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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE BONDS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR ANY OTHER JURISDICTION AND THE BONDS MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE BONDS OFFERED AND SOLD BY THIS PROSPECTUS MAY NOT BE PURCHASED BY, OR FOR THE ACCOUNT OR BENEFIT OF, ANY "U.S. PERSON" AS DEFINED IN REGULATION RR (17 C.F.R PART 246) IMPLEMENTING THE RISK RETENTION REQUIREMENTS OF SECTION 15G OF THE U.S. SECURITIES EXCHANGE ACT OF 1934, AS AMENDED (THE "**U.S. RISK RETENTION RULES**"). PROSPECTIVE INVESTORS SHOULD NOTE THAT THE DEFINITION OF "U.S. PERSON" IN THE U.S. RISK RETENTION RULES IS SUBSTANTIALLY SIMILAR TO, BUT NOT IDENTICAL TO, THE DEFINITION OF "U.S. PERSON" IN REGULATION S UNDER THE SECURTIES ACT.

The Prospectus has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently the Manager (or any person who controls it or any director, officer, employee or agent of it, or affiliate of any such person) accepts no any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version available to you on request from us.

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Prospectus dated 28 March 2017

EAST SLOPE RESIDENCIES PLC

(incorporated with limited liability in England and Wales under company number 10434484)

£185,670,000 0.10 per cent. Index-Linked Guaranteed Secured Bonds due 28 February 2062 pursuant to financial guarantees issued by

ASSURED GUARANTY (EUROPE) LTD.

(incorporated with limited liability in England and Wales under company number 02510099)

and

ASSURED GUARANTY MUNICIPAL CORP.

(a stock insurance company organised under the laws of the State of New York, United States of America)

Issue Price: 105.874 per cent.

HSBC

Sole Arranger and Lead Manager

The £185,670,000 0.10 per cent. Index-Linked Guaranteed Secured Bonds due 28 February 2062 (the **Bonds** or **Bonds**)) of East Slope Residencies PLC (the **Issuer**) will be issued pursuant to a bond trust deed to be dated on or about 31 March 2017 (as amended or supplemented from time to time, the **Bond Trust Deed**) among the Issuer, Assured Guaranty (Europe) Ltd. (**AGE**), Assured Guaranty Municipal Corp. (**AGM** and together with AGE, the **Financial Guarantors**) and BNY Mellon Corporate Trustee Services Limited as bond trustee (the **Bond Trustee**, which expression includes the trustee or trustees for the time being under the Bond Trust Deed). The issue price will be 105.874 per cent. The Bonds (excluding those held by or on behalf of any Obligor or any Affiliate of an Obligor or Shareholder of an Obligor) will be unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest (adjusted for indexation in accordance with the terms and conditions of the Bonds (the **Conditions**)) in respect of the Bonds (excluding in each case any amounts due in respect of the Bonds (i) attributable to any increase in interest margin, penalty or other sum payable by the Issuer for whatever reason; (ii) attributable to any present or future taxes, duties, withholding, deduction, assessment or other charge (including interest and penalties in respect of such taxes, duties, withholding, deduction, assessment or other charge) of whatever nature imposed, levied, collected, withheld or assessed by any sovereign state (including the United Kingdom), or any political subdivision or governmental or taxing authority therein or thereof; (iii) attributable to any default interest; (iv) attributable to any amount relating to prepayment, early redemption, broken-funding indemnities, penalties, premium, "spens", any make-whole amount or similar types of payments payable in respect of the Bonds; or (v) in respect of which AGM or AGE has made an Accelerated Payment (as defined in the relevant Financial Guarantee) on or prior to a Scheduled Payment Date) in accordance with a financial guarantee to be issued by AGE (the **AGE Financial Guarantee**) and as set out in the section entitled "*Form of AGE Financial Guarantee*" below and a financial guarantee to be issued by AGM (the **AGM Financial Guarantee**, and together with the AGE Financial Guarantee, the **Financial Guarantees** and each a **Financial Guarantee**) and as set out in the section entitled "*Form of AGM Financial Guarantee*" below.

Interest on the Bonds (adjusted for indexation) will be payable semi-annually (the **Scheduled Interest**) in arrear on 28 February and 31 August in each year (each a **Scheduled Payment Date**), except that the first Scheduled Interest payment will be made on 31 August 2017 in respect of the period from, and including, the Issue Date (as defined below) to 31 August 2017.

Unless previously redeemed or purchased and cancelled, the Bonds will mature on 28 February 2062 and will be subject to redemption in part from, and including, 28 February 2021, in accordance with the amortisation schedule set out in the section entitled "*Terms and Conditions of the Bonds - Payments and Exchange of Talons - Scheduled Payments*". The Bonds are also subject to redemption in whole but not in part, (i) at the Spens Redemption Amount (as defined below) at the option of the Issuer, as provided in Condition 6(b) of the Conditions (see the section entitled "*Terms and Conditions of the Bonds - Redemption and Purchase - Redemption at the option of the Issuer*" below) (ii) at the Non-Spens Redemption Amount (as defined below) in the event of certain changes affecting the Index (as defined in Condition 7 (*Indexation*) of the Bond Conditions), as provided in Condition 6(c) of the Conditions (see the section entitled "*Terms and Conditions of the Bonds - Redemption and Purchase - Redemption for Index Reasons*" below), (iii) following the termination of the Project Agreement (as defined below), at an amount up to the Spens Redemption Amount and not less than the Non-Spens Redemption Amount to the extent that the relevant compensation is sufficient to fund such payment, as provided in Condition 6(d) of the Conditions (see the section entitled "*Terms and Conditions of the Bonds - Redemption and Purchase – Mandatory Redemption – Above Par Redemption* " below), (iv) following the termination of the Project Agreement, at the Non-Spens Redemption Amount or lesser amount where the relevant compensation payment is either equal to or insufficient to fund payment of the Non-Spens Redemption Amount, as provided in Condition 6(e) of the Conditions (see the section entitled "*Terms and Conditions of the Bonds - Redemption and Purchase – Mandatory Redemption – Below Par Redemption* " below).

The Issuer is a special purpose vehicle whose principal purposes are, *inter alia*, to issue the Bonds, and to on-lend the proceeds to East Slope Residencies Student Accommodation Limited Liability Partnership (**ProjectCo**), pursuant to an issuer on-loan agreement (see the section entitled *"Financing of the Project*"). ProjectCo is a special purpose vehicle established for the principal purpose of designing, building and maintaining student accommodation for the University of Sussex (the

Accommodation) and associated facilities and amenities in the East Slope Residencies area of the University of Sussex (the **Site**). ProjectCo will beneficially own 100 per cent. of the Issuer.

East Slope Residencies Partner Limited (**IntermediateCo**) is a special purpose vehicle established for the principal purpose of issuing shares and loan stock to East Slope Residencies Holdings Limited (**BBI HoldCo**), a special purpose vehicle established in turn for the principal purpose of issuing shares and loan stock to Balfour Beatty Infrastructure Projects Investments Limited. IntermediateCo will beneficially own 80 per cent. of the Issuer and ProjectCo. Sussex U H ESR IntermediateCo Limited (**University SubCo**) is a special purpose vehicle established for the principal purpose of issuing shares and loan stock to Sussex U H ESR HoldCo Limited (**Sussex HoldCo**), a special purpose vehicle established for the principal purpose of issuing shares and loan stock to Sussex U H Limited, which is owned 100 per cent. by the University of Sussex. University SubCo will beneficially own 20 per cent. of the Issuer and ProjectCo.

The Issuer, University SubCo, IntermediateCo and ProjectCo shall be known as the **Obligors.** There is no recourse to Sussex HoldCo, BBI HoldCo or any of their respective shareholders except to the extent described in this Prospectus.

The obligations of the Issuer under the Bonds will be secured in favour of BNY Mellon Corporate Trustee Services Limited as security trustee (the **Security Trustee**) as described in the section entitled "*Financing of the Project - The Security Arrangements*" below. The Bonds are expected to be rated upon issue AA (stable) by Standard & Poor's Global Ratings (**S&PGR**), the credit ratings business of S&P Global Inc. S&PGR will issue its rating of the Bonds through Standard & Poor's Credit Market Services Europe Limited (**S&PCMS Europe)**. **S**&PCMS Europe is established in the EU and registered in accordance with the Regulation (EC) No 1060/2009, as amended (the **CRA Regulation**).

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. A suspension, reduction or withdrawal of the rating assigned to the Bonds may adversely affect the market price of the Bonds.

The rating will be based primarily upon the financial strength rating of AGE and AGM. S&PGR has assigned to AGE financial strength and financial enhancement ratings of AA (stable outlook) and Moody's Investors Service, Inc., (**Moody's**) has assigned to AGE an insurance financial strength rating of A2 (stable outlook). S&PGR has assigned to AGM financial strength and financial enhancement ratings of AA (stable outlook), Kroll Bond Rating Agency (**KBRA**) has assigned to AGM an insurance financial strength rating of AA+ (stable outlook) and Moody's has assigned to AGM an insurance financial strength rating of A2 (stable). S&PGR has not issued its financial strength rating of AGE and AGM through an entity established in the European Union (the **EU)** nor registered in accordance with the CRA Regulation. Neither KBRA nor Moody's is established in the European Community and neither of them are registered in accordance with the CRA Regulation.

The Prospectus has been approved by the Central Bank of Ireland (the **Central Bank**), as competent authority under Directive 2003/71/EC, as amended (the **Prospectus Directive**). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Bonds to be admitted to the official list (the **Official List**) and trading on its regulated market (the **Main Securities Market**). The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**). Such approval relates only to the Bonds which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC and/or which are to be offered to the public in any Member State of the European Economic Area.

The Bonds will be in bearer form and in the denominations of £100,000 and integral multiples of £1,000 in excess thereof. For so long as the Bonds are represented by a Global Bond (as defined below) and the relevant clearing system(s) so permit, the Bonds will be tradable in such denominations, subject always to a minimum denomination and trading amount of £100,000. There can be no assurance, however, that the relevant clearing system(s) will enforce such minimum trading amount. The Bonds will initially be in the form of a temporary global bond (the **Temporary Global Bond**), without receipts, coupons or talons attached, which will be deposited on or around 31 March 2017 (the **Issue Date**) with a common safekeeper for Euroclear S.A./N.V., as operator of the Euroclear System

(**Euroclear**) and Clearstream Banking, S.A., Luxembourg (**Clearstream, Luxembourg**). The Temporary Global Bond will be exchangeable, in whole or in part, not earlier than 40 calendar days from (but not including) the Issue Date upon certification of non-U.S. beneficial ownership, for interests in a permanent global bond (the **Permanent Global Bond**, together with the Temporary Global Bond, the **Global Bonds** and each a **Global Bond**), without receipts, coupons or talons attached. Interest payments in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Bond will be exchangeable in whole, but not in part, for Bonds in definitive form (the **Definitive Bonds**) in the denominations of £100,000 and integral multiples of £1,000 in excess thereof, with receipts for principal and coupons for interest and talons for further receipts and coupons attached, only in the limited circumstances described in the section "*Summary of Provisions relating to the Bonds while in Global Form*" below. If Definitive Bonds are required to be issued, such Definitive Bonds (a) will only be issued to Bondholders (as defined below) holding Bonds having a nominal amount equal to or in excess of £100,000 and (b) will only be printed in denominations equal to or in excess of £100,000 and to the extent in excess of £100,000 in integral multiples of £1,000.

An investment in the Bonds involves certain risks. Prospective investors should have regard to the factors described in the section entitled "Risk Factors" below.

IMPORTANT NOTICE

This Prospectus (which includes the appendices) comprises a prospectus with regard to the Issuer and the Bonds for the purposes of Article 5.3 of the Prospectus Directive and has been approved by the Central Bank acting in its capacity as competent authority.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuer has accurately reproduced the ProjectCo Information, the BBI HoldCo Information, the Sussex HoldCo Information, the University SubCo Information, the IntermediateCo Information, the Service Provider Information, the BBIPIL Information, the Sussex UH Information, the University Information, the AGE Information and the AGM Information (each as defined below) and as far as the Issuer is aware and is able to ascertain from information published by ProjectCo, BBI HoldCo, Sussex HoldCo, University SubCo, IntermediateCo, the Service Provider , BBIPIL, Sussex UH, the University, AGE and AGM no facts have been omitted which would render the reproduced information misleading.

BBI HoldCo accepts responsibility for the information in this Prospectus under the heading "*BBI HoldCo*" in the section entitled "*Description of the Issuer, ProjectCo, BBI HoldCo, Sussex HoldCo, IntermediateCo, University SubCo and the Service Provider*" and paragraph 10 of the section entitled "*General Information*" (the **BBI HoldCo Information**). To the best of the knowledge of BBI HoldCo (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

ProjectCo accepts responsibility for the information in this Prospectus under the heading "*ProjectCo*" in the section entitled "*Description of the Issuer, ProjectCo, BBI HoldCo, Sussex HoldCo, IntermediateCo, University SubCo, and the Service Provider"* and in paragraphs 5 and 9 of the section entitled "*General Information*" (the **ProjectCo Information**). To the best of the knowledge of ProjectCo (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

IntermediateCo accepts responsibility for the information in this Prospectus under the heading "*IntermediateCo*" in the section entitled "*Description of the Issuer, ProjectCo, BBI HoldCo, Sussex HoldCo, IntermediateCo, University SubCo and the Service Provider*" and in paragraphs 6 and 12 of the section entitled "*General Information*" (the **IntermediateCo Information**). To the best of the knowledge of IntermediateCo (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

Sussex HoldCo accepts responsibility for the information in this Prospectus under the heading "*Sussex HoldCo*" in the section entitled "*Description of the Issuer, ProjectCo, BBI HoldCo, Sussex HoldCo, IntermediateCo, University SubCo and the Service Provider*" and in paragraph 11 of the section entitled "*General Information*" (the **Sussex HoldCo Information**). To the best of the knowledge of Sussex HoldCo (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

University SubCo accepts responsibility for the information in this Prospectus under the heading "*University SubCo*" in the section entitled "*Description of the Issuer, ProjectCo, BBI HoldCo, Sussex HoldCo, IntermediateCo, University SubCo and the Service Provider*" and in paragraphs 7 and 13 of the section entitled "*General Information*" (the **University SubCo Information**). To the best of the knowledge of University SubCo (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Service Provider accepts responsibility for the information in this Prospectus under the heading "*Service Provider*" in the section entitled "*Description of the Issuer, ProjectCo, BBI HoldCo, Sussex HoldCo, IntermediateCo, University SubCo and the Service Provider*" (the **Service Provider Information**). To the best of the knowledge of Service Provider (which has taken all reasonable care to

ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

BBIPIL accepts responsibility for the information in this Prospectus under the heading "*Balfour Beatty Infrastructure Project Investments Limited*" in the section entitled "*Description of the Shareholders*" (the **BBIPIL Information**). To the best of the knowledge of BBIPIL (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

Sussex U H accepts responsibility for the information in this Prospectus under the heading "*Sussex UH Limited*" in the section entitled "*Description of the Shareholders*" (the **Sussex UH Information**). To the best of the knowledge of Sussex UH (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

The University accepts responsibility for the information in this Prospectus in the section entitled "*The University of Sussex*" (the **University Information**). To the best of the knowledge of University (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information. The information relating in this Prospectus to the Office for National Statistics and the United Kingdom Retail Price Index has been accurately reproduced from information published by that office. So far as the Issuer is aware and is able to ascertain from information published by the Office for National Statistics, no facts have been omitted which would render the reproduced information misleading.

The demand report by CBRE Limited (**CBRE**) and the technical adviser's report by Gleeds Advisory Limited (**Gleeds**) have been accurately reproduced in Appendix 5 and Appendix 6, respectively, to this Prospectus. So far as the Issuer is aware and is able to ascertain from information published by CBRE and Gleeds respectively, no facts have been omitted which would render the reproduced information misleading.

CBRE accepts responsibility for the information in this Prospectus under the heading "Demand Report" in Appendix 5 to this Prospectus. To the best of its knowledge (which it has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information. CBRE has consented to the inclusion of its student accommodation report (the **Demand Report**) in this Prospectus. The attention of prospective investors is drawn to the basis of preparation of the Demand Report and the qualifications as set out therein. In particular, prospective investors should be aware that the Demand Report has been prepared on the basis of third party information (as set out in the Demand Report) and CBRE has not undertaken any investigation to verify information obtained from third parties for the purposes of preparing the Demand Report.

Gleeds accepts responsibility for the information in this Prospectus under the heading "Technical Adviser's Report" in Appendix 6 to this Prospectus. To the best of its knowledge (which it has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information. Gleeds has consented to the inclusion of its report (the **Technical Adviser's Report**) in this Prospectus.The attention of prospective investors is drawn to the basis of preparation of and terms and conditions and limitations on liability which apply to the Technical Adviser's Report, as set out therein.

AGE accepts responsibility for the information contained in this Prospectus (i) in the sections entitled "*Risk Factors –Risks Relating to the Financial Guarantors*", "*Description of the Financial Guarantors - Assured Guaranty (Europe) Ltd.*" and "*Form of AGE Financial Guarantee*", (ii) in paragraph 2 of the section entitled "*General Information*" and (iii) in Appendix 1 and Appendix 2 to this Prospectus (together, the **AGE Information**). To the best of the knowledge and belief of AGE (which has taken all reasonable care to ensure that such is the case), the AGE Information is in accordance with the facts and does not omit anything likely to affect the import of such information. AGE accepts no responsibility for any other information contained in this Prospectus. Save for the AGE Information, AGE has not separately verified the information contained herein. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by AGE as to the

accuracy or completeness of any information contained in this Prospectus (other than the AGE Information) or any other information supplied in connection with the Bonds or their distribution. Each person receiving this Prospectus acknowledges that such person has not relied on AGE nor on any person affiliated with it in connection with its investigation of the accuracy of any information contained in this Prospectus (other than the AGE Information) or in making its investment decision.

AGM accepts responsibility for the information contained in this Prospectus (i) in the sections entitled "*Risk Factors – Risks Relating to the Financial Guarantors*", "*Description of the Financial Guarantors - Assured Guaranty Municipal Corp.*" and "*Form of AGM Financial Guarantee*", (ii) in paragraph 3 of the section entitled "*General Information*" and (iii) in Appendix 3 and Appendix 4 to this Prospectus (together, the **AGM Information**). To the best of the knowledge and belief of AGM (which has taken all reasonable care to ensure that such is the case), the AGM Information is in accordance with the facts and does not omit anything likely to affect the import of such information. AGM accepts no responsibility for any other information contained in this Prospectus. Save for the AGM Information, AGM has not separately verified the information contained herein. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by AGM as to the accuracy or completeness of any information contained in this Prospectus (other than the AGM Information) or any other information supplied in connection with the Bonds or their distribution. Each person receiving this Prospectus acknowledges that such person has not relied on AGM nor on any person affiliated with it in connection with its investigation of the accuracy of any information contained in this Prospectus (other than the AGM Information) or in making its investment decision.

The Issuer and ProjectCo have each confirmed to HSBC Bank plc (the **Manager**) that this Prospectus contains all information regarding the Issuer, ProjectCo, the Project, the Finance Documents, the Project Documents and the Bonds which is material in the context of the issue of the Bonds; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions or intentions expressed in this Prospectus are honestly held and are based on reasonable assumptions, this Prospectus does not omit to state any fact which would make any statement misleading in any material respect; and all reasonable enquiries have been made to ascertain and to verify the foregoing.

The Financial Guarantees will be issued on the Issue Date subject to certain conditions precedent being satisfied.

The Financial Guarantees have not been and will not be executed as at the date of this Prospectus. No person has been authorised to give any information or to make representations other than the information or the representations contained in this Prospectus in connection with the Obligors, the University, the Financial Guarantors, or the issue or sale of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorised by the Obligors or the Financial Guarantors, the Manager, the Bond Trustee, the Principal Paying Agent or the Security Trustee. Neither the delivery of this Prospectus nor the offering, sale nor delivery of any Bond shall in any circumstances, create any implication that there has been any adverse change or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Obligors or the Financial Guarantors since the date hereof. Unless otherwise indicated herein, all information in this Prospectus is given as of the date of this Prospectus.

The Manager, the Principal Paying Agent, the Bond Trustee and the Security Trustee have not separately verified the information contained in this Prospectus. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Manager, the Principal Paying Agent, the Bond Trustee or the Security Trustee as to the accuracy or completeness of the information contained in this Prospectus or any other information supplied in connection with the Bonds or their distribution. The statements made in this paragraph are without prejudice to the respective responsibilities of the Obligors and the Financial Guarantors. Each person receiving this Prospectus acknowledges that such person has not relied on the Manager, the Principal Paying Agent, the Bond Trustee or the Security Trustee or on any person affiliated with any of them in connection with its investigation of the accuracy of such information or its investment decision.

None of the Obligors, the Manager, the Financial Guarantors, the Bond Trustee, the Security Trustee, the Principal Paying Agent or any other party named in this Prospectus accepts responsibility to

investors for the regulatory treatment of their investment in the Bonds in any jurisdiction or by any regulatory authority. If the regulatory treatment of an investment in the Bonds is relevant to an investor's decision whether or not to invest, the investor should make its own determination as to such treatment and for this purpose seek professional advice and consult its regulator. Prospective investors are referred to the section entitled "*Risk Factors - Changes to regulatory framework*" of this Prospectus.

This Prospectus does not constitute, and may not be used for the purposes of, an offer or solicitation by any person to subscribe or purchase any Bonds. Neither this Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Obligors, the Financial Guarantors or the Manager that any recipient of this Prospectus or any other financial statements should purchase the Bonds. Each person contemplating making an investment in the Bonds must make its own investigation and analysis of the creditworthiness of the Obligors and the Financial Guarantors and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment. A prospective investor who is in any doubt whatsoever as to the risks involved in investing in the Bonds should consult independent professional advisers. The Manager does not undertake to review the financial conditions or affairs of the Obligors or the Financial Guarantors during the life of the arrangements contemplated by this Prospectus, or to advise any investor or potential investor in the Bonds of any information coming to the attention of the Manager.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Bonds are legal investments for it, (ii) the Bonds can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of the Bonds. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

The distribution of this Prospectus and the offering, sale and delivery of the Bonds in certain jurisdictions may be restricted by law. The Issuer does not represent that the Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, and does not assume any responsibility for facilitating such sale. Persons into whose possession this Prospectus comes are required by the Obligors, the Financial Guarantors and the Manager to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers and sales of the Bonds and on the distribution of this Prospectus, see the section entitled "*Subscription and Sale*" below. In particular, the Bonds, the Obligor Guarantees (as defined below) and the Financial Guarantees have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the **Securities Act**) and the Bonds will be in bearer form and so are subject to U.S. tax law requirements. Subject to certain exceptions, the Bonds, the Obligor Guarantees and the Financial Guarantees may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act and in the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder). The Bonds are being offered outside the United States in accordance with Regulation S under the Securities Act. See the section entitled "*Subscription and Sale*" below.

A list of the pages on which terms used in this Prospectus are defined is found in the section entitled "*Index of Defined Terms*" at the end of this Prospectus.

All references herein to **pounds**, **sterling**, **Sterling** or **£** are to the lawful currency of the United Kingdom, all references to **$**, **U.S.$**, **U.S. dollars** and **dollars** are to the lawful currency of the United States of America, and all references to **€**, **EUR** or **Euro** are to the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended.

SUPPLEMENTARY PROSPECTUS

If at any time the Issuer shall be required to prepare a supplementary prospectus pursuant to Article 16 of the Prospectus Directive, the Issuer will prepare and make available an appropriate amendment or supplement to this Prospectus or a further Prospectus which, in respect of any subsequent issue of Bonds to be listed on the Official List and admitted to trading on the Main Securities Market of the Irish Stock Exchange, shall constitute a supplementary prospectus as required by the Central Bank and Article 16 of the Prospectus Directive.

The Obligors have given an undertaking to the Manager that if, after the date of the Prospectus but prior to the admission of the Bonds to trading on the Irish Stock Exchange whichever is the later, there is a significant new factor, material mistake or inaccuracy relating to information contained in this Prospectus which is capable of affecting the assessment of any Bonds and whose inclusion in this Prospectus or removal is necessary, for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Obligors, the Financial Guarantors and the rights attaching to the Bonds, the Issuer shall prepare an amendment or supplement to this Prospectus or publish a replacement Prospectus for use in connection with any subsequent offering of bonds and shall supply to the Manager such number of copies of such supplement hereto as the Manager may reasonably request. Each supplementary prospectus that is published will incorporate by reference any supplementary prospectus previously filed with the Central Bank.

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OVERVIEW OF THE BOND ISSUE

Terms defined in "Terms and Conditions of the Bonds" have the same meaning in this section.

Introduction:	The Issuer (as defined below) is a special purpose vehicle whose principal purposes are to issue the Bonds (as defined below), and on-lend the proceeds to East Slope Residencies Student Accommodation Limited Liability Partnership (**ProjectCo**). ProjectCo is a special purpose vehicle whose principal purposes are to design, construct, finance and operate elements of the accommodation for, and to provide certain services to, the East Slope Residencies of the University of Sussex (the **University**). East Slope Residencies Partner Limited (**IntermediateCo)** is a special purpose vehicle established for the principal purpose of issuing shares and loan stock to East Slope Residencies Holdings Limited (**BBI HoldCo**), a special purpose vehicle established in turn for the principal purpose of issuing shares and loan stock to Balfour Beatty Infrastructure Projects Investments Limited. IntermediateCo will beneficially own 80 per cent. of ProjectCo. Sussex U H ESR IntermediateCo Limited (**University SubCo**) is a special purpose vehicle established for the principal purpose of issuing shares and loan stock to Sussex U H ESR HoldCo Limited (**Sussex HoldCo** and together with BBI HoldCo (the **HoldCos**)), a special purpose vehicle established in turn for the principal purpose of issuing shares and loan stock to Sussex U H Limited. University SubCo will beneficially own 20 per cent. of ProjectCo. University SubCo, together with IntermediateCo, ProjectCo and the Issuer are referred to herein as the **Obligors**. There is no recourse to the HoldCos or any shareholders of the HoldCos except to the extent described in this Prospectus. Pursuant to the terms of the Collateral Deed (as defined below), the Obligors will grant a joint and several guarantee in respect of each other's obligations to the Senior Creditors (as defined below) under the Senior Finance Documents (as defined below). The obligations of the Issuer under the Bonds will be secured in favour of BNY Mellon Corporate Trustee Services Limited as security trustee (the **Security Trustee**) (each as described in the section entitled "*Financing of the Project — The Security Arrangements*"). Each of AGE and AGM has agreed to provide a separate Financial Guarantee in relation to the Bonds. The Financial Guarantees will unconditionally and irrevocably guarantee the payment of scheduled principal and interest (in each case adjusted for indexation) (except for Bonds held by or on behalf of any Obligor or any Affiliate of an

Obligor or Shareholder of an Obligor). See "*Terms and Conditions of the Bonds*".

The coverage provided by the Financial Guarantees is the payment of scheduled payments of principal and interest only and does not cover any amounts due in respect of the Bonds:

(i) attributable to any increase in interest margin, penalty or other sum payable by the Issuer for whatever reason;

(ii) attributable to any present or future taxes, duties, withholding, deduction, assessment or other charge (including interest and penalties in respect of such taxes, duties, withholding, deduction, assessment or other charge) of whatever nature imposed, levied, collected, withheld or assessed by any sovereign state (including the United Kingdom), or any political subdivision or governmental or taxing authority therein or thereof;

(iii) attributable to any default interest;

(iv) attributable to any amount relating to prepayment, early redemption, broken-funding indemnities, penalties, premium, "spens", any make-whole amount or similar types of payments payable in respect of the Bonds; or

(v) in respect of which AGM or AGE has made an Accelerated Payment (as defined in the relevant Financial Guarantee) on or prior to a Scheduled Payment Date.

See "*Form of AGE Financial Guarantee*" and "*Form of AGM Financial Guarantee*".

Issuer:	East Slope Residencies PLC
Issue:	£185,670,000 0.10 per cent. Index-Linked Guaranteed Secured Bonds due 28 February 2062 (the **Bonds**).
Issue Price:	105.874 per cent.
Manager:	HSBC Bank plc
Final Maturity:	28 February 2062.
Financial Guarantors:	Assured Guaranty (Europe) Ltd. and Assured Guaranty Municipal Corp.
Interest and Redemption:	Payments of interest and principal will be due on the Bonds as set out in "*Terms and Conditions of the Bonds — Payments and Exchange of Talons*".
Indexation:	All payments of principal and interest in relation thereto will be indexed to retail price inflation (for all items), subject to the Minimum Indexation Factor and the

	Maximum Indexation Factor. The indexation will be applied using the Limited Index Ratio (as defined in Condition 7 (*Indexation*)).
Index Ratio:	The Index Ratio will be calculated initially using the Base Index Figure (as defined in Condition 7 (*Indexation*)). The RPI means the all items retail prices index for the United Kingdom published monthly by the Office for National Statistics. More information on the RPI can be found at www.statistics.gov.uk
Financial Guarantees:	The Bonds (excluding those held by or on behalf of any Obligor or any Affiliate of an Obligor or shareholder of an Obligor) will have the benefit of the Financial Guarantees under which (i) AGE has unconditionally and irrevocably agreed to pay to the Bond Trustee 8 per cent. of all sums due and payable but unpaid by the Issuer in respect of scheduled principal and interest on the Bonds and (ii) AGM has unconditionally and irrevocably agreed to pay to the Bond Trustee (x) the remaining 92 per cent. of the aforementioned sums, and (y) any sums due and payable but unpaid by AGE, all as more particularly described in the Financial Guarantees.
Reimbursement and Indemnity Deed:	The Obligors will be obliged to reimburse the Financial Guarantors, in respect of payments made under the relevant Financial Guarantee pursuant to the Reimbursement and Indemnity Deed. In addition, the Financial Guarantors will be subrogated to the rights of the Bondholders and the Bond Trustee (as described below) in respect of any payments made by it under the relevant Financial Guarantee.
Status of Bonds:	The Bonds will constitute direct and secured obligations of the Issuer which will rank *pari passu* and rateably without any preference or priority among themselves and will rank in priority to all unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Status of Financial Guarantees:	The AGE Financial Guarantee will constitute a direct and unsecured obligation of AGE which will rank at least *pari passu* with all other unsecured obligations of AGE save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The AGM Financial Guarantee will constitute a direct and unsecured obligation of AGM which will rank at least *pari passu* with all other unsecured obligations of AGM save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Financial Guarantor Downgrade	A **Financial Guarantor Downgrade Event** shall occur if, at any time while the Bonds remain outstanding, both:

Event:

(i) AGM's insurer financial strength rating by Moody's ceases to be at least "Baa3" and (ii) AGM's insurer financial strength rating by Standard & Poor's Global Ratings (**S&PGR**) ceases to be at least "BBB-", provided that during such time, if any, as AGM's insurer financial strength is not rated by Moody's and not rated by S&PGR, then a "Financial Guarantor Downgrade Event" shall occur only if, at any time while the Bonds remain outstanding, AGM's insurer financial strength rating is not rated at least "BBB-" or the equivalent by at least one other credit rating agency which is registered with the United States Securities and Exchange Commission as a nationally recognized statistical rating organization (an **Alternative Rating Agency**). If a Financial Guarantor Downgrade Event occurs, the Issuer shall notify the Bondholders and the Bond Trustee that a Financial Guarantor Downgrade Event has occurred and of their rights pursuant to and in accordance with the Bond Trust Deed and the Conditions.

If directed by Bondholders acting by way of an Extraordinary Resolution, the Bond Trustee shall, subject to being prefunded and/or indemnified and/or secured to its satisfaction by the Bondholders, issue a notice (the **Financial Guarantor Removal Notice**) to the Financial Guarantors specifying that, unless the Financial Guarantor Downgrade Event has been remedied or waived by the date that is three calendar months after the date of delivery of the Financial Guarantor Removal Notice, each of the Financial Guarantees shall be unconditionally and irrevocably terminated in whole and not in part effective on the date (the **Financial Guarantor Removal Effective Date**) on which the Financial Guarantors have been (i) reimbursed in full for any payments made under the Financial Guarantees and (ii) paid any and all then-outstanding financial guarantee fees and other amounts owed under the Reimbursement and Indemnity Deed, the Financial Guarantee Fee Letters and the other Senior Finance Documents. The Financial Guarantors may remedy any Financial Guarantor Downgrade Event by transferring the AGM Financial Guarantee to an affiliate of AGM that is rated at least "Baa3" by Moody's or "BBB-" by S&PGR (or, if prior to such remedy AGM was relying on the rating of an Alternative Rating Agency as described above, by transferring the AGM Financial Guarantee to an affiliate of AGM that is rated at least at least "Baa3" by Moody's or "BBB-" by S&PGR or "BBB-" or the equivalent by such Alternative Rating Agency) at any time up to the Financial Guarantor Removal Effective Date.

If the Financial Guarantor Removal Effective Date has occurred, financial guarantee fees shall cease to be paid to the Financial Guarantors, and Bondholders may by Extraordinary Resolution sanction to use the amounts no longer required to be paid as such financial guarantee fees in accordance with Condition 2(b) (*Financial Guarantees*)

of the Bonds.

The Issuer will immediately notify the Bondholders upon (i) any remedy or waiver of a Financial Guarantor Downgrade Event (including by way of transfer of the AGM Financial Guarantee) or (ii) termination of the Financial Guarantees pursuant to Condition 2(b) (*Financial Guarantees*) of each of the Terms and Conditions of the Bonds.

Aggregate Rating Downgrade:	If both (i) the rating of the Bonds and AGM's insurer financial strength rating by S&PGR is less than "BBB-" or is withdrawn and (ii) each of AGM's insurer financial strength rating and the rating of the Bonds from an Alternative Rating Agency is less than "BBB-" (or such equivalent rating) or is withdrawn, and AGM has an insurer financial strength rating of at least "Baa3" by Moody's on the date that such downgrades or withdrawals occur, then the Financial Guarantors shall request the Issuer obtains and the Issuer shall use reasonable endeavours to obtain within 2 months of such date (A) a rating for the Bonds from Moody's, at the cost of AGE and (B) that the rating of the Bonds by S&PGR is withdrawn.
Listing and admission to trading:	Application has been made for the Bonds to be admitted to the Official List and to trading on the Main Securities Market of the Irish Stock Exchange.
Ratings:	The Bonds are expected to be rated, upon issue, AA (stable) by S&PGR based on the financial strength rating of the Financial Guarantors. A rating is not a recommendation to buy, sell or hold securities, and will depend, amongst other things, on the business and financial condition of the Financial Guarantors from time to time.
Settlement/Clearance:	Euroclear and Clearstream, Luxembourg and any additional or substitute clearing system from time to time (nominated in accordance with the Bond Trust Deed).
Security Trustee:	BNY Mellon Corporate Trustee Services Limited
Bond Trustee:	BNY Mellon Corporate Trustee Services Limited
Principal Paying Agent:	The Bank of New York Mellon, London Branch
Form and Denomination:	The Bonds will be in bearer form in the denominations of £100,000 and integral multiples of £1,000 in excess thereof. The Bonds will initially be represented by the Temporary Global Bond, without receipts, coupons or talons attached, deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg. The Temporary Global Bond will be exchangeable, in whole or in part, not earlier than 40 calendar days from (but not including) the Issue Date and upon certification of non-U.S. beneficial ownership, for interests in the Permanent Global Bond, without

receipts, coupons or talons attached, which will also be deposited with such common safekeeper for Euroclear and Clearstream, Luxembourg. Interest payments in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Bond will be exchangeable in whole, but not in part, for Bonds in definitive form in the denominations of £100,000 and integral multiples of £1,000 in excess thereof, with receipts for principal and coupons for interest and talons for further receipts and coupons attached in the limited circumstances described in the section entitled "*Summary of Provisions relating to the Bonds while in Global Form*" below. If Definitive Bonds are required to be issued, such Definitive Bonds (a) will only be issued to Bondholders (as defined below) holding Bonds having a nominal amount equal to or in excess of £100,000 and (b) will only be printed in denominations equal to or in excess of £100,000.

Security:

The payment obligations of the Issuer under the Bonds shall have the benefit of security interests granted by (i) the Issuer over all or substantially all of its undertaking and assets both present and future, and all of its rights in and under the Issuer On-Loan Agreement (as defined below), (ii) ProjectCo over all or substantially all of its undertaking and assets both present and future in and under the Assigned Agreements (as defined in the ProjectCo Debenture (as defined below)) and certain bank accounts and book debts established in connection with the Project (iii) IntermediateCo over all or substantially all of its undertakings, assets both present and future (including its membership interests in ProjectCo) and all of its rights in and under the subordinated debt issued by ProjectCo to IntermediateCo, (iv) University SubCo over all or substantially all of its undertaking, assets both present and future (including its membership interests in ProjectCo) and all of its rights in and under the subordinated debt issued by ProjectCo to University SubCo, (v) BBI HoldCo over all of its shares in IntermediateCo and subordinated debt issued by IntermediateCo to BBI HoldCo and (vi) Sussex HoldCo over all of its shares in University SubCo and subordinated debt issued by University SubCo to Sussex HoldCo. See "*Financing of the Project — The Security Arrangements*".

Any exercise by the Security Trustee of its rights in respect of such security is subject to certain restrictions set out in the security trust and intercreditor deed dated on or about the Issue Date between the Obligors, the HoldCos, the Financial Guarantors, the Bond Trustee, the Principal Paying Agent, the Stockholder, the Shareholder and the Security Trustee (the **Security Trust and Intercreditor Deed**).

Covenants etc.:

The representations, warranties, covenants (positive, negative and financial) and events of default which will apply to, *inter alia*, the Bonds will be set out in the Collateral Deed (see "*Financing of the Project —*

	Collateral Deed").
Bondholder Report:	The Issuer has covenanted in the Collateral Deed that it will publish through an electronic website or through the Principal Paying Agent via the bond clearing system until the last Phase Completion Date, semi-annually on or before the date which is 20 business days prior to any Scheduled Payment Date and following the last Phase Completion Date, (a) if and for so long as the Bond Trustee is not the Controlling Creditor annually on or before the date which is 20 business days prior to the Scheduled Payment Date occurring on 28 February and 31 August in each year and (b) if and for so long as the Bond Trustee is the Controlling Creditor, semi-annually on or before the date, which is 20 business days prior to each Scheduled Payment Date, a report substantially in the form set out in Appendix 7 (Form of Bondholder Report) (the **Bondholder Report**) to the Collateral Deed
Taxes:	All payments of principal and interest in respect of the Bonds by the Issuer will be made free and clear of, and without withholding or deduction for, taxes, unless required by law. If such taxes are imposed, the Issuer will pay principal and interest after such withholding or deduction has been made. The Issuer will not be obliged to make any additional payments to Bondholders, Receiptholders or Couponholders (as defined below in the section entitled "*Terms and Conditions of the Bonds*". Similarly if any withholding or deduction for taxes is required in relation to any payments by AGE or AGM under the relevant Financial Guarantees, such payments will be made by AGE or AGM, as the case may be, subject to such withholding or deduction and neither AGE or AGM, as the case may be, will be obliged to make any additional payments to Bondholders, Receiptholders or Couponholders in respect of such withholding or deduction.
Governing Law:	The Bonds and each Financial Guarantee will be governed by English law.
Currency:	The Bonds will be denominated in Pounds Sterling.

RISK FACTORS

This section summarises certain factors involved in the Project which may materially affect the ability of the Issuer to make payments of interest and principal on the Bonds. In the case of certain risks this may lead to, among other things:

(i) *an Event of Default under the Collateral Deed (see the section entitled "Financing of the Project — Collateral Deed" below) and hence, at the option of the Controlling Creditor, acceleration of the Bonds (see the section entitled "Terms and Conditions of the Bonds"); or*

(ii) *non-payment of those amounts due on the Bonds and not guaranteed under the Financial Guarantees (see the section entitled "Overview of the Bond Issue" above), and if additionally AGE and/or AGM were to default on its obligations under the relevant Financial Guarantee, non-payment of amounts due on the Bonds that are guaranteed under such Financial Guarantee.*

Any prospective Bondholders should take their own legal, financial, accounting, tax and other relevant advice as to the structure and viability of their investment.

1. Risks relating to the Issuer, ProjectCo, the Service Provider , IntermediateCo, University SubCo, Sussex HoldCo and BBI HoldCo

Each of the Issuer, ProjectCo, the Service Provider, IntermediateCo, University SubCo, Sussex HoldCo and the BBI HoldCo is a newly incorporated special purpose vehicle which has produced no financial statements since its date of incorporation. The Issuer is a special purpose vehicle whose principal purposes are to issue the Bonds and on-lend the proceeds to ProjectCo. BBI HoldCo has been incorporated for the purpose of subscribing for equity and loan stock in IntermediateCo. IntermediateCo has been incorporated for the purpose of subscribing for membership interests and loan stock in ProjectCo. Sussex HoldCo has been incorporated for the purpose of subscribing for equity and loan stock in University SubCo. University SubCo has been incorporated for the purpose of subscribing for membership interests and loan stock in ProjectCo. ProjectCo has been incorporated for the purpose of subscribing for equity in the Issuer, entering into the Project Agreement and the Issuer On-Loan Agreement and running the Project. The Service Provider has been incorporated for the purpose of entering into the Service Contract and providing services to the Project. The ability of ProjectCo to repay amounts it has borrowed from the Issuer under the Issuer On-Loan Agreement thus enabling the Issuer to perform its obligations under the Bonds is conditional upon the success of the Project. The risks relating to the Project set out below are therefore relevant to each of the Issuer, ProjectCo, the Service Provider, IntermediateCo, University SubCo, Sussex HoldCo and BBI HoldCo.

2. Risks relating to the Project

Introduction

The contractual arrangements for the Project are generally structured to minimise the retention by ProjectCo of risks inherent in the Project. Risks under the Project Agreement are generally borne by ProjectCo, unless assumed by the University. To the extent borne by ProjectCo under the Project Agreement, most risks are passed on to the Building Contractor or the Service Provider (together the **SubContractors**) as applicable, under the relevant SubContracts or managed through insurance or reserved for with any residual risk being retained by ProjectCo. However, to the extent that indemnity obligations have not been imposed on SubContractors, or where the SubContractors, their respective guarantors, the University or insurers fail to meet their obligations in respect of risks under the Project Documents which have been passed on to them by ProjectCo, or claims by ProjectCo exceed agreed limits on liability, ProjectCo will continue to bear such risks to the extent defined in the Project Agreement.

Amongst the risks which ProjectCo retains and which are not passed to its insurers or SubContractors are demand risk, lifecycle obligations and costs, utilities costs, ProjectCo's own operating costs (including insurance costs), certain change in law costs and, after the 12-year period during which risk is borne by the Building Contractor, latent defect risk. A number of costs may under the Project

Agreement be passed through to student rents, however, in addition to constraints under the rent setting mechanism in the Project Agreement, market conditions may limit ProjectCo's ability to pass the costs on through the student rents.

Cost Overrun, Construction Delay and Defects (see also the section entitled "*Summary of the Project Documents – The Project Agreement – The Works*" below)

Under the Building Contract the risks assumed by ProjectCo in relation to the carrying out of the Works under the Project Agreement relating to design, price overrun, technical compliance, delay, defects and resulting losses of availability are borne by the Building Contractor (subject to an agreed cap equal to 50 per cent. of the Building Contract sum with a sub-cap on delay losses equal to 15 per cent. of the Building Contract sum (the **Building Contract Cap**).

Delay in completion following issue of a room availability notice.

If ProjectCo (having been issued an availability notice by the Building Contractor) has issued a room availability notice to the University for a Phase (as defined below), but then fails to complete the Works for that Phase by the date on which the relevant phase is to be occupied by students (which is later than the corresponding Planned Phase Completion Date) (the **University Occupancy Date)** or, in the event of material delay, the annual start date in the calendar year following the University Occupancy Date (or any subsequent year) because of circumstances for which it is responsible such that rooms are not available, ProjectCo must provide at its cost **Suitable Alternative Equivalent Accommodation**. This risk has been assumed by the Building Contractor.

If ProjectCo (through the Building Contractor) provides Suitable Alternative Equivalent Accommodation, it will be paid an amount calculated as follows:

(a) an amount equal to the greater of the amount of rent payable under the relevant underlease (pertaining to the relevant Phase) (a) in respect of 75 per cent. of the rooms included in the availability notice; or, (b) in respect of the rooms which would have been occupied had completion occurred and in relation to which students are being housed in Suitable Alternative Equivalent Accommodation. After such period as is notified to the University by ProjectCo as the anticipated period of delay (subject to a maximum period of 18 weeks), the rent is reduced to reflect the number of students who vacate the Suitable Alternative Equivalent Accommodation after such date but before the relevant room is ready; less

(b) all losses, costs, claims and liabilities incurred by the University as a result of such students being housed in Suitable Alternative Equivalent Accommodation, which may include reasonable payments in respect of additional travel, catering, storage and internet costs and *ex gratia* payments to the extent the University and ProjectCo have agreed (acting reasonably) that payment of the same is appropriate.

Revenue could consequentially be less than that which would have been generated from the actual room that should have been provided.

ProjectCo shall also be liable to the University in respect of the University's mobilisation and staff costs reasonably incurred in accordance with the Soft FM mobilisation plan unless ProjectCo has given the University not less than six weeks' advance written notice of the delay.

If ProjectCo loses revenue or incurs costs (as described in the previous paragraph) under the Building Contract, the Building Contractor must pay ProjectCo its losses on demand (subject to the Building Contract Cap).

Delay in completion without a room availability notice having been issued

If the Building Contractor has not issued an availability notice to ProjectCo (or has issued a non-availability notice stating that all or some of the rooms for the applicable Phase will not be available by the University Occupancy Date), the Building Contractor must pay ProjectCo its losses on demand (subject to the Building Contract Cap)). In these circumstances ProjectCo has no obligation to provide Suitable Alternative Equivalent Accommodation.

ProjectCo is able (subject to University approval (not to be unreasonably withheld or delayed) of ProjectCo's marketing plans) to market late-delivered rooms to mitigate any lost revenue.

Construction Defects and associated Unavailability

There is a 12 month defects liability period after completion of each Phase during which time the Building Contractor is liable to rectify any construction defects and, subject to a 5 per cent. Building Contract sum cap, is liable for the associated unavailability. In the 11 years thereafter the Building Contractor is also liable to recompense ProjectCo for the cost of ProjectCo rectifying latent defects (and, subject to a further 5 per cent. Building Contract sum cap, the associated unavailability).

Credit and liquidity support

The obligations of the Building Contractor under the Building Contract are guaranteed by Balfour Beatty plc pursuant to the building contractor guarantee (**Building Contractor Guarantee**).

There is liquidity support in favour of ProjectCo through an adjudication bond (up to an agreed maximum liability equal to 15 per cent. of the Building Contract sum) provided by HCC International Insurance Company PLC to ProjectCo in respect of the Building Contractor's obligations under the Building Contract (**Adjudication Bond**). In addition, HCC International Insurance Company PLC has granted to ProjectCo an "on demand" retention bond in lieu of ProjectCo making retentions from interim payments (equal to up to 3 per cent. of the interim payments from time to time) due under the Building Contract (**Retention Bond**).

Compensation Events, Force Majeure Events and Relief Events

Compensation Events are specified events that are either caused by specific events or circumstances for which the University is responsible. If these occur, ProjectCo will have to secure Suitable Alternative Equivalent Accommodation (assumed by the Building Contractor in so far as the Compensation Event applies during the Works and by the Service Provider to the extent related to the Services), but does not take the risk on payment in the way it would if the delay or unavailability were due to risks for which it is responsible. The University will compensate ProjectCo for its unavoidable costs via the Compensation Event regime.

A Force Majeure Event is a narrow category of specified events that are outside both the University's and ProjectCo's control. Where one of these occurs ProjectCo shall be relieved from liability under the Project Agreement for breach of specific obligations. ProjectCo shall not be entitled to any compensation or to any extension of any Planned Phase Completion Date. The University shall not be entitled to terminate this Agreement for a Default Event (including failure to complete the Works by the longstop date) if such Default Event arises from a Force Majeure Event. In the case of a Force Majeure Event arising during the Works, the associated risk is assumed by the Building Contractor.

Relief Events are a list of specified events that are outside both the University's and ProjectCo's control. On the occurrence of a Relief Event during the Works, ProjectCo shall not be entitled to any compensation or to any extension of any Planned Phase Completion Date but the longstop date shall be postponed for such time as is reasonable taking into account the likely effect of the delay. In the case of a Relief Event arising during the Works, the associated risk is assumed by the Building Contractor. The costs of Suitable Alternative Equivalent Accommodation required due to a Relief Event will either be met by insurance or the relevant SubContractor.

In certain circumstances relating to Relief Events, ProjectCo will benefit from delay in start-up insurance to cover certain circumstances that cause delay.

See also the section entitled "*Summary of the Project Documents – The Project Agreement – Supervening Events*" below.

Development Area outside Plot Boundaries

There is an area of land that forms part of the Project that currently sits outside the demise of the Premises, but within land on the University’s campus that has been demised by the University to

A2Dominion Homes Limited. The affected area forms part of Block 2C, part of Phase 5 (as described below), comprising 80 en-suite beds. There are also some additional rights over the land demised to A2Dominion Homes Limited that are required by the University to facilitate parts of the Project.

In the course of discussions between the University and A2Dominion Homes Limited, A2Dominion Homes Limited have agreed in principle to surrender the necessary land and grant the necessary rights to the University so that the University can lease the affected area of land and grant the relevant rights to ProjectCo. This agreement-in-principle remains subject to binding documentation. Once binding agreement is reached with A2Dominion Homes Limited, the University proposes to enter into a Intermediate lease with ProjectCo for the affected area and the relevant rights on substantially the same terms as the Lease but for nil premium.

Construction of Block 2C is due to commence in October 2018. If the University is unable to agree terms with A2Dominion Homes Limited then, subject to ProjectCo applying for and obtaining a variation to the existing planning permission or a new planning permission, the affected part of the Project may be reconfigured by the ProjectCo to accommodate the necessary changes whilst delivering the same number of en-suite beds.

If by 1 October 2017 the University is unable to lease the affected area of land and grant the relevant rights and planning permission to reconfigure the affected parts of the Project has not been obtained, then this event will constitute a Compensation Event under the Project Agreement. The consequences of this will be the same as for a Compensation Event under the Project Agreement (see section entitled "*Summary of the Project Documents – The Project Agreement – Supervening Events*" below) save that the University will not be required to compensate, and the Building Contractor will not be entitled to receive, any loss of profit relating to delay or omission of any Block 2C Works as part of any claim for such Compensation Event.

Site matters

Other than the specific matters set out below, ProjectCo bears substantially all the risks relating to the Site, ground conditions and environmental matters and in so far as they could affect the Works are passed to the Building Contractor under the Building Contract (see also the section entitled "*Summary of the Project Documents – The Project Agreement – The Site*" below).

The following are Compensation Events and therefore University risks:

(a) the occurrence of unforeseen ground conditions and/or contamination arising in an area of the site which the Building Contractor has been unable to survey;

(b) the discovery of the access shaft to the Southern Water adit during the Works phase;

(c) the discovery of fossils or antiquities in respect of which the University instructs ProjectCo to carry out works which are not required by the Works Specification.

The Service Provider is not responsible for site conditions save contamination caused by its act, default or omission.

Asbestos

ProjectCo is required to undertake Asbestos Works (defined as the removal and disposal of all Asbestos in relation to existing buildings (by reference to an area on a plan (such area, the **Demolition Site**)) and has made an allowance for undertaking the same in the base case. There is a procedure under which ProjectCo can request the direct costs and associated expenditure reasonably and properly incurred in undertaking the Asbestos Works from the University in excess of the allowance and the right to Compensation Event protection to the extent that the time allowed for dealing with the Asbestos Works in the programme and/or the agreed allowance proves to be insufficient.

Karst Features

There is a specific procedure relating to the discovery of Karst Features at the Premises which affect the Works. A Karst Feature as defined is limited to a specific category of subsurface geological feature (by reference to the relevant CIRIA publication) which has an impact on the structural design or construction of the Works or which causes a reduction in the residual value or quantity of excavated chalk resulting in additional expense or delay to the Works. ProjectCo will be carrying out investigation surveys to identify any Karst Features. If any are identified, these will then be remediated.

A contingency fund will be established specifically to compensate ProjectCo for dealing with any Karst features that may be discovered on the site. If the cost of dealing with Karst features exceeds this fund, the University will meet the cost. Any unused balance remaining in the contingency fund at agreed dates will be paid to the University.

There are also time allowances built into the programme to cater for remedial works required for Karst Features. If the remedial works take longer than this allowance, ProjectCo will be entitled to claim time and money from the University.

Student Union

ProjectCo is constructing the student union shell and core at the Premises. The University will be fitting out the interior of the shell and core. There is an access protocol governing the access by the University's fit out contractor. If the fit out of the shell and core is performed otherwise then in accordance with the access protocol or the performance of the fit out works impedes, hinders or delays the performance of or causes damage to the Works, this is a Compensation Event.

On completion of the Student Union, ProjectCo will grant the University the Student Union and Retail Units Underlease. There is a Compensation Event mechanism to deal with certain uninsured losses caused by the operation of the Student Union.

Excesses and deductibles and insurance premia increases will, in certain circumstances relating to the Student Union, be met by the University.

Operational risks (see also the sections entitled "*Summary of the Project Documents – The Project Agreement – Services*" and "*Summary of the Project Documents – The Project Agreement –Payment*" below).

Property Related Risks

There are two types of property risk applicable to the Project.

Firstly, *Headlease forfeiture*:

The Premises form part of the campus held by the University under the Headlease (as defined below). There is a risk that a breach of the Headlease which occurs elsewhere on the campus, or within the Premises but outside of the scope of the ProjectCo's obligations under the Project Agreement or Project Leases, could cause the Headlease to be forfeited. Forfeiture of the Headlease will automatically bring the Project Leases to an end. Forfeiture of the Headlease is a University Event of Default, to the extent that is it not caused by the ProjectCo or a ProjectCo related party.

The Headlease is a 999 year lease dated 5 February 1969 made between (1) the Brighton Corporation and (2) the University, as amended by a deed of variation dated 4 June 2003 made between (1) Brighton & Hove City Council and (2) the University and the deed of varation dated 6 June 2011 made between (1) Brighton & Hove City Council and (2) the University (the **Headlease).** The Project is within the uses permitted by the Headlease. Where there is a risk that part of the Project may be inconsistent with the Headlease, Brighton & Hove City Council has consented to that activity as landlord under the Headlease.

Following a breach, the process to forfeit a 999 year peppercorn lease requires a formal notice and a reasonable time to allow rectification before a full court process can be instituted to bring the lease to an end. In the event of a breach, the Intermediate Lease provides a mechanism for rectification of any

breach occurring on the Premises either by the ProjectCo where the Project Co has responsibility under the Project Agreement, or where a Change Event is agreed, or by the University through a self-help remedy. Forfeiture of the Headlease is a University Event of Default, to the extent that is it not caused by the ProjectCo or a ProjectCo related party.

There remains a risk that ProjectCo could cause forfeiture of the Headlease. This has been mitigated by providing the University with rights to require ProjectCo to rectify or step-in and rectify itself following service of a notice. If the issue identified in the notice is not rectified it will be a ProjectCo Default Event where either an application for forfeiture is served and proceedings issued or where an order for forfeiture is issued by the Court.

Secondly, *title matters risk*:

Title to the Premises has been investigated via the Certificate of Title provided by Pinsent Masons LLP. There are the following issues:

- *Missing documents:* some potential matters relating to missing, incomplete or illegible documents pre-dating the Headlease;
- *Right to create link road:* an adverse right in favour of an adjoining part of the campus to connect to any new road on the Property which is constructed within 60 metres of the boundary between the Premises and the adjoining land and which connects into the public highway. The University have agreed to procure the removal of this right.
- *Unknown adverse rights:* there is the risk of unknown rights affecting the Project.

The University takes the risk in relation to these matters until completion of the Works. The adverse exercise of any of these matters is a Compensation Event.

After completion of the Works, the rights arising out of the missing documents and the unknown adverse rights are covered by a title indemnity policy (**Title Policy**). The Title Policy provides a maximum aggregate indemnity cover of £20 million, with a limit of £5 million in respect of loss of rental income, costs arising out of any delay to or interruption to provision of the Services and the costs of providing alternative accommodation for students. The Title Policy covers the cost of amending the Works, dealing with litigation, settling or buying out an adverse right and any loss in market value of the Premises.

Demand Risk

Project Co is paid for rooms rented out and as such is exposed to demand risk.

