

# **Assured Guaranty Re Overseas Ltd.**

**(a wholly-owned subsidiary of Assured Guaranty Re Ltd.)**

**Consolidated Financial Statements**

**December 31, 2023 and 2022**

**Assured Guaranty Re Overseas Ltd.**

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**December 31, 2023 and 2022**

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## **Report of Independent Auditors**

To the Board of Directors of Assured Guaranty Re Overseas Ltd.

### ***Opinion***

We have audited the accompanying consolidated financial statements of Assured Guaranty Re Overseas Ltd. and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, of comprehensive income (loss), of shareholder's equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

### ***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*PricewaterhouseCoopers LLP*

New York, New York  
April 18, 2024

# Assured Guaranty Re Overseas Ltd.

## Consolidated Balance Sheets

(dollars in thousands except par value and share amounts)

	As of December 31,	
	2023	2022
<b>Assets</b>		
Investments, at fair value:		
Fixed-maturity securities, available-for-sale, net of allowance for credit loss of \$865 and \$562 (amortized cost of \$370,778 and \$403,961)	\$ 346,745	\$ 371,341
Short-term investments	36,261	2,411
Equity method investment	3,496	—
Total investments	386,502	373,752
Cash	9,605	2,325
Loan receivable from affiliate	20,000	20,000
Premiums receivable	14,836	746
Deferred acquisition costs	1,482	2,484
Ceded unearned premium reserve	20,960	7,475
Deferred tax asset, net	23,025	5,811
Guaranty fee receivable	52,145	7,104
Other assets (includes \$2,156 and \$0, at fair value)	8,152	6,529
<b>Total assets</b>	<b>\$ 536,707</b>	<b>\$ 426,226</b>
<b>Liabilities</b>		
Unearned premium reserve	\$ 29,033	\$ 16,961
Loss and loss adjustment expense reserve	4,681	6,109
Reinsurance balances payable, net	13,834	115
Guaranty liability	50,927	7,411
Other liabilities (includes \$2,226 and \$69, at fair value)	7,057	5,376
<b>Total liabilities</b>	<b>105,532</b>	<b>35,972</b>
<b>Commitments and contingencies (Note 13)</b>		
<b>Shareholder's equity</b>		
Common stock (\$1.00 par value, 1,000,000 shares authorized, issued and outstanding in 2023 and 2022)	1,000	1,000
Additional paid-in capital	135,964	135,964
Retained earnings	312,513	278,616
Accumulated other comprehensive income (loss), net of tax provision (benefit) of \$(4,865), and \$(6,732)	(18,302)	(25,326)
<b>Total shareholder's equity</b>	<b>431,175</b>	<b>390,254</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$ 536,707</b>	<b>\$ 426,226</b>

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

## Assured Guaranty Re Overseas Ltd.

### Consolidated Statements of Operations

(in thousands)

	Year Ended December 31,	
	2023	2022
<b>Revenues</b>		
Net earned premiums	\$ 4,296	\$ 3,916
Net investment income	18,043	14,111
Net realized investment gains (losses)	(1,190)	(720)
Fair value gains (losses) on credit derivatives	1,374	180
Foreign exchange gains (losses) on remeasurement	1,343	(624)
Guaranty fees earned	3,300	289
Other income (loss)	2	—
<b>Total revenues</b>	<b>27,168</b>	<b>17,152</b>
<b>Expenses</b>		
Loss and loss adjustment expenses (benefit)	(1,047)	(793)
Amortization of deferred acquisition costs	195	343
Employee compensation and benefit expenses	5,840	4,441
Other operating expenses	2,393	1,920
<b>Total expenses</b>	<b>7,381</b>	<b>5,911</b>
<b>Income (loss) before income taxes</b>	<b>19,787</b>	<b>11,241</b>
<b>Provision (benefit) for income taxes</b>		
Current	4,171	2,352
Deferred	(19,081)	(569)
<b>Total provision (benefit) for income taxes</b>	<b>(14,910)</b>	<b>1,783</b>
<b>Net income (loss)</b>	<b>\$ 34,697</b>	<b>\$ 9,458</b>

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

## Assured Guaranty Re Overseas Ltd.

### Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

	Year Ended December 31,	
	2023	2022
<b>Net income (loss)</b>	<b>\$ 34,697</b>	<b>\$ 9,458</b>
Change in net unrealized gains (losses) on:		
Investments with no credit impairment, net of tax provision (benefit) of \$1,633 and \$(10,832)	6,143	(40,748)
Investments with credit impairment, net of tax provision (benefit) of \$234 and \$(880)	881	(3,310)
<b>Other comprehensive income (loss)</b>	<b>7,024</b>	<b>(44,058)</b>
<b>Comprehensive income (loss)</b>	<b>\$ 41,721</b>	<b>\$ (34,600)</b>

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

## Assured Guaranty Re Overseas Ltd.

### Consolidated Statements of Shareholder's Equity

Years Ended December 31, 2023 and 2022

(in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholder's Equity
<b>As of December 31, 2021</b>	<b>\$ 1,000</b>	<b>\$ 135,964</b>	<b>\$ 269,158</b>	<b>\$ 18,732</b>	<b>\$ 424,854</b>
Net income	—	—	9,458	—	9,458
Other comprehensive loss	—	—	—	(44,058)	(44,058)
<b>As of December 31, 2022</b>	<b>1,000</b>	<b>135,964</b>	<b>278,616</b>	<b>(25,326)</b>	<b>390,254</b>
Net income	—	—	34,697	—	34,697
Dividends	—	—	(800)	—	(800)
Other comprehensive income	—	—	—	7,024	7,024
<b>As of December 31, 2023</b>	<b>\$ 1,000</b>	<b>\$ 135,964</b>	<b>\$ 312,513</b>	<b>\$ (18,302)</b>	<b>\$ 431,175</b>

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



# Assured Guaranty Re Overseas Ltd.

## Consolidated Statements of Cash Flows

(in thousands)

	Year Ended December 31,	
	2023	2022
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 34,697	\$ 9,458
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Net amortization of premium (discount) on investments	(478)	1,375
Provision (benefit) for deferred income taxes	(19,081)	(569)
Net realized investment (gains) losses	1,190	720
Change in ceded unearned premium reserve	(13,485)	1,569
Change in unearned premium reserve	12,072	(3,132)
Change in loss and loss adjustment expense reserve and salvage and subrogation recoverable, net	(1,038)	(797)
Change in deferred acquisition costs	1,002	(882)
Change in guaranty fee receivable and guaranty liability, net	(1,525)	307
Other	(785)	966
<b>Net cash flows provided by (used in) operating activities</b>	<b>12,569</b>	<b>9,015</b>
<b>Cash flows from investing activities:</b>		
Fixed-maturity securities, available-for-sale:		
Purchases	(63,305)	(48,721)
Sales	66,428	18,720
Maturities	29,651	15,419
Net sales (purchases) of short-term investments with original maturities of less than three months	(33,851)	7,416
Purchase of equity method investments	(3,496)	—
Other	—	(3)
<b>Net cash flows provided by (used in) investing activities</b>	<b>(4,573)</b>	<b>(7,169)</b>
<b>Cash flows from financing activities:</b>		
Dividends paid	(800)	—
<b>Net cash flows provided by (used in) financing activities</b>	<b>(800)</b>	<b>—</b>
Effect of foreign exchange rate changes	84	(28)
Increase (decrease) in cash	<b>7,280</b>	<b>1,818</b>
Cash at beginning of period	2,325	507
<b>Cash at end of period</b>	<b>\$ 9,605</b>	<b>\$ 2,325</b>
<b>Supplemental cash flow information</b>		
Income taxes paid (received)	\$ 3,829	\$ 2,369

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

# Assured Guaranty Re Overseas Ltd.

## Notes to Consolidated Financial Statements

### 1. Business and Basis of Presentation

#### Business

Assured Guaranty Re Overseas Ltd. (AGRO or, together with its subsidiary, the Company) is a wholly-owned subsidiary of Assured Guaranty Overseas US Holdings Inc. (AGOUS), a Delaware corporation, which is a wholly-owned subsidiary of Assured Guaranty Re Ltd. (AG Re), a Bermuda domiciled company. AG Re is a direct subsidiary of Assured Guaranty Ltd. (AGL and, together with its subsidiaries, Assured Guaranty), also a Bermuda domiciled company. AGL provides, through its operating subsidiaries, credit protection products to the United States (U.S.) and non-U.S. public finance (including infrastructure) and structured finance markets. Assured Guaranty also participates in the asset management business.

AGRO was incorporated with limited liability under the Bermuda Companies Act 1981 and is licensed as a Class 3A Insurer and a Class C Long-Term Insurer under the Insurance Act 1978, and amendments thereto and related regulations. AGRO owns AG Intermediary Inc., a New York company. AGRO maintains certified reinsurer status by the Missouri Department of Insurance.

AGRO guarantees specialty business on various lines of structured finance business that have similar risk profiles to those of the structured finance financial guaranty transactions insured by its affiliates and previously reinsured by it, as well as reinsurance on public finance financial guaranty business. Specialty business includes, for example, excess-of-loss guaranties of a minimum amount of billed rent from a diversified portfolio of real estate properties, insurance securitizations and residual value insurance (RVI) transactions. Insurance securitizations include life insurance transactions that provide U.S. life insurers and reinsurers capital relief from the excess statutory reserves they are required to hold by U.S. state regulators over what the respective life insurers and reinsurers believe are necessary for level premium term insurance securitization policies. RVI policies guarantee that a specific, properly maintained asset will have a specified value at a specified future date.

The Company has a portfolio of financial guaranty reinsurance under quota share treaties. Financial guaranty insurance policies provide an unconditional and irrevocable guaranty that protects the holder of a financial obligation against non-payment of scheduled principal and interest (debt service) when due. Upon an obligor's default on scheduled principal or interest payments due on the obligation, the primary insurer is required under the financial guaranty policy to pay the principal or interest shortfall. Under a reinsurance agreement, the reinsurer, in consideration of a premium paid to it, agrees to indemnify another insurer, called the ceding company, for part or all of the liability of the ceding company under one or more insurance policies that the ceding company has issued. While the Company has not provided new financial guaranty reinsurance in the recent past, it may do so again in the future.

#### Basis of Presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). In management's opinion, all material adjustments necessary for a fair statement of the financial condition, results of operations and cash flows of the Company are reflected in the periods presented and are of a normal recurring nature. 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 AGRO and its subsidiary. Intercompany accounts and transactions between and among AGRO and its subsidiary have been eliminated. Certain prior year balances have been reclassified to conform to the current year's presentation.

#### Significant Accounting Policies

The Company revalues foreign currency denominated assets, liabilities, revenue and expenses into U.S. dollars using applicable exchange rates prescribed by GAAP. Gains and losses relating to translating transactions in foreign denominations are reported in the consolidated statements of operations.

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

Other accounting policies are included in the following notes to the consolidated financial statements.

