 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 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.

The 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. Certain prior year balances have been reclassified to conform to the current year's presentation.

The Company's principal insurance company subsidiaries are:

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

MAC was purchased from Radian Asset Assurance Inc. ("Radian") in 2012 for \$91 million in cash. Upon acquisition, the Company recorded \$16 million in indefinite lived intangible assets, which represented the value of MAC's insurance

Table of Contents

licenses. MAC commenced underwriting U.S. public finance business in August 2013. MAC is indirectly owned by AGM and AGC. See Note 12, Insurance Company Regulatory Requirements.

The Company’s organizational structure includes various holdings companies, two of which—Assured Guaranty US Holdings Inc. (“AGUS”) and Assured Guaranty Municipal Holdings Inc. (“AGMH”) – have public debt outstanding. See Note 17, Long-Term Debt and Credit Facilities.

Significant Accounting Policies

The Company revalues assets, liabilities, revenue and expenses denominated in non-U.S. currencies into U.S. dollars using applicable exchange rates. Gains and losses relating to translating foreign functional currency financial statements for U.S. GAAP reporting are recorded in other comprehensive income (loss) ("OCI") within shareholders' equity. Gains and losses relating to transactions in foreign denominations in subsidiaries where the functional currency is the U.S. dollar, are reported in the consolidated statement of operations.

The chief operating decision maker manages the operations of the Company at a consolidated level. Therefore, all results of operations are reported as one segment.

Other significant accounting policies are included in the following notes.

Significant Accounting Policies

Premium revenue recognition	Note 4
Policy acquisition cost	Note 5
Expected loss to be paid (Insurance, Credit Derivatives and FG VIE contracts)	Note 6
Loss and loss adjustment expense (Insurance Contracts)	Note 7
Fair value measurement	Note 8
Credit derivatives (at Fair Value)	Note 9
Variable interest entities (at Fair Value)	Note 10
Investments and Cash	Note 11
Income Taxes	Note 13
Earnings per share	Note 18
Stock based compensation	Note 20

2. Business Changes and Developments

Market Conditions

Since the financial crisis began six years ago, there have been significant challenges for the U.S. and global economies, which have affected the Company.

Historically low interest rates reduced the demand for financial guaranty insurance as well as the average reinvestment rate in the investment portfolio.

Rating agency downgrades of the Company’s insurance company subsidiaries reduced the available market for financial guaranty insurance.

•

U.S. municipal budget deficits, and in rare cases bankruptcies, resulted in claims on our policies and reduced new market issuance.

•The weak European economy resulted in claims and lower new issuance compared to pre-financial crisis levels.

•Residential real estate and other structured products resulted in significant losses and the market for new structured products has not returned to pre-financial crisis levels.

143

Table of Contents

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 nationally recognized statistical rating organizations ("NRSROs") 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 high financial strength ratings. Currently, the financial strength ratings of the Company's principal insurance company subsidiaries are:

	S&P	Moody's	Kroll Bond Agency
AGM	AA- (stable outlook)	A2 (stable outlook)	—
AGC	AA- (stable outlook)	A3 (stable outlook)	—
MAC	AA- (stable outlook)	—	AA+ (stable outlook)
Assured Guaranty (Europe) Ltd.	AA- (stable outlook)	A2 (stable outlook)	—
AG Re	AA- (stable outlook)	Baa1 (negative outlook)	—

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 and consequently, a further downgrade could harm the Company's new business production and results of operations in a material respect. However, the methodologies and models used by NRSROs 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 reflect only the views of the respective NRSROs and are subject to continuous review and revision or withdrawal at any time.

In the last several years, Standard & Poor's Ratings Services ("S&P") and Moody's Investors Service, Inc. ("Moody's") have downgraded the financial strength ratings of the Company's insurance subsidiaries that they rated at the time of such downgrades. The latest downgrade took place on January 17, 2013, when Moody's downgraded the financial strength ratings of the Company's insurance subsidiaries. In the same rating action, Moody's also downgraded the senior unsecured debt ratings of AGUS and AGMH to Baa2 from A3. On February 3, 2014, Moody's affirmed its ratings on the Company and the subsidiaries it rates, but revised the outlook on AG Re to negative. While the outlook for the ratings from S&P and Moody's is now stable for all the ratings of the Company and its rated subsidiaries except AG Re, there can be no assurance that S&P and Moody's will not take further action on the Company's ratings or that Kroll will not take action on MAC's ratings. For a discussion of the effect of rating actions on the Company, see the following:

• Note 6, Expected Loss to be Paid

• Note 9, Financial Guaranty Contracts Accounted for as Credit Derivatives

• Note 14, Reinsurance and Other Monoline Exposures

• Note 17, Long-Term Debt and Credit Facilities (regarding the impact on the Company's insured leveraged lease transactions)

Business Developments

Representation and Warranty Settlements: There have been several settlements of representation and warranty claims over the past three years. See Note 6, Expected Loss to be Paid.

Repurchase of Common Shares: The Company has repurchased 12,512,759 common shares in 2013, 2,066,759 in 2012, and 2,000,000 in 2011. See Note 19, Shareholders' Equity.

Issuance of Common Shares: On June 1, 2012, AGL issued common shares to holders of each Equity Unit, for an aggregate of 13,428,770 common shares. See Note 17, Long-Term Debt and Credit Facilities.

Reinsurance: The Company has entered into several agreements with reinsurers, including assumption and re-assumption agreements and an excess of loss reinsurance facility. See Note 14, Reinsurance and Other Monoline Exposures.

Table of Contents

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, diversifying its insured portfolio and maintaining rigorous subordination or collateralization requirements on structured finance obligations. The Company also has utilized reinsurance by ceding business to third-party reinsurers. The Company provides financial guaranties with respect to debt obligations of special purpose entities, including variable interest entities ("VIEs"). Some of these VIEs are consolidated as described in Note 10, Consolidation of Variable Interest Entities. The outstanding par and Debt Service amounts presented below include outstanding exposures on VIEs whether or not they are consolidated.

The Company has issued financial guaranty insurance policies on public finance obligations and structured finance obligations. 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 and backed by pools of assets having an ascertainable cash flow or market value or other specialized financial obligations.

Significant Risk Management Activities

The Portfolio Risk Management Committee, which includes members of senior management and senior credit and surveillance officers, sets specific risk policies and limits and is responsible for enterprise risk management, establishing the Company's risk appetite, credit underwriting of new business, surveillance and work-out.

Surveillance personnel are responsible for monitoring and reporting on all transactions in the insured portfolio. The primary objective of the surveillance process is to monitor trends and changes in transaction credit quality, detect any deterioration in credit quality, and recommend to management such remedial actions as may be necessary or appropriate. All transactions in the insured portfolio are assigned internal credit ratings, and surveillance personnel are responsible for recommending adjustments to those ratings to reflect changes in transaction credit quality.

Work-out personnel are responsible for managing work-out and loss mitigation situations, working with surveillance and legal personnel (as well as outside vendors) as appropriate. They develop strategies for the Company to enforce its contractual rights and remedies and to mitigate its losses, engage in negotiation discussions with transaction participants and, when necessary, manage (along with legal personnel) the Company's litigation proceedings.

During the third quarter of 2013, the Company changed the manner in which it presents par outstanding and Debt Service in two ways. First, the Company had included securities purchased for loss mitigation purposes both in its invested assets portfolio and its financial guaranty insured portfolio. Beginning with the third quarter of 2013, the Company excluded such loss mitigation securities from its disclosure about its financial guaranty insured portfolio (unless otherwise indicated) because it manages such securities as investments and not insurance exposure. Second, the Company refined its approach to its internal credit ratings and surveillance categories. Please refer to "Refinement of Approach to Internal Credit Ratings and Surveillance Categories" below for additional information.

Surveillance Categories

The Company segregates its insured portfolio into investment grade and below-investment-grade ("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, beginning third quarter, the Company's internal credit ratings focus on future performance, rather than lifetime performance. See "Refinement of Approach to Internal Credit Ratings and Surveillance Categories" below.

Table of Contents

The Company monitors its investment grade credits to determine whether any new credits need to be internally downgraded to BIG. The Company 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 insured 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. The Company models most assumed residential mortgage-backed security ("RMBS") credits with par above \$1 million, as well as certain RMBS credits below that amount.

Credits identified as BIG are subjected to further review to determine the probability of a loss (see Note 6, Expected Loss to be Paid). 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. 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 over the future of that transaction than it will have reimbursed. For surveillance purposes, the Company calculates present value using a constant discount rate of 5%. (A risk-free rate is used for calculating the expected loss for financial statement purposes.)

More extensive monitoring and intervention is employed for all BIG surveillance categories, with internal credit ratings reviewed quarterly. In 2013, the Company refined the definitions of its BIG surveillance categories to be consistent with its new approach to assigning internal credit ratings. See "Refinement of Approach to Internal Credit Ratings and Surveillance Categories". 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.

Refinement of Approach to Internal Credit Ratings and Surveillance Categories

Typically, when an issuer of a debt security has defaulted on a payment and has not made up that missed payment, the debt security is considered by the rating agencies to be below-investment-grade regardless of its current credit condition. Similarly, the Company had previously considered those securities on which it has made an insurance claim payment that had not been reimbursed to be BIG regardless of their current credit condition.

Structured finance transactions often include mechanisms for reimbursing the Company for its insurance claim payments from assets underlying the transactions to the extent permitted by asset performance. With improvements beginning to occur in the performance of the assets underlying some of the structured finance securities the Company has insured, the Company is receiving reimbursements on some transactions on which it had paid claims in the past. As a result of these improvements, it now projects receiving reimbursements (rather than making claims) in the future on some of those transactions. Under the old approach, a transaction with a projected lifetime loss, no matter how strong on a prospective basis, was required to be rated BIG. During the third quarter of 2013, the Company revised its approach to internal credit ratings. Under its revised approach, a transaction may be rated investment grade if it (a) has turned generally cash-flow positive and (b) is projected to have net future reimbursements with sufficient cushion to

warrant an investment grade rating, even if it is projected to have ending lifetime unreimbursed insurance claim payments. The new approach resulted in the upgrade to investment grade of one RMBS transaction with a net par of \$25 million at December 31, 2012.

The Company also applied its change in approach to internal credit ratings to the Surveillance BIG Category definitions. Previously the BIG Category definitions were based in large part on whether lifetime losses were projected. Under the new approach, the BIG Category definitions are based on whether future losses are projected. In addition to the upgrade out of BIG described above, the change in approach resulted in the migration of a number of risks within BIG Categories.

Table of Contents

Effect of Refinement in Approach to
Internal Credit Ratings and Surveillance Categories
on Net Par Outstanding
As of December 31, 2012

	Previous Approach (in millions)	New Approach	Difference
BIG 1	\$9,254	\$10,820	\$1,566
BIG 2	4,617	4,617	—
BIG 3	8,451	6,860	(1,591)
Total	\$22,322	\$22,297	\$(25)

Components of Outstanding Exposure

Debt Service Outstanding

	Gross Debt Service Outstanding		Net Debt Service Outstanding	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Public finance	\$650,924	\$722,478	\$610,011	\$677,285
Structured finance	86,456	110,620	80,524	103,071
Total financial guaranty	\$737,380	\$833,098	\$690,535	\$780,356

Unless otherwise noted, ratings disclosed herein on Assured Guaranty's insured portfolio reflect Assured Guaranty's 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.

Financial Guaranty Portfolio by Internal Rating

As of December 31, 2013

Rating Category (1)	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	\$4,998	1.4 %	\$1,016	3.0 %	\$32,317	54.9 %	\$9,684	69.1 %	\$48,015	10.5 %	
AA	107,503	30.5	422	1.2	9,431	16.0	577	4.1	117,933	25.7	
A	192,841	54.8	9,453	27.9	2,580	4.4	742	5.3	205,616	44.8	
BBB	37,745	10.7	21,499	63.2	3,815	6.4	1,946	13.9	65,005	14.1	
BIG	9,094	2.6	1,608	4.7	10,764	18.3	1,072	7.6	22,538	4.9	
Total net par outstanding	\$352,181	100.0 %	\$33,998	100.0 %	\$58,907	100.0 %	\$14,021	100.0 %	\$459,107	100.0 %	

(excluding loss mitigation bonds)					
Loss Mitigation Bonds	32	—	1,163	—	1,195
Total net par outstanding (including loss mitigation bonds)	\$352,213	\$33,998	\$60,070	\$14,021	\$460,302

Table of Contents

Financial Guaranty Portfolio by Internal Rating

As of December 31, 2012

Rating Category (1)	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	\$4,502	1.2 %	\$1,706	4.5 %	\$42,187	56.6 %	\$13,169	70.2 %	\$61,564	11.9 %	
AA	124,525	32.1	875	2.3	9,543	12.8	722	3.9	135,665	26.1	
A	210,124	54.1	9,781	26.1	4,670	6.3	1,409	7.5	225,984	43.6	
BBB	44,213	11.4	22,885	61.0	3,737	5.0	2,427	12.9	73,262	14.1	
BIG	4,565	1.2	2,293	6.1	14,398	19.3	1,041	5.5	22,297	4.3	
Total net par outstanding (excluding loss mitigation bonds)	\$387,929	100.0 %	\$37,540	100.0 %	\$74,535	100.0 %	\$18,768	100.0 %	\$518,772	100.0 %	
Loss Mitigation Bonds	38		—		1,083		—		1,121		
Total net par outstanding (including loss mitigation bonds)	\$387,967		\$37,540		\$75,618		\$18,768		\$519,893		

In the third quarter of 2013, the Company adjusted its approach to assigning internal ratings. See "Refinement of (1) Approach to Internal Credit Ratings and Surveillance Categories" above. This approach is reflected in the "Financial Guaranty Portfolio by Internal Rating" tables as of both December 31, 2013 and December 31, 2012.

Table of ContentsFinancial Guaranty Portfolio
by Sector

Sector	Gross Par Outstanding		Ceded Par Outstanding		Net Par Outstanding	
	As of December 31, 2013	As of December 31, 2012	As of December 31, 2013	As of December 31, 2012	As of December 31, 2013	As of December 31, 2012
(dollars in millions)						
Public finance:						
U.S.:						
General obligation	\$160,751	\$175,932	\$5,474	\$5,947	\$155,277	\$169,985
Tax backed	70,552	77,894	3,728	4,145	66,824	73,749
Municipal utilities	57,893	63,933	1,569	1,817	56,324	62,116
Transportation	32,514	35,624	1,684	1,825	30,830	33,799
Healthcare	17,663	19,507	1,531	1,669	16,132	17,838
Higher education	14,470	16,244	399	474	14,071	15,770
Infrastructure finance	5,014	5,100	900	890	4,114	4,210
Housing	3,518	4,792	132	159	3,386	4,633
Investor-owned utilities	992	1,070	1	1	991	1,069
Other public finance—U.S.	4,249	4,784	17	24	4,232	4,760
Total public finance—U.S.	367,616	404,880	15,435	16,951	352,181	387,929
Non-U.S.:						
Infrastructure finance	17,373	18,716	2,670	2,904	14,703	15,812
Regulated utilities	15,502	16,861	4,297	4,367	11,205	12,494
Pooled infrastructure	2,754	3,430	234	230	2,520	3,200
Other public finance—non-U.S.	6,645	7,297	1,075	1,263	5,570	6,034
Total public finance—non-U.S.	42,274	46,304	8,276	8,764	33,998	37,540
Total public finance	409,890	451,184	23,711	25,715	386,179	425,469
Structured finance:						
U.S.:						
Pooled corporate obligations	32,955	44,120	1,630	2,234	31,325	41,886
RMBS	14,542	18,114	821	1,079	13,721	17,035
Commercial mortgage-backed securities ("CMBS") and other commercial real estate related exposures	3,990	4,293	38	46	3,952	4,247
Insurance securitizations	3,082	2,991	47	48	3,035	2,943
Financial product	2,709	3,653	—	—	2,709	3,653
Consumer receivables	2,257	2,429	59	60	2,198	2,369
Commercial receivables	918	1,033	7	8	911	1,025
Structured credit	71	249	2	51	69	198
Other structured finance—U.S.	2,067	2,307	1,080	1,128	987	1,179
Total structured finance—U.S.	62,591	79,189	3,684	4,654	58,907	74,535
Non-U.S.:						
Pooled corporate obligations	12,232	16,288	1,174	1,475	11,058	14,813
Commercial receivables	1,286	1,489	23	26	1,263	1,463
RMBS	1,296	1,586	150	162	1,146	1,424
Structured credit	197	669	21	78	176	591
CMBS and other commercial real estate related exposures	—	100	—	—	—	100
Other structured finance—non-U.S.	403	402	25	25	378	377

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Total structured finance—non-U.S.	15,414	20,534	1,393	1,766	14,021	18,768
Total structured finance	78,005	99,723	5,077	6,420	72,928	93,303
Total net par outstanding	\$487,895	\$550,907	\$28,788	\$32,135	\$459,107	\$518,772

In addition to the amounts shown in the table above, the Company's net mortgage guaranty insurance in force was approximately \$152 million as of December 31, 2013. The net mortgage guaranty insurance in force is assumed excess of loss business and comprises \$144 million covering loans originated in Ireland and \$8 million covering loans originated in the U.K.

Table of Contents

In accordance with the terms of certain credit derivative contracts, the referenced obligations in such contracts have been delivered to the Company, and they therefore are included in the investment portfolio. Such amounts are still included in the financial guaranty insured portfolio, and totaled \$195 million and \$220 million in gross par outstanding as of December 31, 2013 and December 31, 2012, respectively.

Actual maturities of insured obligations could differ from contractual maturities because borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties. The expected maturities of structured finance obligations are, in general, considerably shorter than the contractual maturities for such obligations.

Expected Amortization of
Net Par Outstanding
As of December 31, 2013

	Public Finance	Structured Finance	Total
	(in millions)		
0 to 5 years	\$104,223	\$56,783	\$161,006
5 to 10 years	81,176	7,261	88,437
10 to 15 years	74,775	2,965	77,740
15 to 20 years	56,734	2,017	58,751
20 years and above	69,271	3,902	73,173
Total net par outstanding	\$386,179	\$72,928	\$459,107

In addition to amounts shown in the tables above, the Company had outstanding commitments to provide guaranties of \$419 million for structured finance and \$355 million for public finance obligations at December 31, 2013. The structured finance commitments include the unfunded component of pooled corporate and other transactions. Public finance commitments typically relate to primary and secondary public finance debt issuances. The expiration dates for the public finance commitments range between January 1, 2014 and February 25, 2017, with \$231 million expiring prior to December 31, 2014. 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.

Table of Contents

Components of BIG Portfolio

Components of BIG Net Par Outstanding
(Insurance and Credit Derivative Form)
As of December 31, 2013

	BIG Net Par Outstanding				Net Par Outstanding	BIG Net Par as a % of Total Net Par Outstanding	
	BIG 1	BIG 2	BIG 3 (in millions)	Total BIG			
First lien U.S. RMBS:							
Prime first lien	\$52	\$321	\$30	\$403	\$541	0.1	%
Alt-A first lien	656	1,137	935	2,728	3,590	0.6	
Option ARM	71	60	467	598	937	0.1	
Subprime	297	908	740	1,945	6,130	0.4	
Second lien U.S. RMBS:							
Closed end second lien	8	20	118	146	244	0.0	
Home equity lines of credit ("HELOCs")	1,499	20	378	1,897	2,279	0.4	
Total U.S. RMBS	2,583	2,466	2,668	7,717	13,721	1.6	
Trust preferred securities ("TruPS")	1,587	135	—	1,722	4,970	0.4	
Other structured finance	1,367	309	721	2,397	54,237	0.5	
U.S. public finance	8,205	440	449	9,094	352,181	2.0	
Non-U.S. public finance	1,009	599	—	1,608	33,998	0.4	
Total	\$14,751	\$3,949	\$3,838	\$22,538	\$459,107	4.9	%

Components of BIG Net Par Outstanding
(Insurance and Credit Derivative Form)
As of December 31, 2012

	BIG Net Par Outstanding				Net Par Outstanding	BIG Net Par as a % of Total Net Par Outstanding	
	BIG 1	BIG 2	BIG 3 (in millions)	Total BIG			
First lien U.S. RMBS:							
Prime first lien	\$28	\$436	\$11	\$475	\$641	0.1	%
Alt-A first lien	753	1,962	739	3,454	4,469	0.7	
Option ARM	333	392	317	1,042	1,450	0.2	
Subprime (including net interest margin securities)	152	988	921	2,061	7,048	0.4	
Second lien U.S. RMBS:							
Closed end second lien	97	76	58	231	348	0.0	
HELOCs	644	—	1,932	2,576	3,079	0.5	
Total U.S. RMBS	2,007	3,854	3,978	9,839	17,035	1.9	
TruPS	1,920	—	953	2,873	5,694	0.6	
Other structured finance	1,310	263	1,154	2,727	70,574	0.5	
U.S. public finance	3,290	500	775	4,565	387,929	0.9	
Non-U.S. public finance	2,293	—	—	2,293	37,540	0.4	

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Total	\$10,820	\$4,617	\$6,860	\$22,297	\$518,772	4.3	%
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151

Table of ContentsBIG Net Par Outstanding
and Number of Risks
As of December 31, 2013

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	\$12,391	\$2,360	\$14,751	185	25	210
Category 2	2,323	1,626	3,949	80	21	101
Category 3	3,031	807	3,838	119	27	146
Total BIG	\$17,745	\$4,793	\$22,538	384	73	457

BIG Net Par Outstanding
and Number of Risks
As of December 31, 2012

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	\$7,929	\$2,891	\$10,820	163	33	196
Category 2	2,116	2,501	4,617	76	27	103
Category 3	5,543	1,317	6,860	131	29	160
Total BIG	\$15,588	\$6,709	\$22,297	370	89	459

(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.

Table of Contents

Geographic Distribution of Net Par Outstanding

The Company seeks to maintain a diversified portfolio of insured obligations designed to spread its risk across a number of geographic areas.

Geographic Distribution of
Net Par Outstanding
As of December 31, 2013

	Number of Risks	Net Par Outstanding (dollars in millions)	Percent of Total Net Par Outstanding	
U.S.:				
U.S. Public Finance:				
California	1,492	\$52,704	11.5	%
New York	1,035	28,582	6.2	
Pennsylvania	1,059	28,475	6.2	
Texas	1,269	27,249	5.9	
Illinois	881	24,138	5.3	
Florida	422	21,773	4.7	
New Jersey	656	14,462	3.2	
Michigan	713	14,250	3.1	
Georgia	204	9,364	2.0	
Ohio	554	8,763	1.9	
Other states and U.S. territories	4,517	122,421	26.7	
Total U.S. public finance	12,802	352,181	76.7	
U.S. Structured finance (multiple states)	963	58,907	12.8	
Total U.S.	13,765	411,088	89.5	
Non-U.S.:				
United Kingdom	115	21,405	4.7	
Australia	29	5,598	1.2	
Canada	10	3,851	0.8	
France	21	3,614	0.8	
Italy	10	1,808	0.4	
Other	100	11,743	2.6	
Total non-U.S.	285	48,019	10.5	
Total	14,050	\$459,107	100.0	%

Direct Economic 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 it believes heightened uncertainties exist are: Hungary, Ireland, Italy, Portugal and Spain (the "Selected European Countries"). The Company is closely monitoring its exposures in Selected European Countries where it believes heightened uncertainties exist. Published reports have identified countries that may be experiencing reduced demand for their sovereign debt in the current environment. The Company selected these European countries based on these reports and its view that their credit fundamentals are

deteriorating. The Company's 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.

153

Table of Contents

Net Direct Economic Exposure to Selected European Countries(1)

As of December 31, 2013

	Hungary (2)	Ireland	Italy	Portugal (2)	Spain (2)	Total
	(in millions)					
Sovereign and sub-sovereign exposure:						
Non-infrastructure public finance	\$—	\$—	\$1,024	\$98	\$275	\$1,397
Infrastructure finance	384	—	18	12	155	569
Sub-total	384	—	1,042	110	430	1,966
Non-sovereign exposure:						
Regulated utilities	—	—	234	—	—	234
RMBS	224	144	315	—	—	683
Sub-total	224	144	549	—	—	917
Total	\$608	\$144	\$1,591	\$110	\$430	\$2,883
Total BIG	\$608	\$—	\$—	\$110	\$430	\$1,148

(1) While the Company's exposures are shown in U.S. dollars, the obligations the Company insures are in various currencies, including U.S. dollars, Euros and British pounds sterling. Included in the table above is \$144 million of reinsurance assumed on a 2004 - 2006 pool of Irish residential mortgages that is part of the Company's remaining legacy mortgage reinsurance business. 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) See Note 6, Expected Loss to be Paid.

When the Company directly insures an obligation, it assigns the obligation to a geographic location or locations based on its view of the geographic location of the risk. For direct exposure this can be a relatively straight-forward determination as, for example, a debt issue supported by availability payments for a toll road in a particular country. The Company may also assign portions of a risk to more than one geographic location. The Company may also have direct exposures to the Selected European Countries in business assumed from unaffiliated monoline insurance companies. In the case of assumed business for direct exposures, the Company depends upon geographic information provided by the primary insurer.

The Company has excluded in the exposure tables above its indirect economic exposure to the Selected European Countries through policies it provides on (a) pooled corporate and (b) commercial receivables transactions. The Company considers economic exposure to a selected European Country to be indirect when the exposure relates to only a small portion of an insured transaction that otherwise is not related to a Selected European Country. The Company has reviewed transactions through which it believes it may have indirect exposure to the Selected European Countries that is material to the transaction and calculated total net indirect exposure to Selected European Countries in non-sovereign pooled corporate and non-sovereign commercial receivables to be \$781 million and \$86 million, respectively, based on the proportion of the insured par equal to the proportion of obligors identified as being domiciled in a Selected European Country.

The Company no longer guarantees any sovereign bonds of the Selected European Countries. 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. In 2012, the Company paid claims under its guarantees of €218 million in net exposure to the sovereign

debt of Greece, paying off in full its liabilities with respect to the Greek sovereign bonds.

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 \$5.4 billion net par. The Company rates \$5.2 billion net par of that amount BIG.

Table of Contents

The following table shows estimated 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. The column labeled "Estimated BIG Net Debt Service Amortization" shows the total amount of principal and interest due in the period indicated and represents the maximum net amount the Company would be required to pay on BIG Puerto Rico exposures in a given period assuming the obligors paid nothing on all of those obligations in that period.

Amortization Schedule of BIG Net Par Outstanding
and BIG Net Debt Service Outstanding of Puerto Rico
As of December 31, 2013

	Estimated BIG Net Par Amortization (in millions)	Estimated BIG Net Debt Service Amortization
2014	\$ 242	\$ 501
2015	364	608
2016	289	515
2017	208	421
2018	160	363
2019-2023	921	1,780
2024-2028	979	1,622
2029-2033	706	1,141
After 2033	1,302	1,596
Total	\$5,171	\$8,547

Recent announcements and actions by the Governor and his administration indicate officials of the Commonwealth are focused on measures to help Puerto Rico operate within its financial resources and maintain its access to the capital markets. All Puerto Rico credits insured by the Company are current on their debt service payments, and we expect them to continue to make their debt service payments. Neither Puerto Rico nor its related authorities and public corporations are eligible debtors under Chapter 9 of the U.S. Bankruptcy Code. However, Puerto Rico faces high debt levels, a declining population and an economy that has been in recession since 2006. Puerto Rico has been operating with a structural budget deficit in recent years, and its two largest pension funds are significantly underfunded.

In January 2014 the Company downgraded most of its insured Puerto Rico credits to BIG, reflecting the economic and financial challenges facing the Commonwealth and due to concerns that the rating agencies would downgrade Puerto Rico and limit its access to credit. Subsequently, in February 2014, S&P, Moody's and Fitch Ratings downgraded much of the debt of Puerto Rico and its related authorities and public corporations to BIG, citing various factors including limited liquidity and market access risk.

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. See Note 9, Financial Guaranty Contracts Accounted for as Credit Derivatives.

Accounting Policies

Accounting for financial guaranty contracts that meet the scope exception under derivative accounting guidance are subject to industry specific guidance for financial guaranty insurance. The accounting for contracts that fall under the financial guaranty insurance definition are consistent whether the contract was written on a direct basis, assumed from another financial guarantor under a reinsurance treaty, ceded to another insurer under a reinsurance treaty, or acquired in a business combination.

Table of Contents

Unearned premium reserve represents deferred premium revenue, net of paid claims that have not yet been expensed (“contra-paid”). The following discussion relates to the deferred premium revenue component of the unearned premium reserve, while the contra-paid is discussed in Note 7, Financial Guaranty Insurance Losses.

The amount of deferred premium revenue at contract inception is determined as follows:

For premiums received upfront on financial guaranty insurance contracts that were originally underwritten by the Company, deferred premium revenue is equal to the amount of cash received. Upfront premiums typically relate to public finance transactions.

For premiums received in installments on financial guaranty insurance contracts that were originally underwritten by the Company, deferred premium revenue is the present value of either (1) contractual premiums due or (2) in cases where the underlying collateral is comprised of homogeneous pools of assets, the expected premiums to be collected over the life of the contract. To be considered a homogeneous pool of assets, prepayments must be contractually prepayable, the amount of prepayments must be probable, and the timing and amount of prepayments must be reasonably estimable. When the Company adjusts prepayment assumptions or expected premium collections, an adjustment is recorded to the deferred premium revenue, with a corresponding adjustment to the premium receivable, and prospective changes are recognized in premium revenues. Premiums receivable are discounted at the risk-free rate at inception and such discount rate is updated only when changes to prepayment assumptions are made that change the expected date of final maturity. Installment premiums typically relate to structured finance transactions, where the insurance premium rate is determined at the inception of the contract but the insured par is subject to prepayment throughout the life of the transaction.

For financial guaranty insurance contracts acquired in a business combination, deferred premium revenue is equal to the fair value of the insurance contract at the date of acquisition based on what a hypothetical similarly rated financial guaranty insurer would have charged for the contract at that date and not the actual cash flows under the insurance contract. The amount of deferred premium revenue may differ significantly from cash collections due primarily to fair value adjustments recorded in connection with a business combination.

The Company recognizes deferred premium revenue as earned premium over the contractual period or expected period of the contract in proportion to the amount of insurance protection provided. As premium revenue is recognized, a corresponding decrease to the deferred premium revenue is recorded. The amount of insurance protection provided is a function of the insured principal amount outstanding. Accordingly, the proportionate share of premium revenue recognized in a given reporting period is a constant rate calculated based on the relationship between the insured principal amounts outstanding in the reporting period compared with the sum of each of the insured principal amounts outstanding for all periods. When an insured financial obligation is retired before its maturity, the financial guaranty insurance contract is extinguished. Any nonrefundable deferred premium revenue related to that contract is accelerated and recognized as premium revenue. When a premium receivable balance is deemed uncollectible, it is written off to bad debt expense.

For reinsurance assumed contracts, earned premiums reported in the Company's consolidated statements of operations are calculated based upon data received from ceding companies, however, some ceding companies report premium data between 30 and 90 days after the end of the reporting period. The Company estimates earned premiums for the lag period. Differences between such estimates and actual amounts are recorded in the period in which the actual amounts are determined. When installment premiums are related to reinsurance assumed contracts, the Company assesses the credit quality and liquidity of the ceding companies and the impact of any potential regulatory constraints to determine the collectability of such amounts.

Table of Contents

Deferred premium revenue ceded to reinsurers (ceded unearned premium reserve) is recorded as an asset. Direct, assumed and ceded earned premium revenue are presented together as net earned premiums in the statement of operations. Net earned premiums comprise the following:

Net Earned Premiums

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Scheduled net earned premiums	\$470	\$581	\$765
Acceleration of net earned premiums	263	249	125
Accretion of discount on net premiums receivable	17	22	28
Financial guaranty insurance net earned premiums	750	852	918
Other	2	1	2
Net earned premiums(1)	\$752	\$853	\$920

(1) Excludes \$60 million, \$153 million and \$75 million for the year ended December 31, 2013, 2012 and 2011, respectively, related to consolidated FG VIEs.

Components of
Unearned Premium Reserve

	As of December 31, 2013			As of December 31, 2012			
	Gross (in millions)	Ceded	Net(1)	Gross	Ceded	Net(1)	
Deferred premium revenue:							
Financial guaranty insurance	\$4,647	\$470	\$4,177	\$5,349	\$586	\$4,763	
Other	5	—	5	7	—	7	
Deferred premium revenue	\$4,652	\$470	\$4,182	\$5,356	\$586	\$4,770	
Contra-paid	(57) (18) (39) (149) (25) (124)
Unearned premium reserve	\$4,595	\$452	\$4,143	\$5,207	\$561	\$4,646	

(1) Excludes \$187 million and \$262 million deferred premium revenue and \$55 million and \$98 million contra-paid related to FG VIEs as of December 31, 2013 and December 31, 2012, respectively.

Table of Contents

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

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Beginning of period, December 31	\$1,005	\$1,003	\$1,168
Gross premium written, net of commissions on assumed business	145	211	245
Gross premiums received, net of commissions on assumed business	(259	) (294	) (318
Adjustments:			
Changes in the expected term	(28	) 44	(104
Accretion of discount, net of commissions on assumed business	20	36	32
Foreign exchange translation	(1	) 13	(5
Consolidation of FG VIEs	—	(5	) (10
Other adjustments	(6	) (3	) (5
End of period, December 31 (1)	\$876	\$1,005	\$1,003

(1) Excludes \$21 million, \$29 million and \$28 million as of December 31, 2013, 2012 and 2011, respectively, related to consolidated FG VIEs.

Gains or losses due to foreign exchange rate changes relate to installment premium receivables denominated in currencies other than the U.S. dollar. Approximately 48% and 47% of installment premiums at December 31, 2013 and 2012, 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
Gross Premiums Receivable,
Net of Commissions on Assumed Business
(Undiscounted)

	As of December 31, 2013 (in millions)
2014 (January 1 – March 31)	\$47
2014 (April 1 – June 30)	33
2014 (July 1 – September 30)	23
2014 (October 1 – December 31)	25
2015	91
2016	85
2017	78
2018	70
2019-2023	279
2024-2028	173
2029-2033	121
After 2033	129

Total(1)	\$1,154
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(1) Excludes expected cash collections on FG VIEs of \$27 million.

158

Table of Contents

Scheduled Net Earned Premiums

	As of December 31, 2013 (in millions)
2014 (January 1 – March 31)	\$108
2014 (April 1 – June 30)	107
2014 (July 1 – September 30)	105
2014 (October 1 – December 31)	102
Subtotal 2014	422
2015	372
2016	328
2017	294
2018	269
2019-2023	1,049
2024-2028	668
2029-2033	405
After 2033	370
Total present value basis(1)	4,177
Discount	240
Total future value	\$4,417

(1) Excludes scheduled net earned premiums on consolidated FG VIEs of \$187 million.

Selected Information for
Policies Paid in Installments

	As of December 31, 2013 (dollars in millions)	As of December 31, 2012		
Premiums receivable, net of ceding commission payable	\$876	\$1,005		
Gross deferred premium revenue	1,576	1,908		
Weighted-average risk-free rate used to discount premiums	3.4	%	3.5	%
Weighted-average period of premiums receivable (in years)	9.4		9.6	

5. Financial Guaranty Insurance Acquisition Costs

Accounting Policy

Policy acquisition costs that are directly related and essential to successful insurance contract acquisition are deferred for contracts accounted for as insurance. Amortization of deferred policy acquisition costs includes the accretion of discount on ceding commission income and expense. Acquisition costs associated with derivative contracts are not deferred.

