REPORT ON EXAMINATION

OF

ASSURED GUARANTY MUNICIPAL CORP.

AS OF

DECEMBER 31, 2016

DATE OF REPORT	MAY 30, 2018
EXAMINER	KAREN GARD, CFE

TABLE OF CONTENTS

ITEM		PAGE NO.
1.	Scope of examination	2
2.	Description of Company	3
	A. Corporate governance	4
	B. Territory and plan of operation	6
	C. Reinsurance ceded	8
	D. Holding company system	9
	E. Significant operating ratios	14
3.	Financial statements	15
	A. Balance sheet	15
	B. Statement of income	17
	C. Capital and surplus account	18
4.	Losses and loss adjustment expenses	20
5.	Unearned premium reserves	21
6.	Contingency reserves	21
7.	Subsequent events	22
8.	Compliance with prior report on examination	24
9.	Summary of comments and recommendations	24

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

May 30, 2018

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31663 dated August 22, 2017, attached hereto, I have made an examination into the condition and affairs of Assured Guaranty Municipal Corp. as of December 31, 2016, and submit the following report thereon.

Wherever the designations "the Company" or "AGM" appear herein without qualification, it should be understood to indicate Assured Guaranty Municipal Corp.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company's home office located at 1633 Broadway, New York, New York 10019.

1. SCOPE OF EXAMINATION

The Department has performed a coordinated group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2011. This examination covered the five year period from January 1, 2012 through December 31, 2016. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

New York is the lead state of the Assured Guaranty group ("Assured Guaranty"). The examination was performed concurrently with the examinations of Assured Guaranty Corp. ("AGC"), domiciled in Maryland, and Municipal Assurance Corp. ("MAC"), domiciled in New York. The state of Maryland participated in the examination and served as the lead coordinating state.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with New York Laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

Company history
Management and control
Territory and plan of operation
Holding company description
Reinsurance
Financial statement presentation
Loss review and analysis
Subsequent events
Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to the recommendation contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company, formerly known as Financial Security Assurance Inc., was incorporated under the laws of the State of New York on March 16, 1984 and commenced business on September 23, 1985. The Company was initially organized as a property and casualty insurance company. On August 2, 1989, the Company re-stated its charter and amended its license to become a financial guaranty insurance corporation pursuant to the provisions of Article 69 of the New York Insurance Law.

On July 1, 2009, Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company, through its wholly-owned subsidiary, Assured Guaranty US Holdings Inc. (“AGUS”), acquired Assured Guaranty Municipal Holdings Inc. (“AGMH”, formerly known as Financial Security Assurance Holdings Ltd.), and its subsidiaries, including the Company, from Dexia SA.

On May 31, 2012, AGUS acquired MAC (formerly known as Municipal and Infrastructure Assurance Corporation) from Radian Asset Assurance Inc. At the time of acquisition, MAC was a shell company and had not written any business since it was organized in 2008. As a result of an internal restructuring, described below, the Company indirectly owns a majority interest in MAC.

In 2013, Assured Guaranty underwent an internal restructuring. Select highlights of this restructuring are summarized as follows:

- ♦ AGM and its subsidiaries, Assured Guaranty Municipal Insurance Company (“AGMIC”) and Assured Guaranty (Bermuda) Ltd. (“AGBM”, formerly Financial Security Assurance International Ltd.) terminated their reinsurance pooling agreement pursuant to which AGMIC and AGBM assumed quota share percentages of the financial guaranty insurance policies issued by the Company, and the Company re-assumed such ceded business. Subsequently, AGMIC merged into the Company, with the Company as the surviving entity.
- ♦ As a result of the AGMIC merger, the Company’s indirect subsidiary, Assured Guaranty (Europe) Ltd. (“AGE”, formerly Financial Security Assurance (U.K.) Limited), became a wholly-owned direct subsidiary.
- ♦ In full satisfaction of an $82.5 million loan from AGBM to AGUS, AGBM received all of the outstanding shares of MAC from AGUS, as well as cash. After AGBM distributed

substantially all of its assets, including the MAC shares, to AGM as a dividend, AGM sold AGBM to affiliate Assured Guaranty Re Ltd. ("AG Re"). Subsequently, AGBM and AG Re merged, with AG RE as the surviving entity.

