



**REPORT ON EXAMINATION
OF
ASSURED GUARANTY MUNICIPAL CORP.**

AS OF DECEMBER 31, 2021

**EXAMINER:
DATE OF REPORT:**

**TEENA VARGHESE
JUNE 6, 2023**

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

June 6, 2023

Honorable Adrienne A. Harris
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 32342, dated January 25, 2022, attached hereto, I have made an examination into the condition and affairs of Assured Guaranty Municipal Corp. as of December 31, 2021, and submit the following report thereon.

Wherever the designation “the Company” or “AGM” appears 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.

1. SCOPE OF EXAMINATION

The Department has performed a coordination group examination of Assured Guaranty Municipal Corp, a multi-state insurer. The previous examination was conducted as of December 31, 2016. This examination covered the five-year period from January 1, 2017, through December 31, 2021. 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. The examination was performed concurrently with the examination of Assured Guaranty Corp. (“AGC”), domiciled in Maryland. The State of Maryland accepted and assumed the responsibilities associated with leading the group examination.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners 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
- Reinsurance
- Holding company description
- Financial statement presentation
- Loss review and analysis
- Significant subsequent events
- Summary of recommendations

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

Assured Guaranty Municipal Corp., 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 S.A.

On May 31, 2012, AGUS acquired Municipal Assurance Corp. (“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. Due to an internal re-structuring in 2013, MAC became a wholly owned subsidiary of a newly formed holding company, Municipal Assurance Holdings, Inc. (“MAC Holdings”). MAC Holdings was directly owned by the Company (60.7%) and its affiliate, AGC (39.3%). Through MAC Holdings, MAC was capitalized in July 2013 by the Company and AGC to a level of approximately \$800 million. MAC assumed from the Company and AGC a combined book of approximately \$709 million of total premium: (i) \$79 billion principal outstanding from the Company for \$463 million of premium (“AGM Cessions”), and (ii) \$24 billion principal outstanding from AGC for \$246 million of premium (“AGC Cessions”). From July 2013 through September 2020, MAC wrote a modest amount of new direct business. During the same period, the amount of principal outstanding under the AGM Cessions and AGC Cessions that MAC had assumed at inception declined significantly (approximately 90%) due to both scheduled amortization and refundings. Management determined that, due to MAC being both substantially under-utilized and substantially over-capitalized, MAC’s existence was unnecessary for the Assured Guaranty Group to achieve its strategic objectives. Accordingly, on April 1, 2021, AGL executed a multi-step transaction to merge MAC with and into the Company, with the Company as the surviving entity (“MAC Merger”). The Department approved the MAC Merger on February 1, 2021.

On June 26, 2017, the Company purchased from its affiliate, AGC, the following financial guaranty insurers: Assured Guaranty (UK) plc; Assured Guaranty (London) plc; and CIFG Europe S.A. (collectively,

the “European Subsidiaries”), for total consideration of \$410.8 million. Immediately after the sale, the Company contributed the European Subsidiaries to its wholly owned England-domiciled subsidiary, Assured Guaranty (Europe) plc (“AGE”), resulting in the European Subsidiaries being direct, wholly owned subsidiaries of AGE. Effective November 7, 2018, the Company combined the operations of AGE and the European Subsidiaries through a multi-step transaction, which ultimately resulted in the European Subsidiaries transferring their insurance portfolios to and merging with and into AGE. On February 24, 2021, AGE was renamed Assured Guaranty UK Limited (“AGUK”). The Department approved this transaction on June 6, 2017.

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 four times during each calendar year. At December 31, 2021, the board of directors was comprised of the following eight members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Howard Wayne Albert Short Hills, NJ	Chief Risk Officer, Assured Guaranty Municipal Corp., Assured Guaranty Corp.
Robert Adam Bailenson Cold Spring Harbor, NY	Chief Financial Officer, Assured Guaranty Municipal Corp., Assured Guaranty Corp.
David Allan Buzen Muttontown, NY	Chief Investment Officer and Head of Asset Management, Assured Guaranty Municipal Corp., Assured Guaranty Corp.
Gon Ling Chow New York, NY	General Counsel and Secretary, Assured Guaranty Municipal Corp., Assured Guaranty Corp.
Stephen Donnarumma Brooklyn, NY	Chief Credit Officer, Assured Guaranty Municipal Corp., Assured Guaranty Corp.
Dominic John Frederico Jupiter, FL	President and Chief Executive Officer, Assured Guaranty Municipal Corp., Assured Guaranty Corp.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Alfonso John Pisani Amityville, NY	Treasurer, Assured Guaranty Municipal Corp., Assured Guaranty Corp.
Benjamin Gad Rosenblum New York, NY	Chief Actuary, Assured Guaranty Municipal Corp., Assured Guaranty Corp.

Effective January 1, 2022, Holly Larie Horn, Laura Ann Bieling, and Jorge Augusto Gana were elected to the board.