**Accounting Policies**

Note Name	Note Number
Premium revenue recognition	Note 3
Loss and loss adjustment expense	Note 4
Policy acquisition costs	Note 5
Reinsurance	Note 6
Guaranty	Note 7
Investments and cash	Note 8
Fair value measurement	Note 9
Income taxes	Note 10
Related party transactions	Note 12
Commitments and contingencies	Note 13

**Recent Accounting Standards Adopted**

***Targeted Improvements to the Accounting for Long-Duration Contracts***

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-12, *Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. The Company's adoption of this ASU on January 1, 2023 did not have any effect on the Company's consolidated financial statements.

**Recent Accounting Standards Not Yet Adopted**

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. The amendments require enhanced annual disclosures regarding the rate reconciliation and income taxes paid. This ASU is effective for fiscal years beginning after December 15, 2024. The Company will apply the amendments in this ASU prospectively to all annual periods beginning after December 15, 2024. The Company is evaluating the effect that the adoption of this ASU may have on its disclosures.

**2. Outstanding Exposure**

The Company's outstanding exposure consists of direct and assumed reinsurance of specialty business (e.g. excess-of-loss guaranties of a minimum amount of billed rent from a diversified portfolio of real estate properties, insurance securitizations and RVI) and financial guaranty. Approximately 46% and 75% of its gross outstanding exposure was assumed exposure as of December 31, 2023 and December 31, 2022, respectively. The Company's specialty business not executed in financial guaranty form have risk profiles similar to those of its structured finance exposures written in financial guaranty form.

**Specialty Business**

***Insurance Securitizations***

Insurance securitizations include life insurance transactions that provide U.S. life insurers and reinsurers capital relief from the excess statutory reserves they are required to hold by U.S. state regulators over what the respective life insurers and reinsurers believe are necessary for level premium term life insurance policies. The Company underwrites insurance securitization transactions by evaluating the amount and type of assets supporting the excess statutory reserves for a pool of insurance securitization policies. The Company would be required to pay reinsurance claims if mortality rates in the insured pool significantly exceeded currently expected mortality rates and if the assets supporting the excess statutory reserves to cover such an increase in mortality rates were exhausted.

The Company has executed insurance securitizations in both specialty insurance and reinsurance form and financial guaranty form (such transactions executed in financial guaranty form are included in the structured finance financial guaranty insurance exposure totals in this note).

## ***RVI***

RVI policies guarantee that a specific, properly maintained asset will have a specified value at a specified future date, or strike date. The Company seeks to limit its exposure to losses by underwriting aviation assets that it views as investment grade at inception, diversifying its insured portfolio across aircraft types and policy strike dates. This approach is designed to reduce the Company's exposure to the severe devaluation of a specific aircraft type or a temporary disruption in the overall aviation market. The RVI policy amount is set at or below a stressed forecasted value for the asset, so that the asset value would need to be below the stressed forecasted amount on the strike date for payment to be due under the RVI policy, with the loss under the RVI policy being the difference between the RVI amount and the amount recovered on the asset. Payment under the policy is contingent upon several factors, including, but not limited to, the asset being delivered to an agreed upon location in a satisfactory condition and without any liens, with deductions being made for any required repairs or improvements. The Company may choose to obtain additional reinsurance for its aircraft RVI reinsurance portfolio in the future in order to manage the size of the total portfolio and the exposure to specific aircraft types. The Company's RVI transactions were executed in specialty insurance and reinsurance form.

## ***Other Guaranties***

Other guaranties in specialty business include an excess-of-loss guaranty of a minimum amount of billed rent on a diversified portfolio of real estate properties with an internal rating of AA that matures in 2042. The Company's maximum potential exposure under this guaranty, which is accounted for in accordance with Accounting Standards Codification (ASC) 460, *Guarantees*, was \$1,569.40 million as of December 31, 2023. See Note 7, *Guaranty*, for additional information.

## **Financial Guaranty**

The Company measures its financial guaranty exposure in terms of (i) gross and net par outstanding and (ii) gross and net debt service.

In its financial guaranty reinsurance business, the Company typically reinsures the ceding companies' guaranties of the payment of debt service when due. Since most of these payments are due in the future, the Company generally uses gross and net par outstanding as a proxy for its financial guaranty exposure. Gross par outstanding generally represents the principal amount of the insured obligation at a point in time. Net par outstanding equals gross par outstanding net of any reinsurance. The Company includes in its par outstanding calculation the impact of any consumer price index inflator to the reporting date as well as, in the case of accreting (zero-coupon) obligations, accretion to the reporting date. Non-U.S. dollar denominated par outstanding is translated at the spot rate at the end of the reporting period.

Gross debt service outstanding represents the sum of all estimated future debt service payments on the insured obligations, on an undiscounted basis. Net debt service outstanding equals gross debt service outstanding net of any reinsurance. Future debt service payments include the estimated impact of any consumer price index inflator after the reporting date, as well as, in the case of accreting (zero-coupon) obligations, accretion after the reporting date. The Company insures obligations supported by non-homogeneous pools of assets.

The Company calculates its debt service outstanding as the total estimated contractual future debt service due through maturity, regardless of whether the obligations may be called and regardless of whether, in the case of obligations where principal payments are due when an underlying asset makes a principal payment, the Company believes the obligations will be repaid prior to contractual maturity.

The calculation of debt service requires the use of estimates, which the Company updates periodically, including updated interest rates for variable rate insured obligations and other assumptions based on the characteristics of each insured obligation. Debt service is a measure of the estimated maximum potential exposure to insured obligations before considering the Company's various legal rights to the underlying collateral and other remedies available to it under its financial guaranty contract.

Actual debt service may differ from estimated debt service due to refundings, terminations, negotiated restructurings, prepayments, changes in interest rates on variable rate insured obligations and other factors.

The Company seeks to limit its exposure to losses by underwriting obligations that it views to be investment grade at inception, diversifying its insured portfolio across sector and geography and, in the structured finance portfolio, generally requires subordination or collateral to protect it from loss. Reinsurance may be used in order to reduce net exposure to certain

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

insured transactions. While the Company has not provided new financial guaranty reinsurance in the recent past, it may do so again in the future.

Public finance obligations covered by financial guaranty insurance assumed by the Company primarily consist 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 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, healthcare facilities and government office buildings.

Structured finance obligations covered by financial guaranty insurance assumed 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 of the Company's indirect parent, AGL, is responsible for enterprise risk management for Assured Guaranty's insurance business and focuses on measuring and managing credit, market and liquidity risk for Assured Guaranty's insurance business. This committee establishes Assured Guaranty-wide credit policy for Assured Guaranty's direct and assumed insured business. It implements specific underwriting procedures and limits for Assured Guaranty and allocates underwriting capacity among AGL's insurance subsidiaries, including the Company. All transactions in new asset classes or new jurisdictions, or outside AGL's Board-approved risk appetite statement or risk limits, must be approved by this committee.

Separate from AGL's Portfolio Risk Management Committee, the Company has its own risk management, credit and reserve committees. The Company's risk management committee conducts an in-depth review of the Company's insured portfolio, focusing on varying portions of the portfolio at regular, periodic meetings. The Company's risk management committee reviews and may revise internal ratings assigned to the insured transactions and reviews sector reports, monthly product line surveillance reports and compliance reports.

All transactions in the Company's insured portfolio are assigned internal credit ratings by the relevant Company underwriting committee at the transaction's inception, which credit ratings are updated by the risk management committee based on changes in transaction credit quality. The Company's reserve committee reviews the reserve methodology for each major asset class or significant below-investment-grade (BIG) transaction, as well as loss projection scenarios and the probability weights assigned to those scenarios. The reserve committee also establishes reserves for AGRO, taking into consideration the supporting information provided by surveillance personnel and subject to approval by the board of directors. As part of the surveillance process, the Company monitors trends and changes in transaction credit quality and recommends such remedial actions as may be necessary or appropriate; however, most loss mitigation occurs at the Company's ceding companies, which are primarily liable for the Company's assumed obligations. The Company's ceding companies, including the Company's affiliates Assured Guaranty Municipal Corp. (AGM) and Assured Guaranty Corp. (AGC), also develop strategies to enforce their contractual rights and remedies and to mitigate their losses, engage in negotiations with transaction participants and, when necessary, manage any litigation proceedings. The Company generally assumes its proportionate share of any net benefits realized by the ceding company for loss mitigation strategies.

### **Surveillance Categories**

The Company segregates its insured portfolio into investment grade and BIG surveillance categories to facilitate the appropriate allocation of resources to monitoring and loss mitigation efforts and to aid in establishing the appropriate cycle for periodic review of 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 generally reflect an approach similar to that employed by the rating agencies, except that the Company's internal credit ratings focus on future performance, rather than lifetime performance.

The Company monitors its insured portfolio and refreshes its internal credit ratings on individual exposures in quarterly, semi-annual or annual cycles based on the Company's view of the exposure's credit quality, loss potential, volatility

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

and sector. Ratings on exposures in sectors identified as under the most stress or with the most potential volatility are reviewed every quarter, although the Company may also review a rating in response to developments impacting a credit when a ratings review is not scheduled. For assumed exposures, the Company may use the ceding company's credit ratings of transactions where it is impractical for it to assign its own rating.

Exposures identified as BIG are subjected to further review to determine the probability of a loss. See Note 4, Losses. Surveillance personnel then assign each BIG transaction to one of the three BIG surveillance categories described below based upon whether a future loss is expected and whether a claim has been paid. The Company uses pre-tax investment portfolio book yields to calculate the present value of projected payments and recoveries and determine whether a future loss is expected in order to assign the appropriate BIG surveillance category to a transaction. For financial statement measurement purposes, the Company uses risk-free rates, which are determined each quarter, to calculate the expected loss.

More extensive monitoring and intervention are employed for all BIG surveillance categories, with internal credit ratings reviewed quarterly. For purposes of determining the appropriate surveillance category, 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 in the future pay claims on that transaction that will not be fully reimbursed. The three BIG surveillance categories are:

- BIG Category 1: Below-investment-grade transactions showing sufficient deterioration to make future losses possible, but for which none are currently expected.
- BIG Category 2: Below-investment-grade transactions for which future losses are expected but for which no claims (other than liquidity claims, which are claims that the Company expects to be reimbursed within one year) have yet been paid.
- BIG Category 3: Below-investment-grade transactions for which future losses are expected and on which claims (other than liquidity claims) have been paid.