- ♦ A new company was formed, Municipal Assurance Holdings Inc. ("MAC Holdings"), to own 100% of the outstanding stock of MAC. The Company and AGC subscribed to own 60.7% and 39.3%, respectively, of MAC Holdings, for which the Company paid $425 million as consideration and AGC paid $275 million. The consideration consisted of all of MAC's common stock, cash and marketable securities. MAC Holdings then contributed cash and marketable securities having a fair market value to increase MAC's policyholder surplus to approximately $400 million. Additionally, the Company and MAC Holdings purchased surplus notes issued by MAC in the principal amounts of $100 million and $300 million, respectively.
- ♦ The Company and AGC ceded to MAC approximately $103 billion par amount of U.S. municipal business from their existing portfolios.
- ♦ The Company's affiliate, Assured Guaranty Mortgage Insurance Company ("AG Mortgage"), was merged out of existence and into the Company, effective March 3, 2014, with the Company as the surviving entity. AG Mortgage had no outstanding insurance policies at the time of merger.

A. Corporate Governance

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than 13 members. The board meets quarterly. At December 31, 2016, the board of directors was comprised of the following ten members:

Name and Residence	Principal Business Affiliation
Howard Wayne Albert Short Hills, New Jersey	Chief Risk Officer, Assured Guaranty Ltd., Assured Guaranty Municipal Corp., Assured Guaranty Corp., Municipal Assurance Corp.
Robert Adam Bailenson Cold Spring Harbor, New York	Chief Financial Officer, Assured Guaranty Ltd., Assured Guaranty Municipal Corp.,

Name and Residence	Principal Business Affiliation
	Assured Guaranty Corp., Municipal Assurance Corp.
Russell Brown Brewer II Darien, Connecticut	Chief Surveillance Officer, Assured Guaranty Ltd., Assured Guaranty Municipal Corp., Assured Guaranty Corp., Municipal Assurance Corp.
Gon Ling Chow New York, New York	U.S. General Counsel and Assistant Secretary, Assured Guaranty Municipal Corp., Assured Guaranty Corp., Municipal Assurance Corp.
Stephen Donnarumma Brooklyn, New York	Chief Credit Officer, Assured Guaranty Municipal Corp., Assured Guaranty Corp., Municipal Assurance Corp.
Dominic John Frederico Palm Beach Gardens, Florida	President and Chief Executive Officer, Assured Guaranty Ltd., Assured Guaranty Municipal Corp., Assured Guaranty Corp., Municipal Assurance Corp.
James Michael Michener* Smith’s, Bermuda, FL-05	General Counsel and Secretary, Assured Guaranty Ltd. Executive Vice President and Secretary, Assured Guaranty Municipal Corp., Assured Guaranty Corp., Municipal Assurance Corp.
Donald Hal Paston Livingston, New Jersey	Treasurer, Assured Guaranty Municipal Corp., Assured Guaranty Corp., Municipal Assurance Corp.
Benjamin Gad Rosenblum New York, New York	Chief Actuary, Assured Guaranty Municipal Corp., Assured Guaranty Corp., Municipal Assurance Corp.
Bruce Elliot Stern Bronxville, New York	Executive Officer, Assured Guaranty Municipal Corp., Assured Guaranty Corp., Municipal Assurance Corp.

As of December 31, 2016, the principal officers of the Company were as follows:

Name	Title
Dominic John Frederico	President and Chief Executive Officer
James Michael Michener*	Executive Vice President and Secretary
Donald Hal Paston	Treasurer

* Effective December 31, 2017, James Michener resigned from these positions. He was replaced by Gon Ling Chow as General Counsel and Secretary effective January 1, 2018. Simultaneous with this transition, Mr. Michener assumed the position of Senior Advisor to the Chief Executive Officer.

B. Territory and Plan of Operation

As of December 31, 2016, the Company was licensed to write business in all 50 states, as well as the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
16(C), (D), (E), (F), (G)	Surety
17(A)	Credit
25	Financial guaranty

Based upon the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13, 41 and 69 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $66,400,000.