As of December 31, 2021, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Dominic John Frederico	President and Chief Executive Officer
Gon Ling Chow	Secretary and General Counsel
Alfonso John Pisani	Treasurer

B. Territory and Plan of Operation

As of December 31, 2021, the Company was licensed to write business in all 50 states, as well as in the District of Columbia, Guam, the Commonwealth of 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:

<u>Paragraph</u>	<u>Line of Business</u>
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 written premiums and premiums assumed by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2017	\$231,844,269	\$100,898,037	\$332,742,306
2018	\$220,389,994	\$ 34,385,495	\$254,775,489
2019	\$224,389,030	\$ 20,116,504	\$244,505,534
2020	\$317,738,481	\$ 73,989,560	\$391,728,041
2021	\$260,150,865	\$ 2,010,201	\$262,161,066

The Company provides 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, the Company is required under its unconditional and irrevocable financial guaranty to pay the amount of the shortfall to the holder of the obligation. The Company markets its financial guaranty insurance directly to issuers and underwriters of public finance securities as well as to investors in such obligations.

The Company and its wholly owned subsidiary, AGUK (the former Assured Guaranty (Europe) plc), have in place a co-guarantee structure for public finance business pursuant to which:

- (i) AGUK directly guarantees a specified portion of the public finance obligations issued in a particular transaction rather than guaranteeing 100% of the issued obligations;
- (ii) the Company directly guarantees the balance of the guaranteed public finance obligations; and,
- (iii) the Company also provides a second-to-pay guarantee for AGUK's portion of the guaranteed public finance obligations.

This co-guarantee structure has been in place since 2011. The current co-guarantee split for the public finance business, which has been in effect since October 2018, is 85% to the Company and 15% to AGUK.

Separate and apart from the co-guarantee structure, the Company assumes business from AGUK pursuant to the terms of the Quota Share and Excess of Loss Agreement ("QSXOL"), effective October 10, 2018. Pursuant to the terms of the QSXOL, under the quota share cover, the Company reinsures approximately 95% - 99% of AGUK's retention (after cessions to other reinsurers) of select outstanding financial guarantees that AGUK wrote prior to the implementation of the public finance co-guarantee structure in 2011. The only outstanding AGUK guarantees that are not covered by the quota share cover of the QSXOL are ones to which AGUK succeeded by operation of law when the European Subsidiaries transferred their insurance portfolios to and merged with and into, AGUK in November 2018. The quota

share cover also obligates the Company to reinsure 85% of any public finance business that AGUK writes from and after October 2018 without utilizing the public finance co-guarantee structure.

Under the excess of loss cover of the QSXOL, the Company pays AGUK on a quarterly basis the amount by which (i) the sum of

(a) AGUK's incurred losses calculated in accordance with U.K. GAAP as reported by AGUK in its financial returns filed with the Prudential Regulation Authority ("PRA"), and (b) AGUK'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) AGUK's capital resources under U.K. law minus (b) 110% of the greatest of the amounts as might be required by the PRA as a condition for AGUK to maintain its authorization to carry on a financial guarantee business in the U.K.

The Company also has in place an Excess of Loss Reinsurance Agreement, effective January 2, 2020 with its 99.9999% owned subsidiary, Assured Guaranty (Europe) SA ("AGE SA"), which is domiciled in France. Pursuant to this agreement, the Company is obligated, effectively, to ensure that AGE SA maintains capital resources equal to at least 110% of the most stringent amount of capital that AGE SA may be required to maintain as a condition of it maintaining its authorization to carry on a financial guarantee business in France.

Both direct written premium and assumed premiums fluctuated during the examination period, as reflected in the table above. The large volume of assumed premiums for 2017 was mainly attributable to increased business assumed from AGUK. Specifically, AGUK commuted a reinsurance agreement with an unaffiliated reinsurer in September 2017 and a substantial portion of the business that AGUK re-assumed was ceded to the Company.

The increase in direct written premiums in 2020 was attributable to market conditions of wider credit spreads in 2020 and greater insured penetration.

The increase in assumed premiums for 2020 was mainly attributable to business assumed from AGE SA. Specifically, in preparation for the withdrawal of the U.K. from the European Union (commonly referred to as "Brexit"), AGUK transferred a portion of its outstanding business to AGE SA in October

2020 pursuant to Part VII of the Financial Services and Markets Act 2000 (the “BREXIT Part VII Transfer”). Some of this transferred business consisted of guarantees which, pre-transfer, were reinsured by the Company pursuant to the QSXOL; post-transfer, the Company provided the same reinsurance on these guarantees pursuant to the Transferred Business Reinsurance Agreement with AGE SA dated January 2, 2020. Some of the transferred business, however, consisted of guarantees that, pre-transfer, were not reinsured by the Company pursuant to the QSXOL; upon the transfer to AGE SA, these guarantees were 90% reinsured by the Company pursuant to the New Business Reinsurance Agreement with AGE SA dated January 2, 2020. The New Business Reinsurance Agreement is a quota share agreement whereby the Company provides AGE SA with 90% proportional reinsurance for:

- as noted above, certain business transferred to AGE SA pursuant to the BREXIT Part VII Transfer that was not reinsured by the Company when such business was part of AGUK’s insured portfolio;
- certain business originally written by AGUK pursuant to the public finance co-guarantee structure described above, but which was novated to, and 100% guaranteed by, AGE SA in connection with the BREXIT Part VII Transfer; and
- any new public finance business written by AGE SA.