With a full population of 15,274 full time students in 2015/2016, the University are currently only just able to honour its accommodation guarantee, which is restricted to just first years and any non EU international students, approximately 40 per cent. of students. Further accommodation is therefore urgently needed as University numbers increase towards the target of 18,000 by 2018/2019.

The University has increased its full time population (excluding pre-sessional students) by 27 per cent. between 2010/2011 and 2015/2016, significantly outperforming the peer group and the UK averages.

East Slope is designed to meet the needs of the students. It will offer students the best location, social facilities and en-suite specification all of which has been identified as the student's key priorities in a recent University survey. The accommodation will have a broad appeal, offering en-suite cluster flats and 'townhouse' style shared bathroom clusters.

A student accommodation Demand Report for the proposed scheme is provided in Appendix 5. The University has the right, on an annual basis, to nominate up to 100 per cent. of the available rooms. When they do so they become responsible for paying the rent for these rooms, including taking the void risk for which they retain 4 per cent. of the rent. The University is also responsible for the marketing and allocation of rooms to students.

If the University nominates rooms, it must nominate at least 1 in 10 as a post-graduate room for a 50 week let.

Should the University elect to nominate less than 100 per cent. of the available rooms, it is required to continue to market the rooms to its student body on substantially the same basis as it markets its own accommodation. In respect of any rooms which are subsequently taken up by University of Sussex students, the University will become responsible for paying the rent for that room.

In a situation where the University does not nominate 100 per cent. of the rooms, ProjectCo is entitled to conduct its own marketing to any fulltime student in higher education. This allows for marketing to all University of Sussex students as well as other higher education institutions. The total university student population in Brighton universities is approximately 28,449 (2015/2016).

Demand from students for accommodation could be affected by a number of factors. One such factor is the possibility that the number of students choosing to study at the University could decline. This could be caused by the following possible influences:

(a) *The popularity of courses*

The University provides a wide range of undergraduate and postgraduate courses through its unique Schools of Study structure. Please see the demand report in Appendix 5 for more detail. It is a well ranked university, listed in the top 20 by the Times Good University Guide and The Guardian.

(b) *The level of tuition fees*

In 2017, the Government will introduce the Teaching Excellence Framework (**TEF**) – this will give information about universities and colleges, to help applicants decide where to study.

Universities and colleges will have to meet certain criteria to achieve a TEF award. In its first year, all universities achieving the eligibility criteria will receive a "Meet Expectations" award. Over time additional awards will be added.

Universities who achieve a TEF award will be able to increase their fees in line with inflation. This means for a 2017 entry, they can charge fees of up to £9,250. Tuition fees and living loans will also increase with inflation.

The changes apply to all new applicants for courses starting from September 2017 and existing students that started their studies after 1 September 2012.

The University of Sussex have indicated that they will be increasing tuition fees to £9,250 for Home EU and EU undergraduates form 2017/2018.

Other fee considerations may affect student numbers such as competition from overseas universities, particularly those situated in EU member states, requiring lower tuition fees.

(c) *Remaining Factors*

Demand for the accommodation could also be affected by increasing competition in the accommodation market.

(d) *University-operated accommodation*

The University operates its own estate of residential accommodation, currently numbering approximately 5,024 bed spaces in total. Of this accommodation portfolio, 803 bed spaces are off-site and 592 of the on-site rooms will be demolished to make way for the new East Slope rooms.

The University may continue to invest in similar capital projects, thus increasing the competition for bed spaces within the portfolio which they operate. However, the Project

Agreement provides for a restrictive covenant whereby the University may only enter into new accommodation arrangements if the ratio of full-time students to accommodation has not fallen below 2.5 for the previous 3 academic years and would not fall below 2.5 once the new bed spaces are delivered. This ratio may be reduced to 2.0 if the number of actual applications for rooms for the past 3 academic years has exceeded 1.5 times. The University may proceed with new accommodation arrangements, notwithstanding this ratio test, if they nominate 100 per cent. of the rooms at the Premises until such time as the Applicable Tests are satisfied.

There is a risk that the restrictive covenant may not be enforceable although restrictive covenants such as that described above are only capable of infringing competition law if they have a material adverse effect on competition in the relevant market. Even then, the restrictive covenant will meet the criteria for exemption and will therefore be enforceable if it produces efficiency benefits for consumers and is indispensable (i.e. no more restrictive than is strictly necessary to achieve these benefits).

(e) *Private sector operated, purpose built accommodation*

There are currently only 218 purpose built direct let beds in Brighton but there are 1,199 potential further beds that are at various stages of development. This is in the context of the University of Brighton having 2,250 beds and University of Sussex having 5,024 beds and a total university student population in Brighton of 28,449 (2015/2016), which would give a Brighton student to bed ratio of 3.27 if all developments are completed and without accounting for student research.

ProjectCo is exposed to the risk that the University will default in making payments under the Project Agreement and/or underleases

The rents payable by students under the student leases are collected by the University as landlord directly from students and are then paid to ProjectCo under the Project Agreement/Underleases as rent. ProjectCo's ability to meet payments under the Bonds, as well as meet all of its other financial commitments under SubContracts and to meet it other operating expenses, is dependent on the University collecting in those rents and paying them on the relevant payment dates to ProjectCo. Although such non-payment could give rise to an entitlement for ProjectCo to terminate the Project Agreement against the University, there is no guarantee that compensation on termination payments would be paid at the time and in the manner contemplated by the Project Agreement.

Increases in overall operating expenditure will impact on ProjectCo's financial performance, if it is unable to pass those costs through to rents

The principal operating expenditure is facilities management fees payable to the Service Provider and the University (as Soft FM Contractor), insurances, utilities (see risk factor below entitled "*ProjectCo may not be able to pass on an increase in utilities costs to rental income*") and employment costs. Each of the Service Provider and the University (as Soft FM Contractor) is entitled to annual increases in its contract price, linked to RPI.

In an environment where high levels of inflation exist, there is a risk that all or part of the effects of inflation could not be passed through to student rents. This is because there is a cap on the amount by which a proportion of the rent can increase due to inflation in any year. In addition the market may be unable to sustain such an increase without adversely affecting demand for the accommodation (see further "*Summary of Project Documents - Project Agreement - Rent Setting*" below).

Accordingly, if overall operating expenditure increases and those increases cannot be passed through to rents, this may adversely affect ProjectCo's financial performance.

ProjectCo may not be able to pass on an increase in utilities costs to rental income.

There are mechanisms within the Project Agreement to enable the pass-through of increases in utility consumption against an assumed consumption level and tariff to rents on an annual basis. This is subject to an annual cap (see further "*Summary of the Project Documents – Project Agreement – Rent Setting*" below). Utilities costs, including energy (both volume and price) and any associated taxes or

levies, are, to the extent not recovered from students or occupiers, borne by ProjectCo. Rents charged to students are inclusive of utility costs, including heating and electricity charges. The tariffs are not under ProjectCo's direct control (see further "*Summary of the Project Documents – Project Agreement – Energy Supply*" below).

There is a risk that the total increase in utility costs cannot be fully passed through to rent for the next rental period for the following reasons, amongst others:

- the market is unable to sustain the proposed increase directly attributable to the increase in utility costs (combined with any other increases) without impacting on demand for the accommodation; and

- the increase may exceed the cap on the amount which can be passed though in any year.

Unavailability

In the event of any unavailability of a Room (which is made available under a room availability notice) in the operational phase, ProjectCo bears the risk of procuring Suitable Alternative Equivalent Accommodation (including University losses due to the housing of students in Suitable Alternative Equivalent Accommodation) and/or any associated loss of revenue. This risk (other than as a result of a defect occurring up to twelve years after the relevant Phase Completion Date), has been assumed by the Service Provider, subject to an annual cap of 100 per cent. of its annual service fee. This cap is subject to the exclusion of certain liabilities.

Lifecycle

During the term of the Project Agreement, ProjectCo will need to undertake certain lifecycle works in order to satisfy its obligations under the Project Agreement.

ProjectCo will be responsible for this lifecycle work within the Accommodation although there is a mechanism for the Service Provider to quote for and perform lifecycle works under £10,000 (indexed) on behalf of ProjectCo. The timing and expenditure in relation to lifecycle has been estimated by ProjectCo as being appropriate for the Project. There are a variety of factors which could lead to higher than projected costs, such as shorter than anticipated asset lifespan, unplanned lifecycle works, higher lifecycle costs than predicted and higher inflation than predicted affecting lifecycle costs. Under the financing arrangements, an account (the **Lifecycle Reserve Account**) has been opened and will be maintained by ProjectCo with the Account Bank in order to reserve designated cash by reference to the projected future lifecycle expenditure over a defined period. In the event that the costs of lifecycle works are higher than projected (including for any of the reasons set out above), the funds standing to the credit of the Lifecycle Reserve Account may be insufficient to cover such expenditure.

Every 10 years following completion of the final phase until the Senior Creditors Release Date, the parties will consider whether there is any surplus in the lifecycle amounts projected in the base case having regard to a range of matters including the condition of the Premises and ProjectCo's obligations in the Project Agreement. If the Controlling Creditor agrees, in its absolute discretion, that a surplus amount may be withdrawn from the Lifecycle Reserve Account, it is shared between the University and ProjectCo, with 66 per cent. to the University and 34 per cent. to ProjectCo.

Termination and Replacement of the Service Provider

Should the Service Provider seriously fail in the performance of the Services, or become insolvent, ProjectCo may terminate the Service Contract. The University is entitled to require ProjectCo to terminate the Service Contract if it issues five or more service default notices in any consecutive nine month period. A service default notice can be issued if a specified number of service default points (**Service Default Points**) are reached. Service Default Points are de-merit points awarded to ProjectCo for poor performance under the agreed service level agreement. The thresholds associated with Service Default Points set in the Service Contract are lower than that required to terminate the Project Agreement in order to give ProjectCo a "buffer" to manage the risk of a non-performing Service Provider (see further "*Summary of the Project Documents – the Project Agreement – Termination of Service Contract at the University's Request*" below).

In the event of Service Provider termination, ProjectCo will need to replace the Service Provider (or procure alternative provision of the part of the Services to be SubContracted) to ensure continued provision of the Services to the University.

ProjectCo bears the risk of any increased cost of procuring a replacement Service Provider for the remainder of the Term although the outgoing Service Provider will be liable for ProjectCo's losses (including the increased costs of any replacement Service Provider) where the termination is due to the Service Provider's default. This is subject to the Service Provider's agreed liability termination cap of 200 per cent. of its annual service fee. This cap is subject to the exclusion of certain liabilities.

Termination of the provision of Soft FM Services by the University

The University may cease to provide the Soft FM Services pursuant to the underleases either where it is terminated for poor performance (ProjectCo terminating the University's provision of a particular Soft FM Service) or it decides to stop providing all of the Soft FM Services on six months' notice. In either situation the Soft FM Service is no longer provided under the underleases and ProjectCo is obliged to provide the Soft FM Service under the Project Agreement. The University offers only limited protection for an increase in the costs of providing the Soft FM Service. The additional cost of providing the security, mail and helpdesk services and irrecoverable VAT are treated as rent adjustment factors and accordingly, ProjectCo is provided with limited rights to flex the levels at which rents are otherwise set to account for the relevant additional costs. There are residual services to be performed by the University which it will provide for the full concession period. These cannot be terminated.

The Service Provider has agreed to provide the Soft FM Service immediately upon the University ceasing to provide such service on the same terms and pricing under which the University did so (subject to the application of the rent adjustment factor).

In the event of the Service Provider providing the Soft FM Service and the Service Provider then being terminated (see "*Termination and Replacement of the Service Provider*" above) any increases in cost of provision of the Soft FM Service would be borne by ProjectCo.

Project term risks (see also the section entitled "*Summary of the Project Documents – The Project Agreement – Supervening Events*" below)

Physical Damage

ProjectCo bears the risk of physical damage to the Works, the Accommodation and other property of ProjectCo. ProjectCo retains the risk of student damage. The University has certain obligations to pursue students for recovery where this damage is caused by students.

Changes in Legislation

ProjectCo must, generally, comply (subject to Qualifying Changes in Law), at its own expense with all legislation throughout the Term. This includes changes in legislation that require capital works during the construction period and any changes in legislation relating to taxation. A change in legislation is where legislation or a court judgment creating a binding precedent comes into effect after the Issue Date (a **Change in Legislation**).

Unforeseen Changes in Legislation arising after three years of the Issue Date or two years after the UK gives notice to the European Council pursuant to paragraph 2 of Article 50 of the Treaty on the European Union (provided it is not withdrawn) which impact on the Works prior to the Planned Phase Completion Date (including any period of delay associated with a Relief Event) (a **Qualifying Change in Law**) is treated similarly to a contract change. The parties discuss and agree any changes required, including to account for changes in project costs and loss of revenue. Once agreed (or determined) ProjectCo must use reasonable endeavours to obtain funding for any capital expenditure, but to the extent it is unable to do so, the University meets the cost.

Each SubContractor bears such risk as relates to that SubContractor's own obligations under its SubContract except that certain Changes in Legislation to the extent involving capital expenditure under the Service Contract are retained by ProjectCo.

ProjectCo may adjust the student rents to take into account a number of changes in legislation (**Relevant Changes in Legislation**). This is further described in the section entitled "*Summary of the Project Documents – The Project Agreement – Rent Setting*" below. In this way, ProjectCo anticipates that the costs of Relevant Changes in Legislation for which it remains responsible will be passed on to the occupiers of the rooms by way of increasing the student rents. The financial impact of high value changes in legislation may need to be addressed through rents over a period of time.

Cost and Unavailability of Insurance

ProjectCo's strategies for the management and mitigation of a number of risks depend on its ability to insure. Subject as noted in the three following paragraphs, ProjectCo bears the risk that, over time, the cost of its insurance programme may increase or that insurances may not be available at all, on the same terms or at sustainable cost.

Where the actual cost of placing the insurances required by the Project Agreement is more than the cost allowed for them (as estimated at the Issue Date), then ProjectCo will generally have to pay that increased insurance cost. ProjectCo will not have to bear the increased cost, however, if it is so large that it makes a risk uninsurable (**Uninsurable**). A risk becomes Uninsurable in these circumstances if the cost is at such a level that the risk is not generally being insured against in the worldwide insurance market with reputable insurers of good standing. Where a risk is Uninsurable and the parties cannot agree as to how to manage that risk, ProjectCo is generally protected through either the University being able to terminate the Project Agreement (in the event of third party liability insurance being Uninsurable) and a termination amount becoming payable by the University or the Project Agreement continuing until the occurrence of an Uninsurable risk at which point the University can either elect to pay the equivalent of the insurance proceeds that would have been payable had the insurance been available and thereafter continue with the Project Agreement or to terminate the Project Agreement and pay the applicable termination amount. Apart from these large cost changes, ProjectCo substantially bears the risk of increased insurance costs. This risk may, to some extent, be mitigated by the rent setting provisions (see the section entitled "*Risk Factors – Risks Relating to the Project - Demand Risk*" above). These may allow the rents charged to the students and other occupiers to be increased as a result of the increased insurance costs.

A risk could also become Uninsurable if it is generally not available in the worldwide insurance market.

Particular terms or conditions of insurance policies (as opposed to insurance against risks themselves) required by the Project Agreement may not be available to ProjectCo (at all or at sustainable cost) (**Unavailable Insurance**). ProjectCo will then have to secure an appropriate alternative or replacement term or condition, if available. If it is agreed or determined that such alternative is not available, ProjectCo is relieved from taking out this Unavailable Insurance. The underlying risk, however, remains with ProjectCo.

Termination of the Project Agreement

The Project Agreement incorporates termination rights for both the University and ProjectCo. The Project Agreement provides that the University must pay compensation to ProjectCo on termination for any reason. The amount of compensation will vary depending on the reason for termination and other circumstances.

The Project Agreement could be terminated for the following reasons:

(a) ProjectCo Default;

(b) default by the University;

(c) the University exercising its rights of voluntary termination;

(d) a Force Majeure Event occurring;

(e) a Prohibited Act being committed;

(f) ProjectCo's wilful breach of the refinancing provisions;

(g) an Uninsurable Risk (as defined in the section entitled "*Cost and Unavailability of Insurance"* above) occurring, or

(h) forfeiture of the Headlease;

This is further described in the section entitled "*Summary of the Project Documents – The Project Agreement – Compensation on Termination*" below).

In certain circumstances if the University fails to exercise its right to terminate the Project Agreement for ProjectCo default arising from insolvency or failure to pay (the latter subject to an ADSCR test), ProjectCo can serve notice to extend the term by 10 years or, if earlier, until the Senior Creditors' Release Date. The parties will then either perfect the extension within six months or the Project Agreement will be deemed to have been terminated by the University. If the term is extended, the parties will discuss lowering the rents at the Premises to increase demand, subject to not materially adversely impacting demand across the campus or ProjectCo's ability to perform its obligations.

If the Project Agreement term is extended, the Service Contract will be similarly extended, subject to an adjustment to the contract price (by reference to market testing) for the extended period.

Litigation risks

From time to time, ProjectCo may become involved in litigation as part of the ordinary course of its business. There is a risk that it may be unsuccessful in defending or pursuing any such actions, for example in relation to public and employee health and safety or claims for loss or damage, although project insurances may provide financial mitigation depending on the precise circumstances.

3. Risks Relating to the Financial Guarantors

Reliance on the Financial Guarantors

Pursuant to the Financial Guarantees, the Financial Guarantors guarantee scheduled payments of principal and interest under the Bonds. The payment of the guaranteed amounts (as defined in the Financial Guarantees) (**Guaranteed Amounts**) will depend upon each of the Financial Guarantors performing its obligations under its respective Financial Guarantee. The likelihood of payment of the Guaranteed Amounts will depend upon the creditworthiness of each of the Financial Guarantors. Consequently, investors are relying not only on the creditworthiness of the Issuer, but also on the creditworthiness of each of the Financial Guarantors to perform its obligations under the relevant Financial Guarantee. The insolvency of either of the Financial Guarantors or a default by it under its respective Financial Guarantee may adversely affect the likelihood of investors receiving scheduled payments of principal and interest and could result in a withdrawal or downgrade of the ratings of the Bonds.

The Financial Guarantees only guarantee scheduled principal and scheduled interest payments by the Issuer on the date(s) when such amounts are initially scheduled to become due and payable (subject to and in accordance with each Financial Guarantee), and do not guarantee the market price, or liquidity of any securities, nor do they guarantee that the ratings on such securities will not be revised or withdrawn.

Reliance by AGE on AGM

The financial strength ratings of AGE are based primarily on the ratings of and the capital support and reinsurance provided by AGM to AGE pursuant to certain intercompany support agreements (the **Support Agreements**). Any downgrade of the ratings of AGM would very likely result in a downgrade of the ratings of AGE. The Support Agreements are not, and should not be regarded as, conferring any recourse against AGM or any other person under the Support Agreements. See "*Description of the Financial Guarantors*" below for further details on the Support Agreements.

Rating of Bonds affected by the Financial Guarantors

The rating of the Bonds is based primarily on the Financial Guarantees issued by the Financial Guarantors with respect to the Bonds. The financial strength ratings assigned by S&PGR, Moody's and KBRA, as applicable, to the Financial Guarantors represent such rating agencies' opinions of each Financial Guarantor's financial strength and ability to meet ongoing obligations to policyholders and cedants in accordance with the terms of the financial guarantees each has issued or the reinsurance agreements each has executed. The rating of the Bonds also reflects qualitative factors, such as such rating agencies' opinion of the Financial Guarantor's business strategy and franchise value, the anticipated future demand for its product, the composition of its insured portfolio, and its capital adequacy, profitability and financial flexibility. Issuers, investors, underwriters, ceding companies and others consider the Financial Guarantors' financial strength or financial enhancement ratings an important factor when deciding whether or not to utilize a financial guarantee or purchase reinsurance from one of the Financial Guarantors. A downgrade by a rating agency of the financial strength or financial enhancement ratings of a Financial Guarantor could impair that Financial Guarantor's financial condition, results of operation, liquidity, business prospects or other aspects of that Financial Guarantor’s business.

The ratings assigned by the rating agencies that publish financial strength or financial enhancement ratings on the Financial Guarantors are subject to frequent review and may be lowered by a rating agency as a result of a number of factors, including, but not limited to, the rating agency's revised stress loss estimates for a Financial Guarantor's insured portfolio, adverse developments in a Financial Guarantor's financial condition or results of operations due to underwriting or investment losses or other factors, changes in the rating agency's outlook for the financial guarantee industry or in the markets in which a Financial Guarantor operates, or a revision in the rating agency's capital model or ratings methodology. Their reviews can occur at any time and without notice to the Financial Guarantors and could result in a decision to downgrade, revise or withdraw the financial strength or financial enhancement ratings of the Financial Guarantors. For example, while all of the rating agencies that rate AGM have indicated that their evaluations of AGM already take into account stress scenarios related to developments in the Commonwealth of Puerto Rico (**Puerto Rico**), actual developments in Puerto Rico beyond what a rating agency considered could cause that rating agency to review its ratings of AGM.

Since 2008, each of S&PGR and Moody's has reviewed and downgraded the financial strength ratings of AGM and AGE. In addition, S&PGR and Moody's have from time to time changed the ratings outlook for AGM and AGE to "negative" from "stable" or have placed such ratings on watch for possible downgrade. The Financial Guarantors periodically assess the value of each rating assigned to them, and may as a result of such assessment request that a rating agency add or drop a rating. For example, the KBRA ratings were first assigned to AGM in 2014.

The Financial Guarantors believe that the uncertainty introduced by S&PGR's and Moody's various actions and proposals have reduced the Financial Guarantors' new business opportunities and have also affected the value of the Financial Guarantors' product to issuers and investors. Their financial strength ratings are an important competitive factor in the financial guaranty insurance and reinsurance markets. If the financial strength or financial enhancement ratings of one or more of the Financial Guarantors were reduced below current levels, the Financial Guarantors expect that such a reduction in rating would reduce the number of transactions that would benefit from the Financial Guarantors' insurance; consequently, a downgrade by rating agencies could harm the Financial Guarantors' new business production, results of operations and financial condition.

The rating agencies from time to time have evaluated the Financial Guarantors' capital adequacy under a variety of scenarios and assumptions. The rating agencies do not always supply clear guidance on their approach to assessing the Financial Guarantors' capital adequacy and the Financial Guarantors may disagree with the rating agencies' approach and assumptions. For example, it is understood that S&PGR assesses each individual credit (including potential new credits) insured by the Financial Guarantors based on a variety of factors, including the nature of the credit, the nature of the support or credit enhancement for the credit, its tenor, and its expected and actual performance. This assessment determines the amount of capital a Financial Guarantor is required to maintain against that credit to maintain its financial strength ratings under S&PGR's capital adequacy model. Sometimes the rating

agencies consider the amount of additional capital that could be required for certain risks or sectors under certain stress scenarios based on their views of developments in the market, as each have done recently with respect to AGM's exposures to Puerto Rico. Factors influencing the rating agencies are beyond management's control and not always known to the Financial Guarantors. In the event of an actual or perceived deterioration in creditworthiness, or a change in a rating agency's capital model or rating methodology, that rating agency may require the Financial Guarantors to increase the amount of capital allocated to support the affected credits, regardless of whether losses actually occur, or against potential new business. Significant reductions in the rating agencies' assessments of credits in the Financial Guarantors' insured portfolio can produce significant increases in the amount of capital required for the Financial Guarantors to maintain their financial strength ratings under the rating agencies' capital adequacy models, which may require the Financial Guarantors to seek additional capital. The amount of such capital required may be substantial, and may not be available to the Financial Guarantors on favourable terms and conditions or at all. Accordingly, the Financial Guarantors cannot ensure that they will seek to, or be able to, raise additional capital. The failure to raise additional required capital could result in a downgrade of the Financial Guarantors' ratings and thus have an adverse impact on its business, results of operations and financial condition.

Impact of the Financial, Credit and Financial Guaranty Markets on the Financial Guarantors

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

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

The determination of expected loss is an inherently subjective process involving numerous estimates, assumptions and judgments by management, using both internal and external data sources with regard to frequency, severity of loss, economic projections, governmental actions, negotiations and other factors that affect credit performance. The Financial Guarantors do not use traditional actuarial approaches to determine their estimates of expected losses. Actual losses will ultimately depend on future events or transaction performance. As a result, the Financial Guarantors' current estimates of probable and estimable losses may not reflect the Financial Guarantors' future ultimate claims paid.

Certain sectors and large risks within the Financial Guarantors' insured portfolio have experienced credit deterioration in excess of the Financial Guarantors' initial expectations, which has led or may lead to losses in excess of the Financial Guarantors' initial expectations. The Financial Guarantors' expected loss models take into account current and expected future trends, which contemplate the impact of current and probable developments in the performance of the credit. These factors, which are integral elements of the Financial Guarantors' reserve estimation methodology, are updated on a quarterly basis based on current information. Because such information changes, sometimes materially, from quarter to quarter, the Financial Guarantors' projection of losses may also change materially. Since the financial crisis, much of the development in AGM's loss projections has been with respect to insured U.S. residential mortgage-backed securities (**RMBS**). While AGM's net par outstanding of U.S. RMBS rated below investment grade (**BIG**) under AGM's rating methodology as of 31 December 2016 was still $2.1 billion and may still be a source of loss development, AGM believes the performance of this portfolio has stabilized. More recently, there has been credit deterioration with respect to certain insured credits of Puerto Rico and various obligations of its related authorities and public corporations.

AGM has insured exposure to general obligation bonds of Puerto Rico and various obligations of its related authorities and public corporations aggregating $2.0 billion net par as of 31 December, 2016, $1.9 billion of which is rated BIG under AGM's methodology, and claim payments on such insured exposures in excess of that expected by AGM could have a negative effect on the AGM's liquidity and results of operations. On 1 January, 2016, Puerto Rico Infrastructure Financing Authority (**PRIFA**), defaulted on payment of a portion of the interest due on its bonds on that date. There have been additional payment defaults on this and other Puerto Rico issuers since then and AGM has now paid claims on several Puerto Rico credits. On 6 April, 2016, Governor García Padilla of Puerto Rico (the Former Governor) signed into law the Puerto Rico Emergency Moratorium & Financial Rehabilitation Act (the Moratorium Act). The Moratorium Act purportedly empowers the governor to declare, entity by entity, states of emergencies and moratoriums on debt service payments on obligations of the Commonwealth and its related authorities and public corporations, as well as instituting a stay against related litigation, among other things. The Former Governor used the authority of the Moratorium Act to take a number of actions related to issuers of obligations AGM insures. On 30 June 2016, the Puerto Rico Oversight, Management, and Economic Stability Act (**PROMESA**) was signed into law by the President of the United States. PROMESA establishes a seven-member federal financial oversight board (**Oversight Board**) with authority to require that balanced budgets and fiscal plans be adopted and implemented by Puerto Rico. PROMESA provides a legal framework under which the debt of Puerto Rico and its related authorities and public corporations may be voluntarily restructured, and grants the Oversight Board the sole authority to file restructuring petitions in a federal court to restructure the debt of Puerto Rico and its related authorities and public corporations if voluntary negotiations fail, provided that any such restructuring must be in accordance with an Oversight Board approved fiscal plan that respects the liens and priorities provided under Puerto Rico law. The Oversight Board has begun meeting and has hired Ramón Ruiz-Comas as interim executive director. On 2 January 2017, Ricardo Antonio Rosselló Nevares (the Governor) took office, replacing the Former Governor. On 29 January 2017, the Governor signed the Puerto Rico Emergency and Fiscal Responsibility Act (the Emergency Act) which, among other things, repeals portions of the Moratorium Act, defines an emergency period until 1 May 2017, continues diversion of collateral away from bonds AGM insures, and defines the powers and duties of the Fiscal Agency and Financial Advisory Authority (**FAFAA**). Additional information about AGM's exposure to Puerto Rico may be found in Appendix 3. The final shape, timing and validity of responses to Puerto Rico's distress eventually enacted or implemented under the auspices of PROMESA and the Oversight Board or otherwise, and the impact of any such responses on obligations insured by AGM, is uncertain.

The Financial Guarantors' loss reserves, profitability, financial position, insured portfolio, investment portfolio, cash flow and statutory capital could be materially affected by the U.S. and global financial markets. Upheavals in the financial markets affect economic activity and employment and therefore can affect the Financial Guarantors' business. The global economic outlook remains uncertain, including the overall growth rate of the U.S. economy, the fragile economic recovery in Europe and the impact of the gradual tightening of global monetary conditions on emerging markets. These and other risks could materially and negatively affect the Financial Guarantors' ability to access the capital markets, the cost of the Financial Guarantors' debt, the demand for its products, the amount of losses incurred on transactions it guarantees, the value of its investment portfolio, its financial ratings and the price of its common shares.

Some of the state and local governments that issue the obligations AGM insures have experienced significant budget deficits and pension funding and revenue collection shortfalls that required them to significantly raise taxes and/or cut spending in order to satisfy their obligations. While the U.S. government has provided some financial support and although overall state revenues have increased in recent years, significant budgetary pressures remain, especially at the local government level and in relation to retirement obligations. Certain local governments, including ones that have issued obligations insured by AGM, have sought protection from creditors under chapter 9 of the U.S. Bankruptcy Code as a means of restructuring their outstanding debt. In some recent instances where local governments were seeking to restructure their outstanding debt, and partially in response to concerns that materially reducing pension payments would lead to employee flight and, therefore, an inadequate level of local government services, pension and other obligations owed to workers were treated more favourably than senior bond debt owed to the capital markets. If the issuers of the obligations in AGM's public finance portfolio do not have sufficient funds to cover their expenses and

are unable or unwilling to raise taxes, decrease spending or receive federal assistance, AGM may experience increased levels of losses or impairments on its public finance obligations, which could materially and adversely affect its business, financial condition and results of operations. If such issuers succeed in restructuring pension and other obligations owed to workers so that they are treated more favourably than obligations insured by AGM, such losses or impairments could be greater than AGM otherwise anticipated when the insurance was written.

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

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

Demand for financial guaranty insurance generally fluctuates with changes in market credit spreads. Credit spreads, which are based on the difference between interest rates on high-quality or "risk free" securities versus those on lower-rated or uninsured securities, fluctuate due to a number of factors and are sensitive to the absolute level of interest rates, current credit experience and investors' risk appetite. Average municipal interest rates were extremely low during 2016, with the benchmark AAA 30-year Municipal Market Data index published by Thomson Reuters (**MMD Index**) at times below 2%, a threshold not previously crossed in the modern era. When interest rates are low, or when the market is relatively less risk averse, the credit spread between high-quality or insured obligations versus lower-rated or uninsured obligations typically narrows. As a result, financial guaranty insurance typically provides lower interest cost savings to issuers than it would during periods of relatively wider credit spreads. When issuers are less likely to use financial guarantees on their new issues when credit spreads are narrow, this results in decreased demand or premiums obtainable for financial guaranty insurance, and a resulting reduction in the Financial Guarantors' results of operations. The continued persistence of low interest rate levels and credit spreads could continue to dampen demand for financial guaranty insurance.

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

The Financial Guarantors can face competition, either in the form of current or new providers of credit enhancement or in terms of alternative structures, including uninsured offerings, or pricing competition. Increased competition could have an adverse effect on the Financial Guarantors' insurance business.

AGM's reporting currency is the U.S. dollar and AGE's reporting currency is the British pound sterling. The Financial Guarantors maintain both assets and liabilities in currencies different than their reporting currencies, which expose them to changes in currency exchange rates. The principal currencies impacting the Financial Guarantors are the U.S. dollar, the British pound sterling and the European Union euro. The Financial Guarantors cannot accurately predict the nature or extent of future exchange rate variability among these currencies. Currency exchange rates are sensitive to factors beyond the

Financial Guarantors' control. The Financial Guarantors do not engage in active management, or hedging, of their currency exchange rate risk. Therefore, fluctuation in exchange rates among these currencies could adversely impact the Financial Guarantors' financial position, results of operations and cash flows.

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

The Financial Guarantors' operating results are affected, in part, by the performance of their respective investment portfolios which consist primarily of fixed-income securities and short-term investments. Credit losses and changes in interest rates could have an adverse effect on their respective shareholders' equity and net income. Credit losses result in realized losses on the Financial Guarantors' investment portfolio, which reduce net income and shareholders' equity. Changes in interest rates can affect both shareholders' equity and investment income. For example, if interest rates decline, funds reinvested will earn less than expected, reducing the Financial Guarantors' future investment income compared to the amount they would earn if interest rates had not declined. However, the value of the Financial Guarantors' fixed-rate investments would generally increase if market interest rates decreased. Conversely, if interest rates increase, the value of the investment portfolio will be reduced.

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

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

Capital and Liquidity Requirements of the Financial Guarantors

Claim payments reduce a Financial Guarantor's cash and invested assets and result in reduced liquidity and net investment income, even if such Financial Guarantor is reimbursed in full over time and does not experience ultimate loss on a particular policy. Since the financial crisis, many of the claims paid by the AGM were with respect to insured U.S. RMBS securities. More recently, there has been credit deterioration with respect to certain insured Puerto Rico credits.

As of 31 December 2016, AGM had net par exposure of approximately $276 million to a long-term infrastructure project that was financed by bonds that mature prior to the expiration of the project concession. AGM expects the cash flows from the project to be sufficient to repay all of the debt over the life of the project concession, and also expects the debt to be refinanced in the market at or prior to its maturity. If the issuer is unable to refinance the debt due to market conditions, AGM may have to pay claims when the debt matures from 2018 to 2022, and then recover from cash flows produced by the project in the future. AGM generally projects that in most scenarios it will be fully reimbursed for such claim payments. However, the recovery of such amounts is uncertain and may take from 10 to 35 years, depending on the performance of the underlying collateral.

The Financial Guarantors plan for future claim payments. If the amount of future claim payments is significantly more than projected by a Financial Guarantor, however, such Financial Guarantor's ability to make other claim payments and its financial condition, financial strength ratings and business prospects could be adversely affected.

The Financial Guarantors' capital requirements depend on many factors, primarily related to their in-force book of business and rating agency capital requirements. Both Financial Guarantors need liquid assets to make claim payments on their insured portfolio and to write new business. Failure to raise additional capital as needed may result in the Financial Guarantors being unable to write new business and may result in the ratings of the Financial Guarantors being downgraded by one or more rating agencies. The Financial Guarantors' access to external sources of financing, as well as the cost of such financing, is dependent on various factors, including the market supply of such financing, the long-term debt ratings of their holding companies and the Financial Guarantors' insurance financial strength ratings and the perceptions of the financial strength of their holding companies and their financial strength. The holding companies' debt ratings are in turn influenced by numerous factors, such as financial leverage, balance sheet strength, capital structure and earnings trends. If the Financial Guarantors' need for capital arises because of significant losses, the occurrence of these losses may make it more difficult for the Financial Guarantors to raise the necessary capital.

Financial guaranty insurers and reinsurers typically rely on providers of lines of credit, credit swap facilities and similar capital support mechanisms (often referred to as "soft capital") to supplement their existing capital base, or "hard capital." The ratings of soft capital providers directly affect the level of capital credit which the rating agencies give the Financial Guarantors when evaluating their financial strength. AGM currently maintains soft capital facilities with providers having ratings adequate to provide AGM's desired capital credit. For example, effective 1 January 2016, AGM and certain affiliates entered into a $360 million aggregate excess of loss reinsurance facility with a number of reinsurers that covers certain U.S. public finance credits insured or reinsured by those companies. However, no assurance can be given that AGM will be able to renew any existing soft capital facilities or that one or more of the rating agencies will not downgrade or withdraw the applicable ratings of such providers in the future. In addition, AGM may not be able to replace a downgraded soft capital provider with an acceptable replacement provider for a variety of reasons, including if an acceptable replacement provider is willing to provide AGM with soft capital commitments or if any adequately-rated institutions are actively providing soft capital facilities. Furthermore, the rating agencies may in the future change their methodology and no longer give credit for soft capital, which may necessitate AGM having to raise additional capital in order to maintain its ratings.

Insurance regulatory authorities impose capital requirements on the Financial Guarantors. These capital requirements, which include leverage ratios and surplus requirements, may limit the amount of insurance that they may write. The Financial Guarantors have several alternatives available to control their leverage ratios, including obtaining capital contributions from their affiliates, purchasing reinsurance or entering into other loss mitigation agreements, or reducing the amount of new business

written. However, a material reduction in the statutory capital and surplus of a Financial Guarantor, whether resulting from underwriting or investment losses, a change in regulatory capital requirements or otherwise, or a disproportionate increase in the amount of risk in force, could increase such Financial Guarantor's leverage ratio. This in turn could require a Financial Guarantor to obtain reinsurance for existing business (which may not be available, or may only be available on terms that such Financial Guarantor considers unfavourable), or add to its capital base to maintain its financial strength ratings. Failure to maintain regulatory capital levels could limit a Financial Guarantor's ability to write new business.

Business of the Financial Guarantors

The Financial Guarantors are exposed to the risk that issuers of debt that they insure or other counterparties may default in their financial obligations, whether as a result of insolvency, lack of liquidity, operational failure or other reasons. Similarly, the Financial Guarantors could be exposed to corporate credit risk if a corporation's securities are contained in a portfolio of collateralized debt obligations (**CDOs**) they insure, or if the corporation or financial institution is the originator or servicer of loans, mortgages or other assets backing structured securities that the Financial Guarantor has insured.

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

The Financial Guarantors' ultimate exposure to a single name may exceed their underwriting guidelines, and an event with respect to a single name may cause a significant loss. The Financial Guarantors seek to reduce this risk by managing exposure to large single risks, as well as concentrations of correlated risks, through tracking its aggregate exposure to single names in their various lines of business, establishing underwriting criteria to manage risk aggregations. They have also in the past obtained third party reinsurance for such exposure. AGM may insure and has insured individual public finance and asset-backed risks well in excess of $1 billion. Should the Financial Guarantors' risk assessments prove inaccurate and should the applicable limits prove inadequate, the Financial Guarantors could be exposed to larger than anticipated losses, and could be required by the rating agencies to hold additional capital against insured exposures whether or not downgraded by the rating agencies.

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

As of 31 December 2016, 5 per cent. of AGM's financial guaranty direct net exposures were executed as credit derivatives. Traditional financial guaranty insurance provides an unconditional and irrevocable guaranty that protects the holder of a municipal finance or structured finance obligation against non-payment of principal and interest, while credit derivatives provide protection from the occurrence of specified credit events, including non-payment of principal and interest. In general, AGM structures credit derivative transactions such that circumstances giving rise to its obligation to make payments are similar to that for financial guaranty policies and generally occur when issuers fail to make payments on the underlying reference obligations. The tenor of credit derivatives exposures, like exposure under financial guaranty insurance policies, is also generally for as long as the reference obligation remains outstanding.

Nonetheless, credit derivative transactions are governed by International Swaps and Derivatives Association, Inc. (**ISDA**) documentation and operate differently from financial guaranty insurance policies. For example, AGM's control rights with respect to a reference obligation under a credit derivative may be more limited than when it issues a financial guaranty insurance policy on a direct primary basis. In addition, a credit derivative may be terminated for a breach of the ISDA documentation or other specific events, unlike financial guaranty insurance policies.

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

At 31 December, 2016, AGM had ceded approximately 4 per cent. of its principal amount of insurance outstanding to third party reinsurers. In evaluating the credits insured by AGM, securities rating agencies allow capital charge "credit" for reinsurance based on the reinsurers' ratings. In recent years, a number of AGM's third-party reinsurers were downgraded by one or more rating agencies, resulting in decreases in the credit allowed for reinsurance and in the financial benefits of using reinsurance under existing rating agency capital adequacy models. Many of AGM's reinsurers have already been downgraded to single-A or below by one or more rating agencies. AGM could be required to raise additional capital to replace the lost reinsurance credit in order to satisfy rating agency and regulatory capital adequacy and single risk requirements. In addition, downgraded reinsurers may default on amounts due to AGM and such reinsurer obligations may not be adequately collateralized, resulting in additional losses to AGM and a reduction in its shareholders' equity and net income.

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

From time to time the Financial Guarantors evaluate financial guaranty portfolio and company acquisition opportunities and conduct diligence activities with respect to transactions with other financial guarantors and financial services companies. Acquiring other financial guaranty portfolios or companies or other financial services companies may involve some or all of the various risks commonly associated with acquisitions, including, among other things: (a) failure to adequately identify and value potential exposures and liabilities of the target portfolio or entity; (b) difficulty in estimating the value of the target portfolio or entity; (c) potential diversion of management's time and attention; (d) exposure to asset quality issues of the target entity; and (e) difficulty and expense of integrating the operations, systems and personnel of the target entity. Such acquisitions may also have unintended consequences on ratings assigned by the rating agencies to the Financial Guarantors. These or other factors may cause any future acquisitions of financial guaranty portfolios or companies or other financial services companies not to result in the benefits to the Financial Guarantors anticipated when the acquisition was agreed.

From time to time in order to deploy a portion of the Financial Guarantors' excess capital the Financial Guarantors may invest in business opportunities that complement the Financial Guarantors' financial guaranty business, are in line with its risk profile and benefit from its core competencies. An alternative investments group has been established and is investigating a number of such opportunities, including, among others, both controlling and non-controlling investments in investment managers. For example, in February 2017 AGM agreed to purchase up to $100 million of limited partnership interests in a fund that invests in the equity of private equity managers. The Financial Guarantors continue to investigate additional opportunities. Alternative investments may be riskier than many of the other investments the Financial Guarantors make, and may not result in the benefits anticipated at the time of the investment. In addition, although each Financial Guarantor uses what it believes to be excess capital to make alternative investments, measures of required capital can fluctuate and such investments may not be given much, or any, value under the various rating agency, regulatory and internal capital models to which that Financial Guarantor is subject. Also, alternative investments may be less liquid than most of the Financial Guarantors' other investments and so may be difficult to convert to cash or investments that do receive credit under the capital models to which the Financial Guarantors are subject.

The Financial Guarantors' success substantially depends upon their ability to attract and retain qualified employees and upon the ability of its senior management and other key employees to implement its business strategy. The Financial Guarantors believe there are only a limited number of available qualified executives in the business lines in which the Financial Guarantors compete. AGM relies substantially upon the services of Dominic J. Frederico, President and Chief Executive Officer, and other executives. Although the Financial Guarantors have designed their executive compensation with the goal of retaining and creating incentives for its executive officers, the Financial Guarantors may not be successful in retaining their services. The loss of the services of any of these individuals or other key members of the Financial Guarantors' management team could adversely affect the implementation of their business strategies.

The Financial Guarantors rely upon information technology and systems, including technology and systems provided by or interfacing with those of third parties, to support a variety of their business processes and activities. In addition, the Financial Guarantors may have collected and stored confidential information including, in connection with certain loss mitigation and due diligence activities related to their structured finance business, personally identifiable information. While the Financial Guarantors do not believe that the financial guaranty industry is as inherently prone to cyber-attacks as industries relating to, for example, payment card processing, banking, critical infrastructure or defense contracting, the Financial Guarantors' data systems and those of third parties on which they rely are still vulnerable to security breaches due to cyber-attacks, viruses, malware, hackers and other external hazards, as well as inadvertent errors, equipment and system failures, and employee misconduct. Problems in or security breaches of these systems could, for example, result in lost business, reputational harm, the disclosure or misuse of confidential or proprietary information, incorrect reporting, inaccurate loss projections, legal costs and regulatory penalties.

The Financial Guarantors' business operations rely on the continuous availability of their computer systems as well as those of certain third parties. In addition to disruptions caused by cyber-attacks or other data breaches, such systems may be adversely affected by natural and man-made catastrophes. The Financial Guarantors' failure to maintain business continuity in the wake of such events, particularly if there were an interruption for an extended period, could prevent the timely completion of critical processes across its operations, including, for example, claims processing, treasury and investment operations and payroll. These failures could result in additional costs, loss of business, fines and litigation.

The Financial Guarantors are subject to numerous laws and regulations of a number of jurisdictions regarding their information systems, particularly with regard to personally identifiable information. The Financial Guarantors' failure to comply with these requirements, even absent a security breach, could result in penalties, reputational harm or difficulty in obtaining desired consents from regulatory authorities.

Impact of GAAP and Applicable Law on the Financial Guarantors

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

The fair value of a credit derivative will be affected by any event causing changes in the credit spread (i.e., the difference in interest rates between comparable securities having different credit risk) on an underlying security referenced in the credit derivative. Common events that may cause credit spreads on an underlying municipal or corporate security referenced in a credit derivative to fluctuate include changes in the state of national or regional economic conditions, industry cyclicality, changes to a company's competitive position within an industry, management changes, changes in the ratings of the underlying security, movements in interest rates, default or failure to pay interest, or any other factor

leading investors to revise expectations about the issuer's ability to pay principal and interest on its debt obligations. Similarly, common events that may cause credit spreads on an underlying structured security referenced in a credit derivative to fluctuate may include the occurrence and severity of collateral defaults, changes in demographic trends and their impact on the levels of credit enhancement, rating changes, changes in interest rates or prepayment speeds, or any other factor leading investors to revise expectations about the risk of the collateral or the ability of the servicer to collect payments on the underlying assets sufficient to pay principal and interest. The fair value of credit derivative contracts also reflects the change in AGM's own credit cost, based on the price to purchase credit protection on AGM.

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

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

AGE is authorised by the UK Prudential Regulation Authority (the **PRA**) to carry out and effect "credit", "suretyship" and "miscellaneous financial loss" insurance business in the United Kingdom and, pursuant to the EC third non-life insurance directive (No. 92/49/EEC), various European countries (such authorisation being the **Insurance Business Authorisation**) and is regulated by the PRA and the UK Financial Conduct Authority.

The Insurance Business Authorisation may be revoked, withdrawn or restrictively modified by the PRA. Such revocation, withdrawal or restrictive modification could have a material adverse impact on AGE, including its ability to generate new business or increased costs of regulatory compliance.

AGM is licensed to write financial guaranty insurance and reinsurance (which is classified in some states as surety or another line of insurance) in the 50 states of the United States of America, the District of Columbia and Puerto Rico. The New York State Department of Financial Services (**NYSDFS**) is the regulatory authority of the State of New York, U.S.A., which is AGM's state of organisation and domicile.

U.S. state insurance authorities have broad regulatory powers with respect to various aspects of the business of U.S. insurance companies, including licensing these companies to transact business, accreditation of reinsurers, admittance of assets to statutory surplus, regulating unfair trade and claims practices, establishing reserve requirements and solvency standards, regulating investments and dividends and, in certain instances, approving policy forms and related materials and approving premium rates. If AGM fails to comply with applicable insurance laws and regulations it could be exposed to fines, the loss of insurance licenses, limitations on its right to originate new business and restrictions on its ability to pay dividends, all of which could have an adverse impact on its business results and prospects. If AGM's surplus declines below minimum required levels, the insurance regulator could impose additional restrictions on AGM or initiate insolvency proceedings.

On 23 June 2016, a referendum was held in the U.K. in which a majority voted to exit the European Union, known as **Brexit**. Negotiations will determine the future terms of the U.K's relationship with the EU, including the terms of trade between the U.K. and the EU. Any resulting political, social and economic uncertainty and changes arising from Brexit may have a negative impact on the economies of the U.K. as well as non-U.K. EU and EEA countries, which may increase the probability of losses on obligations insured by the Financial Guarantors that are exposed to risks in the U.K. and non-U.K. EU and EEA countries.

Brexit could lead to legal uncertainty and divergent national laws and regulations as the U.K. determines which EU laws to replace or replicate. Depending on the terms of Brexit, AGE may lose the ability to insure new transactions from London in non-U.K. EU and EEA countries without obtaining

additional licenses, which may require a presence in another EU country. Brexit-related changes in laws and regulations may also adversely affect AGE's surveillance and loss mitigation activities with respect to existing insured transactions in non-U.K. EU and EEA countries, especially to the extent Brexit inhibits the issuance of new guarantees in distressed situations. Brexit may also impact laws, rules and regulations applicable to U.K. entities with obligations insured by the Financial Guarantors and could adversely impact the ability of non-U.K. EU or EEA citizens to continue to be employed at AGE in London.

Press reports indicate that the U.S. Congress is considering making major changes to the U.S. Internal Revenue Code in 2017. Any material change in the U.S. tax treatment of municipal securities, the imposition of a national sales tax or a flat tax in lieu of the current federal income tax structure in the U.S., or changes in the treatment of dividends, could adversely affect the market for municipal obligations and, consequently, reduce the demand for financial guaranty insurance and reinsurance of such obligations. Limiting or eliminating the Federal income tax exclusion for municipal bond interest would increase the cost of borrowing for state and local governments, and as a result, could cause a decrease in infrastructure spending by states and municipalities. Municipalities may issue a lower volume of bonds, and in particular may be less likely to refund existing debt, in which case, the amount of bonds that can benefit from AGM's insurance might also be reduced.

Control by the Financial Guarantors

While the Financial Guarantees mitigate the credit risks to which potential investors in the Bonds would otherwise be exposed, the involvement of the Financial Guarantors has certain consequences. For example, for so long as they are the Controlling Creditor, the Financial Guarantors will have the right to exercise many of the discretions which would otherwise rest in the Bond Trustee and the Security Trustee (including the discretion as to whether to declare events of default or enforcement events or to accelerate payments of principal and interest, and in respect of which the Bond Trustee might otherwise have sought the directions of the Bondholders). In addition, in the event that the Financial Guarantors are required to make a payment under the Financial Guarantees, the Issuer will be required to reimburse the Financial Guarantors and to pay various fees, costs and expenses to the Financial Guarantors.

Acceleration of Bonds

The terms of each Financial Guarantee provide that any Accelerated Payment (as defined in the Financial Guarantee) will be made by the relevant Financial Guarantor only in its absolute discretion if it elects to do so. If no such election is made, that Financial Guarantor will continue to be liable to make payments of Guaranteed Amounts in respect of the Bonds pursuant to the relevant Financial Guarantee on the dates on which such payments would have been required to be made if such amounts had not become immediately due and payable.

Withholding Tax

If any withholding tax is imposed on payments under the Bonds or the Financial Guarantees, the Financial Guarantors are not required to "gross up" payments to the holders of the Bonds. In such circumstances, holders of the Bonds will receive payments from the Financial Guarantors net of such withholding tax.

4. Risks relating to the Bonds and the Market

Indexation in respect of Bonds

The calculation of principal and interest will be affected by changes in the Index (as defined in Condition 7 (*Indexation*)) subject to the Minimum Indexation Factor and the Maximum Indexation Factor. Potential investors should be aware that:

(a) the market price of such Bonds may be volatile;

(b) the Index may be subject to significant fluctuations that may not correlate with changes in other indices; and

(c) the timing of changes in the Index may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Index, the greater the effect on yield.

In addition, there is a risk that there will be a mismatch between indexed amounts payable under the Project Agreement and indexed amounts payable under the Bonds, as the Bonds are subject to indexation twice a year on each Scheduled Payment Date using RPI from 3 months previous and amounts payable under the Project Agreement are subject to indexation once a year in September using RPI from the June fifteen (15) months before.

Interest Rate Risks

Since the Bonds bear interest subject to indexation, investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

Modification, Waivers and Substitution

The conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

If it is then the Controlling Creditor, subject to Clause 5 (*Consent of Controlling Creditor and Entrenched Rights and Reserved Matters of Senior* Creditors) of the Security Trust and Intercreditor Deed, the Bond Trustee may, without the consent of the Bondholders, Receiptholders or Couponholders concur with the Issuer, the Financial Guarantors or any other relevant parties in making:

(a) any modification to the Conditions of the Bonds, the Bond Trust Deed, the Financial Guarantees, the Security Documents, the Collateral Deed and the Finance Documents which is in the opinion of the Bond Trustee of a formal, minor or technical nature or is made to correct a manifest error; and

(b) any other modification of any such document which is in the opinion of the Bond Trustee not materially prejudicial to the interests of Bondholders.

For the avoidance of doubt, and notwithstanding the foregoing, the Bond Trustee shall have the unfettered right to seek the consent of Bondholders to the making of any such modification and provided further that no such direction or Extraordinary Resolution shall affect any authorisation or waiver previously given.

If the Bond Trustee is then the Controlling Creditor, subject to Clause 5 (*Consent of Controlling Creditor and Entrenched Rights and Reserved Matters of Senior Creditors*) of the Security Trust and Intercreditor Deed, the Bond Trustee may also, without the consent of any of the Bondholders, Receiptholders or Couponholders, waive or authorise any Event of Default, any Potential Event of Default, any Financial Guarantor Default or any Financial Guarantor Downgrade Event or any other breach or proposed breach of the Bond Trust Deed, the Bonds, the Financial Guarantees, the Security Trust and Intercreditor Deed or any other Relevant Document to which it is a party, or determine that any Financial Guarantor Default or any Financial Guarantor Downgrade or any Event of Default or any Potential Event of Default shall not, or shall not subject to specified conditions, be treated as such or, in the case of a Financial Guarantor Default or Financial Guarantor Downgrade Event, has been cured to its satisfaction, if the Bond Trustee is of the opinion that so to do will not be materially prejudicial to the interests of the Bondholders.

For the avoidance of doubt, the Bond Trustee, if it is then the Controlling Creditor, shall have the unfettered right to seek the consent of Bondholders to any such authorisation or waiver and provided further that no such direction or Extraordinary Resolution shall affect any authorisation or waiver previously given.

The secondary market generally

The Bonds may have no established trading market when issued and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell the Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a materially adverse effect on the market value of the Bonds.

An active trading market for the Bonds may not develop

There can be no assurance that an active trading market for the Bonds will develop, or, if one does develop, that it will be maintained. If an active trading market for the Bonds does not develop or is not maintained, the market or trading price and liquidity of the Bonds may be adversely affected. The Issuer or its Affiliates (as defined below) are entitled to issue further Bonds. Such transactions may favourably or adversely affect the price development of the Bonds. If additional and competing products are introduced in the markets, this may adversely affect the value of the Bonds.

Scope of cover under the Financial Guarantees

Save as set out below, the coverage provided by the Financial Guarantees is the payment of scheduled payments of principal and interest only, and does not cover any amounts due in respect of the Bonds:

(a) attributable to any increase in interest margin, penalty or other sum payable by the Issuer for whatever reason;

(b) attributable to any present or future taxes, duties, withholding, deduction, assessment or other charge (including interest and penalties in respect of such taxes, duties, withholding, deduction, assessment or other charge) of whatever nature imposed, levied, collected, withheld or assessed by any sovereign state (including the United Kingdom), or any political subdivision or governmental or taxing authority therein or thereof;

(c) attributable to any default interest;

(d) attributable to any amount relating to prepayment, early redemption, broken-funding indemnities, penalties, premium, "spens", any make-whole amount or similar types of payments payable in respect of the Bonds; or

(e) in respect of which AGM or AGE has made an Accelerated Payment (as defined in the relevant Financial Guarantee) on or prior to a Scheduled Payment Date.

Tax risks

Withholding Tax in respect of the Bonds

Should the Issuer or the Financial Guarantors be required by law at any time to make any withholding or deduction for or on account of taxes or similar charges from payments made in respect of the Bonds or under the Financial Guarantees respectively, no additional or "grossing-up" payments will be made. See the sections entitled "*Terms and Conditions of the Bonds — Taxation*", "*Form of AGE Financial Guarantee*" and "*Form of AGM Financial Guarantee*" below.

Withholding Tax in respect of the Issuer On-Loan Agreement

The Issuer has been advised that, under current law, all payments to be made to it by the ProjectCo pursuant to the Issuer On-Loan Agreement can be made without withholding or deduction for or on account of any United Kingdom tax. In the event that any such withholding or deduction for or on account of United Kingdom tax is required to be made from any payment due from the ProjectCo to the Issuer under the Issuer On-Loan Agreement the amount to be paid should be increased to the extent necessary to ensure that, after withholding or deduction has been made, the amount received by the Issuer is equal to the amount that the Issuer would have received had such withholding or deduction not been required to be made. If the ProjectCo does not have sufficient funds to enable it to make such

increased payments to the Issuer or is not otherwise required to gross-up, the Issuer's ability to make timely payments of interest and principal under the Bonds could be adversely affected.

Taxation of the Issuer

The Issuer has been advised that it should fall within the UK permanent regime for the taxation of securitisation companies (as introduced by the Taxation of Securitisation Companies Regulations 2006 SI 2006/3296 (the **Securitisation Regulations**), and as such should be taxed only on the amount of the small cash profit which it is entitled to retain under the Transaction Documents. Investors should note, however, that the Securitisation Regulations are in short form and advisers rely significantly upon guidance from HMRC when advising on the scope and operation of the Securitisation Regulations, including as to whether a company falls within the regime. If the Issuer does not (or subsequently will not) satisfy the conditions of the Securitisation Regulations, then depending on the accounting treatment, its profits or losses for tax purposes might be different from its cash position. Any unforeseen taxable profits in the Issuer could have an adverse effect on its ability to make payments to the Bondholders.