Direct costs related to the acquisition of new and renewal contracts that result directly from and are essential to the contract transaction are capitalized. These costs include expenses such as ceding commissions and the cost of

underwriting personnel. Ceding commission expense on assumed reinsurance contracts and ceding commission income on ceded reinsurance contracts that are associated with premiums received in installments are calculated at their contractually defined rates and included in deferred acquisition costs ("DAC"), with a corresponding offset to net premiums receivable or reinsurance balances payable. Management uses its judgment in determining the type and amount of costs to be deferred. The Company conducts an annual study to determine which operating costs qualify for deferral. Costs incurred by the insurer for soliciting potential customers, market research, training, administration, unsuccessful acquisition efforts, and product development as well as all

Table of Contents

overhead type costs are charged to expense as incurred. DAC are amortized in proportion to net earned premiums. When an insured obligation is retired early, the remaining related DAC is expensed at that time.

Expected losses, which include loss adjustment expenses ("LAE"), investment income, and the remaining costs of servicing the insured or reinsured business, are considered in determining the recoverability of DAC.

Rollforward of Deferred Acquisition Costs

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Beginning of period	\$116	\$132	\$146
Costs deferred during the period:			
Commissions on assumed and ceded business	9	(13	) (13
Premium taxes	4	4	7
Compensation and other acquisition costs	8	10	9
Total	21	1	3
Costs amortized during the period	(13	) (17	) (17
Foreign exchange translation	0	0	0
End of period	\$124	\$116	\$132

6. Expected Loss to be Paid

Accounting Policy

The insured portfolio includes policies accounted for under three separate accounting models depending on the characteristics of the contract and the Company's control rights. The Company has paid and expects to pay future losses on policies which fall under each of the three accounting models. The following provides a summarized description of the three accounting models, with references to additional information provided throughout this report. The three models are insurance, derivative and VIE consolidation.

In order to effectively evaluate and manage the economics and liquidity of the entire insured portfolio, management compiles and analyzes loss information for all policies on a consistent basis. The Company monitors and assigns ratings and calculates expected losses in the same manner for all its exposures regardless of form or differing accounting models.

The discussion of expected loss to be paid within this note encompasses all policies in the insured portfolio. Net expected loss to be paid in the tables below consists of the present value of future: expected claim and LAE payments, expected recoveries of excess spread in the transaction structures, cessions to reinsurers, and expected recoveries for breaches of representations and warranties ("R&W") and other loss mitigation strategies.

Accounting Models:

The following is a summary of each of the accounting models prescribed by GAAP with a reference to the notes that describe the accounting policies and required disclosures. This note provides information regarding expected claim payments to be made under all insured contracts.

Insurance Accounting

For contracts accounted for as financial guaranty insurance, loss and LAE reserve is recorded only to the extent and for the amount that expected losses to be paid exceed unearned premium reserve. As a result, the Company has expected loss to be paid that have not yet been expensed. Such amounts will be expensed in future periods as deferred premium revenue amortizes into income. Expected loss to be paid is important from a liquidity perspective in that it represents the present value of amounts that the Company expects to pay or recover in future periods. Expected loss to be expensed is important because it presents the Company's projection of incurred losses that will be recognized in future periods (excluding accretion of discount). See Note 7, Financial Guaranty Insurance Losses.

Table of Contents

Derivative Accounting, at Fair Value

For contracts that do not meet the financial guaranty scope exception in the derivative accounting guidance (primarily due to the fact that the insured is not required to be exposed to the insured risk throughout the life of the contract), the Company records such credit derivative contracts at fair value on the consolidated balance sheet with changes in fair value recorded in the consolidated statement of operations. Expected loss to be paid is an important measure used by management to analyze the net economic loss on credit derivatives. The fair value recorded on the balance sheet represents an exit price in a hypothetical market because the Company does not trade its credit derivative contracts. The fair value is determined using significant Level 3 inputs in an internally developed model while the expected loss to be paid (which represents the net present value of expected cash outflows) uses methodologies and assumptions consistent with financial guaranty insurance expected losses to be paid. See Note 8, Fair Value Measurement and Note 9, Financial Guaranty Contracts Accounted for as Credit Derivatives.

VIE Consolidation, at Fair Value

For financial guaranty insurance contracts issued on the debt of variable interest entities over which the Company is deemed to be the primary beneficiary due to its control rights, as defined in accounting literature, the Company consolidates the FG VIE. The Company carries the assets and liabilities of the FG VIEs at fair value under the fair value option election. Management assesses the losses on the insured debt of the consolidated FG VIEs in the same manner as other financial guaranty insurance and credit derivative contracts. Expected loss to be paid for FG VIEs pursuant to AGC's and AGM's financial guaranty insurance policies is calculated in a manner consistent with the Company's other financial guaranty insurance contracts. See Note 10, Consolidation of Variable Interest Entities.

Expected Loss to be Paid

The expected loss to be paid is equal to the present value of expected future cash outflows for claim and LAE payments, net of inflows for expected salvage and subrogation (i.e. excess spread on the underlying collateral, and estimated and contractual recoveries for breaches of representations and warranties), using current risk-free rates. When the Company becomes entitled to the cash flow from the underlying collateral of an insured credit under salvage and subrogation rights as a result of a claim payment or estimated future claim payment, it reduces the expected loss to be paid on the contract. Net expected loss to be paid is defined as expected loss to be paid, net of amounts ceded to reinsurers.

The current risk-free rate is based on the remaining period of the contract used in the premium revenue recognition calculation (i.e., the contractual or expected period, as applicable). The Company updates the discount rate each quarter and records the effect of such changes in economic loss development. Expected cash outflows and inflows are probability weighted cash flows that reflect the likelihood of all possible outcomes. The Company estimates the expected cash outflows and inflows using management's assumptions about the likelihood of all possible outcomes based on all information available to it. Those assumptions consider the relevant facts and circumstances and are consistent with the information tracked and monitored through the Company's risk-management activities.

Economic Loss Development

Economic loss development represents the change in net expected loss to be paid attributable to the effects of changes in assumptions based on observed market trends, changes in discount rates, accretion of discount and the economic effects of loss mitigation efforts.

Expected loss to be paid and economic loss development include the effects of loss mitigation strategies such as negotiated and estimated recoveries for breaches of representations and warranties, and purchases of insured debt obligations. Additionally, in certain cases, issuers of insured obligations elected, or the Company and an issuer mutually agreed as part of a negotiation, to deliver the underlying collateral or insured obligation to the Company.

In circumstances where the Company has acquired its own insured obligations that have expected losses, either as part of loss mitigation strategy or via delivery of underlying collateral, expected loss to be paid is reduced by the proportionate share of the insured obligation that is held in the investment portfolio. The difference between the purchase price of the obligation and the fair value excluding the value of the Company's insurance, is treated as a paid loss for both purchased bonds and delivered collateral or insured obligations. Assets that are purchased or put to the Company are recorded in the investment portfolio, at fair value, excluding the value of the Company's insurance. See Note 11, Investments and Cash and Note 8, Fair Value Measurement.

Table of Contents

Loss Estimation Process

The Company's loss reserve committees estimate expected loss to be paid for all contracts. Surveillance personnel present analyses related to potential losses to the Company's loss reserve committees for consideration in estimating the expected loss to be paid. Such analyses include the consideration of various scenarios with potential probabilities assigned to them. Depending upon the nature of the risk, the Company's view of the potential size of any loss and the information available to the Company, that analysis may be based upon individually developed cash flow models, internal credit rating assessments and sector-driven loss severity assumptions or judgmental assessments. In the case of its assumed business, the Company may conduct its own analysis as just described or, depending on the Company's view of the potential size of any loss and the information available to the Company, the Company may use loss estimates provided by ceding insurers. The Company's loss reserve committees review and refresh the estimate of expected loss to be paid each quarter. The Company's estimate of ultimate loss on a policy is subject to significant uncertainty over the life of the insured transaction due to the potential for significant variability in credit performance as a result of economic, fiscal and financial market variability over the long duration of most contracts. The determination of expected loss to be paid is an inherently subjective process involving numerous estimates, assumptions and judgments by management.

The following table presents 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 R&W. The Company used weighted average risk-free rates for U.S. dollar denominated obligations, which ranged from 0.0% to 4.44% as of December 31, 2013 and 0.0% to 3.28% as of December 31, 2012.

Net Expected Loss to be Paid
Before Recoveries for Breaches of R&W
Roll Forward by Sector
Year Ended December 31, 2013

	Net Expected Loss to be Paid as of December 31, 2012(2)	Economic Loss Development	(Paid) Recovered Losses(1)	Net Expected Loss to be Paid as of December 31, 2013(2)
(in millions)				
U.S. RMBS:				
First lien:				
Prime first lien	\$ 10	\$ 16	\$(1	) \$25
Alt-A first lien	693	(40	) (75	) 578
Option ARM	460	63	(359	) 164
Subprime	351	101	(30	) 422
Total first lien	1,514	140	(465	) 1,189
Second lien:				
Closed-end second lien	99	(3	) (9	) 87
HELOCs	39	3	(113	) (71
Total second lien	138	0	(122	) 16
Total U.S. RMBS	1,652	140	(587) 1,205
TruPS	27	7	17	51
Other structured finance	312	(41) (151) 120

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U.S. public finance	7	239	18	264	
Non-U.S public finance	52	17	(12) 57	
Other insurance	(3) (10) 10	(3)
Total	\$2,047	\$352	\$(705	) \$1,694

162

Table of Contents

Net Expected Loss to be Paid
Before Recoveries for Breaches of R&W
Roll Forward by Sector
Year Ended December 31, 2012

	Net Expected Loss to be Paid as of December 31, 2011	Economic Loss Development	(Paid) Recovered Losses(1)	Expected Loss to be Paid as of December 31, 2012
	(in millions)			
U.S. RMBS:				
First lien:				
Prime first lien	\$5	\$5	\$—	\$10
Alt-A first lien	702	102	(111)	) 693
Option ARM	935	128	(603)	) 460
Subprime	342	57	(48)	) 351
Total first lien	1,984	292	(762)	) 1,514
Second lien:				
Closed-end second lien	138	(5	) (34	) 99
HELOCs	159	80	(200)	) 39
Total second lien	297	75	(234)	) 138
Total U.S. RMBS	2,281	367	(996)	) 1,652
TruPS	64	(30	) (7	) 27
Other structured finance	342	2	(32)	) 312
U.S. public finance	16	74	(83)	) 7
Non-U.S public finance	51	221	(220)	) 52
Other insurance	2	(17	) 12	(3
Total	\$2,756	\$617	\$(1,326	) \$2,047

Net of ceded paid losses, whether or not such amounts have been settled with reinsurers. Ceded paid losses are (1) 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.

Includes expected LAE to be paid for mitigating claim liabilities of \$34 million as of December 31, 2013 and \$39 (2) million as of December 31, 2012. The Company paid \$54 million and \$47 million in LAE for the years ended December 31, 2013 and 2012, respectively.

Table of ContentsNet Expected Recoveries from
Breaches of R&W Rollforward
Year Ended December 31, 2013

	Future Net R&W Benefit as of December 31, 2012 (in millions)	R&W Development and Accretion of Discount During 2013	R&W Recovered During 2013(1)	Future Net R&W Benefit as of December 31, 2013(2)
U.S. RMBS:				
First lien:				
Prime first lien	\$4	\$ —	\$—	\$4
Alt-A first lien	378	41	(145	) 274
Option ARM	591	161	(579	) 173
Subprime	109	9	—	118
Total first lien	1,082	211	(724	) 569
Second lien:				
Closed end second lien	138	(9	) (31	) 98
HELOC	150	94	(199	) 45
Total second lien	288	85	(230	) 143
Total	\$1,370	\$ 296	\$(954	) \$712

Net Expected Recoveries from
Breaches of R&W Rollforward
Year Ended December 31, 2012

	Future Net R&W Benefit as of December 31, 2012 (in millions)	R&W Development and Accretion of Discount During 2012	R&W Recovered During 2012(1)	Future Net R&W Benefit as of December 31, 2012
U.S. RMBS:				
First lien:				
Prime first lien	\$3	\$ 1	\$—	\$ 4
Alt-A first lien	407	40	(69	) 378
Option ARM	725	89	(223	) 591
Subprime	101	8	—	109
Total first lien	1,236	138	(292	) 1,082
Second lien:				
Closed end second lien	224	5	(91	) 138
HELOC	190	36	(76	) 150
Total second lien	414	41	(167	) 288
Total	\$1,650	\$ 179	\$(459	) \$ 1,370

(1) Gross amounts recovered were \$986 million and \$485 million for years ended December 31, 2013 and 2012, respectively.

(2) Includes excess spread that the Company will receive as salvage as a result of a settlement agreement with a R&W provider.

Table of Contents

Net Expected Loss to be Paid
 After Net Expected Recoveries for Breaches of R&W
 Roll Forward
 Year Ended December 31, 2013

	Net Expected Loss to be Paid as of December 31, 2012	Economic Loss Development	(Paid) Recovered Losses(1)	Net Expected Loss to be Paid as of December 31, 2013
	(in millions)			
U.S. RMBS:				
First lien:				
Prime first lien	\$6	\$16	\$(1)	) \$21
Alt-A first lien	315	(81)	) 70	304
Option ARM	(131)	) (98)	) 220	(9)
Subprime	242	92	(30)	) 304
Total first lien	432	(71)	) 259	620
Second lien:				
Closed-end second lien	(39)	) 6	22	(11)
HELOCs	(111)	) (91)	) 86	(116)
Total second lien	(150)	) (85)	) 108	(127)
Total U.S. RMBS	282	(156)	) 367	493
TruPS	27	7	17	51
Other structured finance	312	(41)	) (151)	) 120
U.S. public finance	7	239	18	264
Non-U.S public finance	52	17	(12)	) 57
Other	(3)	) (10)	) 10	(3)
Total	\$677	\$56	\$249	\$982

Table of Contents

Net Expected Loss to be Paid
 After Net Expected Recoveries for Breaches of R&W
 Roll Forward
 Year Ended December 31, 2012

	Net Expected Loss to be Paid as of December 31, 2011	Economic Loss Development	(Paid) Recovered Losses(1)	Expected Loss to be Paid as of December 31, 2012	
	(in millions)				
U.S. RMBS:					
First lien:					
Prime first lien	\$2	\$4	\$—	\$6	
Alt-A first lien	295	62	(42)	) 315	
Option ARM	210	39	(380)	) (131)
Subprime	241	49	(48)	) 242	
Total first lien	748	154	(470)	) 432	
Second lien:					
Closed-end second lien	(86	) (10	) 57	(39)
HELOCs	(31	) 44	(124	) (111)
Total second lien	(117	) 34	(67	) (150)
Total U.S. RMBS	631	188	(537	) 282	
TruPS	64	(30	) (7	) 27	
Other structured finance	342	2	(32	) 312	
U.S. public finance	16	74	(83	) 7	
Non-U.S public finance	51	221	(220	) 52	
Other	2	(17	) 12	(3)
Total	\$1,106	\$438	\$(867	) \$677	

Net of ceded paid losses, whether or not such amounts have been settled with reinsurers. Ceded paid losses are (1) 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.

Table of Contents

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
By Accounting Model
As of December 31, 2013

	Financial Guaranty Insurance (in millions)	FG VIEs(1)	Credit Derivatives	Total
US RMBS:				
First lien:				
Prime first lien	\$3	\$—	\$18	\$21
Alt-A first lien	199	31	74	304
Option ARM	(18)	) (2	) 11	(9
Subprime	149	81	74	304
Total first lien	333	110	177	620
Second Lien:				
Closed-end second lien	(34	) 25	(2	) (11
HELOCs	(41	) (75	) —	(116
Total second lien	(75	) (50	) (2	) (127
Total U.S. RMBS	258	60	175	493
TruPS	3	—	48	51
Other structured finance	161	—	(41	) 120
U.S. public finance	264	—	—	264
Non-U.S. public finance	55	—	2	57
Subtotal	\$741	\$60	\$184	985
Other				(3
Total				\$982

Table of Contents

Net Expected Loss to be Paid
By Accounting Model
As of December 31, 2012

	Financial Guaranty Insurance (in millions)	FG VIEs(1)	Credit Derivatives	Total
US RMBS:				
First lien:				
Prime first lien	\$4	\$—	\$2	\$6
Alt-A first lien	164	27	124	315
Option ARM	(114	) (37	) 20	(131
Subprime	118	50	74	242
Total first lien	172	40	220	432
Second Lien:				
Closed-end second lien	(60	) 31	(10	) (39
HELOCs	56	(167	) —	(111
Total second lien	(4	) (136	) (10	) (150
Total U.S. RMBS	168	(96	) 210	282
TruPS	1	—	26	27
Other structured finance	224	—	88	312
U.S. public finance	7	—	—	7
Non-U.S. public finance	51	—	1	52
Subtotal	\$451	\$(96	) \$325	680
Other				(3
Total				\$677

(1) Refer to Note 10, Consolidation of Variable Interest Entities.

Table of Contents

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
By Accounting Model
Year Ended December 31, 2013

	Financial Guaranty Insurance (in millions)	FG VIEs(1)	Credit Derivatives(2)	Total
US RMBS:				
First lien:				
Prime first lien	\$ (1	) \$—	\$ 17	\$ 16
Alt-A first lien	(54	) 5	(32	) (81
Option ARM	(62	) (36	) —	(98
Subprime	48	32	12	92
Total first lien	(69	) 1	(3	) (71
Second Lien:				
Closed-end second lien	30	(34	) 10	6
HELOCs	(91	) (1	) 1	(91
Total second lien	(61	) (35	) 11	(85
Total U.S. RMBS	(130	) (34	) 8	(156
TruPS	—	—	7	7
Other structured finance	(36	) —	(5	) (41
U.S. public finance	239	—	—	239
Non-U.S. public finance	16	—	1	17
Subtotal	\$ 89	\$ (34	) \$ 11	66
Other				(10
Total				\$ 56

Table of Contents

Net Economic Loss Development
By Accounting Model
Year Ended December 31, 2012

	Financial Guaranty Insurance (in millions)	FG VIEs(1)	Credit Derivatives(2)	Total
US RMBS:				
First lien:				
Prime first lien	\$2	\$—	\$2	\$4
Alt-A first lien	38	(10)	34	62
Option ARM	37	(8)	10	39
Subprime	31	7	11	49
Total first lien	108	(11)	57	154
Second Lien:				
Closed-end second lien	13	(23)	—	(10)
HELOCs	37	7	—	44
Total second lien	50	(16)	—	34
Total U.S. RMBS	158	(27)	57	188
TruPS	(11)	—	(19)	(30)
Other structured finance	15	—	(13)	2
U.S. public finance	75	—	(1)	74
Non-U.S. public finance	222	—	(1)	221
Subtotal	\$459	\$(27)	\$23	455
Other				(17)
Total				\$438

(1) Refer to Note 10, Consolidation of Variable Interest Entities.

(2) Refer to Note 9, Financial Guaranty Contracts Accounted for as Credit Derivatives.

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.

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

170

Table of Contents

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. Further detail regarding the assumptions and variables the Company used to project collateral losses in its U.S. RMBS portfolio may be found below in the sections "U.S. First Lien RMBS Loss Projections: Alt-A First Lien, Option ARM, Subprime and Prime" and "U.S. Second Lien RMBS Loss Projections: HELOCs and Closed-End Second Lien"

The Company is in the process of enforcing claims for breaches of R&W regarding the characteristics of the loans included in the collateral pools. The Company calculates a credit from the RMBS issuer for such recoveries where the R&W were provided by an entity the Company believes to be financially viable and where the Company already has access or believes it will attain access to the underlying mortgage loan files. Where the Company has an agreement with an R&W provider (e.g., the Bank of America Agreement, the Deutsche Bank Agreement or the UBS Agreement) or where it is in advanced discussions on a potential agreement, 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. Further detail regarding how the Company calculates these credits may be found under "Breaches of Representations and Warranties" below.

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 (a) the collateral losses it projects as described above, (b) assumed voluntary prepayments and (c) 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. As noted above, 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 factors, 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.

Year-End 2013 Compared to Year-End 2012 U.S. RMBS Loss Projections

The Company's RMBS loss projection methodology assumes that the housing and mortgage markets will continue improving. Each quarter 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 quarter of the performance of its insured transactions (including early stage delinquencies, late stage delinquencies and, for first liens, 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 to whether those changes are normal fluctuations or part of a trend. Based on such observations the Company chose to use the same general methodology (with the refinements described below) to project RMBS losses as of December 31, 2013 as it used as of December 31, 2012. The Company's use of the same general approach to project RMBS losses as of December 31, 2013 as it used as of December 31, 2012 was consistent with its view at December 31, 2013 that the housing and mortgage market recovery was occurring at a slower pace than it anticipated at December 31, 2012.

The Company refined its first lien RMBS loss projection methodology as of December 31, 2013 to model explicitly the behavior of borrowers with loans that had been modified. The Company has observed that mortgage loan servicers were modifying more mortgage loans (reducing or forbearing from collecting interest or principal or both due on mortgage loans) to reduce the borrowers' monthly payments and so improve their payment performance than was the case before the mortgage crisis. Borrowers who are current based on their new, reduced monthly payments are generally reported as current, but are

Table of Contents

more likely to default than borrowers who are current and whose loans have not been modified. The Company believes modified loans are most likely to default again during the first year after modification. The Company set its liquidation rate assumptions as of December 31, 2012 based on observed roll rates and with modification activity in mind. As of December 31, 2013 the Company made a number of refinements to its first lien RMBS loss projection assumptions to treat loan modifications explicitly. Specifically, in the base case approach, it:

- established a liquidation rate assumption for loans reported as current but that had been reported as modified in the previous 12 months,

- assumed that currently delinquent loans that did not roll to liquidation would behave like modified loans, and so applied the modified loan liquidation rate to them,

- increased from two to three years the period over which it calculates the initial CDR based on assumed liquidations of non-performing loans and modified loans, to account for the longer period modified loans will take to default,

- increased the period it assumes the transactions will experience the initial loss severity assumption before it improves and the period during which the transaction will experience low voluntary prepayment rates,

- established an assumption for servicers not to advance loan payments on all delinquent loans

The methodology and revised assumptions the Company uses to project first lien RMBS losses and the scenarios it employs are described in more detail below under " - U.S. First Lien RMBS Loss Projections: Alt A First Lien, Option ARM, Subprime and Prime". The refinement in assumptions described above resulted in a reduction of the initial CDRs but the application of the initial CDRs for a longer period, which generally resulted in a higher amount of loans being liquidated at the initial CDR under the refined assumptions than under the initial CDR under the previous assumptions. The Company estimated the impact of all of the refinements to its assumptions described above to be an increase of expected losses of approximately \$8 million (before adjustments for settlements or loss mitigation purchases) by running on the first lien RMBS portfolio as of December 31, 2013 base case assumptions similar to what it used as of December 31, 2012 and comparing those results to those results from the refined assumptions.

During 2013 the Company observed improvements in the performance of its second lien RMBS transactions that, when viewed in the context of their performance prior to 2013, suggested those transactions were beginning to respond to the improvements in the residential property market and economy being widely reported by market observers. Based on such observations, in projecting losses for second lien RMBS the Company chose to decrease by two months in its base scenario and by three months in its optimistic scenario the period it assumed it would take the mortgage market to recover as compared to December 31, 2012. Also during 2013 the Company observed material improvements in the delinquency measures of certain second lien RMBS for which the servicing had been transferred, and made certain adjustments on just those transactions to reflect its view that much of this improvement was due to loan modifications and reinstatements made by the new servicer and that such recently modified and reinstated loans may have a higher likelihood of defaulting again. The methodology and assumptions the Company uses to project second lien RMBS losses and the scenarios it employs are described in more detail below under " - U.S. Second Lien RMBS Loss Projections: HELOCs and Closed-End Second Lien".

The Company observed some improvement in delinquency trends in most of its RMBS transactions during 2013, with some of that improvement in second liens driven by servicing transfers it effectuated. Such improvement is naturally transmitted to its projections for each individual RMBS transaction, since the projections are based on the delinquency performance of the loans in that individual transaction.

Year-End 2012 Compared to Year-End 2011 U.S. RMBS Loss Projections

Based on the Company's observation during 2012 of the performance of its insured transactions (including early stage delinquencies, late stage delinquencies and, for first liens, loss severity) as well as the residential property market and economy in general, the Company chose to use essentially the same assumptions and scenarios to project RMBS loss as of December 31, 2012 as it used as of December 31, 2011, except that as compared to December 31, 2011:

- in its most optimistic scenario, it reduced by three months the period it assumed it would take the mortgage market to recover; and

Table of Contents

in its most pessimistic scenario, it increased by three months the period it assumed it would take the mortgage market to recover.

The Company's use of essentially the same assumptions and scenarios to project RMBS losses as of December 31, 2012 as at December 31, 2011 was consistent with its view at December 31, 2012 that the housing and mortgage market recovery was occurring at a slower pace than it anticipated at December 31, 2011. The Company's changes during 2012 to the period it would take the mortgage market to recover in its most optimistic scenario and its most pessimistic scenario allowed it to consider a wider range of possibilities for the speed of the recovery. Since the Company's projections for each RMBS transaction are based on the delinquency performance of the loans in that individual RMBS transaction, improvement or deterioration in that aspect of a transaction's performance impacts the projections for that transaction. The methodology and assumptions the Company uses to project RMBS losses and the scenarios it employs are described in more detail below under " – U.S. First Lien RMBS Loss Projections: Alt A First Lien, Option ARM, Subprime and Prime" and " – U.S. Second Lien RMBS Loss Projections: HELOCs and Closed-End Second Lien."

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 in the previous 12 months or are delinquent or 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 liquidation rate is a standard industry measure that is used to estimate the number of loans in a given non-performing category that will default within a specified time period. 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. As described above under " – Year-End 2013 Compared to Year-End 2012 U.S. RMBS Loss Projections", the Company refined its methodology as of December 31, 2013 to establishing liquidation rates to explicitly consider loans modifications and revised the period over which it projects these liquidations to occur from two to three years. Based on its review of that data, the Company made the changes described in the following table as of December 31, 2013 and maintained the same liquidation assumptions at December 31, 2012 and December 31, 2011. The following table shows liquidation assumptions for various non-performing categories.

Table of Contents

First Lien Liquidation Rates

	December 31, 2013	December 31, 2012	December 31, 2011
Current Loans Modified in Previous 12 Months			
Alt A and Prime	35%	N/A	N/A
Option ARM	35	N/A	N/A
Subprime	35	N/A	N/A
30 – 59 Days Delinquent			
Alt A and Prime	50	35%	35%
Option ARM	50	50	50
Subprime	45	30	30
60 – 89 Days Delinquent			
Alt A and Prime	60	55	55
Option ARM	65	65	65
Subprime	50	45	45
90+ Days Delinquent			
Alt A and Prime	75	65	65
Option ARM	70	75	75
Subprime	60	60	60
Bankruptcy			
Alt A and Prime	60	55	55
Option ARM	60	70	70
Subprime	55	50	50
Foreclosure			
Alt A and Prime	85	85	85
Option ARM	80	85	85
Subprime	70	80	80
Real Estate Owned			
All	100	100	100

While the Company uses liquidation rates as described above to project defaults of non-performing loans, 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 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 (up from 24 months as of December 31, 2012), 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. The refinement in assumptions described above under “ - Year-End 2013 Compared to Year-End 2012 U.S. RMBS Loss Projections” resulted in a reduction of the initial CDRs but the application of the initial CDRs for a longer period generally resulted in a higher amount of loans being liquidated at the initial CDR under the December 31, 2013 assumptions than under the initial CDR under the December 31, 2012 assumptions.

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. Under the Company’s methodology, defaults projected to occur in the first 36 months represent defaults that can be attributed to loans 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.

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 (up from a twelve months as of December 31, 2012), except that in the case of subprime loans, the Company assumes the unprecedented 90% loss severity rate will continue for another nine months (up from six

Table of Contents

months as of December 31, 2012) then drop to 80% for nine more months (up from six months as of December 31, 2012), in each case before following the ramp described below. The Company determines its initial loss severity based on actual recent experience. The Company's initial loss severity assumptions for December 31, 2013 were the same as it used for December 31, 2012 and December 31, 2011. 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 (up from two years as of December 31, 2012).

The following table shows the range of 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 December 31, 2013		As of December 31, 2012		As of December 31, 2011	
Alt-A First Lien						
Plateau CDR	2.8	%– 18.4%	3.8	%– 23.2%	2.8	%– 41.3%
Intermediate CDR	0.6	%– 3.7%	0.8	%– 4.6%	0.6	%– 8.3%
Period until intermediate CDR	48 months		36 months		36 months	
Final CDR	0.1	%– 0.9%	0.2	%– 1.2%	0.1	%– 2.1%
Initial loss severity	65%		65%		65%	
Initial conditional prepayment rate ("CPR")	0.0	%– 34.2%	0.0	%– 39.4%	0.0	%– 37.5%
Final CPR	15%		15%		15%	
Option ARM						
Plateau CDR	4.9	%– 16.8%	7.0	%– 26.1%	9.6	%– 31.5%
Intermediate CDR	1.0	%– 3.4%	1.4	%– 5.2%	1.9	%– 6.3%
Period until intermediate CDR	48 months		36 months		36 months	
Final CDR	0.2	%– 0.8%	0.4	%– 1.3%	0.5	%– 1.6%
Initial loss severity	65%		65%		65%	
Initial CPR	0.4	%– 13.1%	0.0	%– 10.7%	0.0	%– 29.1%
Final CPR	15%		15%		15%	
Subprime						
Plateau CDR	5.6	%– 16.2%	7.3	%– 26.2%	8.3	%– 29.9%
Intermediate CDR	1.1	%– 3.2%	1.5	%– 5.2%	1.7	%– 6%
Period until intermediate CDR	48 months		36 months		36 months	
Final CDR	0.3	%– 0.8%	0.4	%– 1.3%	0.4	%– 1.5%
Initial loss severity	90%		90%		90%	
Initial CPR	0.0	%– 15.7%	0.0	%– 17.6%	0.0	%– 16.3%
Final CPR	15%		15%		15%	

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

The rate at which the principal amount of loans is voluntarily prepaid may impact both the amount of losses projected (since that amount is a function of the 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 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. These assumptions are the same as those the Company used for December 31, 2012 and December 31, 2011 except that, as of December 31, 2013 the period of initial CDRs were assumed to last 12 months longer than they were assumed to last as of December 31, 2012 and 2011, so the initial CPR is also held constant 12 months longer as of December 31, 2013 than it was as of December 31, 2012 or 2011.

175

Table of Contents

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 December 31, 2013, using the same number of scenarios and weightings as it used as of December 31, 2012 and 2011. The Company used a similar approach to establish its pessimistic and optimistic scenarios as of December 31, 2013 as it used as of December 31, 2012 and 2011, increasing and decreasing the periods of stress from those used in the base case, except that all of the stress periods were longer as of December 31, 2013 than they were as of December 31, 2012 and 2011. 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%), expected loss to be paid would increase from current projections by approximately \$41 million for Alt-A first liens, \$12 million for Option ARM, \$93 million for subprime and \$4 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 \$111 million for Alt-A first liens, \$30 million for Option ARM, \$136 million for subprime and \$12 million for prime transactions. The Company also considered two scenarios where the recovery was faster than in its base case. In a scenario with a somewhat less stressful environment than the base case, where conditional default rate recovery was somewhat less gradual and the initial subprime loss severity rate was assumed to be 80% for 18 months and was assumed to recover to 40% over 2.5 years, expected loss to be paid would increase from current projections by approximately \$1 million for Alt-A first lien and would decrease by \$11 million for Option ARM, \$24 million for subprime and \$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 rather than 12 months), expected loss to be paid would decrease from current projections by approximately \$38 million for Alt-A first lien, \$29 million for Option ARM, \$77 million for subprime and \$4 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. These variables are interrelated, difficult to predict and subject to considerable volatility. If actual experience differs from the Company's assumptions, the losses incurred could be materially different from the estimate. The Company continues to update its evaluation of these exposures as new information becomes available.

The following table shows the range of key assumptions for the calculation of expected loss to be paid for individual transactions for direct vintage 2004 - 2008 second lien U.S. RMBS.

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

HELOC key assumptions	As of December 31, 2013	As of December 31, 2012	As of December 31, 2011
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Plateau CDR	2.3	%– 7.7%	3.8	%– 15.9%	4.0	%– 27.4%
Final CDR trended down to	0.4	%– 3.2%	0.4	%– 3.2%	0.4	%– 3.2%
Period until final CDR	34 months		36 months		36 months	
Initial CPR	2.7	%– 21.5%	2.9	%– 15.4%	1.4	%– 25.8%
Final CPR	10%		10%		10%	
Loss severity	98%		98%		98%	

176

Table of Contents

Closed-end second lien key assumptions	As of December 31, 2013	As of December 31, 2012	As of December 31, 2011
Plateau CDR	7.3 %– 15.1%	7.3 %– 20.7%	6.9 %– 29.5%
Final CDR trended down to Period until final CDR	3.5 %– 9.1% 34 months	3.5 %– 9.1% 36 months	3.5 %– 9.1% 36 months
Initial CPR	3.1 %– 12.0%	1.9 %– 12.5%	0.9 %– 14.7%
Final CPR	10%	10%	10%
Loss severity	98%	98%	98%

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

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. During 2013 the Company observed material improvements in the delinquency measures of certain second lien RMBS for which the servicing had been transferred, and determined that much of this improvement was due to loan modifications and reinstatements made by the new servicer. To reflect the possibility that such recently modified and reinstated loans may have a higher likelihood of defaulting again, for such transactions the Company treated as severely delinquent a portion of the loans that are current or less than 150 days delinquent and that it identified as having been recently modified or reinstated. Even with that adjustment, the improvement in delinquency measures for those transactions resulted in a lower initial CDR for those transactions than the initial CDR calculated as of December 31, 2012.

As of December 31, 2013, 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. This is two months shorter than used for December 31, 2012 and 2011. When a second lien loan defaults, there is generally a very low recovery. Based on current expectations of future performance, the Company assumes that it will only recover 2% of the collateral, the same as December 31, 2012 and December 31, 2011.

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. The final CPR is assumed to be 10% for both HELOC and closed-end second lien transactions. This level is

much higher than current rates for most transactions, but lower than the historical average, which 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, 2012 and December 31, 2011. 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, the loss severity, and HELOC draw rates (the amount of new advances provided on existing

Table of Contents

HELOCs expressed as a percentage of current outstanding advances). These variables have been relatively stable over the past several quarters and in the relevant ranges have less impact on the projection results than the variables discussed above.

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. 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 (before considering the effects of repurchases of ineligible loans). The Company continues to evaluate the assumptions affecting its modeling results.

As of December 31, 2013, 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 and weighted them the same as of December 31, 2012 and 2011. 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 \$26 million for HELOC transactions and \$2 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 \$24 million for HELOC transactions and \$2 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. Soon after the Company observed the deterioration in the performance of its insured RMBS following the deterioration of the residential mortgage and property markets, the Company began using internal resources as well as third party forensic underwriting firms and legal firms to pursue breaches of R&W on a loan-by-loan basis. Where a provider of R&W refused to honor its repurchase obligations, the Company sometimes chose to initiate litigation. See "Recovery Litigation" below. 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. Such agreements 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.