**Gross and Net Exposure**

Sector	As of December 31, 2023		As of December 31, 2022	
	Gross	Net	Gross	Net
	(in thousands)			
Insurance securitizations	\$ 1,370,393	\$ 1,043,418	\$ 1,313,795	\$ 986,204
RVI	355,101	200,048	355,101	200,048
Other guaranties	2,056,997	2,056,997	228,302	228,302
Financial guaranty U.S. public finance	59,620	59,620	71,855	71,855
Financial guaranty non-U.S. public finance	89,892	89,892	167,730	167,730
Financial guaranty U.S. structured finance	300,000	—	—	—
Total exposure	<u>\$ 4,232,003</u>	<u>\$ 3,449,975</u>	<u>\$ 2,136,783</u>	<u>\$ 1,654,139</u>

**Net Exposure (1) by Internal Rating**  
**As of December 31, 2023**

Rating Category	Insurance securitizations		RVI		Other Guaranties		Financial Guaranty		Total	
	Net Exposure	%	Net Exposure	%	Net Exposure	%	Net Exposure	%	Net Exposure	%
	(dollars in thousands)									
AAA	\$ —	— %	\$ —	— %	\$ —	— %	\$ —	— %	\$ —	— %
AA	1,043,418	100.0	—	—	1,569,397	76.3	5,871	3.9	2,618,686	75.9
A	—	—	—	—	487,600	23.7	5,529	3.7	493,129	14.3
BBB	—	—	116,197	58.1	—	—	138,109	92.4	254,306	7.4
BIG (2)	—	—	83,851	41.9	—	—	3	—	83,854	2.4
Total net exposure	<u>\$ 1,043,418</u>	<u>100.0 %</u>	<u>\$ 200,048</u>	<u>100.0 %</u>	<u>\$ 2,056,997</u>	<u>100.0 %</u>	<u>\$ 149,512</u>	<u>100.0 %</u>	<u>\$ 3,449,975</u>	<u>100.0 %</u>

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

**Net Exposure (1) by Internal Rating**  
**As of December 31, 2022**

Rating Category	Insurance securitizations		RVI		Other Guaranties		Financial Guaranty		Total	
	Net Exposure	%	Net Exposure	%	Net Exposure	%	Net Exposure	%	Net Exposure	%
(dollars in thousands)										
AAA	\$ —	—%	\$ —	—%	\$ —	—%	\$ —	—%	\$ —	—%
AA	986,204	100.0	—	—	228,302	100.0	8,314	3.5	1,222,820	73.9
A	—	—	—	—	—	—	8,067	3.4	8,067	0.5
BBB	—	—	116,197	58.1	—	—	223,199	93.1	339,396	20.5
BIG (2)	—	—	83,851	41.9	—	—	5	—	83,856	5.1
Total net exposure	<u>\$ 986,204</u>	<u>100.0 %</u>	<u>\$ 200,048</u>	<u>100.0 %</u>	<u>\$ 228,302</u>	<u>100.0 %</u>	<u>\$ 239,585</u>	<u>100.0 %</u>	<u>\$ 1,654,139</u>	<u>100.0 %</u>

- (1) Exposure for insurance securitizations, RVI transactions, other guaranties, and par outstanding for financial guaranty contracts are shown net of any reinsurance ceded.
- (2) As of both December 31, 2023 and December 31, 2022, BIG exposure related to six risks. As of both December 31, 2023 and December 31, 2022, gross RVI BIG exposure was \$143.85 million. A risk represents the aggregate of the insurance policies that share the same revenue source for purposes of making debt service payments.

**Exposure, Net of Reinsurance**  
**by Sector**

Sector	As of December 31,	
	2023	2022
(in thousands)		
Specialty business		
Insurance securitizations (1)	\$ 1,043,418	\$ 986,204
RVI	200,048	200,048
Other guaranties	2,056,997	228,302
Total specialty business	<u>\$ 3,300,463</u>	<u>\$ 1,414,554</u>
Financial guaranty		
U.S. public finance:		
General obligation	\$ 52,029	\$ 62,600
Transportation	4,216	4,789
Municipal utilities	2,704	3,703
Tax-backed	671	763
U.S. public finance	<u>59,620</u>	<u>71,855</u>
Non-U.S. public finance:		
Regulated utilities	89,892	167,730
Non-U.S. public finance	<u>89,892</u>	<u>167,730</u>
Total financial guaranty	<u>\$ 149,512</u>	<u>\$ 239,585</u>
Total net exposure	<u>\$ 3,449,975</u>	<u>\$ 1,654,139</u>

- (1) The insurance securitizations net exposure is projected to reach \$1.2 billion in 2026.

Actual amortization differs from expected maturities because borrowers may have the right to call or prepay certain obligations, terminations and because of management's assumptions on structured finance amortization. The expected maturities of structured finance obligations are, in general, shorter than the contractual maturities for such obligations.

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

**Expected Amortization of Net Exposure**  
**As of December 31, 2023**

	Insurance securitizations (1)	RVI	Other Guaranties	Financial Guaranty	Total
	(in thousands)				
0 to 5 years	\$ (116,801)	\$ 118,649	\$ 866,407	\$ 26,274	\$ 894,529
5 to 10 years	292,437	81,399	401,823	103,781	879,440
10 to 15 years	867,782	—	427,133	15,228	1,310,143
15 to 20 years	—	—	361,634	4,229	365,863
Total net exposure	<u>\$ 1,043,418</u>	<u>\$ 200,048</u>	<u>\$ 2,056,997</u>	<u>\$ 149,512</u>	<u>\$ 3,449,975</u>

(1) The insurance securitizations net exposure is expected to continue to increase over the next three years.

**Additional Information Regarding the Financial Guaranty Portfolio**

**Financial Guaranty Portfolio**  
**Debt Service Outstanding**

Sector	As of December 31, 2023		As of December 31, 2022	
	Gross	Net	Gross	Net
	(in thousands)			
U.S. public finance	\$ 83,300	\$ 83,300	\$ 102,284	\$ 102,284
Non-U.S. public finance	89,892	89,892	167,730	167,730
U.S. structured Finance	300,000	—	—	—
Total financial guaranty portfolio	<u>\$ 473,192</u>	<u>\$ 173,192</u>	<u>\$ 270,014</u>	<u>\$ 270,014</u>

**3. Premiums**

**Accounting Policies**

***Insurance Securitizations and RVI (Specialty Insurance and Reinsurance)***

For insurance securitizations, the unearned premium reserve is equal to the amount of contractual premiums currently due. The Company then recognizes that insurance securitization unearned premium reserve when premiums are due. For RVI transactions, the amount of unearned premium reserve at contract inception is equal to the cash premiums received upfront. The Company then recognizes that RVI unearned premium reserve as earned premium over the remaining contract period in proportion to the amount of insurance protection provided. For insurance securitization and reinsurance, premiums receivable consist of the amount of contractual premiums currently due.

***Financial Guaranty Insurance***

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 is consistent whether contracts are written on a direct basis, assumed from another financial guarantor under a reinsurance treaty or ceded to another insurer under a reinsurance treaty.

Premiums receivable represent the present value of contractual or expected future premium collections discounted using risk free rates. Unearned premium reserve represents deferred premium revenue that has not yet been recognized in the statement of operations.

The amount of deferred premium revenue at contract inception is determined as follows:

- For premiums received upfront on financial guaranty insurance contracts, 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, deferred premium revenue is the present value (discounted at risk free rates) of contractual premiums due. Installment premiums typically relate to



**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

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.

Premiums receivable are discounted at the risk-free rate at inception.

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 par 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 par amounts outstanding in the reporting period compared with the sum of each of the insured par amounts outstanding for all periods. When an insured financial obligation is retired before its maturity, the financial guaranty insurance contract is extinguished, and any nonrefundable deferred premium revenue related to that contract is accelerated and recognized as premium revenue. The Company assesses the need for an allowance for credit loss on premiums receivables each reporting period.

***Reinsurance***

For assumed reinsurance contracts, net earned premiums reported in the 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 net 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 assumed reinsurance contracts, the Company assesses the credit quality and available liquidity of the ceding companies and the impact of any potential regulatory constraints to determine the collectability of such amounts. The accounting model used for premium and loss recognition is based on the underlying contracts of the ceding company as described below.

Ceded unearned premium reserve is recorded as an asset. Direct, assumed and ceded earned premiums are presented together as net earned premiums in the statement of operations. See Note 6, Reinsurance, for a breakout of direct, assumed and ceded premiums.

***Insurance Contracts' Premium Information***

**Net Earned Premiums**

	Year Ended December 31,	
	2023	2022
	(in thousands)	
Insurance securitizations	\$ 2,424	\$ 2,297
RVI	1,867	1,508
Financial guaranty insurance:		
Scheduled net earned premiums	3	109
Accelerations from refundings	2	2
Financial guaranty insurance	5	111
Net earned premiums	<u>\$ 4,296</u>	<u>\$ 3,916</u>

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

**Components of  
Unearned Premium Reserve**

	As of December 31, 2023			As of December 31, 2022		
	Gross	Ceded	Net	Gross	Ceded	Net
	(in thousands)					
Insurance securitizations and RVI	\$ 13,867	\$ 5,803	\$ 8,064	\$ 16,948	\$ 7,475	\$ 9,473
Financial guaranty:						
Deferred premium revenue	15,167	15,157	10	16	—	16
Contra-paid (1)	(1)	—	(1)	(3)	—	(3)
Unearned premium reserve	15,166	15,157	9	13	—	13
Total	<u>\$ 29,033</u>	<u>\$ 20,960</u>	<u>\$ 8,073</u>	<u>\$ 16,961</u>	<u>\$ 7,475</u>	<u>\$ 9,486</u>

(1) Contra-paid reflects claim payments that are recorded when there is no loss and loss adjustment expense (LAE) reserve on a contract.

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

	Year Ended December 31,	
	2023	2022
	(in thousands)	
Beginning of year	\$ 746	\$ 707
Less: Specialty insurance premium receivable	746	707
Financial guaranty insurance premiums receivable	—	—
Gross premiums written, net of commissions	13,672	—
Adjustments:		
Accretion of discount, net of commissions on assumed business	42	—
Financial guaranty insurance premium receivable	13,714	—
Specialty insurance premium receivable	1,122	746
December 31,	<u>\$ 14,836</u>	<u>\$ 746</u>

As of December 31, 2023, there are no gross premiums receivable denominated in currencies other than the U.S. dollar. Approximately 11% of gross premiums receivable as of December 31, 2022 are denominated in currencies other than the U.S. dollar.

The timing and cumulative amount of actual collections and net earned premiums may differ from those of expected collections and of expected net earned premiums in the table below due to factors such as counterparty collectability issues, accelerations, commutations, changes in expected lives and new business.

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

**Financial Guaranty Insurance**  
**Expected Future Premium Earnings (1)**

	As of December 31, 2023	
	Future Gross Premiums to be Collected (1)	Future Premiums to be Earned (2)
	(in thousands)	
2024 (January 1 – March 31)	\$ 936	\$ —
2024 (April 1 – June 30)	449	1
2024 (July 1 – September 30)	449	—
2024 (October 1 – December 31)	439	1
Subtotal 2024	<u>2,273</u>	<u>2</u>
2025	1,779	2
2026	1,779	2
2027	1,784	2
2028	1,779	1
2029-2033	6,688	1
Total	<u>\$ 16,082</u>	<u>10</u>
Future accretion		—
Total future net earned premiums		<u>\$ 10</u>

(1) Net of assumed commissions payable.