U.S. Foreign Account Tax Compliance Withholding

In certain circumstances, the non-U.S. financial institutions through which payments on the Bonds are made may be required to withhold U.S. tax at a rate of 30 per cent, on all, or a portion of, payments made after 31 December 2018 in respect of (a) any Bonds issued or materially modified on or after 1 July 2014 or, if later, the date that is six months after the date on which the final regulations applicable to foreign pass thru payments are filed in the Federal Register and (b) any Bonds that are treated as equity for U.S. federal tax purposes, whenever issued, pursuant to the foreign account tax compliance provisions of the U.S. Hiring Incentives to Restore Employment Act of 2010 (**FATCA**).

Whilst the Bonds are in global form and held within Euroclear or Clearstream, Luxembourg, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by Euroclear or Clearstream, Luxembourg. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding.

The United Kingdom has entered into an intergovernmental agreement with the United States to help implement FATCA for certain entities in the United Kingdom. The Issuer may be required to report certain information on its U.S. account holders (if any) to the government of the United Kingdom in order (a) to obtain an exemption from FATCA withholding on payments it receives and/or (b) to comply with United Kingdom law. It is not yet certain how the United States and the United Kingdom will address withholding on foreign pass thru payments (which may include payments on the Bonds) or if such withholding will be required at all.

If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Bonds as a result of FATCA, none of the Issuer, any paying agent or any other person would, pursuant to the Terms and Conditions of the Bonds, be required to pay additional amounts as a result of the deduction or withholding. As a result, if FATCA withholding applies to payments on the Notes, investors may receive less interest or principal than they would otherwise receive.

FATCA is particularly complex. Each holder of Bonds should consult its own tax adviser to obtain a more detailed explanation of FATCA and advice on how FATCA might affect it in its particular circumstances.

Rating of the Bonds

The rating anticipated to be assigned to the Bonds is based on the financial strength rating of the Financial Guarantors and reflect only the views of the Rating Agencies.

A rating is not a recommendation to buy, sell or hold securities and will depend, amongst other things, on certain underlying characteristics of the business and financial condition of the Financial Guarantors from time to time.

There is no assurance that any such rating will continue for any period of time or that it will not be reviewed, revised, suspended or withdrawn entirely by the Rating Agency as a result of changes in, or unavailability of, information or if, in the judgment of such Rating Agency, circumstances so warrant. If any rating assigned to the Bonds is lowered or withdrawn, the market price of the Bonds is likely to be reduced and no person or entity will be obliged to provide any additional credit enhancement in respect of the Bonds.

The Financial Guarantors have not covenanted to maintain any ratings by S&PGR or any other rating agency during the life of the Bonds.

Priority of Claims

The Security Trust and Intercreditor Deed provides for an order of priority of payment under which the proceeds of enforcement of the security and the joint and several guarantees granted by the Obligors are to be applied following enforcement of such security. This is relevant to Bondholders to the extent that an amount due to be paid to the Bondholders is not covered by, or paid under, the Financial Guarantees (see the sections entitled "*Form of AGE Financial Guarantee*" and "*Form of AGM Financial Guarantee*" below).

Certain claims of the other Senior Creditors will, in accordance with such order of priority, be paid in priority to payment of certain amounts due to the Bondholders (see the section entitled "*Financing of the Project – The Security Arrangements – Security Trust and Intercreditor Deed*" below).

Mandatory Redemption of the Bonds following termination of the Project Agreement

Following termination of the Project Agreement, the University must pay Compensation on Termination to ProjectCo aimed at ensuring, amongst other things, that ProjectCo can repay the Issuer under the Issuer On-Loan Agreement thus enabling the Issuer to redeem the Bonds. In certain circumstances, the University may be entitled to elect to pay the Compensation on Termination in instalments rather than in a lump sum by ensuring that the Issuer has sufficient funds to continue making Scheduled Payments. However, at any time thereafter it may by notice elect to end payment by instalments and pay the remaining Compensation on Termination as a lump sum. If either the University (i) is not entitled to elect to pay by instalments, or it is so entitled but has elected not to do, or (ii) has elected to pay in instalments but has subsequently defaulted in its payment obligations or ended the instalments regime, then the consequences for Bondholders will depend on how much Compensation on Termination is available.

If the Compensation on Termination is sufficient to repay all amounts outstanding under the Senior Finance Documents, including spens and similar amounts payable to compensate for early termination, as certified by the Security Trustee under the Security Trust and Intercreditor Deed, then the Bonds will be automatically redeemed ten days after ProjectCo receives the Compensation on Termination. See Condition 6(d)(i) of the Bonds.

If the Compensation on Termination is not sufficient to repay all of the amounts described above, but is sufficient to pay the aggregate principal amount outstanding on the Bonds, adjusted for indexation and all amounts payable in priority thereto in accordance with the Security Trust and Intercreditor Deed, then subject as provided below, each Bond will be redeemed at its outstanding principal amount (plus its *pro rata* share of any amounts in excess thereof) ten days after ProjectCo receives the Compensation on Termination. If holders of at least 25 per cent. of the aggregate principal amount outstanding of the Bonds so instruct the Bond Trustee in writing, or the holders have so instructed the Bond Trustee by Extraordinary Resolution, then they may elect not to receive such amounts but to be paid Scheduled

Payments under the Financial Guarantees. This election may be overridden at any time by the Financial Guarantors, who may choose to accelerate payments. See Condition 6(d)(ii) of the Bonds.

If the Compensation on Termination is not sufficient to pay the aggregate principal amount outstanding on the Bonds, adjusted for indexation and all amounts payable in priority thereto in accordance with the Security Trust and Intercreditor Deed, then subject as provided below, each Bond will be redeemed at its *pro rata* share of the Compensation on Termination ten days after ProjectCo receives the Compensation on Termination. If holders of at least 25 per cent. of the aggregate principal amount outstanding on the Bonds so instruct the Bond Trustee in writing, or the holders have so instructed the Bond Trustee by Extraordinary Resolution, then they may elect not to receive such amounts but to be paid Scheduled Payments under the Financial Guarantees. This election may be overridden at any time by the Financial Guarantors, who may choose to accelerate payments. See Condition 6(e) of the Bonds.

The Financial Guarantors are not liable to pay any amounts in excess of the Non-Spens Redemption Amount. Payment of the difference between the Compensation on Termination and the Non-Spens Redemption Amount will be paid by the Financial Guarantors on the Scheduled Payment Dates even if the Bonds are redeemed early, unless the Financial Guarantors decide to accelerate such payments. Therefore, if the Compensation on Termination is not sufficient to repay all amounts outstanding to the Senior Creditors, Bondholders are subject to the following risks:

- that they elect to receive payments on the Scheduled Payment Dates rather than on an accelerated basis but the Financial Guarantors nevertheless decide to pay on an accelerated basis

- if the Compensation on Termination is not sufficient to pay the aggregate principal amount outstanding on the Bonds, adjusted for indexation and all amounts payable in priority thereto in accordance with the Security Trust and Intercreditor Deed, that they receive part of the payment on an accelerated basis and the balance on each Scheduled Payment Date.

Limitations on amounts payable by the University

Under the Project Agreement, the University has to pay spens compensation to ProjectCo in the event of termination of the Project Agreement for University Event of Default, University Voluntary Termination, Uninsurable Risks and Force Majeure – see the section entitled "*Summary of the Project Documents – The Project Agreement – Compensation on Termination*". However, the University is not obliged to pay spens compensation to ProjectCo in the event of termination of the Project Agreement for ProjectCo Default. Accordingly, if the Project Agreement is terminated as a result of a ProjectCo Default, the Issuer is unlikely to be in receipt of funds to enable it to pay the full Spens Redemption Amount in respect of the Bonds and the Bonds notwithstanding that the Issuer may be obliged to pay the Spens Redemption Amount to Bondholders. See Condition 6(d)(ii) and Condition 11 (*Events of Default*) of the Bonds.

Changes to regulatory framework

The structure of the transaction and, inter alia, the issue of the Bonds and the rating to be assigned to the Bonds are based on the law and administrative practice in effect as at the date of this Prospectus as it affects the parties to the transaction and the Project, and having regard to the expected tax treatment of all relevant entities under such law and practice. No assurance can be given as to the impact of any possible change to such law (including any change in regulation which may occur without a change in primary legislation) and practice or tax treatment after the date of this Prospectus nor can any assurance be given as to whether any such change would adversely affect the ability of the Issuer to make payments under the Bonds. In addition other regulatory requirements (including any applicable due diligence and disclosure obligations) may be recast or amended and no assurance can be given that such changes will not adversely affect the compliance of the transaction with applicable law and regulation.

Brexit

On 23 June 2016, the United Kingdom voted in a national referendum to leave the European Union. Following this vote, it is expected that the UK Government will serve a notice to formally withdraw

from the European Union under Article 50 of the Treaty establishing the European Community, (as amended). This will trigger the negotiation of a withdrawal agreement between the United Kingdom and the other European Union member states. The United Kingdom would then leave the European Union from the date of entry into force of the withdrawal agreement or, failing that, two years after the withdrawal notification (unless the European Council, in agreement with the United Kingdom, unanimously decides to extend this period).

There is considerable uncertainty as to the potential impact of Brexit and there is a wide divergence of views between financial, political and other commentators as to what Brexit might mean for the United Kingdom, its economy and UK businesses. The potential effect of Brexit on the legal and regulatory environment to which the Issuer is subject and as to its potential impact on its business or operation is, therefore, uncertain and may well remain uncertain for a significant period of time.

However, the Issuer has not identified any current or likely direct impact on it of Brexit, and any direct impact on the Issuer's supply chain seems unlikely to be significant unless there is a widespread UK business recession in coming months or years. Neither the Building Contractor nor the Service Provider have indicated any expected difficulty in continuing to fulfil commitments made.

With regard to the University, approximately £6.2 million of its income is receivable from the European Commission, which equates to less than 3 per cent. of the total sources of income for the University, in line with the UK average.

With regard to students, EU, EEA and Swiss nationals do not currently need to apply for permission to live, work or study in the UK. Brexit will almost certainly mean more stringent visa requirements for EU students and their ability to work here after university.

If students from the EU, EEA and Switzerland are treated like non-EU students, they would need to seek immigration permission to come to the UK. UK universities could also lawfully charge them higher tuition fees.

EU students currently pay the same rates as students from the relevant country. This means £9,000 per year in England, zero in Scotland and Wales benefiting from a non-repayable tuition fee grant of £5,810 towards fees of £9,000 per year. If they were treated like Non EU students, they could expect to pay fees of between £12,000 to £36,000 per year.

EU students account for a small proportion of the University population at 7 per cent. in 2015/2016.

U.S. Risk Retention

The Credit Risk Retention regulations implemented by the SEC pursuant to Section 15G of the Exchange Act (the **U.S. Risk Retention Rules**) came into effect for residential mortgage loans on 24 December 2015 and for all other asset types on 24 December 2016 and generally require the "securitizer" of a "securitization transaction" to retain at least 5 per cent. of the "credit risk" of "securitized assets", as such terms are defined for purposes of that statute, and generally prohibit a securitizer from directly or indirectly eliminating or reducing its credit exposure by hedging or otherwise transferring the credit risk that the securitizer is required to retain. The U.S. Risk Retention Rules also provide for certain exemptions from the risk retention obligation that they generally impose.

The transaction will not involve the retention by a securitizer of at least 5 per cent. of the credit risk of the Issuer for the purposes of the U.S. Risk Retention Rules, but rather will be made in reliance on an exemption provided for in Rule 20 of the U.S. Risk Retention Rules regarding non-U.S. transactions. Such non-U.S. transactions must meet certain requirements, including that (1) the transaction is not required to be and is not registered under the Securities Act; (2) no more than 10 per cent. of the dollar value (or equivalent amount in the currency in which the ABS interests (as defined in Rule 2 of the U.S. Risk Retention Rules) are issued) of all classes of ABS interests (as defined in Rule 2 of the U.S. Risk Retention Rules and referred to in this Prospectus as **Risk Retention U.S. Persons**) issued in the securitisation transaction are sold or transferred to U.S. persons (in each case, as defined in the U.S. Risk Retention Rules) or for the account or benefit of U.S. persons (as defined in the U.S. Risk Retention Rules); (3) neither the sponsor nor the issuer of the securitisation transaction is organised

under U.S. law or is a branch located in the United States of a non-U.S. entity; and (4) no more than 25 per cent. of the underlying collateral was acquired from a majority-owned affiliate or branch of the sponsor or issuer organised or located in the United States.

The transaction provides that the Bonds may not be purchased by Risk Retention U.S. Persons. Prospective investors should note that the definition of U.S. Person in the U.S. Risk Retention Rules is substantially similar to, but not identical to, the definition of U.S. Person under Regulation S. Under the U.S. Risk Retention Rules, and subject to limited exceptions, "U.S. person" means any of the following:

i. Any natural person resident in the United States;

ii. Any partnership, corporation, limited liability company, or other organisation or entity organised or incorporated under the laws of any State or of the United States[1];

iii. Any estate of which any executor or administrator is a U.S. person (as defined under any other clause of this definition);

iv. Any trust of which any trustee is a U.S. person (as defined under any other clause of this definition);

v. Any agency or branch of a foreign entity located in the United States;

vi. Any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. person (as defined under any other clause of this definition);

vii. Any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organised, incorporated, or (if an individual) resident in the United States; and

viii. Any partnership, corporation, limited liability company, or other organisation or entity if:

   a. Organised or incorporated under the laws of any foreign jurisdiction; and

   b. Formed by a U.S. person (as defined under any other clause of this definition) principally for the purpose of investing in securities not registered under the Securities Act[2];

The material difference between such definitions is that (1) a "U.S. person" under Regulation S includes any partnership or corporation that is organised or incorporated under the laws of any foreign jurisdiction and formed by one or more "U.S. persons" (as defined in Regulation S) principally for the purpose of investing in securities that are otherwise offered within the United States pursuant to an applicable exemption under the Securities Act unless it is organised or incorporated and owned by accredited investors (as defined in Rule 501(a) of Regulation D under the Securities Act) who are not natural persons, estates or trusts, while (2) any organisation or entity described in (1) is treated as a "U.S. person" under the U.S. Risk Retention Rules, regardless of whether it is so organised and owned by accredited investors (as defined in Rule 501(a) of Regulation D under the Securities Act) who are not natural persons, estates or trusts.

No assurance can be given as to whether failure of the transaction to comply with the U.S. Risk Retention Rules (regardless of the reason for such failure to comply) may give rise to regulatory action which may adversely affect the Bonds or their market value. Furthermore, the impact of the U.S. Risk Retention Rules on the securitisation market generally is uncertain, and a failure by a transaction to

[1] The comparable provision from Regulation S is "(ii) any partnership or corporation organised or incorporated under the laws of the United States."

[2] The comparable provision from Regulation S "(viii)(B) formed by a U.S. person principally for the purpose of investing in securities not registered under the Securities Act, unless it is organised or incorporated, and owned, by accredited investors (as defined in [17 CFR] §230.501(a)) who are not natural persons, estates or trusts."

comply with the U.S. Risk Retention Rules could therefore negatively affect the market value and secondary market liquidity of the Bonds.

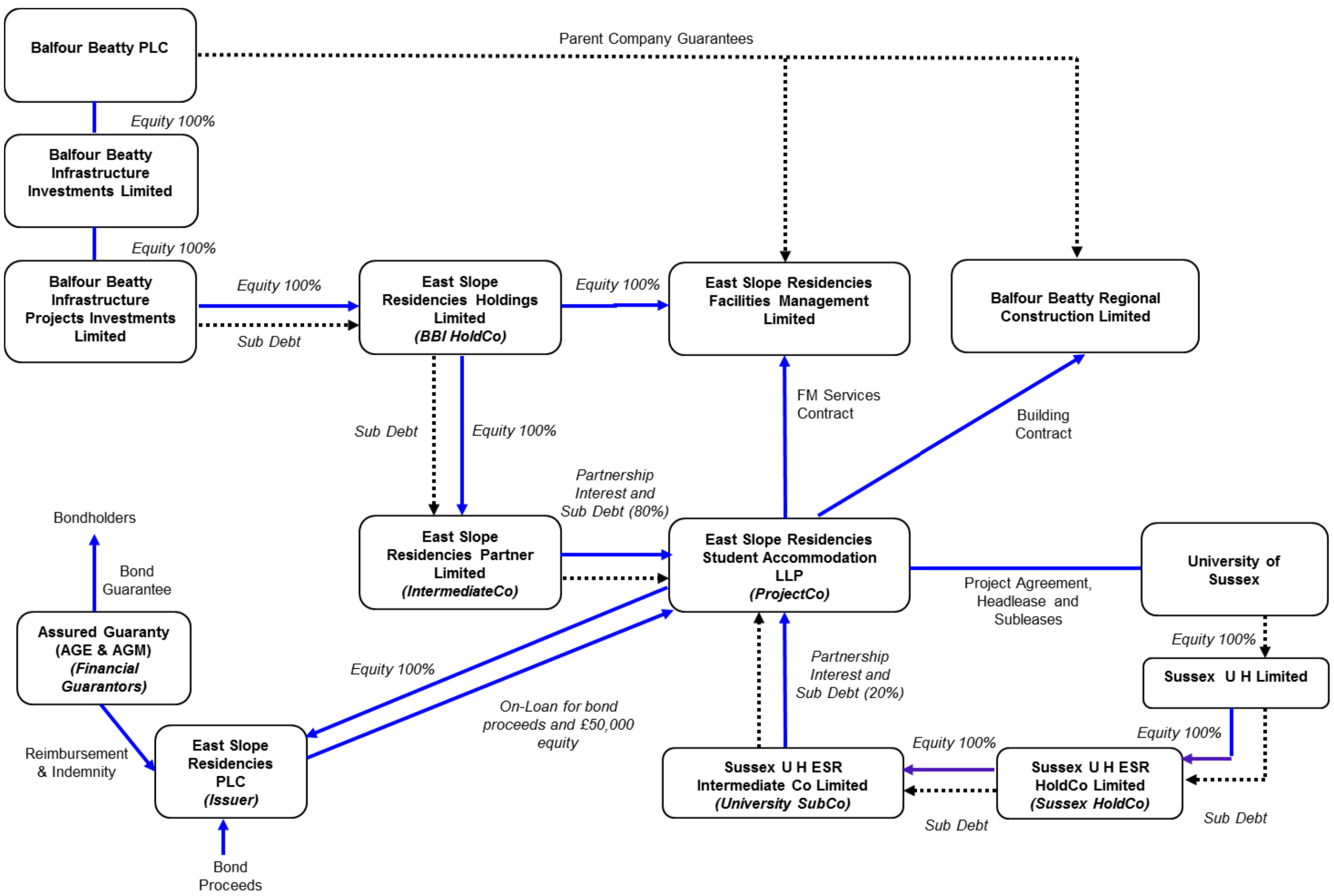
None of the Issuer, the Manager, the Financial Guarantors, the Bond Trustee or any of their respective affiliates makes any representation to any prospective investor or purchaser of the Bonds as to whether the transactions described in this Prospectus comply as a matter of fact with the U.S. Risk Retention Rules on the Issue Date or at any time in the future. Investors should consult their own advisers as to the U.S. Risk Retention Rules. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

Liability of the Bond Trustee and the Security Trustee

Neither the Bond Trustee nor the Security Trustee will be responsible for (a) monitoring or supervising the performance by the Issuer or any other party to the transaction documents of their respective functions and obligations under the transaction documents or the operation of any account opened pursuant to the transaction documents and each of the Bond Trustee and the Security Trustee will be entitled to assume, until it has written notice to the contrary, that all such persons are properly performing their duties, or (b) considering the basis on which approvals or consents are granted by the Issuer, the Controlling Creditor or any other party to the transaction documents under the transaction documents. Neither the Bond Trustee nor the Security Trustee will be liable to any Bondholder or other Secured Creditor for any failure to make or to cause to be made on its behalf the searches, investigations and enquiries which would normally be made by a prudent chargee in relation to the secured assets and has no responsibility in relation to the legality, validity, value, sufficiency and enforceability of the transaction security and the Relevant Documents.

Unless the Security Trustee is satisfied that it will not incur any liability (whether environmental or otherwise) arising from it enforcing the security, or that it is prefunded and/or indemnified and/or secured to its satisfaction in respect of any such liability, it will not be obliged to enforce the security when instructed to do so by the Controlling Creditor.

The chart below shows the corporate structure and the principal Finance Documents and Project Documents.



SUMMARY OF THE PROJECT

The following is a summary of the Project. It should be read in conjunction with the rest of this Prospectus.

On the Issue Date (as defined below), ProjectCo will enter into a project agreement (the **Project Agreement**) with The University of Sussex (the University). The Project Agreement will be conditional until the date on which the last condition precedent is satisfied or waived (as the case may be) (the **Effective Date**). Under the Project Agreement, ProjectCo will agree to:

(a) design and build new student accommodation (to be known as East Slope Residences (the **Premises**) comprising 2,117 beds in a combination of townhouses and cluster flats, other student amenities, all supporting services infrastructure, access roads and a carpark (the **Accommodation**);

(b) provide facilities management and lifecycle services for the Premises including any conversion work required to adapt the Premises for use by potential University tenants with a disability (the **Core Services**);

(collectively, the **Project**).

Approval for the Project was given by the University on 25 November 2016.

The Project Agreement will become effective upon (among other things) the issue of the Bonds (the **Issue Date**). The issue of the Bonds is conditional on (among other things) all conditions precedent set out in Schedule 2 to the Project Agreement, the Collateral Deed, the Subscription Agreement and the Reimbursement and Indemnity Deed being satisfied. These agreements are defined in the section entitled "Financing of the Project".

The term of the Project Agreement will commence on the Effective Date and will expire on the earlier of the Termination Date and 31 August 2071 (the **Term**) subject to extension of the term, see "*Termination of Project Agreement – ProjectCo Default Events – Extended Term*" below).

The University will grant a lease to ProjectCo for the Premises for a premium (see "*Summary of the Project Documents – Real Estate Documents – Project Leases*" below) to take effect on the Effective Date (the **Intermediate Lease**). ProjectCo will grant a temporary lease back to the University for the existing building at the Premises until June 2018.

Out of the Intermediate Lease, ProjectCo will grant underleases back to the University of each Phase on the relevant Phase Completion Date (each an **Underlease**). ProjectCo will grant a lease of the student union and retail units on the Phase 3 Completion Date (the **Student Union and Retail Units Underlease**) (see "Summary of the Project Documents – Real Estate Documents – Project Leases" below).

The Works (see also the section entitled "*Summary of the Project Documents – The Project Agreement – The Works*" below).

The University and the Building Contractor have entered into early works agreements in relation to the Karst investigations and certain early works to be undertaken in advance of the Issue Date. Once the Project Agreement and Building Contract are entered into, the works undertaken under the early works agreements will be governed by the terms of the Project Agreement and Building Contract.

ProjectCo will enter into a SubContract (the **Building Contract**) with Balfour Beatty Regional Construction Limited (the **Building Contractor**), to take effect on the Effective Date.

Under the Building Contract, the Building Contractor will design, construct and commission the Accommodation (the **Works**).

The Works relate to the different phases of the Project (the **Phases**). The Phases are:

(a) Phase 1 - 5 blocks with 328 beds and associated external work;

(b) Phase 1A – 2 blocks with 163 beds and associated external work;

(c) Phase 1B – 2 blocks with 92 beds and associated external work;

(d) Phase 2 – 3 blocks with 248 beds and associated external work;

(e) Phase 2A – 4 blocks with 205 beds and associated external work;

(f) Phase 3 – Demolition of existing accommodation and carpark, handover of elements of block 1 comprising the shell & core of a student union facility and associated external work plus one substation;

(g) Phase 4 - Demolition of existing accommodation, 6 blocks with 512 beds and associated external work; and

(h) Phase 5 – 7 blocks with 569 beds, associated external work and completion of new road and carpark.

The Building Contractor's obligations under the Building Contract will be guaranteed by a parent company guarantee from Balfour Beatty plc. The liability of Balfour Beatty plc in terms of the Building Contract Guarantee is limited to the liability of the Building Contractor to ProjectCo under the Building Contract (other than in respect of costs and expenses as a result of pursuing or enforcing ProjectCo's rights under or in connection with the parent company guarantee). There will also be liquidity support through the Adjudication Bond and the Retention Bond (see the section entitled "*Summary of the Project Documents – The Building Contract – Supporting Documents*" below).

Following Phase Completion (see also the section entitled "*Summary of the Project Documents – The Project Agreement – Services"* below).

Upon completion of each Phase, ProjectCo shall grant Underleases back to the University of the relevant Phase. Under the Underleases the University is obliged to provide reception, cleaning, waste disposal, security, grounds maintenance, pest control, mail services and a help desk service (the **Soft FM Services**) to the Accommodation.

The University will then let rooms and flats within the Premises to the occupational students and, where permitted, to other persons (the **occupational tenants**) under a form of student lease.

ProjectCo must provide the **Core Services** to the Premises. It will do this under a SubContract (the **Service Contract**) with East Slope Residencies Facilities Management Limited (the **Service Provider**). This provides that the Service Provider must carry out the Core Services. This includes planned and reactive maintenance, the repair of fixtures and fittings, major plant and machinery. The Service Provider will, on request by ProjectCo, carry out renewal and replacement works generally. Lifecycle risk remains the responsibility of ProjectCo.

The Service Provider's obligations under the Service Contract will be guaranteed by a parent company guarantee from Balfour Beatty plc (the **Service Contract Guarantee**). The liability of Balfour Beatty plc in terms of the Service Contract Guarantee is limited to the liability of the Service Provider to ProjectCo under the Service Contract (other than in respect of expenses, legal fees and taxes) (see the section entitled "*Summary of the Project Documents – The Service Contract – Supporting Documents*" below).

ProjectCo will also enter into a secondment services agreement with BBIPIL (the **SSA**) for the provision of personnel to perform certain management services for the ProjectCo (see the section entitled "*Summary of the Project Documents – Secondment Services Agreement*" below).

The Building Contract, the Service Contract (together the **SubContracts**) and the SSA will become effective when the Project Agreement becomes effective.

In addition to the Soft FM Services, the University will be responsible for:

(a) the maintenance and lifecycle services for the internal area of the Student Union; and

(b) the marketing, allocating and letting of the rooms and flats within the Premises to students and other permitted occupiers.

The University may cease to provide the Soft FM Services pursuant to the Underleases either where it is terminated for poor performance (in respect of individual Soft FM Services) or if it decides to stop providing all the Soft FM Services on six months' notice. In that situation they are no longer provided under the Underleases and ProjectCo is obliged to provide them under the Project Agreement. The Service Provider has agreed to provide these services to ProjectCo on agreed terms and to the same Service Level Agreement as the University.

Energy for the Premises (in the form of gas, heat and electricity) is provided throughout the Term by the University in accordance with the terms of the Project Agreement. Costs of energy are met by ProjectCo, calculated by reference to agreed tariffs. Where a tariff is set by a third party supplier to the University, there are some limited controls to ensure parity across the University estate.

Demand risk

The Project is demand based and the main source of income in the operational period is derived from the rents paid by occupational tenants.

The Premises are mainly targeted at undergraduate students. There is therefore opportunity to earn third party income from use of the Premises during vacations. In the first five years following completion of the final Phase, any income generated by use of the Premises during vacations is (subject to payment of certain costs to ProjectCo) retained by the University. After this period, any income generated is shared with the University.

The University is entitled to "nominate" annually all or any of the rooms or flats comprised in the Accommodation which are notified to the University as being available. If a room or flat is nominated (collectively referred to as **Reserved Rooms**) then the University will be obliged to pay the rent attributable to the Reserved Rooms for the full year, even if no occupational tenant is found or if there is one and he or she ceases to be an occupational tenant or fails to pay the rent due. For Reserved Rooms, the University takes credit and void risk.

If the University does not nominate, it is required to market the non-nominated rooms or flats (collectively referred to as the **Non-Reserved Rooms**). ProjectCo also has rights to market Non-Reserved Rooms. Where an occupational tenant is found for a Non–Reserved Room before the commencement of the relevant core period, the University takes credit risk and most of the void risk if that tenant is a student of the University.

In exchange for marketing and, where appropriate, the taking of credit and/or void risk, the University retains a portion of the rent.

The University must make regular payments (the **Total Reserved Rent**) to ProjectCo (see the section entitled "*Summary of the Project Documents – The Project Agreement - Payment*" below).

The rent for rooms and flats comprised within the Premises is set annually (see the section entitled "*Summary of the Project Documents – The Project Agreement – Rent Setting*" below). It is not to exceed the higher of the comparator rent (being the rent for comparable rooms elsewhere in the University's estate) and the amount derived from a formula broadly providing for the agreed rent at the outset being indexed by RPI indexation subject to a cap of 5 per cent. (other than soft FM labour costs which are indexed at RPI plus 0.5 per cent.) and various adjustments to recover specified additional costs such as costs relating to utilities, insurance and change in law. Where RPI is higher than 5 per cent. there is a mechanism to recover rent increases lost due to the cap by increasing rents in subsequent years by indexing above RPI (where RPI is lower than 5 per cent.) subject to the overall annual cap of 5 per cent. and a cap of 2 per cent. above RPI in the relevant year.

With very limited exceptions, costs borne by ProjectCo are only recoverable through the rent setting mechanism.

FINANCING OF THE PROJECT

The following is a summary of the financing of the Project and should be read in conjunction with the rest of this Prospectus. The summaries of the documents do not purport to be complete and are subject to the detailed provisions of the relevant documents.

1. General

The Project will be financed by:

(a) the proceeds of the issue of the Bonds by the Issuer (see the section entitled "*Overview of the Bond Issue*" above) which proceeds will be on-lent by the Issuer to ProjectCo pursuant to an Issuer On-Loan Agreement between the Issuer and ProjectCo dated on or about the Issue Date. The Issuer will be liable for certain costs so that ProjectCo will only receive an amount equal to the net proceeds of the Bonds after deduction of such costs;

(b) subordinated debt subscribed by University SubCo on or about the Issue Date and IntermediateCo in accordance with the Stockholders' Subscription Agreement (see the section entitled "*Stockholders' Subscription Agreement*" below);

(c) the £50,000 paid up share capital of the Issuer;

(d) interest accrued on the bond proceeds until they are utilised; and

(e) rent received during construction.

The Bonds will be initially subscribed for by HSBC Bank plc in its capacity as Manager.

The proceeds of the Bonds (net of issue expenses), the proceeds of the University SubCo loan stock subscription and the proceeds of the paid up share capital of the Issuer will be deposited into an escrow account (the **Escrow Account**) in the name of ProjectCo and/or transferred to the fixed rate deposit account (the **Fixed Rate Deposit Account**)). The proceeds of the IntermediateCo loan stock subscription, which is secured against a bank letter of credit, will be received once the proceeds of the Bonds have been utilised.

Amounts deposited into the Escrow Account may be applied by ProjectCo only for the purposes set out in the Collateral Deed (as defined below in the section entitled "*Collateral Deed*").

The Bonds (excluding those held by or on behalf of any Obligor or any Affiliate of an Obligor or Shareholder of an Obligor) will have the benefit of the Financial Guarantees. Under each of the Financial Guarantees, AGE or AGM, as the case may be, unconditionally and irrevocably guarantees in favour of the Bond Trustee amounts unpaid by the Issuer in respect of scheduled payments of principal and interest (in each case adjusted for indexation, but excluding in each case any amounts due in respect of the Bonds (i) attributable to any increase in interest margin, penalty or other sum payable by the Issuer for whatever reason; (ii) attributable to any present or future taxes, duties, withholding, deduction, assessment or other charge (including interest and penalties in respect of such taxes, duties, withholding, deduction, assessment or other charge) of whatever nature imposed, levied, collected, withheld or assessed by any sovereign state (including the United Kingdom), or any political subdivision or governmental or taxing authority therein or thereof; (iii) attributable to any default interest; (iv) attributable to any amount relating to prepayment, early redemption, broken-funding indemnities, penalties, premium, "spens", any make-whole amount or similar types of payments payable in respect of the Bonds; or (v) in respect of which AGM or AGE has made an Accelerated Payment (as defined in the relevant Financial Guarantee) on or prior to a Scheduled Payment Date.

Under a reimbursement and indemnity deed to be entered into between the Obligors, AGE and AGM (the **Reimbursement and Indemnity Deed**) on or before the Issue Date, the Obligors agree to reimburse AGE and AGM for any payments made by them under the Financial Guarantees. In addition AGE and AGM will be subrogated to the rights of the Bondholders and the Bond Trustee in respect of any payments made by AGE or AGM under the relevant Financial Guarantee. The rights to reimbursement of AGE and AGM in respect of the relevant Financial Guarantees will have the benefit

of the security granted by the Obligors to the Security Trustee. Under the terms of the Collateral Deed, the Obligors will grant a joint and several guarantee of their obligations to make, *inter alia*, reimbursements to AGE and AGM under the Reimbursement and Indemnity Deed.

Payments in respect of the Bonds will be made pursuant to the paying agency agreement (the **Paying Agency Agreement**, which expression includes any modification or supplement thereto) to be entered into on or before the Issue Date between the Issuer, the Financial Guarantors, the Bond Trustee, The Bank of New York Mellon acting through its London Branch as principal paying agent (the **Principal Paying Agent**, which expression includes any successor principal paying agent under the Paying Agency Agreement) and as paying agent (the **Paying Agent** and together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agent appointed in accordance with the Paying Agency Agreement).

The Issuer will pay or procure to be paid to:

(a) the Financial Guarantors that portion of the financial guarantee fee which is payable in accordance with the Financial Guarantee Fee Letters in consideration for the issuance of the Financial Guarantees;

(b) the Bond Trustee for its services as Bond Trustee remuneration on the issue of the Bonds and on each anniversary of the issue of the Bonds and upon such terms as agreed with the Issuer;

(c) the Security Trustee, for its services as Security Trustee, fees and remuneration and upon such terms as may from time to time be agreed between the relevant Obligor and/or AGE and/or AGM and the Security Trustee under the relevant Finance Documents;

(d) the Principal Paying Agent (for the account of the Paying Agents) for their services as Paying Agents under the Paying Agency Agreement, fees in such amounts and upon such terms as agreed by the Issuer;

(e) the Manager, an underwriting commission on the Issue Date; and

(f) the Manager, all fees, costs and expenses payable in connection with the listing and structuring of the Bonds on the Issue Date upon such terms as agreed by the Issuer.

The Issuer will also pay to each of the Bond Trustee, Security Trustee, the Paying Agents, the Manager and the Financial Guarantors their fees, costs, charges, liabilities and expenses in connection with the issue of the Bonds, upon such terms as agreed by the Issuer. Other amounts (including indemnity amounts) are also payable to each of the Bond Trustee, the Security Trustee and the Principal Paying Agent under the Finance Documents.

2. The Collateral Deed

The following is a summary of certain of the provisions of the Collateral Deed. It is not exhaustive and is subject to the Collateral Deed's detailed provisions. Capitalised terms used in this section entitled "Collateral Deed" have the meanings given to them in the Master Definitions Schedule unless otherwise defined. Copies of the Collateral Deed are available for inspection by Bondholders during normal business hours at the Specified Offices (as set out below) of each of the Paying Agents.

On or before the Issue Date, the Obligors, the Security Trustee, the Bond Trustee and the Financial Guarantors will enter into the collateral deed (the **Collateral Deed**) in which the Obligors will give certain representations and covenants to, among others, the Financial Guarantors, the Bond Trustee and the Security Trustee.

Definitions

Acceptable Letter of Credit means a valid binding and enforceable letter of credit which is issued in favour of the Security Trustee, is issued by a bank which is a Qualifying Bank, is in substantially the same form as the Letter of Credit and is from a provider otherwise satisfactory to the Security Trustee

(acting reasonably) provided that as at the date of the Stockholder's Subscription Agreement, the Letter of Credit shall be an Acceptable Letter of Credit.

BBI HoldCo Share Charge and Assignment means an English law share charge and assignment dated on or before the Issue Date granted by BBI HoldCo in favour of the Security Trustee.

Bond Documents means the Bonds, the Bond Trust Deed, the Paying Agency Agreement, the Issuer ICSD Agreement, the Effectuation Authorisation Agreement, the Subscription Agreement and any other agreements or documents between any Obligor and any Senior Creditor which the Controlling Creditor may, from time to time, designate as a Bond Document.

Controlling Creditor has the meaning given to it in section 3, "*The Security Arrangements — Security Trust and Intercreditor Deed*" below.

Direct Agreements means the Funders' Direct Agreement, the Building Contractor Direct Agreement, the FM Service Provider Direct Agreement and any other agreements or documents between any Obligor and any Senior Creditor which the Controlling Creditor may from time to time designate as a Direct Agreement.

Finance Documents means the Senior Finance Documents and the Junior Finance Documents.

Financial Guarantors means, unless AGE and AGM jointly notify the Obligors, the Security Trustee, the Bond Trustee, the Paying Agents and the Account Bank that AGM or AGE or an affiliate of AGE and/or AGM (as applicable) will assume such role, for the purposes of the Finance Documents:

(a) AGE on its behalf and on behalf of AGM, in the context of:

  (i) delivering information or notices;

  (ii) consenting to any agreement;

  (iii) providing instructions;

  (iv) acting as Controlling Creditor;

  (v) providing an opinion;

  (vi) granting approvals; and/or

  (vii) anything being satisfactory to the Financial Guarantors,

(b) both AGE and AGM, in the context of:

  (i) signatories or officers; and/or

  (ii) receiving information and/or notices, subject to Clause 21.2 (Electronic Communication) of the Collateral Deed;

(c) AGE, in the context of the AGE Financial Guarantee in its capacity as "Financial Guarantor" therein; and

(d) AGM, in the context of the AGM Financial Guarantee in its capacity as "Financial Guarantor" therein;

Guarantees means:

(a) the Building Contractor Guarantee;

(b) the FM service guarantee; and

(c) any other document designated as such by ProjectCo and the Controlling Creditor in writing.

IntermediateCo Debenture means the first ranking debenture dated on or about the Issue Date granted by IntermediateCo in favour of the Security Trustee;.

IntermediateCo Loan Stock means the loan stock issued or to be issued by IntermediateCo and subscribed, or to be subscribed, for by BBI HoldCo pursuant to the Stockholders' Subscription Agreement and the IntermediateCo Loan Stock Instrument.

IntermediateCo Loan Stock Instrument means the instrument dated on or about the Issue Date constituting the IntermediateCo Loan Stock.

Issuer On-Loan Agreement means the intercompany loan agreement dated on or about the Issue Date between the Issuer (as lender) and ProjectCo (as borrower) pursuant to which the proceeds of the issue of the Bonds are on-lent to ProjectCo.

Junior Finance Documents means the BBI HoldCo Loan Stock Instrument, the IntermediateCo Loan Stock Instrument, the ProjectCo Loan Stock Instrument, the University SubCo Loan Stock Instrument, the Sussex HoldCo Loan Stock Instrument, the Sussex UH Loan Stock Instrument and the Members' Agreement.

Letter of Credit means the letter of credit dated on or about the date of the Stockholder's Subscription Agreement issued by HSBC Bank plc at the request of BBIPIL in respect of the IntermediateCo Loan Stock Commitment of BBI HoldCo or any additional or replacement letter of credit in respect of such commitment which is an Acceptable Letter of Credit.

Master Definitions Schedule means the master definitions schedule dated on or about the Issue Date between, *inter alios*, the Obligors and the Financial Guarantors.

Material Adverse Effect is to be construed as a reference to an event or matter which, in the opinion of the Controlling Creditor (acting reasonably), might have a material adverse effect on:

(a) the present or future financial condition of ProjectCo, IntermediateCo, University SubCo and/or the Issuer;

(b) the present or future ability of any Obligor duly to perform all or any of its material obligations (including, without limitation, its payment obligations) which it is expressed to undertake under any of the Relevant Documents (other than the Junior Finance Documents); or

(c) the interests of any of the Senior Creditors under the Senior Finance Documents.

Material Project Parties means:

(a) the Issuer;

(b) ProjectCo;

(c) BBI HoldCo;

(d) IntermediateCo;

(e) University SubCo;

(f) Sussex HoldCo;

(g) the Stockholder (until such time as all its obligations to subscribe for IntermediateCo Loan Stock have been fully and finally satisfied in accordance with the Stockholders' Subscription Agreement) to the extent that any remaining obligation to subscribe for IntermediateCo Loan Stock in accordance with the Stockholders' Subscription Agreement is not fully supported by a Relevant Letter of Credit;

(h) the Building Contractor and the Building Contract Guarantor (until the expiry of the 12-month defects liability period following the last Phase Completion Date); and

(i) any Service Provider and any FM Service Guarantor,

and Material Project Party means any of them.

Members' Agreement means the LLP members' agreement relating to ProjectCo dated on or about the Issue Date between IntermediateCo, University SubCo and ProjectCo.

Minimum Required Rating means, for any bank which is an authorised institution (for the purpose of FSMA), a short term debt rating of at least A-2 by S&PGR and P-2 by Moody's and a long term debt rating of at least A- by S&PGR and A3 by Moody's or, in the case of a bank whose long term debt is not so rated, a bank of equivalent standing approved in writing by the Controlling Creditor.

ProjectCo Loan Stock means the loan stock issued or to be issued by ProjectCo and subscribed or to be subscribed for by IntermediateCo and University SubCo pursuant to the Stockholder's Subscription Agreement and the ProjectCo Loan Stock Instrument.

ProjectCo Loan Stock Instrument means the instrument dated on or about the Issue Date constituting the ProjectCo Loan Stock.

Project Documents means:

(a) the Project Agreement;

(b) the Building Contract;

(c) the Service Contract;

(d) the Guarantees;

(e) the Project Leases;

(f) the Adjudication Bond;

(g) the Retention Bond;

(h) the Independent Tester Contract;

(i) the Warranty Agreements; and

(j) such other documents as may from time to time be agreed between the Controlling Creditor and ProjectCo (each acting reasonably) to be a Project Document,

and Project Document means any one of them.

Qualifying Bank means any bank which is an authorised institution (for the purpose of FSMA) and whose short term debt is rated at least A-1 by S&PGR and P-1 by Moody's and whose long term debt is rated at least A by S&PGR and at least A2 by Moody's or, in the case of a bank whose long term debt is not so rated, a bank of equivalent standing approved in writing by the Controlling Creditor.

Relevant Documents means the Project Documents and the Finance Documents and a Relevant Document means any one of these.

Relevant Letter of Credit means an Acceptable Letter of Credit in the agreed form or such other form as is satisfactory to, and approved in writing by, the Controlling Creditor, acting reasonably.

Secured Obligations means all money or liabilities due, owing or incurred to any Secured Creditor by any Obligor under any Finance Document at present or in the future, in any manner whether actual or

contingent, whether incurred solely or jointly with any other person and whether as principal or surety, together with all interest accruing thereon.

Security Documents means the ProjectCo Debenture, the BBI HoldCo Share Charge and Assignment, the Sussex HoldCo Share Charge and Assignment, the Issuer Debenture, the IntermediateCo Debenture, the University SubCo Debenture, the Security Trust and Intercreditor Deed and any other document from time to time executed in favour of the Security Trustee for the purpose of securing all or any of the Secured Obligations and any deed of accession entered into in respect of any of the above.

Senior Creditors means each of the Financial Guarantors, the Bond Trustee, the Bondholders and the Security Trustee and Senior Creditor means each such person.

Senior Finance Documents means:

(a) the Collateral Deed;

(b) the Master Definitions Schedule;

(c) the Security Documents;

(d) the Accounts Agreement;

(e) the Bond Documents;

(f) each Financial Guarantee;

(g) the Fixed Rate Deposit Account Agreement;

(h) the Reimbursement and Indemnity Deed;

(i) each Financial Guarantee Fee Letter;

(j) the Stockholders' Subscription Agreement;

(k) the Issuer On-Loan Agreement;

(l) the Direct Agreements;

(m) any Relevant Letter of Credit; and

(n) any other agreements or documents between any Obligor and any Senior Creditor which the Controlling Creditor may from time to time designate as a Senior Finance Document,

and **Senior Finance Document** means any one of them.

Shareholder means the person who holds the BBI HoldCo Shares or the Sussex HoldCo Shares from time to time, being as at the Issue Date, BBIPIL in respect of the BBI HoldCo Shares and Sussex UH in respect of the Sussex HoldCo Shares.

Stockholder means the person subscribing (or to subscribe) for IntermediateCo Loan Stock being as at the Issue Date, BBI HoldCo.

Stockholder Commitment means, in respect of the Stockholder, the amount set out opposite its name in schedule 1 to the Stockholders' Subscription Agreement as the minimum level of its commitment to subscribe for, and pay for, the IntermediateCo Loan Stock on or before the applicable dates set out in schedule 1 of the Stockholders' Subscription Agreement.

Stockholders' Subscription Agreement means the stockholder's subscription agreement dated on or about the Issue Date between the Stockholder, ProjectCo, IntermediateCo, BBIPIL, the Security Trustee and the Bond Trustee.

Sussex HoldCo Loan Stock means the loan stock issued or to be issued by Sussex HoldCo and subscribed or to be subscribed for by Sussex UH pursuant to the Sussex HoldCo Loan Stock Instrument;

Sussex HoldCo Loan Stock Instrument means the instrument dated on or about the Issue Date constituting the Sussex HoldCo Loan Stock.

Sussex HoldCo Share Charge and Assignment means an English law share charge and assignment dated on or before the Issue Date granted by Sussex HoldCo in favour of the Security Trustee.

Sussex UH Loan Stock means the loan stock issued or to be issued by Sussex UH and subscribed or to be subscribed for by the University pursuant to the Sussex UH Loan Stock Instrument.

Sussex UH Loan Stock Instrument means the instrument dated on or about the Issue Date constituting the Sussex UH Loan Stock.

University means the University of Sussex.

University SubCo Debenture means the first ranking debenture dated on or about the Issue Date granted by University SubCo in favour of the Security Trustee.

University SubCo Loan Stock means the loan stock issued or to be issued by University SubCo and subscribed or to be subscribed for by Sussex HoldCo pursuant to the University SubCo Loan Stock Instrument.

University SubCo Loan Stock Instrument means the instrument dated on or about the Issue Date constituting the University SubCo Loan Stock.

Covenants by the Obligors

The covenants contained in the Collateral Deed will, *inter alia*, require the Obligors (subject, in some cases, to agreed exceptions, *de minimis* amounts and qualifications as to materiality):

(a) to comply with the terms of the Relevant Documents to which they are a party;

(b) not to create or permit to subsist any encumbrance over all or any of their present or future rights, claims, revenues or assets except as permitted in the Collateral Deed;

(c) not to incur, assume or permit to exist any financial indebtedness except as permitted in the Collateral Deed;

(d) not to make any loan or provide any other form of credit or make any deposit with any person except deposits made in the Accounts or in accordance with any of the Senior Finance Documents (including the loans pursuant to the Junior Finance Documents) and deposits resulting from the Fixed Rate Deposit Account Agreement;

(e) not to dispose of assets except as permitted in the Collateral Deed; and

(f) not voluntarily to enter into liquidation, dissolution or voluntarily enter into a merger or consolidation with any other person.

Covenants by ProjectCo

The covenants contained in the Collateral Deed will, *inter alia*, require ProjectCo (subject, in some cases, to agreed exceptions, de *minimis amounts* and qualifications as to materiality):

(a) to maintain specified levels of insurance with insurers of certain acceptable rating levels;

(b) not to replace the Service Contract except in accordance with the Collateral Deed;

(c) to carry out the Works and Services in accordance with, *inter alia*, the Project Documents;

(d) not to enter into any material transaction with any person except on the basis of an arm's length transaction, except as permitted in the Collateral Deed;

(e) not to carry on any business or activities other than the Project and assisting in the financing of the Project, or engage in any business or activity other than as expressly permitted by the Senior Finance Documents; and

(f) not to incur expenditures or commitments for expenditures for fixed and other non-current assets, tax or operating expenditure, except as permitted in the Collateral Deed.

IntermediateCo Events

The Collateral Deed provides that, unless and until remedied to the satisfaction of the Controlling Creditor or waived for the purposes of the Collateral Deed, the Controlling Creditor may instruct the Security Trustee to enforce the Security granted by the IntermediateCo under the IntermediateCo Debenture following occurrence of certain insolvency related events in respect of IntermediateCo (**IntermediateCo Events**).

IntermediateCo Events include (subject, in some cases, to agreed exceptions) the:

(a) failure to, within applicable time limits, prepare, complete and present all relevant tax returns required to be submitted by IntermediateCo for the purposes of United Kingdom VAT and corporation tax and, within applicable time limits, pay all taxes; and

(b) the appointment of a liquidator, receiver, administrator, administrative receiver or similar officer or certain other insolvency and rescheduling events, winding up event or creditor's process or analogous event in terms of the Collateral Deed in respect of IntermediateCo.

Trigger Events and Remedial Plan Trigger Events

Following the occurrence of any of the trigger events (**Trigger Events**) or remedial plan trigger events (**Remedial Plan Trigger Events**) specified in the Collateral Deed, unless such Trigger Event or Remedial Plan Trigger Event has been waived or deemed remedied in accordance with the Collateral Deed or otherwise remedied to the satisfaction of the Controlling Creditor, the Controlling Creditor will have certain additional rights to investigate, monitor and influence certain of the activities of ProjectCo. This will include appointing experts and providing the Controlling Creditor with any other additional information the Controlling Creditor may reasonably request including updates as to the steps taken and progress made towards remedying the relevant Trigger Event and, in the case of Remedial Plan Trigger Events, agreeing a remedial plan with ProjectCo. Until a Trigger Event or Remedial Plan Trigger Event has been waived or deemed remedied or remedied to the satisfaction of the Controlling Creditor, ProjectCo will not be permitted to pay any dividends or make any distributions or other similar payments to the Distribution Account.

The Trigger Events and Remedial Plan Trigger Events will include, *inter alia*:

(a) the occurrence of any Potential Event of Default (as defined below) or Event of Default (as defined below);

(b) ProjectCo being issued with a certain number of service default notices within a certain time period pursuant to the Project Agreement;

(c) the Technical Advisor certifying that the relevant planned phase completion date (plus the amount of any applicable extensions) has not occurred; or

(d) certain specified financial coverage ratios not being met by ProjectCo on the dates they are required by the Collateral Deed to be tested.

Events of Default

The Collateral Deed provides that the occurrence of any of the following events of default (amongst others) will constitute an event of default (**Event of Default**), unless and until such Event of Default has been remedied to the satisfaction of the Controlling Creditor or waived for the purposes of the Collateral Deed. Events of Default will include (subject, in some cases, to agreed exceptions, de minimis amounts and qualifications as to materiality):

(a) failure by any Obligor to pay any sum due from it under any of the Senior Finance Documents within, other than with respect to the scheduled payments of interest and principal under the Bonds, certain specified grace periods;

(b) any representation made or repeated by any Obligor in the Senior Finance Documents or certain documents pursuant to or in connection with any Senior Finance Document is, or proves to have been, incorrect or misleading in any material respect or in a manner which has or would reasonably be expected to have a Material Adverse Effect;

(c) failure by any Obligor duly to perform or comply with certain specified covenants and obligations under the Collateral Deed or other Senior Finance Documents subject to specified grace periods and materiality or implementation of an agreed remedial plan;

(d) breach or default by any Obligor under any agreement to which it is a party or which is binding on it or any of its assets, and which failure, breach or default could reasonably be expected to a Material Adverse Effect;

(e) the appointment of a liquidator, receiver, administrator, administrative receiver or similar officer or certain other insolvency and rescheduling events, winding up event or creditor's process or analogous event in terms of the Collateral Deed occurs with respect to any Obligor (other than IntermediateCo) or any other Material Project Party subject to materiality, remedy or replacement provisions;

(f) by or under the authority of any government, the management as a whole of any Obligor is wholly or materially displaced or the authority of any Obligor in the conduct of its business is wholly or materially curtailed or fettered or all or a majority of the shares of any Material Project Party is seized, nationalised, expropriated or compulsorily acquired, or the Project Agreement is voluntarily terminated by the University;

(g) transfers of ownership of the equity share capital, membership interests or loan stock in any Obligor otherwise than as permitted in the Collateral Deed;

(h) subject to materiality, ProjectCo or certain other parties do not have certain licences, approvals or consents necessary to carry out its business;

(i) any subscriber fails to subscribe and pay for loan stock in accordance with the Stockholders' Subscription Agreement and, where applicable, upon a valid demand being made under a Relevant Letter of Credit, there is a default in payment by the issuer of such Relevant Letter of Credit in accordance with its terms or, upon it being called, it would not be sufficient to pay the relevant subscription obligation;

(j) subject to certain provisions relating to remedial plans, the occurrence of an event which, with the giving of notice, would become an event under the Project Agreement which entitles either party to terminate the Project Agreement;

(k) specified financial coverage ratios are not met by ProjectCo on the dates they are required by the Collateral Deed;

(l) ProjectCo fails to maintain the insurances required by the Collateral Deed;

(m) a Phase Completion Date has not occurred within the grace periods permitted by the Collateral Deed; or

(n) ProjectCo permits, recommends or agrees to the abandonment of the Project in whole or in any material part which would constitute a Default Event in accordance with the terms of the Project Agreement.

Any event which (with the passage of time, the giving of notice, the making of any determination under the Collateral Deed or any combination thereof), if not remedied or waived, would constitute an Event of Default, is a **Potential Event of Default**.

If an Event of Default has occurred and is outstanding, the consequences may include the Controlling Creditor: (a) requiring the exercising of any remedies or rights in respect of Trigger Events or Remedial Plan Trigger Events; (b) directing the Security Trustee to exercise any rights available to the Security Trustee under the Direct Agreements; (c) directing ProjectCo to: (i) terminate any existing contract or agreement or procure the termination of the Building Contract or the Service Contract (in each case if such contract or agreement or the Building Contract or Service Contract is capable of termination at such time in accordance with its terms and those of the Project Documents); (ii) making specified changes to management, systems or advisers or other operational changes; (iii) tendering for such new contracts as the Controlling Creditor may specify on a basis approved in writing by the Controlling Creditor and in any event on reasonable commercial terms; (iv) exercising any other rights expressed to arise under any Finance Document or Project Document upon an Event of Default; and (v) making, compromising, settling or discontinuing any claim which ProjectCo may have or purport to have against any other person; (d) requiring ProjectCo to pay immediately to the Senior Debt Service Account an amount equal to all outstanding amounts of principal, interest and default interest and other amounts due or owing under or relating to the Bonds and the Reimbursement and Indemnity Deed; (e) instructing the Security Trustee to take all steps necessary to enforce the Security granted by any Obligor to the Security Trustee and/or to exercise all or any other rights granted to the Security Trustee pursuant to the Senior Finance Documents and which the Security Trustee is entitled to exercise on the occurrence and continuance of an Event of Default, in each case in accordance with the terms of the Security Trust and Intercreditor Deed (as defined in "*The Financing of the Project — 4. The Security Arrangements — Security Trust and Intercreditor Deed*" below); (f) directing the Bond Trustee to declare that each Bond is immediately due and payable (see the sections entitled "*Terms and Conditions of the Bonds*"; (g) instructing the Security Trustee to notify the relevant underwriters or insurers that an Event of Default has occurred (provided that the Controlling Creditor shall instruct the Security Trustee to notify the relevant underwriters or insurers as soon as reasonably practicable upon the waiver or remedy of such an Event of Default); (h) demanding and/or accelerating the commitments of the Stockholder such that the aggregate of any remaining HoldCo Loan Stock Commitment become due and payable in accordance with such notice; and/or (i) giving notice to the Account Bank that no further withdrawals may be made from any Account (other than the IntermediateCo Distribution Account). No action is required to be taken by either the Bond Trustee or the Security Trustee unless it has been prefunded and/or indemnified and/or secured to its satisfaction.

Where there is any reference in any of the Finance Documents (other than the Funders' Direct Agreement) to the Bond Trustee (or the Controlling Creditor where it is the Bond Trustee) or the Security Trustee acting reasonably or properly, or doing an act or coming to a determination, opinion or belief that is reasonable or proper, or any similar or analogous reference, the Bond Trustee (in its capacity as such or in its capacity as Controlling Creditor) or, as the case may be, the Security Trustee should be deemed to be acting reasonably and properly or to do an act or come to a determination, opinion or belief that is reasonable if it acts on the instructions of the Controlling Creditor (in the case both of the Bond Trustee, if it is not at that time also the Controlling Creditor, and of the Security Trustee) or (in the case of the Bond Trustee) the Bondholders.