Finally, the decrease in assumed premiums from 2020 to 2021 was attributable to the MAC Merger. In preparation for the merger, the Company’s affiliate, AGC, reassumed the outstanding AGC Cessions to MAC. This reassumption meant that MAC, immediately prior to its merger into the Company, had negative assumed premiums in 2021. Upon the merger, the addition of this negative amount to the Company’s assumed premiums drove down the Company’s total assumed premium to \$2.01 million.

C. Reinsurance Ceded

Effective October 1, 2010, the Company entered into a Whole Account Quota Share Agreement with its affiliate, Assured Guaranty Re Ltd (“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.

Effective July 1, 2021, the Company entered into a Whole Account Quota Share Agreement with AGC, an authorized reinsurer. Pursuant to this agreement, the Company cedes to AGC a minimum 10%

quota share of each policy written or assumed by AGM insuring transactions involving municipal, utility, project finance, infrastructure, or similar business.

The Company also has a facultative agreement with AGC and a facultative agreement with AG Re.

There were no reinsurance contracts in run-off that had material reinsurance recoverables.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It is 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.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Trust accounts obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulation 114.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 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 the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles ("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. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. 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 AGMH, a New York holding company, which is ultimately controlled by AGL, a Bermuda-based publicly traded holding company. The Company wholly owns AGUK and Municipal Insurance Holdings, LLC, and has a 99.9999% interest in AGE SA, a 65% interest in AG Asset Strategies, LLC, and a 24.9% interest in Wasmer, Schroeder & Company, LLC.

AGL was incorporated in 2003 and provides, through its operating subsidiaries, credit protection products to the U.S. and international public finance (including infrastructure) markets and structured finance markets, and asset management services. AGL conducts its financial guaranty business on a direct basis from the following companies:

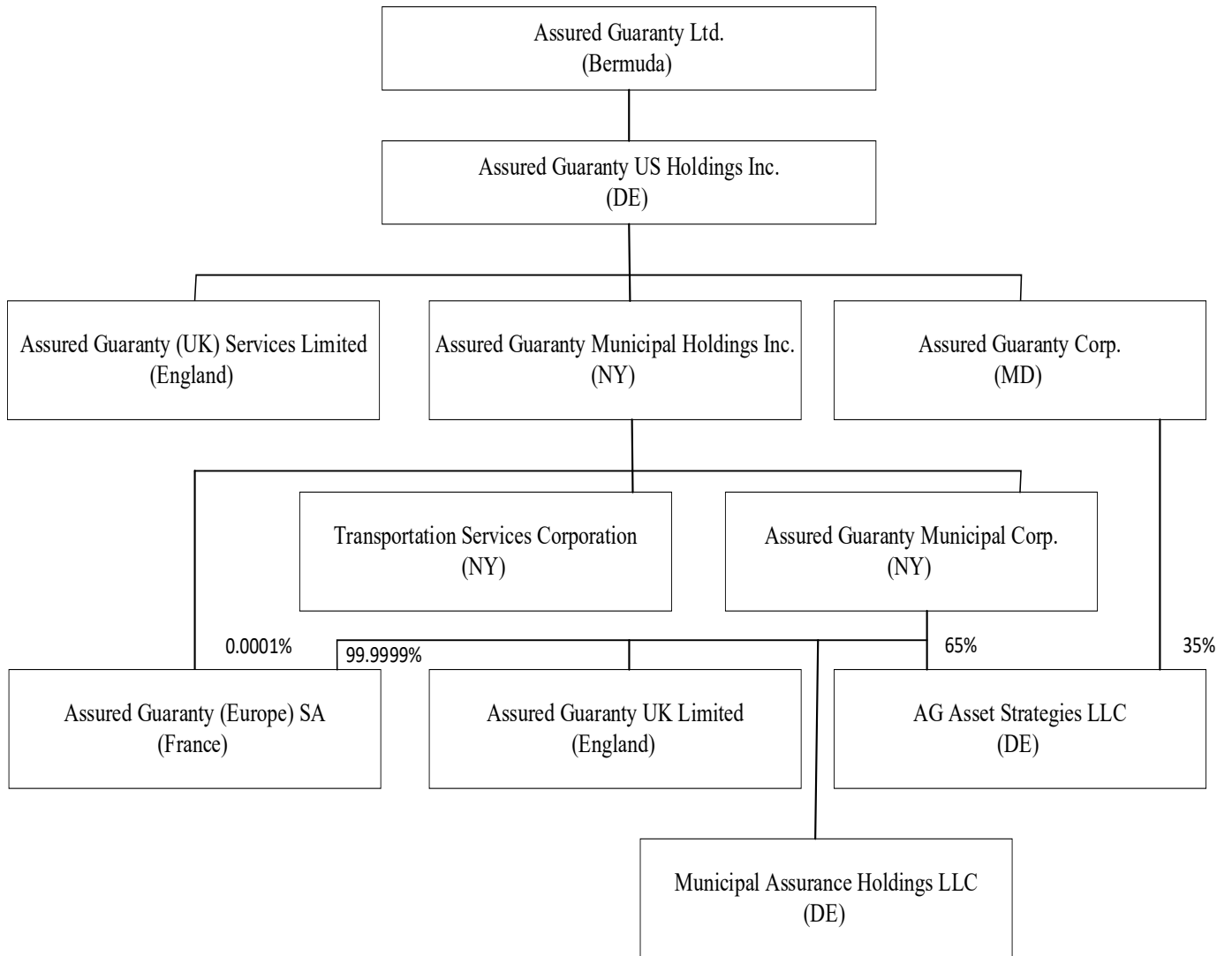
- The Company provides financial guaranty insurance and reinsurance only on debt obligations issued in the U.S. public finance and global infrastructure markets, including bonds issued by U.S., state or governmental authorities or notes issued to finance infrastructure projects;
- AGC provides insurance and reinsurance on debt obligations primarily in the global structured finance market, and also offers guaranties on obligations in the U.S. public finance and international infrastructure markets;
- AGUK is a U.K. incorporated private limited company licensed as a U.K. insurance company and located in England. As mentioned previously, it was formerly known as AGE. Through 2019, AGUK wrote financial guaranties in both the international public finance and structured finance markets in the U.K. and various countries throughout the European Union (“EU”) and certain other non-EU countries. Subsequent to Brexit, AGUK only writes in the UK market. New municipal and infrastructure business is guaranteed using the co-guarantee structure with the Company described above, which structure has been in place since 2011. New structured finance transactions are guaranteed using a similar co-guarantee structure with AGC that has been in place since July 2021.
- AGE SA is a French incorporated company established in mid-2019 to address the impact of the withdrawal of the U.K. from the EU. In October 2020, in preparation for Brexit, AGUK transferred to AGE SA pursuant to the BREXIT Part VII Transfer certain existing AGUK policies relating to risks in the European Economic Area. AGE SA offers financial guaranties in both the international public finance and structured finance markets in the European market, excluding the U.K. As noted above, the Company owns 99.9999% of AGE SA; AGMH owns the remaining interest.