(2) Net of reinsurance.

**Selected Information for Financial Guaranty Insurance Policies with Premiums Paid in Installments**

	As of December 31,	
	2023	
	(dollars in thousands)	
Premiums receivable, net of commissions payable	\$	13,714
Deferred premium revenue		15,157
Weighted-average risk-free rate used to discount premiums		4.0%
Weighted-average period of premiums receivable (in years)		4.4

**4. Losses**

**Accounting Policies**

Loss and LAE reserve reported on the balance sheet relates only to direct and assumed reinsurance contracts. The corresponding reserve ceded to reinsurers is reported as “reinsurance recoverable on unpaid losses” and reported in “other assets.”

Under financial guaranty insurance accounting, the sum of unearned premium reserve and loss and LAE reserve represents the Company’s stand-ready obligation. At contract inception, the entire stand-ready obligation is represented entirely by unearned premium reserve. A loss and LAE reserve for a financial guaranty insurance contract is recorded only to the extent, and for the amount, that expected loss to be paid exceeds the deferred premium revenue on a contract by contract basis. As a result, the Company has expected loss to be paid on financial guaranty contracts that has not yet been expensed. Such amounts will be recognized in future periods as deferred premium revenue amortizes into income.

For specialty insurance and reinsurance, unearned premium reserve is not considered in the reported loss and LAE reserves on the consolidated balance sheet. Loss and LAE reserves for specialty insurance and reinsurance consist of the estimates of unpaid reported losses and estimates for incurred but not reported losses. The reserve for unpaid reported losses, established by management based on reports from ceding companies, represents the estimated ultimate cost of events or conditions that have been reported to or specifically identified by the Company. Such reserves may be supplemented, as necessary, by management’s estimates of other losses. These estimates are reviewed regularly and, as experience develops and

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, are reflected in the statement of operations in the period in which they are determined.

When the Company becomes entitled to the cash flow from the underlying collateral of an insured exposure 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 a reduction in the corresponding loss and LAE reserve with a benefit to the income statement 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.

***Expected Loss to be Expensed For Financial Guaranty Insurance***

Expected loss to be expensed represents past or expected future financial guaranty insurance net claim payments that have not yet been expensed. Expected loss to be expensed is the Company's projection of incurred losses that will be recognized in future periods, excluding accretion of discount.

**Expected Loss to be Paid (Recovered)**

Net expected loss to be paid (recovered) is equal to the present value of expected future cash outflows for loss and LAE payments, net of (i) inflows for expected salvage, subrogation and other recoveries, and (ii) excess spread on underlying collateral, as applicable. Cash flows are discounted at current risk-free rates. The Company updates the discount rates each quarter and reflects the effect of such changes in economic loss development.

Expected cash outflows and inflows are probability weighted cash flows that reflect management's assumptions about the likelihood of all possible outcomes based on all information available to the Company. Those assumptions consider the relevant facts and circumstances and are consistent with the information tracked and monitored through the Company's surveillance and risk-management functions. Expected loss to be paid (recovered) is important in that it represents the present value of amounts that the Company expects to pay or recover in future periods for all contracts.

Economic loss development represents the change in net expected loss to be paid (recovered) attributable to the effects of changes in the economic performance of insured transactions, changes in assumptions based on observed market trends, changes in discount rates, accretion of discount and the economic effects of loss mitigation efforts.

In order to effectively evaluate and manage the economics and liquidity of the entire insured portfolio, management assigns ratings and calculates expected loss to be paid (recovered), on a contract-by-contract basis, in the same manner for all its exposures regardless of form or differing accounting models.

**Loss Estimation Process**

The Company's loss reserve committee estimates expected loss to be paid (recovered) for all contracts by reviewing analyses that consider various scenarios with corresponding probabilities assigned to them. Depending upon the characteristics 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, sector-driven loss severity assumptions and/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. Each quarter, the Company's loss reserve committee reviews and refreshes its loss projection assumptions, scenarios and the probabilities it assigns to those scenarios based on actual developments during the period and its view of future performance.

The exposures reinsured or insured by the Company may cover an extended period of time, in some cases over 30 years, and in most circumstances the Company has no right to cancel such reinsurance or insurance. As a result, the Company's estimate of ultimate loss on a policy is subject to significant uncertainty over the life of the reinsurance contract. Credit performance can be adversely affected by economic, fiscal and financial market variability, and the market for assets (for RVI transactions) over the life of most contracts.

The Company does not use traditional actuarial approaches to determine its estimates of expected losses. The determination of expected loss to be paid (recovered) is an inherently subjective process involving numerous estimates, assumptions and judgments by management, using both internal and external data sources with regard to frequency, and severity of loss, economic projections, governmental actions, legal developments, negotiations, recovery rates, delinquency and

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

prepayment rates, timing of cash flows, and other factors that affect credit performance. These estimates, assumptions and judgments, and the factors on which they are based, may change materially over a reporting period, and have a material effect on the Company's financial statements. Each quarter, the Company may revise its scenarios and update its assumptions including the probability weightings of its scenarios based on public as well as nonpublic information obtained through its surveillance and loss mitigation activities.

Changes in the Company's loss estimates for structured finance transactions generally will be influenced by factors impacting the performance of the assets supporting those transactions.

Net economic loss development (benefit) over a reporting period may be attributable to a number of interrelated factors such as changes in discount rates, improvement or deterioration of transaction performance, changes in charge-offs, loss mitigation activity, changes to projected default curves, changes in severity rates, and outcome of disputed issues. Actual losses will ultimately depend on future events, transaction performance or other factors that are difficult to predict. As a result, the Company's current projections of losses may be subject to considerable volatility and may not reflect the Company's ultimate claims paid.

The following table presents a roll forward of net expected loss to be paid (recovered) for all contracts. The net expected loss to be paid (recovered) included in the table has been discounted by the Company using the appropriate risk-free rates for U.S. dollar denominated obligations, that ranged from 3.79% to 5.40% with a weighted average of 4.66% as of December 31, 2023 and 3.82% to 4.69% with a weighted average of 4.23% as of December 31, 2022.

**Net Expected Loss to be Paid (Recovered)**  
**Roll Forward (1)**

	Year Ended December 31,	
	2023	2022
	(in thousands)	
Net expected loss to be paid (recovered), beginning of period (2)	\$ 4,019	\$ 4,812
Economic loss development (benefit) due to:		
Accretion of discount	170	40
Changes in discount rates	4	(338)
Changes in timing and assumptions	(1,221)	(495)
Total economic loss development (benefit)	(1,047)	(793)
Net (paid) recovered losses (3)	10	—
Net expected loss to be paid (recovered), end of period (1)	<u>\$ 2,982</u>	<u>\$ 4,019</u>

- (1) See below for additional information on the roll forward of specialty insurance and reinsurance reserves and losses and LAE and reinsurance recoverable.
- (2) There was no expected LAE to be paid as of December 31, 2023 and December 31, 2022.
- (3) Includes LAE paid of zero and zero for the years ended December 31, 2023 and 2022, respectively.

The Company had BIG exposure of \$83.85 million and \$83.86 million as of December 31, 2023 and December 31, 2022, respectively, substantially all of which is RVI. Expected loss to be paid was \$2.98 million and \$4.02 million as of December 31, 2023 and December 31, 2022, respectively, and was primarily attributable to certain aircraft RVI exposures.

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

**Insurance Contracts' Loss Information**

The following table provides a reconciliation of the beginning and ending balances of specialty insurance and reinsurance reserves for losses and LAE and reinsurance recoverable. Losses incurred and paid are presented on a net basis.

**Rollforward of Specialty Insurance and Reinsurance  
Reserves for Losses and LAE**

	Year Ended December 31,	
	2023	2022
	(in thousands)	
Balance as of January 1	\$ 6,109	\$ 7,117
Less: Reinsurance recoverable	2,090	2,305
Net loss and LAE reserve balance as of January 1	4,019	4,812
Less: Salvage and subrogation recoverable, net of reinsurance as of January 1	—	—
Net loss reserves (salvage) balance as of January 1	4,019	4,812
Incurred losses and LAE related to:		
Current year	—	—
Prior years	(1,047)	(793)
Total incurred losses and LAE	(1,047)	(793)
Loss and LAE and salvage (paid) recovered related to:		
Current year	—	—
Prior years	—	—
Total loss and LAE and salvage (paid) recovered	—	—
Salvage and subrogation recovered	10	—
Net loss reserves (salvage) balance as of December 31	2,982	4,019
Plus: Salvage and subrogation recoverable, net of reinsurance	148	—
Plus: Reinsurance recoverable (1)	1,551	2,090
Balance as of December 31	<u>\$ 4,681</u>	<u>\$ 6,109</u>

(1) Reported in "other assets" on the consolidated balance sheets.

The net loss reserve for specialty insurance and reinsurance as of both December 31, 2023 and 2022 relates to RVI. In addition, the loss and LAE for specialty insurance and reinsurance is primarily related to RVI. The following tables present the loss and LAE and the paid loss and LAE, net of reinsurance for RVI.

**Incurred Claims and Allocated Adjustment Expenses, Net of Reinsurance**

Accident Year	Years Ended December 31,			
	2020 (Unaudited)	2021 (Unaudited)	2022 (Unaudited)	2023
	(in thousands)			
2020	\$ 2,548	\$ 3,335	\$ 2,749	\$ 2,408
2021		2,932	2,725	2,019
2022			—	—
2023				—
Total				<u>\$ 4,427</u>

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

**Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance**

Accident Year	Years Ended December 31,			
	2020 (Unaudited)	2021 (Unaudited)	2022 (Unaudited)	2023
	(in thousands)			
2020	\$ 7,933	\$ 1,455	\$ 1,455	\$ 1,445
2021		—	—	—
2022			—	—
2023				—
Total				\$ 1,445
Loss reserve, net of reinsurance				\$ 2,982

The loss and LAE (benefit) for the years ended December 31, 2023 and 2022 were \$(1.0) million and \$(0.8) million, respectively, and related to RVI.

**5. Policy Acquisition Costs**

**Accounting Policy**

Deferred acquisition costs (DAC) reported on the consolidated balance sheet represent the unamortized portion of (i) policy acquisition costs that are directly related and essential to the successful acquisition of an insurance contract and (ii) ceding commission income and expense. Deferred policy acquisition costs include the cost of underwriting personnel attributable to successful underwriting efforts. The Company conducts an annual time study, which requires the use of judgment, to estimate the amount of costs to be deferred.

DAC is generally amortized in proportion to net earned premiums. Amortization of deferred policy acquisition costs includes the accretion of discount on ceding commission receivable and payable. When an insured obligation is retired early, the remaining related DAC is expensed at that time.

Costs incurred for soliciting potential customers, market research, training, administration, unsuccessful acquisition efforts, and product development as well as overhead costs are charged to expense as incurred.