The following schedule shows the direct and assumed premiums written by the Company for the period under examination:

Calendar Year	Direct Premiums	Assumed Premiums	Total Gross Premiums
2012	$239,047,162	$24,594,980	$263,642,142
2013	$227,433,800	$34,888,512	$262,322,312
2014	$192,753,641	$52,288,230	$245,041,871
2015	$175,147,007	$23,457,219	$198,604,226
2016	$192,858,534	$27,100,875	$219,959,409

The Company provides financial guaranty insurance and reinsurance that protects holders of debt instruments from defaults in scheduled payments. If an obligor defaults on a scheduled payment due on an obligation, including a scheduled principal or interest payment, the Company is required under its unconditional and irrevocable financial guaranty to pay the amount of the shortfall to the holder of the obligation. The Company markets its product directly to issuers and underwriters of securities, as well as to investors of such obligations. Prior to 2008, the Company offered insurance and reinsurance to the public finance and global infrastructure markets as well as to the global structured finance market, including asset-backed securities issued by special purpose entities. Since mid-2008, the Company has provided financial guaranty insurance only on debt obligations issued in the U.S. public finance and global infrastructure markets, including bonds issued by U.S. state or governmental authorities, or notes issued to finance infrastructure projects. The sustained low interest rate environment that has persisted since the global financial crisis, as well as other factors that are also not in the Company's control, has hampered insured penetration of the bond market and new business writings.

During the examination period, the Company pursued the following strategies: new business production, capital management, loss mitigation, and alternative strategies. In 2016, Assured Guaranty formed an alternative investment group. The alternative investment group is charged with developing/pursuing new business opportunities that:

- are in line with Assured Guaranty's risk profile;
- benefit Assured Guaranty's core competencies; and,
- complement the financial guaranty business.

The Company's assumed business is mainly attributable to reinsurance assumed from its subsidiary, AGE. The business assumed is pursuant to the terms of the Quota Share and Excess of Loss Agreement, effective April 1, 2014, and subsequently amended on October 1, 2014, and on April 1, 2016 ("QS/XOL"). The amendments addressed additional collateral requirements of AGE's regulatory body, the Prudential Regulation Authority ("PRA"). The QS/XOL superseded the 1994 Amended and Restated Reinsurance Agreement, amended and restated as of May 16, 2010. The QS/XOL excludes 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. For transactions that closed prior to 2011, AGE typically guaranteed all of the guaranteed obligations directly and the Company reinsured under the quota share approximately 92% of AGE's retention after cessions to other reinsurers. In 2011, AGE and the Company implemented a co-guarantee structure pursuant to which (i) 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, (ii) the Company directly guarantees the balance of the guaranteed obligations, and (iii) the Company also provides a second-to-pay guarantee for AGE's portion of the guaranteed obligations. Under the excess of loss cover, the Company pays AGE quarterly the amount by which (i) the sum of (a) AGE's incurred losses calculated in accordance with U.K. GAAP as reported by AGE in its financial returns filed with the PRA and (b) AGE's paid losses and loss adjustment expenses, net of all other performing reinsurance, including the reinsurance provided by the Company under the quota share cover, exceeds (ii) an amount equal to (a) AGE's capital resources under U.K. law minus (b) 110% of the greatest of the amounts as may be required by the PRA as a condition for AGE to maintain its authorization to carry on a financial guarantee business in the U.K. In addition, the agreement provides that no amounts are owed under the excess of loss cover with respect to any quarter ending prior to April 1, 2014.

C. Reinsurance Ceded

Prior to the global financial crisis, the Company obtained third party reinsurance to reduce its exposure to risk concentrations. Since 2008, the Company has primarily relied on affiliated reinsurance.

