ASSURED GUARANTY LTD Form 10-Q November 04, 2016 Table of Contents

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

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#### FORM 10-Q

ý QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the Quarterly Period Ended September 30, 2016 Or

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

For the transition Period from to

Commission File No. 001-32141

ASSURED GUARANTY LTD.

(Exact name of registrant as specified in its charter)

Bermuda 98-0429991 (State or other jurisdiction (I.R.S. employer of incorporation) identification no.)

30 Woodbourne Avenue

Hamilton HM 08

Bermuda

(Address of principal executive offices)

(441) 279-5700

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer x Accelerated filer o

Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company)

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

The number of registrant's Common Shares (\$0.01 par value) outstanding as of November 1, 2016 was 130,375,131 (includes 58,858 unvested restricted shares).

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#### PART I. FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

Assured Guaranty Ltd.

Consolidated Balance Sheets (unaudited)

(dollars in millions except per share and share amounts)

	As of September 30, 2016	As of December 31, 2015
Assets	,	,
Investment portfolio:		
Fixed-maturity securities, available-for-sale, at fair value (amortized cost of \$10,219 and \$10,275)	\$ 10,752	\$ 10,627
	528	396
	165	169
Total investment portfolio	11,445	11,192
*	98	166
	608	693
1 3	213	232
•	108	114
-	87	69
<u>.</u>	455	126
· · · · · · · · · · · · · · · · · · ·	28	81
Deferred tax asset, net	459	276
Current income tax receivable	_	40
Financial guaranty variable interest entities' assets, at fair value	877	1,261
	291	294
Total assets	\$ 14,669	\$ 14,544
Liabilities and shareholders' equity		
	\$ 3,668	\$ 3,996
<u>-</u>	1,091	1,067
· · · · · · · · · · · · · · · · · · ·	71	51
	1,304	1,300
Credit derivative liabilities	509	446
Current income tax payable	26	
Financial guaranty variable interest entities' liabilities with recourse, at fair value	832	1,225
Financial guaranty variable interest entities' liabilities without recourse, at fair value	153	124
Other liabilities	375	272
Total liabilities	8,029	8,481
Commitments and contingencies (See Note 14)		
Common stock (\$0.01 par value, 500,000,000 shares authorized; 130,972,620 and 137,928,552	1	1
shares issued and outstanding)	1	1
Additional paid-in capital	1,166	1,342
Retained earnings	5,110	4,478
Accumulated other comprehensive income, net of tax of \$144 and \$104	358	237
Deferred equity compensation (320,193 and 320,193 shares)	5	5

Total shareholders' equity 6,640 6,063
Total liabilities and shareholders' equity \$ 14,669 \$ 14,544

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

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Assured Guaranty Ltd.

Consolidated Statements of Operations (unaudited)

(dollars in millions except per share amounts)

	Ended	Months  nber 30,  2015	Ended	
Revenues				
Net earned premiums	\$231	\$213	\$628	\$574
Net investment income	94	112	291	311
Net realized investment gains (losses):				
Other-than-temporary impairment losses	(4)	(18)	(32)	(34)
Less: portion of other-than-temporary impairment loss recognized in other	1	0	(6	3
comprehensive income	1	U	(0)	1 3
Net impairment loss	(5)	(18)	(26	(37)
Other net realized investment gains (losses)	3	(9)	21	17
Net realized investment gains (losses)	(2)	(27)	(5)	(20)
Net change in fair value of credit derivatives:				
Realized gains (losses) and other settlements	15	6	47	35
Net unrealized gains (losses)	6	80	(23	265
Net change in fair value of credit derivatives	21	86	24	300
Fair value gains (losses) on committed capital securities	(23)	(15)	(50	10
Fair value gains (losses) on financial guaranty variable interest entities		$\hat{2}$	11	0
Bargain purchase gain and settlement of pre-existing relationships	259	_	259	214
Other income (loss)	(3)	(3)	49	43
Total revenues	566	368	1,207	1,432
Expenses			•	ŕ
Loss and loss adjustment expenses	(9)	112	183	318
Amortization of deferred acquisition costs	4	5	13	15
Interest expense	26	25	77	76
Other operating expenses	65	54	188	176
Total expenses	86	196	461	585
Income (loss) before income taxes	480	172	746	847
Provision (benefit) for income taxes				
Current	18	41	80	78
Deferred	(17)	2		142
Total provision (benefit) for income taxes	1	43	62	220
Net income (loss)	\$479	\$129	\$684	\$627
	+ - / /	7 - <b>-</b> /	<b>+</b>	T == '
Earnings per share:				
Basic	\$3.63	\$0.88	\$5.10	\$4.16
Diluted	\$3.60	\$0.88	\$5.06	\$4.13
Dividends per share	\$0.13		\$0.39	\$0.36
1 2 2 2	,	,	,	

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

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Assured Guaranty Ltd.

Consolidated Statements of Comprehensive Income (unaudited)

(in millions)

	Three Months Ended September 30,	Nine Months Ended September 30,
	2016 2015	2016 2015
Net income (loss)	\$479 \$129	\$684 \$627
Unrealized holding gains (losses) arising during the period on:		
Investments with no other-than-temporary impairment, net of tax provision (benefit) of \$(14), \$17, \$48 and \$(36)	(33 ) 41	146 (77 )
Investments with other-than-temporary impairment, net of tax provision (benefit) of \$8, \$(9), \$(5) and \$(12)	13 (15	) (10 ) (23 )
Unrealized holding gains (losses) arising during the period, net of tax	(20 ) 26	136 (100)
Less: reclassification adjustment for gains (losses) included in net income (loss), net of tax provision (benefit) of \$(1), \$(6), \$(1) and \$(4)	0 (12	) (1 ) (7 )
Change in net unrealized gains on investments	(20) 38	137 (93 )
Other, net of tax provision	(5) (4	) (16 ) (4 )
Other comprehensive income (loss)	\$(25) \$34	\$121 \$(97)
Comprehensive income (loss)	\$454 \$163	\$805 \$530

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

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Assured Guaranty Ltd.

Consolidated Statement of Shareholders' Equity (unaudited)

For the Nine Months Ended September 30, 2016

(dollars in millions, except share data)

			. Accumulated	d	
Common	<b>a a</b>	Addition	al <sub>D</sub>	Deferred	Total
CI	Common Sto	ос <u>к</u> . , .	Retained Other		
Shares	Dan Walna	Paid-in	Earnings Comprehens	. Equity	Shareholders'
Outstanding	Par Value	Capital	Earnings Comprehens	Componenti	on Equity
Outstanding		Capitai	Incomo	Compensan	onEquity
			Income		

Balance at December 31, 2015

137,928,552