AGL also conducts financial guaranty business through AG Re, a Bermuda-based reinsurer that is registered and licensed as a Class 3B insurer, and AG Re’s indirect, wholly owned subsidiary, Assured Guaranty Re Overseas Ltd., a Bermuda-based Class 3A and 3C insurer.

Finally, AGL conducts its asset management business through Assured Investment Management LLC (“AIM”) and its investment management affiliates.

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, 2021:



Holding Company Agreements

At December 31, 2021, the Company was party to the following agreements with other members of its holding company system:

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 interest at 3.5% per annum. AGC has been approved by the Maryland Insurance Administration to pay, and AGC has paid, to AGM each annual interest payment due on the surplus notes from December 2010 through December 2022. The notes are scheduled to mature on December 31, 2029.

Promissory Notes

On October 1, 2019, AGUS and AGL completed the acquisition of all of the outstanding equity interests in BlueMountain Capital Management, LLC (“BlueMountain”), now known as AIM, and its associated entities for a purchase price of \$157 million (“BlueMountain Acquisition”). AGUS contributed \$60 million of cash to BlueMountain at closing and an additional \$30 million in cash on February 14, 2020. To fund the BlueMountain Acquisition and related capital contributions, the Company, AGC, and MAC made 10 year, 3.5% interest rate inter-company loans to AGUS totaling \$250 million (\$145 million from the Company, \$87.5 million from AGC and \$17.5 million from MAC) in return for AGUS promissory notes due on October 1, 2029, for the same amounts. As of December 31, 2021, the Company recorded the loan at \$162.5 million, consisting of its \$145 million original loan amount, plus MAC’s \$17.5 million original loan amount, which the Company succeeded to as MAC’s legal successor upon the MAC Merger.

On October 18, 2019, the Company, AGC, and MAC, together, formed a new subsidiary, AG Asset Strategies LLC (“AGAS”), a Delaware limited liability company, which was capitalized with \$500 million cash (\$275 million from the Company, \$175 million from AGC and \$50 million from MAC). The capitalization by the Company and MAC was approved by the Department on August 6, 2019. The three companies were authorized to contribute an additional \$250 million (\$137.5 million from the Company, \$87.5 million from AGC, and \$25 million from MAC) to AGAS in late 2020. The contributions from the Company and MAC were approved by the Department on November 30, 2020. Effective April 1, 2021, due to the MAC Merger, the Company, as MAC’s legal successor, acquired MAC’s ownership interests in AGAS, which resulted in the Company owning 65% of AGAS and AGC owning 35% of AGAS.