As part of the internal restructuring described in Section 2 of this report, and as part of the capitalization of MAC in 2013, both the Company and AGC ceded approximately $103 billion par amount of U.S. municipal business from their existing portfolios with a payment of the outstanding statutory unearned premium of approximately $709 million. With respect to the Company, pursuant to the terms of the Master Facultative Agreement effective July 1, 2013 between the Company and MAC, the Company ceded to MAC approximately $79 billion of outstanding principal under AGM legacy policies insuring U.S. municipal risks in exchange for a pro-rata share of the unearned premium of approximately $463 million, plus a pro-rata share of future premiums written by the Company for such policies. The Company retained approximately 63% of its U.S. municipal portfolio after the cessions to MAC.

Effective October 1, 2010, the Company is party to a Whole Account Quota Share Agreement with its affiliate, AG Re, an unauthorized reinsurer. Pursuant to this agreement, the Company cedes to AG Re a proportionate share of each policy that it issues. The proportionate share is determined by the Company and is no less than 15% or more than 85% of the debt service insured under the policy. The Company's minimum net retention under this agreement is 10% of debt service with an annual aggregate cession cap of 40% of gross total debt service. Since the agreement's inception, the Company has elected to cede 40% of each policy that it has issued.

The Company is a party, along with AGC and MAC, to an Aggregate Excess of Loss Agreement with three unauthorized subscribing reinsurers effective January 1, 2016. This agreement is a $400 million facility with a 10% retention that attaches at $1.25 billion of losses and covers a portfolio of certain investment grade U.S. public finance exposures insured or reinsured as of September 30, 2015, but excluding such exposures that were rated non-investment grade as of December 31, 2015. The attachment point was not met, and this agreement terminated on December 31, 2017. Similar agreements were in effect as of January 1, 2012 and January 1, 2014, and a similar agreement became effective January 1, 2018.

There were no reinsurance contracts in run-off that had material reinsurance recoverables. It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

Management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by appropriate risk transfer analyses, and an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Holding Company System

The Company is a member of the Assured Guaranty group. The Company is a wholly-owned subsidiary of Assured Guaranty Municipal Holdings Inc., a New York domiciled company that is ultimately controlled by AGL, a Bermuda-based publicly-traded holding company. AGL was incorporated in 2003, and provides, through its operating subsidiaries, credit protection products to the domestic and international public finance (including infrastructure) markets, and the structured finance market. AGL conducts its financial guaranty business on a direct basis from the following companies:

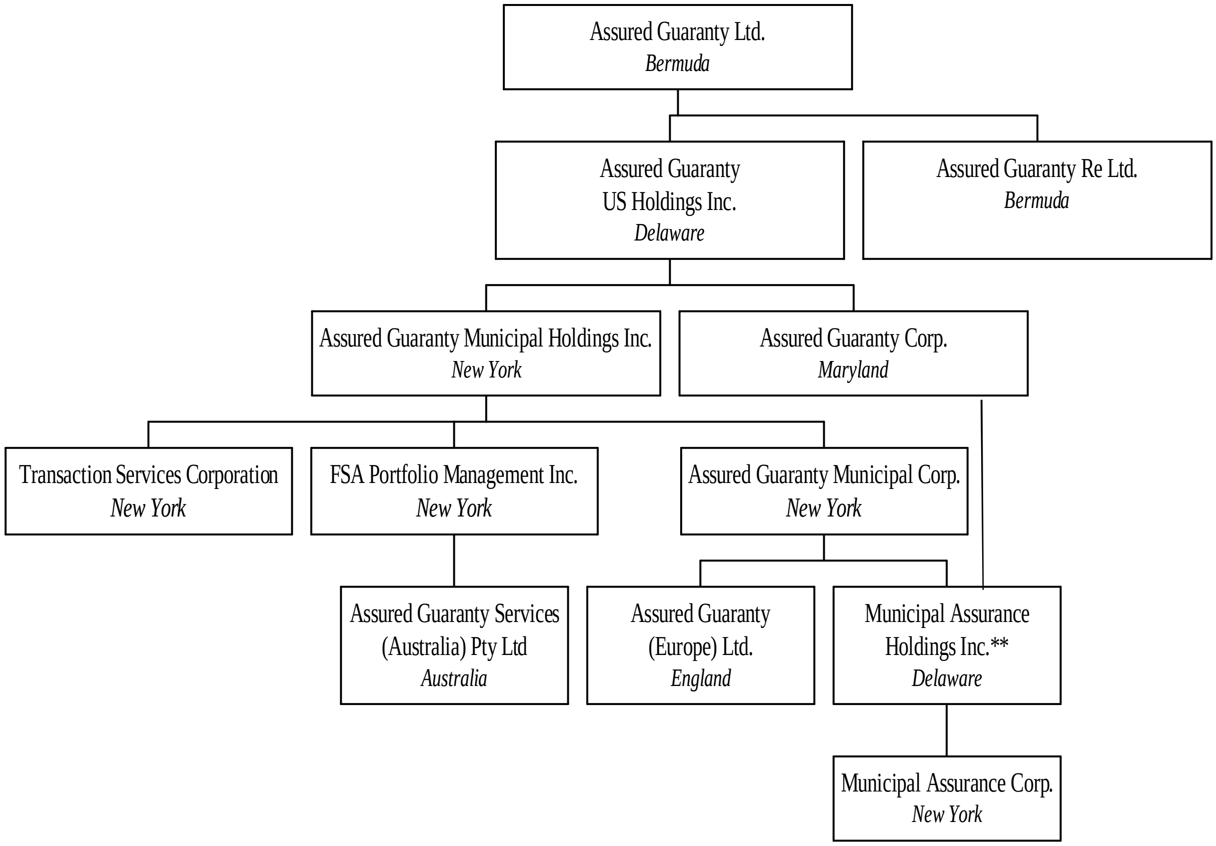
- the Company provides financial guaranty insurance and reinsurance exclusively on debt obligations issued in the U.S. public finance market and global infrastructure market.