Where there is in any of the Finance Documents (other than the Funders' Direct Agreement) a provision to the effect that the Bond Trustee (or the Controlling Creditor, if it is then the Bond Trustee) or the Security Trustee is not to unreasonably withhold or delay its consent or approval, it shall be deemed not to have so withheld or delayed its consent or approval if the withholding or delay is caused by instructions being sought from the Controlling Creditor or the Bondholders and the Controlling Creditor or, as the case may be, the Bondholders withhold or delay in giving its or their consent or approval.

Each party has acknowledged and agreed that, when it is acting under or pursuant to the Finance Documents (other than the Funders' Direct Agreement), each of the Security Trustee and the Bond Trustee shall be entitled to rely on and shall have all the benefits and protection afforded to it under the Security Trust and Intercreditor Deed and the Bond Trust Deed.

3. The Security Arrangements

The Bonds will also have the benefit of the security arrangements summarised below. Attention is drawn to "Security Trust and Intercreditor Deed" below. The ability of the Bond Trustee to exercise rights in respect of such security arrangements will be restricted by the Security Trust and Intercreditor Deed and Bondholders will have no independent entitlement to exercise such rights.

Security from the Issuer

Pursuant to an English law debenture to be granted by the Issuer in favour of the Security Trustee on or before the Issue Date (the **Issuer Debenture**), the obligations of the Issuer under the Finance Documents will be secured by fixed and/or floating charges in favour of the Security Trustee over substantially all the undertaking and assets, both present and future, of the Issuer, which will include, *inter alia*, charges over its credit balances, book debts and its rights in and under the Issuer On-Loan Agreement in connection with the Project.

Security from ProjectCo

Pursuant to an English law debenture to be granted by ProjectCo in favour of the Security Trustee on or before the Issue Date (the **ProjectCo Debenture**), the obligations of ProjectCo under the Finance Documents will be secured by fixed and/or floating charges in favour of the Security Trustee over substantially all the undertaking and assets, both present and future, of ProjectCo, which will include, *inter alia*, charges over its credit balances, book debts, insurances and its rights in connection with the Project and a share charge over the share capital of the Issuer for which it has subscribed.

Security from IntermediateCo

Pursuant to an English law debenture to be granted by IntermediateCo in favour of the Security Trustee on or before the Issue Date (the **IntermediateCo Debenture**), the obligations of IntermediateCo under the Finance Documents will be secured by fixed and/or floating charges in favour of the Security Trustee over substantially all the undertaking and assets, both present and future, of IntermediateCo, which will include, *inter alia*, charges over its book debts and its rights.

Security from University SubCo

Pursuant to an English law debenture to be granted by University SubCo in favour of the Security Trustee on or before the Issue Date (the **University SubCo Debenture**) the obligations of University SubCo under the Finance Documents will be secured by a fixed and/or floating charges in favour of the Security Trustee over substantially all the undertaking and assets, both present and future, University SubCo, which will include, inter alia, charges over its both debts and rights.

Security from BBI HoldCo

Pursuant to an English law share charge and assignment to be granted by BBI HoldCo in favour of the Security Trustee on or before the Issue Date (the **BBI HoldCo Share Charge and Assignment**), the obligations of BBI HoldCo under the Finance Documents will be secured by (a) a charge in favour of the Security Trustee over the share capital of IntermediateCo for which it has subscribed and (b) an assignment of its rights in respect of junior debt.

Security from Sussex HoldCo

Pursuant to an English law share charge and assignment to be granted by Sussex HoldCo in favour of the Security Trustee on or before the Issue Date (the **Sussex HoldCo Share Charge and Assignment**) the obligations of Sussex HoldCo under the Finance Documents will be secured by (a) a charge in

favour of the Security Trustee over the share capital in University SubCo for which it has subscribed and (b) an assignment of its rights in respect of junior debt.

Security Trust and Intercreditor Deed

The Obligors, the Security Trustee, the Bond Trustee, the Principal Paying Agent, the Financial Guarantors and BBIPIL have entered into a security trust and intercreditor deed (the **Security Trust and Intercreditor Deed**) on or before the Issue Date which will set out the relationship of various Senior Creditors and Junior Creditors. The Security Trust and Intercreditor Deed will regulate, *inter alia*, the ranking of debt and security and the rights of parties in the case of default on certain obligations and will provide that, *inter alia*, the Junior Creditors will be subordinated to the Senior Creditors in the circumstances set out therein.

Each of the Senior Creditors and the Stockholder will appoint the Security Trustee to act as trustee in connection with the security and the Security Trust and Intercreditor Deed. In such capacity, the Security Trustee will agree in the Security Trust and Intercreditor Deed that it will, subject to being prefunded and/or indemnified and/or secured to its satisfaction, exercise any right which it may have in respect of the Financing Rights (subject to the operation of certain entrenched rights and reserved matters, i.e. rights which cannot be exercised without the consent of the person having reserved to them such entrenched rights and reserved matters and the other express provisions of the Security Trust and Intercreditor Deed) as directed by the Controlling Creditor.

When exercising the Financing Rights in accordance with the instructions of the Controlling Creditor, the Security Trustee is not required to have regard to the interests of any Senior Creditor or other persons in relation to the exercise of such rights and has no liability to any Senior Creditor or other persons as a consequence of so exercising such rights.

The provisions of the Security Trust and Intercreditor Deed and the Security Documents will allow the Controlling Creditor (subject to the entrenched rights and reserved matters therein) to instruct the Security Trustee to enforce the security under the Security Documents in accordance with the terms thereof and the terms of the Security Trust and Intercreditor Deed (an **Enforcement**).

Following an Enforcement, any proceeds of such Enforcement (including without limitation any proceeds received by the Security Trustee pursuant to a novation of the funders' direct agreement) or other monies paid to or collected by the Security Trustee under the Security Trust and Intercreditor Deed or under any of the Security Documents or otherwise held by the Security Trustee on account of the Obligors as part of the Security shall be held by the Security Trustee on trust and (after taking into account any payments that have been made to the Principal Paying Agent either for its own account or that are due to be distributed by the Principal Paying Agent to Bondholders in accordance with the Paying Agency Agreement) applied in the following order:

(a) in payment, to the Security Trustee or any receiver of any unpaid remuneration payable under the Security Trust and Intercreditor Deed or the other Relevant Documents (including that agreed pursuant to Clauses 11.16, 11.17, 11.18, 11.19 and 11.20 of the Security Trust and Intercreditor Deed) and all costs, charges, expenses, liabilities, indemnity payments, legal fees and disbursements, other fees and disbursements or other amounts expended or incurred by or other amounts due to the Security Trustee or any receiver or Appointee in connection with the trusts of the Security Trust and Intercreditor Deed or in enforcing the rights and remedies of the Security Trustee under any of the Relevant Documents;

(b) in payment to the Bond Trustee of all unpaid remuneration, and all costs, charges, expenses, liabilities, indemnity payments, legal fees and disbursements, accountants' and other Appointees fees and disbursements expended or incurred by or other amounts due to the Bond Trustee in connection with the trusts of the Security Trust and Intercreditor Deed and the Bond Trust Deed or in enforcing the rights and remedies of the Bond Trustee under the Relevant Documents;

(c) in payment to the Principal Paying Agent and any other Paying Agent, of all unpaid remuneration, and all costs, charges, expenses, liabilities, indemnity payments, legal fees and disbursements, accountants' and other Appointees fees and disbursements expended or incurred

by or other amounts due to the Principal Paying Agent and any other Paying Agent in connection with the trusts of the Security Trust and Intercreditor Deed and the Paying Agency Agreement or in enforcing the rights and remedies of the Principal Paying Agent and any other Paying Agent under the Relevant Documents;

(d) in payment to the Step-In Creditor until it has received any and all unpaid costs and expenses incurred by the Step-In Creditor;

(e) in payment to the Financial Guarantors (and *pro rata* between each Financial Guarantor) until they have received any and all costs, fees or expenses due and payable under the Reimbursement and Indemnity Deed (other than pursuant to Clauses 3.2.4, 3.3.1 or 3.9 of the Reimbursement and Indemnity Deed);

(f) only if and for so long as the Financial Guarantors are not the Controlling Creditor, to the Senior Creditors until they have received any and all costs and expenses due and payable pursuant to Clauses 18.1 and 18.3 of the Collateral Deed;

(g) in payment, *pro rata*, to the Financial Guarantors until they have received any and all amounts due and payable under Clause 3.2.4 of the Reimbursement and Indemnity Deed and the Financial Guarantee Fee Letters (as such term is defined in the Reimbursement and Indemnity Deed);

(h) in payment, *pro rata* to the Bond Trustee on behalf of Bondholders of any and all scheduled interest due and payable on the Bonds; provided that, the amount payable pursuant to this paragraph (h) on any date shall be limited to the Scheduled Interest Liability as at that date. For this purpose, **Scheduled Interest Liability** means the amount in respect of interest on the Bonds which the Financial Guarantors have become actually and presently liable to pay on or prior to that date pursuant to the Financial Guarantees or would be or become so liable subject only to a claim being made in accordance with the Financial Guarantees;

(i) in payment, *pro rata*, to the Financial Guarantors until they have received any and all amounts due and payable under Clauses 3.3.1 and 3.9 of the Reimbursement and Indemnity Deed with respect to interest on the Bonds (including pursuant to any right of subrogation the Financial Guarantors have acquired in respect of any payments made by the Financial Guarantors under the Financial Guarantees with respect to interest on the Bonds);

(j) in payment, *pro rata*, to the Bond Trustee on behalf of Bondholders of any and all principal due and payable on the Bonds; provided that, the amount payable pursuant to this paragraph (j) on any date shall be limited to the Scheduled Principal Liability as at that date. For this purpose, **Scheduled Principal Liability** means the amount in respect of principal of the Bonds which the Financial Guarantors have become actually and presently liable to pay on or prior to that date pursuant to the Financial Guarantees or would be or become so liable subject only to a claim being made in accordance with the Financial Guarantees;

(k) in payment, *pro rata*, to the Financial Guarantors until they have received any and all amounts due and payable under Clauses 3.3.1 and 3.9 of the Reimbursement and Indemnity Deed with respect to principal on the Bonds (including pursuant to any right of subrogation the Financial Guarantors have acquired in respect of any payments made by the Financial Guarantors with respect to principal on the Bonds);

(l) in payment to the Bond Trustee on behalf of Bondholders of any and all amounts due and payable pursuant to Condition 6 (*Redemption and Purchase*) of the Bonds;

(m) if the Bonds have been accelerated in accordance with Condition 11 (*Events of Default*) of the Bonds, in payment, *pro rata*, to the Bond Trustee on behalf of Bondholders of any and all outstanding principal due and payable on the Bonds;

(n) if the University elects to pay the force majeure termination sum in instalments (the **Instalment Option**) pursuant to paragraph 1.3 of section 5 of part 14 (*Payments on Termination*) of the Project Agreement, in payment to the relevant obligor (or if the relevant obligor so directs to the

Junior Creditors) the part of the force majeure termination sum that represents the Equity Pay Out but only for so long as Clause 13.2 of the Security Trust and Intercreditor Deed does not apply;

(o) if the Bonds have not been accelerated pursuant to Condition 11 (*Events of Default*) of the Bonds, any and all amounts remaining after application of paragraphs (a) to (m) above shall be held in trust by the Security Trustee on behalf of the Secured Creditors and invested in Authorised Investments as instructed by the Controlling Creditor and, unless otherwise instructed by the Controlling Creditor, applied by the Security Trustee in payment of amounts becoming due and payable under paragraphs (a) to (m) as and when such amounts become so due and payable;

(p) following discharge in full of all Financial Guarantor Liabilities and payment in full of all outstanding principal due and payable on the Bonds, if any other Senior Liabilities remain outstanding, towards payment, *pro rata*, of all remaining sums or liabilities due or owed to the Senior Creditors in respect of such Senior Liabilities;

(q) following discharge in full of all Senior Liabilities, in payment to the Junior Creditors (other than BBI HoldCo in its capacity as holder of the IntermediateCo Shares, IntermediateCo in its capacity as holder of the ProjectCo Member Shares, University SubCo in its capacity as holder of the ProjectCo Member Shares and the ProjectCo as holder of the Issuer Shares or any amounts paid pursuant to paragraph (n)) contemplated in the Security Trust and Intercreditor Deed until all Junior Liabilities are satisfied in full; and

(r) following discharge in full of all Liabilities, all remaining amounts in payment to the Issuer.

Payments pursuant to paragraph (n) above shall cease if:

(a) the Controlling Creditor has informed the Security Trustee that the University has failed to pay all or any portion of the force majeure termination sum or interest thereon when due and payable; or

(b) the Controlling Creditor has informed the Security Trustee that an event has occurred within the meaning of paragraphs (c), (d), (e), (f), (g), (i) and (j) of the definition of University Event of Default; or

(c) the Controlling Creditor reasonably believes that the University's financial standing, the financial resources available to the University to perform its obligations under the Relevant Documents or the University's capacity to perform its obligations under the Relevant Documents have been materially and adversely affected.

Definitions

Controlling Creditor means:

(a) until the Senior Creditors' Release Date, the Financial Guarantors unless and until such time:

    (i) as both of the Financial Guarantees have been terminated in accordance with Condition 2(b) (*Financial Guarantees*) of the Bonds; or

    (ii) as the Security Trustee has received notice from the Bond Trustee that a Financial Guarantor Default has occurred,

    in which case it shall be the Bond Trustee, unless:

    (iii) a new financial guarantor or monitoring advisor has been appointed by the Bondholders under Condition 2(b) (*Financial Guarantees*) of the Bonds in which case it shall be the new financial guarantor or monitoring advisor; or

(iv) such Financial Guarantor Default has been cured or waived, in which case it shall be the Financial Guarantors,

(b) without prejudice to Clauses 11.15 and 24 of the Security Trust and Intercreditor Deed, after the Senior Creditors Release Date, the Stockholder.

Financial Guarantor Default means any of the following events:

(a) any Guaranteed Amount which is due for payment by AGM in accordance with the terms of the AGM Financial Guarantee is not paid by AGM on the date stipulated in the AGM Financial Guarantee;

(b) AGM disclaims, disaffirms, repudiates and/or challenges the validity of any of its obligations under the AGM Financial Guarantee or seeks to do so (in each case in writing);

(c) AGM (i) files a petition or commences a case or proceeding under any provision or chapter of the United States Bankruptcy Code or any other similar federal or state law relating to insolvency, bankruptcy, liquidation or reorganisation, or (ii) makes a general assignment for the benefit of its creditors, or (iii) has a final and nonappealable order for relief entered against it under the United States Bankruptcy Code or any other similar federal or state law relating to insolvency, bankruptcy, liquidation or reorganisation; or

(d) a court of competent jurisdiction, the New York State Department of Financial Services or other competent regulatory authority enters a final and nonappealable order, judgment or decree (i) appointing a custodian, trustee, agent or receiver for AGM or for all or any material portion of its property or (ii) authorising the taking of possession by a custodian, trustee, agent or receiver of AGM or of all or any material portion of its property.

Financial Guarantor Downgrade Event has the meaning given to it in Condition 2(b) (*Financial Guarantees*) of the Bonds.

Financial Guarantor Liabilities means all present and future sums, liabilities and obligations whatsoever (actual or contingent) payable, owing, due or incurred by (a) any Obligor to either Financial Guarantor (by way of subrogation or otherwise) in respect of the Bonds, the Bond Trust Deed, the Financial Guarantees, the Financial Guarantee Fee Letters, the Accounts Agreement, the Collateral Deed or under the Reimbursement and Indemnity Deed or (b) ProjectCo to the Issuer pursuant to the terms of the Bond Proceeds On-Loan in the Issuer On-Loan Agreement.

Financing Rights means, in respect of the Security Trustee or any other Senior Creditor, all rights which it has the benefit of pursuant to any Finance Document or any Project Document (other than any Reserved Matter or any right to amend the provisions of the Security Trust and Intercreditor Deed) including:

(a) the right, or the right to direct the Security Trustee, or another Senior Creditor, to consent to any amendment, waiver, modification and/or extension of any provision of any Finance Document;

(b) the right, or the right to direct the Security Trustee, or another Senior Creditor, to exercise any right, power and discretion of or under any of the provisions of the Finance Documents (including, without limitation, the right to refuse to advance sums upon non-satisfaction of, or to waive, any conditions precedent contained in any Finance Document);

(c) the right, or the right to direct the Security Trustee, or another Senior Creditor, to bring any litigation, arbitration, administrative or other proceedings arising from or in connection with the Finance Documents; and

(d) any right expressed to be favour of the Controlling Creditor under the Collateral Deed.

Guaranteed Amounts has the meaning given to that term in the Financial Guarantees;

Junior Creditors means:

(a) BBIPIL (in its capacity as holder of the BBI HoldCo Shares and BBI HoldCo Loan Stock);

(b) BBI HoldCo (in its capacity as holder of IntermediateCo Loan Stock and IntermediateCo Shares);

(c) the Issuer (in its capacity as lender of the Equity On-Loan under the Issuer On-Loan Agreement);

(d) IntermediateCo (in its capacity as holder of the ProjectCo Loan Stock and ProjectCo Member Shares);

(e) University SubCo (in its capacity as holder of the ProjectCo Loan Stock and ProjectCo Member Shares);

(f) Sussex HoldCo (in its capacity as holder of University SubCo Shares); and

(g) ProjectCo (in its capacity as holder of Issuer Shares),

and any other junior creditor who has become a party to the Security Trust and Intercreditor Deed under the terms of Clause 17 (*Assignments and Transfers*) of the Security Trust and Intercreditor Deed.

Junior Liabilities means any indebtedness of any Obligor to:

(a) each and every Junior Creditor; and

(b) any other Obligor,

under the Junior Finance Documents.

Liabilities means the Senior Liabilities and the Junior Liabilities or any of them.

Relevant Documents means the Project Documents and the Finance Documents and a Relevant Document means any one of these.

Scheduled Principal Liability means the amount in respect of principal of the Bonds which the Financial Guarantors have become actually and presently liable to pay on or prior to that date pursuant to the Financial Guarantees or would be or become so liable subject only to a claim being made in accordance with the Financial Guarantees.

Security means the security created or contemplated by the Security Documents or otherwise in respect of the Secured Obligations.

Senior Creditors means each of the Financial Guarantors, the Bond Trustee, the Bondholders and the Security Trustee and Senior Creditor means each such person.

Senior Liabilities means the Financial Guarantor Liabilities, the Bond Liabilities, the Security Trustee Liabilities and the Paying Agent Liabilities (each as defined in the Security Trust and Intercreditor Deed).

4. Stockholders' Subscription Agreement

Pursuant to the Stockholders' Subscription Agreement dated on or before the Issue Date between ProjectCo, BBI HoldCo, IntermediateCo, BBIPIL and the Security Trustee, BBIPIL undertakes to subscribe and pay for BBI HoldCo Loan Stock, BBI HoldCo undertakes to subscribe and pay for IntermediateCo Loan Stock and IntermediateCo undertakes to subscribe and pay for ProjectCo Loan in the amounts and on the dates specified in the Stockholders' Subscription Agreement.

University SubCo will subscribe and pay for ProjectCo Loan Stock in the amount of approximately £6,000,000 on or before the Issue Date.

The obligation of the BBI HoldCo to subscribe and pay for IntermediateCo Loan Stock is supported by a letter of credit issued in favour of the Security Trustee.

Following (amongst other things) the occurrence of an Event of Default, the Security Trustee may serve a notice accelerating the BBIPIL's obligation to subscribe and pay for outstanding BBI HoldCo Loan Stock.

Following (amongst other things) the occurrence of an Event of Default, the Security Trustee may serve a notice accelerating BBI HoldCo's obligation to subscribe and pay for outstanding IntermediateCo Loan Stock.

Following (amongst other things) the occurrence of an Event of Default, the Security Trustee may serve a notice accelerating IntermediateCo's obligation to subscribe and pay for outstanding ProjectCo Loan Stock.

5. Intentionally Left Blank

6. Funders' Direct Agreement

The University, the Security Trustee and ProjectCo have entered into the Funders' Direct Agreement in connection with the Project pursuant to which the University, following a Default Event under the Project Agreement, agrees not to terminate the Project Agreement for a limited period. The Security Trustee is entitled during such limited period to propose, in accordance with instructions from the Controlling Creditor under the Security Trust and Intercreditor Deed, a representative to step in and undertake ProjectCo's obligations under the Project Agreement. Such representative will not be the Security Trustee.

The Bond Trustee will not, at any time whilst the Financial Guarantors are the Controlling Creditor, be able to control the exercise of step-in rights under the Funders' Direct Agreement. For the ranking of step-in expenses, see the section entitled "*The Security Arrangements — Security Trust and Intercreditor Deed*" above.

7. Guarantee

Pursuant to the terms of the Collateral Deed, each of the Issuer, ProjectCo, IntermediateCo and University SubCo, jointly and severally, irrevocably and unconditionally, guarantees to each Senior Creditor the performance of all the terms, conditions and covenants on the part of each of the Issuer, ProjectCo, IntermediateCo and University SubCo contained in the Senior Finance Documents, which includes the obligations of the Issuer in respect of the Bonds (the **Obligor Guarantees**).

8. Accounts Agreement

The Issuer has entered into an accounts agreement with, amongst others, ProjectCo, IntermediateCo, University SubCo, the Security Trustee, the Bond Trustee, the Financial Guarantors, the Principal Paying Agent and Barclays Bank PLC, or any other bank or banks agreed between the parties which is or are party to such accounts agreement, as account bank (the **Account Bank**) (the **Accounts Agreement**) on or before the Issue Date, which will regulate payments into and out of each of the accounts intended, *inter alia*, to ensure the paying up of the relevant debt service accounts and the prevention of certain prohibited payments.

Sums standing to the credit of certain of the accounts may be invested (subject to certain restrictions as to maturity) in certain authorised investments approved in accordance with the provisions of the Accounts Agreement.

Amounts will be drawn from the Escrow Account to meet expenditure related to the Project subject to the satisfaction of certain conditions, including there being no Event of Default, as more fully set out in the Collateral Deed.

The Account Bank has the Minimum Required Rating. Under the terms of the Accounts Agreement, if the Account Bank ceases to be rated at least the Minimum Required Rating, amounts standing to credit

of the accounts of the Obligors subject to the Account Agreement must be transferred to new equivalent accounts held with a Qualifying Bank.

9. Fixed Rate Deposit Account

ProjectCo will, on or before the Issue Date, enter into a fixed rate account bank agreement (the **Fixed Rate Deposit Account Agreement**) with Santander UK Plc (the **Fixed Rate Deposit Account Provider**). Funds standing to credit of the Escrow Account from time to time may be transferred to the Fixed Rate Deposit Account which pays interest at a fixed rate until 31 December 2019. The amount and timing of withdrawals from the Fixed Rate Deposit Account to ProjectCo will be regulated under the Collateral Deed and the withdrawal amounts are on a fixed profile.

The Fixed Rate Deposit Account Provider is a Qualifying Bank. Under the terms of the Fixed Rate Deposit Agreement, if the Fixed Rate Deposit Account Provider ceases to have at least the Minimum Required Rating, ProjectCo must transfer amounts standing to credit of the Fixed Rate Deposit Account to a new account held with a Qualifying Bank.

10. Rights and responsibilities of the Security Trustee, the Bond Trustee and the Principal Paying Agent

The Security Trust and Intercreditor Deed, *inter alia*, provide as follows:

(a) The Security Trustee shall not be responsible for monitoring the obligations of any person to any Obligor or any other obligation of any party under the Relevant Documents and shall assume that all such persons are duly performing the same.

(b) The Security Trustee shall be entitled to assume that any instructions or certificates received by it from the Controlling Creditor under or pursuant to the Security Trust and Intercreditor Deed or any of the other Finance Documents are given, where appropriate, in accordance with directions of persons or the provisions of agreements by which the other Secured Creditors are bound and the Security Trustee shall not be liable to any other person for any action taken or omitted under or in connection with the Security Trust and Intercreditor Deed in accordance with any such instructions or certificates unless caused by its fraud, negligence or wilful misconduct. The Security Trustee shall be entitled to act upon any notice, request or other communication of any party to the Security Trust and Intercreditor Deed for the purposes of the Security Trust and Intercreditor Deed or any of the Finance Documents if such notice, request or other communication purports to be signed or sent by or on behalf of an authorised signatory of such party.

(c) The Security Trustee is under no obligation to investigate nor is it responsible or liable for any loss arising as a result of any failure to investigate the title in relation to, or the legality, validity, value, sufficiency, enforceability or effectiveness of, the Security purported to be created by any Security Document or the legality, validity or enforceability of any contracts over which the Security is created and the Security Trustee shall accept without investigation, requisition or objection and without any responsibility or liability for doing so such right and title as any Obligor may have to the property, assets or rights over which Security is created pursuant to the Security Documents. The Security Trustee will not be responsible for or liable for loss which results should any deficiency arise between the amount realised in respect of the property, assets and rights over which Security is given by the Security Documents and sums due in respect of the Senior Liabilities or the Junior Liabilities because the Security Trustee is liable to tax in respect of the property, assets and rights over which such security is created.

(d) Save as expressly otherwise provided in the Security Trust and Intercreditor Deed, the Security Trustee shall act pursuant to the provisions of the Security Trust and

Intercreditor Deed or any other Finance Document only at the request or direction of the Controlling Creditor; save that the Security Trustee shall not be bound to act unless it is first indemnified and/or secured and/or prefunded to its satisfaction against all actions, proceedings, claims and demands to which it may render itself liable and all claims, losses, costs, demands, charges, damages, expenses, judgments (including legal fees and expenses) and liabilities which it may incur by so doing.

The Bond Trust Deed, *inter alia*, provides as follows:

(a) The Bond Trustee shall be under no obligation to monitor or supervise the functions of any other person or the operation of any account opened pursuant to the Relevant Documents or the performance or observance of any obligation under any Relevant Document or to consider the basis on which any approval or consent is granted by any party to the Relevant Documents, and shall be entitled, in the absence of notice in writing of a breach of obligation, to assume that each such person is properly performing its obligations. In particular, the Bond Trustee shall not be bound to take any steps to ascertain whether any Event or Default, Potential Event of Default, Trigger Event, Financial Guarantor Default or Financial Guarantor Downgrade Event has occurred and, until it has notice in writing to the contrary, the Bond Trustee shall be entitled to assume that no such event has occurred and that such person is properly performing its obligations. Where the Bond Trustee is not the Controlling Creditor, it may rely and act upon any notice from either Financial Guarantor that an Event of Default has occurred and any instructions from either Financial Guarantor to declare the Original Bonds immediately due and payable without any liability for any loss which might be suffered by the Issuer, the Bondholders, Receiptholders or Couponholders if the same is later shown to be incorrect.

(b) The Bond Trustee is under no obligation to investigate nor is it responsible or liable for any loss arising as a result of any failure to make or cause to be made on its behalf any of the searches, investigations or enquiries which would normally be made by a prudent chargee in relation to such security or the assets secured or to investigate the legality, validity, value, sufficiency or enforceability of the security created by the Security Documents or of the Financial Guarantees, or the validity or enforceability of any contracts over which such security is created or of the Financial Guarantees and the Bond Trustee shall accept without investigation, requisition or objection and without any responsibility or liability for doing so such right and title as the Issuer or any other person may have to the property, assets and rights over which security is created pursuant to the Security Documents. The Bond Trustee will not be responsible for or liable for loss which results should any deficiency arise between the amount realised in respect of the property, assets and rights over which security is given by the Security Documents and sums due in respect of the Original Bonds because the Bond Trustee is liable to tax in respect of the property, assets and rights over which such security is created.

(c) Where the Bond Trustee is not the Controlling Creditor (subject to certain provisions of the Bond Trust Deed and the Security Trust and Intercreditor Deed), the Bond Trustee (unless it shall expressly be required to take such action or exercise such right, power, authority or discretion by the Bond Trust Deed, the Security Trust and Intercreditor Deed, the Financial Guarantees or the other Relevant Documents to which it is a party) shall refrain from taking any action or exercising any right, power, authority or discretion vested in it under the Bond Trust Deed, the Security Trust and Intercreditor Deed, the Financial Guarantees and the other Relevant Documents to which it is a party unless and until it shall have been instructed or directed to take such action or to exercise such right, power, authority or direction by the Controlling Creditor.

(d) Where the Bond Trustee is also then the Controlling Creditor (subject to certain provisions of the Bond Trust Deed and the Security Trust and Intercreditor Deed, the Bond Trustee (unless it shall expressly be required to take such action or exercise such right, power, authority or discretion by the Bond Trust Deed, the Security and Intercreditor Deed, the Financial

Guarantees or the other Relevant Documents to which it is a party) may refrain from taking any such action or exercising any such right, power, authority or discretion unless and until it shall have been directed to take such action or to exercise such right, power, authority or discretion by the holders of at least 25 per cent. of the aggregate amount outstanding of the Bonds by written direction or by Extraordinary Resolution. The Bond Trustee shall at all times be entitled to consult with the Bondholders in such manner and for such purposes as it may in its absolute discretion determine.

The Bond Trustee shall have no liability in respect of any failure or delay in giving its instructions or directions.

(e) The Bond Trustee shall not be obliged to take any action unless it is prefunded and/or indemnified and/or secured to its satisfaction in respect of any loss, cost or expense.

The Paying Agency Agreement provides, *inter alia*, that except as expressly provided otherwise in the Paying Agency Agreement, no Paying Agent has any responsibility to monitor compliance by any other party of its obligations under the Paying Agency Agreement, the Bonds or any other Finance Document.

TERMS AND CONDITIONS OF THE BONDS

The following is the text, subject to completion and minor amendment and save for the text in italics, (other than headings) of the terms and conditions which will be endorsed on each Bond in definitive form. Bonds in definitive form will only be issued in certain limited circumstances. For a summary of the provisions of the Bonds in global form, see the section "Summary of Provisions relating to the Bonds while in Global Form".

The issue of the £185,670,000 0.10 per cent. Index-Linked Guaranteed Secured Bonds due 28 February 2062 (the **Bonds**, which expression includes any further bonds issued pursuant to Condition 20 (*Further Issues*) and forming a single series therewith) was authorised by a resolution of the Board of Directors of East Slope Residencies PLC (the **Issuer**) passed on 20 March 2017. The Bonds are subject to, and have the benefit of, a bond trust deed dated the Issue Date (as defined in Condition 4 (*Interest*) below) (as amended or supplemented from time to time, the **Bond Trust Deed**) between the Issuer, Assured Guaranty (Europe) Ltd. (**AGE**), Assured Guaranty Municipal Corp. (**AGM** and, together with AGE, the **Financial Guarantors**) and The Bank of New York Mellon, London Branch as Bond Trustee (the **Bond Trustee**, which expression includes all persons for the time being acting as bond trustee or bond trustees appointed under the Bond Trust Deed). These terms and conditions include summaries of and are subject to the detailed provisions of the Bond Trust Deed which includes the form of the Bonds, Receipts and the Coupons (as defined below) relating to them and the security trust and intercreditor deed dated on or before the Issue Date (as amended, supplemented or replaced from time to time, the **Security Trust and Intercreditor Deed**) between the Issuer, East Slope Residencies Student Accommodation Limited Liability Partnership (**ProjectCo**), East Slope Residencies Partner Limited (**IntermediateCo**), Sussex U H ESR IntermediateCo Limited (**University SubCo**) and, together with the Issuer, IntermediateCo, and ProjectCo, the **Obligors**), Sussex U H ESR HoldCo Limited (**Sussex HoldCo**), East Slope Residencies Holdings Limited (**BBI HoldCo)** Balfour Beatty Infrastructure Projects Investments Limited as stockholder (the **Stockholder**), BNY Mellon Corporate Trustee Services Limited as security trustee (the **Security Trustee**, which expression includes all persons for the time being acting as security trustee or security trustees appointed under the Security Trust and Intercreditor Deed), the Bond Trustee (for itself and on behalf of the Bondholders) and the Financial Guarantors.

The Bonds (excluding those held by or on behalf of any Obligor or any Affiliate of an Obligor or Shareholder of an Obligor) are unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest (in each case adjusted for indexation, but excluding any amounts due in respect of the Bonds (i) attributable to any increase in interest margin, penalty or other sum payable by the Issuer for whatever reason; (ii) attributable to any present or future taxes, duties, withholding, deduction, assessment or other charge (including interest and penalties in respect of such taxes, duties, withholding, deduction, assessment or other charge) of whatever nature imposed, levied, collected, withheld or assessed by any sovereign state (including the United Kingdom), or any political subdivision or governmental or taxing authority therein or thereof; (iii) attributable to any default interest; (iv) attributable to any amount relating to prepayment, early redemption, broken-funding indemnities, penalties, premium, "spens", any make-whole amount or similar types of payments payable in respect of the Bonds; or (v) in respect of which AGM or AGE has made an Accelerated Payment (as defined in the relevant Financial Guarantee) on or prior to a Scheduled Payment Date) in respect of the Bonds, pursuant to a financial guarantee to be dated the Issue Date issued by AGE (the **AGE Financial Guarantee**) and a financial guarantee dated the Issue Date issued by AGM (the **AGM Financial Guarantee**, and together with the AGE Financial Guarantee, the **Financial Guarantees**). The Bonds held by or on behalf of an Obligor or any Affiliate of an Obligor or Shareholder of an Obligor will not have the benefit of the Financial Guarantees.

Payments in respect of the Bonds will be made pursuant to a paying agency agreement dated the Issue Date (as amended or supplemented from time to time, the **Paying Agency Agreement**) between the Issuer, the Bond Trustee, The Bank of New York Mellon, acting through its London Branch, as principal paying agent (the **Principal Paying Agent**, which expression includes any successor principal paying agent appointed under the Paying Agency Agreement and together with any additional or successor paying agents appointed under the Paying Agency Agreement, the **Paying Agents** and which expression shall also include The Bank of New York Mellon, London Branch acting in its

capacity as calculation agent in connection with Conditions 7 (*Indexation*) and 8 (Change in circumstances affecting the Index) the **Calculation Agent**).

The holders of the Bonds (the **Bondholders**) and the holders of the related principal receipts (the **Receiptholders** and the **Receipts**, respectively) and interest coupons (the **Couponholders** and the **Coupons**, respectively) will be entitled to the benefit of, will be bound by and are deemed to have notice of, all the provisions of the Bond Trust Deed, the Financial Guarantees, the Collateral Deed (as defined in Condition 2(f) (*Collateral Deed*)), the Security Documents (as defined in Condition 2(e) (*Security*)) and the Paying Agency Agreement applicable to them and the master definitions schedule dated on or about the date hereof and for the purpose of identification signed by or on behalf of the parties to the transaction (the **Master Definitions Schedule**) and each Senior Finance Document to which the Bond Trustee or the Security Trustee are a party.

Copies of the Bond Trust Deed, the Financial Guarantees, the Collateral Deed, the Security Documents, the Paying Agency Agreement and the Master Definitions Schedule are available for inspection by Bondholders during normal business hours at the registered office for the time being of the Bond Trustee presently at One Canada Square, London, E14 5AL and at the specified offices of each of the Paying Agents.

Capitalised terms used in these conditions have the meanings given to them in the Master Definitions Schedule unless otherwise defined.

1. Form, Denomination and Title

(a) *Form and Denomination*

The Bonds are in bearer form, serially numbered, in denominations of £100,000 and integral multiples of £1,000 in excess thereof with Receipts for principal and Coupons for interest and talons (each a **Talon**) for further Receipts and Coupons attached at the time of issue. Bonds of one denomination will not be exchangeable for Bonds of any other denomination.

(b) *Title*

Title to the Bonds, the Receipts, the Coupons and the Talons will pass by delivery. The holder of any Bond, Receipt, Coupon or Talon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder.

2. Status, Financial Guarantees and Security

(a) *Status of the Bonds*

The Bonds constitute direct, secured obligations of the Issuer which rank *pari passu* and rateably without any preference or priority among themselves and will rank in priority to all unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(b) *Financial Guarantees*

The Bonds (excluding those held by or on behalf of any Obligor or any Affiliate of an Obligor or Shareholder of an Obligor) will have the benefit of the Financial Guarantees under which (i) AGE has unconditionally and irrevocably agreed to pay to the Bond Trustee 8 per cent. of all sums due and payable but unpaid by the Issuer in respect of scheduled principal and interest on the Bonds and (ii) AGM has unconditionally and irrevocably agreed to pay to the Bond Trustee (x) the remaining 92 per cent. of the aforementioned sums, and (y) any sums due and payable but unpaid by AGE, all as more particularly described in the Financial Guarantees.

A **Financial Guarantor Downgrade Event** shall occur if, at any time while the Bonds remain outstanding, both: (i) AGM's insurer financial strength rating by Moody's ceases to be at least "Baa3" and (ii) AGM's insurer financial strength rating by Standard & Poor's Global Ratings (**S&PGR**) ceases to be at least "BBB-", provided that during such time, if any, as AGM's insurer financial strength is not rated by Moody's and not rated by S&PGR, then a "Financial Guarantor Downgrade Event" shall only occur if, at any time while the Bonds remain outstanding, AGM's insurer financial strength rating is not rated at least "BBB-" or the equivalent by at least one other credit rating agency which is registered with the United States Securities and Exchange Commission as a nationally recognized statistical rating organization (an **Alternative Rating Agency**).

If a Financial Guarantor Downgrade Event occurs, the Issuer shall notify the Bondholders and the Bond Trustee that a Financial Guarantor Downgrade Event has occurred and of their rights pursuant to and in accordance with the Bond Trust Deed and the Conditions. If directed by Bondholders acting by way of an Extraordinary Resolution, the Bond Trustee, subject to being prefunded and/or indemnified and/or secured to its satisfaction, shall issue a notice (the **Financial Guarantor Removal Notice**) to AGM and AGE specifying that, unless the Financial Guarantor Downgrade Event has been remedied or waived by the date that is three calendar months after the date of delivery of the Financial Guarantor Removal Notice, each of the Financial Guarantees shall be unconditionally and irrevocably terminated in whole and not in part effective on the date (such date the **Financial Guarantor Removal Effective Date**) on which the Financial Guarantors have been (i) reimbursed in full for any payments made under the Financial Guarantees and (ii) paid any and all then-outstanding financial guarantee fees and other amounts owed under the Reimbursement and Indemnity Deed, the Financial Guarantee Fee Letters and the other Senior Finance Documents. The Financial Guarantors may remedy any Financial Guarantor Downgrade Event by transferring the AGM Financial Guarantee to an affiliate of AGM that is rated at least "Baa3" by Moody's or "BBB-" by S&PGR (or, if prior to such remedy AGM was relying on the rating of an Alternative Rating Agency as described above, by transferring the AGM Financial Guarantee to an affiliate of AGM that is rated at least at least "Baa3" by Moody's or "BBB-" by S&PGR or "BBB-" or the equivalent by such Alternative Rating Agency) at any time up to the Financial Guarantor Removal Effective Date.

If the Financial Guarantor Removal Effective Date has occurred, financial guarantee fees shall cease to be paid to the Financial Guarantors and the Bondholders may sanction by Extraordinary Resolution to use the amounts no longer required to be paid as such financial guarantee fees:

(i) to pay a replacement financial guarantor (if available) to act as Controlling Creditor;

(ii) to pay a monitoring adviser (if available) to act as Controlling Creditor;

(iii) to increase the amount of interest payable on the Bonds by the amount of such financial guarantee fees; or

(iv) for such other purpose as the Bondholders may determine.

The Issuer will immediately notify the Bondholders (i) upon any remedy or waiver of a Financial Guarantor Downgrade Event (including by way of transfer of the AGM Financial Guarantee) or (ii) termination of the Financial Guarantees pursuant to this Condition 2(b), in accordance with Condition 17 (*Notices*) of the occurrence of such event.

If both (i) the rating of the Bonds and AGM's insurer financial strength rating by S&PGR is less than "BBB-" or is withdrawn and (ii) each of AGM's insurer financial strength rating and the rating of the Bonds from an Alternative Rating Agency is less than "BBB-" (or such equivalent rating) or is withdrawn, and AGM has an insurer financial strength rating of at least "Baa3" by Moody's on the date that such downgrades or withdrawals occur, then the Financial Guarantors shall request the Issuer obtains and the Issuer shall use reasonable endeavours to

obtain within 2 months of such date (A) a rating for the Bonds from Moody's, at the cost of AGE and (B) that the rating of the Bonds by S&PGR is withdrawn.

(c) *Status of Financial Guarantees*

The AGE Financial Guarantee provided by AGE constitutes a direct, unsecured obligation of AGE which will rank at least *pari passu* with all other unsecured obligations of AGE, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

The AGM Financial Guarantee provided by AGM constitutes a direct, unsecured obligation of AGM which will rank at least *pari passu* with all other unsecured obligations of AGM, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(d) *Subrogation of the Financial Guarantors*

The Bond Trust Deed and the Financial Guarantees each provide that the Financial Guarantors shall be subrogated to the rights of the Bond Trustee and each Bondholder, Receiptholder and Couponholder in respect of amounts due under the Bonds which have been paid under the AGE Financial Guarantee and the AGM Financial Guarantee.

(e) *Security*

The obligations of the Issuer under the Bonds have the benefit of the security constituted by:

(i) an English law debenture dated on or before the Issue Date granted by the Issuer in favour of the Security Trustee (the **Issuer Debenture**);

(ii) an English law debenture dated on or before the Issue Date granted by ProjectCo in favour of the Security Trustee (the **ProjectCo Debenture**);

(iii) an English law debenture dated on or before the Issue Date granted by IntermediateCo in favour of the Security Trustee (the **IntermediateCo Debenture**);

(iv) an English law share charge and assignment dated on or before the Issue Date granted by BBI HoldCo in favour of the Security Trustee (the **BBI HoldCo Share Charge and Assignment**);

(v) an English law share charge and assignment dated on or before the Issue Date granted by Sussex HoldCo in favour of the Security Trustee (the **Sussex HoldCo Share Charge and Assignment**);

(vi) an English law debenture dated on or before the Issue Date granted by University SubCo in favour of the Security Trustee (the **University SubCo Debenture**),

(together, with the Security Trust and Intercreditor Deed, any other document from time to time executed in favour of the Security Trustee for the purpose of securing all or any of the Secured Obligations and any deed of accession entered into in respect of any of the above, the **Security Documents**).

(f) *Collateral Deed*

The Bond Trustee on behalf of the Bondholders has the benefit of certain representations and covenants set out in a collateral deed (the **Collateral Deed**), dated on or about the Issue Date between, *inter alios*, the Obligors, the Financial Guarantors and the Bond Trustee. The Collateral Deed also contains a guarantee of the Issuer's obligations under the Bonds from the other Obligors.

(g) *Security Trust and Intercreditor Deed*

The Bonds are subject to the Security Trust and Intercreditor Deed pursuant to which the exercise by the Bond Trustee of rights under the Bond Trust Deed and under the Bonds may in certain circumstances be directed by, and is in most circumstances subject to the prior consent of, other parties to the Security Trust and Intercreditor Deed.

The Controlling Creditor has the exclusive right, power and authority to direct, or to refrain from directing, the Senior Creditors in the exercise of the Financing Rights subject to Reserved Matters or Entrenched Rights (as defined in the Security Trust and Intercreditor Deed), in each case without regard to the interests of any other person and the Controlling Creditor will not owe fiduciary duties to any person.

When exercising the Financing Rights in accordance with the instructions of the Controlling Creditor neither the Bond Trustee nor the Security Trustee is required to have regard to the interests of the Bondholders in relation to the exercise of such rights and has no liability to the Bondholders as a consequence of so acting.

Creditors means the Issuer, in its capacity as lender under the Issuer On-Loan Agreement, each of the Senior Creditors and each of the Junior Creditors and (**Creditor)** means any of them.

Controlling Creditor means:

(a) until the Senior Creditors' Release Date, the Financial Guarantors unless and until such time:

(i) as both of the Financial Guarantees have been terminated in accordance with Condition 2(b) (*Financial Guarantees*); or

(ii) as the Security Trustee has received notice from the Bond Trustee that a Financial Guarantor Default has occurred,

in which case it shall be the Bond Trustee, unless:

(iii) a replacement financial guarantor or a monitoring advisor has been appointed by the Bondholders under Condition 2(b) (*Financial Guarantees*), in which case it shall be such replacement financial guarantor or monitoring advisor; or

(iv) such Financial Guarantor Default has been cured or waived, in which case it shall be the Financial Guarantors; and

(b) without prejudice to Clauses 11.15 and 24 of the Security Trust and Intercreditor Deed, after the Senior Creditors' Release Date, the Stockholder.

Financial Guarantor Default means any of the following events:

(a) any Guaranteed Amount (as defined in the Security Trust and Intercreditor Deed) which is due for payment by AGM in accordance with the terms of the AGM Financial Guarantee is not paid by AGM on the date stipulated in the AGM Financial Guarantee;

(b) AGM disclaims, disaffirms, repudiates and/or challenges the validity of any of its obligations under the AGM Financial Guarantee or seeks to do so (in each case in writing);

(c) AGM (i) files a petition or commences a case or proceeding under any provision or chapter of the United States Bankruptcy Code or any other similar federal or state law relating to insolvency, bankruptcy, liquidation or reorganisation, or (ii) makes a general assignment for the benefit of its creditors, or (iii) has a final and nonappealable order for relief entered against it under the United States Bankruptcy Code or any other

similar federal or state law relating to insolvency, bankruptcy, liquidation or reorganisation; or

(d) a court of competent jurisdiction, the New York State Department of Financial Services or other competent regulatory authority enters a final and nonappealable order, judgment or decree (i) appointing a custodian, trustee, agent or receiver for AGM or for all or any material portion of its property or (ii) authorising the taking of possession by a custodian, trustee, agent or receiver of AGM or of all or any material portion of its property.

Financing Rights means, in respect of the Security Trustee or any other Senior Creditor, all rights which it has the benefit of pursuant to any Finance Document or any Project Document (other than any Reserved Matter (as defined in the Security Trust and Intercreditor Deed) or any right to amend the provisions of the Security Trust and Intercreditor Deed) including:

(a) the right, or the right to direct the Security Trustee or another Senior Creditor, to consent to any amendment, waiver, modification and/or extension of any provision of any Finance Document;

(b) the right, or the right to direct the Security Trustee or another Senior Creditor, to exercise any right, power and discretion of or under any of the provisions of the Finance Documents (including, without limitation, the right to refuse to advance sums upon non-satisfaction of, or to waive, any conditions precedent contained in any Finance Document);

(c) the right, or the right to direct the Security Trustee or another Senior Creditor, to bring any litigation, arbitration, administrative or other proceedings arising from or in connection with the Finance Documents; and

(d) any right expressed to be in favour of the Controlling Creditor under the Collateral Deed.

Junior Creditors means:

(a) BBIPIL (in its capacity as holder of the BBI HoldCo Shares and BBI HoldCo Loan Stock);

(b) BBI HoldCo (in its capacity as holder of the IntermediateCo Shares IntermediateCo Loan Stock) ; and

(c) the Issuer (in its capacity as lender of the Equity On-Loan under the Issuer On-Loan Agreement);

(d) IntermediateCo (in its capacity as holder of the ProjectCo Member Shares and ProjectCo Loan Stock);

(e) University SubCo (in its capacity as holder of the ProjectCo Member Shares and ProjectCo Loan Stock);

(f) Sussex HoldCo (in its capacity as holder of University SubCo Shares); and

(g) ProjectCo (in its capacity as holder of Issuer Shares),

and any other junior creditor who has become a party to the Security Trust and Intercreditor Deed under the terms of Clause 17 (*Assignments and Transfers*) of the Security Trust and Intercreditor Deed.

Senior Creditors means each of the Financial Guarantors, the Bond Trustee, the Bondholders and the Security Trustee and Senior Creditor means each such person.

Senior Creditors' Release Date means the later of (a) the date upon which all the Senior Liabilities have been fully and irrevocably paid or discharged to the satisfaction of the Controlling Creditor and (b) the date on which the Reimbursement and Indemnity Deed ceases to be in effect in accordance with Clause 4.1 (*Term of Deed*) thereof, in each case as evidenced by a confirmation given pursuant to Clause 4.9 (*Senior Creditors' Release Date*) of the Security Trust and Intercreditor Deed.

3. Covenants of the Issuer

The Issuer shall perform all its obligations and exercise all its rights under and in accordance with the Finance Documents and the documents relating to the Project to which it is party. In particular, the Issuer has undertaken to:

(a) provide a report to Bondholders through an electronic website or through the Principal Paying Agent via the bond clearing system until the last Phase Completion Date, semi-annually on or before the date which is on or before 20 business days prior to any Scheduled Payment Date and following the last Phase Completion Date (x) if and for so long as the Bond Trustee is not the Controlling Creditor, annually on or before the date which is 20 business days prior to the Scheduled Payment Date occurring on 28 February in each year and (y) if and for so long as the Bond Trustee is the Controlling Creditor semi-annually on or before the date which is 20 business days prior to each Scheduled Payment Date, giving details of the progress of the Project in the form scheduled to the Collateral Deed;

(b) use all reasonable endeavours to maintain a rating of the Project and the Bonds by S&PGR;

(c) procure and thereafter maintain the listing of the Bonds on the Irish Stock Exchange or, if it is unable to do so having used all reasonable endeavours or if it is unduly burdensome to maintain such listing, it shall obtain and maintain the listing of the Bonds on such other stock exchange, which shall be in any case a recognised stock exchange for the purposes of Section 1005 of the Income Tax Act 2007, as it may decide, with the prior written approval of the Controlling Creditor and the Bond Trustee; and

(d) procure that there will at all times be furnished to any stock exchange on which the Bonds are for the time being listed such information as such stock exchange may require to be furnished in accordance with its normal requirements or in accordance with any arrangements for the time being made with any such stock exchange.

4. Interest

The Bonds bear interest on their Outstanding Principal Amount (as defined in Condition 7(a) (*Definitions*)) (**Scheduled Interest**) from 31 March 2017 (the **Issue Date**) at the rate of 0.10 per cent. per annum (the **Rate of Interest**). Scheduled Interest will be payable semi-annually in arrear on each scheduled payment date listed in Condition 9(a) (*Scheduled Payments*) (each, a **Scheduled Payment Date**), subject as provided in Condition 9 (*Payments and Exchange of Talons*). Each period beginning on (and including) the Issue Date or any Scheduled Payment Date and ending on (but excluding) the next Scheduled Payment Date is herein called an **Interest Period**. The first Scheduled Payment Date will be on 31 August 2017 in respect of the Interest Period from, and including the Issue Date to, but excluding, 31 August 2017. The amount of interest payable in respect of each Bond for any Interest Period shall be calculated by the Principal Paying Agent by multiplying the Rate of Interest by the Outstanding Principal Amount of such Bond, dividing the product by two and adjusting for indexation in accordance with Condition 7 (*Indexation*) except that the amount of interest payable in respect of each Bond for the Interest Period ending on 31 August 2017 will be calculated by multiplying the Rate of Interest by the Outstanding Principal Amount of such Bond, then multiplying by the number of days between the Issue Date and 31 August 2017 divided by 365, and adjusting for indexation in accordance with Condition 7 (*Indexation*).

If interest is required to be calculated in respect of a Bond for a period which is not an Interest Period, it shall be calculated by applying the Rate of Interest to the Outstanding Principal Amount of such

Bond, multiplying the product by the relevant Day Count Fraction and adjusting for indexation in accordance with Condition 7 (*Indexation*), where:

Day Count Fraction means:

(a) if the Calculation Period is equal to or shorter than the Regular Period (as defined below) during which it falls, the number of days in the Calculation Period divided by the product of (1) the number of days in such Regular Period and (2) two; and

(b) if the Calculation Period is longer than one Regular Period, the sum of:

(i) the number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the number of days in such Regular Period and (2) two; and

(ii) the number of days in such Calculation Period falling in the next Regular Period divided by the product of (1) the number of days in such Regular Period and (2) two;

Calculation Period means the relevant period for which interest is to be calculated from (and including) the first day in such period to (but excluding) the last day in such period; and

Regular Period means each period from (but excluding) 28 February or 31 August in any year to (and including) the next 28 February or 31 August.

5. Default Interest

(a) *Default Interest*

The Outstanding Principal Amount of each Bond will cease to bear interest (adjusted for indexation in accordance with Condition 7 (*Indexation*)) from the Scheduled Payment Date for the payment of such principal amount (or part thereof) unless, upon due presentation, payment is improperly withheld or refused, in which case the unpaid amount will bear default interest (**Default Interest**) at the Rate of Interest (adjusted for indexation) (after as well as before judgment) until whichever is the earlier of:

(i) the day on which all principal sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder; and

(ii) the day which is seven days after the Principal Paying Agent or the Bond Trustee has notified the Bondholders that it has received all principal sums due in respect of the Bonds up to such seventh day (except to the extent that there is any subsequent default in payment in which case interest shall continue to accrue on any principal amount until such principal amounts are received by or on behalf of the relevant Bondholders).

(b) *Default Interest Payment*

Accrued Default Interest shall be payable prior to the final Scheduled Payment Date on each date (each a **Default Interest Payment Date**) on which any amount of Scheduled Principal (as defined in Condition 6(a) (*Scheduled Redemption*)) remains unpaid and which is an integral multiple of six months after the due date for payment of such Scheduled Principal. Any amounts of Default Interest arising after the final Scheduled Payment Date or upon any earlier date upon which Scheduled Principal becomes due in accordance with the Conditions, shall be immediately due and payable. Each period beginning on (and including) the date on which the relevant payment is improperly withheld or refused or any Default Interest Payment Date and ending on (but excluding) the next Default Interest Payment Date is herein called a **Default Interest Period**.

Reference herein to interest shall include, for the avoidance of doubt, Default Interest.

(c) *Default Interest Calculation*

The amount of Default Interest payable in respect of each Bond for any Default Interest Period shall be calculated by the Principal Paying Agent on the basis of the Day Count Fraction.

Default Interest does not accrue on Scheduled Interest or Default Interest. The payment of Default Interest is not guaranteed by the Financial Guarantors under the Financial Guarantees.

6. Redemption and Purchase

Early redemption of the Bonds for any reason does not accelerate AGE and/or AGM's payment obligation under the Financial Guarantees. AGE and/or AGM shall only be liable to make payments in respect of the Bonds (pursuant to the Financial Guarantees) in the amounts and on the dates on which such payments would have been required to be made if such amounts had not become immediately due and payable.

(a) *Scheduled Redemption*

Unless previously redeemed, or purchased and cancelled the Issuer will redeem the Bonds in instalments by the payment on each Scheduled Payment Date of the scheduled principal (which, in respect of each £1,000 of Bonds will be the relevant amount set out in Condition 9(a) (*Scheduled Payments*) under "Scheduled Principal" (the **Scheduled Principal**)). Payments of Scheduled Principal will be adjusted for indexation in accordance with Condition 7 (*Indexation*). The first instalment will be payable on the Scheduled Payment Date falling in February 2021. The final Scheduled Payment Date is the Scheduled Payment Date falling in 2062. For the avoidance of doubt, the Outstanding Principal Amount of each Bond will be reduced for each payment of principal on the Scheduled Payment Dates as provided in Condition 9 (*Payments and Exchange of Talons*) and such payment will not result in a reduction of the number of Bonds in issue.

(b) *Redemption at the option of the Issuer*

The Issuer may at any time, with the approval of the Financial Guarantors if they are the Controlling Creditor, having given not less than 30 nor more than 60 days' notice of redemption to the Bondholders in accordance with Condition 17 (*Notices*) (which notice shall be irrevocable and shall oblige the Issuer to redeem the Bonds), redeem each of the Bonds in whole, but not in part, at the Spens Redemption Amount on the date specified for redemption in the notice given by the Issuer.

(c) *Redemption for Index Reasons*

If either (a) the Index Figure (as defined in Condition 7 (*Indexation*)) for three consecutive months falls to be determined on the basis of an Index Figure previously published as provided in Condition 8(b)(ii) and the Bond Trustee has been notified by the Calculation Agent that publication of the Index (as defined in Condition 7 (*Indexation*)) has ceased or (b) notice is published by Her Majesty's Treasury, or on its behalf, following a change in relation to the Index, offering a right of redemption to holders of all sterling obligations of the United Kingdom Government listed on the Official List and traded on the Irish Stock Exchange, linked to the Index (**Index-Linked Gilts**), and (in either case) no amendment or substitution of the Index shall have been notified by the Indexation Adviser, to the Issuer and become effective pursuant to Condition 8(c)(iii) and such circumstances are continuing, the Issuer shall, having given not more than 60 nor less than 30 days' notice to Bondholders in accordance with Condition 17 (*Notices*), subject to the consent of the Financial Guarantors so long as they are the Controlling Creditor, redeem all, but not some only, of the Bonds at the Non-Spens Redemption Amount on the date specified for redemption in the notice given by the Issuer.