Tax Agreement

Effective September 1, 2016, the Company is a party to an Amended and Restated Agreement Concerning Filing of Consolidated Federal Income Tax Return with AGUS, AGC, 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).

Services Agreements

Effective January 1, 2020, the Company and various affiliates are parties to a third amended and restated service agreement with AG US Group Services, Inc. (“AG Services”). Based on the agreement, the Company provides the parties with office space and equipment and AG Services provides payroll services and a staff of professional insurance and financial services executives, administrative and clerical personnel at cost. This agreement was filed with and non-disapproved by the Department on February 14, 2020.

Effective June 1, 2020, the Company and various affiliates are parties to a service agreement with AIM. Based on the terms of the service agreement, AIM provides the parties with access to certain AIM financial services executives and employees who are experienced in general corporate strategy, risk management systems, information technology, human resources, finance, legal, marketing and/or administrative services or operations. In exchange for the services provided by AIM, each service recipient, including the Company, pays a fee equal to its allocation of AIM employee time and corresponding costs and expenses. This agreement was non-disapproved by the Department on June 12, 2020.

Effective January 1, 1996, the Company is also a party to a service agreement with Transactions Services Corporation. This agreement was non-disapproved in accordance with Section 1505(d)(3) of the New York Insurance Law.

Maintenance Agreements

Effective October 10, 2018, the Company entered into a Post-Consolidation Net Worth Maintenance Agreement with AGUK. This agreement replaced the previous amended and restated net worth maintenance agreement dated April 1, 2016. Pursuant to the terms of the agreement, the Company agrees to cause AGUK to maintain capital resources in an amount sufficient to ensure that AGUK is in compliance with 110% of its most stringent capital requirement to maintain its authorization to carry on a financial guarantee business in the U.K. Any contributions by the Company to AGUK shall not exceed 35% of the Company’s

policyholders' surplus on an accumulated basis and are subject to Section 1505 of the New York Insurance Law. This agreement was non-disapproved by the Department on September 21, 2018.

Effective January 2, 2020, the Company entered into a Net Worth Maintenance Agreement with AGE SA. Pursuant to the terms of the agreement, the Company agrees to cause AGE SA to maintain capital resources in an amount sufficient to ensure that AGE SA is in compliance with 110% of its most stringent capital requirement for maintaining its authorization to carry on a financial guarantee business in France. Any contributions by the Company to AGE SA shall not exceed 35% of the Company's policyholders' surplus on an accumulated basis and are subject to Section 1505 of the New York Insurance Law. This agreement was non-disapproved by the Department on June 21, 2019.

Other Agreements

Effective January 1, 2017, the Company entered into an Arranging Agreement with Assured Guaranty Finance Overseas Ltd ("AGFOL"), a company incorporated in the United Kingdom. Pursuant to the terms of the agreement, AGFOL provides services to the Company including, but not limited to, developing, marketing and negotiating public and infrastructure finance financial guarantees and other credit protection products to be issued by the Company, as needed and requested by the Company. In consideration for the services provided by AGFOL, the Company pays AGFOL an amount equal to (1) the cost of all cash and non-cash compensation paid to each employee of Assured Guaranty (UK) Services Ltd. which is charged to AGFOL in respect of services provided to the Company plus (ii) its proportionate share of rent, office overhead and costs for outside vendors paid by AGFOL, plus ten percent. Such costs and expenses are calculated on a cost basis and shall be no greater than the Company's costs if the Company is providing the services to AGFOL. This agreement was non-disapproved by the Department on October 18, 2010.

Effective May 8, 2020, the Company and AGC entered into an Investment Management Agreement with AIM. Pursuant to the terms of this agreement, AIM provides investment services to the Company and AGC with respect to two specific asset classes: (i) U.S. municipal bonds, and (ii) collateralized loan obligations. For services under this agreement, the parties agree to pay AIM a management fee payable quarterly in arrears, based on the end-of-month market values. This agreement was non-disapproved by the Department on May 8, 2020.

Effective March 11, 2021, the Company, AGC, and MAC entered into a Subscription Agreement with AGAS relating to the aggregate \$250 million that the three companies were authorized to contribute

to AGAS in late 2020, as mentioned above. Pursuant to the terms of this agreement, the Company, AGC, and MAC agreed to contribute to AGAS, in proportion to their existing ownership interests in AGAS, up to such \$250 million aggregate amount (i.e. \$137.5 million (55%) by the Company, \$87.5 million (35%) by AGC, and \$25 million (10%) by MAC) over a nearly two-year horizon (through December 31, 2022) rather than in a single contribution. The Company succeeded to MAC's obligations under this agreement upon the MAC Merger in April 2021. Further, in December 2022, the Company, AGC, and AGAS amended the Subscription Agreement to extend its term by one year from December 31, 2022, to December 31, 2023. This agreement was non-disapproved by the Department on March 3, 2021, and the amendment was non-disapproved by the Department on December 15, 2022.