Expected losses and LAE, investment income, and the remaining costs of servicing the insured or reinsured business, are considered in determining the recoverability of DAC.

**Policy Acquisition Costs**

**Roll Forward of Deferred Acquisition Costs**

	Year Ended December 31,	
	2023	2022
	(in thousands)	
Beginning of year	\$ 2,484	\$ 1,602
Deferrals	(807)	1,225
Amortization	(195)	(343)
December 31,	\$ 1,482	\$ 2,484

**6. Reinsurance**

The Company assumes exposure (Assumed Business) and cedes portions of exposure it has insured or assumed (Ceded Business) in exchange for premiums, net of any ceding commissions. The Company historically entered into, and with respect to new business continues to enter into, ceded reinsurance contracts in order to reduce the Company's net potential loss on ceded business to levels within the Company's risk tolerance.

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

**Accounting Policy**

For business assumed and ceded, the accounting model used is the same model as would be used if the Company wrote the underlying contract directly instead of assuming it (see Note 3, Premiums, and Note 4, Losses).

**Financial Guaranty Business**

The Company assumes financial guaranty business from affiliated companies and third-party insurers, primarily other monoline financial guaranty companies that currently are in runoff and no longer actively writing new business. Under these relationships, the Company assumes a portion of the ceding company's insured risk in exchange for a portion of the ceding company's premium for the insured risk (typically, net of a ceding commission). The Company, if required, secures its reinsurance obligations to its affiliated and non-affiliated ceding companies, typically by depositing in trust assets with a market value equal to its assumed liabilities calculated on a statutory basis of accounting.

The Company's facultative and treaty assumed agreements are generally subject to termination at the option of the ceding company: (i) if the Company fails to meet certain financial and regulatory criteria; (ii) if the Company fails to maintain a specified minimum financial strength rating; or (iii) upon certain changes of control of the Company.

Upon termination due to one of the above events, the Company typically would be required to return to the ceding company unearned premiums (net of ceding commissions) and loss reserves, calculated on a U.S. statutory basis, attributable to the Assumed Business, after which the Company would be released from liability with respect to such business.

**Effect of Reinsurance**

The following table presents the components of premiums and losses reported in the consolidated statements of operations attributable to the Assumed and Ceded Businesses (both financial guaranty and specialty). See Note 12, Related Party Transactions, for balances with affiliates.

**Components of Premiums Written, Premiums Earned and Loss and LAE (Benefit)**

	Year Ended December 31,	
	2023	2022
(in thousands)		
Premiums Written:		
Assumed	\$ 18,544	\$ 2,803
Ceded	(15,662)	(450)
Net	<u>\$ 2,882</u>	<u>\$ 2,353</u>
Premiums Earned:		
Direct	\$ 1,642	\$ 1,327
Assumed	4,878	4,609
Ceded	(2,224)	(2,020)
Net	<u>\$ 4,296</u>	<u>\$ 3,916</u>
Loss and LAE (benefit):		
Direct	\$ (1,245)	\$ (364)
Assumed	(341)	(630)
Ceded	539	201
Net	<u>\$ (1,047)</u>	<u>\$ (793)</u>



**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

**Exposubire to Non-Affiliated Reinsurers (1)**

	As of December 31,	
	2023	2022
	(in thousands)	
Ceded premium payable, net of commissions	\$ 13,833	\$ 114
Ceded expected loss to be recovered	1,550	2,146
Ceded unearned premium reserve	20,960	7,475
Financial guaranty ceded par outstanding (2)	300,000	—
Specialty ceded exposure (see Note 2)	482,028	482,644

- (1) The total collateral posted by third-party reinsurers was \$5.47 million as of December 31, 2023. There was no collateral posted by third-party reinsurers as of December 31, 2022. See Note 12, Related Party Transactions, for information on affiliated reinsurers.
- (2) All ceded par was rated investment grade as of December 31, 2023.

**7. Guaranty**

**Accounting Policy**

As described in Note 2, Outstanding Exposure, the Company guarantees a minimum amount of billed rent from a diversified portfolio of real estate properties. The Company accounts for the guarantee in accordance with ASC 460, *Guarantees*.

At inception, the Company records a noncontingent guaranty liability, which pertains to the Company's obligation to stand ready to perform over the term of the guaranty. The noncontingent guaranty liability is recognized at inception at fair value using the guaranty fee receivable by the Company as a practical expedient. The noncontingent guaranty liability is amortized over the term of the guaranty. The Company's contingent guaranty liability is estimated to be zero at the inception of the guaranty and will only be accrued at a future date to the extent that an estimated loss becomes probable and estimable.

**Guaranty Fee Receivable, Guaranty Liability and Guaranty Fees Earned**

The guaranty fee receivable and noncontingent guaranty liability are reported on the consolidated balance sheets and the guaranty fees earned are reported on the consolidated statements of operations.

**8. Investments and Cash**

**Accounting Policy**

All fixed-maturity securities are reported on a trade date basis, measured at fair value and classified as available-for-sale. Unrealized gains and losses on available-for-sale fixed-maturity securities are reported in accumulated other comprehensive income (AOCI). Realized gains and losses on sales of available-for-sale fixed-maturity debt securities and credit losses are reported as a component of net income.

Short-term investments, which are investments with a maturity of less than one year at the time of purchase, are carried at fair value and include amounts deposited in certain money market funds.

The equity method investment consists of an investment in a fund managed by an affiliate, Sound Point Capital Management, LP and certain of its investment management affiliates (Sound Point). The Company reports its interest in the earnings of equity method investments in "equity in earnings (losses) of investees" in the consolidated statement of operations. Equity method investment is reported on a one-quarter lag.

Cash consists of cash on hand and demand deposits.

Net investment income includes the income earned on fixed-maturity securities, short-term investments and loan receivable from affiliate, including amortization of premiums and accretion of discounts. For mortgage-backed securities and any other securities for which there is prepayment risk, prepayment assumptions are evaluated quarterly and revised as necessary. For securities other than purchased credit deteriorated (PCD) securities, any necessary adjustments due to changes in

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

effective yields and expected maturities are recognized in net investment income using the retrospective method. PCD securities are defined as financial assets that, as of the date of acquisition, have experienced a more-than-insignificant deterioration in credit quality since origination.

Realized gains and losses on sales of available-for-sale fixed-maturity securities and credit losses are reported in the consolidated statement of operations. Net realized investment gains (losses) include sales of investments, which are determined using the specific identification method, reductions to amortized cost of available-for-sale investments that have been written down due to the Company's intent to sell them or it being more likely than not that the Company will be required to sell them, and the change in allowance for credit losses (including accretion) as discussed below.

For all fixed-maturity securities that were originally purchased with credit deterioration, accrued interest is not separately presented, but rather is a component of the amortized cost of the instrument. For all other available-for-sale securities, a separate amount for accrued interest is reported in "other assets."

***Credit Losses***

For an available-for-sale fixed-maturity security that has experienced a decline in fair value below its amortized cost due to credit related factors, an allowance is established for the difference between the estimated recoverable value and amortized cost with a corresponding charge to net realized investment gains (losses) in the consolidated statement of operations. The estimated recoverable value is the present value of cash flows expected to be collected. The allowance for credit losses is limited to the difference between amortized cost and fair value. Any difference between the security's fair value and its amortized cost that is not associated with credit related factors is presented as a component of AOCI.

When estimating future cash flows for fixed-maturity securities, management considers the historical performance of underlying assets and available market information as well as bond-specific considerations. In addition, the process of estimating future cash flows includes, but is not limited to, the following critical inputs, which vary by security type:

- the extent to which fair value is less than amortized cost;
- credit ratings;
- any adverse conditions specifically related to the security, industry, and/or geographic area;
- changes in the financial condition of the issuer, or underlying loan obligors;
- general economic and political factors;
- remaining payment terms of the security;
- prepayment speeds;
- expected defaults; and
- the value of any embedded credit enhancements.

The assessment of whether a credit loss exists is performed each reporting period.

The allowance for credit losses and the corresponding charge to net realized investment gains (losses) may be reversed if conditions change. However, the allowance for credit losses is never reduced below zero. When the Company determines that all or a portion of a fixed-maturity security is uncollectible, the uncollectible amortized cost amount is written off with a corresponding reduction to the allowance for credit losses. If cash flows that were previously written off are collected, the recovery is recognized in net realized investment gains (losses).

An allowance for credit losses is established upon initial recognition for available-for-sale PCD securities. On the date of acquisition the amortized cost of PCD securities is equal to the purchase price plus the allowance for credit losses with no credit loss expense recognized in the consolidated statements of operations. After the date of acquisition, deterioration or improvement in credit will result in an increase (or decrease), to the allowance and an offsetting credit loss expense (or benefit). To measure this, the Company performs a discounted cash flow analysis. For PCD securities that are also beneficial interests, favorable or adverse changes in expected cash flows are recognized as a change in the allowance for credit losses. Changes in expected cash flows that are not captured through the allowance are reflected as a prospective adjustment to the security's yield within net investment income.

The Company has elected to not measure credit losses on its accrued interest receivable and instead write off accrued interest when it is six-months past due or on the date it is deemed uncollectible, if earlier. All write-offs of accrued interest are recorded as a reduction to net investment income in the consolidated statements of operations.

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

For impaired securities that (i) the Company intends to sell, or (ii) it is more-likely-than-not that the Company will be required to sell before recovering its amortized cost, the amortized cost is written down to fair value with a corresponding charge to net realized investment gains (losses). No allowance is established in these situations and any previously recorded allowance is reversed. The new cost basis is not adjusted for subsequent increases in estimated fair value.

**Investment Portfolio**

The majority of the investment portfolio comprises investment grade fixed-maturity securities managed by one outside manager. The Company has established investment guidelines for its investment manager regarding credit quality, exposure to a particular sector and exposure to a particular obligor within a sector.

Accrued interest income on the investment portfolio and the loan receivable from affiliate was \$4.21 million and \$4.08 million as of December 31, 2023 and December 31, 2022, respectively. In 2023 and 2022, the Company did not write off any accrued investment income.

As of December 31, 2023 and December 31, 2022, the Company had \$36.26 million and \$2.41 million in short-term securities in its investment portfolio.

Beginning July 1, 2023, Assured Guaranty participates in the asset management business through its ownership interest in Sound Point. As of December 31, 2023, the aggregate carrying value of investments in Sound Point's debt and a fund managed by Sound Point was \$16.47 million, consisting of a fixed-maturity security and an equity method investment. In addition, the Company had unfunded commitment of \$6.50 million as of December 31, 2023 related to the fund managed by Sound Point.