(d) *Mandatory Redemption – Above Par Redemption*

If the Project Agreement is terminated for any reason where either (i) following the service of an Election Notice, a University Instalment Default has occurred or (ii) the Project Agreement has terminated and the University has not chosen, or is not entitled to exercise, the Instalment Option, the amount paid by the University (the **Compensation on Termination**) into an account designated by ProjectCo which is secured in favour of the Security Trustee under the ProjectCo Debenture is greater than or equal to the Non-Spens Redemption Amount for the Bonds together with any amounts ranking in priority thereto (in accordance with the priority of payments set out in Clause 13 of the Security Trust and Intercreditor Deed) then:

(i) if the Compensation on Termination is sufficient to pay the Spens Redemption Amount and the Bond Trustee has received a Sufficiency Certificate (as defined in the Security Trust and Intercreditor Deed), then each Bond will, subject to the priority of payments set out in Clause 13 of the Security Trust and Intercreditor Deed, be redeemed at the Spens Redemption Amount on the date falling ten days after deposit of the Compensation on Termination by the University into such account;

(ii) if the Compensation on Termination is not sufficient to pay the Spens Redemption Amount but is greater than or equal to the Non-Spens Redemption Amount together with any amounts ranking in priority thereto (in accordance with the priority of payments set out in Clause 13 of the Security Trust and Intercreditor Deed), then each Bond will, subject to the priority of payments set out in Clause 13 of the Security Trust and Intercreditor Deed, be redeemed at its Non-Spens Redemption Amount plus its *pro rata* share of the difference between the Compensation on Termination and the Non-Spens Redemption Amount (the **Above Par Redemption Amount**) on the date that is ten days after (x) if no AP Non Redemption Instruction is in effect, the date of deposit of the Compensation on Termination by the University into such account or (y) if an AP Non Redemption Instruction is in effect, the date (if any) on which such AP Non Redemption Instruction is no longer in effect.

(e) *Mandatory Redemption - Below Par Redemption*

If the Project Agreement is terminated for any reason where either (i) following the service of an Election Notice, a University Instalment Default has occurred or (ii) the University has not chosen, or is not entitled to exercise, the Instalment Option, the Compensation on Termination is less than the Non-Spens Redemption Amount together with any amounts ranking in priority thereto (in accordance with the priority of payments set out in Clause 13 of the Security Trust and Intercreditor Deed) then each Bond will, subject to the priority of payments set out in Clause 13 of the Security Trust and Intercreditor Deed, be redeemed at its Below Par Redemption Amount on the date (the **BP Redemption Date**) that is ten days after (x) if no BP Non Redemption Instruction is in effect, the date of deposit of the Compensation on Termination by the University into such account or (y) if a BP Non Redemption Instruction is in effect, the date (if any) on which such BP Non Redemption Instruction is no longer in effect.

(f) *Definitions*

For the purposes of this Condition 6:

AP Non Redemption Instruction means that the holders of at least 25 per cent. of the Outstanding Principal Amount in respect of the Bonds have, by written notice to the Bond Trustee or the holders have by Extraordinary Resolution, instructed the Bond Trustee that each Bond shall not be redeemed at its Above Par Redemption Amount, subject to the Bond Trustee being indemnified and/or secured and/or prefunded to its satisfaction, provided that no such instruction may be given if the Bonds have already been accelerated and provided further that any such instruction shall be deemed to be immediately revoked if the Bonds are subsequently accelerated.

BP Non Redemption Instruction means that the holders of at least 25 per cent. of the Outstanding Principal Amount in respect of the Bonds have, by written notice to the Bond Trustee or the holders have by Extraordinary Resolution, instructed the Bond Trustee that each Bond shall not be redeemed at its Below Par Redemption Amount, subject to the Bond Trustee being indemnified and/or secured and/or prefunded to its satisfaction, provided that no such instruction may be given if the Bonds have already been accelerated and provided further that any such instruction shall be deemed to be immediately revoked if the Bonds are subsequently accelerated.

Below Par Redemption Amount means, in respect of each Bond, its *pro rata* share of the Compensation on Termination which *pro rata* share will be applied on the BP Redemption Date to reduce the Outstanding Principal Amount of each Bond pro rata and the payments of Scheduled Principal due on the Bonds set forth in column B of Condition 9(a) (*Scheduled Payments*) shall be adjusted to reflect such reduction by applying such reduction to the payments of Scheduled Principal due on the Bonds sequentially, commencing with the Scheduled Payment Date occurring immediately after the BP Redemption Date, until the Below Par Redemption Amount is applied in full.

Election Notice means a notice served by the University as referred to in Part 5 of Schedule 14 to the Project Agreement whereby the University elects to accelerate the payment of any termination sum due under the Project Agreement in lieu of continuing to pay under the Instalment Option.

Force Majeure means the occurrence of a force majeure event leading to termination of the Project Agreement pursuant to clause 22.2 (*Force Majeure*) of the Project Agreement.

Gross Real Yield means, a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom Debt Management Office publication "Formulae for Calculating Gilt Prices from Yields" page 12, Section One: Price/Yield Formulae (Index-linked Gilts (3-Month Indexation Lag)) published on 8 June 1998 with effect from 1 November 1998 and updated on 15 January 2002 and 16 March 2005, pages 7 to 11 or any replacement therefor.

Gross Real Yield Amount means the amount as determined on the Reference Date equal to the aggregate of:

(a) the amount (as reported to the Bond Trustee and the Issuer by a leading broker and/or primary dealer operating in the gilt-edged market selected by the Indexation Adviser) calculated by discounting the remaining principal and interest payments (disregarding future indexation) if the Bonds were to remain outstanding to their original maturity at a rate equal to the Gross Real Yield (determined by the middle-market price) at 3.00 p.m. (London time) on the Reference Date of the Reference Gilt; and

(b) the market value to a market counterparty (based on the mean of three third party quotes) of a notional swap under which the market counterparty receives the cashflows of the Bonds along the market forward and the market counterparty pays the cashflows of a notional bond along the market forward where (i) the notional bond cashflows are indexed in line with the Index; and (ii) the notional bond cashflows are not subject to any cap or floor (as described in the definition of Limited Index Ratio) and (iii) the terms of the notional bond are in all other respects the same as those of the original Bonds.

Indexed Par Amount means the Outstanding Principal Amount of the relevant Bond multiplied by the Limited Index Ratio applicable to the month in which the date on which the notice is given that the Bonds are immediately due and payable falls (a Limited Index Ratio of 1 being expressed as 100 per cent.).

Instalment Option means the provision of the Project Agreement whereby the University may elect to pay the termination sum payable upon termination of the Project Agreement in instalments.

Non-Spens Redemption Amount means, in respect of each Bond, the highest of:

(a) the Price-Adjusted Amount; and

(b) the Indexed Par Amount,

together with (a) any payment of principal and interest due but unpaid on or prior to the Reference Date and (b) any interest (other than under (a)) accrued up to and including the date of redemption, all adjusted for indexation in accordance with Condition 7 (*Indexation*).

Price-Adjusted Amount means, in relation to a Bond, the Outstanding Principal Amount of such Bond (before indexation) on the date of redemption multiplied by the issue price (being 105.874 per cent.).

ProjectCo Default means the occurrence of a default by ProjectCo in respect of the Project Agreement leading to termination of the Project Agreement pursuant to clause 30.1(*Termination for RDP Default*) or clause 32.2 (*Corrupt Gifts and Fraud*) of the Project Agreement.

Reference Date means for the purposes of determining the Spens Redemption Amount or Non-Spens Redemption Amount:

(a) in the case of Condition 6(b) (*Redemption at the option of the Issuer*), means the date which is two business days prior to the despatch of the notice of redemption under Condition 6(b);

(b) in the case of Condition 6(c) (*Redemption for Index Reasons*), means the date which is two business days prior to the despatch of the notice of redemption under Condition 6(c);

(c) in the case of Condition 6(d) (*Mandatory Redemption – Above Par Redemption*), the date which is two business days prior to the Invoice Date (as defined in the Master Definitions Schedule);

(d) in the case of Condition 6(e) (*Mandatory Redemption – Below Par Redemption*), the date which is two business days prior to the Invoice Date (as defined in the Project Agreement); and

(e) in the case of Condition 11 (*Events of Default*), the date which is two business days prior to the despatch of the written notice to the Issuer that the Bonds are immediately due and payable.

Reference Gilt means the index-linked sterling obligation of the United Kingdom Government listed on the Official List of the Financial Conduct Authority (in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended) and traded on the London Stock Exchange whose duration most closely matches that of the Bonds on the Reference Date as the Indexation Adviser shall determine to be appropriate.

Spens Redemption Amount means, in respect of each Bond, the highest of:

(a) the Price-Adjusted Amount;

(b) the Indexed Par Amount; and

(c) the Gross Real Yield Amount,

together with (a) any payment of principal and interest due but unpaid on or prior to the Reference Date and (b) any interest (other than under (a)) accrued up to and including the date of redemption, all adjusted for indexation in accordance with Condition 7 (*Indexation*).

Uninsurable Risks means a risk usually covered by contractors' 'all risks' insurance, property damage insurance, third party liability insurance, delay in start-up and business interruption insurance (but not loss of profits) or statutory insurances in each case required under the Project Agreement becomes uninsurable leading to termination of the Project Agreement pursuant to clause 25.13.2 of the Project Agreement.

University Event of Default means an event of default in relation to the University leading to termination of the Project Agreement pursuant to clause 31.1 (*Early Termination by the RDP*) of the Project Agreement.

University Instalment Default means a default by the University on its instalment payments leading to deemed termination of Instalment Option.

University Voluntary Termination means the University choosing to terminate the Project Agreement in accordance with clause 30.2 (*University Voluntary Termination*) of the Project Agreement.

(g) *No other Redemption*

Without prejudice to Condition 11 (*Events of Default*), the Issuer, any Affiliate of the Issuer or any Shareholder shall not be entitled to redeem, purchase or cancel the Bonds (other than those held by or on behalf of any Obligor or any Affiliate of an Obligor or Shareholder of an Obligor) in whole or in part otherwise than as provided in Conditions 6(a) (*Scheduled Redemption*), 6(b) (*Redemption at the option of the Issuer*), 6(c) (*Redemption for Index Reasons*), 6(d) (*Mandatory Redemption – Above Par Redemption*), 6(e) (*Mandatory Redemption – Below Par Redemption*) and 6(h) (*Cancellation*).

(h) *Cancellation*

All Bonds so redeemed or purchased and surrendered for cancellation by the Issuer and any unmatured Receipts, Coupons or unexchanged Talons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

7. Indexation

(a) *Definitions*

For the purposes of this Condition 7:

Base Index Figure means the Index Figure relating to 31 March 2017, being 265.552.

Index or **Index Figure** means, subject as provided in Condition 8, the UK All Items Retail Prices Index as published by the United Kingdom Office for National Statistics (January 1987 = 100) contained in the Monthly Digest of Statistics (or contained in any official publication substituted therefor) or any comparable index which may replace the Index for the purpose of calculating the amount payable on repayment of the Reference Gilt.

Any reference to the Index Figure as:

(A) applicable to a particular month shall, subject as provided in Condition 8 (*Changes in circumstances affecting the Index*), be construed as a reference to the Index Figure published in the Monthly Digest of Statistics in the second month prior to that particular month and relating to the month before that of publication;

(B) applicable to the first calendar day of any month, subject as provided in Condition 8 (*Changes in circumstances affecting the Index*), be construed as a reference to the Index Figure published in the Monthly Digest of Statistics in the second month prior to that particular month and relating to the month before that of publication; or

(C) applicable to any other day in any month (such date a **Calculation Date)** shall, subject as provided in Condition 8 (*Changes in circumstances affecting the Index),* be construed by linear interpolation between (x) the Index Figure applicable to the first calendar day of the month in which the day falls, calculated as specified in sub-paragraph (B) above and (y) the Index Figure applicable to the first calendar of the month following, calculated as specified in sub-paragraph (B) above and rounded to the nearest fifth decimal place.

For the purposes of paragraph (C) above only, any reference to the "Index Figure" for any Scheduled Payment Date and Redemption Date shall, subject as provided in Condition 8 (*Changes in circumstances affecting the Index)* be calculated in accordance with the following formula:

$$Index\ Figure = RPIm - 3 \ + \ \frac{(Day\ of\ Calculation\ Date - 1)}{(\text{Days in month of Calculation Date})} * (RPIm - 2 - RPIm - 3)$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

RPIm-3 means the Index Figure applicable to the first calendar day of the month in which the day falls, calculated as specified in sub-paragraph (B) above; and

RPIm-2 means the Index Figure applicable to the first calendar day of the following month in which the day falls, calculated as specified in sub-paragraph (B) above.

Index Ratio applicable to any month means the Index Figure applicable to such month divided by the Base Index Figure.

Indexation Adviser means a leading broker, primary dealer or other expert operating in the index-linked gilt market selected by the Issuer and the Financial Guarantors (so long as the Financial Guarantors are the Controlling Creditor).

Limited Index Ratio means:

(A) as at the Issue Date, 1.00;

(B) in respect of any month prior to or including February 2018, the Index Ratio for that month, provided that, if that Index Ratio is lower than 1.00, the Limited Index Ratio for that month shall be 1.00 and if that Index Ratio is higher than 1.05, the Limited Index Ratio for that month shall be 1.05;

(C) in respect of any Limited Indexation Month, the product of the Limited Indexation Factor for that month and the Limited Index Ratio as previously calculated in respect of the month 12 months prior thereto;

(D) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

Limited Indexation Factor means in respect of a Limited Indexation Month, the ratio calculated as the Index applicable to that month divided by the Index applicable to the month 12 months prior thereto, provided that, if such ratio is less than the Minimum Indexation Factor it shall be deemed to be equal to such Minimum Indexation Factor and if such ratio is more than the Maximum Indexation Factor it shall be deemed to be equal to the Maximum Indexation Factor.

Limited Indexation Month means each February and August for which a Limited Indexation Factor is to be calculated, commencing on (and including) August 2018.

Maximum Indexation Factor means 1.05.

Minimum Indexation Factor means 1.00.

Outstanding Principal Amount means the aggregate principal amount of the Bonds (or, as the context may require, the relevant number thereof or an individual Bond) outstanding for the time being before indexation as described in this Condition 7 as reduced by payments of Scheduled Principal or other amounts in respect of principal (each unadjusted for indexation) in accordance with Condition 6 (*Redemption and Purchase*).

Redemption Date means:

(a) each Scheduled Payment Date; and

(b) each date on which Bonds will be redeemed in accordance with Conditions 6(b) (*Redemption at the option of the Issuer*), 6(c) (*Redemption for Index Reasons*), 6(d) (*Mandatory Redemption – Above Par Redemption*), 6(e) (*Mandatory Redemption – Below Par Redemption*), 6(h) (*Cancellation*) or Condition 11 (*Events of Default*).

(b) *Application of the Index Ratio*

(A) Each payment of interest and principal in respect of the Bonds shall, except where the context otherwise requires, be the amount provided in or determined in accordance with the foregoing Conditions, multiplied by the Limited Index Ratio applicable to the month in which such payment falls to be made and rounded in accordance with Condition 19 (*Rounding*).

(B) For the purposes of determining the amounts outstanding in respect of the Bonds from time to time, the Outstanding Principal Amount, any Interest Amounts, any default interest and any other interest accrued on the Bonds shall, except where the context otherwise requires, be the amount provided in or determined in accordance with the foregoing Conditions, multiplied by the Limited Index Ratio applicable to the month in which such payment falls to be made and rounded in accordance with Condition 19 (*Rounding*).

If the Calculation Agent is calculating the Limited Index Ratio to any payment of principal or interest in accordance with the paragraph above, it shall do so on the day 2 business days prior to the payment date on which payment or interest (as the case may be) is due and shall notify the Issuer and the Bond Trustee of the Limited Index Ratio applied by it on the day 1 business day prior to the payment date on which payment of principal or interest (as the case may be) is due. For the avoidance of doubt, no additional monitoring of the Index is required by the Calculation Agent.

8. Changes in circumstances affecting the Index

(a) *Change in base*

If at any time and from time to time the Index shall be changed by the substitution of a new base therefor, then with effect from the calendar month from and including that in which such substitution takes effect:

(i) the definition of "Index" and "Index Figure" in Condition 7(a) (*Definitions*) shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, to such other date or month as may have been substituted therefor); and

(ii) the new Base Index Figure shall be the product of the existing Base Index Figure and the Index Figure immediately following such substitution, divided by the Index Figure immediately prior to such substitution.

For the purposes of determining whether the Index is changed by the substitution of a new base therefor, the Calculation Agent shall refer in all cases to the information provided in https://www.ons.gov.uk/economy/inflationandpriceindices or such successor websites as are made publically available by the Office of National Statistics or any successor body responsible for publishing the Index and shall notify the Bond Trustee and Issuer of such change.

(b) *Delay in publication of Index*

If the Index Figure relating to any month (the **relevant month**) which is required to be taken into account for the purposes of the determination of the Index Figure applicable for any date is not published on or before the fourteenth business day before the date (the **date for payment**) on which such payment is due, the Index Figure applicable to the month in which the date of payment falls shall be:

(i) such substitute index figure (if any) as the Controlling Creditor determines to have been published by the Bank of England for the purposes of indexation of payments on any one or more issues of Index-Linked Gilts selected by the Indexation Adviser and approved by the Controlling Creditor; or

(ii) if no such determination is made by the Controlling Creditor within seven days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 8(b)(i)) before the date for payment and the Controlling Creditor shall advise the Issuer, the Calculation Agent and the Bond Trustee.

Where the provisions of this Condition 8(b) apply, the determination of the Controlling Creditor as to the Index Figure applicable to the month in which the date for payment falls shall be conclusive and binding. If, an Index Figure having been applied pursuant to Condition 8(b)(ii), the Index Figure relating to the relevant month is subsequently published while a Bond is still outstanding, then:

(i) in relation to a payment of principal or interest in respect of such Bond other than upon final redemption of such Bond, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced by an amount equal to (respectively) the shortfall or excess of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 8(b)(ii), below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the fourteenth business day before the date for payment; and

(ii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

(c) *Cessation of or fundamental changes to the Index*

(i) If (a) the Bond Trustee has been notified by the Calculation Agent that the Index has ceased to be published or (b) any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of the Bond Trustee acting solely on the advice of an Indexation Adviser, be materially prejudicial to the interests of the Bondholders, the Bond Trustee will give written notice of such occurrence to the Issuer, AGE and AGM (collectively the **Parties**), and the Parties together shall seek to agree for the purpose of the Bonds one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Parties and the Bondholders in no

better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.

For the purposes of determining whether the Index has ceased to be published or any change is made to the coverage or the basic calculation of the Index, the Calculation Agent shall refer in all cases to the information provided on https://www.ons.gov.uk/economy/inflationandpriceindices or such successor websites as are made publically available by the Office of National Statistics or any successor body responsible for publishing the Index and shall notify the Bond Trustee and Issuer of such change,

(ii) If the Parties fail to reach agreement as mentioned above within 20 business days following the giving of notice as mentioned in paragraph (i), a bank or other person in London shall be appointed by the Parties (in each case, such bank or other person so appointed being referred to as the **Expert**), to determine for the purpose of the Bonds one or more adjustments to the index or a substitute index (with or without adjustments) with the intention that the same should leave the Parties and the Bondholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert and of any Indexation Adviser and of any of the Parties in connection with such appointment shall be borne by the Issuer. In this Condition 8, **business day** means any day on which commercial banks and foreign exchange markets are open for business in London.

(iii) The Index shall be adjusted or replaced by a substitute index as agreed by the Parties and the Bond Trustee or as determined by the Expert and as advised in writing to the Issuer, the Calculation Agent and the Bond Trustee, pursuant to the foregoing paragraphs, as the case may be, and references in these Conditions to the Index and to any Index Figure shall be deemed amended in such manner as the Controlling Creditor agrees notifies to the Parties, as appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Parties, the Bond Trustee and the Bondholders, and the Issuer shall give notice to the Bondholders in accordance with Condition 17 (*Notices*) of such amendments as promptly as practicable following such notification.

9. Payments and Exchange of Talons

(a) *Scheduled Payments*

The Issuer will in respect of each £1,000 in original principal amount of Bonds then outstanding on each Scheduled Payment Date make a total payment, comprising the relevant payment of Scheduled Interest and, if applicable, the relevant payment of Scheduled Principal (both adjusted for indexation in accordance with Condition 7 (*Indexation*)) on each Scheduled Payment Date:

Without prejudice to Condition 4 (*Interest*) and Condition 6 (*Redemption and Purchase*), the figures for Scheduled Interest and Total Payment set out below are intended to illustrate the Scheduled Interest and Total Payment in respect of each £1000 in original principal amount of the Bonds and are set out unadjusted for indexation. The figures for Scheduled Principal and Outstanding Principal Amount set out below provide the Outstanding Principal Amount (assuming all payments are made on the due date in full) and Scheduled Principal in respect of each £1,000 in original principal amount of the Bonds and are set out unadjusted for indexation.

A. Scheduled Payment Date	B. Scheduled Principal per £1,000 (before indexation)	C. Scheduled Interest per £1,000 (before indexation)	D. Total Payment per £1,000 (before indexation)	E. Outstanding Principal Amount per £1,000
31-Aug-17	-	0.42	0.42	1,000.00
28-Feb-18	-	0.50	0.50	1,000.00
31-Aug-18	-	0.50	0.50	1,000.00
28-Feb-19	-	0.50	0.50	1,000.00
31-Aug-19	-	0.50	0.50	1,000.00
29-Feb-20	-	0.50	0.50	1,000.00
31-Aug-20	-	0.50	0.50	1,000.00
28-Feb-21	2.83	0.50	3.33	997.17
31-Aug-21	5.33	0.50	5.83	991.84
28-Feb-22	7.29	0.50	7.79	984.55
31-Aug-22	8.38	0.49	8.87	976.17
28-Feb-23	12.26	0.49	12.75	963.91
31-Aug-23	13.79	0.48	14.27	950.12
29-Feb-24	13.05	0.48	13.53	937.07
31-Aug-24	13.61	0.47	14.08	923.46
28-Feb-25	12.93	0.46	13.39	910.53
31-Aug-25	13.35	0.46	13.81	897.18
28-Feb-26	12.87	0.45	13.32	884.31
31-Aug-26	13.42	0.44	13.86	870.89
28-Feb-27	12.75	0.44	13.19	858.14
31-Aug-27	13.23	0.43	13.66	844.91
29-Feb-28	12.77	0.42	13.19	832.14
31-Aug-28	13.60	0.42	14.02	818.54
28-Feb-29	12.78	0.41	13.19	805.76
31-Aug-29	13.27	0.40	13.67	792.49
28-Feb-30	12.64	0.40	13.04	779.85
31-Aug-30	12.97	0.39	13.36	766.88
28-Feb-31	12.08	0.38	12.46	754.80
31-Aug-31	12.41	0.38	12.79	742.39
29-Feb-32	11.68	0.37	12.05	730.71
31-Aug-32	12.19	0.37	12.56	718.52
28-Feb-33	11.37	0.36	11.73	707.15
31-Aug-33	12.06	0.35	12.41	695.09
28-Feb-34	11.52	0.35	11.87	683.57
31-Aug-34	12.10	0.34	12.44	671.47
28-Feb-35	11.54	0.34	11.88	659.93
31-Aug-35	11.80	0.33	12.13	648.13
29-Feb-36	11.56	0.32	11.88	636.57
31-Aug-36	12.17	0.32	12.49	624.40
28-Feb-37	11.71	0.31	12.02	612.69
31-Aug-37	12.28	0.31	12.59	600.41
28-Feb-38	12.12	0.30	12.42	588.29

A. Scheduled Payment Date	B. Scheduled Principal per £1,000 (before indexation)	C. Scheduled Interest per £1,000 (before indexation)	D. Total Payment per £1,000 (before indexation)	E. Outstanding Principal Amount per £1,000
31-Aug-38	12.95	0.29	13.24	575.34
28-Feb-39	12.51	0.29	12.80	562.83
31-Aug-39	12.98	0.28	13.26	549.85
29-Feb-40	12.56	0.27	12.83	537.29
31-Aug-40	12.96	0.27	13.23	524.33
28-Feb-41	12.24	0.26	12.50	512.09
31-Aug-41	12.82	0.26	13.08	499.27
28-Feb-42	12.01	0.25	12.26	487.26
31-Aug-42	12.51	0.24	12.75	474.75
28-Feb-43	11.89	0.24	12.13	462.86
31-Aug-43	12.46	0.23	12.69	450.40
29-Feb-44	11.87	0.23	12.10	438.53
31-Aug-44	12.30	0.22	12.52	426.23
28-Feb-45	11.75	0.21	11.96	414.48
31-Aug-45	11.86	0.21	12.07	402.62
28-Feb-46	11.52	0.20	11.72	391.10
31-Aug-46	12.10	0.20	12.30	379.00
28-Feb-47	11.50	0.19	11.69	367.50
31-Aug-47	12.01	0.18	12.19	355.49
29-Feb-48	11.87	0.18	12.05	343.62
31-Aug-48	12.78	0.17	12.95	330.84
28-Feb-49	11.95	0.17	12.12	318.89
31-Aug-49	12.35	0.16	12.51	306.54
28-Feb-50	12.00	0.15	12.15	294.54
31-Aug-50	12.47	0.15	12.62	282.07
28-Feb-51	11.47	0.14	11.61	270.60
31-Aug-51	11.87	0.14	12.01	258.73
29-Feb-52	11.58	0.13	11.71	247.15
31-Aug-52	12.15	0.12	12.27	235.00
28-Feb-53	11.68	0.12	11.80	223.32
31-Aug-53	12.25	0.11	12.36	211.07
28-Feb-54	12.15	0.11	12.26	198.92
31-Aug-54	12.88	0.10	12.98	186.04
28-Feb-55	12.34	0.09	12.43	173.70
31-Aug-55	12.49	0.09	12.58	161.21
29-Feb-56	12.06	0.08	12.14	149.15
31-Aug-56	12.53	0.07	12.60	136.62
28-Feb-57	11.73	0.07	11.80	124.89
31-Aug-57	12.07	0.06	12.13	112.82
28-Feb-58	11.83	0.06	11.89	100.99
31-Aug-58	12.68	0.05	12.73	88.31
28-Feb-59	12.19	0.04	12.23	76.12
31-Aug-59	12.68	0.04	12.72	63.44

A. Scheduled Payment Date	B. Scheduled Principal per £1,000 (before indexation)	C. Scheduled Interest per £1,000 (before indexation)	D. Total Payment per £1,000 (before indexation)	E. Outstanding Principal Amount per £1,000
29-Feb-60	**12.60**	**0.03**	**12.63**	**50.84**
31-Aug-60	**12.91**	**0.03**	**12.94**	**37.93**
28-Feb-61	**12.45**	**0.02**	**12.47**	**25.48**
31-Aug-61	**12.93**	**0.01**	**12.94**	**12.55**
28-Feb-62	**12.55**	**0.01**	**12.56**	**0.00**

Following any payment of the Below Par Redemption Amount in accordance with Condition 6(e) (*Mandatory Redemption – Below Par Redemption*), the amounts listed in Columns B to E above will be adjusted to reflect such payment from the Scheduled Payment Date following such payment.

For the avoidance of doubt, the number of Bonds in issue will not be reduced by the scheduled payments of Scheduled Principal in Column B and payment pursuant to Condition 6(d) (*Mandatory Redemption – Above Par Redemption*) or 6(e) (*Mandatory Redemption – Below Par Redemption*). Payments of Scheduled Principal (unadjusted for indexation) will reduce the Outstanding Principal Amount of each Bond *pro rata*.

(b) *Method of Payment*

Payments in respect of the Bonds by the Issuer will be made only against:

(i) presentation and surrender of the appropriate Coupons (in the case of interest) and the relevant Receipt (in the case of principal); and

(ii) in the case of final redemption (provided that payment is made in full) surrender of the relevant Bonds,

at the specified office of any Paying Agent outside the United States by sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in London.

(c) *Payments subject to Fiscal Laws*

All payments in respect of the Bonds are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 10 (*Taxation*). No commissions or expenses shall be charged to the Bondholders, Receiptholders or Couponholders in respect of such payments.

(d) *Unmatured Receipts and Coupons Void*

On the early redemption in full of any Bond pursuant to Conditions 6(b) (*Redemption at the option of the Issuer*), 6(c) (*Redemption for Index Reasons*), 6(d) (*Mandatory Redemption –* Above Par Redemption), 6(e) (*Mandatory Redemption – Below Par Redemption*), 6(h) (*Cancellation*) or 11 (*Events of Default*), all unmatured Receipts or Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(e) *Payments on Business Days*

If the due date for payment of any amount in respect of any Bond, Receipt or Coupon is not a business day in the place of presentation (and in the case of any payment by transfer to a sterling account in London), the holder shall not be entitled to payment in such place of the amount due until the next following business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, **business day**

means, in respect of any place of presentation, any day on which banks are open for business in such place of presentation and, in the case of payment by transfer to a sterling account as referred to above, on which dealings in foreign currencies may be carried on both in London and New York and in such place of presentation.

(f) *Payments otherwise than against the Surrender of Receipts or Coupons*

If a Paying Agent makes a payment in respect of any Bond in circumstances where no Receipt or Coupon is surrendered, such Paying Agent will endorse on such Bond a statement indicating the amount and date of such payment.

(g) *Fractions*

In respect of any payments to Bondholders any fractions of one pound will be rounded in accordance with Condition 19 (*Rounding*).

(h) *Exchange of Talons*

On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a coupon sheet relating to the Bonds (a **Coupon Sheet**), the Talon forming part of such Coupon Sheet may be exchanged at the specified office of the Principal Paying Agent for a further Coupon Sheet excluding any Coupons in respect of which claims have already become void pursuant to Condition 12 (*Prescription*). Upon the due date for redemption of any Bond, any unexchanged Talon relating to such Bond shall become void and no Coupon will be delivered in respect of such Talon.

10. Taxation

All payments of principal and interest in respect of the Bonds by the Issuer shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature unless such withholding or deduction is required by law.

In the event that the Issuer is required by law to withhold or deduct amounts in respect of a payment of interest or principal for any taxes, duties, amendments or governmental charges whatsoever, the Issuer shall account to the relevant authorities for the amount to be withheld or deducted and shall make such payment of principal or interest, as the case may be, after such withholding or deduction has been made.

The Issuer shall notify the Bond Trustee of any such withholding or deduction and shall take reasonable measures available to it to avoid such obligation including the replacement of the Principal Paying Agent, the addition, replacement or removal of a Paying Agent or changing the specified office of any Paying Agent. Should the Issuer still be obliged to make the withholding or deduction, it will, on written request from any Bondholder, provide to the Bondholder copies of any documentation or correspondence with the tax authority regarding the deduction or withholding as the Bondholder may reasonably require to assist it to reclaim such deduction or withholding.

The Issuer will not be obliged to make any additional payments to Bondholders, Receiptholders or Couponholders in respect of any such withholding or deduction.

To the extent that the Issuer is obliged to make any such deduction or withholding, there is no obligation on the Financial Guarantors to make good any such amount so deducted or withheld under the Financial Guarantees.

11. Events of Default

After any event of default pursuant to the terms of the Collateral Deed (an **Event of Default**) occurs and is continuing, then:

(a) if and for so long as the Financial Guarantors are the Controlling Creditor, the Bond Trustee shall, upon being (a) so directed by the Financial Guarantors in accordance with the Security

Trust and Intercreditor Deed; and (b) prefunded and/or indemnified and/or secured to its satisfaction, declare by written notice to the Issuer that the Bonds are immediately due and payable; or

(b) if and for so long as the Financial Guarantors are not the Controlling Creditor, the Bond Trustee may at any time and shall, upon being (a) so requested in writing by the holders of at least 25 per cent. in Outstanding Principal Amount of the then outstanding Bonds (as defined in the Bond Trust Deed) or so directed by a resolution passed at any meeting of the Bondholders by a majority of not less than three quarters of the votes cast (an **Extraordinary Resolution**); and (b) prefunded and/or indemnified and/or secured to its satisfaction, declare by written notice to the Issuer that the Bonds are immediately due and payable,

whereupon without further action or formality each Bond shall become due and payable at the Spens Redemption Amount (the Limited Index Ratio for this purpose being that applicable to the month in which the date on which the notice is given that the Bonds are immediately due and payable falls) notwithstanding any provision in these Conditons that may provide for the redemption of the Bonds at at an amount less than the Spens Redemption Amount.

For a summary description of the Events of Default, see the section entitled "Financing of the Project —Collateral Deed".

Such an acceleration of sums due on the Bonds does not accelerate AGE and/or AGM's payment obligation under the Financial Guarantees. AGE and/or AGM shall only be liable to make payments in respect of the Bonds (pursuant to the Financial Guarantees) on the dates on which such payments would have been required to be made if such amounts had not become immediately due and payable.

While the Financial Guarantors are the Controlling Creditor, save in the circumstances set out in Condition 6(d) (*Mandatory Redemption – Above Par Redemption*) and 6(e) (*Mandatory Redemption – Below Par Redemption*) and as described below, neither the Bondholders nor the Bond Trustee will have any rights to call for repayment of the Bonds following the occurrence of an Event of Default or for any enforcement of the security for the Bonds unless instructed or directed by the Financial Guarantors.

12. Prescription

Claims for principal and interest shall become void unless the relevant Receipts and/or Coupons and/or the relevant Bonds (as the case may be) are presented for payment within five years (in the case of interest) and ten years (in the case of principal) of the later of (i) the date on which the payment in question first becomes due and (ii) if the full amount payable has not been received by the Principal Paying Agent or the Bond Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Bondholders.

13. Replacement of Bonds, Receipts, Coupons and Talons

If any Bond, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent, subject to all applicable laws and stock exchange (or other relevant authority) requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

14. Bond Trustee, Security Trustee and Paying Agents

(a) Under the Bond Trust Deed, the Bond Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and monies received by the Bond Trustee will be applied to pay its liabilities, costs and expenses and other amounts due to it in priority to the claims of the Bondholders. In addition, the Bond Trustee is entitled to enter into business transactions with the Obligors, the Financial Guarantors, the Bondholders, the

Receiptholders, the Couponholders and any entity related to the Obligors, the Financial Guarantors or any other party to the Relevant Documents without accounting for any profit.

(b) In the exercise of its powers, trusts, authorities and discretions under these Conditions, the Financial Guarantees and the Bond Trust Deed, the Bond Trustee will have regard to the interests of the Bondholders as a class and will not have regard to the consequences of such exercise for individual Bondholders, Receiptholders, or Couponholders (whatever their number) whether resulting from their being resident or domiciled in any particular jurisdiction or otherwise and the Bond Trustee shall not be entitled to require from the Obligors, the Financial Guarantors or the Security Trustee, nor shall any Bondholder, Receiptholder or Couponholder be entitled to claim from the Obligors, the Financial Guarantors, the Bond Trustee or the Security Trustee, any indemnification or other payment in respect of any consequence (including, without limitation, any tax consequence) for individual Bondholders, Receiptholders or Couponholders of any such exercise.

(c) Under the Security Trust and Intercreditor Deed, the Security Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its liabilities, costs and expenses and other amounts due to it in priority to the claims of the Bondholders. In addition the Security Trustee is entitled to enter into business transactions with the Obligors, the Financial Guarantors, the Bondholders, the Receiptholders, the Couponholders and any entity related to the Obligors, the Financial Guarantors or any other party to the Relevant Documents without accounting for any profit.

(d) Neither the Bond Trustee nor the Security Trustee has investigated nor are either of them responsible or liable for any loss arising as a result of any failure to investigate the legality, validity, value, sufficiency or enforceability of the security created by the Security Documents or the validity or enforceability of any contracts over which such security is created or of the Financial Guarantees and both the Bond Trustee and the Security Trustee shall accept without investigation, requisition or objection and without any responsibility or liability for doing so such right and title as the Obligors have to the property assets and rights over which security is created pursuant to the Security Documents.

The Security Trustee has no responsibility for the validity or enforceability of any obligation of any other party under any Relevant Documents.

The Bond Trustee has no responsibility for the validity or enforceability of the AGE Financial Guarantee against AGE or any permitted assignee of AGE under the AGE Financial Guarantee or the AGM Financial Guarantee against AGM or any permitted assignee of AGM under the AGM Financial Guarantee.

The Bond Trustee will not be liable to Bondholders for any loss they may suffer as a result of any termination of the AGE Financial Guarantee or the AGM Financial Guarantee resulting from any act or omission on the part of the Bond Trustee unless the consequences of such act or omission were notified in writing to the Bond Trustee in accordance with the Bond Trust Deed prior to such act or omission occurring and the Bond Trustee so acted or omitted to do so negligently or in wilful default.

Neither the Bond Trustee nor the Security Trustee will be responsible for or liable for loss which results should any deficiency arise between the amount realised in respect of the assets and rights over which security is given by the Security Documents and sums due in respect of the Bonds because the Security Trustee or the Bond Trustee is liable to tax in respect of the property assets and rights over which such security is created.

None of the Security Trustee, the Bond Trustee and the Principal Paying Agent shall be responsible for monitoring the obligations of any person to the Issuer and each of them shall, until they have received notice in writing to the contrary, assume that all persons are duly performing the same.

Neither the Security Trustee nor the Bond Trustee will be obliged to take any action under the Bond Trust Deed or the Security Trust and Intercreditor Deed unless either or each is prefunded and/or indemnified and/or secured to its satisfaction in respect of any liability, loss, cost or expense which it may in its opinion incur. Protection and realisation of the security may be prevented or delayed as a result.

(e) None of the Bond Trustee, the Security Trustee and the Principal Paying Agent shall be responsible for monitoring compliance by the Issuer or any other person with any matter set out in the Collateral Deed including whether an Event of Default or Potential Event of Default has occurred and, if the Bond Trustee is the Controlling Creditor, and is for whatever reason required to make any determination of material adverse change, or like matter, pursuant to the terms of the Collateral Deed, it may, in its absolute discretion, seek directions from the Bondholders or seek advice from an expert, both in accordance with the Bond Trust Deed and the Bond Trustee will not be responsible for the consequences of any delay involved in so doing.

(f) In acting under the Paying Agency Agreement and in connection with the Bonds, the Receipts and the Coupons, the Paying Agents act solely as agents of the Issuer and (to the extent provided therein) the Bond Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Bondholders, Receiptholders or Couponholders.

(g) The initial Paying Agents and their initial specified offices are listed below. The Issuer reserves the right (with the prior approval of the Bond Trustee) at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor principal paying agent and additional or successor paying agents; provided, however, that the Issuer shall at all times maintain (i) a Principal Paying Agent (ii) so long as the Bonds are admitted to listing on the Official List and to trading on the Irish Stock Exchange's market for listed securities, at least one Paying Agent with a specified office in the European Union and (iii) if so required by the Controlling Creditor, at least one Paying Agent with a specified office outside the European Union. Notice of any change in any of the Paying Agents or in their specified offices shall promptly be given by the Issuer to the Bondholders in accordance with Condition 17 (*Notices*).

(h) The Issuer has covenanted in the Bond Trust Deed to make available its annual report at the specified offices of the Paying Agents.

(i) The Bond Trustee shall be entitled to rely on certificates and reports of the auditors of the Issuer notwithstanding that such auditors' liability in respect thereof may be limited (by reference to a monetary cap or otherwise) and shall be entitled to enter into letters engaging the auditors to provide any certificate or report.

In acting as Bond Trustee under the Relevant Documents, the Bond Trustee shall, subject to Clause 7.4 of the Bond Trust Deed, have regard solely to the interests of the Bondholders and not to any other Creditor or Beneficiary.

15. Meetings of Bondholders; Modification and Waiver

(a) *Meetings of Bondholders*

(i) Subject to Condition 15(b) (*Modification and Waiver*), the Bond Trust Deed contains provisions for convening single meetings of Bondholders to consider matters affecting their interests, including the modification of these Conditions, the Bond Trust Deed, the Financial Guarantees and any other Finance Documents, the Security Documents and the Collateral Deed. Any such modification may, subject to the prior written consent of the Financial Guarantors if they are the Controlling Creditor, be made if sanctioned by an Extraordinary Resolution (as defined in the Bond Trust Deed). A meeting of Bondholders will also have the power (exercisable by Extraordinary Resolution) to advise or instruct the Bond Trustee in connection with the exercise by the Bond

Trustee, subject to Condition 16(a) (*Exercise and Enforcement*), of any of its rights, powers, trusts, authorities and discretions under the Finance Documents, to remove or approve the appointment of a new Bond Trustee and to appoint any persons (whether Bondholders or not) as a committee to represent the interests of the Bondholders and to confer upon such committee any powers which the Bondholders could themselves exercise by Extraordinary Resolution.

(ii) The quorum for all business other than an Extraordinary Resolution will be one or more persons present in person holding or representing 10 per cent. in aggregate outstanding principal amount of the Bonds, or at any meeting adjourned for want of a quorum, one or more persons being actually present at such meeting in person representing Bondholders whatever the principal amount of Bonds held or represented.

(iii) The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons present in person holding or representing 25 per cent. in outstanding principal amount of the Bonds or, at any adjourned meeting, one or more persons being actually present at such meeting in person representing Bondholders whatever the principal amount of the Bonds held or represented; provided, however, that certain proposals including any proposal:

(A) to change any date fixed for payment of principal, premium (if any) or interest in respect of the Bonds, to reduce the amount of principal, premium (if any) or interest payable on any date in respect of the Bonds to alter the method of calculating the amount of any payment in respect of the Bonds or the date for any such payment;

(B) to effect any exchange of the Bonds for, or the conversion of the Bonds into shares, bonds or other obligations of the Issuer, either Financial Guarantor or any other person or to approve the substitution of any person for the Issuer as principal obligor under the Bonds or the substitution of any person for AGE and/or AGM as guarantors under the Financial Guarantees (save as already expressly provided therein);

(C) to change the currency in which amounts due in respect of the Bonds are payable;

(D) to modify any provisions of the Financial Guarantees;

(E) to change the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution;

(F) to release all or part of the Security other than in accordance with the Security Documents;

(G) to alter the rights of priority on enforcement of the Bondholders under the Security Trust and Intercreditor Deed set out in clause 13 of the Security Trust and Intercreditor Deed;

(H) to exercise the rights under Condition 2(b) (*Financial Guarantees*); or

(I) to amend any of the above reserved matters,

(together the **Reserved Matters**) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Bondholders at which one or more persons present in person holding or representing not less than three-quarters or, at any meeting adjourned for want of a quorum, at least 25 per cent. in aggregate outstanding principal amount of the Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, the Receiptholders and the Couponholders whether present or not.

The majority required for an Extraordinary Resolution is at least 75 per cent. of the votes cast. In addition, a resolution in writing signed by or on behalf of all Bondholders who for the time being are entitled to receive notice of a meeting of Bondholders under the Bond Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(b) *Modification and Waiver*

If it is then the Controlling Creditor, subject to Clause 5 (*Consent of Controlling Creditor and Entrenched Rights and Reserved Matters of Senior Creditors*) of the Security Trust and Intercreditor Deed, the Bond Trustee may, without the consent or sanction of the Bondholders, Receiptholders or Couponholders concur with the Issuer, the Financial Guarantors or any other relevant parties in making:

(i) any modification to these Conditions, the Bond Trust Deed, the Financial Guarantees, the Security Documents, the Collateral Deed and any other Relevant Document which is in the opinion of the Bond Trustee of a formal, minor or technical nature or is made to correct a manifest error; or

(ii) any other modification of any such document which is in the opinion of the Bond Trustee not materially prejudicial to the interests of Bondholders.

For the avoidance of doubt, and notwithstanding the foregoing, the Bond Trustee, if it is then the Controlling Creditor, shall have the unfettered right to seek the consent of the Bondholders to the making of any such modification, provided that the Bond Trustee shall act in accordance with the directions in writing to it of the holders of at least 25 per cent. in aggregate principal amount of the Bonds outstanding or with an Extraordinary Resolution where the same are relevant or passed.

If the Bond Trustee is then the Controlling Creditor, subject to Clause 5 (*Consent of Controlling Creditor and Entrenched Rights and Reserved Matters of Senior Creditors*) of the Security Trust and Intercreditor Deed, the Bond Trustee may also, without the consent or sanction of any of the Bondholders, Receiptholders or Couponholders, waive or authorise any Event of Default, any Potential Event of Default, any Financial Guarantor Default or any Financial Guarantor Downgrade Event or any other breach or proposed breach of the Bond Trust Deed, the Bonds, the Financial Guarantees, the Security Trust and Intercreditor Deed or any other Relevant Document to which it is a party, or determine that any Financial Guarantor Default or any Financial Guarantor Downgrade or any Event of Default or any Potential Event of Default shall not, or shall not subject to specified conditions, be treated as such or, in the case of a Financial Guarantor Default or Financial Guarantor Downgrade Event, has been cured to its satisfaction, if the Bond Trustee is of the opinion that so to do will not be materially prejudicial to the interests of the Bondholders.

For the avoidance of doubt, (i) if it is then the Controlling Creditor, the Bond Trustee shall have the unfettered right to seek the consent of Bondholders to any such authorisation or waiver, provided that the Bond Trustee shall act in accordance with the directions in writing to it of the holders of at least 25 per cent. in aggregate principal amount of the Bonds outstanding or with an Extraordinary Resolution where the same are relevant or passed and provided further that no such direction or Extraordinary Resolution shall affect any authorisation or waiver already given, and (ii) if the Bond Trustee is not the Controlling Creditor, the Controlling Creditor controls all Financing Rights of the Senior Creditors under the Finance Documents, including those of the Bondholders and the Bond Trustee, subject only to Clause 5 (*Consent of Controlling Creditor and Entrenched Rights and Reserved Matters of Senior Creditors*) of the Security Trust and Intercreditor Deed. As further set out in that provision, if the Bond Trustee is not the Controlling Creditor but is asked to consent to any Proposal which is a Bond Trustee Entrenched Matter (each as defined in the Security Trust and Intercreditor Deed) then the Issuer shall call a meeting in accordance with Condition 15(a) (*Meetings of Bondholders*) to put such Proposal to the Bondholders. If no Extraordinary Resolution is

passed, the Bondholders shall be deemed to authorise the Bond Trustee to withhold its consent to the Proposal. If an Extraordinary Resolution is passed, its implementation will, in certain circumstances, be subject to the additional consent of the Bond Trustee if such Extraordinary Resolution affects rights personal to the Bond Trustee

16. Exercise and Enforcement

(a) *Exercise and Enforcement*

As more particularly provided in the Security Trust and Intercreditor Deed, the Bond Trustee will be obliged to take action to exercise or enforce its rights under the Bond Trust Deed or the Security Documents or in respect of the Bonds if required to do so by the Controlling Creditor except in relation to certain specified rights of the Bond Trustee (provided that the Bond Trustee has been prefunded and/or indemnified and/or secured to its satisfaction) but will not in most circumstances be entitled to take any such action without the prior written consent of the Controlling Creditor. In any event, the Bond Trustee shall not be bound as against the Bondholders to take any such action unless:

(i) it has been so requested in writing by the holders of at least 25 per cent. in aggregate principal amount of the outstanding Bonds or has been so directed by an Extraordinary Resolution; and

(ii) it has been prefunded and/or indemnified and/or secured to its satisfaction.

The Bond Trustee is entitled to exercise certain rights reserved for the Bond Trustee's exercise in its sole discretion.

(b) *Action by Bondholders*

No Bondholder may take any action against the Issuer or the Financial Guarantors to enforce its rights in respect of the Bonds or to enforce all or any of the security constituted by the Security Documents or to enforce the Financial Guarantees unless the Bond Trustee having become bound so to proceed fails to do so within a reasonable time and such failure is continuing.

17. Notices

Notices to the Bondholders shall be valid if published in a leading English language daily newspaper published in the United Kingdom (which is expected to be the *Financial Times*). Any such published notice shall be deemed to have been given on the date of first publication. Receiptholders and Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Bondholders, provided that for so long as the Bonds are admitted to trading on the Irish Stock Exchange, notices to Bondholders will be valid when such notice is filed at the Companies Announcement Office of the Irish Stock Exchange.

18. Governing Law and Jurisdiction

(a) *Governing law*

The Bond Trust Deed, the Bonds, the Receipts and the Coupons and all matters arising from or connected with these are governed by, and shall be construed in accordance with, English law. The Financial Guarantees and all matters arising from or connected with them are governed by, and will be construed in accordance with, English law.

(b) *English courts*

The courts of England have jurisdiction to settle any dispute (a **Dispute**), arising from or connected with the Bonds and the Bond Trust Deed.

(c) *Appropriate forum*

The Issuer agrees and the Financial Guarantors have agreed in the Bond Trust Deed that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it and they will not argue to the contrary.

(d) *Rights of the Bondholders to take proceedings outside England*

Condition 18(c) (*Appropriate forum*) is for the benefit of each of the Bond Trustee, the Bondholders, the Receiptholders and the Couponholders only. As a result, nothing in this Condition 18 prevents the Bond Trustee or any Bondholder from taking proceedings relating to a Dispute (**Proceedings**) in any other courts with jurisdiction. To the extent allowed by law, the Bond Trustee and the Bondholders may take concurrent Proceedings in any number of jurisdictions.

19. Rounding

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all Sterling amounts used in or resulting from such calculations will be rounded to the nearest penny (with one half penny being rounded up), and (c) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

20. Further Issues

The Issuer may from time to time, without the consent of the Bondholders, Receiptholders or Couponholders and in accordance with the Bond Trust Deed but subject to the provisions of the Collateral Deed, create and issue further bonds having the same terms and conditions as the Bonds in all respect (or in all respects except for the first payment of interest) so as to form a single series with the Bonds and such further bonds will have the benefit of the Financial Guarantees or may issue further bonds on such terms as to ranking, interest, conversion, redemption or otherwise as the Issuer may at the date of issue thereof determine.

21. Rights of Third Parties

No person shall have any right to enforce any term or condition of the Bonds or the Bond Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

Each Temporary Global Bond and each Permanent Global Bond contain provisions which apply to the Bonds while they are in global form, some of which modify the effect of the terms and conditions of the Bonds set out in this Prospectus. The following is a summary of certain of those provisions:

Initial Issue of Bonds

The Bonds will be issued in new global note (**NGN**) form and will be delivered on the instructions of the Issuer by the Principal Paying Agent to a common safekeeper for Euroclear and Clearstream, Luxembourg, as described below. Depositing the Global Bonds with a common safekeeper does not necessarily mean that the Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

The nominal amount of the Bonds shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Bonds represented by the Global Bonds and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Exchange

The Bonds will initially be represented by a Temporary Global Bond which will be deposited on or around the Issue Date with a common safekeeper for Euroclear and Clearstream, Luxembourg. Each Temporary Global Bond will be exchangeable in whole or in part for interests in a Permanent Global Bond not earlier than 40 calendar days from (but not including) the Issue Date upon certification as to non-U.S. beneficial ownership. No payments will be made under either Temporary Global Bond unless exchange for interests in the corresponding Permanent Global Bond is improperly withheld or refused. In addition, interest payments in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

Each Permanent Global Bond will become exchangeable in whole, but not in part, for Bonds in definitive form (**Definitive Bonds**) in the denomination of £100,000 and integral multiples of £1,000 in excess thereof each at the request of the bearer of the relevant Permanent Global Bond against presentation and surrender of such Permanent Global Bond to the Principal Paying Agent if either of the following events (each an **Exchange Event**) occurs: (a) Euroclear or Clearstream, Luxembourg or any additional or substitute clearing system (an **Additional or Substitute Clearing System**) from time to time nominated by the Issuer or the Bond Trustee and approved by the Controlling Creditor through which the Bonds are cleared is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) the Bonds become due and payable pursuant to Condition 11 (*Events of Default*) of the Bonds.

Each Permanent Global Bond will also become exchangeable, in whole but not in part only and at the option of the Issuer, for Definitive Bonds if, by reason of any change in the laws of the United Kingdom, the Issuer is or will be required to make any withholding or deduction from any payment in respect of the Bonds which would not be required if the Bonds were in definitive form.

Whenever a Permanent Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Receipts, Coupons and Talons attached, in an aggregate principal amount equal to the principal amount of the relevant Permanent Global Bond to the bearer of the relevant Permanent Global Bond against the surrender of such Permanent Global Bond at the specified office of the Principal Paying Agent within 30 days of the occurrence of the relevant Exchange Event. In any such event, the Issuer will procure that details of such exchange be entered *pro rata* in the records of the relevant clearing system.

In addition, each Temporary Global Bond and Permanent Global Bond will contain provisions which modify the Terms and Conditions of the Bonds as they apply to such Temporary Global Bond and Permanent Global Bond. The following is a summary of certain of those provisions:

Payments

All payments in respect of each Temporary Global Bond and Permanent Global Bond will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the relevant Temporary Global Bond or (as the case may be) Permanent Global Bond at the specified office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Bonds. The Issuer shall procure that details of each payment shall be entered *pro rata* in the records of the relevant clearing system, and in the case of payments of principal, the nominal amount of the Bonds recorded in the records of the relevant clearing system and represented by the Global Bond will be reduced accordingly.

Notices

Notwithstanding Condition 17 (*Notices*) of the Bonds, as the case may be, while all the Bonds are represented by a Permanent Global Bond (or by a Permanent Global Bond and/or a Temporary Global Bond) and such Permanent Global Bond is (or such Permanent Global Bond and/or Temporary Global Bond are) deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg or any Additional or Substitute Clearing System from time to time nominated by the Controlling Creditor, notices to Bondholders may be given by delivery to Euroclear and Clearstream, Luxembourg or any such Additional or Substitute Clearing System and such notices shall be deemed to have been given to the Bondholders in accordance with Condition 17 (*Notices*) of the Bonds, as the case may be, on the second day after the day of delivery to Euroclear and Clearstream, Luxembourg or any such Additional or Substitute Clearing System.

Meetings

The holder of, or a proxy for the holder of, a Temporary Global Bond or a Permanent Global Bond will be treated as being two persons for the purposes of any quorum requirements of a meeting of the Bondholders.

Cancellation

Cancellation of any Bond represented by the Temporary Global Bond or the Permanent Global Bond will be effected by reduction in the principal amount of the Temporary Global Bond or the Permanent Global Bond (as the case may be). In any such event, the Issuer will procure that details of such exchange be entered *pro rata* in the records of the relevant clearing system.

USE OF PROCEEDS

The net proceeds of the issue of the Bonds expected to amount to approximately £195,985,000 will be used to fund the design, construction, management, finance and operating costs and other expenditure (including fees and incidental costs and expenses) in relation to the Project, to pay a capital payment to the University, to reimburse the expenses of the Issuer in relation to the issue of the Bonds, including the Manager's management commission, the financial guarantee fee payable to the Financial Guarantors in respect of the issue of the Financial Guarantees and certain of the issue and other related costs.

YIELD

On the basis of the issue price of the Bonds of 105.874 per cent., the Gross Real Yield of the Bonds is -0.1324 per cent. on a semi-annual basis. The yield is calculated as at the issue date and at the issue price and is not a guarantee of future yield.

FORM OF AGE FINANCIAL GUARANTEE

Dated 31 March 2017

ASSURED GUARANTY (EUROPE) LTD.

FINANCIAL GUARANTEE No. 80180-U

in respect of

£185,670,000 0.10 per cent. Index-Linked Guaranteed Secured Bonds due 28 February 2062

This Financial Guarantee is dated 31 March 2017 and given by Assured Guaranty (Europe) Ltd. (Company Number 02510099) whose registered office is at 11th Floor, 6 Bevis Marks, London, EC3A 7BA (the "**Financial Guarantor**") in favour of BNY Mellon Corporate Trustee Services Limited as trustee for the holders of the Guaranteed Bonds (as defined below) (the "**Bond Trustee**", which expression shall, whenever the context admits, include such Persons for the time being the trustee or trustees of the Bond Trust Deed for the Guaranteed Bondholders).