Effective May 24, 2018, the Company was also a party to an Assured Guaranty Intra-Group Data Transfer Agreement with AGC and various other affiliates.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2021, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to policyholders' surplus	6%
Adjusted liabilities to liquid assets	76%
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:

	<u>Amount</u>	<u>Ratio</u>
Losses and loss adjustment expenses incurred	\$135,652,622	15.20%
Other underwriting expenses incurred	232,382,960	26.05%
Net underwriting gain (loss)	<u>524,142,546</u>	<u>58.75%</u>
Premiums earned	<u>\$892,178,128</u>	<u>100.00%</u>

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2021, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$3,186,149,611	\$ 0	\$3,186,149,611
Common stocks (stocks)	1,082,959,866	0	1,082,959,866
Cash, cash equivalents and short-term investments	499,619,622	0	499,619,622
Other invested assets	1,014,828,320	0	1,014,828,320
Receivables for securities	726,858	0	726,858
Investment income due and accrued	31,798,105	0	31,798,105
Uncollected premiums and agents' balances in the course of collection	15,896,726	1,400	15,895,326
Amounts recoverable from reinsurers	605,757	0	605,757
Net deferred tax asset	82,902,744	53,770,138	29,132,606
Electronic data processing equipment and software	3,481,994	3,481,994	0
Furniture and equipment, including health care delivery assets	15,295,852	15,295,852	0
Receivables from parent, subsidiaries and affiliates	31,782,510	0	31,782,510
Miscellaneous receivables	930,044	0	930,044
Prepaid expenses	4,353,857	4,353,857	0
Other assets	<u>2,968,103</u>	<u>1,370,876</u>	<u>1,597,227</u>
Total assets	<u>\$5,974,299,969</u>	<u>\$78,274,117</u>	<u>\$5,896,025,852</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ 11,290,329
Reinsurance payable on paid losses and loss adjustment expenses	847,528
Other expenses (excluding taxes, licenses and fees)	28,508,428
Taxes, licenses and fees (excluding federal and foreign income taxes)	(234,394)
Current federal and foreign income taxes	21,136,843
Unearned premiums	1,709,900,999
Ceded reinsurance premiums payable (net of ceding commissions)	9,759,317
Funds held by company under reinsurance treaties	49,785,076
Amounts withheld or retained by company for account of others	1,856
Payable to parent, subsidiaries and affiliates	47,699,136
Contingency reserve	877,302,973
Deferred investment gain	27,479,779
Miscellaneous liabilities	<u>59,530,275</u>
 Total liabilities	 \$2,843,008,145

Surplus and Other Funds

Common capital stock	\$ 15,000,000
Gross paid in and contributed surplus	376,362,826
Unassigned funds (surplus)	<u>2,661,654,881</u>
 Surplus as regards policyholders	 <u>\$3,053,017,707</u>
 Total liabilities, surplus and other funds	 <u>\$5,896,025,852</u>

Note: Audits for the AGUS consolidated group covering tax years 2018 and 2019 are currently under examination. The Internal Revenue Service has not audited the tax return for the tax year 2017. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the examination period as reported by the Company was \$1,386,803,813, as detailed below:

Underwriting Income

Premiums earned		\$ 892,178,128
Deductions:		
Losses and loss adjustment expenses incurred	\$ 135,652,622	
Other underwriting expenses incurred	552,684,908	
Commutation gains	<u>(320,301,948)</u>	
Total underwriting deductions		<u>368,035,582</u>
Net underwriting gain or (loss)		\$ 524,142,546

Investment Income

Net investment income earned	\$1,008,996,898	
Net realized capital gain	<u>(10,075,959)</u>	
Net investment gain or (loss)		998,920,939

Other Income

Miscellaneous income	<u>80,095,705</u>	
Total other income		<u>80,095,705</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$1,603,159,190
Dividends to policyholders		<u>0</u>
Net income before dividends to policyholders but before federal and foreign income taxes		\$1,603,159,190
Federal and foreign income taxes incurred		<u>216,355,377</u>
Net income		<u>\$1,386,803,813</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$786,399,932 during the five-year examination period January 1, 2017, through December 31, 2021, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2016			\$2,266,617,775
	<u>Gains in</u> <u>Surplus</u>	<u>Losses in</u> <u>Surplus</u>	
Net income	\$1,386,803,813		
Net unrealized capital gains or (losses)	501,730,076		
Change in net unrealized foreign exchange capital gain/loss		\$ 23,549,642	
Change in net deferred income tax		114,434,483	
Change in nonadmitted assets		235,642	
Surplus adjustments paid in		100,841,956	
Dividends to stockholders		1,280,761,134	
Change in contingency reserve	388,703,604		
Merger with MAC	145,176,179		
Goodwill		105,573,370	
Merger related items		10,494,260	
Change in accounting	<u>0</u>	<u>123,253</u>	
Total gains and losses	\$2,422,413,672	\$1,636,013,740	
Net increase (decrease) in surplus			<u>786,399,932</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2021			<u>\$3,053,017,707</u>