Using these strategies, through December 31, 2013 the Company has caused entities providing R&Ws to pay or agree to pay approximately \$3.6 billion (gross of reinsurance) in respect of their R&W liabilities for transactions in which the Company has provided insurance.

	(in millions)
Agreement amounts already received	\$2,608
Agreement amounts projected to be received in the future	425
Repurchase amounts paid into the relevant RMBS prior to settlement (1)	578
Total R&W payments, gross of reinsurance	\$3,611

(1) These amounts were paid into the relevant RMBS transactions (rather than to the Company as in most settlements) and distributed in accordance with the priority of payments set out in the relevant transaction documents. Because

the Company may insure only a portion of the capital structure of a transaction, such payments will not necessarily directly benefit the Company dollar-for-dollar, especially in first lien transactions.

Based on this success, the Company has included in its net expected loss estimates as of December 31, 2013 an estimated net benefit related to breaches of R&W of \$712 million, which includes \$413 million from agreements with R&W providers and \$299 million in transactions where the Company does not yet have such an agreement, all net of reinsurance.

Table of Contents

Representations and Warranties Agreements (1)

	Agreement Date	Current Net Par Covered	Receipts to December 31, 2013 (net of reinsurance)	Estimated Future Receipts (net of reinsurance)	Eligible Assets Held in Trust (gross of reinsurance)
	(in millions)				
Bank of America - First Lien	April 2011	\$1,059	\$474	\$201	\$593
Bank of America - Second Lien	April 2011	1,387	968	NA	NA
Deutsche Bank	May 2012	1,711	179	107	151
UBS	May 2013	807	394	59	174
Others	Various	994	385	46	NA
Total		\$5,958	\$2,400	\$413	\$918

This table relates to past and projected future recoveries under R&W and related agreements. Excluded is the \$299 million of future net recoveries the Company projects receiving from R&W counterparties in transactions with (1) \$1,617 million of net par outstanding as of December 31, 2013 not covered by current agreements and \$806 million of net par partially covered by agreements but for which the Company projects receiving additional amounts.

The Company's agreements with the counterparties specifically named in the table above required an initial payment to the Company to reimburse it for past claims as well as an obligation to reimburse it for a portion of future claims. The named counterparties placed eligible assets in trust to collateralize their future reimbursement obligations, and the amount of collateral they are required to post may be increased or decreased from time to time as determined by rating agency requirements. Reimbursement payments under these agreements are made either monthly or quarterly and have been made timely. With respect to the reimbursement for future claims:

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 December 31, 2013 aggregate lifetime collateral losses on those transactions was \$3.7 billion, and the Company was projecting in its base case that such collateral losses would eventually reach \$5.1 billion.

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 December 31, 2013, 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 Assured Guaranty for 85% of such claims paid (in excess of \$389 million) until such claims paid reach \$600 million.

The agreement also requires Deutsche Bank to reimburse AGC for future claims it pays on certain RMBS re-securitizations. The amount available for reimbursement of claim payments is based on a percentage of the losses that occur in certain uninsured tranches ("Uninsured Tranches") within the eight transactions described above: 60% of losses on the Uninsured Tranches (up to \$141 million of losses), 60% of such losses (for losses between \$161 million and \$185 million), and 100% of such losses (for losses from \$185 million to \$248 million). Losses on the Uninsured Tranches from \$141 million to \$161 million and above \$248 million are not included in the calculation of AGC's reimbursement amount for re-securitization claim payments. As of December 31, 2013, the Company was projecting

in its base case that losses on the Uninsured Tranches would be \$150 million. Pursuant to the CDS termination on October 10, 2013 described below, a portion of Deutsche Bank's reimbursement obligation was applied to the terminated CDS. After giving effect to application of the portion of the reimbursement obligation to the terminated CDS, as well as to reimbursements related to other covered RMBS re-securitizations, and based on the Company's base case projections for losses on the Uninsured Tranches, the Company expects that \$30 million will be available to reimburse AGC for re-securitization claim payments on the remaining re-securitizations. Except for the reimbursement obligation based on losses occurring on the Uninsured Tranches and the termination agreed to described below, the agreement with Deutsche Bank does not cover transactions where the Company has provided protection to Deutsche Bank on RMBS transactions in CDS form.

Table of Contents

On October 10, 2013, the Company and Deutsche Bank terminated one below investment grade transaction under which the Company had provided credit protection to Deutsche Bank through a CDS. The transaction had a net par outstanding of \$294 million at the time of termination. In connection with the termination, Assured Guaranty agreed to release to Deutsche Bank \$60 million of assets held in trust that was in excess of the amount of assets required to be held in trust for regulatory and rating agency capital relief.

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.

Flagstar. On June 21, 2013, AGM entered into a settlement agreement with Flagstar Bank in connection with its litigation for breach of contract against Flagstar on the Flagstar Home Equity Loan Trust, Series 2005-1 and Series 2006-2 second lien transactions. The agreement followed judgments by the court in February and April 2013 in favor of AGM, which Flagstar had planned to appeal. As part of the settlement, AGM received a cash payment of \$105 million and Flagstar withdrew its appeal. Flagstar also will reimburse AGM in full for all future claims on AGM's financial guaranty insurance policies for such transactions. This settlement resolved all RMBS claims that AGM had asserted against Flagstar and each party agreed to release the other from any and all other future RMBS-related claims between them.

The Company calculated an expected recovery of \$299 million from breaches of R&W in transactions not covered by agreements with \$1,617 million of net par outstanding as of December 31, 2013 and \$806 million of net par partially covered by agreements but for which the Company projects receiving additional amounts. 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.

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 Company accounts for the loss sharing obligations under the R&W agreements on financial guaranty insurance contracts as subrogation, offsetting the losses it projects by an R&W benefit from the relevant party for the applicable portion of the projected loss amount. Proceeds projected to be reimbursed to the Company on transactions where the

Company has already paid claims are viewed as a recovery on paid losses. For transactions where the Company has not already paid claims, projected recoveries reduce projected loss estimates. In either case, projected recoveries have no effect on the amount of the Company's exposure. See Notes 8, Fair Value Measurement and 9, Consolidation of Variable Interest Entities.

Table of Contents

U.S. RMBS Risks with R&W Benefit

	Number of Risks (1) as of		Debt Service as of	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
			(dollars in millions)	
Prime first lien	1	1	\$38	\$44
Alt-A first lien	19	26	2,856	4,173
Option ARM	9	10	641	1,183
Subprime	5	5	998	989
Closed-end second lien	4	4	158	260
HELOC	4	7	320	549
Total	42	53	\$5,011	\$7,198

(1) A risk represents the aggregate of the financial guaranty policies that share the same revenue source for purposes of making Debt Service payments. This table shows the full future Debt Service (not just the amount of Debt Service expected to be reimbursed) for risks with projected future R&W benefit, whether pursuant to an agreement or not.

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

Components of R&W Development

	Year Ended December 31,	
	2013	2012
	(in millions)	
Inclusion (removal) of deals with breaches of R&W during period	\$6	\$(3)
Change in recovery assumptions as the result of additional file review and recovery success	(6)	(10)
Estimated increase (decrease) in defaults that will result in additional (lower) breaches	(8)	63
Results of settlements	289	120
Accretion of discount on balance	15	9
Total	\$296	\$179

“XXX” Life Insurance Transactions

The Company’s \$2.7 billion net par of XXX life insurance transactions as of December 31, 2013 include \$598 million rated BIG. The BIG “XXX” life insurance reserve securitizations are based on discrete blocks of individual life insurance business. In each such transaction the monies raised by the sale of the bonds 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.

The BIG “XXX” life insurance transactions consist of two transactions: Ballantyne Re p.l.c and Orkney Re II p.l.c. These transactions had material amounts of their assets invested in U.S. RMBS transactions. 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 December 31, 2013, the Company’s projected net expected loss to be paid is \$73 million. The overall decrease of approximately \$66 million in

expected loss to be paid during 2013 is due primarily to the purchase of insured notes during the year.

181

Table of Contents

Student Loan Transactions

The Company has insured or reinsured \$2.8 billion net par of student loan securitizations, of which \$1.9 billion was issued by private issuers and classified as asset-backed and \$0.9 billion was issued by public authorities and classified as public finance. Of these amounts, \$206 million and \$253 million, respectively, are rated BIG. The Company is projecting approximately \$64 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 largest of these losses was approximately \$26 million and related to a transaction backed by a pool of private student loans assumed by AG Re from another monoline insurer. The guaranteed bonds were issued as auction rate securities that now bear a high rate of interest due to the downgrade of the primary insurer's financial strength rating. Further, the underlying loan collateral has performed below expectations. The overall increase of \$10 million in net expected loss during 2013 was primarily due to worse than expected collateral performance.

Trust Preferred Securities Collateralized Debt Obligations

The Company has insured or reinsured \$5.0 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 \$5.0 billion, \$1.7 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 December 31, 2013, the Company has projected expected losses to be paid for TruPS CDOs of \$51 million. The increase of approximately \$24 million in 2013 was due primarily to additional defaults and deferrals in the underlying collateral as well as the receipt during the year of \$9 million in reimbursements for claims previously paid.

Selected U.S. Public Finance Transactions

The Company insures general obligation bonds of the Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations aggregating \$5.4 billion net par. The Company rates \$5.2 billion net par of that amount BIG. Although recent announcements and actions by the current Governor and his administration indicate officials of the Commonwealth are focused on measures that are intended to help Puerto Rico operate within its financial resources and maintain its access to the capital markets, Puerto Rico faces significant challenges, including high debt levels, a declining population and an economy that has been in recession since 2006. Puerto Rico has been operating with a structural budget deficit in recent years, and its two largest pension funds are significantly underfunded. In February 2014, S&P, Moody's and Fitch Ratings downgraded much of the debt of Puerto Rico and its related authorities and public corporations to below investment grade, citing various factors including limited liquidity and market access risk. The Commonwealth has not defaulted on any of its debt. Neither Puerto Rico nor its related authorities and public corporations are eligible debtors under Chapter 9 of the U.S. Bankruptcy Code. Information regarding the Company's exposure general obligations of Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations, please refer "Puerto Rico Exposure" in Note 3, Outstanding Exposure.

Many U.S. municipalities and related entities continue to be under increased pressure, and a few have filed for protection under the U.S. Bankruptcy Code, entered into state processes designed to help municipalities in fiscal distress or otherwise indicated they may consider not meeting their obligations to make timely payments on their debts. Given some of these developments, and the circumstances surrounding each instance, the ultimate outcome cannot be certain and may lead to an increase in defaults on some of the Company's insured public finance

obligations. The Company will continue to analyze developments in each of these matters closely. The municipalities whose obligations the Company has insured that have filed for protection under Chapter 9 of the U.S Bankruptcy Code are: Detroit, Michigan; Jefferson County, Alabama; and Stockton, California. The City Council of Harrisburg, Pennsylvania had also filed a purported bankruptcy petition, which was later dismissed by the bankruptcy court; a receiver for the City of Harrisburg was appointed by the Commonwealth Court of Pennsylvania on December 2, 2011. The Company has net par exposure to the City of Detroit, Michigan of \$2.1 billion as of December 31, 2013. On July 18, 2013, the City of Detroit filed for bankruptcy under Chapter 9 of the U.S. Bankruptcy Code. Most of the Company's net par exposure relates to \$1.0 billion of sewer revenue bonds and \$784 million of water revenue bonds, both of which the Company rates BBB. Both the sewer and water systems provide services to areas that extend beyond the city limits, and the bonds are secured by a lien on "special revenues." The Company also has net par exposure of \$146 million to the City's

Table of Contents

general obligation bonds (which are secured by a pledge of the unlimited tax, full faith, credit and resources of the City and the specific ad valorem taxes approved by the voters solely to pay debt service on the general obligation bonds) and \$175 million of the City's Certificates of Participation (which are unsecured unconditional contractual obligations of the City), both of which the Company rates below investment grade. AGM has filed a complaint in the U.S. Bankruptcy Court for the Eastern District of Michigan against the City seeking a declaratory judgment with respect to the City's unlawful treatment of its Unlimited Tax General Obligation Bonds. Detail about the lawsuit is set forth under "Recovery Litigation -- Public Finance Transactions" below. On December 3, 2013, the Bankruptcy Court ruled that the City is eligible for protection under Chapter 9. On February 21, 2014, the City filed a proposed plan of adjustment and disclosure statement with the Bankruptcy Court.

During 2013 the Company has resolved, or is in the process of resolving, several of the credits that filed or attempted to file for protection under Chapter 9 of the U.S. Bankruptcy Code:

Stockton. On June 28, 2012, the City of Stockton, California filed for bankruptcy protection under Chapter 9 of the U.S. Bankruptcy Code. The Company's net exposure to the City's general fund is \$119 million, consisting of pension obligation bonds. The Company also had exposure to lease obligation bonds; as of December 31, 2013, the Company owned all of such bonds and held them in its investment portfolio. As of December 31, 2013, the Company had paid \$26 million in net claims. On October 3, 2013, the Company reached a tentative settlement with the City regarding the treatment of the bonds insured by the Company in the City's proposed plan of adjustment. Under the terms of the settlement, the Company received title to an office building, the ground lease of which secures the lease revenue bonds, and will also be entitled to certain fixed payments and certain variable payments contingent on the City's revenue growth. The settlement is subject to a number of conditions, including a sales tax increase (which was approved by voters on November 5, 2013), confirmation of a plan of adjustment that implements the terms of the settlement and definitive documentation. Pursuant to an order of the Bankruptcy Court, the City held a vote of its creditors on its proposed plan of adjustment; all but one of the classes polled voted to accept the plan. The court proceeding to determine whether to confirm the plan of adjustment is expected to begin in May 2014. The Company expects the plan to be confirmed and implemented during 2014.

Jefferson County. On November 9, 2011, Jefferson County filed for bankruptcy protection under Chapter 9 of the U.S. Bankruptcy Code. After several years of negotiations and litigation with various parties, Jefferson County's revised plan of adjustment was approved by the bankruptcy court and in December 2013 became effective. In order for Jefferson County to refund and retire the sewer warrants that it had previously issued, and to make other payments under the plan of adjustment, Jefferson County issued approximately \$1,785 million of new sewer warrants on December 3, 2013. In that issuance, AGM insured approximately \$600 million in initial aggregate principal amount of the senior lien sewer warrants, which AGM internally rates investment grade. The sewer system emerged from bankruptcy with a significantly lower debt burden and a rate structure that is approved through the life of the new sewer warrants.

Mashantucket Pequot Foxwoods Casino. During 2013 and as part of a negotiated restructuring, the Company paid off the insured bonds secured by the excess free cash flow of the Foxwoods Casino run by the Mashantucket Pequot Tribe. The Company made cumulative claims payments of \$116 million (net of reinsurance) on the insured bonds. In return for participating in the restructuring, the Company received new notes with a principal amount of \$145 million with the same seniority as the bonds the Company had insured. The new notes are held as an investment and accounted for as such.

Harrisburg. In December 2011, the Commonwealth Court of Pennsylvania appointed a receiver for the City. The Company had insured bonds for a resource recovery facility sponsored by the City. In December 2013 the defaulted recourse recovery facility bonds were paid in full with funds from the sale of the resource recovery facility, the sale of parking system revenue bonds issued by the Pennsylvania Economic Development Financing Authority ("PEDFA") and claim payments made by the Company. AGM insured \$189 million of the parking facility revenue bonds issued by

PEDFA and is entitled to receive reimbursements for claims it paid from residual cash flow on the parking system after the payment of debt service on the PEDFA bonds.

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.

The Company projects that its total future expected net loss across its troubled U.S. public finance credits as of December 31, 2013 will be \$264 million. As of December 31, 2012 the Company was projecting a net expected loss of \$7

Table of Contents

million across it troubled U.S. public finance credits. The net increase of \$257 million in expected loss was primarily attributable to deterioration in the credit of Puerto Rico and its related related authorities and public corporations, the bankruptcy filing by the City of Detroit, and a final resolution in Harrisburg that was somewhat worse for the Company than it projected as of December 31, 2012, offset in part primarily by the final resolution of the Company's Jefferson County exposure.

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 €437 million and €92 million, respectively and exposure net of reinsurance for Spanish and Portuguese credits is €313 million and €80 million, respectively. The Company rates most of these issuers in the BB category due to the financial condition of Spain and Portugal and their dependence on the sovereign. The Company's Hungary exposure is to infrastructure bonds dependent on payments from Hungarian governmental entities and covered mortgage bonds issued by Hungarian banks. The Company's gross exposure to these Hungarian credits is \$645 million and its exposure net of reinsurance is \$608 million of which all is rated BIG. The Company estimated net expected losses of \$51 million related to these Spanish, Portuguese and Hungarian credits, up from \$41 million as of December 31, 2012 largely due to minor movements in exchange rates, interest rates and timing of potential defaults, and the general deterioration of the Company's view of its Hungarian exposure during the year. Information regarding the Company's exposure to other Selected European Countries may be found under "Direct Economic Exposure to the Selected European Countries" in Note 3, Outstanding Exposure.

Manufactured Housing

The Company insures or reinsures a total of \$257 million net par of securities backed by manufactured housing loans, of which \$180 million is rated BIG. The Company has expected loss to be paid of \$26 million as of December 31, 2013, down from \$33 million as of December 31, 2012, due primarily to the higher risk free rates used to discount losses and additional amortization on certain transactions.

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, if at all. 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 expected the cash flows from these projects to be sufficient to repay all of the debt over the life of the project concession, but also expected the debt to be refinanced in the market at or prior to its maturity. 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 a long time, ranging from 10 to 35 years, depending on the transaction and the performance of the underlying collateral. The Company's exposure to infrastructure transactions with refinancing risk was reduced during 2013 by the termination of its insurance on A\$413 million of infrastructure securities having maturities commencing in 2014. The Company estimates total claims for the remaining two largest transactions with significant refinancing risk, assuming no refinancing and based on certain performance assumptions, could be \$1.8 billion on a gross basis; such claims would be payable from 2017 through 2022.

Recovery Litigation

RMBS Transactions

As of the date of this filing, AGM and AGC have lawsuits pending against a number of providers of representations and warranties in U.S. RMBS transactions insured by them, seeking damages. In all the lawsuits, AGM and AGC have alleged breaches of R&W in respect of the underlying loans in the transactions, and failure to cure or repurchase defective loans identified by AGM and AGC to such persons.

Deutsche Bank: AGM has sued Deutsche Bank AG affiliates DB Structured Products, Inc. and ACE Securities Corp. in the Supreme Court of the State of New York on the ACE Securities Corp. Home Equity Loan Trust, Series 2006-GP1 second lien transaction.

Table of Contents

Credit Suisse: AGM and AGC have sued DLJ Mortgage Capital, Inc. (“DLJ”) and Credit Suisse Securities (USA) LLC (“Credit Suisse”) on first lien U.S. RMBS transactions insured by them. The ones insured by AGM are: CSAB Mortgage-Backed Pass Through Certificates, Series 2006-2; CSAB Mortgage-Backed Pass Through Certificates, Series 2006-3; CSAB Mortgage-Backed Pass Through Certificates, Series 2006-4; and CMSC Mortgage-Backed Pass Through Certificates, Series 2007-3. The ones insured by AGC are: CSAB Mortgage-Backed Pass Through Certificates, Series 2007-1 and TBW Mortgage-Backed Pass Through Certificates, Series 2007-2. Although DLJ and Credit Suisse successfully dismissed certain causes of action and claims for relief asserted in the complaint, the primary causes of action against DLJ for breach of R&W and breach of its repurchase obligations remained. On February 27, 2014 the Appellate Division, First Department unanimously reversed certain aspects of the partial dismissal by the Supreme Court of the State of New York of certain claims for relief by holding as a matter of law that AGM’s and AGC’s remedies for breach of R&W are not limited to the repurchase remedy. On October 21, 2013, AGM and AGC filed an amended complaint against DLJ and Credit Suisse (and added Credit Suisse First Boston Mortgage Securities Corp. as a defendant), asserting claims of fraud and material misrepresentation in the inducement of an insurance contract, in addition to their existing breach of contract claims. The defendants have filed a motion to dismiss certain aspects of the fraud claim against Credit Suisse First Boston Mortgage Securities Corp., and AGM’s and AGC’s claims for compensatory damages in the form of all claims paid and to be paid by AGM and AGC. The motion to dismiss is currently pending.

On March 26, 2013, AGM filed a lawsuit against RBS Securities Inc., RBS Financial Products Inc. and Financial Asset Securities Corp. (collectively, “RBS”) in the United States District Court for the Southern District of New York on the Soundview Home Loan Trust 2007-WMC1 transaction. The complaint alleges that RBS made fraudulent misrepresentations to AGM regarding the quality of the underlying mortgage loans in the transaction and that RBS’s misrepresentations induced AGM into issuing a financial guaranty insurance policy in respect of the Class II-A-1 certificates issued in the transaction. On July 19, 2013, AGM amended its complaint to add a claim under Section 3105 of the New York Insurance Law. RBS has filed motions to dismiss AGM’s complaint.

In May 2012, AGM sued GMAC Mortgage, LLC (formerly GMAC Mortgage Corporation; Residential Asset Mortgage Products, Inc.; Ally Bank (formerly GMAC Bank); Residential Funding Company, LLC (formerly Residential Funding Corporation); Residential Capital, LLC (formerly Residential Capital Corporation, “ResCap”); Ally Financial (formerly GMAC, LLC); and Residential Funding Mortgage Securities II, Inc. on the GMAC RFC Home Equity Loan-Backed Notes, Series 2006-HSA3 and GMAC Home Equity Loan-Backed Notes, Series 2004-HE3 second lien transactions. On May 14, 2012, ResCap and several of its affiliates filed for Chapter 11 protection with the U.S. Bankruptcy Court. The debtors’ Joint Chapter 11 Plan became effective in December 2013 and AGM received a settlement amount. Accordingly, AGM dismissed its lawsuit at year-end 2013.

“XXX” Life Insurance Transactions

In December 2008, Assured Guaranty (UK) Ltd. (“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 December 23, 2013, AGM filed an amended complaint in the U.S. Bankruptcy Court for the Eastern District of Michigan against the City seeking a declaratory judgment with respect to the City’s unlawful treatment of its Unlimited Tax General Obligation Bonds (the “Unlimited Tax Bonds”). The complaint seeks a declaratory judgment and court

order establishing, among other things, that, under Michigan law, the proceeds of ad valorem taxes levied and collected by the City for the sole purpose of repaying the Unlimited Tax Bonds are “restricted funds” which must be segregated and not comingled with other funds of the City, that the City is prohibited from using the restricted funds for any purposes other than repaying holders of the Unlimited Tax Bonds, and that holders of the Unlimited Tax Bonds and AGM, as subrogee of the holders, have a statutory lien on the restricted funds which constitutes a lien on special revenues within the meaning of Chapter 9 of the U.S. Bankruptcy Code. A hearing was held on this matter on February 19, 2014.

In June 2010, AGM had sued JPMorgan Chase Bank, N.A. and JPMorgan Securities, Inc. (together, “JPMorgan”), the underwriter of debt issued by Jefferson County, in the Supreme Court of the State of New York alleging that JPMorgan

Table of Contents

induced AGM to issue its insurance policies in respect of such debt through material and fraudulent misrepresentations and omissions, including concealing that it had secured its position as underwriter and swap provider through bribes to Jefferson County commissioners and others. AGM dismissed the litigation after Jefferson County's Chapter 9 plan of adjustment became effective in December 2013.

In September 2010, AGM, together with TD Bank, National Association and Manufacturers and Traders Trust Company, as trustees, filed a complaint in the Court of Common Pleas of Dauphin County, Pennsylvania against The Harrisburg Authority, The City of Harrisburg, Pennsylvania, and the Treasurer of the City in connection with certain Resource Recovery Facility bonds and notes issued by The Harrisburg Authority, alleging, among other claims, breach of contract by both The Harrisburg Authority and The City of Harrisburg, and seeking remedies including an order of mandamus compelling the City to satisfy its obligations on the defaulted bonds and notes and the appointment of a receiver for The Harrisburg Authority. In connection with the consummation of Harrisburg's fiscal recovery plan in December 2013, AGM dismissed such litigation.

7. Financial Guaranty Insurance Losses

Accounting Policies

Loss and LAE Reserve

Loss and LAE reserve reported on the balance sheet relates only to direct and assumed reinsurance contracts that are accounted for as insurance, substantially all of which are financial guaranty insurance contracts. The corresponding reserve ceded to reinsurers is reported as reinsurance recoverable on unpaid losses. As discussed in Note 8, Fair Value Measurement, contracts that meet the definition of a derivative, as well as consolidated FG VIE assets and liabilities, are recorded separately at fair value. Any expected losses related to consolidated FG VIEs are eliminated upon consolidation. Any expected losses on credit derivatives are not recorded as loss and LAE reserve on the consolidated balance sheet.

Under financial guaranty insurance accounting, the sum of unearned premium reserve (deferred premium revenue, less claim payments that have not yet been expensed or "contra-paid"), and loss and LAE reserve represents the Company's stand ready obligation. At contract inception, the entire stand-ready obligation is represented by unearned premium reserve. A loss and LAE reserve for an insurance contract is only recorded when the expected loss to be paid plus contra-paid ("total losses") exceed the deferred premium revenue, on a contract by contract basis.

When a claim payment is made on a contract, it first reduces any recorded loss and LAE reserve. To the extent there is no loss and LAE reserve on a contract, which occurs when total losses are less than deferred premium revenue, or to the extent loss and LAE reserve is not sufficient to cover a claim payment, then such claim payment is recorded as "contra-paid," which reduces the unearned premium reserve. The contra-paid is recognized in the line item "loss and LAE" in the consolidated statement of operations when and for the amount that total losses exceed the remaining deferred premium revenue on the insurance contract. Loss and LAE in the consolidated statement of operations is presented net of cessions to reinsurers.

Salvage and Subrogation Recoverable

When the Company becomes entitled to the cash flow from the underlying collateral of an insured credit under salvage and subrogation rights as a result of a claim payment or estimated future claim payment, it reduces the expected loss to be paid on the contract. Such reduction in expected loss to be paid can result in one of the following:

- reduction in the corresponding loss and LAE reserve with a benefit to the income statement,

no entry recorded, if “total loss” is not in excess of deferred premium revenue, or

the recording of a salvage asset with a benefit to the income statement if the transaction is in a net recovery position at the reporting date.

The Company recognizes the expected recovery of claim payments (including recoveries from settlement with R&W providers) made by an acquired subsidiary prior to the date of acquisition, consistent with its policy for recognizing recoveries on all financial guaranty insurance contracts. To the extent that the estimated amount of recoveries increases or decreases, due to changes in facts and circumstances, including the examination of additional loan files and our experience in recovering loans put back to the originator, the Company would recognize a benefit or expense consistent with how changes in the expected

Table of Contents

recovery of all other claim payments are recorded. The ceded component of salvage and subrogation recoverable is recorded in the line item reinsurance balances payable.

Expected Loss to be Expensed

Expected loss to be expensed represents past or expected future net claim payments that have not yet been expensed. Such amounts will be expensed in future periods as deferred premium revenue amortizes into income on financial guaranty insurance policies. Expected loss to be expensed is the Company's projection of incurred losses that will be recognized in future periods, excluding accretion of discount.

Insurance Contracts' Loss Information

The following table provides balance sheet information on loss and LAE reserves and salvage and subrogation recoverable, net of reinsurance.

Loss and LAE Reserve and Salvage and Subrogation Recoverable

Net of Reinsurance

Insurance Contracts

	As of December 31, 2013			As of December 31, 2012		
	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)
U.S. RMBS:						
First lien:						
Prime first lien	\$3	\$—	\$3	\$3	\$—	\$3
Alt-A first lien	108	—	108	93	—	93
Option ARM	22	47	(25)	52	216	(164)
Subprime	143	2	141	82	0	82
First lien	276	49	227	230	216	14
Second lien:						
Closed-end second lien	5	45	(40)	5	72	(67)
HELOC	5	127	(122)	37	196	(159)
Second lien	10	172	(162)	42	268	(226)
Total U.S. RMBS	286	221	65	272	484	(212)
TruPS	2	—	2	1	—	1
Other structured finance	145	6	139	197	4	193
U.S. public finance	189	8	181	104	134	(30)
Non-U.S. public finance	35	—	35	31	—	31
Financial guaranty	657	235	422	605	622	(17)
Other	2	5	(3)	2	5	(3)
Subtotal	659	240	419	607	627	(20)
Effect of consolidating FG VIEs	(103)	(85)	(18)	(64)	(217)	153
Total (1)	\$556	\$155	\$401	\$543	\$410	\$133

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

187

Table of Contents

The following table reconciles the reported gross and ceded reserve and salvage and subrogation amounts 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 December 31, 2013 (in millions)	As of December 31, 2012	
Loss and LAE reserve	\$592	\$601	
Reinsurance recoverable on unpaid losses	(36	) (58)
Loss and LAE reserve, net	556	543	
Salvage and subrogation recoverable	(174	) (456)
Salvage and subrogation payable(1)	19	46	
Salvage and subrogation recoverable, net	(155	) (410)
Other recoverables(2)	(15	) (30)
Net reserves (salvage)	386	103	
Less: other (non-financial guaranty business)	(3	) (3)
Net reserves (salvage)	\$389	\$106	

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

(2) R&W recoverables recorded in other assets on the consolidated balance sheet.

Balance Sheet Classification of

Net Expected Recoveries for Breaches of R&W

Insurance Contracts

	As of December 31, 2013			As of December 31, 2012		
	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	\$122	\$(49	) \$ 73	\$449	\$(169	) \$ 280
Loss and LAE reserve, net	363	(24	) 339	571	(33	) 538

(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 payments that have been made but have not yet been expensed, (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).

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

	As of December 31, 2013 (in millions)
Net expected loss to be paid	\$801
Less: net expected loss to be paid for FG VIEs	60
Total	741
Contra-paid, net	39
Salvage and subrogation recoverable, net of reinsurance	150
Loss and LAE reserve, net of reinsurance	(554)
Other recoveries (1)	15
Net expected loss to be expensed (2)	\$391

(1) R&W recoverables recorded in other assets on the consolidated balance sheet.

(2) Excludes \$98 million as of December 31, 2013 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 consolidated FG VIEs, which are eliminated in consolidation.

Net Expected Loss to be Expensed
Insurance Contracts

	As of December 31, 2013 (in millions)
2014 (January 1 - March 31)	\$11
2014 (April 1 - June 30)	11
2014 (July 1 - September 30)	10
2014 (October 1–December 31)	10
Subtotal 2014	42
2015	41
2016	33
2017	30
2018	27
2019 - 2023	99
2024 - 2028	56
2029 - 2033	36
After 2033	27
Net expected loss to be expensed(1)	391
Discount	406
Total future value	\$797

(1) Consolidation of FG VIEs resulted in reductions of \$98 million in net expected loss to be expensed which is on a present value basis.

Table of Contents

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

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Structured Finance:			
U.S. RMBS:			
First lien:			
Prime first lien	\$1	\$2	\$—
Alt-A first lien	(2	) 51	53
Option ARM	(48	) 137	203
Subprime	80	38	(39
First lien	31	228	217
Second lien:			
Closed end second lien	18	31	1
HELOC	(53	) 49	171
Second lien	(35	) 80	172
Total U.S. RMBS	(4	) 308	389
TruPS	(1	) (10	) 11
Other structured finance	(34	) 3	107
Structured finance	(35	) (7	) 118
Public Finance:			
U.S. public finance	198	51	15
Non-U.S. public finance	16	234	33
Public finance	214	285	48
Subtotal	175	586	555
Other	—	(17) —
Loss and LAE insurance contracts before FG VIE consolidation	175	569	555
Effect of consolidating FG VIEs	(21	) (65	) (107
Loss and LAE	\$154	\$504	\$448

The following table provides information on financial guaranty insurance contracts categorized as BIG. Previously, the Company had included securities purchased for loss mitigation purposes in its descriptions of its invested assets and its financial guaranty insured portfolio. Beginning with third quarter 2013, the Company excludes such loss mitigation securities from its disclosure about its financial guaranty insured portfolio (unless otherwise indicated); it has taken this approach as of both December 31, 2013 and December 31, 2012.

Table of Contents

Financial Guaranty Insurance
 BIG Transaction Loss Summary
 As of December 31, 2013

	BIG Categories (1)						Total BIG, Net	Effect of Consolidating FG VIEs	Total
	BIG 1		BIG 2		BIG 3				
	Gross	Ceded	Gross	Ceded	Gross	Ceded			
	(dollars in millions)								
Number of risks(2)	185	(72)	80	(24)	119	(34)	384	—	384
Remaining weighted-average contract period (in years)	10.5	8.1	8.3	5.9	9.8	7.2	10.5	—	10.5
Outstanding exposure:									
Principal	\$15,132	\$(2,741)	\$2,483	\$(160)	\$3,189	\$(158)	\$17,745	\$—	\$17,745
Interest	8,114	(1,144)	1,181	(53)	1,244	(52)	9,290	—	9,290
Total(3)	\$23,246	\$(3,885)	\$3,664	\$(213)	\$4,433	\$(210)	\$27,035	\$—	\$27,035
Expected cash outflows (inflows)	\$1,853	\$(528)	\$1,038	\$(40)	\$1,681	\$(62)	\$3,942	\$(690)	\$3,252
Potential recoveries(4)	(1,879)	514	(671)	27	(707)	32	(2,684)	579	(2,105)
Subtotal	(26)	(14)	367	(13)	974	(30)	1,258	(111)	1,147
Discount	13	—	(126)	3	(352)	5	(457)	51	(406)
Present value of expected cash flows	\$(13)	\$(14)	\$241	\$(10)	\$622	\$(25)	\$801	\$(60)	\$741
Deferred premium revenue	\$517	\$(90)	\$163	\$(7)	\$303	\$(27)	\$859	\$(178)	\$681
Reserves (salvage)(5)	\$(114)	\$1	\$117	\$(4)	\$420	\$(13)	\$407	\$(18)	\$389

Financial Guaranty Insurance
 BIG Transaction Loss Summary
 As of December 31, 2012

	BIG Categories (1)						Total BIG, Net	Effect of Consolidating FG VIEs	Total
	BIG 1		BIG 2		BIG 3				
	Gross	Ceded	Gross	Ceded	Gross	Ceded			
	(dollars in millions)								
Number of risks(2)	163	(66)	76	(22)	131	(41)	370	—	370
Remaining weighted-average contract period (in years)	10.2	9.2	10.6	15.1	9.0	6.0	10.0	—	10.0
Outstanding exposure:									

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Principal	\$9,462	\$(1,533)	\$2,248	\$(132)) \$6,024	\$(481)) \$15,588	\$—	\$15,588
Interest	4,475	(591)	1,357	(127)) 1,881	(117)) 6,878	—	6,878
Total(3)	\$13,937	\$(2,124)	\$3,605	\$(259)	) \$7,905	\$(598)	) \$22,466	\$—	\$22,466
Expected cash outflows (inflows)	\$1,914	\$(687)	\$863	\$(58)	) \$2,720	\$(146)	) \$4,606	\$(738)	) \$3,868
Potential recoveries(4)	(2,356)	) 677	(509)	) 18	(1,911)	) 117	(3,964)	) 798	(3,166)
Subtotal	(442)	) (10)	) 354	(40)	) 809	(29)	) 642	60	702
Discount	12	8	(107)	) 14	(216)	) 2	(287)	) 36	(251)
Present value of expected cash flows	\$(430)	) \$(2)	) \$247	\$(26)	) \$593	\$(27)	) \$355	\$96	\$451
Deferred premium revenue	\$265	\$(32)	) \$227	\$(15)	) \$604	\$(83)	) \$966	\$(251)	) \$715
Reserves (salvage)(5)	\$(485)	) \$10	\$102	\$(18)	) \$347	\$(3)	) \$(47)	) \$153	\$106

Table of Contents

In third quarter 2013, the Company adjusted its approach to assigning internal ratings. See "Refinement of Approach to Internal Credit Ratings and Surveillance Categories" in Note 3, Outstanding Exposure. This approach (1) is reflected in the "Financial Guaranty Insurance BIG Transaction Loss Summary" tables as of both December 31, 2013 and December 31, 2012.