**Available-for-Sale Fixed-Maturity Securities by Security Type**  
**As of December 31, 2023**

Security Type	Percent of Total (1)	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(dollars in thousands)						
Obligations of state and political subdivisions	28 %	\$ 102,724	\$ —	\$ 326	\$ (9,324)	\$ 93,726
U.S. government and agencies	—	1,348	—	127	—	1,475
Corporate securities (2)	47	174,800	(644)	1,218	(13,202)	162,172
Mortgage-backed securities (3):						
Residential mortgage-backed securities (RMBS)	8	27,654	(221)	768	(1,004)	27,197
Commercial mortgage-backed securities (CMBS)	5	19,053	—	—	(469)	18,584
Asset-backed securities:						
Collateralized loan obligations (CLOs)	10	37,967	—	34	(1,591)	36,410
Other	2	7,232	—	—	(51)	7,181
Total available-for-sale fixed-maturity securities (4)	100 %	\$ 370,778	\$ (865)	\$ 2,473	\$ (25,641)	\$ 346,745

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

**Available-for-Sale Fixed-Maturity Securities by Security Type**  
**As of December 31, 2022**

Security Type	Percent of Total (1)	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(dollars in thousands)						
Obligations of state and political subdivisions	36 %	\$ 146,834	\$ —	\$ 479	\$ (12,369)	\$ 134,944
U.S. government and agencies	1	5,764	—	210	—	5,974
Corporate securities (2)	43	174,573	(420)	157	(18,659)	155,651
Mortgage-backed securities (3):						
RMBS	4	17,964	(142)	782	(1,265)	17,339
CMBS	7	25,759	—	—	(857)	24,902
Asset-backed securities:						
CLOs	7	25,804	—	7	(476)	25,335
Other	2	7,263	—	—	(67)	7,196
Total available-for-sale fixed-maturity securities (4)	100 %	\$ 403,961	\$ (562)	\$ 1,635	\$ (33,693)	\$ 371,341

- (1) Based on amortized cost.  
(2) Includes securities issued by taxable universities and hospitals.  
(3) U.S. government-agency obligations were approximately 79% of mortgage backed securities as of December 31, 2023 and 62% as of December 31, 2022, based on fair value.  
(4) 4.5% and 0.7% of fixed-maturity securities are rated BIG or not rated as of December 31, 2023 and December 31, 2022, respectively, based on fair value.

**Gross Unrealized Loss by Length of Time**  
**for Available-for-Sale Fixed-Maturity Securities for Which a Credit Loss was Not Recorded**  
**As of December 31, 2023**

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
(dollars in thousands)						
Obligations of state and political subdivisions	\$ 18,071	\$ (96)	\$ 51,949	\$ (9,228)	\$ 70,020	\$ (9,324)
Corporate securities	5,977	(40)	115,094	(10,297)	121,071	(10,337)
Mortgage-backed securities:						
RMBS	3,176	(65)	11,089	(729)	14,265	(794)
CMBS	—	—	18,584	(469)	18,584	(469)
Asset-backed securities:						
CLOs	12,974	(1,546)	16,732	(45)	29,706	(1,591)
Other	—	—	7,181	(51)	7,181	(51)
Total	\$ 40,198	\$ (1,747)	\$ 220,629	\$ (20,819)	\$ 260,827	\$ (22,566)
Number of securities		19		164		183

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

**Gross Unrealized Loss by Length of Time**  
**for Available-for-Sale Fixed-Maturity Securities for Which a Credit Loss was Not Recorded**  
**As of December 31, 2022**

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(dollars in thousands)					
Obligations of state and political subdivisions	\$ 68,297	\$ (3,526)	\$ 19,882	\$ (8,843)	\$ 88,179	\$ (12,369)
U.S. government and agencies	141	—	—	—	141	—
Corporate securities	103,724	(6,501)	30,901	(8,290)	134,625	(14,791)
Mortgage-backed securities:						
RMBS	13,756	(934)	110	(9)	13,866	(943)
CMBS	24,902	(857)	—	—	24,902	(857)
Asset-backed Securities						
CLOs	11,960	(219)	12,049	(257)	24,009	(476)
Other	7,196	(67)	—	—	7,196	(67)
Total	\$ 229,976	\$ (12,104)	\$ 62,942	\$ (17,399)	\$ 292,918	\$ (29,503)
Number of securities (1)		158		52		209

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

The Company considered the credit quality, cash flows, interest rate movements, ability to hold a security to recovery and intent to sell a security in determining whether a security had a credit loss. The Company has determined that the unrealized losses recorded as of December 31, 2023 and December 31, 2022 were primarily related to higher interest rates rather than credit quality. As of December 31, 2023, the Company did not intend to and was not required to sell investments in an unrealized loss position prior to expected recovery in value. As of December 31, 2023, of the securities in an unrealized loss position for which an allowance for credit loss was not recorded, 52 securities had unrealized losses in excess of 10% of its carrying value, whereas as of December 31, 2022 there were 68 securities in an unrealized losses in excess of 10% of its carrying value. The total unrealized loss for these securities was \$18.16 million and \$21.98 million as of December 31, 2023 and December 31, 2022, respectively.

The amortized cost and estimated fair value of available-for-sale fixed-maturity securities by contractual maturity as of December 31, 2023 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 Available-for-Sale Fixed-Maturity Securities**  
**by Contractual Maturity**  
**As of December 31, 2023**

	Amortized Cost	Estimated Fair Value
	(in thousands)	
Due within one year	\$ 14,967	\$ 14,798
Due after one year through five years	72,102	70,818
Due after five years through 10 years	108,768	106,014
Due after 10 years	128,234	109,334
Mortgage-backed securities:		
RMBS	27,654	27,197
CMBS	19,053	18,584
Total	\$ 370,778	\$ 346,745

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

There were no investments that were non-income producing during the twelve months period ending December 31, 2023 and December 31, 2022.

**Income from Investments**

The components of income derived from the investment portfolio are presented in the following table.

	<b>Income from Investments</b>	
	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
	<b>(in thousands)</b>	
Investment income:		
Externally managed	\$ 13,487	\$ 13,235
Short-term investments	1,807	63
Other	1,723	199
Interest income from loan receivable from affiliate (see Note 12)	1,281	917
Investment income	18,298	14,414
Investment expenses	(255)	(303)
Net investment income	<u>\$ 18,043</u>	<u>\$ 14,111</u>

**Realized Investment Gains (Losses)**

The table below presents the components of net realized investment gains (losses).

	<b>Net Realized Investment Gains (Losses)</b>	
	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
	<b>(in thousands)</b>	
Gross realized gains on sales of available-for-sale securities	\$ 590	\$ 97
Gross realized losses on sales of available-for-sale securities	(1,134)	(260)
Change in the allowance for credit losses and intent to sell	(619)	(562)
Other net realized gains (losses)	(27)	5
Net realized investment gains (losses)	<u>\$ (1,190)</u>	<u>\$ (720)</u>

**Roll Forward of Allowance for Credit Losses  
for Available-for-Sale Fixed-Maturity Securities**

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
	<b>(in thousands)</b>	
Balance, beginning of period	\$ 562	\$ —
Additions for securities for which credit losses were not previously recognized	—	562
Additions (reductions) for securities for which credit losses were previously recognized	303	—
Balance, end of period	<u>\$ 865</u>	<u>\$ 562</u>

The Company did not purchase any securities with credit deterioration during the periods presented.

**9. Fair Value Measurement**

**Accounting Policy**

The Company carries the majority of its investment portfolio and derivatives 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 or transfer price). The price represents the price available in the principal market for the asset or

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

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 (i) 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 (ii) discounted cash flows, using a third party's proprietary pricing models. In addition to market information, when applicable, the models also incorporate transaction details, such as the instrument's maturity, and contractual features that reduce the Company's credit exposure (e.g., collateral rights).

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 affiliated ceding company's creditworthiness and constraints on liquidity. As markets and products develop and the pricing transparency for certain products changes, the Company may refine its methodologies and assumptions. During 2023, 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 valuation methods produce fair values that may not be indicative of net realizable value or future fair values. The use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a materially different estimate of fair value at the reporting date.

The categorization within the fair value hierarchy is determined based on whether the inputs to valuation techniques used to measure fair value are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Company estimates of market assumptions. The fair value hierarchy prioritizes model inputs into three broad levels, with Level 1 being the highest and Level 3 the lowest. The categorization, of an asset or liability, within the 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 (i) determined using pricing models, discounted cash flow methodologies or similar techniques and (ii) 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.

There were no transfers from or into Level 3 during the periods presented.

### **Carried at Fair Value**

#### ***Fixed-Maturity Securities***

The fair value of fixed-maturity securities is generally based on prices received from third party pricing services or alternative pricing sources that provide reasonable levels of price transparency. The pricing services prepare estimates of fair value using their pricing models, which take into account: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, industry and economic events and sector groupings. Additional valuation factors that can be taken into account are nominal spreads and liquidity adjustments. The pricing services evaluate each asset class based on relevant market and credit information, perceived market movements, and sector news.

In many cases, benchmark yields have proven to be more reliable indicators of the market for a security, as compared to reported trades for infrequently traded securities and distressed transactions. The extent of the use of each input is dependent

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

on the asset class and the market conditions. The valuation of fixed-maturity securities is more subjective when markets are less liquid due to the lack of market-based inputs.

As of December 31, 2023, the Company used models to price 19 securities. All Level 3 securities were priced with the assistance of independent third parties. 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 based on an analysis of collateral attributes, historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); home price appreciation/depreciation rates based on macroeconomic forecasts and recent trading activity. The yield used to discount the projected cash flows is determined by reviewing various attributes of the security 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 have materially changed the expected timing of cash flows within these securities which could have significantly affected the fair value of the securities.

**Short-Term Investments**

Short-term investments that are traded in active markets are classified as Level 1 as their value is based on quoted market prices. Securities such as discount notes are classified as Level 2 because these securities are typically not actively traded due to their approaching maturity and, as such, their cost approximates fair value.

**Contracts Accounted for as Derivatives**

As of December 31, 2023 and December 31, 2022, the net par outstanding of specialty and financial guaranty derivatives (which was all investment grade) was \$577.49 million and \$167.73 million, respectively, and the fair value of derivatives was a liability of \$70 thousand and \$69 thousand, respectively. The change in fair value of derivatives recorded in "fair value gains (losses) on credit derivatives" was a gain of \$1.37 million for 2023 and \$180 thousand in 2022. The estimated remaining weighted average life of derivatives was 2.7 years and 4.1 years at December 31, 2023 and December 31, 2022, respectively.