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

Capital paid in is \$15,000,000 consisting of 163 shares of \$92,024.54 par value per share common stock. Gross paid in and contributed surplus is \$376,362,826. Gross paid in and contributed surplus and capital paid in decreased by \$100,841,956 and 42, respectively, during the examination period, due to a Plan for the Repurchase and Cancellation of Certain Shares of Capital Stock (“Repurchase Plan”). On December 15, 2017, the Company repurchased from its parent 42 shares of common stock for \$100,841,956. The repurchased shares were retired. The par value of the remaining 163 shares of common stock was increased automatically as provided in the Company’s charter, so as to maintain the value of its common capital stock of \$15,000,000, as is required under the law of various states for the Company to be

licensed as a financial guaranty insurer. In accordance with Section 1411(d) of the New York Insurance Law, the Department approved the Repurchase Plan on November 20, 2017.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$11,290,329 is the same as reported by the Company as of December 31, 2021. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with actuarial standards of practice and statutory accounting principles, including 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, 2021. The firm reviewed all obligors insured by the Company with emphasis on those structured finance obligors and public finance obligors for which the Company had case reserves or which the firm determined required further scrutiny. The Company's underwriting, surveillance, modeling, and modeling assumptions are adequate.

The most significant liability has been the Company's exposure to the debt of Puerto Rico and its related authorities and public corporations. All recoveries for the following have been received: Puerto Rico Infrastructure Financing Authority ("PRIFA"), Puerto Rico Highway and Transportation Authority ("PRHTA"), Puerto Rico Sales Tax ("COFINA"), Puerto Rico Hotel Occupancy Tax and the Commonwealth of Puerto Rico (the "Commonwealth"). The Company still has exposure to PRHTA's non-callable bonds whose holders received trust units representing an interest in new PRHTA toll revenue bonds and the Company's insurance policy. The Company has retained the right to satisfy its obligations under its insurance policies at any time, with 30 days' notice, by paying the acceleration price. The Company's other significant Puerto Rico exposure is to Puerto Rico Electric Power Authority ("PREPA") bonds. The Company has sufficient claims paying resources to pay claims on all of the aforementioned exposures.

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 resulting from 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 the Company's 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 that are applicable to the unexpired risk on policies in force. As of December 31, 2021, the Company reported an unearned premium reserve of \$1,709,900,999.

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 that may occur during adverse economic cycles. As of December 31, 2021, the Company reported a contingency reserve of \$877,302,973.

7. SUBSEQUENT EVENTS

As previously noted, the Company had insured a significant amount of bonds issued by Puerto Rico. Most of the Commonwealth governmental entities with obligations insured by AGC and AGM (together "the Companies") had defaulted on their debt service payments, and the Companies have paid claims on these exposures. As of December 31, 2021, the Companies had an aggregate of approximately \$2.85 billion net par exposure to Puerto Rico and various obligations of its related authorities and public corporations. Additionally, as of December 31, 2021, the Companies had entered into Plan Support Agreements ("PSA") covering approximately \$2.17 billion, or 76% of the insured net par outstanding of Puerto Rico exposures which provided coverage for all Puerto Rico exposures that were in payment default. These PSAs covered the following related insured Puerto Rico exposures and consisted of (i) Puerto Rico General Obligations/Puerto Rico Public Buildings Authority ("GO/PBA") PSA, (ii) Puerto Rico Highways and Transportation Authority/Puerto Rico Convention Center District Authority ("PRHTA/CCDA") PSA, and (iii) Puerto Rico Infrastructure Financing Authority ("PRIFA") PSA. Additionally, as of December 31, 2021, the Companies were parties to a PREPA Restructuring Support Agreement ("RSA") covering an

aggregate of approximately \$540 million net par exposure to PREPA, but, as detailed below, the PREPA RSA was terminated on March 8, 2022.

The GO/PBA PSA provided for the distribution to creditors, including the Companies, of the following: (i) new recovery bonds, (ii) cash, and (iii) additional consideration in the form of a contingent value instrument (“CVI”) (together, “GO/PBA Recoveries”). On January 18, 2022, the Federal District Court of Puerto Rico, acting under Title III of the Puerto Rico Oversight, Management, and Economic Stability Act (such act, “PROMESA”, and such court acting under Title III of PROMESA, the “Title III Court”), issued an order and judgment confirming the Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, and the Puerto Rico Public Buildings Authority (the “GO/PBA Plan”). The GO/PBA Plan restructured approximately \$35 billion of debt, including the GO/PBA bonds insured by the Companies consistent with the terms of the settlement embodied in the GO/PBA PSA. The GO/PBA Plan was implemented on March 15, 2022, and the Companies received all of the GO/PBA Recoveries that the GO/PBA Plan (embodying the GO/PBA PSA) provided for the Companies to receive.