- ♦ MAC offers insurance and reinsurance on bonds issued by U.S. state or municipal government authorities, focusing on investment grade obligations in select sectors of the municipal market.
- ♦ AGC provides insurance and reinsurance on debt obligations in the structured finance market, and also offers guarantees on obligations in the U.S. public finance and international infrastructure markets.
- ♦ AGE is a financial guaranty insurer domiciled in the United Kingdom. It is authorized to operate in various countries throughout the European Economic Area, and offers financial guarantees in both the international public finance and structured finance markets.

AGL also conducts business through two Bermuda-based reinsurers: AG Re and Assured Guaranty Re Overseas Ltd. ("AGRO"). AG Re is licensed as a Class 3B insurer under the Insurance Act of 1978 and related regulations of Bermuda. AG Re indirectly owns AGRO, a Bermuda Class 3A and C reinsurer. AG Re and AGRO underwrite financial guaranty reinsurance. AGRO also underwrites other reinsurance that is in line with Assured Guaranty's risk profile.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2016:



**AGM owns 60.7% and AGC owns 39.3% of Municipal Assurance Holdings Inc.

Holding Company Agreements

At December 31, 2016, the Company was party to the following agreements with other members of its holding company system:

Stock Repurchase Plan

Under the terms of the stock repurchase agreement with AGMH, dated December 19, 2016, the Company repurchased an aggregate of 125 common shares from its sole shareholder, AGMH for $2,399,857.62 per share, for a total of approximately $300,000,000. The shares were retired upon repurchase and ceased to be authorized shares of the Company. The par value of the remaining shares (totaling 205 in number) were increased automatically, as provided in the Company's charter, so as to maintain stated capital of $15,000,000. The stated capital of $15,000,000 is required under the laws of various states for the Company to be licensed as a financial guaranty insurer.

Surplus Notes

On December 18, 2009, the Company purchased $300,000,000 of surplus notes from AGC. These notes were interest-bearing at a rate of interest of 5% per annum. The notes were amended effective January 1, 2016 to bear simple interest at 3.5% per annum. Principal of the surplus notes are payable at December 31, 2029, or sooner, at the option of AGC, subject to prior approval of the Maryland Insurance Administration ("MIA").

Tax Agreements

Effective September 1, 2016, the Company is party to an Amended and Restated Agreement Concerning Filing of Consolidated Federal Income Tax Return with AGUS, AGC, MAC and certain other affiliates. This agreement replaced the Agreement Concerning Filing of Consolidated Federal Income Tax Return dated July 1, 2009 and subsequently amended. This agreement was filed with the Department pursuant to Circular Letter 33 (1979).