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

**Fair Value Hierarchy of Financial Instruments Carried at Fair Value**  
**As of December 31, 2023**

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
(in thousands)				
<b>Assets:</b>				
Fixed-maturity securities, available-for-sale:				
Obligations of state and political subdivisions	\$ —	\$ 93,726	\$ —	\$ 93,726
U.S. government and agencies	—	1,475	—	1,475
Corporate securities	—	162,172	—	162,172
Mortgage-backed securities:				
RMBS	—	24,154	3,043	27,197
CMBS	—	18,584	—	18,584
Asset-backed securities	—	7,181	36,410	43,591
Total fixed-maturity securities, available-for-sale	—	307,292	39,453	346,745
Short-term investments	36,261	—	—	36,261
Derivative assets (1)	—	—	2,156	2,156
<b>Total assets carried at fair value</b>	<b>\$ 36,261</b>	<b>\$ 307,292</b>	<b>\$ 41,609</b>	<b>\$ 385,162</b>
<b>Liabilities:</b>				
Derivative liabilities (2)	\$ —	\$ —	\$ 2,226	\$ 2,226
<b>Total liabilities carried at fair value</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 2,226</b>	<b>\$ 2,226</b>



**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

**Fair Value Hierarchy of Financial Instruments Carried at Fair Value**  
**As of December 31, 2022**

	Fair Value Hierarchy			Total
	Level 1	Level 2	Level 3	
	(in thousands)			
<b>Assets:</b>				
Fixed-maturity securities, available-for-sale:				
Obligations of state and political subdivisions	\$ —	\$ 134,944	\$ —	\$ 134,944
U.S. government and agencies	—	5,974	—	5,974
Corporate securities	—	155,651	—	155,651
Mortgage-backed securities:				
RMBS	—	14,325	3,014	17,339
CMBS	—	24,902	—	24,902
Asset-backed securities	—	7,196	25,335	32,531
Total fixed-maturity securities, available-for-sale	—	342,992	28,349	371,341
Short-term investments	2,411	—	—	2,411
<b>Total assets carried at fair value</b>	<b>\$ 2,411</b>	<b>\$ 342,992</b>	<b>\$ 28,349</b>	<b>\$ 373,752</b>
<b>Liabilities:</b>				
Derivative liabilities (2)	\$ —	\$ —	\$ 69	\$ 69
<b>Total liabilities carried at fair value</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 69</b>	<b>\$ 69</b>

(1) Reported in “other assets”.

(2) Reported in “other liabilities”.

**Changes in Level 3 Fair Value Measurements**

The tables below present 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, 2023 and 2022.

**Roll Forward of Level 3 Assets (Liabilities) at Fair Value on a Recurring Basis**  
**Year Ended December 31, 2023**

	Fixed-Maturity Securities, Available-for-Sale		Derivative Liability, net (3)
	RMBS	Asset-Backed Securities	
	(in thousands)		
Fair value as of December 31, 2022	\$ 3,014	\$ 25,335	\$ (69)
Total pre-tax realized and unrealized gains (losses) recorded in:			
Net income (loss)	193 (1)	657 (1)	1,374 (2)
Other comprehensive income (loss)	13	(1,088)	—
Purchases	—	13,878	—
Issuances	—	—	(583)
Settlements	(177)	(2,372)	(792)
Fair value as of December 31, 2023	<u>\$ 3,043</u>	<u>\$ 36,410</u>	<u>\$ (70)</u>
Change in unrealized gains (losses) related to financial instruments held as of December 31, 2023 included in:			
Earnings			<u>\$ (15)</u>
Other comprehensive income (OCI)	<u>\$ 11</u>	<u>\$ (1,110)</u>	

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

**Roll Forward of Level 3 Assets (Liabilities) at Fair Value on a Recurring Basis**  
**Year Ended December 31, 2022**

	<u>Fixed-Maturity Securities, Available-for-Sale</u>		<u>Derivative Liability, net (3)</u>
	<u>RMBS</u>	<u>Asset-Backed Securities</u> (in thousands)	
Fair value as of December 31, 2021	\$ 3,745	\$ 26,662	\$ —
Total pre-tax realized and unrealized gains (losses) recorded in:			
Net income (loss)	58 (1)	16 (1)	180 (2)
Other comprehensive income (loss)	(601)	(522)	—
Issuances	—	—	(249)
Settlements	(188)	(821)	—
Fair value as of December 31, 2022	<u>\$ 3,014</u>	<u>\$ 25,335</u>	<u>\$ (69)</u>
Change in unrealized gains (losses) related to financial instruments held as of December 31, 2022 included in:			
Earnings			<u>\$ —</u>
OCI	<u>\$ (599)</u>	<u>\$ (517)</u>	

(1) Included in “net realized investment gains (losses)” and “net investment income.”

(2) Reported in “fair value gains (losses) on credit derivatives.”

(3) Represents the net position of derivatives. Derivative assets (reported in “other assets”) and derivative liabilities (reported in “other liabilities”) are shown gross in the consolidated balance sheets based on net exposure by transaction.

**Level 3 Fair Value Disclosures**

**Quantitative Information About Level 3 Fair Value Inputs**  
**As of December 31, 2023**

<u>Financial Instrument Description (1)</u>	<u>Fair Value</u> (in thousands)	<u>Significant Unobservable Inputs</u>	<u>Range</u>	<u>Weighted Average as a Percentage of Current Par Outstanding</u>
Fixed-maturity securities, available-for-sale:				
RMBS	\$ 3,043	Conditional prepayment rate	0.1 % - 3.8%	0.1%
		Conditional default rate	1.7 % - 2.7%	1.7%
		Loss severity	100.0%	
		Yield	9.8 % - 10.8%	9.8%
Asset-backed securities (CLOs)	36,410	Discount margin	1.1 % - 9.5%	4.5%

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

**Quantitative Information About Level 3 Fair Value Inputs**  
**As of December 31, 2022**

Financial Instrument Description (1)	Fair Value (in thousands)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Fixed-maturity securities, available-for-sale:				
RMBS	\$ 3,014	Conditional prepayment rate	7.0 % - 10.6%	7.0%
		Conditional default rate	1.6 % - 3.2%	1.6%
		Loss severity	100.0%	
		Yield	9.4 % - 9.9%	9.9%
Asset-backed securities (CLOs)	25,335	Discount margin	1.9 % - 2.1%	1.9%

(1) Discounted cash flow is used as the primary valuation technique for all financial instruments listed in these tables.

**Not Carried at Fair Value**

***Loan Receivable from Affiliate***

The fair value of the loan receivable from an affiliate is determined by calculating the effect of changes in yield adjusted for a credit factor at the end of each reporting period. The fair value measurement of the loan receivable was classified as Level 3.

The carrying amount and estimated fair value of the Company's financial instruments not carried at fair value are presented in the following table.

**Fair Value of Financial Instruments Not Carried at Fair Value**

	As of December 31, 2023		As of December 31, 2022	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(in thousands)				
<b>Assets (liabilities):</b>				
Loan receivable from affiliate	\$ 20,000	\$ 20,681	\$ 20,000	\$ 19,814
Other assets	4,226	4,226	4,098	4,098
Guarantee fee receivable (liability), net	1,218	1,218	(307)	(591)

**10. Income Taxes**

Under Bermuda law, there was no Bermuda income, corporate or profits tax or withholding tax, capital gains tax or capital transfer tax payable by AGRO in 2023.

AGOUS and its subsidiaries AGRO and AG Intermediary Inc. file a consolidated U.S. federal income tax return (AGOUS consolidated return group). In addition, AGRO, a Bermuda domiciled company, has elected under Section 953(d) of the U.S. Internal Revenue Code to be taxed as a U.S. domestic corporation. Each company of the AGOUS consolidated return group will pay or receive its proportionate share of taxable expense or benefit as if it filed on a separate return basis with current period credit for net losses to the extent used in consolidation

On December 27, 2023 the Bermuda government enacted a corporate income tax at the rate of 15% which will apply for accounting periods starting on or after January 1, 2025. The enactment of the corporate income tax regime requires the Company to recognize Bermuda deferred taxes for the first time and is recognized in the period that includes the date of enactment. Effective at the beginning of 2025, the Company will be subject to a 15% corporate income tax.

**Accounting Policy**

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

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.

The Company recognizes tax benefits only if a tax position is “more likely than not” to prevail.

Current tax assets and liabilities are reported in “other assets” or “other liabilities” on the consolidated balance sheets.

**Tax Assets (Liabilities)**

**Deferred and Current Tax Assets (Liabilities)**

	As of December 31,	
	2023	2022
	(in thousands)	
Net deferred tax assets (liabilities)	\$ 23,025	\$ 5,811
Net current tax assets (liabilities)	18	219

**Components of Net Deferred Tax Assets (Liabilities)**

	As of December 31,	
	2023	2022
	(in thousands)	
<b>Deferred tax assets:</b>		
Net unrealized investment losses	\$ 4,865	\$ 6,732
Intangible assets	13,899	—
Value of in-force business	4,901	—
Loss and LAE reserve	460	638
Other	426	25
<b>Total deferred tax assets</b>	<b>24,551</b>	<b>7,395</b>
<b>Deferred tax liabilities:</b>		
Deferred acquisition costs	467	312
Investments	542	972
Unrealized gains on credit derivatives, net	517	38
Other	—	262
<b>Total deferred tax liabilities</b>	<b>1,526</b>	<b>1,584</b>
<b>Net deferred tax assets (liabilities)</b>	<b>\$ 23,025</b>	<b>\$ 5,811</b>

The new Bermuda corporate income tax allows an economic transition adjustment (ETA) equal to the difference between the fair market value (which consists of the intangible assets and the value of in-force business) and the carrying value of assets and liabilities of the Company as of September 30, 2023. The value of the in-force business shown above approximates the tax effected fair market value of the insurance policies in-force as of September 30, 2023. The ETA resulted in the establishment of a deferred tax asset and corresponding benefit of \$18.80 million reported in the fourth quarter of 2023 consolidated statement of operations. The ETA is expected to be utilized over 10 to 15 years, beginning in 2025.

Changes in market conditions during 2023 and 2022, including rising interest rates, resulted in the recording of deferred tax assets related to net unrealized tax capital losses. When assessing recoverability of these deferred tax assets, the Company considers the ability and intent to hold the underlying securities to recovery in value, if necessary. As of December 31, 2023, the Company concluded that the deferred tax assets related to the unrealized tax capital losses on the available-for-sale securities portfolios are, more likely than not, expected to be realized.

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

**Provision for Income Taxes**

The components of the provision (benefit) for income taxes were as follows:

**Current and Deferred Provision (Benefit) for Income Taxes**

	Year Ended December 31,	
	2023	2022
(dollars in thousands)		
Current provision (benefit) for income taxes:		
U.S. federal	\$ 4,171	\$ 2,352
Total current	<u>\$ 4,171</u>	<u>\$ 2,352</u>
Deferred provision (benefit) for income taxes:		
U.S. federal	\$ (281)	\$ (569)
Bermuda	(18,800)	—
Total deferred	<u>\$ (19,081)</u>	<u>\$ (569)</u>
Total provision (benefit) for income taxes	<u><u>\$ (14,910)</u></u>	<u><u>\$ 1,783</u></u>

A reconciliation of the difference between the provision for income taxes and the expected tax provision at the U.S. marginal corporate income tax rate of 21% for 2023 and 2022 is presented below.