The PRHTA/CCDA PSA provided for payments to the Companies consisting of, in the case of PRHTA: (i) cash; (ii) new bonds expected to be backed by toll revenue; and (iii) a CVI (together, the “PRHTA Recoveries”), and, in the case of PRCCDA: (i) cash and (ii) a CVI (together, the “PRCCDA Recoveries”). On January 20, 2022, the Federal District Court of Puerto Rico, acting under Title VI of PROMESA (the “Title VI Court”), entered an order modifying the PRCCDA debt consistent with the PRHTA/CCDA PSA (the “PRCCDA Modification”). The PRCCDA Modification was implemented on March 15, 2022, and AGC received all of the PRCCDA Recoveries that the PRCCDA Modification (embodying the PRHTA/CCDA PSA) provided for AGC to receive (AGM had no insured exposure to PRCCDA). On October 12, 2022, the Title III Court issued an order and judgment confirming the Modified Fifth Amended Title III Plan of Adjustment of the Puerto Rico Highway and Transportation Authority (the “PRHTA Plan”). The PRHTA Plan restructured approximately \$4 billion of PRHTA bonds, including the PRHTA bonds insured by the Companies, consistent with the terms of the settlement embodied in the PRHTA/CCDA PSA. The PRHTA Plan was implemented on December 6, 2022, and the Companies received all of the PRHTA Recoveries that the PRHTA Plan (embodying the PRHTA/CCDA PSA) provided for the Companies to receive.

The PRIFA PSA provided for payments to AGC consisting of (i) cash; (ii) CVI; and (iii) a second CVI based on potential outperformance of Puerto Rico's general fund rum tax collections relative to projections in the Commonwealth's 2021 certified fiscal plan (the cash and both CVI together, the "PRIFA Recoveries") (AGM did not join as it did not insure PRIFA bonds). On January 20, 2022, the Title VI Court entered an order modifying the PRIFA debt consistent with the PRIFA PSA (the "PRIFA Modification"). The PRIFA Modification was implemented on March 15, 2022, and AGC received all of the PRIFA Recoveries that the PRIFA Modification (embodying the PRIFA PSA) provided for AGC to receive.

On May 3, 2019, the Companies entered into the PREPA RSA contemplating the exchange of PREPA's existing revenue bonds for new securitization bonds issued by a special purpose corporation and secured by a segregated transition charge assessed on electricity bills. On March 8, 2022, the Commonwealth and PREPA terminated the PREPA RSA. On April 8, 2022, the Federal District Court of Puerto Rico issued an order appointing members of a PREPA mediation team. The ruling also entered a separate order establishing the terms and conditions of mediation, including that mediation shall terminate on June 1, 2022. The term of mediation was subsequently extended several times, most recently on April 24, 2023, extending the term to July 28, 2023.

The Fiscal Oversight Management Board ("FOMB") initially filed a plan of adjustment and disclosure statement for PREPA with the Federal District Court of Puerto Rico on December 16, 2022, and then filed an amended version on February 9, 2023 (the "FOMB PREPA Plan"). The FOMB PREPA Plan would split bondholders into two groups: one that would settle litigation regarding whether that creditor repayment is limited to existing accounts, and another group that would continue to litigate bondholders have a right to PREPA's current and future revenue collections. The FOMB PREPA Plan provides for lower recoveries to bondholders than did previous agreements the FOMB reached with bondholders. The Federal District Court of Puerto Rico approved the PREPA disclosure statement on February 28, 2023, which allows bondholder solicitation on the FOMB PREPA Plan to begin.

On March 22, 2023, the Federal District Court of Puerto Rico found that the PREPA bondholders had perfected liens only in revenues that had been deposited in the sinking fund established under the PREPA trust agreement and related funds over which the bond trustee had control. The Federal District Court of Puerto Rico also held, however, that PREPA bondholders do have recourse under the PREPA trust agreement in the form of an unsecured net revenue claim. The Federal District Court of Puerto Rico declined to value the amount of the claim but defined it as the value of the net revenues that would have, under the waterfall provisions of the PREPA trust agreement and applicable non-bankruptcy law, become collateral

upon being deposited in the sinking fund and payable to PREPA bondholders over the remaining terms of the bonds. The ultimate value of the claim, according to the Federal District Court of Puerto Rico, should be determined through a claim estimation proceeding. On April 13, 2023, the Federal District Court of Puerto Rico issued an order regarding proposed procedures to estimate the value of the unsecured net revenue claim, pursuant to which the court established a discovery briefing and expert report schedule, indicating that a hearing would be held the week of June 5, 2023, and stated that it expected and directed the parties to engage in good faith mediation.

8. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination did not contain any comments or recommendations.

9. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report on examination does not contain any comments or recommendations.

Respectfully submitted,

_____/S/_____
Teena Varghese
Senior Insurance Examiner

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

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

_____/S/_____
Teena Varghese

Subscribed and sworn to before me

this _____ day of _____, 2023.

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Adrienne A. Harris, Acting 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:

Teena Varghese

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 25th day of January, 2022

*ADRIENNE A. HARRIS
Acting Superintendent of Financial Services*

By:

Joan Riddell

*Joan Riddell
Deputy Bureau Chief*