The Company is also party to a Tax Representative Agreement with AGE, dated June 29, 2004.

Service Agreements

Effective April 1, 2015, the Company is party to an amended and restated service agreement with AGC and various affiliates, whereby the Company provides the parties office space and equipment, and AGC provides payroll services, equipment, and a staff of professional insurance and financial services executives, administrative and clerical personnel at cost. This agreement replaced the service agreement effective January 1, 2010, and was subsequently amended. This agreement was submitted to the Department and was non-disapproved on May 8, 2015.

The Company is also party to a service agreement with Transaction Services Corporation, dated January 1, 1996.

Other Agreements

The Company was also party to the following agreements:

- Amended and Restated Net Worth Maintenance Agreement with AGE, effective April 1, 2016;
- Guaranty Underwriting Representative Agreement with Assured Guaranty Services (Australia), Pty Ltd. (formerly known as FSA Services (Australia), Pty Limited), effective July 1, 2000;
- Ceding Company Allocation Agreement, effective November 1, 2011 with AGC;
- Ceding Company Allocation Agreement, effective January 1, 2014 with AGC and MAC.

All agreements subject to Section 1505 of the New York Insurance Law were submitted to the Department and were non-disapproved.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2016, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

Operating Ratios	Result
Net premiums written to policyholders' surplus	6%
Adjusted liabilities to liquid assets	71%
Two-year overall operating	0%

Underwriting Ratios

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	Amounts	Ratio
Losses and loss adjustment expenses incurred	$ 227,115,378	17.81%
Other underwriting expenses incurred	403,672,679	31.66
Net underwriting gain	644,356,012	50.53
Premiums earned	$1,275,144,069	100.00%

The Company, as a financial guarantor, is not subject to the reporting requirements of risk based capital.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2016 as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$4,074,773,849		$4,074,773,849
Common stocks	539,193,934		539,193,934
Cash, cash equivalents and short-term investments	127,000,309		127,000,309
Other invested assets	371,616,172		371,616,172
Investment income due and accrued	38,980,926		38,980,926
Uncollected premiums and agents' balances in the course of collection	14,280,595	$ 164,052	14,116,543
Amounts recoverable from reinsurers	(381,736)		(381,736)
Net deferred tax asset	204,800,454	47,808,257	156,992,197
Electronic data processing equipment and software	510,471	356,881	153,590
Furniture and equipment, including health care delivery assets	21,291,220	21,291,220	0
Receivable from parent, subsidiaries and affiliates	2,707,641		2,707,641
Miscellaneous receivables	7,338,710	4,475,569	2,863,141
Prepaid expenses	2,592,843	2,592,843	0
Other assets	6,675,739	1,170,342	5,505,397
Total assets	$5,411,381,127	$77,859,164	$5,333,521,963

Liabilities, Surplus and Other Funds

Liabilities

Losses and loss adjustment expenses		$ 410,519,195
Other expenses (excluding taxes, licenses and fees)		33,676,177
Taxes, licenses and fees (excluding federal and foreign income taxes)		(1,019,231)
Current federal and foreign income taxes		88,194,589
Unearned premiums		1,155,247,411
Ceded reinsurance premiums payable (net of ceding commissions)		15,797,112
Funds held by company under reinsurance treaties		39,632,155
Amounts withheld or retained by company for account of others		(263)
Payable to parent, subsidiaries and affiliates		37,135,271
Contingency reserves		1,073,839,424
Deferred investment gain		67,668,761
Miscellaneous liability		91,826,464
Total liabilities		$3,012,517,065
Surplus and Other Funds		
Common capital stock	$ 15,000,000	
Gross paid in and contributed surplus	477,204,782	
Unassigned funds (surplus)	1,828,800,116	
Surplus as regards policyholders		2,321,004,898
Total liabilities, surplus and other funds		$5,333,521,963

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2012. The examiner is unaware of any potential exposure of the Company to any tax assessment.