A risk represents the aggregate of the financial guaranty policies that share the same revenue source for purposes of (2) making Debt Service payments. The ceded number of risks represents the number of risks for which the Company ceded a portion of its exposure.

(3) Includes BIG amounts related to FG VIEs.

(4) Includes estimated future recoveries for breaches of R&W as well as excess spread, and draws on HELOCs.

(5) 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 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 \$84 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 \$261 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 December 31, 2013, AGM and AGC had insured approximately \$5.9 billion net par of VRDOs, of which approximately \$0.4 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 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 for the withdrawal of GIC funds in the event of a

Table of Contents

downgrade of AGM, unless the relevant GIC issuer posts collateral or otherwise enhances its credit. Most GICs insured by AGM allow for the termination of the GIC contract and a withdrawal of GIC funds at the option of the GIC holder in the event of a downgrade of AGM below a specified threshold, generally below A- by S&P or A3 by Moody's, with no right of the GIC issuer to avoid such withdrawal by posting collateral or otherwise enhancing its credit. Each GIC contract stipulates the thresholds below which the GIC issuer must post eligible collateral, along with the types of securities eligible for posting and the collateralization percentage applicable to each security type. These collateralization percentages range from 100% of the GIC balance for cash posted as collateral to, typically, 108% for asset-backed securities. If the entire aggregate accreted GIC balance of approximately \$2.7 billion as of December 31, 2013 were terminated, the assets of the GIC issuers (which had an aggregate accreted principal of approximately \$4.0 billion and an aggregate market value of approximately \$3.8 billion) would be sufficient to fund the withdrawal of the GIC funds.

8. 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 2013, 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.

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.

Table of Contents

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, sector groupings, and matrix pricing. 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, listed in the approximate order of priority 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. At December 31, 2013, the Company used models to price 36 fixed-maturity securities, which was 6.9% or \$730 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.

Other Invested Assets

Other invested assets includes investments carried and measured at fair value on a recurring basis of \$121 million and non-recurring basis of \$6 million. Assets carried on a recurring basis primarily comprise certain short-term investments and fixed-maturity securities classified as trading and are Level 2 in the fair value hierarchy.

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 17, 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, the U.S. dollar forward swap curve, London Interbank Offered Rate ("LIBOR") curve projections and the term the securities are estimated to remain outstanding.

Table of Contents

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).

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 (except for certain rare circumstances); however, the Company has mutually agreed with various counterparties to terminate certain CDS transactions. Such terminations generally are completed for an amount that approximates the present value of future premiums, not at fair value.

The terms of the Company's CDS contracts differ from more standardized credit derivative contracts sold by companies outside the financial guaranty industry. The non-standard terms 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 to terminate certain CDS contracts. 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 modeling that uses both observable and unobservable market data inputs to derive an estimate of the fair value of the Company's contracts in principal markets (see "Assumptions and Inputs"). There is no established market where financial guaranty insured credit derivatives are actively traded, therefore, management has determined that the exit market for the Company's credit derivatives is a hypothetical one based on its entry market. Management has tracked the historical pricing of the Company's deals to establish historical price points in the hypothetical market that are used in the fair value calculation. These contracts are classified as Level 3 in the fair value hierarchy since there is reliance on at least one unobservable input deemed significant to the valuation model, most importantly the Company's estimate of the value of the non-standard terms and conditions of its credit derivative contracts and of the Company's current credit standing.

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

The fair value of the Company's credit derivative contracts represents the difference between the present value of remaining premiums the Company expects to receive or pay and the estimated present value of premiums that a financial guarantor of comparable credit-worthiness would hypothetically charge or pay 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 the previous several years, market conditions at December 31, 2013 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

Listed below are various inputs and assumptions that are key to the establishment of the Company's fair value for CDS contracts.

- Gross spread.

195

Table of Contents

- 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 future expected premium cash flows and Debt Service schedules.
- The rates used to discount future expected premium cash flows which ranged from 0.21% to 3.88% at December 31, 2013 and 0.21% to 2.81% at December 31, 2012.

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

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

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

- Actual collateral specific credit spreads (if up-to-date and reliable market-based spreads are available).
- Deals priced or closed during a specific quarter within a specific asset class and specific rating.
- 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.

196

Table of Contents

Information by Credit Spread Type (1)

	As of December 31, 2013	As of December 31, 2012	
Based on actual collateral specific spreads	6	% 6	%
Based on market indices	88	% 88	%
Provided by the CDS counterparty	6	% 6	%
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 an alternative transaction for which the Company has received a spread quote from one of the first three sources within the Company's spread hierarchy. This alternative transaction will be within the same asset class, have similar underlying assets, similar credit ratings, and similar time to maturity. The Company then calculates the percentage of relative spread change quarter over quarter for the alternative transaction. This percentage change is then applied to the historical credit spread of the transaction for which no price quote was received in order to calculate the transactions' current spread. Counterparties determine credit spreads by reviewing new issuance pricing for specific asset classes and receiving price quotes from their trading desks for the specific asset in question. These quotes are validated by cross-referencing quotes received from one market source with those quotes received from another market source to ensure reasonableness.

The premium the Company receives is referred to as the "net spread." The Company's pricing model takes into account not only how credit spreads on risks that it assumes affect pricing, but also how the Company's own credit spread affects the pricing of its deals. The Company's own credit risk is factored into the determination of net spread based on the impact of changes in the quoted market price for credit protection bought on the Company, as reflected by quoted market prices on CDS referencing AGC or AGM. For credit spreads on the Company's name the Company obtains the quoted price of CDS contracts traded on AGC and AGM from market data sources published by third parties. The cost to acquire CDS protection referencing AGC or AGM affects the amount of spread on CDS deals that the Company retains and, hence, their fair value. As the cost to acquire CDS protection referencing AGC or AGM increases, the amount of premium the Company retains on a deal generally decreases. As the cost to acquire CDS protection referencing AGC or AGM decreases, the amount of premium the Company retains on a deal generally increases. In the Company's valuation model, the premium the Company captures is not permitted to go below the minimum rate that the Company would currently charge to assume similar risks. This assumption can have the effect of mitigating the amount of unrealized gains that are recognized on certain CDS contracts. Given the current market conditions and the Company's own credit spreads, approximately 61% and 71% based on number of deals of the Company's CDS contracts are fair valued using this minimum premium as of as of December 31, 2013 and December 31, 2012, respectively. 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.

Table of Contents

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.

Example

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 Company premium received 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 received 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. This credit derivative asset is equal to the difference in premium rates discounted at the corresponding LIBOR over the weighted average remaining life of the contract.

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.

Table of Contents

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

· At December 31, 2013 and 2012, 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 10, Consolidation of Variable Interest Entities.

The FG VIEs that are consolidated by the Company issued securities collateralized by HELOCs, first lien and second lien RMBS, subprime automobile loans, and other 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 were 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 for the FG VIE tranches insured by the Company, 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 algorithm's designed to aggregate market color, received by the third-party, on comparable bonds.

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

The fair value of the Company's FG VIE liabilities is also 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.

Table of Contents

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 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 that are recorded within long-term debt 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 LIBOR curve projections, 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, which primarily consist of assets acquired in refinancing transactions, 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 LIBOR curve projections 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.

Table of Contents

Financial Instruments Carried at Fair Value

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

Fair Value Hierarchy of Financial Instruments Carried at Fair Value
As of December 31, 2013

	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	\$5,079	\$—	\$5,043	\$36
U.S. government and agencies	700	—	700	—
Corporate securities	1,340	—	1,204	136
Mortgage-backed securities:				
RMBS	1,122	—	832	290
CMBS	549	—	549	—
Asset-backed securities	608	—	340	268
Foreign government securities	313	—	313	—
Total fixed-maturity securities	9,711	—	8,981	730
Short-term investments	904	506	398	—
Other invested assets(1)	127	—	119	8
Credit derivative assets	94	—	—	94
FG VIEs' assets, at fair value	2,565	—	—	2,565
Other assets(2)	84	27	11	46
Total assets carried at fair value	\$13,485	\$533	\$9,509	\$3,443
Liabilities:				
Credit derivative liabilities	\$1,787	\$—	\$—	\$1,787
FG VIEs' liabilities with recourse, at fair value	1,790	—	—	1,790
FG VIEs' liabilities without recourse, at fair value	1,081	—	—	1,081
Total liabilities carried at fair value	\$4,658	\$—	\$—	\$4,658

Table of ContentsFair Value Hierarchy of Financial Instruments Carried at Fair Value
As of December 31, 2012

	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	\$5,631	\$—	\$5,596	\$35
U.S. government and agencies	794	—	794	—
Corporate securities	1,010	—	1,010	—
Mortgage-backed securities:				
RMBS	1,266	—	1,047	219
CMBS	520	—	520	—
Asset-backed securities	531	—	225	306
Foreign government securities	304	—	304	—
Total fixed-maturity securities	10,056	—	9,496	560
Short-term investments	817	446	371	—
Other invested assets(1)	120	—	112	8
Credit derivative assets	141	—	—	141
FG VIEs' assets, at fair value	2,688	—	—	2,688
Other assets(2)	65	24	5	36
Total assets carried at fair value	\$13,887	\$470	\$9,984	\$3,433
Liabilities:				
Credit derivative liabilities	\$1,934	\$—	\$—	\$1,934
FG VIEs' liabilities with recourse, at fair value	2,090	—	—	2,090
FG VIEs' liabilities without recourse, at fair value	1,051	—	—	1,051
Total liabilities carried at fair value	\$5,075	\$—	\$—	\$5,075

(1) Includes mortgage loans that are recorded at fair value on a non-recurring basis. At December 31, 2013 and December 31, 2012, such investments were carried at their fair value of \$6 million and \$7 million, respectively.

(2) Includes fair value of CCS and supplemental executive retirement plan assets.

Table of Contents

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 the years ended December 31, 2013 and 2012.

Fair Value Level 3 Rollforward

Recurring Basis

Year Ended December 31, 2013

	Fixed-Maturity Securities								FG VIEs' Liabilities with Recourse, at Fair Value	FG VIEs' Liabilities without Recourse, at Fair Value	
	Obligations of State and Political Subdivisions	Corporate Securities	RMBS	Asset-Backed Securities	Other Invested Assets	FG VIEs' Assets at Fair Value	Other Assets	Credit Derivative Asset (Liability), net(5)			
	(in millions)										
Fair value as of December 31, 2012	\$35	\$—	\$219	\$306	\$1	\$2,688	\$36	\$(1,793)	\$(2,090)	\$(1,051)	
Total pretax realized and unrealized gains/(losses) recorded in:											
Net income (loss)	(8)	(2)4	(2)13	(2)67	(2)(1)	(7)686	(3)10	(4)65	(6)(166)	(3)(225)	(3)
Other comprehensive income (loss)	13	5	26	(43)	2	—	—	—	—	—	
Purchases	—	130	(8)86	80	2	(8)—	—	—	—	—	
Settlements	(4)	(3)	(54)	(142)	(2)	(663)	—	35	343	168	
FG VIE consolidations	—	—	—	—	—	48	—	—	(12)	(37)	
FG VIE deconsolidations	—	—	—	—	—	(194)	—	—	135	64	
Fair value as of December 31, 2013	\$36	\$136	\$290	\$268	\$2	\$2,565	\$46	\$(1,693)	\$(1,790)	\$(1,081)	
Change in unrealized gains/(losses) related to financial instruments held as of December 31, 2013	\$14	\$5	\$27	\$(20)	\$2	\$623	\$10	\$(139)	\$(169)	\$(326)	

Table of Contents

Fair Value Level 3 Rollforward
Recurring Basis
Year Ended December 31, 2012

	Fixed-Maturity Securities						Credit Derivative Asset (Liability), net(5)	FG VIEs' Liabilities with Recourse, at Fair Value	FG VIEs' Liabilities without Recourse, at Fair Value
	Obligations of state and political subdivisions	RMBS	Asset Backed Securities	Other Invested Assets	FG VIEs' Assets at Fair Value	Other Assets			
	(in millions)								
Fair value as of December 31, 2011	\$ 10	\$ 134	\$ 235	\$ 2	\$ 2,819	\$ 54	\$(1,304)	\$(2,397)	(1,061)
Total pretax realized and unrealized gains/(losses) recorded in:(1)									
Net income (loss)	1	(2)11	(2)29	(2)0	(7)399	(3)(18)	(4)(585)	(6)(276)	(3)(195)
Other comprehensive income (loss)	(10)	16	30	(1)	—	—	—	—	—
Purchases	34	108	40	—	—	—	—	—	—
Settlements	—	(50)	(28)	—	(545)	—	96	519	205
FG VIE consolidations	—	—	—	—	15	—	—	(18)	—
FG VIE elimination	—	—	—	—	—	—	—	82	—
Fair value as of December 31, 2012	\$ 35	\$ 219	\$ 306	\$ 1	\$ 2,688	\$ 36	\$(1,793)	\$(2,090)	(1,051)
Change in unrealized gains/(losses) related to financial instruments held as of December 31, 2012	\$(10)	\$ 11	\$ 33	\$(1)	\$ 674	\$(18)	\$(480)	\$(608)	50

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) Reported in other income.

(8) Non cash transaction.

Table of Contents

Level 3 Fair Value Disclosures

Quantitative Information About Level 3 Fair Value Inputs
At December 31, 2013

Financial Instrument Description	Fair Value at December 31, 2013(in millions)	Valuation Technique	Significant Unobservable Inputs	Range
Assets:				
Fixed-maturity securities:				
Obligations of state and political subdivisions	\$ 36	Discounted cash flow	Rate of inflation Cash flow receipts Discount rates Collateral recovery period	1.0 %- 3.0% 0.5 %- 60.9% 4.6 %- 9.0% 1 month - 10 years
Corporate securities	136	Discounted cash flow	Yield	8.3%
RMBS	290	Discounted cash flow	CPR CDR Severity Yield	1.0 %- 15.8% 5.0 %- 25.8% 48.1 %- 102.5% 2.5 %- 9.4%
Asset-backed securities:				
Investor owned utility	141	Discounted cash flow	Liquidation value (in millions) Years to liquidation Collateral recovery period Discount factor	\$195 - \$245 0 years - 3 years 12 months - 6 years 15.3%
XXX life insurance transactions	127	Discounted cash flow	Yield	12.5%
Other invested assets	8	Discounted cash flow	Discount for lack of liquidity Recovery on delinquent loans Default rates Loss severity Prepayment speeds	10.0 %- 20.0% 20.0 %- 60.0% 1.0 %- 10.0% 40.0 %- 90.0% 6.0 %- 15.0%
FG VIEs' assets, at fair value	2,565	Discounted cash flow	CPR CDR Loss severity Yield	0.3 %- 11.8% 3.0 %- 25.8% 37.5 %- 102.0% 3.5 %- 10.2%

Table of Contents

Financial Instrument Description	Fair Value at December 31, 2013 (in millions)	Valuation Technique	Significant Unobservable Inputs	Range	
Other assets	46	Discounted cash flow	Quotes from third party pricing Term (years)	\$47	- \$53 5 years
Liabilities:					
	(1,693	) Discounted cash flow	Year 1 loss estimates	0.0	% - 48.0%
			Hedge cost (in bps)	46.3	- 525.0
Credit derivative liabilities, net			Bank profit (in bps)	1.0	- 1,418.5
			Internal floor (in bps)	7.0	- 100.0
			Internal credit rating	AAA	- BIG
FG VIEs' liabilities, at fair value	(2,871	) Discounted cash flow	CPR	0.3	% - 11.8%
			CDR	3.0	% - 25.8%
			Loss severity	37.5	% - 102.0%
			Yield	3.5	% - 10.2%

Table of ContentsQuantitative Information About Level 3 Fair Value Inputs
At December 31, 2012

Financial Instrument Description	Fair Value at December 31, 2012(in millions)	Valuation Technique	Significant Unobservable Inputs	Range
Assets:				
Fixed-maturity securities:				
Obligations of state and political subdivisions	\$ 35	Discounted cash flow	Rate of inflation Cash flow receipts Discount rates Collateral recovery period	1.0 %- 3.0% 4.9 %- 85.8% 4.3 %- 9.0% 1 month - 43 years
RMBS	219	Discounted cash flow	CPR CDR Severity Yield	0.8 %- 7.5% 4.4 %- 28.6% 48.1 %- 102.8% 3.5 %- 12.8%
Asset-backed securities:				
Whole business securitization	63	Discounted cash flow	Annual gross revenue projections (in millions) Value of primary financial guaranty policy Liquidity discount	\$54 - \$96 43.8% 5.0 %- 20.0%
Investor owned utility	186	Discounted cash flow	Liquidation value (in millions) Years to liquidation Discount factor	\$212 - \$242 0 years - 3 years 15.3%
XXX life insurance transactions	57	Discounted cash flow	Yield	12.5%
Other invested assets	8	Discounted cash flow	Discount for lack of liquidity Recovery on delinquent loans Default rates Loss severity Prepayment speeds	10.0 %- 20.0% 20.0 %- 60.0% 1.0 %- 12.0% 40.0 %- 90.0% 6.0 %- 15.0%
FG VIEs' assets, at fair value	2,688	Discounted cash flow	CPR CDR Loss severity Yield	0.5 %- 10.9% 3.0 %- 28.6% 37.5 %- 103.8% 4.5 %- 20.0%

Table of Contents

Financial Instrument Description	Fair Value at December 31, 2012 (in millions)	Valuation Technique	Significant Unobservable Inputs	Range	
Other assets	36	Discounted cash flow	Quotes from third party pricing Term (years)	\$38	- \$51 3 years
Liabilities:					
Credit derivative liabilities, net	(1,793)	Discounted cash flow	Year 1 loss estimates Hedge cost (in bps) Bank profit (in bps) Internal floor (in bps) Internal credit rating	0.0 64.2 1.0 7.0 AAA	% - 58.7% - 678.4 - 1,312.9 - 60.0 - BIG
FG VIEs' liabilities, at fair value	(3,141)	Discounted cash flow	CPR CDR Loss severity Yield	0.5 3.0 37.5 4.5	% - 10.9% % - 28.6% % - 103.8% % - 20.0%

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 December 31, 2013		As of December 31, 2012	
	Carrying Amount (in millions)	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Fixed-maturity securities	\$9,711	\$9,711	\$10,056	\$10,056
Short-term investments	904	904	817	817
Other invested assets	147	155	177	182
Credit derivative assets	94	94	141	141
FG VIEs' assets, at fair value	2,565	2,565	2,688	2,688
Other assets	179	179	166	166
Liabilities:				
Financial guaranty insurance contracts(1)	3,783	5,128	3,918	6,537
Long-term debt	816	970	836	1,091
Credit derivative liabilities	1,787	1,787	1,934	1,934
FG VIEs' liabilities with recourse, at fair value	1,790	1,790	2,090	2,090
FG VIEs' liabilities without recourse, at fair value	1,081	1,081	1,051	1,051
Other liabilities	36	36	47	47

(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.

Table of Contents

9. Financial Guaranty Contracts Accounted for as Credit Derivatives

Accounting Policy

Credit derivatives are recorded at fair value. Changes in fair value are recorded in “net change in fair value of credit derivatives” on the consolidated statement of operations. Realized gains and other settlements on credit derivatives include credit derivative premiums received and receivable for credit protection the Company has sold under its insured CDS contracts, premiums paid and payable for credit protection the Company has purchased, contractual claims paid and payable and received and receivable related to insured credit events under these contracts, ceding commissions expense or income and realized gains or losses related to their early termination. Net unrealized gains and losses on credit derivatives represent the adjustments for changes in fair value in excess of realized gains and other settlements. Fair value of credit derivatives is reflected as either net assets or net liabilities determined on a contract by contract basis in the Company's consolidated balance sheets. See Note 8, Fair Value Measurement, for a discussion on the fair value methodology for 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). Until the Company ceased selling credit protection through credit derivative contracts in the beginning of 2009, following the issuance of regulatory guidelines that limited the terms under which the credit protection could be sold, management considered these agreements to be a normal part of its financial guaranty business. The potential capital or margin requirements that may apply under the Dodd-Frank Act contributed to the decision of the Company not to sell new credit protection through CDS in the foreseeable future.

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, while the Company's exposure under credit derivatives, like the Company's exposure under financial guaranty insurance contracts, has been generally for as long as the reference obligation remains outstanding, unlike financial guaranty contracts, a credit derivative may be terminated for a breach of the ISDA documentation or other specific events. A loss payment is made only upon the occurrence of one or more defined credit events with respect to the referenced securities or loans. A credit event may be a non-payment event such as a failure to pay, bankruptcy or restructuring, as negotiated by the parties to the credit derivative transactions. 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. 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.

Credit Derivative Net Par Outstanding by Sector

The estimated remaining weighted average life of credit derivatives was 4.1 years at December 31, 2013 and 3.7 years at December 31, 2012. The components of the Company's credit derivative net par outstanding are presented below.

Table of ContentsCredit Derivatives
Subordination and Ratings

Asset Type	As of December 31, 2013				As of December 31, 2012			
	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	\$19,323	32.4	34.0	AAA	\$29,142	32.8	33.3	AAA
Synthetic investment grade pooled corporate	9,754	21.6	20.0	AAA	9,658	21.6	19.7	AAA
Synthetic high yield pooled corporate	2,690	47.2	41.1	AAA	3,626	35.0	30.3	AAA
TruPS CDOs	3,554	45.5	32.9	BB+	4,099	46.5	32.7	BB
Market value CDOs of corporate obligations	2,000	24.4	30.5	AAA	3,595	30.1	32.0	AAA
Total pooled corporate obligations	37,321	31.5	30.6	AAA	50,120	31.7	30.4	AAA
U.S. RMBS:								
Option ARM and Alt-A first lien	2,609	19.2	8.6	BB-	3,381	20.2	10.4	B+
Subprime first lien	2,930	30.5	51.9	AA-	3,494	29.8	52.6	A+
Prime first lien	264	10.9	3.2	CCC	333	10.9	5.2	B
Closed end second lien and HELOCs	23	—	—	B+	49	—	—	B-
Total U.S. RMBS	5,826	24.4	30.1	BBB	7,257	24.2	30.4	BBB
CMBS	3,744	33.5	42.5	AAA	4,094	33.3	41.8	AAA
Other	7,591	—	—	A-	9,310	—	—	A
Total	\$54,482			AA+	\$70,781			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 \$2.5 billion of exposure to two pooled infrastructure transactions 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 \$5.1 billion of exposure in "Other" CDS contracts comprises numerous deals across various asset classes, such as commercial receivables, international RMBS, infrastructure, regulated utilities and consumer receivables. Of the total net par outstanding in the "Other" sector, \$0.5 billion is rated BIG.

Table of Contents

Distribution of Credit Derivative Net Par Outstanding by Internal Rating

Ratings	As of December 31, 2013		As of December 31, 2012		
	Net Par Outstanding (dollars in millions)	% of Total	Net Par Outstanding	% of Total	
AAA	\$38,244	70.2	% \$50,918	71.9	%
AA	3,648	6.7	3,083	4.4	
A	3,636	6.7	5,487	7.8	
BBB	4,161	7.6	4,584	6.4	
BIG	4,793	8.8	6,709	9.5	
Credit derivative net par outstanding	\$54,482	100.0	% \$70,781	100.0	%

Net Change in Fair Value of Credit Derivatives

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

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Net credit derivative premiums received and receivable	\$ 119	\$ 127	\$ 185
Net ceding commissions (paid and payable) received and receivable	2	1	3
Realized gains on credit derivatives	121	128	188
Terminations	0	(1	) (23
Net credit derivative losses (paid and payable) recovered and recoverable	(163	) (235	) (159
Realized gains (losses) and other settlements on credit derivatives	(42	) (108	) 6
Net change in unrealized gains (losses) on credit derivatives(1)	107	(477	) 554
Net change in fair value of credit derivatives	\$ 65	\$ (585	) \$ 560

Except for net estimated credit impairments (i.e., net expected loss to be paid as discussed in Note 6), the (1) unrealized gains and losses on credit derivatives are expected to reduce to zero as the exposure approaches its maturity date. With considerable volatility continuing in the market, unrealized gains (losses) on credit derivatives may fluctuate significantly in future periods.

The table below sets out the net par amount of credit derivative contracts that the Company and its counterparties agreed to terminate on a consensual basis.

Net Par and Accelerations of Credit Derivative Revenues from Terminations of CDS Contracts

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Net par of terminated CDS contracts	\$4,054	\$2,264	\$11,543
Accelerations of credit derivative revenues	21	3	25

In 2013, in addition to the agreements to terminate CDS transactions discussed above, in connection with loss mitigation efforts, the Company terminated a CDS transaction that referenced a film securitization after paying the counterparty \$120 million which was recorded in realized gains (losses) and other settlements on credit derivatives, with a corresponding release of the unrealized loss recorded in unrealized gains (losses) on credit derivatives of \$127 million for a net change in fair value of credit derivatives of \$7 million.

211

Table of Contents

Net Change in Unrealized Gains (Losses)
on Credit Derivatives
By Sector

Asset Type	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Pooled corporate obligations	\$(32	) \$59	\$39
U.S. RMBS	(69	) (551	) 381
CMBS	0	2	11
Other (1)	208	13	123
Total	\$107	\$(477	) \$554

(1) "Other" includes all other U.S. and international asset classes, such as commercial receivables, international infrastructure, international RMBS securities, and pooled infrastructure securities.

During 2013, unrealized fair value gains were generated in the "other" sector primarily as a result of the termination of a film securitization transaction and a U.K. infrastructure transaction, as well as price improvement on a XXX life securitization transaction. These unrealized gains were partially offset by unrealized fair value losses in the prime first lien, Alt-A, Option ARM and subprime RMBS sectors 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. These transactions were pricing above their floor levels (or the minimum rate at which the Company would consider assuming these risks based on historical experience); therefore when the cost of purchasing CDS protection on AGC, 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 credit protection also decreased slightly during 2013, but did not lead to significant fair value losses, as the majority of AGM policies continue to price at floor levels.

During 2012, U.S. RMBS unrealized fair value losses were generated primarily in the prime first lien, Alt-A, Option ARM and subprime RMBS sectors primarily as a result of the decreased cost to buy protection in AGC's name as the market cost of AGC's credit protection decreased. These transactions were pricing above their floor levels therefore when the cost of purchasing CDS protection on AGC decreased, the implied spreads that the Company would expect to receive on these transactions increased. The cost of AGM's credit protection also decreased during 2012, but did not lead to significant fair value losses, as the majority of AGM policies continue to price at floor levels. In addition, 2012 included an \$85 million unrealized gain relating to R&W benefits from the agreement with Deutsche Bank.

In 2011, U.S. RMBS unrealized fair value gains were generated primarily in the Option ARM, Alt-A, prime first lien and subprime sectors primarily as a result of the increased cost to buy protection in AGC's name as the market cost of AGC's credit protection increased. These transactions were pricing above their floor levels; therefore when the cost of purchasing CDS protection on AGC increased, the implied spreads that the Company would expect to receive on these transactions decreased. The unrealized fair value gain in "other" primarily resulted from tighter implied net spreads on a XXX life securitization transaction and a film securitization, which also resulted from the increased cost to buy protection in AGC's name, referenced above. The cost of AGM's credit protection also increased during the year, but did not lead to significant fair value gains, as the majority of AGM 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. Generally, a widening of the CDS prices traded on AGC and AGM has an effect of offsetting unrealized losses that result from widening general market credit spreads, while a narrowing of the CDS prices traded on AGC and AGM has an effect of offsetting unrealized gains that result from narrowing general market credit spreads.

Table of ContentsFive-Year CDS Spread
on AGC and AGM

Quoted price of CDS contract (in basis points)

	As of December 31, 2013	As of December 31, 2012	As of December 31, 2011
AGC	460	678	1,140
AGM	525	536	778

One-Year CDS Spread
on AGC and AGM

Quoted price of CDS contract (in basis points)

	As of December 31, 2013	As of December 31, 2012	As of December 31, 2011
AGC	185	270	965
AGM	220	257	538

Fair Value of Credit Derivatives
and Effect of AGC and AGM
Credit Spreads

	As of December 31, 2013 (in millions)	As of December 31, 2012
Fair value of credit derivatives before effect of AGC and AGM credit spreads	\$(3,442)	\$(4,809)
Plus: Effect of AGC and AGM credit spreads	1,749	3,016
Net fair value of credit derivatives	\$(1,693)	\$(1,793)

The fair value of CDS contracts at December 31, 2013, 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 trust-preferred and pooled corporate securities. Comparing December 31, 2013 with December 31, 2012, 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 securities, resulted in a gain of approximately \$1,367 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 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 most recent vintages of RMBS.

Table of Contents

The following table presents the fair value and the present value of expected claim payments or recoveries (i.e. net expected loss to be paid as described in Note 6) for contracts accounted for as derivatives.

Net Fair Value and Expected
Losses of Credit Derivatives
by Sector

Asset Type	Fair Value of Credit Derivative Asset (Liability), net		Present Value of Expected Claim (Payments) Recoveries(1)	
	As of December 31, 2013 (in millions)	As of December 31, 2012	As of December 31, 2013	As of December 31, 2012
Pooled corporate obligations	\$ (30)	) \$ 6	\$ (35)	) \$ (16)
U.S. RMBS	(1,308)	) (1,237)	) (147)	) (181)
CMBS	(2)	) (2)) —) —
Other	(353)	) (560)	) 43	) (85)
Total	\$ (1,693)	) \$ (1,793)	) \$ (139)	) \$ (282)

Represents the expected claim payments (recoveries) in excess of the present value of future installment fees to be (1) received of \$45 million as of December 31, 2013 and \$43 million as of December 31, 2012. Includes R&W benefit of \$180 million as of December 31, 2013 and \$237 million as of December 31, 2012.

Ratings Sensitivities of Credit Derivative Contracts

Within the Company's insured CDS portfolio, the transaction documentation for approximately \$1.7 billion in CDS gross par insured as of December 31, 2013 provides that a downgrade of AGC's financial strength rating below BBB- or Baa3 would constitute a termination event that would allow the relevant CDS counterparty to terminate the affected transactions. As of December 31, 2012, such amount was \$2.0 billion. If the CDS counterparty elected to terminate the affected transactions, AGC could be required to make a termination payment (or may be entitled to receive a termination payment from the CDS counterparty). The Company does not believe that it can accurately estimate the termination payments AGC could be required to make if, as a result of any such downgrade, a CDS counterparty terminated the affected transactions. These payments could have a material adverse effect on the Company's liquidity and financial condition.

The transaction documentation for approximately \$10.3 billion in CDS gross par insured as of December 31, 2013 requires AGC and Assured Guaranty Re Overseas Ltd. ("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 \$9.9 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 \$347 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 December 31, 2013, the Company was posting approximately \$677 million to secure obligations under its CDS exposure, of which approximately \$62 million related to such \$347 million of notional. As of December 31, 2012, the Company was posting approximately \$728 million, of which approximately \$68 million related to \$400 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.

214

Table of Contents

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 December 31, 2013

Credit Spreads(1)	Estimated Net Fair Value (Pre-Tax) (in millions)	Estimated Change in Gain/(Loss) (Pre-Tax)
100% widening in spreads	\$(3,499)	) \$(1,806)
50% widening in spreads	(2,596)	) (903)
25% widening in spreads	(2,145)	) (452)
10% widening in spreads	(1,874)	) (181)
Base Scenario	(1,693)) —
10% narrowing in spreads	(1,527)	) 166
25% narrowing in spreads	(1,276)	) 417
50% narrowing in spreads	(860)	) 833

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

10. Consolidation of Variable Interest Entities

The Company provides financial guaranties with respect to debt obligations of special purpose entities, including VIEs. AGC and AGM do not sponsor any VIEs when underwriting third party financial guaranty insurance or credit derivative transactions, nor has either of them acted as the servicer or collateral manager for any VIE obligations that it insures. 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.

AGC and AGM are not primarily liable for the debt obligations issued by the VIEs they insure and would only be required to make payments on these debt obligations in the event that the issuer of such debt obligations defaults on any principal or interest due. 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 AGC or AGM under the financial guaranty insurance contract. The Company's estimate of expected loss to be paid for FG VIEs is included in Note 6, Expected Loss to be Paid.

Accounting Policy

For all years presented, the Company has evaluated whether it was the primary beneficiary of its VIEs. If the Company concludes that it is the primary beneficiary it is required to consolidate the entire VIE in the Company's financial statements and eliminate the effects of the financial guaranty insurance contracts issued by AGM and AGC on the consolidated FG VIEs debt obligations.

215

Table of Contents

The primary beneficiary of a VIE is the enterprise that has both 1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance; and 2) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. The Company reassesses whether the Company is the primary beneficiary of a VIE on a quarterly basis.

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 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 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. As of December 31, 2013, the Company had issued financial guaranty contracts for approximately 1,000 VIEs that it did not consolidate.

The FG VIEs' liabilities that are insured by the Company are considered to be with recourse, because the Company guarantees the payment of principal and interest regardless of the performance of the related FG VIEs' assets. FG VIEs' liabilities that are not insured by the Company are considered to be without recourse, because the payment of principal and interest of these liabilities is wholly dependent on the performance of the FG VIEs' assets.

The Company has limited contractual rights to obtain the financial records of its consolidated FG VIEs. The FG VIEs do not prepare separate GAAP financial statements; therefore, the Company compiles GAAP financial information for them based on trustee reports prepared by and received from third parties. Such trustee reports are not available to the Company until approximately 30 days after the end of any given period. The time required to perform adequate reconciliations and analyses of the information in these trustee reports results in a one quarter lag in reporting the FG VIEs' activities. The Company records the fair value of FG VIE assets and liabilities based on modeled prices. The Company updates the model assumptions each reporting period for the most recent available information, which incorporates the impact of material events that may have occurred since the quarter lag date. Interest income and interest expense are derived from the trustee reports and included in "fair value gains (losses) on FG VIEs" in the consolidated statement of operations. The Company has elected the fair value option for assets and liabilities classified as FG VIEs' assets and liabilities because the carrying amount transition method was not practical.

The cash flows generated by the FG VIE assets, including R&W recoveries, are classified as cash flows from investing activities. Paydowns of FG liabilities are supported by the cash flows generated by FG VIE assets, and for liabilities with recourse, possibly claim payments made by AGM or AGC under its financial guaranty insurance contracts. Paydowns of FG liabilities both with and without recourse are classified as cash flows used in financing activities by the Company. Interest income, interest expense and other expenses of the FG VIE assets and liabilities are classified as operating cash flows. Claim payments made by AGC and AGM under the financial guaranty contracts issued to the FG VIEs are eliminated upon consolidation and therefore such claim payments are treated as paydowns of FG VIE liabilities as a financing activity as opposed to an operating activity of AGM and AGC.