**Effective Tax Rate Reconciliation**

	Year Ended December 31,	
	2023	2022
(dollars in thousands)		
Expected tax provision (benefit)	\$ 4,155	\$ 2,361
Tax-exempt interest	(207)	(452)
Return to provision adjustment	(58)	(128)
Bermuda ETA	(18,800)	—
Other	—	2
Total provision (benefit) for income taxes	<u>\$ (14,910)</u>	<u>\$ 1,783</u>
Effective tax rate	<u>(75.4)%</u>	<u>15.9 %</u>

**Audits**

As of December 31, 2023, AGOUS had open tax years with the U.S. Internal Revenue Service (IRS) for 2019 forward and is not currently under audit with the U.S. IRS.

**11. Insurance Company Regulatory Requirements**

The following table summarizes the equity and net income amounts reported to the Bermuda Monetary Authority (the Authority) for AGRO.

**Insurance Regulatory Amounts Reported**

	Policyholders' Surplus		Net Income (Loss)	
	As of December 31,		Year Ended December 31,	
	2023	2022	2023	2022
(in thousands)				
AGRO	\$ 412,353	\$ 390,214	\$ 15,897	\$ 9,458

### **Basis of Regulatory Financial Reporting**

The Company's ability to pay dividends depends, among other things, upon its 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 its country of domicile, Bermuda. Financial statements prepared in accordance with accounting practices prescribed or permitted by Bermuda insurance regulatory authorities differ from GAAP primarily due to the non-admission of certain assets in AGRO's statutory statements, that are admissible assets under GAAP.

### **Dividend Restrictions and Capital Requirements**

For AGRO, any distribution (including repurchase of shares) of any share capital, contributed surplus or other statutory capital that would reduce its total statutory capital by 15% or more of its total statutory capital as set out in its previous year's financial statements requires the prior approval of the Authority. Separately, dividends are paid out of an insurer's statutory surplus and cannot exceed that surplus. Furthermore, annual dividends cannot exceed 25% of total statutory capital and surplus as set out in its previous year's financial statements, which is \$103.09 million, without AGRO certifying to the Authority that it will continue to meet required margins. Based on the foregoing limitations, in 2024 AGRO has the capacity to (i) make capital distributions in an aggregate amount up to \$20.54 million without the prior approval of the Authority and (ii) declare and pay dividends in an aggregate amount up to approximately \$103.09 million as of December 31, 2023. Such dividend capacity is further limited by (i) the actual amount of AGRO's unencumbered assets, which amount changes from time to time due in part to collateral posting requirements and which was approximately \$383.01 million as of December 31, 2023, and (ii) the amount of statutory surplus, which as of December 31, 2023 was \$275.39 million.

AGRO paid an \$800 thousand dividend to AG Re in 2023. The Company did not declare or pay dividends during 2022.

Under the Insurance Act 1978, AGRO must ensure that the value of its general business statutory assets exceeds the amount of its general business statutory 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 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 insurer's 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 (i) \$500,000, (ii) 1.5% of its assets or (iii) 25% its enhanced capital requirement reported at the end of the relevant 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.

The Company 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 Bermuda Solvency Capital Requirement model or an approved internal capital model.

## **12. Related Party Transactions**

### **Accounting Policy**

The Company follows ASC 850, "Related Party Transactions," for the identification and disclosure of related party transactions. Pursuant to ASC 850, related parties include: (i) the Company's affiliates; (ii) entities for which investments in their equity securities would be required, absent the election of the FVO to be accounted for by the equity method; (iii) trusts for the benefit of employees, such as pension and profit sharing trusts that are managed by or under the trusteeship of management; (iv) the Company's principal owners; (v) the Company's management; (vi) other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests; and (vii) other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

Related party amounts and transactions disclosed in this note include transactions with “Related Persons” as defined in Item 404 of Securities and Exchange Commission’s Regulation S-K as well as “related parties” as defined in ASC 850.

The Company participates in AGL’s long term incentive plans. AGL follows the fair value recognition provisions for share based compensation expense. The Company is allocated its proportionate share of all compensation expense based on time studies conducted annually, in accordance with the Amended and Restated Service Agreement (the Group Service Agreement).

**Expense Sharing Agreements**

The Company and various of its affiliates are parties to the Third Amended and Restated Service Agreement, effective as January 1, 2020 (as amended, the Group Service Agreement). The Company's affiliate, AG US Group Services Inc. (AG Services), a Delaware corporation, acts as the payroll company and employer for U.S. personnel, and the central, dedicated service provider within the Assured Guaranty group. Under the Group Service Agreement, AG Services' employees make available to the Company certain services, including actuarial, marketing, underwriting, claims handling, surveillance, legal, corporate secretarial, information technology, human resources, accounting, tax, financial reporting and investment planning services. Expenses under the Group Service Agreement are allocated directly where appropriate and, where not appropriate, based upon an allocation of employee time and corresponding office overhead. The agreement provides for pre-funding by affiliates who are the largest consumers of group services, intercompany allocation of expenses and quarterly settlements and an express right of offset with regard to amounts owing between parties under the Group Service Agreement and other agreements between such parties.

The following table summarizes the allocated expenses from affiliated companies under the expense sharing agreements.

**Expenses Allocated From Affiliated Companies**

	Year Ended December 31,	
	2023	2022
(in thousands)		
Affiliated companies:		
AG Services	\$ 4,560	\$ 4,578
AGL	488	559
Total	<u>\$ 5,048</u>	<u>\$ 5,137</u>

The following table summarizes the amounts due to (from) affiliated companies.

**Amounts Due To (From) Affiliated Companies**

	As of December 31,	
	2023	2022
(in thousands)		
Affiliated companies		
AG Services	\$ 3,098	\$ 3,083
AGL	985	922
AGM	61	61
AGC	44	27
AG Re	41	646
Assured Investment Management LLC	—	2
Total	<u>\$ 4,229</u>	<u>\$ 4,741</u>

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

**Loan Receivable from Affiliate**

**Accounting Policy**

The loan receivable from affiliate is recorded at its current principal amount. There was no discount or premium at the time of issuance of the loan.

**Loan to Assured Guaranty US Holdings Inc.**

On May 30, 2012, Assured Guaranty US Holding (AGUS), a subsidiary of AGL, borrowed \$90.00 million from AGRO in order to fund a portion of the price of purchasing from Radian Asset Assurance Inc., Municipal Assurance Corp., an affiliate which was merged with AGM on April 1, 2021. In June 2023, the parties amended the loan agreement by: (i) allowing additional funds to be borrowed during 2023 in an aggregate amount not to exceed \$150.00 million, (ii) extending the maturity date of the loan to December 31, 2028, and (iii) changing the interest rate to a fixed rate of 5.00% per annum from a rate of six-month London Interbank Offered Rate plus 3.00% per annum. During 2023 and 2022, AGUS paid only interest and did not borrow any additional amounts or repay any principal. As of December 31, 2023, \$20.00 million remained outstanding. The Company recognized \$1.28 million and \$0.92 million of interest income during the years ended December 31, 2023 and 2022, respectively.

**Reinsurance Agreements**

The Company assumes business from affiliated entities under certain reinsurance agreements. See below for material related party reinsurance balances.

The following table summarizes the affiliated components of each balance sheet item, where applicable:

	<b>As of December 31,</b>	
	<b>2023</b>	
	<b>AG Re</b>	
<b>Assets:</b>		
Premium receivable, net of commissions payable	\$	13,714
DAC (1)		1,516
<b>Liabilities:</b>		
Unearned premium reserve		15,157

(1) Represents assumed ceding commissions.

The following table summarizes the affiliated components of each statement of operations item, where applicable:

	<b>As of December 31,</b>	
	<b>2023</b>	<b>2022</b>
	<b>AG Re</b>	<b>AGC</b>
	<b>(in thousands)</b>	
<b>Revenues:</b>		
Net earned premiums	\$ 81	\$ 92
<b>Expenses:</b>		
Amortization of DAC	8	28

**Guaranty**

AG Re unconditionally and irrevocably guarantees the due, complete and punctual payment of all obligations and liabilities of AGRO (the Guaranteed Obligations). The holders of the Guaranteed Obligations are made third-party beneficiaries and may directly claim upon and enforce the obligations of AG Re under such guaranty as provided therein. AGRO has not made any demand to AG Re under this guaranty.



**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

**Investment Management Expenses**

A portion of the Company's invested assets is managed by investment managers, including Wellington Management Company, LLP (together with its affiliates, Wellington), which is a related party to AGL. The investment management expenses from transactions with these related parties for the years ended December 31, 2023 and 2022 were approximately \$0.24 million and \$0.26 million, respectively.

**13. Commitments and Contingencies**

**Legal Proceedings**

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

**Accounting Policy**

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. Additionally, it discloses such amounts if material to the financial position of the Company. 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. The Company reviews relevant information with respect to its litigation and regulatory matters on a quarterly basis and updates its accruals, disclosures and estimates of reasonably possible loss based on such reviews.

**14. Other Comprehensive Income**

The following tables present the changes in each component of AOCI and the effect of reclassifications out of AOCI into the respective lines in the consolidated statements of operations.

**Changes in Accumulated Other Comprehensive Income (Loss) by Component**  
**Year Ended December 31, 2023**

	Net Unrealized Gains (Losses) on Investments with:		Total AOCI
	No Credit Impairment	Credit Impairment	
	(in thousands)		
Balance, December 31, 2022	\$ (22,016)	\$ (3,310)	\$ (25,326)
Other comprehensive income (loss) before reclassifications	5,445	639	6,084
Less: Amounts reclassified from AOCI to:			
Net realized investment gains (losses)	(884)	(306)	(1,190)
Tax (provision) benefit	186	64	250
Total amount reclassified from AOCI, net of tax	(698)	(242)	(940)
Other comprehensive income (loss)	6,143	881	7,024
Balance, December 31, 2023	<u>\$ (15,873)</u>	<u>\$ (2,429)</u>	<u>\$ (18,302)</u>

**Assured Guaranty Re Overseas Ltd.**  
**Notes to Consolidated Financial Statements, Continued**

**Changes in Accumulated Other Comprehensive Income (Loss) by Component**  
**Year Ended December 31, 2022**

	Net Unrealized Gains (Losses) on Investments with:		Total AOCI
	No Credit Impairment	Credit Impairment	
	(in thousands)		
Balance, December 31, 2021	\$ 18,732	\$ —	\$ 18,732
Other comprehensive income (loss) before reclassifications	(40,873)	(3,754)	(44,627)
Less: Amounts reclassified from AOCI to:			
Net realized investment gains (losses)	(158)	(562)	(720)
Tax (provision) benefit	33	118	151
Total amount reclassified from AOCI, net of tax	(125)	(444)	(569)
Other comprehensive income (loss)	(40,748)	(3,310)	(44,058)
Balance, December 31, 2022	<u>\$ (22,016)</u>	<u>\$ (3,310)</u>	<u>\$ (25,326)</u>

**15. Subsequent Events**

Subsequent events have been considered and disclosed if material through April 18, 2024, the date on which these financial statements were issued.