B. Statement of Income

The net income for the examination period as reported by the Company was $1,254,254,769 as detailed below:

Underwriting Income		
Premiums earned		$1,275,144,069
Deductions:		
Losses and loss adjustment expenses incurred	$227,115,378	
Other underwriting expenses incurred	403,672,679	
Total underwriting deductions		630,788,057
Net underwriting gain		$ 644,356,012
Investment Income		
Net investment income earned	$1,050,168,447	
Net realized capital loss	(136,532,947)	
Net investment gain		913,635,500
Other Income		
Miscellaneous income	$116,695,840	
Total other income		116,695,840
Net income before federal and foreign income taxes		$1,674,687,352
Federal and foreign income taxes incurred		420,432,583
Net income		$1,254,254,769

C. Capital and Surplus

Surplus as regards policyholders increased $1,111,700,916 during the five-year examination period January 1, 2012 through December 31, 2016 as reported by the Company, detailed as follows:

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders as reported by the Company as of December 31, 2011			$1,209,303,982
Net income	$1,254,254,769		
Net unrealized capital gains or losses	309,115,364		
Change in net unrealized foreign exchange capital gain or loss	72,486,280		
Change in net deferred income tax	9,151,803		
Change in nonadmitted assets	28,248,116		
Change in surplus notes		$ 175,000,000	
Surplus adjustments paid in		299,679,649	
Dividends to stockholders		814,400,000	
Change in contingency reserves	664,892,971		
Correction of an error	22,396,464		
Change in accounting SAP 101 (Taxes)	43,191,710		
Other adjustments	0	2,956,912	
Net increase in surplus	$2,403,737,477	$1,292,036,561	1,111,700,916
Surplus as regards policyholders as reported the Company as of December 31, 2016			$2,321,004,898

No adjustments were made to surplus as a result of this examination.

Capital paid in is $15,000,000 consisting of 205 shares of $73,170.73 par value per share common stock. Gross paid in and contributed surplus is $477,204,782. Surplus adjustments are primarily attributable to the retirement of common stock repurchased, as noted in Section 2.D of this report, as well as changes to stock option expenses. Gross paid in and contributed surplus decreased by $299,679,648 during the examination period, as follows:

Year	Description		Amount
2012	Beginning gross paid in and contributed surplus		$776,884,430
2013	Surplus adjustments paid in	$ 1,381,980	
2014	Surplus adjustments paid in	(1,390,280)	
2015	Surplus adjustments paid in	76,886	
2016	Surplus adjustments paid in	(299,748,234)	
	Total surplus adjustments		(299,679,648)
2016	Ending gross paid in and contributed surplus		$477,204,782

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $410,519,195 is the same as reported by the Company as of December 31, 2016. The examination analysis of the Loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 60 ("SSAP No. 60"). The Department found the case reserves to be adequate.

The Department utilized the assistance of an independent financial advisory firm that specializes in complex assets to review the adequacy of the Company's modeling, assumptions, and surveillance policies and procedures as of December 31, 2016. The firm reviewed all obligors insured or reinsured by AGM with emphasis on a sample of 44 structured finance obligors and 78 public finance obligors for which the independent advisory firm deemed the obligor required further scrutiny. AGM's underwriting, surveillance, modeling and modelling assumptions are adequate.

The most significant liabilities with potential for future adverse loss and claims development are the various obligations of Puerto Rico. Due to subsequent events cited in Section 7, the Company increased its reserves for its obligations related to Puerto Rico.

The Company's estimate of reserves for losses on its exposures is based on certain assumptions. Changes in such assumptions could materially adversely affect such reserve estimates, including those as a result of more adverse macroeconomic conditions, the bankruptcies of issuers of bonds insured, and the amount and timing of any claims. Under certain conditions, many of which are event-driven and outside the control of the Company, these exposures may result in significant increases in claims beyond that assumed in the Company's reserve estimates (that may or may not result in an increase in such loss reserves). In addition, the value of its investment portfolio could change and have a material adverse effect.