Table of Contents

Consolidated FG VIEs

Number of FG VIE's Consolidated

	Year Ended December 31,		
	2013	2012	2011
Beginning of the year	33	33	29
Consolidated(1)	11	2	8
Deconsolidated(1)	(3) —	—
Matured	(1	) (2	) (4
End of the year	40	33	33

(1) Net loss on consolidation and deconsolidation was \$7 million in 2013, \$6 million in 2012 and \$95 million in 2011, respectively, 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 \$750 million at December 31, 2013 and \$893 million at December 31, 2012. The aggregate unpaid principal of the FG VIEs’ assets was approximately \$1,940 million greater than the aggregate fair value at December 31, 2013, excluding the effect of R&W settlements. The aggregate unpaid principal of the FG VIEs’ assets was approximately \$2,631 million greater than the aggregate fair value at December 31, 2012, excluding the effect of R&W settlements. The change in the instrument-specific credit risk of the FG VIEs’ assets for 2013 were gains of \$340 million. The change in the instrument-specific credit risk of the FG VIEs’ assets for 2012 were gains of \$413 million.

The unpaid principal for FG VIE liabilities with recourse was \$2,316 million and \$2,808 million as of December 31, 2013 and December 31, 2012, respectively. FG VIE liabilities with recourse will mature at various dates ranging from 2025 to 2047. The aggregate unpaid principal balance was approximately \$1,611 million greater than the aggregate fair value of the FG VIEs’ liabilities as of December 31, 2013.

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.

Consolidated FG VIEs

By Type of Collateral

	As of December 31, 2013			As of December 31, 2012		
	Number of FG VIEs	Assets	Liabilities	Number of FG VIEs	Assets	Liabilities
	(dollars in millions)					
With recourse:						
First lien	25	\$630	\$791	14	\$618	\$825
Second lien	14	460	640	16	633	915
Other	1	359	359	3	350	350
Total with recourse	40	1,449	1,790	33	1,601	2,090
Without recourse	—	1,116	1,081	—	1,087	1,051
Total	40	\$2,565	\$2,871	33	\$2,688	\$3,141

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.

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

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Net earned premiums	\$(60	) \$(153	) \$(75
Net investment income	(13	) (13	) (8
Net realized investment gains (losses)	2	4	12
Fair value gains (losses) on FG VIEs	346	191	(146
Loss and LAE	21	65	107
Total pretax effect on net income	296	94	(110
Less: tax provision (benefit)	103	32	(38
Total effect on net income (loss)	\$193	\$62	\$(72
Effect of consolidating VIEs on cash flows from operating activities	\$(136	) \$166	\$319

	As of December 31, 2013	As of December 31, 2012
	(in millions)	
Effect on shareholders' equity (decrease) increase	\$(172	) \$(348

Fair value gains (losses) on FG VIEs represent the net change in fair value on the consolidated FG VIEs' assets and liabilities. In 2013, the Company recorded a pre-tax net fair value gain of consolidated FG VIEs of \$346 million. The gain was primarily driven by R&W benefits received on several VIE assets as a result of settlements with various counterparties throughout the year. These R&W settlements resulted in a gain of approximately \$265 million. The remainder of the gain was driven by price appreciation on the Company's FG VIE assets during the year resulting from improvements in the underlying collateral, as well as large principal paydowns made on the Company's FG VIEs.

In 2012, the Company recorded a pre-tax fair value gain on FG VIEs of \$191 million. The majority of this gain, approximately \$166 million, is a result of a R&W benefit received on several VIE assets as a result of a settlement with Deutsche Bank that closed in 2012. While prices continued to appreciate during the period on the Company's FG VIE assets and liabilities, gains in the second half of the year were primarily driven by large principal paydowns made on the Company's FG VIEs. The 2011 pre-tax fair value losses on consolidated FG VIEs of \$146 million were driven by the unrealized loss on consolidation of eight new VIEs, as well as two existing transactions in which the fair value of the underlying collateral depreciated, while the price of the wrapped senior bonds was largely unchanged from the prior year.

Non-Consolidated VIEs

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.

11. Investments and Cash

Accounting Policy

The vast majority of the Company's investment portfolio is composed of fixed maturity and short-term investments, classified as available-for-sale at the time of purchase (approximately 98% based on fair value at December 31, 2013), and therefore carried at fair value. Changes in fair value for other-than-temporarily-impaired ("OTTI") securities are bifurcated between credit losses and non-credit changes in fair value. Credit losses on OTTI securities are recorded in the statement of operations and the non-credit component of OTTI securities are recorded in OCI. For securities where the Company has the

218

Table of Contents

intent to sell or it is more-likely-than-not that it will be required to sell the security before recovery, declines in fair value are recorded in the consolidated statements of operations.

Credit losses reduce the amortized cost of impaired securities. The amortized cost basis is adjusted for accretion and amortization (using the effective interest method) with a corresponding entry recorded in net investment income.

Realized gains and losses on sales of investments are determined using the specific identification method. Realized loss includes amounts recorded for other-than-temporary impairments on debt securities and the declines in fair value of securities for which the Company has the intent to sell the security or inability to hold until recovery of amortized cost.

For mortgage backed securities, and any other holdings for which there is prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any necessary adjustments due to changes in effective yields and maturities are recognized in net investment income.

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 bonds"). These securities were purchased at a discount and are accounted for excluding the effects of the Company's insurance.

Short-term investments, which are those investments with a maturity of less than one year at time of purchase, are carried at fair value and include amounts deposited in money market funds.

Other invested assets primarily includes:

assets acquired in refinancing transactions which are primarily comprised of franchise loans that are evaluated for impairment by assessing the probability of collecting expected cash flows with any impairment recorded in realized gain (loss) on investments and any subsequent increases in expected cash flows recorded as an increase in yield over the remaining life,

trading securities, which are carried at fair value with unrealized gains and losses recorded in net income,

a 50% equity investment acquired in a restructuring of an insured CDS carried at its proportionate share of the underlying entity's U.S. GAAP equity value.

Cash consists of cash on hand and demand deposits. As a result of the lag in reporting FG VIEs, cash and short-term investments do not reflect cash outflow to the holders of the debt issued by the FG VIEs for claim payments made by the Company's insurance subsidiaries to the consolidated FG VIEs until the subsequent reporting period.

Assessment for Other-Than Temporary Impairments

The amount of other-than-temporary-impairment recognized in earnings depends on whether (1) an entity intends to sell the security or (2) it is more-likely-than-not that the entity will be required to sell the security before recovery of its amortized cost basis. If the Company intends to sell the security, or it is more-likely-than-not that the Company will be required to sell the security before recovery of its amortized cost basis, the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date is recorded as a realized loss.

If an entity does not intend to sell the security and it is not more-likely-than-not that the Company will be required to sell the security before recovery of its amortized cost basis, the other-than-temporary-impairment is separated into (1) the amount representing the credit loss and (2) the amount related to all other factors.

The Company has a formal review process to determine other-than-temporary-impairment for securities in its investment portfolio where there is no intent to sell and it is not more-likely-than-not that it will be required to sell the security before recovery. Factors considered when assessing impairment include:

- a decline in the market value of a security by 20% or more below amortized cost for a continuous period of at least six months;
- a decline in the market value of a security for a continuous period of 12 months;
- recent credit downgrades of the applicable security or the issuer by rating agencies;

219

Table of Contents

- the financial condition of the applicable issuer;
- whether loss of investment principal is anticipated;
- the impact of foreign exchange rates;
- whether scheduled interest payments are past due; and
- whether the Company has the intent to sell the security prior to its recovery in fair value.

The Company assesses the ability to recover the amortized cost by comparing the net present value of projected future cash flows with the amortized cost of the security. If the net present value is less than the amortized cost of the investment, an other-than-temporary impairment is recorded. The net present value is calculated by discounting the Company's best estimate of projected future cash flows at the effective interest rate implicit in the debt security prior to impairment. The Company's estimates of projected future cash flows are driven by assumptions regarding probability of default and estimates regarding timing and amount of recoveries associated with a default. The Company develops these estimates using information based on historical experience, credit analysis and market observable data, such as industry analyst reports and forecasts, sector credit ratings and other relevant data. For mortgage backed and asset backed securities, cash flow estimates also include prepayment and other assumptions regarding the underlying collateral including default rates, recoveries and changes in value. The assumptions used in these projections requires the use of significant management judgment.

The Company's assessment of a decline in value included management's current assessment of the factors noted above. The Company also seeks advice from its outside investment managers. If that assessment changes in the future, the Company may ultimately record a loss after having originally concluded that the decline in value was temporary.

Investment Portfolio

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. Income earned on the investment portfolio managed by third parties declined due to lower reinvestment rates. Accrued investment income on fixed maturity securities, short-term investments and assets acquired in refinancing transactions was \$93 million and \$97 million as of December 31, 2013 and December 31, 2012, respectively.

Net Investment Income

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Income from fixed maturity securities managed by third parties	\$322	\$346	\$359
Income from internally managed securities:			
Fixed maturities	74	60	39
Other invested assets	5	6	6
Other	0	1	1
Gross investment income	401	413	405
Investment expenses	(8	) (9	) (9
Net investment income	\$393	\$404	\$396

Table of Contents

Net Realized Investment Gains (Losses)

	Year Ended December 31,			
	2013	2012	2011	
	(in millions)			
Gross realized gains on available-for-sale securities	\$73	\$29	\$29	
Gross realized gains on other assets in investment portfolio	40	14	8	
Gross realized losses on available-for-sale securities	(12) (23) (6)
Gross realized losses on other assets in investment portfolio	(7) (2) (4)
Other-than-temporary impairment	(42) (17) (45)
Net realized investment gains (losses)	\$52	\$1	\$(18)

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

Roll Forward of Credit Losses
in the Investment Portfolio

	Year Ended December 31,			
	2013	2012	2011	
	(in millions)			
Balance, beginning of period	\$64	\$47	\$27	
Additions for credit losses on securities for which an other-than-temporary-impairment was not previously recognized	18	14	27	
Eliminations of securities issued by FG VIEs	—	—	(14)
Reductions for securities sold during the period	(21) —	(6)
Additions for credit losses on securities for which an other-than-temporary-impairment was previously recognized	19	3	13	
Balance, end of period	\$80	\$64	\$47	

Table of Contents

Fixed Maturity Securities and Short-Term Investments
by Security Type
As of December 31, 2013

Investment Category	Percent of Total(1)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	AOCI(2) Gain (Loss) on Securities with OTTI	Weighted Average Credit Quality (3)
(dollars in millions)							
Fixed maturity securities:							
Obligations of state and political subdivisions	47	% \$4,899	\$219	\$(39	) \$5,079	\$4	AA
U.S. government and agencies	7	674	32	(6	) 700	—	AA+
Corporate securities	13	1,314	44	(18	) 1,340	0	A
Mortgage-backed securities(4):	0						
RMBS	11	1,160	34	(72	) 1,122	(43	) A
CMBS	5	536	17	(4	) 549	—	AAA
Asset-backed securities	6	605	10	(7	) 608	2	BBB+
Foreign government securities	3	300	14	(1	) 313	—	AA+
Total fixed maturity securities	91	9,488	370	(147	) 9,711	(37	) AA-
Short-term investments	9	904	0	0	904	—	AAA
Total investment portfolio	100	% \$10,392	\$370	\$(147	) \$10,615	\$(37	) AA-

Table of Contents

Fixed Maturity Securities and Short-Term Investments
by Security Type
As of December 31, 2012

Investment Category	Percent of Total(1)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	AOCI Gain (Loss) on Securities with OTTI	Weighted Average Credit Quality (3)
(dollars in millions)							
Fixed maturity securities:							
Obligations of state and political subdivisions	51	% \$5,153	\$489	\$(11)	\$5,631	\$9	AA
U.S. government and agencies	7	732	62	0	794	—	AA+
Corporate securities	9	930	80	0	1,010	0	AA-
Mortgage-backed securities(4):							
RMBS	13	1,281	62	(77)	1,266	(59)	A+
CMBS	5	482	38	0	520	—	AAA
Asset-backed securities	5	482	59	(10)	531	43	BIG
Foreign government securities	2	286	18	0	304	0	AAA
Total fixed maturity securities	92	9,346	808	(98)	10,056	(7)	AA-
Short-term investments	8	817	0	0	817	—	AAA
Total investment portfolio	100	% \$10,163	\$808	\$(98)	\$10,873	\$(7)	AA-

(1)Based on amortized cost.

(2)Accumulated OCI ("AOCI"). See also Note 21, Other Comprehensive Income.

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 50% of mortgage backed securities as of December 31, 2013 and 61% as of December 31, 2012 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 following tables present the fair value of the Company's available-for-sale portfolio of obligations of state and political subdivisions as of December 31, 2013 and December 31, 2012 by state.

Table of Contents

Fair Value of Available-for-Sale Portfolio of
Obligations of State and Political Subdivisions
As of December 31, 2013 (1)

State	State General Obligation (in millions)	Local General Obligation	Revenue Bonds	Fair Value	Amortized Cost	Average Credit Rating
Texas	\$77	\$299	\$277	\$653	\$629	AA
New York	12	58	519	589	575	AA
California	32	86	354	472	452	A+
Florida	33	59	242	334	318	AA-
Illinois	14	70	156	240	234	A+
Massachusetts	44	16	147	207	200	AA
Washington	31	19	153	203	199	AA
Arizona	—	7	166	173	170	AA
Michigan	—	28	102	130	125	AA-
Georgia	13	18	97	128	128	A+
All others	254	228	943	1,425	1,381	AA-
Total	\$510	\$888	\$3,156	\$4,554	\$4,411	AA-

Fair Value of Available-for-Sale Portfolio of
Obligations of State and Political Subdivisions
As of December 31, 2012 (1)

State	State General Obligation (in millions)	Local General Obligation	Revenue Bonds	Fair Value	Amortized Cost	Average Credit Rating
Texas	\$88	\$345	\$342	\$775	\$708	AA
New York	22	58	593	673	620	AA
California	23	77	359	459	425	A+
Florida	47	50	259	356	319	AA-
Illinois	15	84	188	287	260	A+
Massachusetts	42	18	165	225	199	AA
Washington	33	40	145	218	200	AA
Arizona	—	8	180	188	171	AA
Georgia	14	20	108	142	132	A+
Pennsylvania	68	32	40	140	129	AA-
All others	229	248	1,195	1,672	1,533	AA
Total	\$581	\$980	\$3,574	\$5,135	\$4,696	AA-

(1) Excludes \$525 million and \$496 million as of December 31, 2013 and 2012, respectively, of pre-refunded bonds. The credit ratings are based on the underlying ratings and do not include any benefit from bond insurance.

The revenue bond portfolio is comprised primarily of essential service revenue bonds issued by transportation authorities and other utilities, water and sewer authorities, universities and healthcare providers.

Table of ContentsRevenue Bonds
Sources of Funds

Type	As of December 31, 2013		As of December 31, 2012	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
	(in millions)			
Tax backed	\$708	\$686	\$720	\$656
Transportation	642	615	717	646
Municipal utilities	500	482	567	519
Water and sewer	459	453	567	520
Higher education	358	353	430	389
Healthcare	289	281	323	296
All others	200	192	250	247
Total	\$3,156	\$3,062	\$3,574	\$3,273

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. Each of the portfolio managers perform independent analysis on every municipal security they purchase for the Company's portfolio. The Company meets with each of its portfolio managers quarterly and reviews all investments with a change in credit rating as well as any investments on the manager's watch list of securities with the potential for downgrade.

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 December 31, 2013

	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	\$781	\$(39)	\$5	\$0	\$786	\$(39)
U.S. government and agencies	173	(6)	—	—	173	(6)
Corporate securities	401	(18)	3	0	404	(18)
Mortgage-backed securities:						
RMBS	414	(21)	186	(51)	600	(72)
CMBS	121	(4)	—	—	121	(4)
Asset-backed securities	196	(2)	42	(5)	238	(7)
Foreign government securities	54	(1)	1	0	55	(1)
Total	\$2,140	\$(91)	\$237	\$(56)	\$2,377	\$(147)
Number of securities		425		33		458
		13		11		24

Number of securities with
OTTI

225

Table of Contents

Fixed Maturity Securities
Gross Unrealized Loss by Length of Time
As of December 31, 2012

	Less than 12 months		12 months or more		Total Fair value	Unrealized loss
	Fair value (dollars in millions)	Unrealized loss	Fair value	Unrealized loss		
Obligations of state and political subdivisions	\$79	\$(11)	\$—	\$—	\$79	\$(11)
U.S. government and agencies	62	0	—	—	62	0
Corporate securities	25	0	—	—	25	0
Mortgage-backed securities:						
RMBS	108	(19)	121	(58)	229	(77)
CMBS	5	0	—	—	5	0
Asset-backed securities	16	0	35	(10)	51	(10)
Foreign government securities	8	0	—	—	8	0
Total	\$303	\$(30)	\$156	\$(68)	\$459	\$(98)
Number of securities		58		16		74
Number of securities with OTTI		5		6		11

Of the securities in an unrealized loss position for 12 months or more as of December 31, 2013, eleven securities had unrealized losses greater than 10% of book value. The total unrealized loss for these securities as of December 31, 2013 was \$52 million. The Company has determined that the unrealized losses recorded as of December 31, 2013 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 December 31, 2013 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 December 31, 2013

	Amortized Cost (in millions)	Estimated Fair Value
Due within one year	\$272	\$275
Due after one year through five years	1,662	1,734
Due after five years through 10 years	2,420	2,505
Due after 10 years	3,438	3,526
Mortgage-backed securities:		
RMBS	1,160	1,122
CMBS	536	549
Total	\$9,488	\$9,711

Under agreements with its cedants and in accordance with statutory requirements, the Company maintains fixed maturity securities and cash in trust accounts for the benefit of reinsured companies, which amounted to \$377 million and \$368 million as of December 31, 2013 and December 31, 2012, respectively, based on fair value. In addition, to fulfill state licensing requirements, the Company has placed on deposit eligible securities of \$19 million and \$27 million as of December 31, 2013 and December 31, 2012, respectively, based on fair value.

Table of Contents

The fair value of the Company's pledged securities under credit derivative contracts totaled \$677 million and \$660 million as of December 31, 2013 and December 31, 2012, respectively.

No material investments of the Company were non-income producing for years ended December 31, 2013 and 2012.

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 9% of the investment portfolio, on a fair value basis as of December 31, 2013. 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).

The Company also purchases obligations and assets that it believes constitute good investment opportunities (the "trading portfolio"). During 2013, the Company purchased \$630 million par amount outstanding of such obligations and sold an amount of par equal to \$619 million. During 2012, the Company had purchased \$782 million par amount outstanding of such obligations and sold \$728 million. As of December 31, 2013 and 2012, the Company held \$76 million and \$65 million par amount outstanding of such obligations, respectively.

Additional detail about the types and amounts of securities acquired by the Company for loss mitigation, other risk management and in the trading portfolio is set forth in the table below.

Internally Managed Portfolio

Carrying Value

	As of December 31,	
	2013	2012
	(in millions)	
Assets purchased for loss mitigation purposes:		
Fixed maturity securities:		
Obligations of state and political subdivisions	\$28	\$23
RMBS	284	213
Asset-backed securities	127	120
Other invested assets	47	72
Other risk management assets:		
Fixed maturity securities:		
Obligations of state and political subdivisions	8	12
Corporate Securities	136	—
RMBS	37	6
Asset-backed securities	141	186
Other	35	49
Trading portfolio (other invested assets)	88	91

Total

\$931

\$772

227

Table of Contents

12. Insurance Company Regulatory Requirements

Each of the Company's insurance companies' ability to pay dividends depends, among other things, upon their financial condition, results of operations, cash requirements, compliance with rating agency requirements, and is also subject to restrictions contained in the insurance laws and related regulations of their state of domicile and other states. Financial statements prepared in accordance with accounting practices prescribed or permitted by local insurance regulatory authorities differ in certain respects from GAAP.

The Company's U.S. domiciled insurance companies prepare statutory financial statements in accordance with accounting practices prescribed or permitted by the National Association of Insurance Commissioners ("NAIC") and their respective insurance departments. Prescribed statutory accounting practices are set forth in the NAIC Accounting Practices and Procedures Manual. The Company has no permitted accounting practices on a statutory basis.

AG Re, a Bermuda regulated Class 3B insurer, prepares its statutory financial statements in conformity with the accounting principles set forth in the Insurance Act 1978, amendments thereto and related regulations. GAAP differs in certain significant respects from statutory accounting practices prescribed or permitted by Bermuda insurance regulatory authorities. The principal differences result from the following statutory accounting practices:

- acquisition costs on upfront premiums are charged to operations as incurred rather than over the period that related premiums are earned;

- certain assets designated as "non-admitted assets" are charged directly to statutory surplus but are reflected as assets under GAAP;

- insured CDS are accounted for as insurance contracts rather than as derivative contracts recorded at fair value;

loss and loss adjustment expenses include those relating to credit default swaps, which are treated as insurance contracts. Loss reserves on non derivative contracts are net of unearned premium, which is offset by deferred acquisition costs, rather than only unearned premium. Loss reserves on insured CDS are not net of unearned premium. Additionally loss reserves include a statutory reserve which includes a discount safety margin and statutory catastrophe reserve.

GAAP differs in certain significant respects from U.S. insurance companies' statutory accounting practices prescribed or permitted by insurance regulatory authorities. The principal differences result from the following statutory accounting practices:

- upfront premiums are earned when related principal and interest have expired rather than earned over the expected period of coverage;

- acquisition costs are charged to expense as incurred rather than over the period that related premiums are earned;

- a contingency reserve is computed based on statutory requirements;

- certain assets designated as "non-admitted assets" are charged directly to statutory surplus but are reflected as assets under GAAP;

- investments in subsidiaries are carried on the balance sheet on the equity basis, to the extent admissible, rather than consolidated with the parent;

the amount of deferred tax assets that may be admitted is subject to an adjusted surplus threshold and is generally limited to the lesser of those assets the Company expects to realize within three years of the balance sheet date or fifteen percent of the Company's adjusted surplus. This realization period and surplus percentage is subject to change based on the amount of adjusted surplus;

insured CDS are accounted for as insurance contracts rather than as derivative contracts recorded at fair value;

bonds are generally carried at amortized cost rather than fair value;

∕IEs and refinancing vehicles are not consolidated;

228

Table of Contents

surplus notes are recognized as surplus rather than as a liability and each payment of principal and interest is recorded only upon approval of the insurance regulator;

push-down acquisition accounting is not applicable under statutory accounting practices;

present value of expected losses are discounted at 5%, recorded when the loss is deemed probable and recorded without consideration of the deferred premium revenue as opposed to discounted at the risk free rate at the end of each reporting period and only to the extent they exceed deferred premium revenue;

present value of installment premiums and commissions are not recorded on the balance sheets.

Insurance Regulatory Amounts Reported

	Policyholders' Surplus		Net Income (Loss)		
	As of December 31, 2013	2012	Year Ended December 31,		
	(in millions)		2013	2012	2011
U.S. statutory companies:					
MAC	\$514	\$77	\$26	\$1	\$0
AGC	693	905	211	31	230
AGM:					
AGM stand-alone	1,733	1,780	340	203	399
Assured Guaranty Municipal Insurance Company	—	791	—	58	197
AGM consolidated(1)	1,746	1,785	405	256	632
Bermuda statutory company:					
AG Re	1,122	1,283	107	117	133

(1) Represents the consolidated amounts of AGM and all of its U.S. and foreign subsidiaries.

On July 16, 2013, the Company completed a series of transactions that increased the capitalization of MAC to \$800 million on a statutory basis. The Company does not currently anticipate that MAC will distribute any dividends.

AGM and its subsidiaries Assured Guaranty Municipal Insurance Company ("AGMIC") and Assured Guaranty (Bermuda) Ltd. ("AGBM") terminated the reinsurance pooling agreement pursuant to which AGMIC and AGBM had assumed a quota share percentage of the financial guaranty insurance policies issued by AGM, and AGM reassumed such ceded business. Subsequently, AGMIC was merged into AGM, with AGM as the surviving company.

AGBM, which had made a loan of \$82.5 million to AGUS, an indirect parent holding company of AGM, received all of the outstanding shares of MAC held by AGUS and cash, in full satisfaction of the principal of and interest on such loan. After AGBM distributed substantially all of its assets, including the MAC shares, to AGM as a dividend, AGM sold AGBM to its affiliate AG Re. Subsequently, AGBM and AG Re merged, with AG Re as the surviving company. The sale of AGBM to, and subsequent merger with, AG Re were each effective as of July 17, 2013.

A new company, MAC Holdings, was formed to own 100% of the outstanding stock of MAC. AGM and its affiliate AGC subscribed for approximately 61% and 39% of the outstanding MAC Holdings common stock, respectively, for which AGM paid \$425 million and AGC paid \$275 million, as consideration. The consideration consisted of all of MAC's outstanding common stock (in the case of AGM), cash and marketable securities.

MAC Holdings then contributed cash and marketable securities having a fair market value sufficient to increase MAC's policyholders' surplus to approximately \$400 million, and purchased a surplus note issued by MAC in the principal amount of \$300 million. In addition, AGM purchased a surplus note issued by MAC in the principal amount of \$100 million.

Table of Contents

Following the increase in MAC's capitalization, AGM ceded par exposure of approximately \$87 billion and unearned premiums of approximately \$468 million to MAC, and AGC ceded par exposure of approximately \$24 billion and unearned premiums of approximately \$249 million to MAC.

In addition, on July 15, 2013, AGM and its wholly-owned subsidiary, Assured Guaranty (Europe) Ltd. (together, the "AGM Group") were notified that the New York State Department of Financial Services ("NYSDFS") does not object to the AGM Group reassuming contingency reserves that they had ceded to AG Re and electing to cease ceding future contingency reserves to AG Re under the following circumstances:

The AGM Group may reassume 33% of a contingency reserve base of approximately \$250 million (the "NY Contingency Reserve Base") in 2013, after July 16, 2013, the date on which the transactions for the capitalization of MAC were completed (the "Closing Date").

The AGM Group may reassume 50% of the NY Contingency Reserve Base in 2014, no earlier than the one year anniversary of the Closing Date, with the prior approval of the NYSDFS.

The AGM Group may reassume the remaining 17% of the NY Contingency Reserve Base in 2015, no earlier than the two year anniversary of the Closing Date, with the prior approval of the NYSDFS.

At the same time, AGC was notified that the Maryland Insurance Administration does not object to AGC reassuming contingency reserves that it had ceded to AG Re and electing to cease ceding future contingency reserves to AG Re under the following circumstances:

AGC may reassume 33% of a contingency reserve base of approximately \$267 million (the "MD Contingency Reserve Base") in 2013, after the Closing Date.

AGC may reassume 50% of the MD Contingency Reserve Base in 2014, no earlier than the one year anniversary of the Closing Date, with the prior approval of the Maryland Insurance Administration (the "MIA") and the NY DFS.

AGC may reassume the remaining 17% of the MD Contingency Reserve Base in 2015, no earlier than the two year anniversary of the Closing Date, with the prior approval of the MIA and the NYSDFS.

The reassumption of the contingency reserves by the AGM Group and AGC have the effect of increasing contingency reserves by the amount reassumed and decreasing their policyholders' surpluses by the same amount; there would be no impact on the statutory or rating agency capital of the AGM Group or AGC. The reassumption of contingency reserves by the AGM Group or AGC permit the release of amounts from the AG Re trust accounts securing AG Re's reinsurance of the AGM Group and AGC.

In accordance with the above approvals, in the third quarter of 2013, AGM and AGC reassumed 33% of their respective contingency reserve bases as discussed above. These reassumptions together permitted the release of assets from the AG Re trust accounts securing AG Re's reinsurance of AGM and AGC by approximately \$130 million, after adjusting for increases in the amounts required to be held in such accounts due to changes in asset values, thereby increasing the Company's liquidity.

Dividend Restrictions and Capital Requirements

AGM is a New York domiciled insurance company. Under New York insurance law, AGM may 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 an ordinary dividend that, together with all dividends paid in the prior 12 months, does not exceed the lesser of 10% of its policyholders' surplus (as of the last annual or quarterly statement filed) or 100% of its adjusted net investment income during that period. As of December 31, 2013, approximately \$10 million was available for distribution of dividends in the first quarter of 2014, after giving effect to dividends paid in the prior 12 months. The maximum amount available during 2014 for AGM to pay dividends to AGMH without regulatory approval, after giving effect to dividends paid in the prior 12 months, will be approximately \$173 million. AGM did not declare or pay any dividends in 2011 because in connection with the Company's acquisition of AGMH in 2009, it had committed to the NY DFS that AGM would not pay any dividends for a period of two years without the prior approval of the New York Superintendent. This constraint has expired.

Table of Contents

AGC is a Maryland domiciled insurance company. 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. As of December 31, 2013, approximately \$2 million was available for distribution of dividends in the first quarter of 2014, after giving effect to dividends paid in the prior 12 months. The maximum amount available during 2014 for AGC to pay ordinary dividends to AGUS, after giving effect to dividends paid in the prior 12 months, will be approximately \$69 million.

As of December 31, 2013, AG Re had unencumbered assets of \$238 million. AG Re maintains unencumbered assets for general corporate purposes, including the payment of dividends and for placing assets in trust for the benefit of cedants to reflect declines in the market value of previously posted assets or additional ceded reserves. Accordingly, the amount of unencumbered assets will fluctuate during a given quarter based upon factors including the market value of previously posted assets and additional ceded reserves, if any. AG Re is an insurance company registered and licensed under the Insurance Act 1978 of Bermuda, amendments thereto and related regulations. Based on regulatory capital requirements, AG Re currently has \$600 million in excess capital and surplus. As a Class 3B insurer, AG Re is restricted from paying dividends or distributing capital by the following regulatory requirements:

Dividends shall not exceed outstanding statutory surplus, which is \$278 million.

Dividends on an annual basis shall not exceed 25% of its total statutory capital and statutory surplus (as set out in its previous year's financial statements), which is \$281 million, unless it files (at least seven days before payment of such dividends) with the Bermuda Monetary Authority an affidavit stating that it will continue to meet the required margins.

Capital distributions on an annual basis shall not exceed 15% of its total statutory capital (as set out in its previous year's financial statements), which is \$126 million, unless approval is granted by the Bermuda Monetary Authority.

Dividends are limited by requirements that the subject company must at all times (i) maintain the minimum solvency margin and the Company's applicable enhanced capital requirements required under the Insurance Act of 1978 and (ii) have relevant assets in an amount at least equal to 75% of relevant liabilities, both as defined under the Insurance Act of 1978.

Dividends and Surplus Notes By Insurance Company Subsidiaries

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Dividends paid by AGC to AGUS	\$67	\$55	\$30
Dividends paid by AGM to AGMH	163	30	—
Dividends paid by AG Re to AGL	144	151	86
Repayment of surplus note by AGM to AGMH	50	50	50
Issuance of surplus notes by MAC to AGM and MAC Holdings	(400)) —	—

13. Income Taxes

Accounting Policy

The provision for income taxes consists of an amount for taxes currently payable and an amount for deferred taxes. Deferred income taxes are provided for temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities, using enacted rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded to reduce the deferred tax asset to an amount that is more likely than not to be realized.

231

Table of Contents

Non-interest bearing tax and loss bonds are purchased to prepay the tax benefit that results from deducting contingency reserves as provided under Internal Revenue Code Section 832(e). The Company records the purchase of tax and loss bonds in deferred taxes.

The Company recognizes tax benefits only if a tax position is “more likely than not” to prevail.

Provision for Income Taxes

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 Assured Guaranty (Europe) Ltd., 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 with its administrative and head office functions 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. The main rate of corporation tax is 23% currently; such rate will fall to 21% as of April 1, 2014 and to 20% as of April 1, 2015. 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, AGFP and AG Analytics Inc. (“AGUS consolidated tax group”). Assured Guaranty Overseas US Holdings Inc. and its subsidiaries AGRO, Assured Guaranty Mortgage Insurance Company and AG Intermediary Inc., have historically filed their own consolidated federal income tax return. In conjunction with the acquisition of MAC (formerly Municipal and Infrastructure Assurance Corporation) on May 31, 2012, MAC has joined the consolidated federal tax group.

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 23.25% 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, 2013, the U.K. corporation tax rate has been reduced to 23%, for the period April 1, 2012 to April 1, 2013 the U.K. corporation tax rate was 24% resulting in a blended tax rate of 23.25% in 2013, prior to April 1, 2012, the U.K. corporation tax rate was 26% resulting in a blended tax rate of 24.5% in 2012 and prior to April 1, 2011, the U.K. corporation rate was 28% resulting in a blended tax rate of 26.5% in 2011. The Company's overall corporate 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.

232

Table of Contents

Effective Tax Rate Reconciliation

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Expected tax provision (benefit) at statutory rates in taxable jurisdictions	\$390	\$76	\$313
Tax-exempt interest	(57	) (61	) (62
Change in liability for uncertain tax positions	(2	) 2	2
Other	3	5	3
Total provision (benefit) for income taxes	\$334	\$22	\$256
Effective tax rate	29.2	% 16.5	% 24.9

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. domiciled but are subject to U.S. tax by election or as controlled foreign corporations are included at the U.S. 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

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
United States	\$1,118	\$218	\$896
Bermuda	27	(86	) 133
U.K.	(3	) 0	0
Total	\$1,142	\$132	\$1,029

Revenue by Tax Jurisdiction

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
United States	\$1,389	\$875	\$1,504
Bermuda	219	79	301
U.K.	0	0	0
Total	\$1,608	\$954	\$1,805

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

Table of Contents

Components of Net Deferred Tax Assets

	As of December 31,	
	2013	2012
	(in millions)	
Deferred tax assets:		
Unrealized losses on credit derivative financial instruments, net	\$402	\$425
Unearned premium reserves, net	63	109
Loss and LAE reserve	134	90
Tax and loss bonds	33	15
Net operating loss ("NOL") carry forward	5	7
Alternative minimum tax credit	90	58
Tax basis step-up	5	5
Foreign tax credit	37	30
FG VIEs	29	179
DAC	40	59
Investment basis difference	73	82
Other	64	48
Total deferred income tax assets	975	1,107
Deferred tax liabilities:		
Contingency reserves	47	15
Public debt	98	100
Unrealized appreciation on investments	68	198
Unrealized gains on CCS	16	12
Market discount	24	42
Other	34	19
Total deferred income tax liabilities	287	386
Net deferred income tax asset	\$688	\$721

As of December 31, 2013, the Company had foreign tax credits carried forward of \$37 million which expire in 2018 through 2021 and had alternative minimum tax credits of \$90 million which do not expire. Foreign tax credits of \$22 million are from its acquisition of AGMH, the Internal Revenue Code limits the amount of foreign tax credits available that the Company may utilize each year. Management believes sufficient future taxable income exists to realize the full benefit of these tax credits.

As of December 31, 2013, AGRO had a stand-alone NOL of \$13 million, compared with \$20 million as of December 31, 2012, which is available through 2023 to offset its future U.S. taxable income. AGRO's stand alone NOL may not offset the income of any other members of AGRO's consolidated group with very limited exceptions and the Internal Revenue Code limits the amounts of NOL that AGRO may utilize each year.