1. Interpretation

1.1 Definitions

Any capitalised terms used in this Financial Guarantee and not otherwise defined shall have the meaning given to such terms in the Bond Trust Deed or the Master Definitions Schedule (each as defined below) unless the context otherwise requires. In the event of any inconsistency between the provisions of this Financial Guarantee and the provisions of the Bond Trust Deed and/or the Collateral Deed, this Financial Guarantee shall prevail. For the purposes of this Financial Guarantee, the following terms will have the following meanings:

"**Accelerated Payment**" means, following an Acceleration, any payment in full or in part by the Financial Guarantor or AGM, at the Financial Guarantor's or AGM's absolute option, of all or part of the Scheduled Principal in advance of the final Scheduled Payment Date together with accrued but unpaid Scheduled Interest on such Scheduled Principal to the date of such payment (but excluding any amounts referred to in items (i) to (iv) of the definition of "Guaranteed Amount"); provided that, during any time that, following an Acceleration, the Issuer is obligated to pay the Price-Adjusted Amount, "Accelerated Payment" means any payment in full or in part by the Financial Guarantor or AGM, at the Financial Guarantor's or AGM's absolute option, of all or part of the Price-Adjusted Amount together with accrued but unpaid Scheduled Interest on the Scheduled Principal to the date of such payment (but excluding any amounts referred to in items (i) to (iv) of the definition of "Guaranteed Amount" other than prepayment premium included in the Price-Adjusted Amount).

"**Acceleration**" means, in relation to the Guaranteed Bonds, the giving of notice by the Bond Trustee to the Issuer that the Guaranteed Bonds are immediately due and repayable pursuant to Condition 11 (*Events of Default*), and "**Accelerated**" will be construed accordingly.

"**Account**" has the meaning set out in Clause 3.4.

"**Affiliate**" has the meaning given to it in the Master Definitions Schedule.

"**AGE Proportion**" means the proportion of the Financial Guarantees provided by the Financial Guarantor, which proportion is 8 per cent.

"**Agent**" means The Bank of New York Mellon, acting through its London Branch, as paying agent under the Guaranteed Bonds, and the term Agent shall include any successor to such Agent.

"**AGM**" has the meaning given to it in the Bond Trust Deed.

"**AGM Financial Guarantee**" means the financial guarantee dated on or about the date hereof, provided by AGM as financial guarantor, without regard to any amendment, modification or supplement thereto other than any such amendment, modification or supplement made in accordance with Clause 12.3 thereof.

"**AGM Proportion**" means the proportion of the Financial Guarantees provided by AGM, which proportion is 92 per cent.

"**Avoided Payment**" means any amount that is paid, credited, transferred or delivered to or to the order of the Bond Trustee or a Guaranteed Bondholder by or on behalf of the Issuer in accordance with the terms of the Bond Trust Deed and/or the Guaranteed Bonds in respect of any Guaranteed Amount, which amount has been recovered from, or is otherwise required to be returned or repaid by, the Bond Trustee or a Guaranteed Bondholder as a result of Insolvency Proceedings by or against the Issuer.

"**BBI HoldCo**" means East Slope Residencies Holdings Limited, a company incorporated under the laws of England and Wales with registered number 10481670.

"**Bond Trust Deed**" means the bond trust deed dated on or about the date hereof between, the Issuer, the Bond Trustee, the Financial Guarantor and AGM, without regard to any amendment, modification or supplement thereto other than any such amendment, modification or supplement made in accordance with the provisions of such bond trust deed with the prior written consent of the Financial Guarantor and AGM.

"**Business Day**" means any day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London and New York.

"**Collateral Deed**" means the collateral deed dated on or about the Issue Date between the Obligors, the Bond Trustee, the Security Trustee, the Financial Guarantor and AGM, without regard to any amendment, modification or supplement thereto other than any such amendment, modification or supplement made in accordance with the provisions of such collateral deed with the prior written consent of the Financial Guarantor and AGM.

"**Conditions**" means the terms and conditions of the Guaranteed Bonds as set out in Schedule 4 (Conditions of the Bonds) of the Bond Trust Deed, and "Condition" when used herein means such Condition as set out in Schedule 4 (*Conditions of the Bonds*) of the Bond Trust Deed and referred to herein.

"**Defaulted Amount**"means the portion of a Guaranteed Amount that is Due for Payment and unpaid by reason of Nonpayment by the Issuer, including any portion of any Guaranteed Amount that has become an Avoided Payment.

"**Due for Payment**" means, with respect to:

(a) Scheduled Interest on a Scheduled Payment Date, the amount of Scheduled Interest that is due and payable by the Issuer on such Scheduled Payment Date; and

(b) Scheduled Principal on a Scheduled Payment Date, the amount of Scheduled Principal that is due and payable by the Issuer on such Scheduled Payment Date,

in each case as each such Scheduled Payment Date occurs or would have occurred in accordance with the original terms of the Guaranteed Bonds and without regard to any prepayment, Acceleration or mandatory or optional redemption of the Guaranteed Bonds or any subsequent amendment or modification of the Guaranteed Bonds that has not been consented to in writing by the Financial Guarantor and AGM in accordance with the provisions of the Bond Trust Deed. For the avoidance of doubt, Due for Payment does not refer to any earlier date upon which payment of any Guaranteed Amounts may become due under the Guaranteed Bonds, by reason of prepayment, Acceleration, mandatory or optional redemption or otherwise.

"**Financial Guarantee**" means this Financial Guarantee No. 80180-U, without regard to any amendment, modification or supplement hereto other than any such amendment, modification or supplement made in accordance with Clause 12.3.

"**Financial Guarantees**" means this Financial Guarantee and the AGM Financial Guarantee.

"**Financial Guarantee Fee**" has the meaning given to it in the Financial Guarantee Fee Letter.

"**Financial Guarantee Fee Letter**" means the fee letter dated as of the date of this Financial Guarantee between the Financial Guarantor and the Obligors, without regard to any amendment, modification or supplement thereto other than any such amendment, modification or supplement made in accordance with the provisions of such fee letter with the prior written consent of the Financial Guarantor.

"**Financial Guarantor Default**" has the meaning given to it in the Security Trust and Intercreditor Deed.

"**Fiscal Agent**" has the meaning assigned thereto in Clause 9 (*Fiscal Agent*).

"**Force Majeure Event**" means any unforeseeable event outside the control of the Financial Guarantor that renders the Financial Guarantor's performance under this Financial Guarantee impossible (and not merely impracticable or more onerous).

"**Guaranteed Amount**" means, with respect to a Scheduled Payment Date:

(a) an amount equal to Scheduled Interest Due for Payment on the Guaranteed Bonds on such Scheduled Payment Date; plus

(b) an amount equal to the Scheduled Principal Due for Payment on the Guaranteed Bonds on such Scheduled Payment Date;

but excluding in each case any amounts due in respect of the Guaranteed Bonds:

(i) attributable to any increase in interest margin, penalty or other sum payable by the Issuer for whatever reason;

(ii) attributable to any present or future taxes, duties, withholding, deduction, assessment or other charge (including interest and penalties in respect of such taxes, duties, withholding, deduction, assessment or other charge) of whatever nature imposed, levied, collected, withheld or assessed by any sovereign state (including the United Kingdom), or any political subdivision or governmental or taxing authority therein or thereof;

(iii) attributable to any default interest;

(iv) attributable to any amount relating to prepayment, early redemption, broken-funding indemnities, penalties, premium, "spens", any make-whole amount or similar types of payments payable in respect of the Guaranteed Bonds; or

(v) in respect of which the Financial Guarantor or AGM has made an Accelerated Payment on or prior to such Scheduled Payment Date.

"**Guaranteed Bondholder**" means a holder of Guaranteed Bonds.

"**Guaranteed Bonds**" means the £185,670,000 0.10 per cent. index-linked guaranteed secured bonds due 28 February 2062 constituted by the Bond Trust Deed but excluding any such bonds that are held by or for the account of an Obligor or any Affiliate of an Obligor or Shareholder of any Obligor.

"**Insolvency Proceedings**" means the commencement after the date hereof of any bankruptcy, insolvency or similar proceedings by or against the Issuer, or the commencement after the date hereof of any proceedings by or against the Issuer for the winding up or the liquidation of its affairs, or the consent after the date hereof to the appointment of a trustee-in-bankruptcy, conservator, administrator, receiver or liquidator in any bankruptcy, insolvency or similar proceedings relating to the Issuer.

"**IntermediateCo**" means East Slope Residencies Partner Limited a company incorporated under the laws of England and Wales with registered number 10482072.

"**Issuer**" means East Slope Residencies PLC, a public limited company incorporated with limited liability in England and Wales (registered number 10434484).

"**Master Definitions Schedule**" means the master definitions schedule dated on or about the date hereof between, amongst others, the Obligors, the Bond Trustee, the Financial Guarantor and AGM, without regard to any amendment, modification or supplement thereto other than any such amendment, modification or supplement made in accordance with the provisions of such master definitions schedule with the prior written consent of the Financial Guarantor and AGM.

"**Moody's**" means Moody's Investors Service, Inc.

"**Nonpayment by the Issuer**" means, with respect to a Guaranteed Amount at a time when such Guaranteed Amount is Due for Payment, that the funds, if any, remitted to any Agent or the Bond Trustee under the terms of the Guaranteed Bonds or the Bond Trust Deed for payment to Guaranteed Bondholders are insufficient for payment in full of such Guaranteed Amount. In addition to and without limiting the foregoing, "Nonpayment by the Issuer" applies to any portion of any Guaranteed Amount that has become an Avoided Payment.

"**Notice of Demand**" means a notice of demand in the form of the Annex hereto.

"**Obligors**" means the Issuer, ProjectCo, IntermediateCo and University SubCo and "**Obligor**" means any of them.

"**Order**" means a final, non-appealable order of a court or other body exercising jurisdiction in an Insolvency Proceeding by or against the Issuer, to the effect that the Bond Trustee, any Agent or any Guaranteed Bondholder is required to return or repay all or any portion of an Avoided Payment.

"**ProjectCo**" means East Slope Residencies Student Accommodation Limited Liability Partnership, a limited liability partnership incorporated in England under the Companies Act 2006 with registered number OC414649.

"**Rating Agencies**" means Moody's and S&PGR and such rating agencies as may be substituted for either such rating agency from time to time in accordance with the provisions of the Bond Trust Deed with the prior written consent of the Financial Guarantor and AGM.

"**Receipt**" and "**Received**" shall mean actual delivery to the Financial Guarantor prior to 12:00 noon, London time, on a Business Day; provided, however, that delivery either on a day that is not a Business Day, or after 12:00 noon, London time, on a Business Day, shall be deemed to be "**Received**" on the next succeeding Business Day. For purposes of this definition, "**actual delivery**" to the Financial Guarantor shall mean (i) the delivery of the original Notice of Demand, notice or other applicable documentation to the Financial Guarantor's address for notices in accordance with Clause 11 (*Notices*), or (ii) fax transmission of the original Notice of Demand, notice or other applicable documentation to the Financial Guarantor's fax number for notices in accordance with Clause 11 (*Notices*). If presentation is made by fax transmission, the Bond Trustee (a) shall promptly confirm transmission by telephone to the Financial Guarantor at its telephone number referred to in Clause 11 (*Notices*), and (b) as soon as is reasonably practicable, shall deliver the original Notice of Demand, notice or other applicable documentation to the Financial Guarantor's address for notices in accordance with Clause 11 (*Notices*). If any Notice of Demand, notice or other documentation actually delivered (or attempted to be delivered) under the Financial Guarantee by the Bond Trustee is not in proper form or is not properly completed, executed or delivered, "**Receipt**" by the Financial Guarantor shall be deemed not to have occurred, and the Financial Guarantor shall promptly so advise the Bond Trustee of such deficiency and the nature of the deficiency. In such case, the Bond Trustee may submit an amended or corrected Notice of Demand, notice or other documentation, as the case may be, to the Financial Guarantor.

"**Recovery**" has the meaning set out in Clause 3.2.

"**S&PGR**" means Standard and Poor's Global Ratings.

"**Scheduled Interest**" means, in respect of a Scheduled Payment Date, the amount of scheduled interest on the Guaranteed Bonds then payable in accordance with the original terms of the relevant Conditions, (i) without regard to any amendment or modification of such terms other than any amendment or modification of such terms made in accordance with the provisions of the Bond Trust Deed with the prior written consent of the Financial Guarantor and AGM; and (ii) after giving effect to each amount of principal repaid or prepaid by the Issuer pursuant to the relevant Conditions or otherwise paid following enforcement in accordance with Condition 16 (*Exercise and Enforcement*).

"**Scheduled Payment Date**" has the meaning given to it in the Conditions.

"**Scheduled Principal**" means, in respect of a Scheduled Payment Date, the amount of scheduled principal payable on the Guaranteed Bonds on such Scheduled Payment Date in accordance with

Condition 9(a) (*Scheduled Payments*), in accordance with the original terms of the Conditions without regard to any amendment or modification of such terms other than any amendment or modification of such terms made in accordance with the provisions of the Bond Trust Deed with the prior written consent of the Financial Guarantor and AGM, as reduced by each amount of principal repaid or prepaid by the Issuer pursuant to the relevant Conditions or otherwise paid following enforcement in accordance with Condition 16 (*Exercise and Enforcement*).

"**Security Trust and Intercreditor Deed**" means the security trust and intercreditor deed dated on or about the date hereof, between amongst others, the Obligors, the Financial Guarantor, AGM, the Security Trustee and the Bond Trustee, without regard to any amendment, modification or supplement thereto other than any such amendment, modification or supplement made in accordance with the provisions of such security trust and intercreditor deed with the prior written consent of the Financial Guarantor and AGM.

"**Shareholder**" has the meaning given to it in the Master Definitions Schedule.

"**Term of the Financial Guarantee**" means the period from and including the date hereof to and including the earlier of:

(A) the termination of this Financial Guarantee in accordance with Condition 2(b) (*Financial Guarantees*); and

(B) the last to occur of the following:

(i) the date on which all Guaranteed Amounts have been paid under the Guaranteed Bonds;

(ii) the date on which any period during which any Guaranteed Amount could have become, in whole or in part, an Avoided Payment has expired; and

(iii) if the Issuer becomes subject to any Insolvency Proceedings before the occurrence of (i) and (ii) above, the later of (a) the date of the conclusion or dismissal of the Insolvency Proceedings without continuing jurisdiction by the court in such Insolvency Proceedings and (b) if the Bond Trustee or any Guaranteed Bondholder is required to return any payment (or portion thereof) in respect of a Guaranteed Amount that is avoided as a result of such Insolvency Proceedings, the date on which the Financial Guarantor has made all payments required to be made under this Financial Guarantee to or to the order of the Bond Trustee in respect of all such Avoided Payments.

1.2 **Construction**

In this Financial Guarantee, a reference to:

1.2.1 a statutory provision includes a reference to the statutory provision as modified or re-enacted or both from time to time whether before or after the date of this Financial Guarantee and any subordinate legislation made or other thing done under the statutory provision whether before or after the date of this Financial Guarantee;

1.2.2 the singular includes the plural and vice versa (unless the context otherwise requires);

1.2.3 a time of day is a reference to the time in London, unless a contrary indication appears;

1.2.4 each reference to "Clause" or to "Annex", unless the context otherwise requires, is a reference to a clause of or an annex to this Financial Guarantee;

1.2.5 a "**Person**" includes any individual, company, corporation, unincorporated association or body (including a partnership, trust, joint venture or consortium), government, state, agency, organisation or other entity whether or not having separate legal personality; and

1.2.6 a provision of law is a reference to that provision as extended, applied, amended or re-enacted and includes any subordinate legislation.

1.3 **Headings**

The headings in this Financial Guarantee do not affect its construction or interpretation.

2. Guarantee

2.1 In consideration of the payment by the Issuer of the Financial Guarantee Fee and subject to the terms of this Financial Guarantee, the Financial Guarantor unconditionally and irrevocably guarantees to the Bond Trustee during the Term of the Financial Guarantee the full and complete payment of the AGE Proportion of:

2.1.1 Guaranteed Amounts that are Due for Payment but are unpaid by reason of Nonpayment by the Issuer, and

2.1.2 Avoided Payments;

provided that any payment by AGM under the AGM Financial Guarantee in respect of the AGE Proportion of any Defaulted Amount shall constitute a discharge of the Financial Guarantor's obligation to make such payment to the Bond Trustee.

2.2 This Financial Guarantee does not guarantee any prepayment or other accelerated payment which at any time may become due in respect of any Guaranteed Amount, other than at the sole option of the Financial Guarantor as specified in Clause 4 (*Acceleration*) of this Financial Guarantee, nor against any risk other than Nonpayment by the Issuer, including failure of the Bond Trustee or any Agent to make any payment due to the Guaranteed Bondholders or any diminution in the market or fair value of the Guaranteed Bonds.

3. Payments by the Financial Guarantor

3.1 Following Receipt by the Financial Guarantor of a Notice of Demand in accordance with Clause 8 (*Notice of Demand*) from the Bond Trustee for any Defaulted Amount, the Financial Guarantor will, subject to Clause 7.5, pay the AGE Proportion of the Defaulted Amount to the Bond Trustee by no later than 10.00 a.m., London time, on the later of:

3.1.1 the date such Defaulted Amount becomes Due for Payment; and

3.1.2 the fourth Business Day following the day on which the Financial Guarantor Received such Notice of Demand.

3.2 In the event that any amount shall be received by the Bond Trustee or the Bond Trustee has actual notice that any Guaranteed Bondholder has received any amount in respect of a Defaulted Amount forming the basis of a claim specified in a Notice of Demand submitted hereunder, which amount had not been received by the Bond Trustee, or which the Bond Trustee did not have actual notice had been received by a Guaranteed Bondholder when the Notice of Demand was prepared but which is received by the Bond Trustee or the Bond Trustee has actual notice has been received by such Guaranteed Bondholder prior to the receipt of payment from the Financial Guarantor as contemplated by this Financial Guarantee (each such amount, a "**Recovery**"), the Bond Trustee shall promptly so notify the Financial Guarantor (which notice shall include the amount of any such Recovery). The fact that a Recovery has been received by the Bond Trustee or the Bond Trustee has actual notice that a Recovery has been received by such Guaranteed Bondholder shall be deemed to be incorporated in the applicable Notice of Demand as of the date such Notice of Demand was

originally prepared, without the need for any further action by any Person, and the Financial Guarantor shall pay the amount of the claim against the Financial Guarantor specified in paragraph (ii) of the Notice of Demand less the sum of the AGE Proportion of all such Recoveries.

3.3 The Financial Guarantor shall be entitled to elect, in its absolute discretion, to pay part or all of any Defaulted Amount to any such bank account as is specified by the Bond Trustee without the need for the Financial Guarantor to have Received, and irrespective of whether the Financial Guarantor shall have Received, a Notice of Demand therefor. Any such payment shall be considered a payment by the Financial Guarantor under this Financial Guarantee for all purposes. If requested by the Financial Guarantor, the Bond Trustee shall promptly deliver to the Financial Guarantor a properly completed and executed Notice of Demand in respect of any such payment made or to be made by the Financial Guarantor.

3.4 Payments due hereunder in respect of Guaranteed Amounts will be disbursed to or to the order of the Bond Trustee and credited (in immediately available funds) to the bank account (the "**Account**") specified by the Bond Trustee in the applicable Notice of Demand or pursuant to Clause 3.3 or Clause 4.2. Payment in full to the Account shall discharge the obligations of the Financial Guarantor under this Financial Guarantee to the extent of such payment, whether or not such payment is properly applied by or on behalf of the Bond Trustee or any Agent.

3.5 Once payment by or on behalf of the Financial Guarantor of an amount in respect of any Guaranteed Amount (whether on a Scheduled Payment Date or pursuant to Clause 3.3 or on an accelerated basis pursuant to Clause 4.2) has been made to the Account, the Financial Guarantor shall have no further obligations under this Financial Guarantee in respect of such Guaranteed Amount to the extent of such payment.

4. Acceleration

4.1 At any time or from time to time following Acceleration, the Financial Guarantor may decide, in its absolute discretion, to make an Accelerated Payment under this Financial Guarantee without the need for the Financial Guarantor to have Received, and irrespective of whether the Financial Guarantor shall have Received, a Notice of Demand.

4.2 The Financial Guarantor shall notify the Bond Trustee in writing of its intention to make an Accelerated Payment and the proposed date of such payment, no later than two Business Days prior to such proposed date of payment. Any such Accelerated Payment shall be considered a payment by the Financial Guarantor under this Financial Guarantee for all purposes. If so requested by the Financial Guarantor at the time the Financial Guarantor gives such written notice, the Bond Trustee shall deliver to the Financial Guarantor and AGM a corresponding Notice of Demand.

5. Withholding Tax

All payments by the Financial Guarantor to or to the order of the Bond Trustee under this Financial Guarantee shall be made without withholding or deduction for, or on account of, any taxes, duties, assessments or other governmental charges of whatever nature imposed, levied, collected, withheld or assessed by any sovereign state, or any political subdivision or governmental or taxing authority therein or thereof unless such withholding or deduction is required by law. If any withholding or deduction is so required by law, the Financial Guarantor shall pay such amounts net of such withholding or deduction and shall account to the appropriate tax authority for the amount required to be withheld or deducted. The Financial Guarantor shall not be obliged to pay any amount to or to the order of the Bond Trustee in respect of the amount of such withholding or deduction.

6. Subrogation

6.1 The Financial Guarantor will be fully, immediately and automatically subrogated to the Guaranteed Bondholders' and the Bond Trustee's rights to payment of the Guaranteed

Amounts, and to any rights relating thereto, to the fullest extent permitted by applicable law to the extent and at the time of any payments made by or on behalf of the Financial Guarantor under this Financial Guarantee, including, for the avoidance of doubt, any Accelerated Payment.

6.2 Any payment made by or on behalf of the Issuer to or for the benefit of the Bond Trustee or any Guaranteed Bondholder in respect of any Guaranteed Amount forming the basis of a claim hereunder (and a corresponding claim under this Financial Guarantee and/or the AGM Financial Guarantee, which claims shall have been paid in full by the Financial Guarantor and AGM respectively) shall be received and held on trust by the recipient for the benefit of the Financial Guarantor and AGM and shall be paid by the recipient over to the Financial Guarantor and AGM *pro rata* in proportion to the respective amounts paid (i) by the Financial Guarantor in respect of a claim made pursuant to this Financial Guarantee, and (ii) by AGM in respect of the related claim made pursuant to the AGM Financial Guarantee.

7. Waiver of Defences

7.1 The obligations of the Financial Guarantor under this Financial Guarantee will continue and will not be terminable other than in accordance with Clause 12 (*Termination and Amendment*) of this Financial Guarantee notwithstanding failure to receive payment of the Financial Guarantee Fee or any other amount due in respect of this Financial Guarantee. The Financial Guarantee Fee is not refundable for any reason.

7.2 The Financial Guarantor acknowledges that there is no duty of disclosure by the Bond Trustee under this Financial Guarantee but nonetheless, to the fullest extent permitted by applicable law, hereby waives for the benefit of the Bond Trustee and the Guaranteed Bondholders and agrees not to assert any and all rights (whether by counterclaim, rescission, set-off or otherwise) and any and all equities and defences howsoever arising (including, without limitation, any right, equity or defence based on: (a) any right to require the Bond Trustee or any Guaranteed Bondholder first to proceed against or to enforce any other rights or security against, or to claim payment from, any Person before the Bond Trustee may claim from the Financial Guarantor under this Financial Guarantee; (b) fraud on the part of any Person (including fraud on the part of any agent for the Bond Trustee, but excluding fraud by the Bond Trustee itself); (c) misrepresentation, breach of warranty or non-disclosure of information by any Person; (d) any lack of validity or enforceability of the Guaranteed Bonds or the Bond Trust Deed; (e) any modification or any amendment to the Guaranteed Bonds or the Bond Trust Deed; (f) the granting of any time, indulgence or concession by any Person to the Issuer; (g) any insolvency or similar proceedings in respect of the Issuer or any other Person; (h) any lack of capacity, power or authority or any change in status of the Issuer or any other Person; or (i) the refusal or failure to take up, to hold, to perfect or to enforce by any Person any rights under or in connection with any guarantee, indemnity, security or other document) to the extent such rights, equities and defences may be available to the Financial Guarantor to avoid payment of its obligations under this Financial Guarantee in accordance with the express provisions hereof.

7.3 No warranties are given and nothing in this Financial Guarantee is intended to constitute a warranty or a condition precedent to payment under the Financial Guarantee other than Receipt of a Notice of Demand in accordance with Clause 8 (*Notice of Demand*) of this Financial Guarantee.

7.4 Nothing in this Financial Guarantee shall be construed in any way to limit or otherwise affect the Financial Guarantor's right to pursue recovery or claims (based on contractual or other rights, including to the extent applicable such rights resulting from any Person's fraud, negligence or breach of any agreement to which it is a party) for reimbursement against any Persons for any liabilities, losses, damages, costs and expenses incurred by the Financial Guarantor or to exercise at any time any other remedies that may be available to the Financial Guarantor at law or in equity.

7.5 Nothing in this Financial Guarantee shall be construed to require payment by the Financial Guarantor so long as a Force Majeure Event is continuing, in which event the Financial Guarantor agrees to perform its obligations under this Financial Guarantee promptly following cessation of such Force Majeure Event.

8. Notice of Demand

8.1 Subject to Clauses 2.2, 3.3 and 4 (*Acceleration*) of this Financial Guarantee, payments of Guaranteed Amounts (including Avoided Payments) will only be made after presentation of a properly completed Notice of Demand signed by the Bond Trustee and Received by the Financial Guarantor.

8.2 Notices of Demand can only be given by the Bond Trustee in the manner set out in Clause 11 (*Notices*).

8.3 Without limitation to the Financial Guarantor's obligations under Clause 8.5, if any Notice of Demand is not in the proper form or is not properly completed, executed or delivered, the Financial Guarantor will not be deemed to have Received such Notice of Demand.

8.4 Any Notice of Demand in respect of an Avoided Payment will not be deemed properly completed unless it is accompanied by:

8.4.1 a copy of the Order; and

8.4.2 a certificate of the Bond Trustee that the Order has been entered and that, on the basis of legal advice received by the Bond Trustee, the Order is not subject to any stay and specifying (to the extent that the Bond Trustee has actual knowledge sufficient to do so) the Guaranteed Amounts that are Avoided Payments.

8.5 The Financial Guarantor will promptly advise the Bond Trustee if a Notice of Demand is not in the proper form or has not been properly completed, executed or delivered and the Bond Trustee may submit an amended Notice of Demand to the Financial Guarantor.

9. Fiscal Agent

9.1 At any time during the Term of the Financial Guarantee, the Financial Guarantor may appoint a fiscal agent (the "**Fiscal Agent**") for purposes of this Financial Guarantee by written notice to the Bond Trustee, specifying the name and notice address of such Fiscal Agent. From and after the date of receipt of such notice by the Bond Trustee:

9.1.1 copies of all notices (including Notices of Demand) and other documents required to be delivered to the Financial Guarantor pursuant to this Financial Guarantee shall be simultaneously delivered to the Fiscal Agent and to the Financial Guarantor; and

9.1.2 all payments required to be made by the Financial Guarantor under this Financial Guarantee may be made directly by the Financial Guarantor or by the Fiscal Agent on behalf of the Financial Guarantor.

9.2 The Fiscal Agent is the agent of the Financial Guarantor only, and the Fiscal Agent shall in no event be liable to the Bond Trustee for any acts of the Fiscal Agent or any failure of the Financial Guarantor to deposit, or cause to be deposited, sufficient funds to make payments due under this Financial Guarantee.

10. Transfer

10.1 The rights and obligations of the Financial Guarantor under this Financial Guarantee may be assigned or transferred to, or assumed by, any Affiliate of the Financial Guarantor provided that:

10.1.1 no Financial Guarantor Default has occurred and is continuing at the time of such assignment, transfer or assumption or would occur as a result of such assignment, transfer or assumption;

10.1.2 the Financial Guarantor or such assignee, transferee or party assuming such rights and obligations delivers to the Bond Trustee written confirmation from the Rating Agencies that, at the time of and immediately following any such assignment, transfer or assumption, the financial strength or claims paying ability of such affiliate will be rated at least equal to the financial strength or claims paying ability of the Financial Guarantor at that time or, if such assignment, transfer or assumption is in connection with remedying a Financial Guarantor Downgrade Event pursuant to Condition 2(b) (*Financial Guarantees*), the financial strength or claims paying ability of such affiliate will be rated as required under such Condition; and

10.1.3 the Financial Guarantor or such assignee, transferee or party assuming such rights and obligations thereafter delivers to the Bond Trustee written notice of any such assignment, transfer or assumption.

10.2 The Bond Trustee may not transfer, assign, sub-participate, declare a trust over or otherwise dispose (other than in favour of the Guaranteed Bondholders) of any of its rights under this Financial Guarantee except to a Person as to whom the Financial Guarantor has given its prior written consent. However, if the Bond Trustee transfers or assigns its rights and obligations under the Bond Trust Deed to a new or additional trustee which has been appointed in accordance with the Bond Trust Deed, no such consent shall be required and such new or additional trustee will be able to enforce this Financial Guarantee and references in this Financial Guarantee to "**Bond Trustee**" shall be construed as including such new trustee or such additional trustee, as applicable.

11. Notices

11.1 All notices given under this Financial Guarantee shall be in writing (except as otherwise specifically provided herein) and shall be mailed by registered mail or personally delivered or faxed (or emailed, if the recipient has specified an email address) as follows:

To the Financial Guarantor:

Assured Guaranty (Europe) Ltd.
11th Floor
6 Bevis Marks
London, EC3A 7BA

Re: University of Sussex, Financial Guarantee No. 80180-U
Attention: Managing Director
Fax: +44 207 562 1901
Email: SurvPFIreports@assuredguaranty.com

with a copy to the General Counsel at the above address and fax number. Each Notice of Demand shall be marked to indicate URGENT MATERIAL ENCLOSED.

To the Bond Trustee:

BNY Mellon Corporate Trustee Services Limited
1 Canada Square
London
E145AL

Attention: Trustee Administration Manager
Fax: +44 (0)207 964 2509

If presentation to the Bond Trustee is made by fax transmission, the Financial Guarantor, as soon as is reasonably practicable, shall deliver the original notice or other applicable documentation to the Bond Trustee's address for notices in accordance with this Clause 11 (Notices).

11.2 The Financial Guarantor or the Bond Trustee may designate an additional or different address, or telephone or fax number, by prior written notice. Each notice, presentation, delivery and communication to the Financial Guarantor or the Bond Trustee shall be effective only upon Receipt by the Financial Guarantor or actual receipt by the Bond Trustee, as the case may be.

12. Termination and Amendment

12.1 This Financial Guarantee is not cancellable by the Financial Guarantor for any reason, including, without limitation, the failure of the Financial Guarantor to receive payment of any Financial Guarantee Fee due in respect of this Financial Guarantee.

12.2 This Financial Guarantee and the obligations of the Financial Guarantor hereunder shall terminate upon the expiration of the Term of the Financial Guarantee.

12.3 This Financial Guarantee may not be amended, modified or supplemented without the prior written consent of the Bond Trustee.

13. Miscellaneous

No waiver of any rights or powers of the Financial Guarantor or the Bond Trustee, or any consent by either of them, shall be valid unless in writing and signed by an authorised officer or agent of the Financial Guarantor or the Bond Trustee, as applicable. The waiver of any right by the Financial Guarantor or the Bond Trustee, or the failure promptly to exercise any such right, shall not be construed as a waiver of any right to exercise the same or any other right at any time thereafter.

14. Law and Jurisdiction

14.1 This Financial Guarantee, and any non-contractual obligations arising out of or in connection with it, shall be governed by, and construed in accordance with, the laws of England and Wales.

14.2 With respect to any suit, action or proceedings relating to this Financial Guarantee ("**Proceedings**"), the Financial Guarantor irrevocably submits to the jurisdiction of the English courts and waives any objection which it may have at any time to the laying of venue of any Proceedings brought in any such court, waives any claim that such Proceedings have been brought in an inconvenient forum and further waives the right to object, with respect to such Proceedings that such court does not have any jurisdiction over such party.

15. Entire Agreement

This Financial Guarantee constitutes the entire agreement between the Financial Guarantor and the Bond Trustee in relation to the Financial Guarantor's obligation to make payments to the Bond Trustee for the benefit of the Guaranteed Bondholders in respect of the Guaranteed Amounts which become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer, and supersedes any previous agreement between the Financial Guarantor and the Bond Trustee in relation thereto.

16. Third Party Rights

No Person other than the Bond Trustee shall have rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Financial Guarantee but this shall not affect any such right any Person may have otherwise than by virtue of such Act.

17. Surrender of Financial Guarantee

The Bond Trustee shall deliver its original engrossment of this Financial Guarantee to the Financial Guarantor upon expiration of the Term of this Financial Guarantee.

In Witness Whereof, this Financial Guarantee has been executed as a deed and delivered on the date inserted above.

EXECUTED as a DEED for and on behalf of
ASSURED GUARANTY (EUROPE) LTD. by:

Authorised signatory

in the presence of

Signature of Witness:
Name of Witness:
Address:
Occupation:

ANNEX

NOTICE OF DEMAND

Assured Guaranty (Europe) Ltd.
11th Floor
6 Bevis Marks
London, EC3A 7BA

Assured Guaranty Municipal Corp.
1633 Broadway
New York, NY 10019, USA

Attention:

Chief Surveillance Officer

and

General Counsel

The undersigned, BNY Mellon Corporate Trustee Services Limited as Bond Trustee (the "**Bond Trustee**"), hereby certifies to each of Assured Guaranty (Europe) Ltd. ("**AGE**") and Assured Guaranty Municipal Corp. ("**AGM**" and, together with AGE, the "**Financial Guarantors**") with reference to Financial Guarantee Number 80180-U (the "**AGE Financial Guarantee**") and Financial Guarantee Number 51931-N (the "**AGM Financial Guarantee**" and, together with the AGE Financial Guarantee, the "**Financial Guarantees**") that:

(i) [The Guaranteed Amount[s] that [is/are] due and payable on the Scheduled Payment Date falling on [insert applicable payment date] [is/are] [●][insert applicable amount]./The Guaranteed Amount[s] that [was/were] paid, credited, transferred or delivered to or to the order of the Bond Trustee or the Guaranteed Bondholders by or on behalf of the Issuer in accordance with the terms of the Bond Trust Deed and/or the Guaranteed Bonds on [insert applicable payment date] of [●][insert applicable amount] [was/were] recovered from, or was otherwise required to be returned or repaid by, the Bond Trustee or [a/the] Guaranteed Bondholder[s] as a result of Insolvency Proceedings by or against the Issuer on [insert applicable repayment date].]

(ii) [The deficiency with respect to the Guaranteed Amount Due for Payment and unpaid by reason of Nonpayment by the Issuer on the Scheduled Payment Date falling on [insert applicable payment date] is [●][insert applicable amount] (the "**Defaulted Amount**"), the AGE Proportion of such Defaulted Amount is [●] and the AGM Proportion of such Defaulted Amount is [●]]/[The Bond Trustee has been notified by the Account Bank that the deficiency in respect of the Guaranteed Amount[s] which [is/are] Due for Payment on the Scheduled Payment Date falling on [insert applicable payment date] will be [●] [insert applicable amount] (the "**Defaulted Amount**"). The AGE Proportion of such Defaulted Amount is [●] and the AGM Proportion of such Defaulted Amount is [●]].

(iii) The Bond Trustee is making (a) a claim against AGE under the AGE Financial Guarantee for the AGE Proportion of the Defaulted Amount, and (b) a claim against AGM under the AGM Financial Guarantee for the AGM Proportion of the Defaulted Amount, with each such amount to be applied to the payment of the above-described Guaranteed Amount[s].

(iv) To the extent that AGE does not pay the AGE Proportion of any Defaulted Amount when due and payable by AGE in accordance with the terms of the AGE Financial Guarantee, the Bond Trustee is making a claim against AGM under Clause 3.1.2 of the AGM Financial Guarantee for such amount. The Bond Trustee agrees that any payment by AGM of such amount shall discharge AGE from any obligation to make such payment under the AGE Financial Guarantee.

(v) The Bond Trustee agrees that following any payment by the Financial Guarantors made with respect to the Defaulted Amount which is the subject of this Notice of Demand, it (a) will cause such amounts to be applied directly to the payment of the applicable Guaranteed Amount[s] in accordance with Clause 7.9 of the Bond Trust Deed; (b) will ensure that such funds are not applied for any other purpose; and (c) will cause an accurate record of such payment to be maintained with respect to the appropriate Guaranteed Amount(s), the corresponding claim on each Financial Guarantee, and the proceeds of such claim.

(vi) Payments should be made by credit to the following account:

[(insert details of bank account)] (the "**Account**").

Capitalised terms used in this Notice of Demand and not otherwise defined herein shall have the respective meanings ascribed thereto in or pursuant to the applicable Financial Guarantee.

This Notice of Demand may be revoked at any time by written notice of such revocation by the Bond Trustee to each Financial Guarantor, if and only to the extent that moneys are actually received by the Bond Trustee prior to any such revocation from a source other than the Financial Guarantors with respect to the Defaulted Amount set forth herein. The Bond Trustee will withdraw this Notice of Demand, or submit a restated Notice of Demand reducing the amount of the claim hereunder, if the required amount of the Defaulted Amount and accordingly each of the AGE Proportion and the AGM Proportion thereof has been reduced (including reduction to zero) on or prior to the date the Financial Guarantors are required to make payment under the Financial Guarantees.

If the Bond Trustee has received, or the Bond Trustee has actual notice that one or more Guaranteed Bondholders has received, from the Issuer or the Financial Guarantors an amount in excess of a Defaulted Amount, the Bond Trustee shall promptly return to each Financial Guarantor the lesser of (i) such Financial Guarantor's proportionate share in such excess amount (such share being calculated by a fraction equal to the amount of the Defaulted Amount paid by the relevant Financial Guarantor to or to the order of the Bond Trustee divided by the total Defaulted Amount paid by both Financial Guarantors to or to the order of the Bond Trustee) and (ii) the amount of the Defaulted Amount paid by the relevant Financial Guarantor to or to the order of the Bond Trustee and not previously distributed by the Bond Trustee to the Guaranteed Bondholders or to any insolvency official appointed in respect of the Issuer. For the avoidance of doubt the Bond Trustee shall only be required to repay any such amounts to the Financial Guarantors that are in the Bond Trustee's possession and under its control, at the time it becomes aware of the requirement to repay such amounts, and the Bond Trustee shall have no liability to any Person for any amounts received by the Bond Trustee from the Financial Guarantors but distributed by the Bond Trustee in accordance with the preceding sentence.

The Bond Trustee acknowledges that as of the date on which any payment by the relevant Financial Guarantor towards a Defaulted Amount is credited to the Account, the relevant Financial Guarantor shall be deemed fully, immediately and automatically subrogated, to the fullest extent permitted by applicable law, to the rights (including, without limitation, any rights and benefits attached thereto, and any security granted at law, by contract or otherwise) of the Guaranteed Bondholders to payment of the Guaranteed Amounts to the extent and at the time of such payment by the relevant Financial Guarantor towards the Defaulted Amount.

The Bond Trustee hereby (i) assigns to each Financial Guarantor its rights to receive any payment for the account of the Guaranteed Bondholders from the Issuer in respect of the Guaranteed Bonds to the extent of any payments made to (or to the order of) the Bond Trustee by the relevant Financial Guarantor under the applicable Financial Guarantee, including without limitation its right to receive payments of principal and interest on the Guaranteed Bonds (including Recoveries), and (ii) confirms that it has taken or will promptly take all steps reasonably required by, and at the expense of, the Financial Guarantors to effect and perfect such assignments to the Financial Guarantors. The foregoing assignments are in addition to, and not in limitation of, rights of subrogation otherwise available to each Financial Guarantor in respect of such payments. Payments to each Financial Guarantor in respect of the foregoing assignment shall in all cases be subject to and subordinate to the rights of the Bond Trustee to receive all Guaranteed Amounts in respect of the Guaranteed Bonds. The Bond Trustee shall cooperate in all reasonable respects, and at the expense of the Financial Guarantors, with any request

by either Financial Guarantor for action necessary to preserve or enforce such Financial Guarantor's rights and remedies, any related security arrangements or otherwise in relation to such subrogation. The Bond Trustee shall also, at the expense of the Financial Guarantors, deliver any such instruments as may be reasonably requested or required by the Financial Guarantors to effectuate the purpose or provisions of this paragraph.

Any payment made by or on behalf of the Issuer to or for the benefit of the Bond Trustee in respect of any Guaranteed Amount forming the basis of a claim hereunder (which claim shall have been paid in full by the Financial Guarantors) shall be received and held on trust for the benefit of the Financial Guarantors and shall be paid over to each Financial Guarantor *pro rata* in proportion to the respective amounts each Financial Guarantor paid in respect of the Defaulted Amount.

The Bond Trustee hereby agrees that so long as no Financial Guarantor Default shall have occurred and be continuing, each Financial Guarantor may at any time during the continuation of any Insolvency Proceeding by or against the Issuer under any applicable law direct all matters relating thereto, including without limitation, (a) all matters relating to any claim in connection with an Insolvency Proceeding by or against the Issuer seeking the avoidance as a preferential transfer of any payment made with respect to the Guaranteed Bonds (a "**Preference Claim**"), (b) the direction of any appeal of any order relating to any Preference Claim at the expense of the Financial Guarantors and (c) the posting of any surety or performance bond pending any such appeal.

[Pursuant to Clause 8.4 of the Financial Guarantee, the following documents are attached:

- a copy of the Order; and
- a certificate of the Bond Trustee that the Order has been entered and that, on the basis of legal advice received by the Bond Trustee, the Order is not subject to any stay and specifying (to the extent that the Bond Trustee has actual knowledge sufficient to do so), the Guaranteed Amounts that are Avoided Payments.*]

* To be inserted if demand relates to Avoided Payments.

This Notice of Demand, and any non-contractual obligations arising out of or in connection with it, shall be governed by, and construed in accordance with, the laws of England and Wales.

[With respect to any suit, action or proceedings relating to this Notice of Demand ("**Proceedings**"), the Bond Trustee irrevocably submits to the jurisdiction of the English courts and waives any objection which it may have at any time to the laying of venue of any Proceedings brought in any such court, waives any claim that such Proceedings have been brought in an inconvenient forum and further waives the right to object, with respect to such Proceedings that such court does not have any jurisdiction over it.**]

** For use when the Bond Trustee is not incorporated in England and Wales.

No Person, other than each Financial Guarantor, shall have any right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Notice of Demand but this shall not affect any such right any Person may have otherwise than by virtue of such Act.

In Witness Whereof, the undersigned has executed and delivered this Notice of Demand as a deed on the __ day of _________ of 2__.

EXECUTED as a DEED for and on behalf of
BNY MELLON CORPORATE TRUSTEE
SERVICES LIMITED acting by two of its lawful Attorneys:

Attorney

Attorney

in the presence of

Signature of Witness:
Name of Witness:
Address:
Occupation:

For the Financial Guarantor or
Fiscal Agent Use Only
Wire transfer sent on By:
Confirmation Number:

FORM OF AGM FINANCIAL GUARANTEE

Dated 31 March 2017

ASSURED GUARANTY MUNICIPAL CORP.

FINANCIAL GUARANTEE No. 51931-N

in respect of

£185,670,000 0.10 per cent. Index-Linked Guaranteed Secured Bonds due 28 February 2062

This Financial Guarantee is dated 31 March 2017 and given by Assured Guaranty Municipal Corp. with its principal place of business at 1633 Broadway, New York, NY 10019, USA (the "**Financial Guarantor**") in favour of BNY Mellon Corporate Trustee Services Limited, as trustee for the holders of the Guaranteed Bonds (as defined below) (the "**Bond Trustee**", which expression shall, whenever the context admits, include such Persons for the time being the trustee or trustees of the Bond Trust Deed for the Guaranteed Bondholders).

1. Interpretation

1.1 Definitions

Any capitalised terms used in this Financial Guarantee and not otherwise defined shall have the meaning given to such terms in the Bond Trust Deed or the Master Definitions Schedule (each as defined below) unless the context otherwise requires. In the event of any inconsistency between the provisions of this Financial Guarantee and the provisions of the Bond Trust Deed and/or the Collateral Deed, this Financial Guarantee shall prevail. For the purposes of this Financial Guarantee, the following terms will have the following meanings:

"**Accelerated Payment**" means, following an Acceleration, any payment in full or in part by the Financial Guarantor or AGE, at the Financial Guarantor's or AGE's absolute option, of all or part of the Scheduled Principal in advance of the final Scheduled Payment Date together with accrued but unpaid Scheduled Interest on such Scheduled Principal to the date of such payment (but excluding any amounts referred to in items (i) to (iv) of the definition of "Guaranteed Amount"); provided that, during any time that, following an Acceleration, the Issuer is obligated to pay the Price-Adjusted Amount, "Accelerated Payment" means any payment in full or in part by the Financial Guarantor or AGE, at the Financial Guarantor's or AGE's absolute option, of all or part of the Price-Adjusted Amount together with accrued but unpaid Scheduled Interest on the Scheduled Principal to the date of such payment (but excluding any amounts referred to in items (i) to (iv) of the definition of "Guaranteed Amount" other than prepayment premium included in the Price-Adjusted Amount).

"**Acceleration**" means, in relation to the Guaranteed Bonds, the giving of notice by the Bond Trustee to the Issuer that the Guaranteed Bonds are immediately due and repayable pursuant to Condition 11 (*Events of Default*), and **Accelerated** will be construed accordingly.

"**Account**" has the meaning set out in Clause 3.4.

"**Affiliate**" has the meaning given to it in the Master Definitions Schedule.

"**AGE**" has the meaning given to it in the Bond Trust Deed.

"**AGE Financial Guarantee**" means the financial guarantee dated on or about the date hereof, provided by AGE as financial guarantor, without regard to any amendment, modification or supplement thereto other than any such amendment, modification or supplement made in accordance with Clause 12.3 thereof.

"**AGE Proportion**" means the proportion of the Financial Guarantees provided by AGE, which proportion is 8 per cent.

"**Agent**" means The Bank of New York Mellon, acting through its London Branch, as paying agent under the Guaranteed Bonds, and the term Agent shall include any successor to such Agent.

"**AGM Proportion**" means the proportion of the Financial Guarantees provided by the Financial Guarantor, which proportion is 92 per cent.

"**Avoided Payment**" means any amount that is paid, credited, transferred or delivered to or to the order of the Bond Trustee or a Guaranteed Bondholder by or on behalf of the Issuer in accordance with the terms of the Bond Trust Deed and/or the Guaranteed Bonds in respect of any Guaranteed Amount, which amount has been recovered from, or is otherwise required to be returned or repaid by, the Bond Trustee or a Guaranteed Bondholder as a result of Insolvency Proceedings by or against the Issuer.

BBI HoldCo means East Slope Residencies Holdings Limited, a company incorporated under the laws of England and Wales with registered number 10481670.

"**Bond Trust Deed**" means the bond trust deed dated on or about the date hereof between the Issuer, the Bond Trustee, the Financial Guarantor and AGE, without regard to any amendment, modification or supplement thereto other than any such amendment, modification or supplement made in accordance with the provisions of such bond trust deed with the prior written consent of the Financial Guarantor and AGE.

"**Business Day**" means any day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London and New York.

"**Collateral Deed**" means the collateral deed dated on or about the Issue Date between the Obligors, the Bond Trustee, the Security Trustee, the Financial Guarantor and AGE, without regard to any amendment, modification or supplement thereto other than any such amendment, modification or supplement made in accordance with the provisions of such collateral deed with the prior written consent of the Financial Guarantor and AGE.

"**Conditions**" means the terms and conditions of the Guaranteed Bonds as set out in Schedule 4 (*Conditions of the Bonds*) of the Bond Trust Deed, and "**Condition**" when used herein means such Condition as set out in Schedule 4 (*Conditions of the Bonds*) of the Bond Trust Deed and referred to herein.

"**Defaulted Amount**" means the portion of a Guaranteed Amount that is Due for Payment and unpaid by reason of Nonpayment by the Issuer, including any portion of any Guaranteed Amount that has become an Avoided Payment.

"**Due for Payment**" means, with respect to:

(a) Scheduled Interest on a Scheduled Payment Date, the amount of Scheduled Interest that is due and payable by the Issuer on such Scheduled Payment Date; and

(b) Scheduled Principal on a Scheduled Payment Date, the amount of Scheduled Principal that is due and payable by the Issuer on such Scheduled Payment Date,

in each case as each such Scheduled Payment Date occurs or would have occurred in accordance with the original terms of the Guaranteed Bonds and without regard to any prepayment, Acceleration or mandatory or optional redemption of the Guaranteed Bonds or any subsequent amendment or modification of the Guaranteed Bonds that has not been consented to in writing by the Financial Guarantor and AGE in accordance with the provisions of the Bond Trust Deed. For the avoidance of doubt, Due for Payment does not refer to any earlier date upon which payment of any Guaranteed Amounts may become due under the Guaranteed Bonds, by reason of prepayment, Acceleration, mandatory or optional redemption or otherwise.

"**Financial Guarantee**" means this Financial Guarantee No. 51931-N, without regard to any amendment, modification or supplement hereto other than any such amendment, modification or supplement made in accordance with Clause 12.3.

"**Financial Guarantees**" means this Financial Guarantee and the AGE Financial Guarantee.

"**Financial Guarantee Fee**" has the meaning given to it in the Financial Guarantee Fee Letter.

"**Financial Guarantee Fee Letter**" means the fee letter dated as of the date of this Financial Guarantee between the Financial Guarantor and the Obligors, without regard to any amendment, modification or supplement thereto other than any such amendment, modification or supplement made in accordance with the provisions of such fee letter with the prior written consent of the Financial Guarantor.

"**Financial Guarantor Default**" has the meaning given to it in the Security Trust and Intercreditor Deed.

"**Fiscal Agent**" has the meaning assigned thereto in Clause 9 (*Fiscal Agent*).

"**Force Majeure Event**" means any unforeseeable event outside the control of the Financial Guarantor that renders the Financial Guarantor's performance under this Financial Guarantee impossible (and not merely impracticable or more onerous).

"**Guaranteed Amount**" means, with respect to a Scheduled Payment Date:

(a) an amount equal to Scheduled Interest Due for Payment on the Guaranteed Bonds on such Scheduled Payment Date; plus

(b) an amount equal to the Scheduled Principal Due for Payment on the Guaranteed Bonds on such Scheduled Payment Date;

but excluding in each case any amounts due in respect of the Guaranteed Bonds:

(i) attributable to any increase in interest margin, penalty or other sum payable by the Issuer for whatever reason;

(ii) attributable to any present or future taxes, duties, withholding, deduction, assessment or other charge (including interest and penalties in respect of such taxes, duties, withholding, deduction, assessment or other charge) of whatever nature imposed, levied, collected, withheld or assessed by any sovereign state (including the United Kingdom), or any political subdivision or governmental or taxing authority therein or thereof;

(iii) attributable to any default interest;

(iv) attributable to any amount relating to prepayment, early redemption, broken-funding indemnities, penalties, premium, "spens", any make-whole amount or similar types of payments payable in respect of the Guaranteed Bonds; or

(v) in respect of which the Financial Guarantor or AGE has made an Accelerated Payment on or prior to such Scheduled Payment Date.

"**Guaranteed Bondholder**" means a holder of Guaranteed Bonds.

"**Guaranteed Bonds**" means the £185,670,000 0.10 per cent. index-linked guaranteed secured bonds due 28 February 2062 constituted by the Bond Trust Deed but excluding any such bonds that are held by or for the account of an Obligor or any Affiliate of an Obligor or Shareholder of any Obligor.

"**Insolvency Proceedings**" means the commencement after the date hereof of any bankruptcy, insolvency or similar proceedings by or against the Issuer, or the commencement after the date hereof of any proceedings by or against the Issuer for the winding up or the liquidation of its affairs, or the consent after the date hereof to the appointment of a trustee-in-bankruptcy, conservator, administrator, receiver or liquidator in any bankruptcy, insolvency or similar proceedings relating to the Issuer.

"**IntermediateCo**" means East Slope Residencies Partner Limited a company incorporated under the laws of England and Wales with registered number 10482072.

"**Issuer**" means East Slope Residencies PLC, a public limited company incorporated with limited liability in England and Wales (registered number 10434484).

"**Master Definitions Schedule**" means the master definitions schedule dated on or about the date hereof between, amongst others, the Obligors, the Bond Trustee, the Financial Guarantor and AGE, without regard to any amendment, modification or supplement thereto other than any such amendment, modification or supplement made in accordance with the provisions of such master definitions schedule with the prior written consent of the Financial Guarantor and AGE.

"**Moody's**" means Moody's Investors Service, Inc.

"**Nonpayment by the Issuer**" means, with respect to a Guaranteed Amount at a time when such Guaranteed Amount is Due for Payment, that the funds, if any, remitted to any Agent or the Bond Trustee under the terms of the Guaranteed Bonds or the Bond Trust Deed for payment to Guaranteed Bondholders are insufficient for payment in full of such Guaranteed Amount. In addition to and without limiting the foregoing, "Nonpayment by the Issuer" applies to any portion of any Guaranteed Amount that has become an Avoided Payment.

"**Notice of Demand**" means a notice of demand in the form of the Annex hereto.

"**Obligors**" means the Issuer, ProjectCo, IntermediateCo and University SubCo and "**Obligor**" means any of them.

"**Order**" means a final, non-appealable order of a court or other body exercising jurisdiction in an Insolvency Proceeding by or against the Issuer, to the effect that the Bond Trustee, any Agent or any Guaranteed Bondholder is required to return or repay all or any portion of an Avoided Payment.

"**ProjectCo**" means East Slope Residencies Student Accommodation Limited Liability Partnership, a limited liability partnership incorporated in England under the Companies Act 2006 with registered number OC414649.

"**Rating Agencies**" means Moody's and S&PGR and such rating agencies as may be substituted for either such rating agency from time to time in accordance with the provisions of the Bond Trust Deed with the prior written consent of the Financial Guarantor and AGE.

"**Receipt**" and "**Received**" shall mean actual delivery to the Financial Guarantor prior to 12:00 noon, London time, on a Business Day; provided, however, that delivery either on a day that is not a Business Day, or after 12:00 noon, London time, on a Business Day, shall be deemed to be "**Received**" on the next succeeding Business Day. For purposes of this definition, "**actual delivery**" to the Financial Guarantor shall mean (i) the delivery of the original Notice of Demand, notice or other applicable documentation to the Financial Guarantor's address for notices in accordance with Clause 11 (Notices), or (ii) fax transmission of the original Notice of Demand, notice or other applicable documentation to the Financial Guarantor's fax number for notices in accordance with Clause 11 (Notices). If presentation is made by fax transmission, the Bond Trustee (a) shall promptly confirm transmission by telephone to the Financial Guarantor at its telephone number referred to in Clause 11 (Notices), and (b) as soon as is reasonably practicable, shall deliver the original Notice of Demand, notice or other applicable documentation to the Financial Guarantor's address for notices in accordance with Clause 11 (Notices). If any Notice of Demand, notice or other documentation actually delivered (or attempted to be delivered) under the Financial Guarantee by the Bond Trustee is not in proper form or is not properly completed, executed or delivered, "**Receipt**" by the Financial Guarantor shall be deemed not to have occurred, and the Financial Guarantor shall promptly so advise the Bond Trustee of such deficiency and the nature of the deficiency. In such case, the Bond Trustee may submit an amended or corrected Notice of Demand, notice or other documentation, as the case may be, to the Financial Guarantor.

"**Recovery**" has the meaning set out in Clause 3.2.

"**S&PGR**" means Standard and Poor's Global Ratings.

"**Scheduled Interest**" means, in respect of a Scheduled Payment Date, the amount of scheduled interest on the Guaranteed Bonds then payable in accordance with the original terms of the relevant Conditions, (i) without regard to any amendment or modification of such terms other than any amendment or modification of such terms made in accordance with the provisions of the Bond Trust Deed with the prior written consent of the Financial Guarantor and AGE; and (ii) after giving effect to each amount of principal repaid or prepaid by the Issuer pursuant to the relevant Conditions or otherwise paid following enforcement in accordance with Condition 16 (*Exercise and Enforcement*).

"**Scheduled Payment Date**" has the meaning given to it in the Conditions.

Scheduled Principal" means, in respect of a Scheduled Payment Date, the amount of scheduled principal payable on the Guaranteed Bonds on such Scheduled Payment Date in accordance with

Condition 9(a) (*Scheduled Payments*), in accordance with the original terms of the Conditions without regard to any amendment or modification of such terms other than any amendment or modification of such terms made in accordance with the provisions of the Bond Trust Deed with the prior written consent of the Financial Guarantor and AGE as reduced by each amount of principal repaid or prepaid by the Issuer pursuant to the relevant Conditions or otherwise paid following enforcement in accordance with Condition 16 (*Exercise and Enforcement*).