5. UNEARNED PREMIUM RESERVES

Pursuant to Section 6903(c) of the New York Insurance Law, the Company maintains an unearned premium reserve. Unearned premiums represent the portion of premiums which are applicable to the unexpired risk on policies in force. As of December 31, 2016, the Company reported an unearned premium reserve of $1,155,247,411.

6. CONTINGENCY RESERVES

Pursuant to Section 6903(a) of the New York Insurance Law, the Company is required to establish and maintain contingency reserves for the protection of policyholders and claimants against the effect of excessive losses occurring during adverse economic cycles. As of December 31, 2016, the Company reported a contingency reserve of $1,073,839,424.

5. SUBSEQUENT EVENTS

The examiner notes the following subsequent events:

- *European restructuring*

On June 26, 2017, in Assured Guaranty's efforts to reduce the expense and the inefficiencies of maintaining four separate European entities, and in addition to other benefits, the Company purchased from AGC the following European affiliates (each of which are, and were at the time of purchase, in run-off status):

- Assured Guaranty (UK) plc,
- Assured Guaranty (London) plc, and
- CIFG Europe S.A., collectively, the "European subsidiaries".

Immediately after the purchase, AGM contributed all of its shares of the European subsidiaries to its wholly-owned European subsidiary, AGE, resulting in the European subsidiaries being direct, wholly owned subsidiaries of AGE. Assured Guaranty is working to combine the operations of AGE and the European subsidiaries through a multi-step transaction, which is ultimately expected to result in the European subsidiaries transferring their insurance portfolios to, and merging with and into, AGE. Although the purchase and multi-step transaction has received certain regulatory approvals, such as from the Department and MIA, the multi-step transaction is subject to further regulatory and court approvals.

- *The Commonwealth of Puerto Rico*

To date, the Company has paid claims on almost all of its Puerto Rico exposures. In 2017, the economic and political situation in the Commonwealth was exacerbated by the devastation caused by Hurricane Maria, which made landfall in September 2017 as a Category 4 hurricane. The Company believes that actions taken by Puerto Rico, the Oversight Board[1], and others, regarding Company-insured obligations, are illegal and/or unconstitutional (such as the petitions filed in the second quarter of 2017 by the Oversight Board under Title III of PROMESA for the Commonwealth, the Puerto Rico Sales Tax

[1] On June 30, 2016, the President of the United States signed into law the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"). PROMESA established a seven-member federal financial oversight board ("Oversight Board"), and provides a legal framework under which the debt of the Commonwealth, as well as its related authorities and public corporations, may be restructured.

Financing Corporation, the Puerto Rico Highways and Transportation Authority, and the Puerto Rico Electric Power Authority. Title III provides for a process analogous to a voluntary bankruptcy process under Chapter 9 of the U.S. Bankruptcy Code). The Company has taken legal action to enforce its rights. Litigation and mediation related to the Commonwealth's debt have been delayed due to Hurricane Maria.

In May 2018, a group of General Obligation and COFINA[2] creditors, which include Assured Guaranty, announced they had jointly reached a proposed settlement agreement. The agreement eliminates the conflict between these two sets of creditors. Because this agreement was without the direct involvement of the Commonwealth or the Oversight Board, further negotiations will be needed.

[2] COFINA is an acronym for Puerto Rico Sales Tax Revenue bonds.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained one recommendation as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A	It was recommended that the Company hold annual shareholders' meetings in accordance with schedule specified in its by-laws and maintain minutes for those meetings. The Company has complied with this recommendation.	6

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report does not contain any comments or recommendations.

Respectfully submitted,

____

Karen Gard, CFE
Associate Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

Karen Gard, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

____

Karen Gard

Subscribed and sworn to before me

this__________ day of ___________________, 2018.

APPOINTMENT NO. 31663

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **Maria T. Vullo**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Karen Gard

as a proper person to examine the affairs of the

Assured Guaranty Municipal Corp.

and to make a report to me in writing of the condition of said

COMPANY

with such other information as she shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name and affixed the official Seal of the Department at the City of New York

this 22th day of August, 2017

MARIA T. VULLO
Superintendent of Financial Services

By:

Joan Riddell
Deputy Bureau Chief