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.

Audits

AGUS has open tax years with the U.S. Internal Revenue Service (“IRS”) for 2009 forward and is currently under audit for the 2009-2011 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

234

Table of Contents

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 2009 forward. AGMH and subsidiaries have separate open tax years with the IRS of January 1, 2009 through the July 1, 2009 when they joined the AGUS consolidated group. The IRS concluded its field work with respect to tax year 2008 for AGMH and subsidiaries while members of the Dexia Holdings Inc. consolidated tax group without adjustment. The Company is indemnified by Dexia for any potential liability associated with this audit of any periods prior to the AGMH Acquisition. The Company's U.K. subsidiaries are not currently under examination and have open tax years of 2011 forward.

Uncertain Tax Positions

The following table provides a reconciliation of the beginning and ending balances of the total liability for unrecognized tax benefits. The Company does not believe it is reasonably possible that this amount will change significantly in the next twelve months.

	2013	2012	2011
	(in millions)		
Balance as of January 1,	\$22	\$20	\$18
True-up from tax return filings	4	—	—
Increase in unrecognized tax benefits as a result of position taken during the current period	3	2	2
Decrease due to closing of IRS audit	(9) —	—
Balance as of December 31,	\$20	\$22	\$20

The Company's policy is to recognize interest and penalties related to uncertain tax positions in income tax expense and has accrued \$1 million per year from 2011 to 2013. As of December 31, 2013 and December 31, 2012, the Company has accrued \$3 million and \$3 million of interest, respectively.

The total amount of unrecognized tax benefits at December 31, 2013, that would affect the effective tax rate, if recognized, is \$20 million.

Liability For Tax Basis Step-Up Adjustment

In connection with the Company's initial public offering, the Company and ACE Financial Services Inc. ("AFS"), a subsidiary of ACE Limited, entered into a tax allocation agreement, whereby the Company and AFS made a "Section 338 (h)(10)" election that has the effect of increasing the tax basis of certain affected subsidiaries' tangible and intangible assets to fair value. Future tax benefits that the Company derives from the election will be payable to AFS when realized by the Company.

As a result of the election, the Company has adjusted its net deferred tax liability, to reflect the new tax basis of the Company's affected assets. The additional basis is expected to result in increased future income tax deductions and, accordingly, may reduce income taxes otherwise payable by the Company. Any tax benefit realized by the Company will be paid to AFS. Such tax benefits will generally be calculated by comparing the Company's affected subsidiaries' actual taxes to the taxes that would have been owed by those subsidiaries had the increase in basis not occurred. After a 15 year period which ends in 2019, to the extent there remains an unrealized tax benefit, the Company and AFS will negotiate a settlement of the unrealized benefit based on the expected realization at that time.

As of December 31, 2013 and December 31, 2012, the liability for tax basis step-up adjustment, which is included in the Company's balance sheets in "Other liabilities," was \$5 million and \$6 million, respectively. The Company has paid ACE Limited and correspondingly reduced its liability by \$1 million in 2013.

Tax Treatment of CDS

The Company treats the guaranty it provides on CDS as an insurance contract for tax purposes and as such a taxable loss does not occur until the Company expects to make a loss payment to the buyer of credit protection based upon the occurrence of one or more specified credit events with respect to the contractually referenced obligation or entity. The Company holds its CDS to maturity, at which time any unrealized fair value loss in excess of credit-related losses would revert to zero. The tax treatment of CDS is an unsettled area of the law. The uncertainty relates to the IRS determination of the income or potential loss associated with CDS as either subject to capital gain (loss) or ordinary income (loss) treatment. In treating

235

Table of Contents

CDS as insurance contracts the Company treats both the receipt of premium and payment of losses as ordinary income and believes it is more likely than not that any CDS credit related losses will be treated as ordinary by the IRS. To the extent the IRS takes the view that the losses are capital losses in the future and the Company incurred actual losses associated with the CDS, the Company would need sufficient taxable income of the same character within the carryback and carryforward period available under the tax law.

14. 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.

Accounting Policy

For business assumed and ceded, the accounting model of the underlying direct financial guaranty contract dictates the accounting model used for the reinsurance contract (except for those eliminated as FG VIEs). For any assumed or ceded financial guaranty insurance premiums, the accounting model described in Note 4 is followed, for assumed and ceded financial guaranty insurance losses, the accounting model in Note 7 is followed. For any assumed or ceded credit derivative contracts, the accounting model in Note 9 is followed.

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 reinsurance counterparties the right to recapture ceded business, 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 assumed business ceded to AG Re and/or AGC, and in connection therewith, to receive payment from the assuming reinsurer of an amount equal to the reinsurer’s 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 December 31, 2013, if each third party company 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 \$293 million and \$61 million, respectively.

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

236

Table of Contents

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.

Over the past several years, the Company has entered into several commutations in order to reassume previously ceded books of business from its reinsurers. The Company has also canceled assumed reinsurance contracts. These commutations of Ceded Business and cancellations of Assumed Business resulted in gains of \$2 million, \$82 million and \$32 million for the years ended December 31, 2013, 2012 and 2011, respectively, which were recorded in other income.

Net Effect of Commutations of Ceded and
Cancellations of Assumed Reinsurance Contracts

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Increase (decrease) in net unearned premium reserve	\$11	\$109	\$(20)
Increase (decrease) in net par outstanding	151	19,173	(780)

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

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Premiums Written:			
Direct	\$106	\$244	190
Assumed(1)	17	9	(63)
Ceded(2)	2	51	4
Net	\$125	\$304	131
Premiums Earned:			
Direct	\$819	\$936	997
Assumed	40	50	46
Ceded	(107)	(133)	(123)
Net	\$752	\$853	920
Loss and LAE:			
Direct	\$110	\$636	564
Assumed	73	(4)	4
Ceded	(29)	(128)	(120)
Net	\$154	\$504	448

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

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

Reinsurer Exposure

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

237

Table of Contents

rating of the monoline. As of December 31, 2013, based on fair value, the Company had \$461 million of fixed-maturity securities in its investment portfolio wrapped by National Public Finance Guarantee Corporation, \$455 million by Ambac Assurance Corporation ("Ambac") and \$27 million by other guarantors.

Exposure by Reinsurer

Reinsurer	Ratings at February 24, 2014		Par Outstanding As of December 31, 2013		
	Moody's Reinsurer Rating	S&P Reinsurer Rating	Ceded Par Outstanding(1)	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	\$8,331	\$—	\$30
Tokio Marine & Nichido Fire Insurance Co., Ltd. ("Tokio")	Aa3 (3)	AA- (3)	7,279	—	—
Radian	Ba1	B+	4,709	38	1,082
Syncora Guarantee Inc.	WR	WR	4,201	1,771	162
Mitsui Sumitomo Insurance Co. Ltd.	A1	A+ (3)	2,144	—	—
ACA Financial Guaranty Corp.	NR (5)	WR	809	5	9
Swiss Reinsurance Co.	Aa3	AA-	346	—	—
Ambac (4)	WR	WR	85	6,118	17,859
CIFG Assurance North America Inc. ("CIFG")	WR	WR	2	178	5,048
MBIA Inc.	(4)	(4)	—	10,292	7,386
Financial Guaranty Insurance Co.	WR	WR	—	2,329	1,315
Other	Various	Various	882	2,099	46
Total			\$28,788	\$22,830	\$32,937

(1) Includes \$3,172 million in ceded par outstanding 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) MBIA Inc. includes various subsidiaries which are rated A and B by S&P and Baa1, B1 and B3 by Moody's. Ambac includes policies in their general and segregated account.

(5) Represents "Not Rated."

Table of Contents

Ceded Par Outstanding by Reinsurer and Credit Rating

As of December 31, 2013

Reinsurer	Internal Credit Rating					Total
	AAA	AA	A	BBB	BIG	
	(in millions)					
American Overseas Reinsurance Company Limited (f/k/a Ram Re)	\$967	\$2,871	\$2,605	\$1,327	\$561	\$8,331
Tokio	1,127	1,122	2,291	1,793	946	7,279
Radian	235	296	2,365	1,241	572	4,709
Syncora Guarantee Inc.	—	223	764	2,334	880	4,201
Mitsui Sumitomo Insurance Co. Ltd.	146	692	868	232	206	2,144
ACA Financial Guaranty Corp	—	465	324	20	—	809
Swiss Reinsurance Co.	—	2	241	27	76	346
Ambac	—	—	85	—	—	85
CIFG	—	—	—	2	—	2
Other	—	93	751	38	—	882
Total	\$2,475	\$5,764	\$10,294	\$7,014	\$3,241	\$28,788

In accordance with U.S. statutory accounting requirements and U.S. insurance laws and regulations, in order for the Company to receive credit for liabilities ceded to reinsurers domiciled outside of the U.S., such reinsurers must secure their liabilities to the Company. All of the unauthorized reinsurers in the table above post collateral for the benefit of the Company in an amount at least equal to the sum of their ceded unearned premium reserve, loss reserves and contingency reserves all calculated on a statutory basis of accounting. In addition, certain authorized reinsurers in the table above post collateral on terms negotiated with the Company. Collateral may be in the form of letters of credit or trust accounts. The total collateral posted by all non-affiliated reinsurers as of December 31, 2013 is approximately \$658 million.

Second-to-Pay

Insured Par Outstanding by Internal Rating

As of December 31, 2013(1)

	Public Finance					Structured Finance					Total
	AAA	AA	A	BBB	BIG	AAA	AA	A	BBB	BIG	
	(in millions)										
Radian	\$—	\$—	\$13	\$17	\$8	\$—	\$—	\$—	\$—	\$—	\$38
Syncora Guarantee Inc.	—	25	369	771	301	77	56	—	—	172	1,771
ACA Financial Guaranty Corp.	—	3	—	2	—	—	—	—	—	—	5
Ambac	30	1,366	3,157	1,020	81	2	43	71	209	139	6,118
CIFG	—	11	69	22	76	—	—	—	—	—	178
MBIA Inc. Financial Guaranty Insurance Co.	225	2,346	4,250	1,425	—	—	1,589	24	199	234	10,292
Other	—	77	990	296	328	518	—	73	—	47	2,329
Total	\$255	\$3,828	\$10,947	\$3,553	\$794	\$597	\$1,688	\$168	\$408	\$592	\$22,830

(1) Assured Guaranty's internal rating.

239

Table of Contents

Amounts Due (To) From Reinsurers
As of December 31, 2013

	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)	\$—	\$ (9)	\$—	\$9
Tokio	—	(19)	—	20
Radian	—	(17)	—	16
Syncora Guarantee Inc.	—	(40)	—	1
Mitsui Sumitomo Insurance Co. Ltd.	—	—	—	2
Swiss Reinsurance Co.	—	—	—	1
Ambac	67	—	(79)	—
CIFG	—	—	(6)	2
MBIA Inc.	13	—	(11)	—
Financial Guaranty Insurance Co.	7	—	(103)	—
Other	—	(43)	—	—
Total	\$87	\$ (128)	\$ (199)	\$51

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. The facility covers losses occurring either from January 1, 2014 through December 31, 2021, or January 1, 2015 through December 31, 2022, at the option of AGC, AGM and MAC. It terminates on January 1, 2016, unless AGC, AGM and MAC choose to extend it. 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 have paid approximately \$19 million of premiums during 2014 for the term January 1, 2014 through December 31, 2014 and deposited approximately \$19 million of securities into trust accounts for the benefit of the reinsurers to be used to pay the premium for January 1, 2015 through December 31, 2015. This facility replaces the \$435 million aggregate excess of loss reinsurance facility that AGC and AGM had entered into on January 22, 2012.

Re-Assumption and Reinsurance Agreements with Radian Asset Assurance Inc.

On January 24, 2012, AGM reassumed \$12.9 billion of par it had previously ceded to Radian and AGC reinsured approximately \$1.8 billion of U.S. public finance par from Radian. The Company received a payment of \$86 million from Radian for the re-assumption, which consisted 96% of public finance exposure and 4% of structured finance

credits. In connection with the reinsurance assumption, the Company received a payment of \$22 million. Both the reassumed and reinsured portfolios were composed entirely of selected credits that met the Company's underwriting standards.

Tokio Marine & Nichido Fire Insurance Co., Ltd. Agreement

Effective as of March 1, 2012, AGM and Tokio entered into a Commutation, Reassumption and Release Agreement for a portfolio consisting of approximately \$6.2 billion in par of U.S. public finance exposures outstanding as of February 29, 2012. Tokio paid AGM the statutory unearned premium outstanding as of February 29, 2012 plus a commutation premium.

Table of Contents

15. Related Party Transactions

The Company was party to transactions with entities that are affiliated with Wilbur L. Ross, Jr., a director of the Company, and funds under his control, which in the aggregate owned approximately 8.2% of the common shares of AGL as of December 31, 2013, 10.2% as of December 31, 2012 and 10.9% as of December 31, 2011. In addition, the Company retains Wellington Management Company, LLP, as investment manager for a portion of the Company's investment portfolio. Wellington Company LLP owned approximately 6.6% of the common shares of AGL as of December 31, 2013, 8.6% as of December 31, 2012 and 9.6% as of December 31, 2011. The net expenses from transactions with these related parties were approximately \$2.5 million in 2013, with no individual related party expense item exceeding \$1.9 million, \$3.4 million in 2012, with no individual related party expense item exceeding \$2.0 million, and \$2.6 million in 2011, with no related party expense item exceeding \$1.9 million. As of December 31, 2013, 2012 and 2011 there were no significant amounts payable to or amounts receivable from related parties. In addition, please refer to Note 19, Shareholders' Equity, for a description of the transaction under which the Company purchased common shares from funds associated with WL Ross & Co. LLC and its affiliates and from Mr. Ross.

16. Commitments and Contingencies

Leases

AGL and its subsidiaries are party to various lease agreements accounted for as operating leases. The Company leases and occupies space in New York City through April 2026. In addition, AGL and its subsidiaries lease additional office space in various locations under non-cancelable operating leases which expire at various dates through 2016. Rent expense was \$9.9 million in 2013, \$10.0 million in 2012 and \$10.7 million in 2011.

Future Minimum Rental Payments

Year	(in millions)
2014	\$8
2015	8
2016	8
2017	7
2018	8
Thereafter	59
Total	\$98

Legal Proceedings

Litigation

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 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 6, Expected Loss to be Paid, as of the date of this filing, AGC and AGM have filed complaints against certain sponsors and underwriters of RMBS securities that AGC or AGM had insured, alleging, among other claims, that such persons had breached R&W 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

Table of Contents

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.

Proceedings Relating to the Company's Financial Guaranty Business

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

Beginning in July 2008, AGM and various other financial guarantors were named in complaints filed in the Superior Court for the State of California, City and County of San Francisco by a number of plaintiffs. Subsequently, plaintiffs' counsel filed amended complaints against AGM and AGC and added additional plaintiffs. These complaints alleged that the financial guaranty insurer defendants (i) participated in a conspiracy in violation of California's antitrust laws to maintain a dual credit rating scale that misstated the credit default risk of municipal bond issuers and created market demand for municipal bond insurance, (ii) participated in risky financial transactions in other lines of business that damaged each insurer's financial condition (thereby undermining the value of each of their guaranties), and (iii) failed to adequately disclose the impact of those transactions on their financial condition. In addition to their antitrust claims, various plaintiffs asserted claims for breach of the covenant of good faith and fair dealing, fraud, unjust enrichment, negligence, and negligent misrepresentation. At hearings held in July and October 2011 relating to AGM, AGC and the other defendants' demurrer, the court overruled the demurrer on the following claims: breach of contract, violation of California's antitrust statute and of its unfair business practices law, and fraud. The remaining claims were dismissed. On December 2, 2011, AGM, AGC and the other bond insurer defendants filed an anti-SLAPP ("Strategic Lawsuit Against Public Participation") motion to strike the complaints under California's Code of Civil Procedure. On July 9, 2013, the court entered its order denying in part and granting in part the bond insurers' motion to strike. As a result of the order, the causes of action that remain against AGM and AGC are: claims of breach of contract and fraud, brought by the City of San Jose, the City of Stockton, East Bay Municipal Utility District and Sacramento Suburban Water District, relating to the failure to disclose the impact of risky financial transactions on their financial condition; and a claim of breach of the unfair business practices law brought by The Jewish Community Center of San Francisco. On September 9, 2013, plaintiffs filed an appeal of the anti-SLAPP ruling on the California antitrust statute. On September 30, 2013, AGC, AGM and the other bond insurer defendants filed a notice of cross-appeal. The complaints generally seek unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss or range of loss, if any, that may arise from these lawsuits.

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. With respect to the 28 credit derivative transactions, AGFP calculated that LBIE owes AGFP approximately \$25 million, whereas LBIE asserted in the complaint that AGFP owes LBIE a termination payment of approximately \$1.4 billion. LBIE is seeking unspecified damages. 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. The Company cannot reasonably estimate the possible loss, if any, that may arise from this lawsuit.

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 seek 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. AGM believes the terminations of the CDS and the

Table of Contents

calculation of the termination payment amounts were consistent with the terms of the ISDA master agreements between the parties. 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, 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 on insured certificates issued in the MASTR Adjustable Rate Mortgages Trust 2007-3 securitization. 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.

Previously, AGM, together with other financial institutions and other parties, including bond insurers, had been named as defendants in a civil action brought in the circuit court of Jefferson County, Alabama relating to the County's problems meeting its sewer debt obligations: Charles E. Wilson vs. JPMorgan Chase & Co et al (filed in the Circuit Court of Jefferson County, Alabama), Case No. 01-CV-2008-901907.00. The action was brought in August 2008 on behalf of rate payers, tax payers and citizens residing in Jefferson County, and alleged conspiracy and fraud in connection with the issuance of the County's debt. The complaint sought equitable relief, unspecified monetary damages, interest, attorneys' fees and other costs. In January 2011, the circuit court issued an order denying a motion by the bond insurers and other defendants to dismiss the action. The defendants, including the bond insurers, petitioned the Alabama Supreme Court for a writ of mandamus to the circuit court vacating such order and directing the dismissal with prejudice of plaintiffs' claims for lack of standing. While awaiting a ruling from the Alabama Supreme Court, Jefferson County filed for bankruptcy and the Alabama Supreme Court entered a stay pending the resolution of the bankruptcy. In November 2013, the United States Bankruptcy Court approved a bankruptcy plan that included dismissal of the pending claims in state court. On January 13, 2014, the circuit court entered an order dismissing the claims against AGM and the other defendants and on January 17, 2014, the Supreme Court of Alabama entered an order dismissing the petition for writ of mandamus.

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. ("DCL"), jointly and severally, have agreed to indemnify the Company against liability arising out of the proceedings described below in the "—Proceedings Related to AGMH's Former Financial Products Business" section, 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 is 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.

In addition AGMH had received a "Wells Notice" from the staff of the Philadelphia Regional Office of the SEC in February 2008 relating to the investigation concerning the bidding of municipal GICs and other municipal derivatives. The Wells Notice indicated that the SEC staff was considering recommending that the SEC authorize the staff to bring a civil injunctive action and/or institute administrative proceedings against AGMH, alleging violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and Section 17(a) of the Securities Act. On January 8, 2014, the SEC issued a letter

243

Table of Contents

stating that it had concluded the investigation as to AGMH and, based on the information it had as of such date, it did not intend to recommend an enforcement action by the SEC against AGMH.

In July 2010, a former employee of AGM who had been involved in AGMH's former Financial Products Business was indicted along with two other persons with whom he had worked at Financial Guaranty Insurance Company. Such former employee and the other two persons were convicted on fraud conspiracy counts. After appeal, their convictions were reversed by a three-judge panel of the U.S. Court of Appeals for the Second Circuit in November 2013. In January 2014, the Department of Justice petitioned the U.S. Court of Appeals for the Second Circuit for a panel rehearing and a rehearing en banc of the appeal.

Lawsuits Relating to Former Financial Products Business

During 2008, nine putative class action lawsuits were filed in federal court alleging federal antitrust violations in the municipal derivatives industry, seeking damages and alleging, among other things, a conspiracy to fix the pricing of, and manipulate bids for, municipal derivatives, including GICs. These cases have been coordinated and consolidated for pretrial proceedings in the U.S. District Court for the Southern District of New York as MDL 1950, *In re Municipal Derivatives Antitrust Litigation*, Case No. 1:08-cv-2516 ("MDL 1950").

Five of these cases named both AGMH and AGM: (a) *Hinds County, Mississippi v. Wachovia Bank, N.A.*; (b) *Fairfax County, Virginia v. Wachovia Bank, N.A.*; (c) *Central Bucks School District, Pennsylvania v. Wachovia Bank, N.A.*; (d) *Mayor and City Council of Baltimore, Maryland v. Wachovia Bank, N.A.*; and (e) *Washington County, Tennessee v. Wachovia Bank, N.A.* In April 2009, the MDL 1950 court granted the defendants' motion to dismiss on the federal claims, 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 complaints in these lawsuits generally seek unspecified monetary damages, interest, attorneys' fees and other costs. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from these lawsuits.

Four of the 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.

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.

Table of Contents

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

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

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

17. Long-Term Debt and Credit Facilities

The Company has outstanding long-term debt issued by AGUS and AGMH. AGUS has issued 7.0% Senior Notes and Series A, Enhanced Junior Subordinated Debentures. AGMH has issued 6 7/8% Quarterly Income Bonds Securities ("QUIBS"), 6.25% Notes and 5.60% Notes, as well \$300 million Junior Subordinated Debentures. All of such debt is fully and unconditionally guaranteed by AGL.

In addition, refinancing vehicles consolidated by AGM issued notes payable to the Financial Products Companies now owned by Dexia; the refinancing vehicles borrowed the funds in order to purchase assets underlying obligations insured by AGM. See Note 11, Investments and Cash.

Accounting Policy

Long-term debt is recorded at principal amounts net of any unamortized original issue discount or premium and unamortized fair value adjustment for AGMH debt. Discount is accreted into interest expense over the life of the applicable debt.

245

Table of Contents

Debt Issued by AGUS

7.0% Senior Notes. On May 18, 2004, AGUS issued \$200 million of 7.0% senior notes due 2034 (“7.0% Senior Notes”) for net proceeds of \$197 million. Although the coupon on the Senior Notes is 7.0%, the effective rate is approximately 6.4%, taking into account the effect of a cash flow hedge executed by the Company in March 2004.

8.5% Senior Notes. On June 24, 2009, AGL issued 3,450,000 equity units for net proceeds of approximately \$167 million in a registered public offering. The net proceeds of the offering were used to pay a portion of the consideration for the AGMH Acquisition. Each equity unit consisted of (i) a 5.0% undivided beneficial ownership interest in \$1,000 principal amount of 8.5% senior notes due 2014 issued by AGUS and (ii) a forward purchase contract obligating the holders to purchase \$50 of AGL common shares in June 2012. On June 1, 2012, the Company completed the remarketing of the \$173 million aggregate principal amount of 8.5% Senior Notes; AGUS purchased all of the Senior Notes in the remarketing at a price of 100% of the principal amount thereof, and retired all of such notes on June 1, 2012. The proceeds from the remarketing were used to satisfy the obligations of the holders of the Equity Units to purchase AGL common shares pursuant to the forward purchase contract. Accordingly, on June 1, 2012, AGL issued 3.8924 common shares to holders of each Equity Unit, which represented a settlement rate of 3.8685 common shares plus certain anti-dilution adjustments, or an aggregate of 13,428,770 common shares at approximately \$12.85 per share. The Equity Units ceased to exist when the forward purchase contracts were settled on June 1, 2012.

Series A Enhanced Junior Subordinated Debentures. On December 20, 2006, AGUS issued \$150 million of the Debentures due 2066. The Debentures pay a fixed 6.40% rate of interest until December 15, 2016, and thereafter pay a floating rate of interest, reset quarterly, at a rate equal to three month LIBOR plus a margin equal to 2.38%. AGUS may select at one or more times to defer payment of interest for one or more consecutive periods for up to ten years. Any unpaid interest bears interest at the then applicable rate. AGUS may not defer interest past the maturity date.

Debt Issued by AGMH

6 7/8% QUIBS. On December 19, 2001, AGMH issued \$100 million face amount of 6 7/8% QUIBS due December 15, 2101, which are callable without premium or penalty.

6.25% Notes. On November 26, 2002, AGMH issued \$230 million face amount of 6.25% Notes due November 1, 2102, which are callable without premium or penalty in whole or in part.

5.60% Notes. On July 31, 2003, AGMH issued \$100 million face amount of 5.60% Notes due July 15, 2103, which are callable without premium or penalty in whole or in part.

Junior Subordinated Debentures. On November 22, 2006, AGMH issued \$300 million face amount of Junior Subordinated Debentures with a scheduled maturity date of December 15, 2036 and a final repayment date of December 15, 2066. The final repayment date of December 15, 2066 may be automatically extended up to four times in five-year increments provided certain conditions are met. The debentures are redeemable, in whole or in part, at any time prior to December 15, 2036 at their principal amount plus accrued and unpaid interest to the date of redemption or, if greater, the make-whole redemption price. Interest on the debentures will accrue from November 22, 2006 to December 15, 2036 at the annual rate of 6.40%. If any amount of the debentures remains outstanding after December 15, 2036, then the principal amount of the outstanding debentures will bear interest at a floating interest rate equal to one-month LIBOR plus 2.215%% until repaid. AGMH may elect at one or more times to defer payment of interest on the debentures for one or more consecutive interest periods that do not exceed ten years. In connection with the completion of this offering, AGMH entered into a replacement capital covenant for the benefit of persons that buy, hold or sell a specified series of AGMH long-term indebtedness ranking senior to the debentures. Under the covenant, the debentures will not be repaid, redeemed, repurchased or defeased by AGMH or any of its subsidiaries on or before

the date that is 20 years prior to the final repayment date, except to the extent that AGMH has received proceeds from the sale of replacement capital securities. The proceeds from this offering were used to pay a dividend to the shareholders of AGMH.

246

Table of Contents

Debt Issued by AGM

In order to mitigate certain financial guaranty insurance losses, special purpose entities that AGM consolidates ("refinancing vehicles") borrowed funds from the former AGMH subsidiaries that conducted AGMH's Financial Products Business (the "Financial Products Companies"). The Company refers to such debt as the "Notes Payable." The Financial Products Companies issued GICs that AGM insured, and loaned the proceeds to the refinancing vehicles. The refinancing vehicles used the proceeds from the Notes Payable to purchase certain obligations insured by AGM or collateral underlying such obligations and reimbursed AGM for its claim payments, in exchange for AGM assigning to the refinancing vehicles certain of its rights against the trusts in the applicable transactions.

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 December 31, 2013		As of December 31, 2012	
	Principal	Carrying Value	Principal	Carrying Value
	(in millions)			
AGUS:				
7.0% Senior Notes	\$200	\$198	\$200	\$197
8.50% Senior Notes	—	—	—	—
Series A Enhanced Junior Subordinated Debentures	150	150	150	150
Total AGUS	350	348	350	347
AGMH:				
67/8% QUIBS	100	68	100	68
6.25% Notes	230	138	230	137
5.60% Notes	100	55	100	54
Junior Subordinated Debentures	300	169	300	164
Total AGMH	730	430	730	423
AGM:				
Notes Payable	34	38	61	66
Total AGM	34	38	61	66
Total	\$1,114	\$816	\$1,141	\$836

Principal payments due under the long-term debt are as follows:

Expected Maturity Schedule of Debt

Expected Withdrawal Date	AGUS (in millions)	AGMH	AGM	Total
2014	\$—	\$—	\$10	\$10
2015	—	—	9	9
2016	—	—	4	4
2017	—	—	10	10
2018	—	—	1	1
2019-2038	200	—	0	200
2039-2058	—	—	—	—
2059-2078	150	300	—	450
Thereafter	—	430	—	430

Total	\$350	\$730	\$34	\$1,114
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247

Table of Contents

Interest Expense

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
AGUS:			
7.0% Senior Notes	\$13	\$13	\$13
8.50% Senior Notes	—	8	16
Series A Enhanced Junior Subordinated Debentures	10	10	10
Total AGUS	23	31	39
AGMH:			
67/8% QUIBS	7	7	7
6.25% Notes	16	16	16
5.60% Notes	6	6	6
Junior Subordinated Debentures	25	25	25
Total AGMH	54	54	54
AGM:			
Notes Payable	5	7	6
Total AGM	5	7	6
Total	\$82	\$92	\$99

Recourse Credit Facilities

2009 Strip Coverage Facility

In connection with the AGMH Acquisition, AGM agreed to retain the risks relating to the debt and strip policy portions of the leveraged lease business. The liquidity risk to AGM related to the strip policy portion of the leveraged lease business is mitigated by the strip coverage facility described below.

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

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

Currently, all the leveraged lease transactions in which AGM acts as strip coverage provider are breaching a rating trigger related to AGM and are subject to early termination. However, early termination of a lease does not result in a draw on the AGM policy if the tax-exempt entity makes the required termination payment. If all the leases were to terminate early and the tax-exempt entities do not make the required early termination payments, then AGM would be exposed to possible liquidity claims on gross exposure of approximately \$1.5 billion as of December 31, 2013. 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 December 31, 2013, approximately \$1.2 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 DCL, 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

Table of Contents

commitment amount. The commitment amount of the Strip Coverage Facility was \$1 billion at closing of the AGMH Acquisition but is scheduled to amortize over time. The maximum commitment amount of the Strip Coverage Facility had amortized to approximately \$968 million as of December 31, 2013 and to approximately \$960 million as of February 1, 2014. On February 7, 2014, AGM reduced the maximum commitment amount by \$460 million to approximately \$500 million, after taking into account its experience with its exposure to leveraged lease transactions to date.

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. 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, and 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 maintain a minimum net worth of 75% of consolidated net worth as of July 1, 2009, plus, starting July 1, 2014, (i) 25% of the aggregate consolidated net income (or loss) for the period beginning July 1, 2009 and ending on June 30, 2014 or, (2) zero, if the commitment amount has been reduced to \$750 million as described above. The Company is in compliance with all financial covenants as of December 31, 2013.

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 December 31, 2013, no amounts were outstanding under this facility, nor have there been any borrowings during the life of this facility.

Intercompany Credit Facility

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

Limited Recourse Credit Facilities

AG Re Credit Facility

AG Re had a \$200 million limited recourse credit facility for the payment of losses in respect of cumulative municipal losses (net of any recoveries) in excess of the greater of \$260 million or the average annual Debt Service of the covered portfolio multiplied by 4.5%. The obligation to repay loans under this agreement is a limited recourse obligation payable solely from, and collateralized by, a pledge of recoveries realized on defaulted insured obligations

in the covered portfolio, including certain installment premiums and other collateral. AG Re terminated this credit facility effective March 3, 2013.

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.

Table of Contents

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 December 31, 2013 the put option had not been exercised. The Company does not consider itself to be the primary beneficiary of the trusts. See Note 8, Fair Value Measurement, –Other Assets–Committed Capital Securities, for a fair value measurement discussion.

18. Earnings Per Share

Accounting Policy

The Company computes earnings per share ("EPS") using a two-class method by including participating securities which entitle their holders to receive nonforfeitable dividends or dividend equivalents before vesting. Restricted stock awards and share units under the AGC supplemental employee retirement plan ("SERP") plan are considered participating securities as they received non-forfeitable rights to dividends at the same rate as common stock.

The two-class method of computing EPS is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Basic EPS is then calculated by dividing net (loss) income available to common shareholders of Assured Guaranty by the weighted average number of common shares outstanding during the period. Diluted EPS adjusts basic EPS for the effects of restricted stock, stock options, equity units and other potentially dilutive financial instruments ("dilutive securities"), only in the periods in which such effect is dilutive. The effect of the dilutive securities is reflected in diluted EPS by application of the more dilutive of (1) the treasury stock method or (2) the two-class method assuming nonvested shares are not converted into common shares. With respect to the equity units, which were settled on June 1, 2012 (see Note 17, Long-Term Debt and Credit Facilities), the Company used the treasury stock method in computing diluted EPS. Equity forwards were included in the calculation of basic EPS when such forward contracts were satisfied and the holders thereof became common stock holders. The Company has a single class of common stock.

Table of Contents

Computation of Earnings Per Share

	Year Ended December 31,		
	2013	2012	2011
	(in millions, except per share amounts)		
Basic EPS:			
Net income (loss) attributable to AGL	\$ 808	\$ 110	773
Less: Distributed and undistributed income (loss) available to nonvested shareholders	1	0	1
Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries, basic	\$ 807	\$ 110	772
Basic shares	186.6	189.2	183.4
Basic EPS	\$4.32	\$0.58	\$4.21
Diluted EPS:			
Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries, basic	\$ 807	\$ 110	\$ 772
Plus: Re-allocation of undistributed income (loss) available to nonvested shareholders of AGL and subsidiaries	0	0	0
Distributed and undistributed income (loss) available to common shareholders of AGL and subsidiaries, diluted	\$ 807	\$ 110	\$ 772
Basic shares	186.6	189.2	183.4
Effect of dilutive securities:			
Options and restricted stock awards	1.0	0.8	0.9
Equity units	—	0.7	1.2
Diluted shares	187.6	190.7	185.5
Diluted EPS	\$4.30	\$0.57	\$4.16
Potentially dilutive securities excluded from computation of EPS because of antidilutive effect	2.7	9.9	7.2

19. Shareholders' Equity

Share Issuances

AGL has authorized share capital of \$5 million divided into 500,000,000 shares, par value \$0.01 per share. Except as described below, AGL's common shares have no preemptive rights or other rights to subscribe for additional common shares, no rights of redemption, conversion or exchange and no sinking fund rights. In the event of liquidation, dissolution or winding-up, the holders of AGL's common shares are entitled to share equally, in proportion to the number of common shares held by such holder, in AGL's assets, if any remain after the payment of all its liabilities and the liquidation preference of any outstanding preferred shares. Under certain circumstances, AGL has the right to purchase all or a portion of the shares held by a shareholder at fair market value. All of the common shares are fully paid and non assessable. Holders of AGL's common shares are entitled to receive dividends as lawfully may be declared from time to time by AGL's Board of Directors.

In general, and except as provided below, shareholders have one vote for each common share held by them and are entitled to vote with respect to their fully paid shares at all meetings of shareholders. However, if, and so long as, the common shares (and other of AGL's shares) of a shareholder are treated as "controlled shares" (as determined

pursuant to section 958 of the Code) of any U.S. Person and such controlled shares constitute 9.5% or more of the votes conferred by AGL's issued and outstanding shares, the voting rights with respect to the controlled shares owned by such U.S. Person shall be limited, in the aggregate, to a voting power of less than 9.5% of the voting power of all issued and outstanding shares, under a formula specified in AGL's Bye-laws. The formula is applied repeatedly until there is no U.S. Person whose controlled shares constitute 9.5% or more of the voting power of all issued and outstanding shares and who generally would be required to recognize income with respect to AGL under the Code if AGL were a controlled foreign corporation as defined in the Code and if the ownership threshold under the Code were 9.5% (as defined in AGL's Bye-Laws as a "9.5% U.S. Shareholder").

Table of Contents

Subject to AGL's Bye-Laws and Bermuda law, AGL's Board of Directors has the power to issue any of AGL's unissued shares as it determines, including the issuance of any shares or class of shares with preferred, deferred or other special rights.