"**Security Trust and Intercreditor Deed**" means the security trust and intercreditor deed dated on or about the date hereof, between amongst others, the Obligors, the Financial Guarantor, AGE, the Security Trustee and the Bond Trustee, without regard to any amendment, modification or supplement thereto other than any such amendment, modification or supplement made in accordance with the provisions of such security trust and intercreditor deed with the prior written consent of the Financial Guarantor and AGE.

"**Shareholder**" has the meaning given to it in the Master Definitions Schedule.

"**Term of the Financial Guarantee**" means the period from and including the date hereof to and including the earlier of:

(A) the termination of this Financial Guarantee in accordance with Condition 2(b) (*Financial Guarantees*); and

(B) the last to occur of the following:

(i) the date on which all Guaranteed Amounts have been paid under the Guaranteed Bonds;

(ii) the date on which any period during which any Guaranteed Amount could have become, in whole or in part, an Avoided Payment has expired; and

(iii) if the Issuer becomes subject to any Insolvency Proceedings before the occurrence of (i) and (ii) above, the later of (a) the date of the conclusion or dismissal of the Insolvency Proceedings without continuing jurisdiction by the court in such Insolvency Proceedings and (b) if the Bond Trustee or any Guaranteed Bondholder is required to return any payment (or portion thereof) in respect of a Guaranteed Amount that is avoided as a result of such Insolvency Proceedings, the date on which the Financial Guarantor has made all payments required to be made under this Financial Guarantee to or to the order of the Bond Trustee in respect of all such Avoided Payments.

1.2 Construction

In this Financial Guarantee, a reference to:

1.2.1 a statutory provision includes a reference to the statutory provision as modified or re-enacted or both from time to time whether before or after the date of this Financial Guarantee and any subordinate legislation made or other thing done under the statutory provision whether before or after the date of this Financial Guarantee;

1.2.2 the singular includes the plural and vice versa (unless the context otherwise requires);

1.2.3 a time of day is a reference to the time in London, unless a contrary indication appears;

1.2.4 each reference to "Clause" or to "Annex", unless the context otherwise requires, is a reference to a clause of or an annex to this Financial Guarantee;

1.2.5 a "Person" includes any individual, company, corporation, unincorporated association or body (including a partnership, trust, joint venture or consortium),

government, state, agency, organisation or other entity whether or not having separate legal personality; and

1.2.6 a provision of law is a reference to that provision as extended, applied, amended or re-enacted and includes any subordinate legislation.

1.3 Headings

The headings in this Financial Guarantee do not affect its construction or interpretation.

2. Guarantee

2.1 In consideration of the payment by the Issuer of the Financial Guarantee Fee and subject to the terms of this Financial Guarantee, the Financial Guarantor unconditionally and irrevocably guarantees to the Bond Trustee during the Term of the Financial Guarantee the full and complete payment of:

2.1.1 the AGM Proportion of:

(a) Guaranteed Amounts that are Due for Payment but are unpaid by reason of Nonpayment by the Issuer; and

(b) Avoided Payments; and

2.1.2 the AGE Proportion of:

(a) Guaranteed Amounts that are Due for Payment but are unpaid by reason of Nonpayment by the Issuer to the extent that AGE has not paid such amounts when due and payable by AGE under the terms of the AGE Financial Guarantee, and

(b) Avoided Payments to the extent that AGE has not paid such amounts when due and payable by AGE under the terms of the AGE Financial Guarantee;

Any payment by the Financial Guarantor under this Clause 2.1.2 shall constitute a discharge of AGE's obligation to make such payment under the AGE Financial Guarantee.

2.2 This Financial Guarantee does not guarantee any prepayment or other accelerated payment which at any time may become due in respect of any Guaranteed Amount, other than at the sole option of the Financial Guarantor as specified in Clause 4 (Acceleration) of this Financial Guarantee, nor against any risk other than Nonpayment by the Issuer, including failure of the Bond Trustee or any Agent to make any payment due to the Guaranteed Bondholders or any diminution in the market or fair value of the Guaranteed Bonds.

3. Payments by the Financial Guarantor

3.1 Following Receipt by the Financial Guarantor of a Notice of Demand in accordance with Clause 8 (Notice of Demand) from the Bond Trustee for any Defaulted Amount, the Financial Guarantor will, subject to Clause 7.5, pay:

3.1.1 the AGM Proportion of the Defaulted Amount to the Bond Trustee by no later than 10.00 a.m., London time, on the later of:

(a) the date such Defaulted Amount becomes Due for Payment; and

(b) the fourth Business Day following the day on which the Financial Guarantor Received such Notice of Demand; and

3.1.2 if (i) the Bond Trustee has made a claim against AGE under the AGE Financial Guarantee by delivering a Notice of Demand that has been Received (as defined in the AGE Financial Guarantee) by AGE, (ii) such claim has not been paid by AGE in accordance with the terms of the AGE Financial Guarantee, (iii) the AGE Financial Guarantee has not been terminated and (iv) the Financial Guarantor has Received notice from the Bond Trustee that AGE has failed to pay such claim, the AGE Proportion of the Defaulted Amount to the Bond Trustee no later than the Business Day following the day on which such amount was due and payable by AGE in accordance with the terms of the AGE Financial Guarantee.

3.2 In the event that any amount shall be received by the Bond Trustee or the Bond Trustee has actual notice that any Guaranteed Bondholder has received any amount in respect of a Defaulted Amount forming the basis of a claim specified in a Notice of Demand submitted hereunder, which amount had not been received by the Bond Trustee, or which the Bond Trustee did not have actual notice had been received by a Guaranteed Bondholder when the Notice of Demand was prepared but which is received by the Bond Trustee or the Bond Trustee has actual notice has been received by such Guaranteed Bondholder prior to the receipt of payment from the Financial Guarantor as contemplated by this Financial Guarantee (each such amount, a "**Recovery**"), the Bond Trustee shall promptly so notify the Financial Guarantor (which notice shall include the amount of any such Recovery). The fact that a Recovery has been received by the Bond Trustee or the Bond Trustee has actual notice that a Recovery has been received by such Guaranteed Bondholder shall be deemed to be incorporated in the applicable Notice of Demand as of the date such Notice of Demand was originally prepared, without the need for any further action by any Person, and the Financial Guarantor shall pay the amount of the claim against the Financial Guarantor specified in paragraph (ii) of the Notice of Demand less the sum of the AGM Proportion of all such Recoveries or, in the case of any payment by the Financial Guarantor under Clause 2.1.2, the claim against AGE specified in paragraph (ii) of the Notice of Demand less the sum of the AGE Proportion of all such Recoveries.

3.3 The Financial Guarantor shall be entitled to elect, in its absolute discretion, to pay part or all of any Defaulted Amount to any such bank account as is specified by the Bond Trustee without the need for the Financial Guarantor to have Received, and irrespective of whether the Financial Guarantor shall have Received, a Notice of Demand therefor. Any such payment shall be considered a payment by the Financial Guarantor under this Financial Guarantee for all purposes. If requested by the Financial Guarantor, the Bond Trustee shall promptly deliver to the Financial Guarantor a properly completed and executed Notice of Demand in respect of any such payment made or to be made by the Financial Guarantor.

3.4 Payments due hereunder in respect of Guaranteed Amounts will be disbursed to or to the order of the Bond Trustee and credited (in immediately available funds) to the bank account (the "**Account**") specified by the Bond Trustee in the applicable Notice of Demand or pursuant to Clause 3.3 or Clause 4.2. Payment in full to the Account shall discharge the obligations of the Financial Guarantor under this Financial Guarantee to the extent of such payment, whether or not such payment is properly applied by or on behalf of the Bond Trustee or any Agent.

3.5 Once payment by or on behalf of the Financial Guarantor of an amount in respect of any Guaranteed Amount (whether on a Scheduled Payment Date or pursuant to Clause 3.3 or on an accelerated basis pursuant to Clause 4.2) has been made to the Account, the Financial Guarantor shall have no further obligations under this Financial Guarantee in respect of such Guaranteed Amount to the extent of such payment.

4. Acceleration

4.1 At any time or from time to time following Acceleration, the Financial Guarantor may decide, in its absolute discretion, to make an Accelerated Payment under this Financial Guarantee without the need for the Financial Guarantor to have Received, and irrespective of whether the Financial Guarantor shall have Received, a Notice of Demand.

4.2 The Financial Guarantor shall notify the Bond Trustee in writing of its intention to make an Accelerated Payment and the proposed date of such payment, no later than two Business Days prior to such proposed date of payment. Any such Accelerated Payment shall be considered a payment by the Financial Guarantor under this Financial Guarantee for all purposes. If so requested by the Financial Guarantor at the time the Financial Guarantor gives such written notice, the Bond Trustee shall deliver to the Financial Guarantor and AGE a corresponding Notice of Demand.

5. Withholding Tax

All payments by the Financial Guarantor to or to the order of the Bond Trustee under this Financial Guarantee shall be made without withholding or deduction for, or on account of, any taxes, duties, assessments or other governmental charges of whatever nature imposed, levied, collected, withheld or assessed by any sovereign state, or any political subdivision or governmental or taxing authority therein or thereof unless such withholding or deduction is required by law. If any withholding or deduction is so required by law, the Financial Guarantor shall pay such amounts net of such withholding or deduction and shall account to the appropriate tax authority for the amount required to be withheld or deducted. The Financial Guarantor shall not be obliged to pay any amount to or to the order of the Bond Trustee in respect of the amount of such withholding or deduction.

6. Subrogation

6.1 The Financial Guarantor will be fully, immediately and automatically subrogated to the Guaranteed Bondholders' and the Bond Trustee's rights to payment of the Guaranteed Amounts, and to any rights relating thereto, to the fullest extent permitted by applicable law to the extent and at the time of any payments made by or on behalf of the Financial Guarantor under this Financial Guarantee, including, for the avoidance of doubt, any Accelerated Payment.

6.2 Any payment made by or on behalf of the Issuer to or for the benefit of the Bond Trustee or any Guaranteed Bondholder in respect of any Guaranteed Amount forming the basis of a claim hereunder (and a corresponding claim under this Financial Guarantee and/or the AGE Financial Guarantee, which claims shall have been paid in full by the Financial Guarantor and AGE respectively) shall be received and held on trust by the recipient for the benefit of the Financial Guarantor and AGE and shall be paid by the recipient over to the Financial Guarantor and AGE *pro rata* in proportion to the respective amounts paid (i) by the Financial Guarantor in respect of a claim made pursuant to this Financial Guarantee, and (ii) by AGE in respect of the related claim made pursuant to the AGE Financial Guarantee.

7. Waiver of Defences

7.1 The obligations of the Financial Guarantor under this Financial Guarantee will continue and will not be terminable other than in accordance with Clause 12 (Termination and Amendment) of this Financial Guarantee notwithstanding failure to receive payment of the Financial Guarantee Fee or any other amount due in respect of this Financial Guarantee. The Financial Guarantee Fee is not refundable for any reason.

7.2 The Financial Guarantor acknowledges that there is no duty of disclosure by the Bond Trustee under this Financial Guarantee but nonetheless, to the fullest extent permitted by applicable law, hereby waives for the benefit of the Bond Trustee and the Guaranteed Bondholders and agrees not to assert any and all rights (whether by counterclaim, rescission, set-off or otherwise) and any and all equities and defences howsoever arising (including, without limitation, any right, equity or defence based on: (a) any right to require the Bond Trustee or any Guaranteed Bondholder first to proceed against or to enforce any other rights or security against, or to claim payment from, any Person (except in the case only of the guarantee set out in Clause 2.1.2, to the extent of the conditions set out in Clause 3.1.2) before the Bond Trustee may claim from the Financial Guarantor under this Financial Guarantee; (b) fraud on the part of any Person (including fraud on the part of any agent for the Bond Trustee, but excluding

fraud by the Bond Trustee itself); (c) misrepresentation, breach of warranty or non-disclosure of information by any Person; (d) any lack of validity or enforceability of the Guaranteed Bonds or the Bond Trust Deed; (e) any modification or any amendment to the Guaranteed Bonds or the Bond Trust Deed; (f) the granting of any time, indulgence or concession by any Person to the Issuer; (g) any insolvency or similar proceedings in respect of the Issuer or any other Person; (h) any lack of capacity, power or authority or any change in status of the Issuer or any other Person; or (i) the refusal or failure to take up, to hold, to perfect or to enforce by any Person any rights under or in connection with any guarantee (except in the case only of the guarantee set out in Clause 2.1.2, to the extent of the conditions set out in Clause 3.1.2), indemnity, security or other document) to the extent such rights, equities and defences may be available to the Financial Guarantor to avoid payment of its obligations under this Financial Guarantee in accordance with the express provisions hereof.

7.3 No warranties are given and nothing in this Financial Guarantee is intended to constitute a warranty or a condition precedent to payment under the Financial Guarantee other than Receipt of a Notice of Demand in accordance with Clause 8 (Notice of Demand) of this Financial Guarantee and, in the case only of the guarantee set out in Clause 2.1.2, the conditions set out in Clause 3.1.2.

7.4 Nothing in this Financial Guarantee shall be construed in any way to limit or otherwise affect the Financial Guarantor's right to pursue recovery or claims (based on contractual or other rights, including to the extent applicable such rights resulting from any Person's fraud, negligence or breach of any agreement to which it is a party) for reimbursement against any Persons for any liabilities, losses, damages, costs and expenses incurred by the Financial Guarantor or to exercise at any time any other remedies that may be available to the Financial Guarantor at law or in equity.

7.5 Nothing in this Financial Guarantee shall be construed to require payment by the Financial Guarantor so long as a Force Majeure Event is continuing, in which event the Financial Guarantor agrees to perform its obligations under this Financial Guarantee promptly following cessation of such Force Majeure Event.

8. Notice of Demand

8.1 Subject to Clauses 2.2, 3.3 and 4 (*Acceleration*) of this Financial Guarantee, payments of Guaranteed Amounts (including Avoided Payments) will only be made after presentation of a properly completed Notice of Demand signed by the Bond Trustee and Received by the Financial Guarantor.

8.2 Notices of Demand can only be given by the Bond Trustee in the manner set out in Clause 11 (Notices).

8.3 Without limitation to the Financial Guarantor's obligations under Clause 8.5, if any Notice of Demand is not in the proper form or is not properly completed, executed or delivered, the Financial Guarantor will not be deemed to have Received such Notice of Demand.

8.4 Any Notice of Demand in respect of an Avoided Payment will not be deemed properly completed unless it is accompanied by:

8.4.1 a copy of the Order; and

8.4.2 a certificate of the Bond Trustee that the Order has been entered and that, on the basis of legal advice received by the Bond Trustee, the Order is not subject to any stay and specifying (to the extent that the Bond Trustee has actual knowledge sufficient to do so) the Guaranteed Amounts that are Avoided Payments.

8.5 The Financial Guarantor will promptly advise the Bond Trustee if a Notice of Demand is not in the proper form or has not been properly completed, executed or delivered and the Bond Trustee may submit an amended Notice of Demand to the Financial Guarantor.

9. Fiscal Agent

9.1 At any time during the Term of the Financial Guarantee, the Financial Guarantor may appoint a fiscal agent (the "**Fiscal Agent**") for purposes of this Financial Guarantee by written notice to the Bond Trustee, specifying the name and notice address of such Fiscal Agent. From and after the date of receipt of such notice by the Bond Trustee:

9.1.1 copies of all notices (including Notices of Demand) and other documents required to be delivered to the Financial Guarantor pursuant to this Financial Guarantee shall be simultaneously delivered to the Fiscal Agent and to the Financial Guarantor; and

9.1.2 all payments required to be made by the Financial Guarantor under this Financial Guarantee may be made directly by the Financial Guarantor or by the Fiscal Agent on behalf of the Financial Guarantor.

9.2 The Fiscal Agent is the agent of the Financial Guarantor only, and the Fiscal Agent shall in no event be liable to the Bond Trustee for any acts of the Fiscal Agent or any failure of the Financial Guarantor to deposit, or cause to be deposited, sufficient funds to make payments due under this Financial Guarantee.

10. Transfer

10.1 The rights and obligations of the Financial Guarantor under this Financial Guarantee may be assigned or transferred to, or assumed by, any Affiliate of the Financial Guarantor provided that:

10.1.1 no Financial Guarantor Default has occurred and is continuing at the time of such assignment, transfer or assumption or would occur as a result of such assignment, transfer or assumption;

10.1.2 the Financial Guarantor or such assignee, transferee or party assuming such rights and obligations delivers to the Bond Trustee written confirmation from the Rating Agencies that, at the time of and immediately following any such assignment, transfer or assumption, the financial strength or claims paying ability of such affiliate will be rated at least equal to the financial strength or claims paying ability of the Financial Guarantor at that time or, if such assignment, transfer or assumption is in connection with remedying a Financial Guarantor Downgrade Event pursuant to Condition 2(b) (*Financial Guarantees*), the financial strength or claims paying ability of such affiliate will be rated as required under such Condition; and

10.1.3 the Financial Guarantor or such assignee, transferee or party assuming such rights and obligations thereafter delivers to the Bond Trustee written notice of any such assignment, transfer or assumption.

10.2 The Bond Trustee may not transfer, assign, sub-participate, declare a trust over or otherwise dispose (other than in favour of the Guaranteed Bondholders) of any of its rights under this Financial Guarantee except to a Person as to whom the Financial Guarantor has given its prior written consent. However, if the Bond Trustee transfers or assigns its rights and obligations under the Bond Trust Deed to a new or additional trustee which has been appointed in accordance with the Bond Trust Deed, no such consent shall be required and such new or additional trustee will be able to enforce this Financial Guarantee and references in this Financial Guarantee to "**Bond Trustee**" shall be construed as including such new trustee or such additional trustee, as applicable.

11. Notices

11.1 All notices given under this Financial Guarantee shall be in writing (except as otherwise specifically provided herein) and shall be mailed by registered mail or personally delivered or faxed (or emailed, if the recipient has specified an email address) as follows:

To the Financial Guarantor:

Assured Guaranty Municipal Corp.
1633 Broadway
New York, NY 10019, USA

Re: University of Sussex, Financial Guarantee No. 51931-N

Attention:	Chief Surveillance Officer
Telephone:	+1 212 974 0100
Fax:	+1 212 581 3268
Email:	riskmanagementdept@assuredguaranty.com

with a copy to the General Counsel at the above address and fax number. Each Notice of Demand shall be marked to indicate URGENT MATERIAL ENCLOSED.

To the Bond Trustee:

BNY Mellon Corporate Trustee Services Limited
1 Canada Square
London
E145AL

Attention:	Trustee Administration Manager
Fax:	+44 (0)207 964 2509

If presentation to the Bond Trustee is made by fax transmission, the Financial Guarantor as soon as is reasonably practicable, shall deliver the original notice or other applicable documentation to the Bond Trustee's address for notices in accordance with this Clause 11 (*Notices*).

11.2 The Financial Guarantor or the Bond Trustee may designate an additional or different address, or telephone or fax number, by prior written notice. Each notice, presentation, delivery and communication to the Financial Guarantor or the Bond Trustee shall be effective only upon Receipt by the Financial Guarantor or actual receipt by the Bond Trustee, as the case may be.

12. Termination and Amendment

12.1 This Financial Guarantee is not cancellable by the Financial Guarantor for any reason, including, without limitation, the failure of the Financial Guarantor to receive payment of any Financial Guarantee Fee due in respect of this Financial Guarantee.

12.2 This Financial Guarantee and the obligations of the Financial Guarantor hereunder shall terminate upon the expiration of the Term of the Financial Guarantee.

12.3 This Financial Guarantee may not be amended, modified or supplemented without the prior written consent of the Bond Trustee.

13. Miscellaneous

No waiver of any rights or powers of the Financial Guarantor or the Bond Trustee, or any consent by either of them, shall be valid unless in writing and signed by an authorised officer or agent of the Financial Guarantor or the Bond Trustee, as applicable. The waiver of any right by the Financial Guarantor or the Bond Trustee, or the failure promptly to exercise any such right, shall not be construed as a waiver of any right to exercise the same or any other right at any time thereafter.

14. Law and Jurisdiction

14.1 This Financial Guarantee, and any non-contractual obligations arising out of or in connection with it, shall be governed by, and construed in accordance with, the laws of England and Wales.

14.2 With respect to any suit, action or proceedings relating to this Financial Guarantee ("**Proceedings**"), the Financial Guarantor irrevocably submits to the jurisdiction of the English courts and waives any objection which it may have at any time to the laying of venue of any Proceedings brought in any such court, waives any claim that such Proceedings have been brought in an inconvenient forum and further waives the right to object, with respect to such Proceedings that such court does not have any jurisdiction over such party.

15. Entire Agreement

This Financial Guarantee constitutes the entire agreement between the Financial Guarantor and the Bond Trustee in relation to the Financial Guarantor's obligation to make payments to the Bond Trustee for the benefit of the Guaranteed Bondholders in respect of the Guaranteed Amounts which become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer, and supersedes any previous agreement between the Financial Guarantor and the Bond Trustee in relation thereto.

16. Third Party Rights

No Person other than the Bond Trustee shall have rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Financial Guarantee but this shall not affect any such right any Person may have otherwise than by virtue of such Act.

17. Property/Casualty Insurance Security Fund

THIS FINANCIAL GUARANTEE IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

18. Surrender of Financial Guarantee

The Bond Trustee shall deliver its original engrossment of this Financial Guarantee to the Financial Guarantor upon expiration of the Term of this Financial Guarantee.

In Witness Whereof, this Financial Guarantee has been executed as a deed and delivered on the date inserted above.

EXECUTED as a **DEED** for and on behalf of

ASSURED GUARANTY MUNICIPAL CORP. by:

Authorised signatory

in the presence of

Signature of Witness:
Name of Witness:
Address:
Occupation:

ANNEX

NOTICE OF DEMAND

Assured Guaranty (Europe) Ltd.
11th Floor
6 Bevis Marks
London, EC3A 7BA

Assured Guaranty Municipal Corp.
1633 Broadway
New York, NY 10019, USA

Attention:

Chief Surveillance Officer

and

General Counsel

The undersigned, BNY Mellon Corporate Trustee Services Limited as Bond Trustee (the "**Bond Trustee**"), hereby certifies to each of Assured Guaranty (Europe) Ltd. ("**AGE**") and Assured Guaranty Municipal Corp. ("**AGM**" and, together with AGE, the "**Financial Guarantors**") with reference to Financial Guarantee Number 80180-U (the "**AGE Financial Guarantee**") and Financial Guarantee Number 51931-N (the "**AGM Financial Guarantee**" and, together with the AGE Financial Guarantee, the "**Financial Guarantees**") that:

(i) [The Guaranteed Amount[s] that [is/are] due and payable on the Scheduled Payment Date falling on [insert applicable payment date] [is/are] [●][insert applicable amount]./The Guaranteed Amount[s] that [was/were] paid, credited, transferred or delivered to or to the order of the Bond Trustee or the Guaranteed Bondholders by or on behalf of the Issuer in accordance with the terms of the Bond Trust Deed and/or the Guaranteed Bonds on [insert applicable payment date] of [●][insert applicable amount] [was/were] recovered from, or was otherwise required to be returned or repaid by, the Bond Trustee or [a/the] Guaranteed Bondholder[s] as a result of Insolvency Proceedings by or against the Issuer on [insert applicable repayment date].]

(ii) [The deficiency with respect to the Guaranteed Amount Due for Payment and unpaid by reason of Nonpayment by the Issuer on the Scheduled Payment Date falling on [insert applicable payment date] is [●][insert applicable amount] (the "**Defaulted Amount**"), the AGE Proportion of such Defaulted Amount is [●] and the AGM Proportion of such Defaulted Amount is [●]]/[The Bond Trustee has been notified by the Account Bank that the deficiency in respect of the Guaranteed Amount[s] which [is/are] Due for Payment on the Scheduled Payment Date falling on [insert applicable payment date] will be [●] [insert applicable amount] (the "**Defaulted Amount**"). The AGE Proportion of such Defaulted Amount is [●] and the AGM Proportion of such Defaulted Amount is [●]].

(iii) The Bond Trustee is making (a) a claim against AGE under the AGE Financial Guarantee for the AGE Proportion of the Defaulted Amount, and (b) a claim against AGM under the AGM Financial Guarantee for the AGM Proportion of the Defaulted Amount, with each such amount to be applied to the payment of the above-described Guaranteed Amount[s].

(iv) To the extent that AGE does not pay the AGE Proportion of any Defaulted Amount when due and payable by AGE in accordance with the terms of the AGE Financial Guarantee, the Bond Trustee is making a claim against AGM under Clause 3.1.2 of the AGM Financial Guarantee

for such amount. The Bond Trustee agrees that any payment by AGM of such amount shall discharge AGE from any obligation to make such payment under the AGE Financial Guarantee.

(v) The Bond Trustee agrees that following any payment by the Financial Guarantors made with respect to the Defaulted Amount which is the subject of this Notice of Demand, it (a) will cause such amounts to be applied directly to the payment of the applicable Guaranteed Amount[s] in accordance with Clause 7.9 of the Bond Trust Deed; (b) will ensure that such funds are not applied for any other purpose; and (c) will cause an accurate record of such payment to be maintained with respect to the appropriate Guaranteed Amount(s), the corresponding claim on each Financial Guarantee, and the proceeds of such claim.

(vi) Payments should be made by credit to the following account:

[(insert details of bank account)] (the "**Account**").

Capitalised terms used in this Notice of Demand and not otherwise defined herein shall have the respective meanings ascribed thereto in or pursuant to the applicable Financial Guarantee.

This Notice of Demand may be revoked at any time by written notice of such revocation by the Bond Trustee to each Financial Guarantor, if and only to the extent that moneys are actually received by the Bond Trustee prior to any such revocation from a source other than the Financial Guarantors with respect to the Defaulted Amount set forth herein. The Bond Trustee will withdraw this Notice of Demand, or submit a restated Notice of Demand reducing the amount of the claim hereunder, if the required amount of the Defaulted Amount and accordingly each of the AGE Proportion and the AGM Proportion thereof has been reduced (including reduction to zero) on or prior to the date the Financial Guarantors are required to make payment under the Financial Guarantees.

If the Bond Trustee has received, or the Bond Trustee has actual notice that one or more Guaranteed Bondholders has received, from the Issuer or the Financial Guarantors an amount in excess of a Defaulted Amount, the Bond Trustee shall promptly return to each Financial Guarantor the lesser of (i) such Financial Guarantor's proportionate share in such excess amount (such share being calculated by a fraction equal to the amount of the Defaulted Amount paid by the relevant Financial Guarantor to or to the order of the Bond Trustee divided by the total Defaulted Amount paid by both Financial Guarantors to or to the order of the Bond Trustee) and (ii) the amount of the Defaulted Amount paid by the relevant Financial Guarantor to or to the order of the Bond Trustee and not previously distributed by the Bond Trustee to the Guaranteed Bondholders or to any insolvency official appointed in respect of the Issuer. For the avoidance of doubt the Bond Trustee shall only be required to repay any such amounts to the Financial Guarantors that are in the Bond Trustee's possession and under its control, at the time it becomes aware of the requirement to repay such amounts, and the Bond Trustee shall have no liability to any Person for any amounts received by the Bond Trustee from the Financial Guarantors but distributed by the Bond Trustee in accordance with the preceding sentence.

The Bond Trustee acknowledges that as of the date on which any payment by the relevant Financial Guarantor towards a Defaulted Amount is credited to the Account, the relevant Financial Guarantor shall be deemed fully, immediately and automatically subrogated, to the fullest extent permitted by applicable law, to the rights (including, without limitation, any rights and benefits attached thereto, and any security granted at law, by contract or otherwise) of the Guaranteed Bondholders to payment of the Guaranteed Amounts to the extent and at the time of such payment by the relevant Financial Guarantor towards the Defaulted Amount.

The Bond Trustee hereby (i) assigns to each Financial Guarantor its rights to receive any payment for the account of the Guaranteed Bondholders from the Issuer in respect of the Guaranteed Bonds to the extent of any payments made to (or to the order of) the Bond Trustee by the relevant Financial Guarantor under the applicable Financial Guarantee, including without limitation its right to receive payments of principal and interest on the Guaranteed Bonds (including Recoveries), and (ii) confirms that it has taken or will promptly take all steps reasonably required by, and at the expense of, the Financial Guarantors to effect and perfect such assignments to the Financial Guarantors. The foregoing assignments are in addition to, and not in limitation of, rights of subrogation otherwise available to

each Financial Guarantor in respect of such payments. Payments to each Financial Guarantor in respect of the foregoing assignment shall in all cases be subject to and subordinate to the rights of the Bond Trustee to receive all Guaranteed Amounts in respect of the Guaranteed Bonds. The Bond Trustee shall cooperate in all reasonable respects, and at the expense of the Financial Guarantors, with any request by either Financial Guarantor for action necessary to preserve or enforce such Financial Guarantor's rights and remedies, any related security arrangements or otherwise in relation to such subrogation. The Bond Trustee shall also, at the expense of the Financial Guarantors, deliver any such instruments as may be reasonably requested or required by the Financial Guarantors to effectuate the purpose or provisions of this paragraph.

Any payment made by or on behalf of the Issuer to or for the benefit of the Bond Trustee in respect of any Guaranteed Amount forming the basis of a claim hereunder (which claim shall have been paid in full by the Financial Guarantors) shall be received and held on trust for the benefit of the Financial Guarantors and shall be paid over to each Financial Guarantor *pro rata* in proportion to the respective amounts each Financial Guarantor paid in respect of the Defaulted Amount.

The Bond Trustee hereby agrees that so long as no Financial Guarantor Default shall have occurred and be continuing, each Financial Guarantor may at any time during the continuation of any Insolvency Proceeding by or against the Issuer under any applicable law direct all matters relating thereto, including without limitation, (a) all matters relating to any claim in connection with an Insolvency Proceeding by or against the Issuer seeking the avoidance as a preferential transfer of any payment made with respect to the Guaranteed Bonds (a "**Preference Claim**"), (b) the direction of any appeal of any order relating to any Preference Claim at the expense of the Financial Guarantors and (c) the posting of any surety or performance bond pending any such appeal.

[Pursuant to Clause 8.4 of the Financial Guarantee, the following documents are attached:

- a copy of the Order; and
- a certificate of the Bond Trustee that the Order has been entered and that, on the basis of legal advice received by the Bond Trustee, the Order is not subject to any stay and specifying (to the extent that the Bond Trustee has actual knowledge sufficient to do so), the Guaranteed Amounts that are Avoided Payments.*]

* To be inserted if demand relates to Avoided Payments.

This Notice of Demand, and any non-contractual obligations arising out of or in connection with it, shall be governed by, and construed in accordance with, the laws of England and Wales.

[With respect to any suit, action or proceedings relating to this Notice of Demand ("**Proceedings**"), the Bond Trustee irrevocably submits to the jurisdiction of the English courts and waives any objection which it may have at any time to the laying of venue of any Proceedings brought in any such court, waives any claim that such Proceedings have been brought in an inconvenient forum and further waives the right to object, with respect to such Proceedings that such court does not have any jurisdiction over it.**]

** For use when the Bond Trustee is not incorporated in England and Wales.

No Person, other than each Financial Guarantor, shall have any right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Notice of Demand but this shall not affect any such right any Person may have otherwise than by virtue of such Act.

In Witness Whereof, the undersigned has executed and delivered this Notice of Demand as a deed on the __ day of _________ of 2__.

EXECUTED as a DEED for and on behalf of
BNY MELLON CORPORATE TRUSTEE SERVICES LIMITED

acting by two of its lawful Attorneys:

Attorney

Attorney

in the presence of

Signature of Witness:
Name of Witness:
Address:
Occupation:

For the Financial Guarantor or
Fiscal Agent Use Only
Wire Transfer sent on By:
Confirmation Number:

DESCRIPTION OF THE FINANCIAL GUARANTORS

The information appearing in this section has been prepared by the Financial Guarantors and has not been independently verified by the Issuer or the Manager. Neither the Issuer nor the Manager assumes any responsibility for the accuracy, completeness or applicability of such information; except the Issuer assumes responsibility for the accurate reproduction herein of such information provided by the Financial Guarantors and confirms that such information has been accurately reproduced and that as far as the Issuer is aware and is able to ascertain from information published by the Financial Guarantors no facts have been omitted which would render the reproduced information inaccurate or misleading.

The information in this section contains statements regarding projections and expectations of the Financial Guarantors. These statements can be identified by the fact that they do not relate strictly to historical or current facts and relate to future operations or financial performance. All of the Financial Guarantors' forward looking statements in this Prospectus are based on current expectations and the current economic environment and may vary materially from what is stated herein if the performance of the related transactions is positively or negatively affected by economic, fiscal and financial market variability or for other reasons related to such transactions.

1. Assured Guaranty (Europe) Ltd.

1.1 General

Assured Guaranty (Europe) Ltd. (**AGE**) is a direct wholly-owned subsidiary of Assured Guaranty Municipal Corp. (**AGM** and together with AGE, **Assured Guaranty**), an insurance company organised under the laws of the State of New York, U.S.A. AGM is an indirect wholly-owned subsidiary of Assured Guaranty Ltd. (**AGL**), a Bermuda based holding company that, through its operating subsidiaries, provides credit protection products to the public finance, infrastructure and structured finance markets. AGL's shares are publicly listed on the New York Stock Exchange under the symbol "AGO". AGL applies its credit underwriting judgment, risk management skills and capital markets experience to offer financial guarantee insurance that protects holders of debt instruments and other monetary obligations from defaults in scheduled payments due on an obligation, including scheduled principal or interest payments. AGL's operating subsidiaries market their credit protection products directly to issuers and underwriters of public finance, infrastructure and structured finance securities. as well as to investors in such obligations. AGL's operating subsidiaries guarantee debt obligations issued principally in the United States and the United Kingdom. They also guarantee obligations issued in other countries and regions, including Australia and Western Europe.

AGE was incorporated with limited liability in England on 8 June 1990 pursuant to the Companies Acts 1985 and 1989 with registered number 02510099. AGE was authorised from 29 April 1994, originally by the UK Department of Trade and Industry and subsequently by the UK Financial Services Authority (the FSA), to carry out and effect "credit", "suretyship" and "miscellaneous financial loss" insurance business in the United Kingdom (firm reference number 202896). From 1 April 2013, AGE is authorised by the Prudential Regulation Authority (the **PRA**) and regulated by the PRA and the Financial Conduct Authority (the **FCA**). These permissions are sufficient for AGE to provide financial guarantees in the UK. In addition, pursuant to the EC third non-life insurance directive (No. 92/49/EEC), AGE is able to provide financial guarantees in twenty European countries, subject to certain conditions.

AGE's registered office is located at 11th Floor, 6 Bevis Marks, London, EC3A 7BA, United Kingdom, Telephone: +44 (0)20 7562 1900. AGE has no subsidiaries. AGE's legal and commercial name is Assured Guaranty (Europe) Ltd.

AGE is dependent on AGM in that AGM supports AGE through certain contractual arrangements (see "*Material Contracts*" below).

1.2 Ratings

Standard and Poor's Global Ratings (**S&PGR**) has assigned to AGE financial strength and financial enhancement ratings of "AA" (stable outlook) and Moody's Investors Service, Inc., (**Moody's**) has assigned to AGE an insurance financial strength rating of "A2" (stable outlook).

On 27 July 2016, S&PGR affirmed the "AA" (stable) financial strength and financial enhancement ratings of AGE. On 8 August 2016, Moody's affirmed the "A2" (stable outlook) insurance financial strength rating of AGE.

AGE periodically assesses the value of each rating assigned to it, and as a result of such assessment may request that a rating agency add or drop a rating. AGE can give no assurance as to any further ratings action that either rating agency may take.

Each rating of AGE should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any bond or other security, and such ratings are subject to revision or withdrawal at any time by the Rating Agencies, including withdrawal initiated at the request of AGE in its sole discretion. In addition, the rating agencies may at any time change AGE's ratings outlooks or place AGE's ratings on a watch list for possible downgrade. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any bond or other security guaranteed by AGE.

AGE only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds or other securities guaranteed by AGE on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant financial guarantee), and does not guarantee the market price or liquidity of the bonds or other securities it insures, nor does it guarantee that the ratings on such bonds or other securities will not be revised or withdrawn.

1.3 Overview of AGE's Business

AGE provides financial guarantees in the United Kingdom and other European countries for public finance, structured finance and other project and infrastructure finance transactions.

Financial guarantees generally guarantee to the holder of the guaranteed obligation the timely payment of principal of and interest on such obligation in accordance with such obligation's original payment schedule. Accordingly, in the case of a default on the guaranteed obligation, payments under the financial guarantee may not be accelerated without AGE's consent.

Financial guarantees on public infrastructure finance transactions are typically issued in connection with transactions in which the bonds or other securities being issued are secured by or payable from cashflows coming either from a government or quasi-governmental entity or from users of the relevant asset (e.g., passengers on a light rail system or drivers on a toll road). Projects financed under the UK government's Public Private Partnership based model typically involve the construction of an asset (e.g., hospital, school, court buildings) and its ongoing management and maintenance for an agreed duration in return for which a performance-based fee is paid by the relevant public sector body; this fee is used to pay interest on and amortise the debt that is guaranteed by the relevant financial guarantor.

Financial guarantees on structured finance or asset-backed obligations are typically issued in connection with transactions in which the bonds or other securities being issued are secured by or payable from a specific pool of assets having an ascertainable cash flow or market value and held by a special purpose issuing entity.

New business written by AGE is guaranteed using a co-guarantee structure pursuant to which AGE co-guarantee municipal and infrastructure transactions with AGM and structured finance transactions with its affiliate Assured Guaranty Corp. (**AGC**). As described elsewhere in this Prospectus with respect to the Bonds and below under "*Material Contracts*", AGE covers a proportionate share of the total exposure (expected to be between 3 and 10 per cent.), and AGM (or AGC for structured finance transactions) guarantees the remaining exposure under the transaction (subject to compliance with

European Economic Area (the **EEA**) licensing requirements). In its financial guarantee, AGM (or AGC for structured finance transactions) also will provide a second-to-pay guarantee to cover AGE's share of the total exposure.

1.4 **Information**

Copies of the annual financial statements filed with the Registrar of Companies in the United Kingdom are available upon request to AGE at its registered office.

1.5 **Recent Developments**

Since 31 December 2015, the date as at which its latest audited accounts were prepared, AGE has continued to conduct its financial guarantee business in the United Kingdom and the other European countries into which it is passported to provide financial guarantees.

There are no governmental, legal or arbitration proceedings (pending or threatened) of which AGE is aware during the previous 12 months which may have, or have had in the recent past, significant effects on AGE's financial position or profitability.

1.6 **Directors of AGE**

The following is a list of the members of the board of directors of AGE by name and function and sets forth any principal activities of such members outside of AGE:

Name	Function	Principal Activities Outside of AGE
Robert Bailenson	Executive	Chief Financial Officer, Assured Guaranty Ltd.
Charles Barrington	Non-Executive	Non-executive director of other U.K. companies, charitable organisations and trusts
Dominic Frederico	Executive	Chief Executive Officer and President, Assured Guaranty Ltd.
Simon Leathes (Chairman)	Non-Executive	Director of Assurance Guaranty Ltd., non-executive director of other financial institutions, U.K. companies, charitable organisations and trusts
James Michener	Executive	General Counsel and Secretary, Assured Guaranty Ltd.
Dominic Nathan	Executive	None
Nick Proud	Executive	None

The business address of Messrs. Nathan and Proud and of Messrs. Barrington and Leathes, in their capacity as non-executive directors, is 11th Floor, 6 Bevis Marks, London EC3A 7BA, United Kingdom. The business address of Mr. Bailenson is 1633 Broadway, New York, New York 10019, United States of America. The business address of Messrs. Frederico and Michener is 30 Woodbourne Avenue, Hamilton, Bermuda HM 08.

As at the date of this Prospectus, the above-mentioned board members of AGE do not have potential conflicts of interests between any duties to AGE and their private interests or other duties that are material to the Bonds.

1.7 Insurance Regulation

AGE is authorised by the PRA and regulated by the PRA for prudential regulation and by the FCA for conduct of business, in the conduct of its financial guarantee business in the United Kingdom.

The PRA has a general regulatory objective to promote the safety and soundness of the firms which it regulates, thereby supporting the stability of the UK financial system and a specific insurance objective to contribute to securing an appropriate degree of protection for those who are or may become policyholders. The PRA applies new threshold conditions (Threshold Conditions), which insurers must meet, and against which the PRA will assess them on a continuous basis. These conditions include that (a) an insurer, which is incorporated in the United Kingdom, should have its head office (and registered office, if different) in the United Kingdom; (b) an insurer's business must be conducted in a prudent manner — in particular that the insurer maintains appropriate financial and non-financial resources; (c) the insurer must be fit and proper, including that the individuals managing its business have adequate skills and experience; and (d) the insurer must be capable of being effectively supervised by reference to a number of matters including whether it is a member of a group which might prevent the PRA's effective supervision and the complexity of its business and products.

Solvency

Under the European Union's Solvency II Directive (Directive 2009/138/EC), as amended, including by the Omnibus II Directive together with implementing laws, rules and regulations (collectively, **Solvency II**), which took effect from 1 January 2016 as implemented in the United Kingdom, AGE is subject to certain limits and requirements, including the maintenance of a minimum solvency capital requirement (which depends on the type and amount of insurance business a company writes and the other risks to which it is exposed) and the establishment of technical provisions including loss and unearned premium reserves. Failure to maintain capital at least equal to the capital requirements under Solvency II is one of the grounds on which the wide powers of intervention conferred upon the PRA may be exercised.

Among other things, Solvency II introduced a revised risk-based prudential regime which includes the following features: (1) assets and liabilities are generally to be valued at their market value; (2) the amount of required economic capital is intended to ensure, with a probability of 99.5 per cent., that regulated insurance firms are able to meet their obligations to policyholders and beneficiaries over the following 12 months; and (3) reinsurance recoveries are treated as a separate asset (rather than being netted off the underlying insurance liabilities). AGE calculates its solvency capital requirements under Solvency II using the Standard Formula. Prior to the implementation of Solvency II, AGE was required to calculate its capital adequacy in accordance with a "benchmarker" capital adequacy model originally devised by the Financial Services Authority (the predecessor prudential regulator to the PRA). AGE was not required to maintain an increased amount of capital under Solvency II. Another feature of Solvency II (and indeed under the predecessor regulatory regime) insurers and reinsurers that are part of a group of insurance/reinsurance companies are required to calculate a group solvency capital requirement at the level of the EEA parent company. The PRA is responsible under Solvency II for the group supervision of the Assured group of companies and accordingly, AGE, would ordinarily be required to perform and submit to the PRA a group capital adequacy return in respect of its ultimate insurance parent. AGE does not have an EEA insurance parent and so does not need to comply with this requirement. However, it would ordinarily be required to provide the PRA with a report showing the calculation of the group capital requirement and the available capital resources of the whole of the Assured group of companies applying Solvency II principles. AGE has obtained a waiver from this particular requirement and obtained the agreement of the PRA to apply "other methods". These other methods include the requirement that AGE provides the PRA with copies of various financial reports the Assured group submits to the New York Department of Financial Services (**NYSDFS**) and gives prior notice of certain intra-group transactions, including the payment of dividends, capital extractions and intra group reinsurance involving any company in the group that is headquartered in the EEA to or in with other members of the Assured group of companies. If the reports submitted to the PRA raise concerns, the PRA may take regulatory action.

Financial Services Compensation Scheme

The beneficiaries of AGE's Financial Guarantee are not protected by the Financial Services Compensation Scheme.

1.8 **Financial Information**

The audited accounts of AGE for the years ended 31 December 2015 and 31 December 2014 prepared in accordance with UK GAAP are included at Appendix 1 and Appendix 2 hereto. There has been no material adverse change in the prospects of AGE since 31 December 2015 (being the date to which AGE's most recent audited financial statements have been prepared). There has been no significant change in the financial or trading position of AGE since 31 December 2015 (being the date to which AGE's most recent audited financial statements have been prepared).

1.9 **Auditors**

AGE's auditors are PricewaterhouseCoopers LLP (**PwC**), 7 More London Riverside, London SE1 2RT. PwC is a member of the Institute of Chartered Accountants in England and Wales.

PwC's report on the audited accounts of AGE for the years ended 31 December 2014 and 31 December 2015 is included with such accounts, which are included at Appendix 1 and Appendix 2 hereto, respectively.

1.10 **Material Contracts**

Except as discussed below, AGE has not entered into contracts outside the ordinary course of business that could result in AGE being under an obligation or entitlement that is material to AGE's ability to meet its obligations to the Bond Trustee under its Financial Guarantee.

AGM currently provides support to AGE through a quota share and excess of loss reinsurance agreement (the **Reinsurance Agreement**) and net worth maintenance agreement (the **Net Worth Agreement** and together with the Reinsurance Agreement, the **Assured Guaranty Agreements**), which were first implemented in 1994. For transactions closed prior to 2011, AGE typically guaranteed all of the guaranteed obligations directly and AGM, under the quota share cover of the Reinsurance Agreement, reinsured approximately 92 per cent. of AGE's retention after cessions to other reinsurers. In addition, AGM posts collateral for AGE's benefit securing AGM's quota share reinsurance obligations in respect of such pre-2011 business. In 2011, AGE implemented a co-guarantee structure pursuant to which (i) AGE directly guarantees a portion of the guaranteed obligations in an amount equal to what would have been AGE's pro rata retention percentage under the quota share cover; and (ii) AGM directly guarantees the balance of the guaranteed obligations and also provides a second-to-pay guarantee for AGE's portion of the guaranteed obligations.

The Reinsurance Agreement also provides an excess of loss cover under which AGM will pay AGE quarterly the amount (if any) by which AGE's incurred losses, calculated in accordance with UK GAAP as reported by AGE in its financial returns filed with the PRA, and AGE's paid losses and loss adjustment expenses, in both cases net of all other performing reinsurance (including the reinsurance provided by AGM under the quota share cover of the Reinsurance Agreement), exceeds an amount equal to (a) AGE's capital resources under UK law minus 110 per cent. of the greatest of the amounts as may be required by the PRA as a condition for maintaining AGE's authorisation to carry on a financial guarantee business in the UK. AGE may terminate the Reinsurance Agreement upon the occurrence of any of the following events: (i) AGM's ratings by Moody's fall below "Aa3" or its ratings by S&PGR fall below "AA-" (and AGM fails to restore such rating(s) within a prescribed period of time); and (ii) AGM's insolvency, failure to maintain the minimum capital required under AGM's domiciliary jurisdiction, filing a petition in bankruptcy, going into liquidation or rehabilitation or having a receiver appointed.

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

Under the Net Worth Agreement, AGM is obligated to cause AGE to maintain capital resources equal to 110 per cent. of the greatest of the amounts as may be required by the PRA as a condition for maintaining its authorisation to carry on a financial guarantee business in the U.K., provided that contributions (a) do not exceed 35 per cent. of AGM's policyholders' surplus as determined by the laws of the State of New York, and (b) are in compliance with a provision of the New York Insurance Law requiring notice to or approval by the NYSDFS for transactions between affiliates that exceed certain thresholds. The Net Worth Agreement clarifies that any amounts due thereunder will take into account all amounts paid or reasonably expected to be paid under the Reinsurance Agreement. The Net Worth Agreement also includes termination provisions substantially similar to those in the Reinsurance Agreement. AGM has never been required to make any contributions to AGE's capital under the current Net Worth Agreement or its prior net worth maintenance agreements.

On the basis of the support provided by the Assured Guaranty Agreements, AGE has the same ratings as AGM. Holders of the Bonds should note that AGE's ability to perform its obligations under its Financial Guarantee and to maintain its current rating substantially depends on the ability of AGM to perform its obligations under the Assured Guaranty Agreements.

The holders of the Bonds should note that the Assured Guaranty Agreements are entered into for the benefit of AGE and are not, and should not be regarded as, guarantees by AGM of the payment of any indebtedness, liability or obligations of the Issuer or AGE, including the Bonds or the Financial Guarantee. The Assured Guaranty Agreements are not guarantees for the benefit of the holders of the Bonds. Neither the Bond Trustee nor holders of the Bonds have any recourse to AGM in respect of the Assured Guaranty Agreements.

Payment of Guaranteed Amounts that are Due for Payment on the Bonds and unpaid by reason of Nonpayment by the Issuer will be guaranteed by the Financial Guarantors pursuant to the Financial Guarantees but will not be additionally covered by the Assured Guaranty Agreements.

2. Assured Guaranty Municipal Corp.

2.1 General

AGM is an insurance company organised under the laws of the State of New York, U.S.A. AGM is an indirect wholly-owned subsidiary of AGL, a Bermuda based holding company that, through its operating subsidiaries, provides credit protection products to the public finance, infrastructure and structured finance markets. AGL's shares are publicly listed on the New York Stock Exchange under the symbol "AGO". AGL applies its credit underwriting judgment, risk management skills and capital markets experience to offer financial guaranty insurance that protects holders of debt instruments and other monetary obligations from defaults in scheduled payments due on such obligations, including scheduled principal or interest. AGL's operating subsidiaries market their credit protection products directly to issuers and underwriters of public finance, infrastructure and structured finance securities. as well as to investors in such obligations. AGL's operating subsidiaries guarantee debt obligations principally in the United States and the United Kingdom. They also guarantee obligations in other countries and regions, including, Western Europe and Australia.

AGM was organised in the State of New York, U.S.A. as an insurance company on 16 March 1984 and commenced operations in 1985.

AGM maintains its principal executive offices at 1633 Broadway, New York, New York 10019, U.S.A. The telephone number of AGM is +1 212 974 0100. AGM's legal and commercial name is Assured Guaranty Municipal Corp.

2.2 Ratings

S&PGR has assigned to AGM financial strength and financial enhancement ratings of "AA" (stable outlook); Kroll Bond Rating Agency (**KBRA**) has assigned to AGM an insurance financial strength rating of "AA+" (stable outlook); and Moody's has assigned to AGM an insurance financial strength rating of "A2" (stable).

On 27 July, 2016, S&PGR affirmed the "AA" (stable) financial strength and financial enhancement ratings of AGM. On 14 December, 2016, KBRA affirmed the "AA+" (stable outlook) insurance financial strength rating of AGM. On 8 August 2016, Moody's affirmed the "A2" (stable outlook) insurance financial strength rating of AGM.

AGM periodically assesses the value of each rating assigned to it, and as a result of such assessment may request that a rating agency add or drop a rating. AGM can give no assurance as to any further ratings action that any rating agency may take.

Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any bond or other security, and such ratings are subject to revision or withdrawal at any time by the Rating Agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's ratings outlooks or place AGM's ratings on a watch list for possible downgrade. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any bond or other security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds or other securities guaranteed by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant financial guarantee), and does not guarantee the market price or liquidity of the bonds or other securities it insures, nor does it guarantee that the ratings on such bonds or other securities will not be revised or withdrawn.

2.3 Overview of AGM's business

AGM provides financial guarantees to issuers both within and outside the U.S.A. In Europe, it provides co-insurance on public finance and other project and infrastructure finance transactions with AGE (see "*Description of the Financial Guarantors - Assured Guaranty (Europe) Ltd. – Overview of AGE's Business*" above). Since mid-2008, AGM has only provided insurance that protects against principal and interest payment defaults on debt obligations in the U.S. public finance and global infrastructure market. Previously, AGM also offered insurance and reinsurance in the global structured finance market. Like AGE, AGM's financial guarantees generally guarantee to the holder of the guaranteed obligation the timely payment of principal of and interest on such obligation in accordance with such obligation's original payment schedule. Accordingly, in the case of a default on the guaranteed obligation, payments under the financial guarantee may not be accelerated without AGM's consent.

Municipal obligations and municipal bonds include taxable and tax-exempt bonds, notes and other evidences of indebtedness issued by states, political subdivisions (cities, counties, towns and villages), water, sewer and other utility districts, higher educational institutions, hospitals, transportation and housing authorities and other similar agencies. Municipal obligations are supported by the taxing authority of the issuer or the issuer's or underlying obligor's ability to collect fees or assessments for certain projects or public services. References herein to "municipal bonds" and "municipal obligations" are to debt obligations of states and other political subdivisions in the U.S.A.

2.4 Information

The quarterly and annual statements filed by AGM in the U.S.A. are available in the "Investor Information" section of Assured Guaranty's website at assuredguaranty.com.

2.5 Recent Developments

Since 31 December 2016, the date as at which its latest audited financial statements were prepared, AGM has continued to conduct its financial guarantee business in the U.S.A. and the other states and countries in which it is permitted to provide financial guarantees.

There are no governmental, legal or arbitration proceedings (pending or threatened) of which AGM is aware during the 12 months preceding the date of this Prospectus which may have, or have had in the

recent past, significant effects on AGM's financial position or profitability other than as set forth in AGM's audited financial statements as of 31 December 2016.

2.6 Directors of AGM

The following is a list of the members of the board of directors of AGM by name and function and sets forth any principal activities of such members outside of AGM:

Name	***Function***	***Principal Activities Outside of AGM***
Howard W. Albert	Executive	Chief Risk Officer, Assured Guaranty Ltd.
Robert A. Bailenson	Executive	Chief Financial Officer, Assured Guaranty Ltd.
Russell B. Brewer II	Executive	Chief Surveillance Officer, Assured Guaranty Ltd.
Ling Chow	Executive	U.S. General Counsel of AGC and Municipal Assurance Corp. (**MAC**)
Stephen Donnarumma	Executive	Chief Credit Officer of AGC and MAC.
Dominic Frederico (Chairman)	Executive	Chief Executive Officer and President, Assured Guaranty Ltd.
James M. Michener	Executive	General Counsel and Secretary, Assured Guaranty Ltd.
Donald H. Paston	Executive	Treasurer of AGC and MAC.
Benjamin Rosenblum	Executive	Chief Actuary of AGC and MAC
Bruce E. Stern	Executive	Executive Officer of AGC and MAC

The business address of Messrs. Albert, Bailenson, Brewer, Donnarumma, Paston, Rosenblum and Stern and of Ms. Chow is 1633 Broadway, New York, New York 10019, U.S.A. The business address of Messrs. Frederico and Michener is 30 Woodbourne Avenue, Hamilton, Bermuda HM 08.

As at the date of this Prospectus, the above-mentioned board members of AGM do not have potential conflicts of interests between any duties to AGM and their private interests or other duties that are material to the Bonds.

2.7 Insurance Regulation

AGM is licensed to do business as an insurance company in all fifty states of the United States, the District of Columbia, Guam, Puerto Rico and the U.S. Virgin Islands. It is subject to the insurance laws and regulations of the State of New York, its state of incorporation, which has a comprehensive financial guarantee insurance law, and the insurance laws and regulations of other jurisdictions in which it is licensed to transact business. These laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance departments, vary by jurisdiction, but generally require insurance companies to maintain minimum standards of business conduct and

solvency, meet certain financial tests, including single risk limits and minimum policyholders' surplus and reserve levels, file certain reports with regulatory authorities, including information concerning their capital structure, ownership and financial condition, and require prior approval of certain changes in control of domestic insurance companies and their direct and indirect parents and the payment of certain dividends and distributions. In addition, these laws and regulations require approval of certain intercorporate transfers of assets and certain transactions between insurance companies and their direct and indirect parents and affiliates, and generally require that all such transactions have terms no less favourable than terms that would result from transactions between parties negotiating at arm's length.

U.S. State insurance laws and regulations (as well as the rating agencies) impose minimum capital requirements on financial guarantee insurance companies, limiting the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. Such companies can use reinsurance to diversify risk, increase underwriting capacity, reduce additional capital needs, stabilize shareholder returns and strengthen financial ratios.

AGM is a party to various reinsurance treaties and facultative reinsurance agreements with various third party, unaffiliated reinsurers and its affiliates, Assured Guaranty Re Ltd. (**AGR**) and AGC. These treaties and agreements cover AGM's outstanding book of municipal bond and structured and international finance business, except that they generally do not apply to outstanding business that AGM has written since 2008. AGM entered into such treaties and agreements in order to reduce its large risks, to manage its portfolio of insurance by bond type and geographic distribution, and/or to obtain additional capacity for frequent municipal bond issuers. Under such agreements, portions of AGM's interests and liabilities have been ceded on an issue-by-issue basis and AGM has received ceding commissions from the reinsurers to defray its underwriting expenses.