Issuance of Shares

	Number of Shares (in millions, except share and per share amounts)	Price per Share	Proceeds	Net Proceeds
June 1, 2012(1)	13,428,770	\$ 12.85	\$ 173	\$ 173

(1)Relates to the settlement of forward purchase contracts. See Note 17, Long-Term Debt and Credit Facilities.

Under AGL's Bye-Laws and subject to Bermuda law, if AGL's Board of Directors determines that any ownership of AGL's shares may result in adverse tax, legal or regulatory consequences to the Company, any of the Company's subsidiaries or any of its shareholders or indirect holders of shares or its Affiliates (other than such as AGL's Board of Directors considers de minimis), the Company has the option, but not the obligation, to require such shareholder to sell to AGL or to a third party to whom AGL assigns the repurchase right the minimum number of common shares necessary to avoid or cure any such adverse consequences at a price determined in the discretion of the Board of Directors to represent the shares' fair market value (as defined in AGL's Bye-Laws). In addition, AGL's Board of Directors may determine that shares held carry different voting rights when it deems it appropriate to do so to (i) avoid the existence of any 9.5% U.S. Shareholder; and (ii) avoid adverse tax, legal or regulatory consequences to AGL or any of its subsidiaries or any direct or indirect holder of shares or its affiliates. "Controlled shares" includes, among other things, all shares of AGL that such U.S. Person is deemed to own directly, indirectly or constructively (within the meaning of section 958 of the Code). Further, these provisions do not apply in the event one shareholder owns greater than 75% of the voting power of all issued and outstanding shares.

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

Share Repurchases

As of December 31, 2013, the Company's share repurchase authorization was \$400 million. The Company expects the repurchases to be made from time to time in the open market or in privately negotiated transactions. The timing, form and amount of the share repurchases under the program are at the discretion of management and will depend on a variety of factors, including availability of funds at the holding companies, market conditions, the Company's capital position, legal requirements and other factors. The repurchase program may be modified, extended or terminated by the Board of Directors at any time. It does not have an expiration date. In 2013, the Company had repurchased a total of 12.5 million common shares for approximately \$264 million at an average price of \$21.12 per share. This included 5.0 million common shares purchased on June 5, 2013 from funds associated with WL Ross & Co. LLC and its affiliates (collectively, the "WLR Funds") and Wilbur L. Ross, Jr., a director of the Company, for \$109.7 million. Such share purchase reduced the WLR Funds' and Mr. Ross's ownership of AGL's common shares to approximately 14.9 million common shares, or to approximately 8% of its total common shares outstanding, from approximately 10.5% of such outstanding common shares.

Share Repurchases

Year	Number of Shares Repurchased	Total Payments (in millions)
2013	12,512,759	\$264
2012	2,066,759	24
2011	2,000,000	23

252

Table of Contents

Deferred Compensation

Each of the Chief Executive Officer and the General Counsel of the Company has elected to invest a portion of his Company SERP account in the employer stock fund within the SERP. Each unit in the employer stock fund represents the right to receive one AGL common share upon a distribution from the SERP. Each unit equals the number of AGL common shares which could have been purchased with the value of the account deemed invested in the employer stock fund as of the date of such election. The election to invest in the employer stock fund is irrevocable (i.e., any portion of a SERP account allocated to the employer stock fund and invested in units shall remain allocated to the employer stock fund until the participant receives a distribution from SERP). At the same time such investment elections were made, the Company purchased AGL common shares and placed such shares in trust to be distributed to the Chief Executive Officer and the General Counsel upon a distribution from the SERP in settlement of their units invested in the employer stock fund. As of December 31, 2013 and 2012, the Company had 320,193 and 320,193 shares, respectively, in the trust. The Company recorded the purchase of such shares in “deferred equity compensation” in the consolidated balance sheet.

Certain executives of the Company elected to invest a portion of their Assured Guaranty Corp. supplemental employee retirement plan (“AGC SERP”) accounts in the employer stock fund in the AGC SERP. Each unit in the employer stock fund represents the right to receive one AGL common share upon a distribution from the AGC SERP. Each unit equals the number of AGL common shares which could have been purchased with the value of the account deemed invested in the employer stock fund as of the date of such election. As of December 31, 2013 and 2012, there were 74,309 and 68,181 units, respectively, in the AGC SERP. See Note 20, Employee Benefit Plans.

Dividends

Any determination to pay cash dividends is at the discretion of the Company's Board of Directors, and depends upon the Company's results of operations and operating cash flows, its financial position and capital requirements, general business conditions, legal, tax, regulatory, rating agency and contractual restrictions on the payment of dividends, and any other factors the Company's Board of Directors deems relevant. For more information concerning regulatory constraints that affect the Company's ability to pay dividends, see Note 12, Insurance Company Regulatory Requirements.

On February 5, 2014, the Company declared a quarterly dividend of \$0.11 per common share, an increase of 10% from a quarterly dividend of \$0.10 per common share paid in 2013. On February 7, 2013, the Company declared a quarterly dividend of \$0.10 per common share, an increase of 11% from a quarterly dividend of \$0.09 per common share paid in 2012. On February 9, 2012, the Company declared a quarterly dividend of \$0.09 per common share, an increase of 100% from a quarterly dividend of \$0.045 per common share paid in 2011 and 2010.

20. Employee Benefit Plans

Accounting Policy

The expense for Performance Retention Plan awards is recognized straight-line over the requisite service period, with the exception of retirement eligible employees. For retirement eligible employees, the expense is recognized immediately.

Share-based compensation expense is based on the grant date fair value using grant date closing price, the lattice, Monte Carlo or Black-Scholes pricing models. The Company amortizes the fair value of share-based awards on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods, with the

exception of retirement eligible employees. For retirement-eligible employees, certain awards contain retirement provisions and therefore are amortized over the period through the date the employee first becomes eligible to retire and is no longer required to provide service to earn part or all of the award.

The fair value of each award under the Assured Guaranty Ltd. Employee Stock Purchase Plan (the "Stock Purchase Plan") is estimated at the beginning of each offering period using the Black-Scholes option valuation model.

Assured Guaranty Ltd. 2004 Long-Term Incentive Plan

Under the Assured Guaranty Ltd. 2004 Long-Term Incentive Plan, as amended (the "Incentive Plan"), the number of AGL common shares that may be delivered under the Incentive Plan may not exceed 10,970,000. In the event of certain transactions affecting AGL's common shares, the number or type of shares subject to the Incentive Plan, the number and type of

253

Table of Contents

shares subject to outstanding awards under the Incentive Plan, and the exercise price of awards under the Incentive Plan, may be adjusted.

The Incentive Plan authorizes the grant of incentive stock options, non-qualified stock options, stock appreciation rights, and full value awards that are based on AGL's common shares. The grant of full value awards may be in return for a participant's previously performed services, or in return for the participant surrendering other compensation that may be due, or may be contingent on the achievement of performance or other objectives during a specified period, or may be subject to a risk of forfeiture or other restrictions that will lapse upon the achievement of one or more goals relating to completion of service by the participant, or achievement of performance or other objectives. Awards under the Incentive Plan may accelerate and become vested upon a change in control of AGL.

The Incentive Plan is administered by a committee of the Board of Directors. The Compensation Committee of the Board serves as this committee except as otherwise determined by the Board. The Board may amend or terminate the Incentive Plan. As of December 31, 2013, 3,189,396 common shares were available for grant under the Incentive Plan.

Time Vested Stock Options

Nonqualified or incentive stock options may be granted to employees and directors of the Company. Stock options are generally granted once a year with exercise prices equal to the closing price on the date of grant. To date, the Company has only issued nonqualified stock options. All stock options, except for performance stock options, granted to employees vest in equal annual installments over a three-year period and expire seven years or ten years from the date of grant. Stock options granted to directors vest over one year and expire in seven years or ten years from grant date. None of the Company's options, except for performance stock options, have a performance or market condition.

Time Vested Stock Options

	Options for Common Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value Per Share	Number of Exercisable Options	Year of Expiration
Balance as of December 31, 2012	4,229,555	\$20.10		4,047,374	
Options granted	102,355	19.36	\$8.94		2020
Options exercised	(1,199,339)	17.75			
Options forfeited/expired	(3,320)	24.21			
Balance as of December 31, 2013	3,129,251	\$20.97		2,987,088	

As of December 31, 2013, the aggregate intrinsic value and weighted average remaining contractual term of stock options outstanding were \$11 million and 3.5 years, respectively. As of December 31, 2013, the aggregate intrinsic value and weighted average remaining contractual term of exercisable stock options were \$10 million and 3.4 years, respectively.

As of December 31, 2013 the total unrecognized compensation expense related to outstanding nonvested stock options was \$1 million, which will be adjusted in the future for the difference between estimated and actual forfeitures. The Company expects to recognize that expense over the weighted average remaining service period of 1.4 years.

Table of Contents

Lattice Option Pricing

Weighted Average Assumptions(1)

	2013	2012	
Dividend yield	2.07	% 2.06	%
Expected volatility	53.41	% 58.89	%
Risk free interest rate	1.35	% 1.45	%
Expected life	6.6 years	6.6 years	
Forfeiture rate	4.5	% 4.5	%
Weighted average grant date fair value	\$8.94	8.62	

(1) No options were granted in 2011.

The expected dividend yield is based on the current expected annual dividend and share price on the grant date. The expected volatility is estimated at the date of grant based on an average of the 7-year historical share price volatility and implied volatilities of certain at-the-money actively traded call options in the Company. The risk-free interest rate is the implied 7-year yield currently available on U.S. Treasury zero-coupon issues at the date of grant. The forfeiture rate is based on the historical employee termination information.

The total intrinsic value of stock options exercised during the years ended December 31, 2013, 2012 and 2011 was \$7.5 million, \$0.1 million and \$0.3 million, respectively. During the years ended December 31, 2013, 2012 and 2011, \$2.6 million, \$44 thousand and \$0.6 million, respectively, was received from the exercise of stock options. In order to satisfy stock option exercises, the Company issues new shares.

Performance Stock Options

In 2012 and 2013, the Company granted performance stock options under the Incentive Plan. These awards are non-qualified stock options with exercise prices equal to the closing price an AGL common share on the applicable date of grant. These awards vest 35%, 50% or 100%, if the price of AGL's common shares using the highest 40-day average share price during the relevant performance period reaches certain hurdles. If the share price is between the specified levels, the vesting level will be interpolated accordingly. These awards expire seven years from the date of grant.

Performance Stock Options

	Options for Common Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value Per Share	Number of Exercisable Options	Year of Expiration
Balance as of December 31, 2012	293,077	\$17.44		0	
Options granted	72,640	19.24	\$8.17		2020
Options exercised	—	—			
Options forfeited/expired	—	—			
Balance as of December 31, 2013	365,717	\$17.80		0	

In order to satisfy stock option exercises, the Company issues new shares.

As of December 31, 2013, the aggregate intrinsic value and weighted average remaining contractual term of performance stock options outstanding were \$2 million and 5.3 years, respectively. As of December 31, 2013, no performance options were exercisable.

As of December 31, 2013 the total unrecognized compensation expense related to outstanding nonvested performance stock options was \$1 million, which will be adjusted in the future for the difference between estimated and actual forfeitures. The Company expects to recognize that expense over the weighted average remaining service period of 1.4 years.

255

Table of ContentsMonte Carlo and Lattice Option Pricing
Weighted Average Assumptions

	2013	2012	
Dividend yield	2.07	% 2.06	%
Expected volatility	53.5	% 58.89	%
Risk free interest rate	1.36	% 1.45	%
Expected life	6.3 years	6.3 years	
Forfeiture rate	4.5	% 4.5	%
Weighted average grant date fair value	\$8.17	\$7.84	

The expected dividend yield is based on the current expected annual dividend and share price on the grant date. The expected volatility is estimated at the date of grant based on an average of the 7-year historical share price volatility and implied volatilities of certain at-the-money actively traded call options in the Company. The risk-free interest rate is the implied 7-year yield currently available on U.S. Treasury zero-coupon issues at the date of grant. The forfeiture rate is based on the historical employee termination information.

Restricted Stock Awards

Restricted stock awards to employees generally vest in equal annual installments over a four-year period and restricted stock awards to outside directors vest in full in one year. Restricted stock awards are amortized on a straight-line basis over the requisite service periods of the awards, and restricted stock awards to outside directors are amortized over one year, which are generally the vesting periods, with the exception of retirement eligible employees, discussed above.

Restricted Stock Award Activity

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested Shares		
Nonvested at December 31, 2012	88,549	\$12.93
Granted	48,273	23.20
Vested	(88,549	) 12.93
Forfeited	—	—
Nonvested at December 31, 2013	48,273	\$23.20

As of December 31, 2013 the total unrecognized compensation cost related to outstanding nonvested restricted stock awards was \$0.4 million, which the Company expects to recognize over the weighted average remaining service period of 0.4 years. The total fair value of shares vested during the years ended December 31, 2013, 2012 and 2011 was \$1 million, \$1 million and \$4 million, respectively.

Restricted Stock Units

Restricted stock units are valued based on the closing price of the underlying shares at the date of grant. Restricted stock units awarded to employees have vesting terms similar to those of the restricted stock awards and are delivered on the vesting date. The Company has granted restricted stock units to directors of the Company. Restricted stock

units awarded to directors vest over a one-year period and are delivered after directors terminate from the board of directors.

256

Table of ContentsRestricted Stock Unit Activity
(Excluding Dividend Equivalents)

	Number of Stock Units	Weighted Average Grant Date Fair Value Per Share
Nonvested Stock Units		
Nonvested at December 31, 2012	1,006,411	\$16.78
Granted	93,580	19.29
Delivered	(361,157)	15.04
Forfeited	(2,425)	17.85
Nonvested at December 31, 2013	736,409	\$17.63

As of December 31, 2013, the total unrecognized compensation cost related to outstanding nonvested restricted stock units was \$4 million, which the Company expects to recognize over the weighted average remaining service period of 1.5 years. The total fair value of restricted stock units delivered during the years ended December 31, 2013, 2012 and 2011 was \$5 million, \$6 million and \$5 million, respectively.

Performance Restricted Stock Units

Beginning in 2012, the Company has granted performance restricted stock units under the Incentive Plan. These awards vest 35%, 100%, or 200%, if the price of AGL's common shares using the highest 40-day average share price during the relevant performance period reaches certain hurdles. If the share price is between the specified levels, the vesting level will be interpolated accordingly.

Performance Restricted Stock Unit Activity

	Number of Performance Share Units	Weighted Average Grant Date Fair Value Per Share
Performance Restricted Stock Units		
Nonvested at December 31, 2012	178,970	\$27.35
Granted	44,440	29.54
Delivered	—	—
Forfeited	—	—
Nonvested at December 31, 2013	223,410	\$27.79

As of December 31, 2013, the total unrecognized compensation cost related to outstanding nonvested performance share units was \$3 million, which the Company expects to recognize over the weighted average remaining service period of 1.4 years.

Employee Stock Purchase Plan

The Company established the AGL Employee Stock Purchase Plan ("Stock Purchase Plan") in accordance with Internal Revenue Code Section 423, and participation is available to all eligible employees. Maximum annual purchases by participants are limited to the number of whole shares that can be purchased by an amount equal to 10% of the participant's compensation or, if less, shares having a value of \$25,000. Participants may purchase shares

at a purchase price equal to 85% of the lesser of the fair market value of the stock on the first day or the last day of the subscription period. The Company has reserved for issuance and purchases under the Stock Purchase Plan 600,000 Assured Guaranty Ltd. common shares.

The fair value of each award under the Stock Purchase Plan is estimated at the beginning of each offering period using the Black-Scholes option pricing model and the following assumptions: a) the expected dividend yield is based on the current expected annual dividend and share price on the grant date; b) the expected volatility is estimated at the date of grant based on the historical share price volatility, calculated on a daily basis; c) the risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant; and d) the expected life is based on the term of the offering period.

Table of Contents

Stock Purchase Plan

	Year Ended December 31,		
	2013	2012	2011
	(dollars in millions)		
Proceeds from purchase of shares by employees	\$0.9	\$0.6	\$0.7
Number of shares issued by the Company	57,980	54,612	50,523
Recorded in share-based compensation, after the effects of DAC	\$0.3	\$0.2	\$0.2

Share Based Compensation Expense

The following table presents stock based compensation costs by type of award and the effect of deferring such costs as policy acquisition costs, pre-tax. Amortization of previously deferred stock compensation costs is not shown in the table below.

Share Based Compensation Expense Summary

	Year Ended December 31,		
	2013	2012	2011
	(in millions)		
Share Based Employee Cost:			
Recurring amortization	\$7	\$6	\$5
Accelerated amortization for retirement eligible employees	—	1	5
Subtotal	7	7	10
ESPP	—	—	—
Total Share Based Employee Cost	7	7	10
Total Share Based Directors Cost	1	1	1
Total Share Based Cost	8	8	11
Less: Share based compensation capitalized as DAC	—	1	3
Share based compensation expense	\$8	\$7	\$8
Income tax benefit	\$2	\$2	\$2

Defined Contribution Plan

The Company maintains a savings incentive plan, which is qualified under Section 401(a) of the Internal Revenue Code for U.S. employees. The savings incentive plan is available to eligible full-time employees upon hire. Eligible participants could contribute a percentage of their salary subject to a maximum of \$17,500 for 2013. Contributions are matched by the Company at a rate of 100% up to 6% of participant's compensation, subject to IRS limitations. Any amounts over the IRS limits are contributed to and matched by the Company into a nonqualified supplemental executive retirement plan for employees eligible to participate in such nonqualified plan. The Company also makes a core contribution of 6% of the participant's compensation to the qualified plan, subject to IRS limitations, and the nonqualified supplemental executive retirement plan for eligible employees, regardless of whether the employee contributes to the plan(s). Employees become fully vested in Company contributions after one year of service, as defined in the plan. Plan eligibility is immediate upon hire. The Company also maintains similar non-qualified plans for non-U.S. employees.

The Company recognized defined contribution expenses of \$10 million, \$9 million and \$10 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Table of Contents

Cash-Based Compensation

Performance Retention Plan

The Company has established the Assured Guaranty Ltd. Performance Retention Plan (“PRP”) which permits the grant of cash based awards to selected employees. PRP awards may be treated as nonqualified deferred compensation subject to the rules of Internal Revenue Code Section 409A. The PRP is a sub-plan under the Company's Long-Term Incentive Plan (enabling awards under the plan to be performance based compensation exempt from the \$1 million limit on tax deductible compensation).

Generally, each PRP award is divided into three installments, with 25% of the award allocated to a performance period that includes the year of the award and the next year, 25% of the award allocated to a performance period that includes the year of the award and the next two years, and 50% of the award allocated to a performance period that includes the year of the award and the next three years. Each installment of an award vests if the participant remains employed through the end of the performance period for that installment. Awards may vest upon the occurrence of other events as set forth in the plan documents. Payment for each performance period is made at the end of that performance period. One half of each installment is increased or decreased in proportion to the increase or decrease of per share adjusted book value during the performance period, and one half of each installment is increased or decreased in proportion to the operating return on equity during the performance period. Operating return on equity and adjusted book value are defined in each PRP award agreement.

A payment otherwise subject to the \$1 million limit on tax deductible compensation, will not be made unless performance satisfies a minimum threshold.

As described above, the performance measures used to determine the amounts distributable under the PRP are based on the Company's operating return on equity and growth in per share adjusted book value, as defined. Adjustments may be made by the AGL Compensation Committee at any time before distribution, except that, for certain senior executive officers, any adjustment made after the grant of the award may decrease but may not increase the amount of the distribution.

In the event of a corporate transaction involving the Company, including, without limitation, any share dividend, share split, extraordinary cash dividend, recapitalization, reorganization, merger, amalgamation, consolidation, split-up, spin-off, sale of assets or subsidiaries, combination or exchange of shares, the Compensation Committee may adjust the calculation of the Company's adjusted book value and operating return on equity as the Compensation Committee deems necessary or desirable in order to preserve the benefits or potential benefits of PRP awards.

The Company recognized performance retention plan expenses of \$17 million, \$13 million and \$8 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Table of Contents

21. Other Comprehensive Income

The following tables present the changes in the balances of each component of accumulated other comprehensive income 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
Year Ended December 31, 2013

	Net Unrealized Gains (Losses) Investments with no OTTI (in millions)	Net Unrealized Gains (Losses) Investments with OTTI	Cumulative Translation Adjustment	Cash Flow Hedge	Total Accumulated Other Comprehensive Income
Balance, December 31, 2012	\$ 517	\$ (5	) \$ (6	) \$ 9	\$ 515
Other comprehensive income (loss) before reclassified Amounts reclassified from AOCI to:	(309	) (35	) 3	—	(341
Other net realized investment gain (losses)	(43	) 24	—	—	(19
Interest expense	—	—	—	(1	) (1
Total before tax	(43	) 24	—	(1	) (20
Tax (provision) benefit	\$ 13	\$ (8	) \$ —	\$ 1	6
Total amount reclassified from AOCI, net of tax	(30	) 16	—	0	(14
Net current period other comprehensive income (loss)	(339	) (19	) 3	0	(355
Balance, December 31, 2013	\$ 178	\$ (24	) \$ (3	) \$ 9	\$ 160

Year Ended December 31, 2012

	Net Unrealized Gains (Losses) Investments with no OTTI (in millions)	Net Unrealized Gains (Losses) Investments with OTTI	Cumulative Translation Adjustment	Cash Flow Hedge	Total Accumulated Other Comprehensive Income
Balance, December 31, 2011	\$ 365	\$ 2	\$ (8	) \$ 9	\$ 368
Other comprehensive income (loss)	152	(7	) 2	0	147
Balance, December 31, 2012	\$ 517	\$ (5	) \$ (6	) \$ 9	\$ 515

Year Ended December 31, 2011

	Net Unrealized Gains (Losses) Investments with no OTTI (in millions)	Net Unrealized Gains (Losses) Investments with OTTI	Cumulative Translation Adjustment	Cash Flow Hedge	Total Accumulated Other Comprehensive Income
Balance, December 31, 2010	\$ 116	\$ (6) \$ (8) \$ 10	\$ 112

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Other comprehensive income (loss)	249	8	0	(1) 256
Balance, December 31, 2011	\$365	\$ 2	\$(8) \$ 9	\$ 368

260

Table of Contents

22. 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 17, Long-Term Debt and Credit Facilities, for the full description of AGUS and AGMH debt and the related AGL guarantees for such debt) as of December 31, 2013 and December 31, 2012 and for the years ended December 31, 2013, 2012 and 2011. The information for AGUS and AGMH presents its subsidiaries on the equity method of accounting.

261

Table of Contents

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2013
(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
ASSETS						
Total investment portfolio and cash	\$ 33	\$186	\$42	\$11,008	\$ (300)	\$ 10,969
Investment in subsidiaries	5,066	4,191	3,574	289	(13,120)	—
Premiums receivable, net of commissions payable	—	—	—	1,025	(149)	876
Ceded unearned premium reserve	—	—	—	1,598	(1,146)	452
Deferred acquisition costs	—	—	—	198	(74)	124
Reinsurance recoverable on unpaid losses	—	—	—	170	(134)	36
Credit derivative assets	—	—	—	482	(388)	94
Deferred tax asset, net	—	97	—	681	(90)	688
Intercompany receivable	—	—	—	90	(90)	—
Financial guaranty variable interest entities' assets, at fair value	—	—	—	2,565	—	2,565
Other	23	17	31	638	(226)	483
TOTAL ASSETS	\$ 5,122	\$4,491	\$3,647	\$18,744	\$ (15,717)	\$ 16,287
LIABILITIES AND SHAREHOLDERS' EQUITY						
Unearned premium reserves	\$ —	\$ —	\$ —	\$5,720	\$ (1,125)	\$ 4,595
Loss and LAE reserve	—	—	—	733	(141)	592
Long-term debt	—	348	430	38	—	816
Intercompany payable	—	90	—	300	(390)	—
Credit derivative liabilities	—	—	—	2,175	(388)	1,787
Deferred tax liabilities, net	—	—	95	—	(95)	—
Financial guaranty variable interest entities' liabilities, at fair value	—	—	—	2,871	—	2,871
Other	7	7	16	853	(372)	511
TOTAL LIABILITIES	7	445	541	12,690	(2,511)	11,172
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO ASSURED GUARANTY LTD.	5,115	4,046	3,106	5,765	(12,917)	5,115
Noncontrolling interest	—	—	—	289	(289)	—
TOTAL SHAREHOLDERS' EQUITY	5,115	4,046	3,106	6,054	(13,206)	5,115
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 5,122	\$4,491	\$3,647	\$18,744	\$ (15,717)	\$ 16,287

Table of Contents

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2012

(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
ASSETS						
Total investment portfolio and cash	\$ 245	\$ 15	\$ 30	\$ 11,233	\$ (300)	\$ 11,223
Investment in subsidiaries	4,734	3,958	3,225	3,524	(15,441)	—
Premiums receivable, net of commissions payable	—	—	—	1,147	(142)	1,005
Ceded unearned premium reserve	—	—	—	1,550	(989)	561
Deferred acquisition costs	—	—	—	190	(74)	116
Reinsurance recoverable on unpaid losses	—	—	—	223	(165)	58
Credit derivative assets	—	—	—	553	(412)	141
Deferred tax asset, net	—	48	(94)	789	(22)	721
Intercompany receivable	—	—	—	173	(173)	—
Financial guaranty variable interest entities' assets, at fair value	—	—	—	2,688	—	2,688
Other	23	29	26	816	(165)	729
TOTAL ASSETS	\$ 5,002	\$ 4,050	\$ 3,187	\$ 22,886	\$ (17,883)	\$ 17,242
LIABILITIES AND SHAREHOLDERS' EQUITY						
Unearned premium reserves	\$ —	\$ —	\$ —	\$ 6,168	\$ (961)	\$ 5,207
Loss and LAE reserve	—	—	—	778	(177)	601
Long-term debt	—	347	423	66	—	836
Intercompany payable	—	173	—	300	(473)	—
Credit derivative liabilities	—	0	—	2,346	(412)	1,934
Financial guaranty variable interest entities' liabilities, at fair value	—	—	—	3,141	—	3,141
Other	8	6	15	803	(303)	529
TOTAL LIABILITIES	8	526	438	13,602	(2,326)	12,248
TOTAL SHAREHOLDERS' EQUITY	4,994	3,524	2,749	9,284	(15,557)	4,994
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 5,002	\$ 4,050	\$ 3,187	\$ 22,886	\$ (17,883)	\$ 17,242

Table of Contents

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013
(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)	
REVENUES							
Net earned premiums	\$ —	\$ —	\$ —	\$ 740	\$ 12	\$ 752	
Net investment income	0	0	1	408	(16	) 393
Net realized investment gains (losses)	0	0	0	87	(35	) 52
Net change in fair value of credit derivatives:							
Realized gains (losses) and other settlements	—	—	—	(42) —	(42)
Net unrealized gains (losses)	—	—	—	107	—	107	
Net change in fair value of credit derivatives	—	—	—	65	—	65	
Other	—	—	—	348	(2	) 346
TOTAL REVENUES	0	0	1	1,648	(41	) 1,608
EXPENSES							
Loss and LAE	—	—	—	144	10	154	
Amortization of deferred acquisition costs	—	—	—	12	0	12	
Interest expense	—	28	54	20	(20	) 82
Other operating expenses	22	1	1	199	(5	) 218
TOTAL EXPENSES	22	29	55	375	(15	) 466
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET EARNINGS OF SUBSIDIARIES	(22	) (29	) (54	) 1,273	(26	) 1,142
Total (provision) benefit for income taxes	—	9	17	(387) 27	(334)
Equity in earnings of subsidiaries	\$ 830	\$ 768	\$ 701	\$ 19	\$ (2,318) —	
NET INCOME (LOSS)	808	748	664	905	(2,317	) 808
Less: noncontrolling interest	—	—	—	19	(19) —	
NET INCOME (LOSS) ATTRIBUTABLE TO ASSURED GUARANTY LTD.	\$ 808	\$ 748	\$ 664	\$ 886	\$ (2,298	) \$ 808
COMPREHENSIVE INCOME (LOSS)	\$ 453	\$ 522	\$ 515	\$ 309	\$ (1,346	) \$ 453

Table of Contents

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012
(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)
REVENUES						
Net earned premiums	\$ —	\$ —	\$ —	\$ 833	\$ 20	\$ 853
Net investment income	0	—	1	422	(19)	) 404
Net realized investment gains (losses)	—	—	—	1	—	1
Net change in fair value of credit derivatives:						
Realized gains (losses) and other settlements	—	—	—	(108)	) —	(108)
Net unrealized gains (losses)	—	—	—	(477)	) —	(477)
Net change in fair value of credit derivatives	—	—	—	(585)	) —	(585)
Other	—	—	—	284	(3)	) 281
TOTAL REVENUES	0	—	1	955	(2)	) 954
EXPENSES						
Loss and LAE	—	—	—	509	(5)	) 504
Amortization of deferred acquisition costs	—	—	—	28	(14)	) 14
Interest expense	—	35	54	22	(19)	) 92
Other operating expenses	21	2	1	194	(6)	) 212
TOTAL EXPENSES	21	37	55	753	(44)	) 822
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET EARNINGS OF SUBSIDIARIES	(21)	) (37)	) (54)	) 202	42	132
Total (provision) benefit for income taxes	—	13	19	(38)	) (16)	) (22)
Equity in earnings of subsidiaries	131	177	424	153	(885)) —
NET INCOME (LOSS)	\$ 110	\$ 153	\$ 389	\$ 317	\$ (859)	) \$ 110
COMPREHENSIVE INCOME (LOSS)	\$ 257	\$ 266	\$ 465	\$ 577	\$ (1,308)	) \$ 257

Table of Contents

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011
(in millions)

	Assured Guaranty Ltd. (Parent)	AGUS (Issuer)	AGMH (Issuer)	Other Entities	Consolidating Adjustments	Assured Guaranty Ltd. (Consolidated)	
REVENUES							
Net earned premiums	\$ —	\$ —	\$ —	\$ 904	\$ 16	\$ 920	
Net investment income	—	—	1	410	(15	) 396
Net realized investment gains (losses)	—	—	—	(18) —	(18)
Net change in fair value of credit derivatives:							
Realized gains (losses) and other settlements	—	—	—	6	—	6	
Net unrealized gains (losses)	—	—	—	554	—	554	
Net change in fair value of credit derivatives	—	—	—	560	—	560	
Other	—	—	—	(48) (5) (53)
TOTAL REVENUES	—	—	1	1,808	(4	) 1,805
EXPENSES							
Loss and LAE	—	—	—	440	8	448	
Amortization of deferred acquisition costs	—	—	—	37	(20	) 17
Interest expense	—	39	54	21	(15	) 99
Other operating expenses	25	1	1	194	(9	) 212
TOTAL EXPENSES	25	40	55	692	(36	) 776
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET EARNINGS OF SUBSIDIARIES	(25	) (40	) (54	) 1,116	32	1,029
Total (provision) benefit for income taxes	—	14	19	(277) (12) (256)
Equity in earnings of subsidiaries	798	640	398	614	(2,450) —	
NET INCOME (LOSS)	\$ 773	\$ 614	\$ 363	\$ 1,453	\$ (2,430	) \$ 773
COMPREHENSIVE INCOME (LOSS)	\$ 1,029	\$ 824	\$ 507	\$ 1,918	\$ (3,249	) \$ 1,029

Table of Contents

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2013
 (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	\$ 128	\$ 178	\$ 133	\$ 347	\$ (542)	\$ 244
Cash flows from investing activities						
Fixed-maturity securities:						
Purchases	—	(93)	(26)	(1,832)	65	(1,886)
Sales	176	1	25	892	(65)	1,029
Maturities	29	3	2	849	—	883
Sales (purchases) of short-term investments, net	7	(28)	(15)	(51)	—	(87)
Net proceeds from financial guaranty variable entities' assets	—	—	—	663	—	663
Intercompany debt	—	—	—	7	(7)	—
Investment in subsidiary	—	0	49	—	(49)	—
Other	—	—	—	79	—	79
Net cash flows provided by (used in) investing activities	212	(117)	35	607	(56)	681
Cash flows from financing activities						
Return of capital	—	—	—	(50)	50	—
Capital contribution from parent	—	—	—	1	(1)	—
Dividends paid	(75)	—	(168)	(374)	542	(75)
Repurchases of common stock	(264)	—	—	—	—	(264)
Share activity under option and incentive plans	(1)	—	—	—	—	(1)
Net paydowns of financial guaranty variable entities' liabilities	—	—	—	(511)	—	(511)
Payment of long-term debt	—	—	—	(27)	—	(27)
Intercompany debt	—	(7)	—	—	7	—
Net cash flows provided by (used in) financing activities	(340)	(7)	(168)	(961)	598	(878)
Effect of exchange rate changes	—	—	—	(1)	—	(1)
Increase (decrease) in cash	0	54	—	(8)	—	46
Cash at beginning of period	—	13	0	125	—	138
Cash at end of period	\$ 0	\$ 67	\$ 0	\$ 117	\$ —	\$ 184

Table of Contents

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2012
 (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	\$ 138	\$6	\$20	\$5	\$ (334)	\$ (165)
Cash flows from investing activities						
Fixed-maturity securities:						
Purchases	(211)	(1)	(13)	(1,424)	—	(1,649)
Sales	—	—	13	899	—	912
Maturities	3	—	6	1,096	—	1,105
Sales (purchases) of short-term investments, net	(7)	27	26	(17)	—	29
Net proceeds from financial guaranty variable entities' assets	—	—	—	545	—	545
Acquisition of MAC	—	(91)	—	—	—	(91)
Intercompany debt	—	—	—	(173)	173	—
Investment in subsidiary	—	—	46	—	(46)	—
Other	—	—	—	92	—	92
Net cash flows provided by (used in) investing activities	(215)	(65)	78	1,018	127	943
Cash flows from financing activities						
Issuance of common stock	173	—	—	—	—	173
Return of capital	—	—	—	(50)	50	—
Capital contribution from parent	—	—	—	4	(4)	—
Dividends paid	(69)	—	(98)	(236)	334	(69)
Repurchases of common stock	(24)	—	—	—	—	(24)
Share activity under option and incentive plans	(3)	—	—	—	—	(3)
Net paydowns of financial guaranty variable entities' liabilities	—	—	—	(724)	—	(724)
Payment of long-term debt	—	(173)	—	(36)	—	(209)
Intercompany debt	—	173	—	—	(173)	—
Net cash flows provided by (used in) financing activities	77	—	(98)	(1,042)	207	(856)
Effect of exchange rate changes	—	—	—	1	—	1
Increase (decrease) in cash	—	(59)	—	(18)	—	(77)
Cash at beginning of period	—	72	0	143	—	215
Cash at end of period	\$ —	\$ 13	\$ —	\$ 125	\$ —	\$ 138

Table of Contents

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2011
 (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	\$ 68	\$84	\$(36	) \$676	\$(116	) \$ 676
Cash flows from investing activities							
Fixed-maturity securities:							
Purchases	—	—	(14) (2,294) —	(2,308)
Sales	—	—	—	1,107	—	1,107	
Maturities	—	—	1	662	—	663	
Sales (purchases) of short-term investments, net	(11	) (25	) (1	) 357	—	320
Net proceeds from financial guaranty variable entities' assets	—	—	—	760	—	760	
Investment in subsidiary	—	—	50	—	(50) —	
Other	—	—	—	19	—	19	
Net cash flows provided by (used in) investing activities	(11	) (25	) 36	611	(50	) 561
Cash flows from financing activities							
Return of capital	—	—	—	(50	) 50	—
Dividends paid	(33) —	—	(116) 116	(33)
Repurchases of common stock	(23) —	—	—	—	(23)
Share activity under option and incentive plans	(1) —	—	—	—	(1)
Net paydowns of financial guaranty variable entities' liabilities	—	—	—	(1,053) —	(1,053)
Payment of long-term debt	—	—	—	(22) —	(22)
Net cash flows provided by (used in) financing activities	(57) —	—	(1,241) 166	(1,132)
Effect of exchange rate changes	—	—	—	2	—	2	
Increase (decrease) in cash	—	59	—	48	—	107	
Cash at beginning of period	—	13	—	95	—	108	
Cash at end of period	\$ —	\$72	\$—	\$143	\$—	\$ 215	

Table of Contents

23. Quarterly Financial Information (Unaudited)

A summary of selected quarterly information follows:

2013	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year	
	(dollars in millions, except per share data)					
Revenues						
Net earned premiums	\$248	\$163	\$159	\$182	\$752	
Net investment income	94	93	99	107	393	
Net realized investment gains (losses)	28	2	(7	) 29	52
Net change in fair value of credit derivatives	(592	) 74	354	229	65
Fair value gains (losses) on CCS	(10	) (3	) 9	14	10
Fair value gains (losses) on FG VIEs	70	143	40	93	346	
Other income (loss)	(14) (7) 16	(5) (10)
Expenses						
Loss and LAE	(48	) 62	55	85	154
Amortization of DAC	3	1	4	4	12	
Interest expense	21	21	21	19	82	
Other operating expenses	60	52	54	52	218	
Income (loss) before provision for income taxes	(212	) 329	536	489	1,142
Provision (benefit) for income taxes	(68	) 110	152	140	334
Net income (loss)	(144	) 219	384	349	808
Earnings (loss) per share(1):						
Basic	\$(0.74	) \$1.17	\$2.10	\$1.91	\$4.32
Diluted	\$(0.74	) \$1.16	\$2.09	\$1.90	\$4.30
Dividends per share	\$0.10	\$0.10	\$0.10	\$0.10	\$0.40	

270

Table of Contents

2012	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
(dollars in millions, except per share data)					
Revenues					
Net earned premiums	\$ 194	\$ 219	\$ 222	\$ 218	\$ 853
Net investment income	98	101	102	103	404
Net realized investment gains (losses)	1	(3	) 2	1	1
Net change in fair value of credit derivatives	(691	) 261	(36	) (119	) (585
Fair value gains (losses) on CCS	(14	) 4	(2	) (6	) (18
Fair value gains (losses) on FG VIEs	(41	) 168	34	30	191
Other income (loss)	91	5	16	(4	) 108
Expenses					
Loss and LAE	242	118	86	58	504
Amortization of DAC	5	5	4	0	14
Interest expense	25	25	21	21	92
Other operating expenses	62	53	48	49	212
Income (loss) before provision for income taxes	(696	) 554	179	95	132
Provision (benefit) for income taxes	(213	) 177	37	21	22
Net income (loss)	(483	) 377	142	74	110
Earnings (loss) per share(1):					
Basic	\$(2.65	) \$2.02	\$0.73	\$0.38	\$0.58
Diluted	\$(2.65	) \$2.01	\$0.73	\$0.38	\$0.57
Dividends per share	\$0.09	\$0.09	\$0.09	\$0.09	\$0.36

(1) Per share amounts for the quarters and the full years have each been calculated separately. Accordingly, quarterly amounts may not sum up to the annual amounts because of differences in the average common shares outstanding during each period and, with regard to diluted per share amounts only, because of the inclusion of the effect of potentially dilutive securities only in the periods in which such effect would have been dilutive.

ITEM CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND
9. FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Assured Guaranty's management, with the participation of Assured Guaranty Ltd.'s President and Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Assured Guaranty Ltd.'s disclosure controls and procedures (as such term is defined in Rules 13a 15(e) and 15d 15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on this evaluation, Assured Guaranty Ltd.'s President and Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, Assured Guaranty Ltd.'s disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by Assured Guaranty Ltd. (including its consolidated subsidiaries) in the reports that it files or submits under the Exchange Act.

There has been no change in the Company's internal controls over financial reporting during the Company's quarter ended December 31, 2013, that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Table of Contents

Management's Report on Internal Control over Financial Reporting

The management of Assured Guaranty Ltd. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed by, or under the supervision of the Company's President and Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management of the Company has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 1992 Internal Control-Integrated Framework. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2013 based on criteria in the 1992 Internal Control- Integrated Framework issued by the COSO.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their "Report of Independent Registered Public Accounting Firm" included in Item 8. Financial Statements and Supplementary Data.

ITEM 9B. OTHER INFORMATION

None.

272

Table of Contents

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information pertaining to this item is incorporated by reference to the sections entitled “Proposal No. 1: Election of Directors”, “Corporate Governance—Did our insiders comply with Section 16(a) beneficial ownership reporting in 2013”, “Corporate Governance—How are directors nominated?” and “Corporate Governance—The committees of the Board—The Audit Committee” of the definitive proxy statement for the Annual General Meeting of Shareholders, which involves the election of directors and will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to regulation 14A.

Information about the executive officers of AGL is set forth at the end of Part I of this Form 10-K and is hereby incorporated by reference.

Code of Conduct

The Company has adopted a Code of Conduct, which sets forth standards by which all employees, officers and directors of the Company must abide as they work for the Company. The Code of Conduct is available at www.assuredguaranty.com/governance. The Company intends to disclose on its internet site any amendments to, or waivers from, its Code of Conduct that are required to be publicly disclosed pursuant to the rules of the SEC or the New York Stock Exchange.

ITEM 11. EXECUTIVE
COMPENSATION

This item is incorporated by reference to the section entitled “Executive Compensation”, “Corporate Governance—Compensation Committee interlocking and insider participation” and “Corporate Governance—How are the directors compensated?” of the definitive proxy statement for the Annual General Meeting of Shareholders, which will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to regulation 14A.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND
RELATED STOCKHOLDER MATTERS

This item is incorporated by reference to the sections entitled "Information about our Common Share Ownership" and "Equity Compensation Plans Information" of the definitive proxy statement for the Annual General Meeting of Shareholders, which will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to regulation 14A.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

This item is incorporated by reference to the sections entitled “Corporate Governance—What is our related person transactions approval policy and what procedures do we use to implement it?”, “Corporate Governance—What related person transactions do we have?” and “Corporate Governance—Director independence” of the definitive proxy statement for the Annual General Meeting of Shareholders, which will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to regulation 14A.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

This item is incorporated by reference to the section entitled “Proposal No. 4: Ratification of Appointment of Independent Auditors—Independent Auditor Fee Information” and “Proposal No. 4: Ratification of Appointment of Independent Auditors—Pre-Approval Policy of Audit and Non-Audit Services” of the definitive proxy statement for the Annual General Meeting of Shareholders, which will be filed with the SEC not later than 120 days after the close of the fiscal year pursuant to regulation 14A.

Table of Contents

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements, Financial Statement Schedules and Exhibits

1. Financial Statements

The following financial statements of Assured Guaranty Ltd. have been included in Item 8 hereof:

<u>Report of Independent Registered Public Accounting Firm</u>	<u>136</u>
<u>Consolidated Balance Sheets as of December 31, 2013 and 2012</u>	<u>137</u>
<u>Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011</u>	<u>138</u>
<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2012 and 2011</u>	<u>139</u>
<u>Consolidated Statements of Shareholders' Equity for the years ended December 31, 2013, 2012 and 2011</u>	<u>140</u>
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011</u>	<u>141</u>
<u>Notes to Consolidated Financial Statements</u>	<u>142</u>

2. Financial Statement Schedules

The financial statement schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits*

Exhibit Number	Description of Document
3.1	Certificate of Incorporation and Memorandum of Association of the Registrant, as amended by Certificate of Incorporation on Change of Name dated March 30, 2004 and Certificate of Deposit of Memorandum of Increase of Capital dated April 21, 2004 (Incorporated by reference to Exhibit 3.1 to Form 10-K for the year ended December 31, 2009)
3.2	First Amended and Restated Bye-laws of the Registrant, as amended (Incorporated by reference to Exhibit 3.1 to Form 8-K filed on May 10, 2011)
4.1	Specimen Common Share Certificate (Incorporated by reference to Exhibit 4.1 to Form S-1 (#333-111491))
4.2	Certificate of Incorporation and Memorandum of Association of the Registrant, as amended by Certificate of Incorporation on Change of Name dated March 30, 2004 and Certificate of Deposit of Memorandum of Increase of Capital dated April 21, 2004 (See Exhibit 3.1)
4.3	Bye-laws of the Registrant (See Exhibit 3.2)
4.4	Indenture, dated as of May 1, 2004, among the Company, Assured Guaranty U.S. Holdings Inc. and The Bank of New York, as trustee (Incorporated by reference to Exhibit 4.1 to Form 10-Q for the quarter ended March 31, 2004)
4.5	Indenture, dated as of December 1, 2006, entered into among Assured Guaranty Ltd., Assured Guaranty U.S. Holdings Inc. and The Bank of New York, as trustee (Incorporated by reference to Exhibit 4.1 to Form 8-K filed on December 20, 2006)
4.6	First Supplemental Subordinated Indenture, dated as of December 20, 2006, entered into among Assured Guaranty Ltd., Assured Guaranty U.S. Holdings Inc. and The Bank of New York, as trustee (Incorporated by reference to Exhibit 4.2 to Form 8-K filed on December 20, 2006)
4.7	Replacement Capital Covenant, dated as of December 20, 2006, between Assured Guaranty U.S. Holdings Inc. and Assured Guaranty Ltd., in favor of and for the benefit of each Covered Debtholder (as defined therein) (Incorporated by reference to Exhibit 4.1 to Form 8-K filed on December 20, 2006)
4.8	Amended and Restated Trust Indenture dated as of February 24, 1999 between Financial Security Assurance Holdings Ltd. and the Senior Debt Trustee (Incorporated by reference to Exhibit 4.1 to Financial Security Assurance Holdings Ltd.'s Registration Statement to Form S-3 (#333-74165))

Table of Contents

Exhibit Number	Description of Document
4.9	Form of Assured Guaranty Municipal Holdings Inc., formerly known as Financial Security Assurance Holdings Ltd. 6 ⁷ / ₈ % Quarterly Interest Bond Securities due 2101 (Incorporated by reference to Exhibit 4.1 to Form 10-Q for the quarter ended March 31, 2010)
4.10	Form of Assured Guaranty Municipal Holdings Inc., formerly known as Financial Security Assurance Holdings Ltd. 6.25% Notes due November 1, 2102 (Incorporated by reference to Exhibit 4.2 to Form 10-Q for the quarter ended March 31, 2010)
4.11	Form of Assured Guaranty Municipal Holdings Inc., formerly known as Financial Security Assurance Holdings Ltd. 5.60% Notes due July 15, 2103 (Incorporated by reference to Exhibit 4.3 to Form 10-Q for the quarter ended March 31, 2010)
4.12	Supplemental indenture, dated as of August 26, 2009, between Assured Guaranty Ltd., Financial Security Assurance Holdings Ltd. and U.S. Bank National Association, as trustee (Incorporated by reference to Exhibit 99.1 to Form 8-K filed on September 1, 2009)
4.13	Indenture, dated as of November 22, 2006, between Financial Security Assurance Holdings Ltd. and The Bank of New York, as Trustee (Incorporated by reference to Exhibit 4.1 to Financial Security Assurance Holdings Ltd.'s Form 8-K filed on November 28, 2006)
4.14	Form of Financial Security Assurance Holdings Ltd. Junior Subordinated Debenture, Series 2006-1 (Incorporated by reference to Exhibit 10.3 to Financial Security Assurance Holdings Ltd.'s Form 8-K filed on November 25, 2002)
4.15	Supplemental indenture, dated as of August 26, 2009, between Assured Guaranty Ltd., Financial Security Assurance Holdings Ltd. and The Bank of New York Mellon, as trustee (Incorporated by reference to Exhibit 99.2 to Form 8-K filed on September 1, 2009)
4.16	First Supplemental Indenture, to be dated as of June 24, 2009, between Assured Guaranty US Holdings Inc., Assured Guaranty Ltd. and The Bank of New York Mellon, as trustee (including the form of 8.50% Senior Note due 2014 of Assured Guaranty US Holdings Inc.) (Incorporated by reference to Exhibit 4.1 to Form 8-K filed on June 23, 2009)
10.1	Guaranty by Assured Guaranty Re International Ltd. in favor of Assured Guaranty Re Overseas Ltd. (Incorporated by reference to Exhibit 10.31 to Form S-1 (#333-111491))
10.2	Put Agreement between Assured Guaranty Corp. and Woodbourne Capital Trust [I][II][III][IV] (Incorporated by reference to Exhibit 10.6 to Form 10-Q for the quarter ended March 31, 2005)
10.3	Custodial Trust Expense Reimbursement Agreement (Incorporated by reference to Exhibit 10.7 to Form 10-Q for the quarter ended March 31, 2005)
10.4	Assured Guaranty Corp. Articles Supplementary Classifying and Designating Series of Preferred Stock as Series A Perpetual Preferred Stock, Series B Perpetual Preferred Stock, Series C Perpetual Preferred Stock, Series D Perpetual Preferred Stock (Incorporated by reference to Exhibit 10.8 to Form 10-Q for the quarter ended March 31, 2005)
10.5	Investment Agreement dated as of February 28, 2008 between Assured Guaranty Ltd. and WLR Recovery Fund IV, L.P. (Incorporated by reference to Exhibit 10.68 to Form 10-K for the year ended December 31, 2007)
10.6	Approval dated September 16, 2008 pursuant to Investment Agreement dated as of February 28, 2008 with WLR Recovery Fund IV, L.P. Pursuant to the Investment Agreement, WLR Recovery Fund IV, L.P. and other funds affiliated with WL Ross & Co. LLC (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on September 19, 2008)
10.7	Share Purchase Agreement, dated May 31, 2013, among Assured Guaranty Ltd., WLR Recovery Fund IV, L.P., WLR Recovery Funds III, L.P., WLR AGO Co-Invest, L.P., WLR/GS Master Co-Investments, L.P., WLR IV Parallel ESC, L.P and Wilbur L. Ross, Jr. (Incorporated by reference to Exhibit 10.1 to Form 8-K

filed on June 3, 2013)

- 10.8 Purchase Agreement among Dexia Holdings Inc., Dexia Credit Local S.A. and the Company dated as of November 14, 2008 (Incorporated by reference to Exhibit 99.1 to Form 8-K filed on November 17, 2008)
- 10.9 Amendment to Investment Agreement dated as of November 13, 2008 between the Company and WLR Recovery Fund IV, L.P. (Incorporated by reference to Exhibit 99.2 to Form 8-K filed on November 17, 2008)
- 10.10 Amended and Restated Revolving Credit Agreement dated as of June 30, 2009 among FSA Asset Management LLC, Dexia Crédit Local S.A. and Dexia Bank Belgium S.A. (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on July 8, 2009)
- 10.11 First Amendment to Amended and Restated Revolving Credit Agreement dated as of September 20, 2010 among FSA Asset Management LLC, Dexia Crédit Local S.A. and Dexia Bank Belgium S.A.

275

Table of Contents

Exhibit Number	Description of Document
10.12	Second Amendment to Amended and Restated Revolving Credit Agreement dated as of May 16, 2012 among FSA Asset Management LLC, Dexia Crédit Local S.A. and Dexia Bank Belgium S.A.
10.13	Assignment Pursuant to the Amended and Restated Revolving Credit Agreement, as amended, dated as of December 12, 2013 between Belfius Bank SA/NV and Dexia Crédit Local S.A.
10.14	Master Repurchase Agreement (September 1996 Version) dated as of June 30, 2009 between Dexia Crédit Local S.A. and FSA Asset Management LLC (Incorporated by reference to Exhibit 10.2.1 to Form 8-K filed on July 8, 2009)
10.15	Annex I-Committed Term Repurchase Agreement Annex dated as of June 30, 2009 between Dexia Crédit Local S.A. and FSA Asset Management LLC (Incorporated by reference to Exhibit 10.2.2 to Form 8-K filed on July 8, 2009)
10.16	ISDA Master Agreement (Multicurrency-Cross Border) dated as of June 30, 2009 among Dexia SA, Dexia Crédit Local S.A. and FSA Asset Management LLC (Incorporated by reference to Exhibit 10.3.1 to Form 8-K filed on July 8, 2009)
10.17	Schedule to the 1992 Master Agreement, Guaranteed Put Contract, dated as of June 30, 2009 among Dexia Crédit Local S.A., Dexia SA and FSA Asset Management LLC (Incorporated by reference to Exhibit 10.3.2 to Form 8-K filed on July 8, 2009)
10.18	Put Option Confirmation, Guaranteed Put Contract, dated June 30, 2009 to FSA Asset Management LLC from Dexia SA and Dexia Crédit Local S.A. (Incorporated by reference to Exhibit 10.3.3 to Form 8-K filed on July 8, 2009)
10.19	ISDA Credit Support Annex (New York Law) to the Schedule to the ISDA Master Agreement, Guaranteed Put Contract, dated as of June 30, 2009 between Dexia Crédit Local S.A. and Dexia SA and FSA Asset Management LLC (Incorporated by reference to Exhibit 10.3.4 to Form 8-K filed on July 8, 2009)
10.20	ISDA Master Agreement (Multicurrency-Cross Border) dated as of June 30, 2009 among Dexia SA, Dexia Crédit Local S.A. and FSA Asset Management LLC (Incorporated by reference to Exhibit 10.4.1 to Form 8-K filed on July 8, 2009)
10.21	Schedule to the 1992 Master Agreement, Non-Guaranteed Put Contract, dated as of June 30, 2009 among Dexia Crédit Local S.A., Dexia SA and FSA Asset Management LLC (Incorporated by reference to Exhibit 10.4.2 to Form 8-K filed on July 8, 2009)
10.22	Put Option Confirmation, Non-Guaranteed Put Contract, dated June 30, 2009 to FSA Asset Management LLC from Dexia SA and Dexia Crédit Local S.A. (Incorporated by reference to Exhibit 10.4.3 to Form 8-K filed on July 8, 2009)
10.23	ISDA Credit Support Annex (New York Law) to the Schedule to the ISDA Master Agreement, Non-Guaranteed Put Contract, dated as of June 30, 2009 between Dexia Crédit Local S.A. and Dexia SA and FSA Asset Management LLC (Incorporated by reference to Exhibit 10.4.4 to Form 8-K filed on July 8, 2009)
10.24	First Demand Guarantee Relating to the “Financial Products” Portfolio of FSA Asset Management LLC issued by the Belgian State and the French State and executed as of June 30, 2009 (Incorporated by reference to Exhibit 10.5 to Form 8-K filed on July 8, 2009)
10.25	Guaranty, dated as of June 30, 2009, made jointly and severally by Dexia SA and Dexia Crédit Local S.A., in favor of Financial Security Assurance Inc. (Incorporated by reference to Exhibit 10.6 to Form 8-K filed on July 8, 2009)
10.26	Indemnification Agreement (GIC Business) dated as of June 30, 2009 by and among Financial Security Assurance Inc., Dexia Crédit Local S.A. and Dexia SA (Incorporated by reference to Exhibit 10.7 to Form 8-K filed on July 8, 2009)
10.27	

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Pledge and Administration Agreement, dated as of June 30, 2009, among Dexia SA, Dexia Crédit Local S.A., Dexia Bank Belgium SA, Dexia FP Holdings Inc., Financial Security Assurance Inc., FSA Asset Management LLC, FSA Portfolio Asset Limited, FSA Capital Markets Services LLC, FSA Capital Markets Services (Caymans) Ltd., FSA Capital Management Services LLC and The Bank of New York Mellon Trust Company, National Association (Incorporated by reference to Exhibit 10.8 to Form 8-K filed on July 8, 2009)

- 10.28 Separation Agreement, dated as of July 1, 2009, among Dexia Crédit Local S.A., Financial Security Assurance Inc., Financial Security Assurance International, Ltd., FSA Global Funding Limited and Premier International Funding Co. (Incorporated by reference to Exhibit 10.9 to Form 8-K filed on July 8, 2009)
- 10.29 Funding Guaranty, dated as of July 1, 2009, made by Dexia Crédit Local S.A. in favor of Financial Security Assurance Inc. and Financial Security Assurance International, Ltd. (Incorporated by reference to Exhibit 10.10 to Form 8-K filed on July 8, 2009)

276

Table of Contents

Exhibit Number	Description of Document
10.30	Reimbursement Guaranty, dated as of July 1, 2009, made by Dexia Crédit Local S.A. in favor of Financial Security Assurance Inc. and Financial Security Assurance International, Ltd. (Incorporated by reference to Exhibit 10.11 to Form 8-K filed on July 8, 2009)
10.31	Amended and Restated Strip Coverage Liquidity and Security Agreement, dated as of July 1, 2009, between Assured Guaranty Municipal Corp. and Dexia Crédit Local S.A.
10.32	Indemnification Agreement (FSA Global Business), dated as of July 1, 2009, by and between Financial Security Assurance Inc., Assured Guaranty Ltd. and Dexia Crédit Local S.A. (Incorporated by reference to Exhibit 10.13 to Form 8-K filed on July 8, 2009)
10.33	Pledge and Administration Annex Amendment Agreement dated as of July 1, 2009 among Dexia SA, Dexia Crédit Local S.A., Dexia Bank Belgium SA, Dexia FP Holdings Inc., Financial Security Assurance Inc., FSA Asset Management LLC, FSA Portfolio Asset Limited, FSA Capital Markets Services LLC, FSA Capital Markets Services (Caymans) Ltd., FSA Capital Management Services LLC and The Bank of New York Mellon Trust Company, National Association (Incorporated by reference to Exhibit 10.14 to Form 8-K filed on July 8, 2009)
10.34	Put Confirmation Annex Amendment Agreement dated as of July 1, 2009 among Dexia SA and Dexia Crédit Local S.A. and FSA Asset Management LLC and Financial Security Assurance Inc. (Incorporated by reference to Exhibit 10.15 to Form 8-K filed on July 8, 2009)
10.35	Master Repurchase Agreement between FSA Capital Management Services LLC and FSA Capital Markets Services LLC (Incorporated by reference to Exhibit 10.20 to Form 10-Q for the quarter ended June 30, 2009)
10.36	Confirmation to Master Repurchase Agreement (Incorporated by reference to Exhibit 10.21 to Form 10-Q for the quarter ended June 30, 2009)
10.37	Master Repurchase Agreement Annex I (Incorporated by reference to Exhibit 10.22 to Form 10-Q for the quarter ended June 30, 2009)
10.38	Pledge and Intercreditor Agreement, among Dexia Crédit Local, Dexia Bank Belgium S.A., Financial Security Assurance Inc. and FSA Asset Management LLC, dated November 13, 2008 (Incorporated by reference to Exhibit 10.3 to Financial Security Assurance Holdings Ltd.'s Form 10-Q for the quarter ended September 30, 2008)
10.39	Amended and Restated Pledge and Intercreditor Agreement, dated as of February 20, 2009, between Dexia Crédit Local, Dexia Bank Belgium S.A., Financial Security Assurance Inc., FSA Asset Management LLC, FSA Capital Markets Services LLC and FSA Capital Management Services LLC (Incorporated by reference to Exhibit 10.19 to Financial Security Assurance Holdings Ltd.'s Form 10-K for the year ended December 31, 2008)
10.40	Put Option Agreement, dated as of June 23, 2003 by and between FSA and Sutton Capital Trust I (Incorporated by reference to Exhibit 99.5 to Financial Security Assurance Holdings Ltd.'s Form 10-Q for the quarter ended June 30, 2003)
10.41	Put Option Agreement, dated as of June 23, 2003 by and between FSA and Sutton Capital Trust II (Incorporated by reference to Exhibit 99.6 to Financial Security Assurance Holdings Ltd.'s Form 10-Q for the quarter ended June 30, 2003)
10.42	Put Option Agreement, dated as of June 23, 2003 by and between FSA and Sutton Capital Trust III (Incorporated by reference to Exhibit 99.7 to Financial Security Assurance Holdings Ltd.'s Form 10-Q for the quarter ended June 30, 2003)
10.43	Put Option Agreement, dated as of June 23, 2003 by and between FSA and Sutton Capital Trust IV (Incorporated by reference to Exhibit 99.8 to Financial Security Assurance Holdings Ltd.'s Form 10-Q for the quarter ended June 30, 2003)

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- 10.44 Contribution Agreement, dated as of November 22, 2006, between Dexia S.A. and Financial Security Assurance Holdings Ltd. (Incorporated by reference to Exhibit 10.4 to Financial Security Assurance Holdings Ltd.'s Form 8-K filed on November 28, 2006)
- 10.45 Replacement Capital Covenant, dated as of November 22, 2006, by Financial Security Assurance Holdings Ltd. (Incorporated by reference to Exhibit 10.5 to Financial Security Assurance Holdings Ltd.'s Form 8-K filed on November 28, 2006)
- 10.46 Agreement and Amendment between Dexia Holdings Inc., Dexia Credit Local S.A. and the Company dated as of June 9, 2009 (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on June 12, 2009)
- 10.47 Second Amendment to Investment Agreement dated as June 10, 2009 between the Company and WLR Recovery Fund IV, L.P. (Incorporated by reference to Exhibit 10.2 to Form 8-K filed on June 12, 2009)

277

Table of Contents

Exhibit Number	Description of Document
10.48	Summary of Annual Compensation*
10.49	Director Compensation Summary (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended September 30, 2013)*
10.50	Assured Guaranty Ltd. 2004 Long-Term Incentive Plan, as amended and restated as of May 7, 2009 and as amended by the First Amendment (Incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended September 30, 2012)*
10.51	Non-Qualified Stock Option Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan to be used with employment agreement (Incorporated by reference to Exhibit 10.34 to Form 10-K for the year ended December 31, 2005)*
10.52	Non-Qualified Stock Option Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.35 to Form 10-K for the year ended December 31, 2005)*
10.53	Non-Qualified Stock Option Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan to be used with employment agreement (Incorporated by reference to Exhibit 10.66 to Form 10-K for the year ended December 31, 2007)*
10.54	Non-Qualified Stock Option Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.67 to Form 10-K for the year ended December 31, 2007)*
10.55	Non-Qualified Stock Option Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan to be used with employment agreement (Incorporated by reference to Exhibit 10.71 to Form 10-K for the year ended December 31, 2008)*
10.56	Non-Qualified Stock Option Agreement for Outside Directors under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.19 to Form 10-Q for the quarter ended June 30, 2009)*
10.57	2010 Form of Non-Qualified Stock Option Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan to be used with employment agreement (Incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended March 31, 2010)*
10.58	2010 Form of Non-Qualified Stock Option Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan for use without employment agreement (Incorporated by reference to Exhibit 10.4 to Form 10-Q for the quarter ended March 31, 2010)*
10.59	2012 Form of Executive Non-Qualified Stock Option Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.7 to Form 10-Q for the quarter ended March 31, 2012)*
10.60	2013 Form of Executive Non-Qualified Stock Option Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended March 31, 2013)*
10.61	Restricted Stock Unit Agreement for Outside Directors under Assured Guaranty Ltd. 2004 Long Term Incentive Plan (Incorporated by reference to Exhibit 10.37 to Form 10-K for the year ended December 31, 2005)*
10.62	Restricted Stock Unit Agreement for Outside Directors under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended June 30, 2007)*
10.63	Restricted Stock Unit Agreement for Outside Directors under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended June 30, 2008)*
10.64	Form of amendment to Restricted Stock Unit Awards for Outside Directors (Incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended June 30, 2008)*

- 10.65 Restricted Stock Agreement for Outside Directors under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended June 30, 2008)*
- 10.66 2010 Form of Restricted Stock Unit Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan to be used with employment agreement (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended March 31, 2010)*
- 10.67 2010 Form of Restricted Stock Unit Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan to be used without employment agreement (Incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended March 31, 2010)*
- 10.68 Form of Restricted Stock Unit Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan to be used with employment agreement (Incorporated by reference to Exhibit 10.6 to Form 10-Q for the quarter ended March 31, 2011)*
- 10.69 Form of Restricted Stock Unit Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan to be used without employment agreement (Incorporated by reference to Exhibit 10.7 to the Form 10-Q for the quarter ended March 31, 2011)*

Table of Contents

Exhibit Number	Description of Document
10.70	2012 Form of Executive Restricted Stock Unit Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.8 to Form 10-Q for the quarter ended March 31, 2012)*
10.71	2013 Form of Executive Restricted Stock Unit Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended March 31, 2013)*
10.72	2012 Form of Executive Performance-Based Restricted Stock Unit Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.9 to Form 10-Q for the quarter ended March 31, 2012)*
10.73	2013 Form of Executive Performance-Based Restricted Stock Unit Agreement under Assured Guaranty Ltd. 2004 Long-Term Incentive Plan (Incorporated by reference to Exhibit 10.3 to Form 10-Q for the quarter ended March 31, 2013)*
10.74	First Amendment to the Restricted Stock Unit Agreement for Outside Directors (Incorporated by reference to Exhibit 10.106 to Form 10-K for the year ended December 31, 2012)*
10.75	Assured Guaranty Ltd. Employee Stock Purchase Plan, as amended through the second amendment (Incorporated by reference to Exhibit 10.5 to Form 10-Q for the quarter ended March 31, 2013)*
10.76	Assured Guaranty Ltd. Performance Retention Plan (As Amended and Restated as of February 14, 2008 for Awards Granted during 2007) (Incorporated by reference to Exhibit 10.50 to Form 10-K for the year ended December 31, 2007)*
10.77	Assured Guaranty Ltd. Performance Retention Plan (As Amended and Restated as of February 14, 2008) (Incorporated by reference to Exhibit 10.58 to Form 10-K for the year ended December 31, 2007)*
10.78	Terms of Performance Retention Award, Four Year Installment Vesting Granted on February 25, 2010 for participants subject to \$1 million limit (Incorporated by reference to Exhibit 10.5 to Form 10-Q for the quarter ended March 31, 2010)*
10.79	Terms of Performance Retention Award, Four Year Installment Vesting Granted on February 9, 2011 for participants subject to \$1 million limit (Incorporated by reference to Exhibit 10.5 to Form 10-Q for the quarter ended March 31, 2011)*
10.80	Terms of Performance Retention Award Four Year Installment Vesting Granted on February 9, 2012 for participants Subject to \$1 million Limit (Incorporated by reference to Exhibit 10.10 to Form 10-Q for the quarter ended March 31, 2012)*
10.81	Terms of Performance Retention Award Four Year Installment Vesting Granted on February 7, 2013 for Participants Subject to \$1 million Limit (Incorporated by reference to Exhibit 10.4 to Form 10-Q for the quarter ended March 31, 2013)*
10.82	Assured Guaranty Ltd. Executive Severance Plan (Incorporated by reference to Exhibit 10.5 to Form 10-Q for the quarter ended March 31, 2012)*
10.83	Form of Acknowledgement Letter for Participants in Assured Guaranty Ltd. Executive Severance Plan (Incorporated by reference to Exhibit 10.11 to Form 10-Q for the quarter ended March 31, 2012)*
10.84	Assured Guaranty Ltd. Perquisite Policy (Incorporated by reference to Exhibit 10.6 to Form 10-Q for the quarter ended March 31, 2012)*
10.85	Form of Indemnification Agreement between the Company and its executive officers and directors (Incorporated by reference to Exhibit 10.42 to Form 10-K for the year ended December 31, 2005)*
10.86	Assured Guaranty Ltd. Executive Officer Recoupment Policy (Incorporated by reference to Exhibit 10.69 to Form 10-K for the year ended December 31, 2008)*
10.87	Form of Acknowledgement of Assured Guaranty Ltd. Executive Officer Recoupment Policy (Incorporated by reference to Exhibit 10.70 to Form 10-K for the year ended December 31, 2008)*

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- 10.88 Assured Guaranty Ltd. Supplemental Employee Retirement Plan, as amended and restated effective January 1, 2009 and as amended by the First, Second, Third, Fourth and Fifth Amendments (Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended September 30, 2012)*
- 10.89 Assured Guaranty Corp. Supplemental Executive Retirement Plan as amended through the Third Amendment thereto (Incorporated by reference to Exhibit 4.5 to Form S-8 (#333-178625))*
- 10.90 Financial Security Assurance Holdings Ltd. 1989 Supplemental Executive Retirement Plan (amended and restated as of December 17, 2004) (Incorporated by reference to Exhibit 10.4 to Financial Security Assurance Holdings Ltd.'s Form 8-K filed on December 17, 2004)*

279

Table of Contents

Exhibit Number	Description of Document
10.91	Amendment to the Financial Security Assurance Holdings Ltd. 1989 Supplemental Employee Retirement Plan (Incorporated by reference to Exhibit 10.29 to Form 10-Q for the quarter ended June 30, 2009)*
10.92	Financial Security Assurance Holdings Ltd. 2004 Supplemental Executive Retirement Plan, as amended on February 14, 2008 (Incorporated by reference to Exhibit 10.3 to Financial Security Assurance Holdings Ltd.'s Form 8-K filed on February 15, 2008)*
12.1	Computation of Ratio of Earnings to Fixed Charges
21.1	Subsidiaries of the registrant
23.1	Accountants Consent
31.1	Certification of CEO Pursuant to Exchange Act Rules 13A-14 and 15D-14, as Adopted Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	Certification of CFO Pursuant to Exchange Act Rules 13A-14 and 15D-14, as Adopted Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32.1	Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002
32.2	Certification of CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002
101.1	The following financial information from Registrant's Annual Report on Form 10-K for the year ended December 31, 2013 formatted in XBRL (eXtensible Business Reporting Language) interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets at December 31, 2013 and 2012; (ii) Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2012 and 2011; (iv) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2013, 2012 and 2011; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011; and (vi) Notes to Consolidated Financial Statements.

*Management contract or compensatory plan

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Assured Guaranty Ltd.

/s/ Dominic J. Frederico
 By: Name: Dominic J. Frederico
 Title: President and Chief Executive Officer

Date: February 28, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Position	Date
/s/ Robin Monro Davies Robin Monro Davies	Chairman of the Board; Director	February 28, 2014
/s/ Dominic J. Frederico Dominic J. Frederico	President and Chief Executive Officer; Director	February 28, 2014
/s/ Robert A. Bailenson Robert A. Bailenson	Chief Financial Officer (Principal Financial and Accounting Officer and Duly Authorized Officer)	February 28, 2014
/s/ Neil Baron Neil Baron	Director	February 28, 2014
/s/ Francisco L. Borges Francisco L. Borges	Director	February 28, 2014
/s/ G. Lawrence Buhl G. Lawrence Buhl	Director	February 28, 2014
/s/ Stephen A. Cozen Stephen A. Cozen	Director	February 28, 2014
/s/ Bonnie L. Howard Bonnie L. Howard	Director	February 28, 2014
/s/ Patrick W. Kenny Patrick W. Kenny	Director	February 28, 2014
/s/ Simon W. Leathes Simon W. Leathes	Director	February 28, 2014
/s/ Michael T. O'Kane Michael T. O'Kane	Director	February 28, 2014
/s/ Wilbur L. Ross, Jr.	Director	February 28, 2014

Wilbur L. Ross, Jr.

281