AGM also has a quota share treaty with AGR, which provides for AGR to share a percentage of premiums and losses with AGM. This treaty applies to business written by AGM after 2008, including current business. AGM is also a party to an excess of loss reinsurance arrangement with certain 3rd party, unaffiliated reinsurers, which provides reinsurance for losses on a substantial portion of AGM's net book of U.S. municipal finance business outstanding as of 30 September 2015. This reinsurance facility excludes credits that were rated non-investment grade as of 31 December 2015 by Moody's or S&PGR or internally by AGM. The reinsurance attaches when AGM's net losses (and those of its affiliates AGC and MAC in respect of credits also covered by the facility) exceed $1.25 billion in the aggregate. The facility covers a portion of the next $400 million of losses, with the third party reinsurers assuming $360 million of the $400 million of losses and AGM, AGC and MAC jointly retaining the remaining $40 million.

As a primary insurer, AGM is required to honour its obligations to its policyholders whether or not its reinsurers perform their obligations under the various reinsurance agreements with AGM detailed above.

AGM is required to file quarterly and annual statutory financial statements in the United States of America, and is subject to single and aggregate risk limits and other statutory restrictions concerning the types and quality of investments and the filing and use of policy forms and premium rates. In addition, AGM's accounts and operations are subject to periodic examination by the NYSDFS and its market conduct is subject to review by other state insurance regulatory authorities.

The beneficiaries of AGM's Financial Guarantee are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the Insurance Law of the State of New York, U.S.A.

AGM is not authorised or regulated by the PRA or the FCA in the United Kingdom.

2.8 Financial Information

The consolidated balance sheets of AGM as of 31 December 2016 and 31 December 2015 and the related consolidated statements of operations and comprehensive income, of shareholder's equity and of cash flows for each of the two years in the period ended 31 December 2016, prepared in accordance with U.S. GAAP are included at Appendices 3 and 4 hereto.

There has been no material adverse change in the prospects of AGM since 31 December 2015 (being the date to which AGM's most recent audited financial statements have been prepared). There has been no significant change in the financial or trading position of AGM since 31 December 2016 (being the date to which AGM's most recent audited financial statements have been prepared).

2.9 Auditors

AGM's auditors are PricewaterhouseCoopers LLP (**PwC U.S.**), 300 Madison Avenue, New York, New York 10017 U.S.A. PwC U.S. is a member of the American Institute of Certified Public Accountants.

PwC U.S.'s reports on the audited financial statements of AGM for the years ended 31 December 2016 and 31 December 2015 are included with such accounts, which are included at Appendices 3 and 4 hereto.

2.10 Material Contracts

AGM has not entered into contracts outside the ordinary course of business that could result in AGM being under an obligation or entitlement that is material to AGM's ability to meet its obligations to the Bond Trustee under its Financial Guarantee. See "*Description of the Financial Guarantors – Assured Guaranty (Europe) Ltd. – Material Contracts*" above.

DESCRIPTION OF THE ISSUER, PROJECTCO, BBI HOLDCO, SUSSEX HOLDCO, INTERMEDIATECO, UNIVERSITY SUBCO AND THE SERVICE PROVIDER

The following is a summary description of the Issuer, ProjectCo, BBI HoldCo, Sussex HoldCo IntermediateCo, University SubCo and the Service Provider and should be read in conjunction with the rest of the Prospectus.

1. The Issuer

East Slope Residencies PLC (the **Issuer**) was incorporated in England on 18 October 2016 under the Companies Act 2006 as a public limited liability company with number 10434484 and obtained its certificate to commence business and borrow under section 761 of the Companies Act 2006 on 25 October 2016.

The Issuer has not, since its date of incorporation, carried on any business or activities other than those incidental to its registration, the financing of the Project and other matters described or contemplated in this Prospectus. The Issuer has been incorporated as a special purpose company for the purpose of issuing the Bonds. The registered office of Issuer is at 350 Euston Road Regent's Place, London, United Kingdom NW1 3AX and its telephone number is 020 7121 3700. The Issuer has not published any audited financial accounts since its incorporation.

As at the date of this Prospectus, the Issuer is a wholly owned subsidiary of ProjectCo and its issued share capital is £50,000 divided into 50,000 ordinary shares of £1 each of which 50,000 ordinary shares have been issued. The rights of ProjectCo as a shareholder in the Issuer are contained in the articles of association of the Issuer and the Issuer will be managed by its directors in accordance with those articles and with the provisions of English law.

Directors	Function	Address	Principal Activities
Ion Francis Appuhamy	Director	350 Euston Road, Regent's Place, London, United Kingdom NW1 3AX	Executive of ProjectCo Director of: Issuer; IntermediateCo; BBI HoldCo; Initial Gp1 Limited; Initial Founder Partner Gp1 Limited; Balfour Beatty Ofto Holdings Limited; Balfour Beatty Infrastructure Projects Investments Limited; Connect Roads Infrastructure Investments Limited; Consort Healthcare Infrastructure Investments Limited; Education Investments

Directors	Function	Address	Principal Activities
			Holdings Limited; Balfour Beatty Infrastructure Investments Limited; Balfour Beatty Infrastructure Partners Member Limited; and Balfour Beatty Investments Limited
Ian Paul Woosey	Director	350 Euston Road, Regent's Place, London, United Kingdom NW1 3AX	Executive of ProjectCo; Director of: Issuer; IntermediateCo; BBI HoldCo; Glasgow Residences (Kennedy Street) Spv Limited; and Glasgow Residences (Kennedy Street) Holdings Limited
Richard Allan Spencer	Director	Sussex House, University of Sussex, Falmer, Brighton, BN1 9RH	Executive of ProjectCo; and Sussex Estates and Facilities LLP Director of: Issuer; University SubCo; Sussex HoldCo; Sussex U H Limited; The University of Sussex Pension & Assurance Scheme Trustee Limited; Brighton Fringe Ltd; East Slope Housing Limited; Sussex Innovation Centre Management

Directors	Function	Address	Principal Activities
			Limited; Sussex Innovation Centre Development Limited; Sussex E F Limited; Sussex University Developments Limited; and Director of Finance of the University.

There are no actual or potential conflicts of interest between the duties to the Issuer of the persons listed above and their private interests or duties.

ProjectCo

East Slope Residencies Student Accommodation Limited Liability Partnership (**ProjectCo**) was incorporated in England on 17 November 2016 the Companies Act 2006 as a limited liability partnership with registered number OC414649. The registered office of ProjectCo is at 350 Euston Road, Regent's Place, London, United Kingdom NW1 3AX and its telephone number is 020 7121 3700.

ProjectCo has not, since its date of incorporation, carried on any business or activities other than those incidental to its registration, the financing of the Project and other matters described or contemplated in this Prospectus. ProjectCo is a special purpose entity established to enter into the documentation to which it is expressed to be a party. ProjectCo has not published any audited financial accounts since its incorporation.

The membership interests in ProjectCo are held by IntermediateCo and by University SubCo. The rights of the members of ProjectCo are set out in the LLP agreement entered into by ProjectCo, IntermediateCo and University SubCo on or around the date of this Prospectus and, amongst other things, the LLP agreement provides that the profits of ProjectCo are to be distributed to IntermediateCo (as to 80 per cent.) and University SubCo (as to 20 per cent.).

Executives	Function	Address	Principal Activities
Ian Paul Woosey	A Executive	350 Euston Road, Regent’s Place, London, United Kingdom, NW1 3AX	Executive of: ProjectCo Director of: Issuer; BBI HoldCo; IntermediateCo; Glasgow Residences (Kennedy Street) Spv Limited; and Glasgow Residences (Kennedy Street)

			Holdings Limited.
Ion Francis Appuhamy	A Executive	350 Euston Road, Regent's Place, London, United Kingdom, NW1 3AX	Executive of ProjectCo Director of: BBI HoldCo; Issuer; IntermediateCo; Initial Gp1 Limited; Initial Founder Partner Gp1 Limited; Balfour Beatty Ofto Holdings Limited; Balfour Beatty Infrastructure Projects Investments Limited; Connect Roads Infrastructure Investments Limited; Consort Healthcare Infrastructure Investments Limited; Education Investments Holdings Limited; Balfour Beatty Infrastructure Investments Limited; Balfour Beatty Infrastructure Partners Member Limited; and Balfour Beatty Investments Limited
Richard Allan Spencer	B Executive	Sussex House, University of Sussex, Falmer, Brighton, BN1 9RH	Executive of: ProjectCo; and Sussex Estates and Facilities LLP Director of: Issuer University SubCo;

			Sussex HoldCo; Sussex U H Limited; The University of Sussex Pension & Assurance Scheme Trustee Limited; Brighton Fringe Ltd; East Slope Housing Limited; Sussex Innovation Centre Management Limited; Sussex Innovation Centre Development Limited; Sussex E F Limited; Sussex University Developments Limited; and Director of Finance of the University

ProjectCo is not aware of any potential conflicts of interest between the duties to ProjectCo of the persons listed above and their private interests and or other duties.

BBI HoldCo

East Slope Residencies Holdings Limited (**BBI HoldCo**) was incorporated in England on 16 November 2016 under the Companies Act 2006 as a private limited company with registered number 10481670. The registered office of BBI HoldCo is at 350 Euston Road, Regent's Place, London, NW1 3AX and its telephone number is 020 7121 3700.

BBI HoldCo has not, since its date of incorporation, carried on any business or activities other than those incidental to its registration, the financing of the Project and other matters described or contemplated in this Prospectus. BBI HoldCo is a special purpose company established to act as a holding company. BBI HoldCo has not published any audited financial accounts since its incorporation.

BBI HoldCo is wholly owned by Balfour Beatty Infrastructure Projects Investments Limited. The authorised share capital of BBI HoldCo is £1 divided into 1 ordinary share of £1 of which 1 ordinary share has been issued. All shares issued are fully paid.

Directors	Function	Address	Principal Activities
Ian Paul Woosey	Director	350 Euston Road, Regent’s Place, London, United Kingdom, NW1 3AX	Executive of: ProjectCo Director of:

Directors	Function	Address	Principal Activities
			Issuer; BBI HoldCo; IntermediateCo; Glasgow Residences (Kennedy Street) Spv Limited; and Glasgow Residences (Kennedy Street) Holdings Limited.
Ion Francis Appuhamy	Director	350 Euston Road, Regent's Place, London, United Kingdom, NW1 3AX	Executive of ProjectCo Director of: Issuer; IntermediateCo; BBI HoldCo; Initial Gp1 Limited; Initial Founder Partner Gp1 Limited; Balfour Beatty Ofto Holdings Limited; Balfour Beatty Infrastructure Projects Investments Limited; Connect Roads Infrastructure Investments Limited; Consort Healthcare Infrastructure Investments Limited; Education Investments Holdings Limited; Balfour Beatty Infrastructure Investments Limited; Balfour Beatty Infrastructure Partners Member Limited; and Balfour Beatty Investments Limited

Directors	Function	Address	Principal Activities

There are no actual or potential conflicts of interest between the duties to BBI HoldCo of the persons listed above and their private interests or duties.

IntermediateCo

East Slope Residencies Partner Limited (**IntermediateCo**) was incorporated in England on 16 November 2016 under the Companies Act 2006 as a private limited company with registered number 10482072. The registered office of IntermediateCo is at 350 Euston Road, Regent's Place, London, NW1 3AX and its telephone number is 020 7121 3700.

IntermediateCo has not, since its date of incorporation, carried on any business or activities other than those incidental to its registration, the financing of the Project and other matters described or contemplated in this Prospectus. IntermediateCo is a special purpose company established to enter into the documentation to which it is expressed to be a party. IntermediateCo has not published any audited financial accounts since its incorporation.

IntermediateCo is wholly owned by BBI HoldCo. The authorised share capital of IntermediateCo is £1 divided into 1 ordinary share of £1 of which 1 ordinary share has been issued. All shares issued are fully paid.

Directors	Function	Address	Principal Activities
Ian Paul Woosey	Director	350 Euston Road, Regent's Place, London, United Kingdom NW1 3AX	Executive of ProjectCo. Director of: Issuer; IntermediateCo; BBI HoldCo; Glasgow Residences (Kennedy Street) Spv Limited; and Glasgow Residences (Kennedy Street) Holdings Limited.
Ion Francis Appuhamy	Director	350 Euston Road, Regent's Place, London, United Kingdom NW1 3AX	Executive of ProjectCo Director of: Issuer; IntermediateCo; BBI HoldCo; Initial Gp1 Limited; Initial Founder Partner

			Gp1 Limited; Balfour Beatty Ofto Holdings Limited; Balfour Beatty Infrastructure Projects Investments Limited; Connect Roads Infrastructure Investments Limited; Consort Healthcare Infrastructure Investments Limited; Education Investments Holdings Limited; Balfour Beatty Infrastructure Investments Limited; Balfour Beatty Infrastructure Partners Member Limited; and Balfour Beatty Investments Limited.

IntermediateCo is not aware of any potential conflicts of interest between the duties to IntermediateCo of the persons listed above and their private interests and or other duties.

The Service Provider

East Slope Residencies Facilities Management Limited (the **Service Provider**) was incorporated in England on 16 November 2016 under the Companies Act 2006 as a private limited company with registered number 10482119. The registered office of the Service Provider is at 350 Euston Road, Regent's Place, London, NW1 3AX and its telephone number is 020 7121 3700.

The Service Provider has not, since its date of incorporation, carried on any business or activities other than those incidental to its registration, the financing of the Project and other matters described or contemplated in this Prospectus. The Service Provider is a special purpose company established to enter into the documentation to which it is expressed to be a party. The Service Provider has not published any audited financial accounts since its incorporation.

The Service Provider is wholly owned by BBI HoldCo. The authorised share capital of the Service Provider is £1 divided into 1 ordinary share of £1 of which 1 ordinary share has been issued. All shares issued are fully paid.

Directors	Function	Address	Principal Activities
Laura Shaw	Director	350 Euston Road, Regent's Place, London, United Kingdom, NW1 3AX	Director of Service Provider.
Kevin Vernon Walker	Director	350 Euston Road, Regent's Place, London, United Kingdom, NW1 3AX	Director of: Service Provider; Woodland View Holdings Co Limited; Woodland View Intermediate Co Limited; Woodland View Project Co Limited; Balfour Beatty Fire and Rescue NW Intermediate Limited; Balfour Beatty Fire and Rescue NW Holdings Limited; Balfour Beatty Fire and Rescue NW Limited.

The Service Provider is not aware of any potential conflicts of interest between the duties to Service Provider of the persons listed above and their private interests and or other duties.

University SubCo

Sussex U H ESR IntermediateCo Limited (**University SubCo**) was incorporated in England on 19 January 2017 under the Companies Act 2006 as a private limited company with registered number 10573778. The registered office of University SubCo is at Sussex House, Falmer, Brighton, BN1 9RH and its telephone number is 01273 678307.

University SubCo has not, since its date of incorporation, carried on any business or activities other than those incidental to its registration, the financing of the Project and other matters described or contemplated in this Prospectus. University SubCo is a special purpose company established to enter into the documentation to which it is expressed to be a party. University SubCo has not published any audited financial accounts since its incorporation.

University SubCo is wholly owned by Sussex HoldCo. The authorised share capital of University SubCo is £1.00 divided into 1 ordinary share of £1.00 each of which 1 ordinary share has been issued. All shares issued are fully paid.

Directors	Function	Address	Principal Activities
Richard Allan Spencer	Director	Sussex House, Falmer, Brighton, BN1 9RH	Executive of: ProjectCo; and Sussex Estates and Facilities LLP Director of: Issuer; University SubCo; Sussex HoldCo; Sussex U H Limited; The University of Sussex Pension & Assurance Scheme; Brighton Fringe Ltd; East Slope Housing Limited; Sussex Innovation Centre Management Limited; Sussex Innovation Centre Development Limited; Sussex E F Limited; Sussex University Developments Limited; and Director of Finance of the University

University SubCo is not aware of any potential conflicts of interest between the duties to University SubCo of the persons listed above and their private interests and or other duties.

Sussex HoldCo

Sussex U H ESR HoldCo Limited (**Sussex HoldCo**) was incorporated in England on 19 January 2017 under the Companies Act 2006 as a private limited company with registered number 10573583. The registered office of University SubCo is at Sussex House, Falmer, Brighton, BN1 9RH and its telephone number is 01273 678307.

Sussex HoldCo has not, since its date of incorporation, carried on any business or activities other than those incidental to its registration, the financing of the Project and other matters described or contemplated in this Prospectus. Sussex HoldCo is a special purpose company established to enter into the documentation to which it is expressed to be a party. Sussex HoldCo has not published any audited financial accounts since its incorporation.

Sussex HoldCo is wholly owned by Sussex U H Limited. The authorised share capital of Sussex HoldCo is £1.00 divided into 1 ordinary share of £1.00 each of which 1 ordinary share has been issued. All shares issued are fully paid.

Directors	Function	Address	Principal Activities
Richard Allan Spencer	Director	Sussex House, Falmer, Brighton, BN1 9RH	Executive of: ProjectCo; and Sussex Estates and Facilities LLP. Director of: Issuer University SubCo; Sussex HoldCo; Sussex U H Limited; The University of Sussex Pension & Assurance Scheme; Brighton Fringe Ltd; East Slope Housing Limited; Sussex Innovation Centre Management Limited; Sussex Innovation Centre Development Limited; Sussex E F Limited; Sussex University Developments Limited; and Director of Finance of the University.

Sussex HoldCo is not aware of any potential conflicts of interest between the duties to Sussex HoldCo of the persons listed above and their private interests and or other duties.

DESCRIPTION OF THE SHAREHOLDERS

The following is a description of the Shareholder and should be read in conjunction with the rest of the Prospectus.

Balfour Beatty Infrastructure Projects Investments Limited

The principal activity of Balfour Beatty Infrastructure Projects Investments Limited (**BBIPIL**) is that of a parent undertaking.

The ultimate parent of BBIPIL is Balfour Beatty plc (**BB**) which is incorporated in England and Wales. The most recent published audited accounts of BB show that its underlying revenue from continuing operations, including joint ventures and associates was £8,235 million and core order book was approximately £11 billion as at 31 December 2015.

BB is also the ultimate parent company of Balfour Beatty Regional Construction Limited and East Slope Residencies Facilities Management Limited.

BBIPIL is currently either a direct or indirect investor in a number of PFI/PPP and development projects. These include:

Project	Close
Glasgow Residences (Kennedy Street)	27 April 2016
Pebblehall Bio Power	13 March 2015
Tyseley Bio Power	10 December 2013
Holyrood Student Accommodation	30 July 2013
UBB Waste Essex Residual Waste Treatment Project	31 May 2012
Aberystwyth Student Accommodation	31 July 2013
Pevensey Coastal Defence	31 May 2000
UBB Waste Gloucestershire Waste Project	21 February 2013

Sussex U H Limited

The principal activity of Sussex U H Limited (**Sussex UH**) is that of holding company.

The ultimate parent of Sussex UH is the University. The University is further described in the section "*The University of Sussex*".

SUMMARY OF THE PROJECT DOCUMENTS

The ability of the Bond Trustee to make a claim under the Financial Guarantees is not subject to the terms of the Project Documents.

1. The Project Agreement

1.1 General

This section describes the principal terms of the Project Agreement. It is not exhaustive, but focuses on issues of particular interest to prospective Bondholders.

1.2 Parties and Term

(a) *Parties*

The parties to the Project Agreement are the University and ProjectCo.

(b) *Term*

The Project Agreement will come into full force and effect on the Effective Date. The Project Agreement expires on 31 August 2071 subject to extension of the term (see below *Termination of Project Agreement – ProjectCo Default Events – Extended Term*).

(c) *Leases and Underleases*

The structure of the property interests in the Project is described in the section entitled "*Real Estate Documents - Project Leases*" below.

(d) *Change in Control*

Changes in Control of interests of ProjectCo, IntermediateCo and HoldCo (other than transfers of University SubCo's interests in ProjectCo) are prohibited except in relation to transfers to affiliates of Balfour Beatty plc unless the University gives prior written approval. This restriction applies from the Effective Date until one year after the Phase Completion Date of the final phase. **Change in Control** means any sale or other disposal of any legal, beneficial or equitable interest in any or all of the equity share capital of a corporation (including any change in control over the exercise of voting rights conferred on that equity share capital or over the right to appoint or remove directors or the rights to dividends), transfers of members interests in an LLP (other than transfers of University SubCo's interests in ProjectCo) and/or any other arrangements that have or may have or which result in the same effect.

After the general restriction on Change in Control comes to an end (as above), the University has no right to veto a Change in Control (excluding as set out below). ProjectCo must, however, still inform the University of any Change in Control as soon as possible and in any event within ten business days of any Change in Control. In addition, the University may, not more than twice in any calendar year, or at any time when a Default Event is outstanding, require ProjectCo to inform it, as soon as reasonably practicable and in any event within ten business days of receipt of the University's request for details, of any Change in Control in respect of ProjectCo, IntermediateCo or HoldCo.

The restriction and notice requirement does not cover any transfer of shares in ProjectCo arising as a consequence of the grant or enforcement of security in favour of the Senior Creditors over or in relation to any of the shares of ProjectCo, provided that any document conferring security over any shares has been approved by the University (not to be unreasonably withheld or delayed).

There is a general prohibition on Changes in Control in ProjectCo, IntermediateCo or HoldCo (other than where such change relates to a public quoted company whose equity securities are listed on a recognised investment exchange, as defined in section 285 of the Financial Services

and Markets Act 2000) without the prior written consent of the University where the person acquiring control is a Restricted Person. **Restricted Person** includes the usual categories of restricted persons for a PFI/PPP transaction such as those who have a material interest in the production of tobacco products and/or alcoholic beverages but also includes persons (other than the University) providing or proposing to provide education or other services of a similar nature to those provided or contemplated by the University at the time of the proposed transfer.

1.3 **The Works**

(a) *Overview*

ProjectCo must undertake as part of the Works the;

(i) design and construction of the Accommodation and associated amenities;

(ii) design and construction of the shell and core of the Student Union;

(iii) design and construction of the hard and soft landscaping including a calcareous grassland, car park and road; and

(iv) design and construction of the site services and connections to campus infrastructure.

These obligations are passed to the Building Contractor under the Building Contract and the Building Contractor must perform the Works for a fixed contract sum (the **Contract Sum**), subject only to certain specified adjustments in accordance with the Building Contract. The Building Contractor is paid the Contract Sum monthly subject to a pre-agreed maximum cashflow.

The University has obligations as set out in the Project Agreement if they do not comply with these obligations they may be treated as a Compensation Event by ProjectCo, which include enabling works, utility connections to agreed access points and provision of supply, BREEAM, compliance with University necessary consents, access arrangements for the fit-out of the student union and wayleaves.

ProjectCo must complete the Works in accordance with the Works Specification as set out in the Project Agreement.

Certain design elements of the Works will be developed and finalised after the Issue Date. These are subject to a review procedure under which they must be submitted for comment and approval by the University.

These obligations are passed to the Building Contractor under the Building Contract.

(b) *Target Dates for Phase Completion*

ProjectCo must complete each Phase, (an obligation passed down to the Building Contractor) by a corresponding target date (each a **Planned Phase Completion Date**).

If ProjectCo fails to complete the Works (an obligation passed down to the Building Contractor) for any of the Phases by the relevant University Occupancy Date and ProjectCo had previously notified the University that specific flats or rooms (**Rooms**) would be available by the relevant target date through issue of an availability notice then ProjectCo (passed down to the Building Contractor) must, at its cost, provide Suitable Alternative Equivalent Accommodation to all individuals who would have been accommodated within the relevant Rooms.

If the Building Contractor is required to provide Suitable Alternative Equivalent Accommodation, ProjectCo is entitled to receive rent equal to the greater of the rent payable

under the relevant Underlease (pertaining to the relevant Phase) (a) in respect of 75 per cent. of the rooms which the availability notice stated would be available; or (b) in respect of the rooms which would have been occupied had completion occurred and in relation to which students are instead being housed in Suitable Alternative Equivalent Accommodation (note that after a period of time - such period as is notified to the University by ProjectCo subject to a maximum period of 18 weeks - the rent is reduced to reflect the number of students who vacate the Suitable Alternative Equivalent Accommodation before the relevant room is ready) less all losses, costs, claims and liabilities incurred by the University as a result of such students being housed in Suitable Alternative Equivalent Accommodation, which may include reasonable payments in respect of additional travel, catering storage and internet costs and ex gratia payments to the extent the University and ProjectCo have agreed (acting reasonably) that payment of the same is appropriate.

If ProjectCo loses revenue or incurs costs as described in the previous paragraph the Building Contractor must under the Building Contract pay ProjectCo its losses on demand (subject to the Building Contract Cap).

In addition, unless ProjectCo has given the University not less than six weeks advance notice of the likely failure to achieve the relevant target date, ProjectCo will also be liable to the University for the University's mobilisation and staff costs reasonably incurred under the Soft FM mobilisation plan. Again, liability for such costs is passed down to the Building Contractor (subject to the Building Contract Cap).

Alternatively, if under the Building Contract the Building Contractor has not issued an availability notice (or has issued an availability notice stating that none of the rooms for the applicable Phase will be available by the relevant University Occupancy Date), the Building Contractor must compensate ProjectCo by paying ProjectCo on demand for the losses associated with those Rooms under the Building Contract (subject to the Building Contract Cap and ultimately to the provisions on termination of the Building Contract for late completion).

(c) *Block by Block Completion*

If:

- Not all the blocks in a Phase will be complete by the Planned Phase Completion Date, ProjectCo notifies the University (having been notified of the same by the Building Contractor) and the University consents; or
- ProjectCo indicates in its availability notice/non-availability notice issued to the University that not all blocks will be complete by the University Occupancy Dates,

then, subject to certain criteria (such as the blocks being able to be accessed without inconvenience, the relevant completion criteria having been met etc.), ProjectCo is entitled to Block by Block completion.

Block by Block completion allows individual blocks to complete and be handed over notwithstanding that the rest of the Phase will not be complete. Where this mechanism is applied:

- Block underleases will be granted
- ProjectCo will bear the additional costs of the Independent Tester and in relation to the additional underleases
- ProjectCo will also bear the University's reasonable additional costs

- Unless the parties agree otherwise, the defects liability period will run from completion of the last Block in a Phase.

(d) *Longstop Date*

If ProjectCo fails to achieve phase completion in respect of all Phases by the date falling 12 months after the final Planned Phase Completion Date, the University is entitled to terminate the Project Agreement. The corresponding longstop date in the Building Contract is 6 months after the Planned Phase Completion Date of the final Phase (upon which ProjectCo can terminate the Building Contract).

If at any time on or after the Planned Phase Completion Date for Phase 1 (as may be amended from to time to time) pursuant to the terms of the Building Contract) and 6 months following the Planned Phase Completion Date for Phase 1 as at the date of the Building Contract, it becomes reasonably evident to the Funder's Technical Advisor and/or the Contractor's Representative that the Building Contractor is unlikely to achieve the Phase Completion Date for any Phase by the longstop date in the Building Contract then the Building Contractor can be instructed to provide a longstop rectification plan for approval setting out the steps the Building Contractor will take to achieve completion before the longstop date. Failure by the Building Contractor to submit a longstop rectification plan, keep it up to date or to properly implement the plan, then ProjectCo can terminate the Building Contract.

(e) *Works Completion Certification*

ProjectCo and the University will appoint an independent tester (the **Independent Tester**). The Independent Tester's function is to inspect and certify the completion of each Phase of the Works. This is done through the issue of a certificate of phase completion (a **Certificate of Phase Completion**) when the Independent Tester is satisfied that the Works comprised in the relevant Phase are complete in accordance with the Works Specification and the completion criteria.

In addition to ProjectCo, the University and the Security Trustee are party to the Independent Tester Appointment, so the Independent Tester therefore owes a duty of care to each of those parties.

The Project Agreement defines certain permitted snagging items (**Snagging Matters**). These are defined as minor items of outstanding works (including in relation to landscaping) which would not render any part of the Accommodation Unavailable or non-compliant with Law or materially impair the use or enjoyment of the Accommodation by the tenants or the performance of the Services. The Independent Tester may issue a Certificate of Phase Completion even though Snagging Matters remain.

The Independent Tester's Certificate of Phase Completion is conclusive (in the absence of manifest error, bad faith or fraud) for the purpose of ascertaining the date of completion of the Phases.

(f) *Construction Defects and associated Unavailability*

For twelve months after completion of each Phase, the Building Contractor will be liable to rectify any construction defects. The Building Contractor is also liable to recompense ProjectCo for the cost of ProjectCo rectifying latent defects following the expiry of that twelve month defects liability period until twelve years from the completion date for the relevant Phase (after which ProjectCo takes the financial risk of making good any latent defect).

In the event of any unavailability of a Room (which is made available under a room availability notice) following practical completion due to a construction defect, ProjectCo bears the risk of procuring Suitable Alternative Equivalent Accommodation and/or any associated loss of revenue. This risk has been passed down to the Building Contractor subject to a cap on losses of Availability set at 5 per cent. of the Building Contract sum until the final certificate of making good defects is issued and a further 5 per cent. of the Building Contract

sum in the period up to the expiry of 12 years after the completion of each Phase (after which ProjectCo takes the financial risk associated with any unavailability resulting from latent defect risk).

1.4 The Site

(a) *Site Risks – Ground Conditions and Contamination*

ProjectCo is deemed to have inspected the construction site, its surrounding areas, and all relevant buildings and accommodation.

These risks have been passed to the Building Contractor under the Building Contract.

The Service Provider is not responsible for site conditions save contamination caused by its act, default or omission.

ProjectCo is protected by Compensation Events to the extent that: (i) unforeseen ground conditions (excluding Karst Features); and/or (ii) contamination exist, in either case under the Dark Ground Land at the Effective Date. Dark Ground Land is defined by reference to an agreed plan.

A contingency fund will be established specifically to compensate ProjectCo for dealing with any Karst Features that may be discovered on the site. If the cost of dealing with Karst Features exceeds this fund, the University (subject to mechanisms outlined below) will meet the cost.

Shortly after the Effective Date the Building Contractor will carry out investigation surveys as set out in the Project Agreement (on behalf of ProjectCo) to identify the Karst Features. If any Karst Features are identified the University must be notified as soon as reasonably practicable, following which they have a right to inspect the Karst Features (such inspection shall not delay any remedial works). ProjectCo has an obligation to mitigate any delay to the completion of the Works and has an obligation to complete as soon as reasonably practicable any remedial works (**Karst Feature Remediation Works**). This is defined as, such works and services as are required in accordance with good industry practice to remediate any Karst Feature to the extent such remediation is necessary in order to carry out and complete the Works in accordance with the requirements of the Project Agreement. A contingency fund has been established and will cover any required remedial works. ProjectCo is required to pay into this fund at several defined dates. Any balance remaining in the account at agreed date will be paid to the University.

ProjectCo is required to undertake Asbestos Works (defined as in relation to the Demolition Site, the removal and disposal of all asbestos). ProjectCo is required to procure a survey as detailed in the Project Agreement, which must be submitted to the University within 5 business days of receipt along with ProjectCo's estimate of the costs of carrying out the works, any anticipated delays to the programme and any corresponding extensions required. An allowance for undertaking the Asbestos Works has been included in the base case. There is a procedure under which ProjectCo can request the direct costs and associated expenditure in undertaking the Asbestos Works from the University in excess of the allowance and ProjectCo is afforded Compensation Event protection to the extent that the time allowed for dealing with the Asbestos Works in the programme and/or the agreed allowance proves to be insufficient.

Following completion of the Asbestos Works, if the allowance for the Asbestos Works proves to be too generous, the remaining amount is returned to the University.

(b) *Development Area outside Plot Boundaries*

There is an area of land that forms part of the Project that currently sits outside the demise of the Premises, but within land on the University's campus that has been demised by the University to A2Dominion Homes Limited. The affected area forms part of Block 2C, part of Phase 5 (as described below), comprising 80 en-suite beds. There are also some additional

rights over the land demised to A2Dominion Homes Limited that are required by the University to facilitate parts of the Project.

In the course of discussions between the University and A2Dominion Homes Limited, A2Dominion Homes Limited have agreed in principle to surrender the necessary land and grant the necessary rights to the University so that the University can lease the affected area of land and grant the relevant rights to ProjectCo. This agreement-in-principle remains subject to binding documentation. Once binding agreement is reached with A2Dominion Homes Limited, the University proposes to enter into a lease with ProjectCo for the affected area and the relevant rights on substantially the same terms as the Lease but for nil premium.

Construction of Block 2C is due to commence in October 2018. If the University is unable to agree terms with A2Dominion Homes Limited or is otherwise unable to enter into a lease for the affected land and grant the relevant rights then, subject to ProjectCo applying for and obtaining a variation to the existing planning permission or a new planning permission, the affected part of the Project may be reconfigured by the ProjectCo to accommodate the necessary changes whilst delivering the same number of en-suite beds.

If by 1 October 2017 the University is unable to lease the affected area of land and grant the relevant rights and planning permission to reconfigure the affected parts of the Project has not been obtained, then this event will constitute a Compensation Event under the Project Agreement. The consequences of this will be the same as for a Compensation Event under the Project Agreement (see section entitled "*Summary of the Project Documents – The Project Agreement – Supervening Events*" below) save that the University will not be required to compensate, and the Building Contractor will not be entitled to receive, any loss of profit as part of any claim for such Compensation Event.

(c) *Planning and Other Consents*

Detailed planning consent for the Project has been obtained. Responsibility for discharging the planning conditions has been allocated between the University and ProjectCo under the Project Agreement. ProjectCo has passed on its responsibility to the Building Contractor, to the extent relevant to the Building Contract and the Service Provider, to the extent relevant to the Service Contract.

(d) *Contract Risks – Title Conditions*

Pinsent Masons LLP (as legal advisers to the University) will issue a Certificate of Title addressed to ProjectCo covering (among other things) the University's title to grant the Lease.

ProjectCo shall enter into the Lease with full knowledge of the contents of the Certificate of Title.

Where ProjectCo is prevented or restricted from carrying out the Works in accordance with the Project Agreement and the Headlease as a result of the grant of a court order in respect of any application by a benefitted proprietor to enforce a right which subsists in respect of the Property which is not a title condition or reserved right, the prevention or restriction shall be deemed to be a Compensation Event. The Building Contractor and the Service Provider have the benefit of these protections. Once the Works are completed, any interruption to the Services will be covered by the Title Insurance up to the limits of the Title Insurance (see the section entitled "*Risk Factors – Risks relating to the Project - Property Related Risks*").

1.5 **Student Union**

ProjectCo is constructing the student union shell and core at the Premises. The University will be fitting out the interior of the shell and core. There is an access protocol governing the access by the University's fit out contractor. If the fit out of the shell and core is not in accordance with the access protocol or the performance of the fit out works impedes, hinders or delays the performance of or causes damage to the Works, this is a Compensation Event.

The final Certificate of Phase Completion cannot be issued until the Student Union is complete.

Following Phase Completion of the Student Union these facilities will be subject to a lease to the University. Following which the University becomes responsible for the Student Union including all services and the operation of the facilities.

If there is a change in project costs or ProjectCo loses revenue due to death or personal injury, property damage, third party actions or Rooms being Unavailable due to the operation of the Student Union, this is a Compensation Event (a **Student Union Compensation Event**). The compensation ProjectCo is able to claim in respect of a Student Union Compensation Event is limited to any losses not insured, including excesses deductibles or amounts over the maximum amount covered by insurances excluding where ProjectCo has failed to recover insurance proceeds due to its or a ProjectCo related party's act or omission.

Excesses and deductibles applicable in respect of claims arising out of the carrying out of the fit out works or a Student Union Compensation Event will be met by the University. If any insurance premia increases are caused a Student Union Compensation Event these will also be met by the University.

1.6 **Cark Park Land and Road Land**

ProjectCo is provided with a licence to access the land on which the car park works and road works are being carried out to carry out the works. The final Certificate of Phase Completion cannot be issued until the car park works and road works are complete. If Project Co fails to carry out the car park works by the relevant completion date the University can serve a notice informing ProjectCo that it no longer requires ProjectCo to carry out the car park works in which case the University is not permitted to exercise its terminations rights for ProjectCo's failure to complete by the longstop date.

1.7 **Services**

(a) *Overview*

ProjectCo must commence the provision of the Services in respect of each Phase on the date that the relevant Certificate of Phase Completion is issued. Performance of the Services for all of the Premises is scheduled in Schedule 15 of the Project Agreement (Service Level Agreement).

The "Services" to be provided or procured by ProjectCo will generally include planned and reactive maintenance, the renewal and replacement of fixtures and fittings, together with major plant and machinery and lifecycle replacement of the Premises. These obligations (other than in respect of utilities management) are passed down to the Service Provider save that the Service Provider's scope of responsibility does not include lifecycle risk for the Accommodation (although there is a mechanism for the Service Provider to quote for and perform the lifecycle replacement work up to £10,000 (indexed) at the Premises). The risk associated with the adequacy of the lifecycle fund is retained by ProjectCo.

The Service Provider will initially perform all of the Services (save for lifecycle and utilities management and excluding the Soft FM Services) required under the Project Agreement. The Soft FM Services are defined by reference to the Service Level Agreement and include those services to be performed by the University for example; helpdesk, security, cleaning, pest control and waste management. The University also performs the Soft FM Services pursuant to the Underlease. These are services which inherently can only be provided by the University (e.g. pastoral care and rent collection). Project Co will perform the Soft FM Services if the provision of the Soft FM Services by the University is terminated in accordance with the Underleases (the date of such termination being the **Soft FM Services Trigger Date**) (see the section entitled "*Real Estate Documents — Project Leases*" below). Provision of individual

Soft FM Services by the University can be terminated by ProjectCo for poor performance, in which case ProjectCo will perform the relevant Soft FM Service.

ProjectCo has the right to inspect the Accommodation and the Service Provider is required to carry out inspections of the Accommodation, on a regular basis. ProjectCo can also require the University's Representative or a University Accommodation Officer to inspect the Accommodation providing it is at reasonable times and during normal working hours.

The Service Provider is required to perform the Services to co-ordinate with the University's operations on the property and/or in the Premises and must take all reasonable care to ensure that it does not interfere with the operations of the University or any University related party. This obligation is not intended to apply with regard to the University's provision of the Soft FM Services. The interface between the Services and the Soft FM Services prior to the Soft FM Services Trigger Date is managed in accordance with the Service Level Agreement and the method statements.

(b) *Payment*

The Service Provider has estimated the cost of performing the Services. ProjectCo will make regular monthly payments in arrears to the Service Provider based on a fixed schedule, subject to certain adjustments (the **FM Services Payment**). The Service Provider bears the risk of any inadequacy of the FM Services Payment. The FM Services Payment is indexed by reference to RPI.

Prior to service commencement, ProjectCo also makes monthly mobilisation payments to the Service Provider. There is a one off payment of £121,134 at financial close.

(c) *Maximum Liability*

The liabilities of the Service Provider arising under the Service Contract are, with certain exclusions, limited to an agreed annual cap of 100 per cent. of its annual scheduled FM Services Payment and a termination cap of 200 per cent. of its annual scheduled FM Services Payment. The Service Provider's liability in respect of equivalent liabilities of Project Co to the Building Contractor under the Building Contract are limited to 50 per cent of its annual scheduled FM Services Payment. Limitations do not apply in certain circumstances, including:

(i) in respect of liability of the Service Provider in respect of death or personal injury;

(ii) liabilities arising out of the University taking steps under the step-in provisions in the Project Agreement;

(iii) breaches of the intellectual property provisions;

(iv) costs or expenses of ProjectCo in respect of ProjectCo taking action under the Enforcement Regime (as defined in the Service Contract where such costs are above ProjectCo's internal costs as modelled);

(v) liabilities arising under the Service Contract following termination due to corrupt gifts and fraud;

(vi) breaches of the Personal Data provisions (as defined in the Service Contract);

(vii) certain claims of ProjectCo in respect of TUPE and Employment matters;

(viii) claims arising out of the Service Provider ceasing to provide all or a substantial part of the services to ProjectCo (other than as a consequence of a breach by ProjectCo);

(ix) claims arising out of the fraud, wilful default or wilful negligence of the Service Provider;

(x) claims, costs and expenses reasonably incurred by ProjectCo in enforcing the Service Contract.

For the purposes of calculating whether the caps have been reached, any amounts relating to the following are netted off:

(xi) where payments are recovered from insurance (or would have been recovered if the Service Provider complied with its obligations in the Service Contract);

(xii) losses incurred by ProjectCo due to wilful destruction, wilful abandonment, wilful misconduct, gross negligence, fraudulent misrepresentation or corruption or fraud; by the Service Provider; or

(xiii) where payments are recovered from the Building Contractor or another ProjectCo related party under FMC Relief (as defined in the Service Contract).

1.8 **University Step-in**

In certain circumstances the University is entitled to take action in relation to the Services. These circumstances are:

(a) there is an immediate and serious threat to the health and safety of any person, property (including the Accommodation) or the environment; or

(b) 3 or more service default notices have been issued by the University in any period of 6 consecutive months (as may be extended between the University and ProjectCo).

During the period in which the University is taking the required action and ProjectCo is prevented from providing any part of the Services, ProjectCo is relieved of its obligation to provide the relevant part of the Service. Where the required action results from a ProjectCo breach, ProjectCo is required to pay all the reasonable costs and expenses incurred in taking this action. to the University. ProjectCo will be entitled to receive the Total Reserved Rent.

No Service Default Points can be allocated to ProjectCo in respect of that part of the Services that is subject to the required action for the period of the required action.

The University Step-in position is passed down to the Service Provider.

1.9 **Payment**

The University must make regular payments (the **Total Reserved Rent**) to ProjectCo. These start from the date of issue of a completion certificate for the first of the Phases (the first **Phase Completion Date**). The University must pay the Total Reserved Rent to ProjectCo on the four specified payment dates **Payment Dates** in each year of Term as follows:

(i) 25 per cent. of the Total Reserved Rent shall be paid on 31 October;

(ii) 25 per cent. of the Total Reserved Rent shall be paid on 31 January;

(iii) 25 per cent. of the Total Reserved Rent shall be paid on 30 April; and

(iv) 25 per cent. of the Total Reserved Rent shall be paid on 31 July.

The Total Reserved Rent in relation to Reserved Rooms will be calculated by reference to the number of Reserved Rooms multiplied by the weekly rent and the relevant length of the Core Period. Total Reserved Rent in relation to Non-Reserved Rooms will be calculated by reference to the amount of income receivable for Non-Reserved Rooms by the University. The amount retained by the University in respect of its provision of the Soft FM Services (calculated in accordance with the Underleases) is then deducted. In addition, the University retains 4 per cent of the rents outlined above.

The receivable or received income from all these Rooms is subject to certain adjustments including:

(a) a deduction in respect of any council of equivalent taxation charges charged to students but assessed on the University;

(b) a deduction in respect of all costs, claims and liabilities incurred by the University as a result of rooms being **Unavailable** (see the section entitled "*Unavailability*" below); and

(c) the University's **Rent Surplus Share** (as defined in the Project Agreement).

Note that where completion is delayed, certain deductions may also be made as set out in section 1.3(c) (*Target Dates for Phase Completion*) above.

The rent for the rooms and flats comprised within the Premises is set annually (see the section entitled "*Rent Setting*" below). With limited exceptions, costs borne by ProjectCo are only recoverable through the rent setting mechanism.

<u>Energy Supply</u>

ProjectCo will pay the University for the consumption of Measured Utilities, being those supplied exclusively to the Premises and metered on the Premises. ProjectCo shall also pay a fair and reasonable proportion for the Shared Utilities which are those utilities supplied but not used exclusively on the Premises. ProjectCo has agreed initial tariffs for those utilities. These tariffs will be updated from time to time as the University negotiates new tariffs with its suppliers.

Following an initial bedding-in period after which ProjectCo is able to rebase the assumed consumption levels, ProjectCo takes consumption risk. The weekly rent includes an agreed allowance for utilities consumption but where the cost of utilities consumed at the Premises is greater than this, ProjectCo bears the excess.

There are certain controls on the tariffs relating to utilities charged by the University; these include parity across the estate and information being provided to ProjectCo relating to tendering exercises.

Gainshare

ProjectCo shall inform the University of the value of the University's Rent Surplus Share

Holiday Letting

For the first 5 years after the final Phase Completion Date, the University undertakes holiday lets. ProjectCo notifies the University as to the Rooms available for holiday letting (this will take into account the Service Provider's requirements for access to rooms for maintenance). The University retains all revenue from holiday lettings during this period subject to payment of agreed additional FM costs for increased service provision.

After the first 5 years, ProjectCo undertakes holiday letting. The University grants ProjectCo a licence to be able to grant holiday lets. ProjectCo retains the first 100 per cent. of net revenue generated by Holiday lets on occupancy up to 34 per cent in this period and shares any net revenue generated above this 50/50 with the University.

1.10 **Rent Setting**

The rents are set annually. Rents shall not exceed the greater of:-

(i) the weekly rent for rooms elsewhere in the University's estate which are comparable in terms of standard of specification, facilities, FM Services, location and student cohort (the **Comparator Rent**) to the Rooms; and

(ii) a weekly rent (the **Formula Rent**) calculated by reference to adjustments to the base student rent agreed at the outset.

The Formula Rent is the sum of a number of factors including:-

(a) a proportion of the base student rent which is indexed in accordance with RPI but subject to a cap of 5 per cent. and a floor of 0 per cent. annually subject to a mechanism to catch up on rent increases lost because of the 5 per cent. cap by increasing in excess of RPI in subsequent years where RPI is less than 5 per cent. (which itself is subject a cap equivalent to actual RPI plus 2 per cent. and no greater than 5 per cent.);

(b) a proportion of the base student rent which is attributable to FM labour in relation to the Soft FM Services costs which is indexed at RPI plus 0.5 per cent. (with no cap);

(d) other elements which are not indexed but adjusted annually to match the actual cost incurred. These elements include utility costs (increases in which are capped when combined with the costs indexed as described in paragraph (a) above at 5 per cent. but excesses can be carried forward and caught up in years where the increase is less than 5 per cent.), internet costs, insurance costs, relevant change in law etc.;

(e) an adjustment for any council taxation charges or equivalent tax which fall on ProjectCo.

The principle applying is that the student rents should be set at the lowest practicable level consistent with securing a return no lower than an agreed return on equity.

Certain elements in the adjustment factor allow the recovery of costs initially borne by the University e.g. change events and relevant changes in law affecting the provision of Soft FM Services, Compensation Events etc.

1.11 **Marketing, Allocation and Reservation of Rooms**

(a) *Nomination Rights*

The University is entitled to nominate rooms which ProjectCo has notified the University are available (an **Availability Notice**) for the next **Core Period** (being the thirty-nine week period in each year when the Rooms are available to let, and fifty week period for postgraduate Rooms (**PG Rooms**)). The University is not obliged to nominate all or any Rooms which are subject of an Availability Notice for any particular Core Period, save that:

(i) the University is required to nominate at least 75 per cent. of Available Rooms in each Phase until the end of the Core Period of the Phase during which the final Certificate of Phase completion was issued (or, if the final Certificate of Phase completion is issued outwith a Core Period, the end of the next Core Period);

(ii) the University must nominate 1 in 10 Rooms as a PG Room.

(b) *Marketing*

To the extent that the University does not nominate 100 per cent. of the Rooms which are the subject of an Availability Notice (**Non-Reserved Rooms**), the University is responsible for marketing any Non-Reserved Rooms. In marketing any Non-Reserved Rooms the University's must market the Premises and its own post graduate accommodation on substantially the same basis.

ProjectCo is entitled (at its own cost) to market any Non-Reserved Rooms to Qualifying Persons and prospective Qualifying Persons, provided that it first notifies the University of its proposed marketing (such marketing subject to the University's approval, not to be unreasonably withheld or delayed). **Qualifying Persons** means registered full time students of the University or other higher education institutions in England and carers for students with special needs.

(c) *Allocation of Rooms*

The University must ensure that applicants for student accommodation offered by the University are able to identify their preferred choice of accommodation as part of the application process.

If, where the University has not nominated 100 per cent of the Rooms which are the subject of an Availability Notice and as at 31 July preceding the start of the next Core Period, not all the Non-Reserved Rooms have been allocated tenants then, if the number of first choice preferences for the Premises exceeds the sum of the number of rooms which are either Reserved Rooms or Non-Reserved Rooms for which a tenant has been allocated (the **Allocated Rooms**) the University is required to allocate Rooms until either:

(i) the total number of rooms that were the subject of the Availability Notice for that next Core Period (less a small number of rooms which it has been agreed the University can keep as 'flexible rooms') have been filled; or

(ii) the number of rooms so allocated is at least equal to the number by which the number of first preferences exceeds the Allocated Rooms.

In relation to the University’s Rent Surplus Share, until August 2022 this is 100 per cent. Thereafter the University’s share will be 50 per cent. of surplus attributable to rents set above the rent formulae and 75 per cent. in relation to extended letting periods (beyond the 39 week base assumption) or where more than 10 per cent. of rooms are let to post-graduates.

(d) *Administration*

Room lettings must be on the basis of the agreed form student lease. The University cannot, without the consent of ProjectCo, amend the form of the student lease where the effect of such amendment would alter the responsibility for costs arising from damage caused by the students (**Student Damage**), or place more onerous or specific obligations in regards to the relevant Services or for local taxation measures. The University is responsible for obtaining vacant possession of all rooms before the start of a Core Period.

(e) *Deposits*

The terms of the student lease do not require deposits from occupiers.

(f) *Student Damage*

Any physical damage caused by students will be the responsibility of ProjectCo. There is a process set out in the Project Agreement to provide a mechanism for the University recovering the cost of physical damage caused by tenants. The University pays all amounts recovered by it from the tenants to ProjectCo (less the University's costs and expenses).

The ProjectCo retains liability for physical damage but has allocated a fund (the **Student Experience Fund**) per academic year to cover the costs of any such physical damage which are not recovered from tenants.

On 1 December, if there are any amounts remaining in the Student Experience Fund for the previous academic year, the remaining amount is to be transferred by 15 December to a community social fund or such other fund as instructed by the University.

1.12 **Restrictive Covenant**

The Project Agreement contains a restrictive covenant whereby the University may only enter into new accommodation arrangements (within a 6 mile radius of Bramber House) if the ratio of full-time students to accommodation has not fallen below 2.5 for the previous 3 academic years and would not fall below 2.5 once the new bed spaces are delivered. This ratio may be reduced to 2.0 if the number of actual applications for rooms for the past 3 academic years has exceeded 1.5 times and for each of the previous 3 academic years the University has either reserved at least 98 per cent. of available rooms for the previous 3 academic years or such rooms were continuously let. The University may proceed with new accommodation arrangements, notwithstanding this ratio test, if they nominate 100 per cent. of the rooms at the Premises. The University may also enter into certain accommodation arrangements irrespective of the relevant tests where such arrangements are either short term (lasting no more than one academic year) or entered into during the works period and which will expire on or before completion of the works.

If the restrictive covenant is breached, the University must either terminate the relevant accommodation arrangement or nominate 100 per cent. of the available rooms until such time as the relevant tests are satisfied. Breach of the remedies provision is a University event of default.

1.13 **Indexation**

As previously noted, the actual rent payable by students and other occupiers is determined by the University and ProjectCo. The rents are subject to indexation in the manner described in "*Rent Setting*" above.

1.14 **Supervening Events**

Circumstances under which relief may be sought

Where the carrying out of the Works or any part of the Works is delayed or likely to be delayed or performance of the Services is adversely affected ProjectCo is able to apply for relief from certain obligations under the Project Agreement and/or compensation. ProjectCo is only able to claim for compensation for Compensation Events. The circumstances under which ProjectCo is entitled to apply for relief can be broken down into:

(i) Compensation Events;

(ii) Relief Events; and

(iii) Force Majeure Events.

To claim relief ProjectCo must give notice in accordance with procedures and deadlines in the Project Agreement.

1.15 **Compensation Events**

(a) *List of Events*

(i) These includes those events expressly defined in the Project Agreement including;

(A) unforeseen ground conditions or contamination in Dark Ground Land (an area of the site identified by reference to a plan) (other than Karst Features);

(B) if, by 1 October 2017, the University is unable to lease the affected area of land outside the required demise and grant the relevant rights by and planning permission to reconfigure the affected parts of the Project has not been obtained;

(C) a delay to the time programmed and/or the incurring of costs in excess to the allowance made to carry out the Asbestos Works (providing the additional

expenditure was reasonably and properly incurred and could not be mitigated acting in accordance with good industry practice.);

(D) a breach of the University's warranty that the information contained in the Certificate of Title is complete and accurate;

(E) where upon the University exercising its right to open up and inspect the Works as it believes they are defective, it is found the Works are not defective. But as a result the Works are likely to be delayed, or ProjectCo is unable to comply with its obligations under the Project Agreement, or ProjectCo is likely to incur additional costs or losses or is likely to lose revenue;

(F) any necessary suspension to the Works or additional works (further than those set out in the Works Specification) arising due to the discovery of fossils or other antiques; and

(G) where either the costs exceed the balance of the additional Karst Feature bank account or the time taken exceed the time stated in the Karst Feature programme as a direct result of i) carrying out and undertaking the Karst Feature Remediation Works, ii) additional Karst Feature ground investigation surveys (in addition to those surveys already agreed), and iii) any additional expenses of filling and disposing of the materials from Karst features.

(H) any breach of the University's obligations in Schedule 31 of the Project Agreement; this includes providing ProjectCo with enabling works, utility connections and provision, BREEAM, necessary consents, access arrangements for the fit-out of the student union and wayleaves and the University obtaining the necessary consents and planning conditions which are its responsibility,

(I) the discovery of the access shaft to the Southern Water adit

(the **Compensation Events**).

There is also a compensation event relating to operation of the Student Union (a **Student Union Compensation Event**) and relating to a failure of the University to notify ProjectCo of a service failure in accordance with the SLA (whilst the University is to provide the helpdesk services) (a **Helpdesk Compensation Event**).

ProjectCo is only entitled to recover its uninsured losses in relation to either a Student Union Compensation Event or a Helpdesk Compensation Event.

The benefit of the Compensation Events is passed down to the Building Contractor and the Service Provider (as appropriate).

(b) *Nature of Relief – Extension of Time*

Compensation Events entitle ProjectCo to an extension to any Planned Phase Completion Dates to take account of the delay caused by the Compensation Event. If Suitable Alternative Equivalent Accommodation is required as a result of the Compensation Event, ProjectCo is kept in a no better no worse situation and reimbursed for the costs and liabilities incurred. Where the Compensation Event occurs after a Phase Completion Date and does not involve capital expenditure, the change to project costs and/or loss of revenue suffered by ProjectCo is in the first instance repaid through an adjustment to rent levels. Where this is not possible (for example, because the market would not tolerate the required increase in rents) ProjectCo is compensated by the University.

(c) *Nature of Relief – Financial Consequences*

The amounts that ProjectCo is entitled to claim are in respect of any Change in Project Costs. **Change in Project Costs** means the aggregate of any estimated increased construction,

(including prolongation and re-mobilisation) costs, operating costs, insurance costs and financing costs less the aggregate of any estimated reduced such construction costs, operating costs, insurance costs and financing costs. ProjectCo will be reimbursed for the Change in Project Costs which are reasonable incurred (excluding revenue actually lost) due to a Compensation Event providing the University is notified and is provided with evidence of such additional revenue.

1.16 **Relief Events**

(a) *List of Events*

Relief Events apply during both the construction period and the operational phase. They are a list of specified events that lie outside the parties' control. They include:

(i) fire, explosion, lightning, storm, tempest, flood, bursting or overflowing of water tanks, apparatus or pipes, ionising radiation (to the extent it does not constitute Force Majeure), earthquake, riot or civil commotion

(ii) failure by any statutory undertaker, utility supply company, local authority or other like body to carry out works or provide services

(iii) accidental loss or damage to the Works and/or Property or Accommodation or any roads servicing the same

(iv) failure or shortage of power, fuel or transport

(v) blockade or embargo falling short of Force Majeure

(vi) the discovery of fossils, antiquities and human remains

(vii) official or unofficial strike, lockout, go slow or other dispute in each case generally affecting the construction, building maintenance or facilities management industry (or a significant sector of that industry); or

The benefit of the Relief Events is passed down to the Building Contractor and the Service Provider (as appropriate).

None of the above will be treated as a Relief Event if the event arises (directly or indirectly) from any wilful default or act of ProjectCo or a ProjectCo Party. If a Relief Event adversely affects the ability of either party to perform any of its obligations under the Project Agreement, then that party will be entitled to apply for relief. To obtain relief, the relevant party must give notice to the other party in accordance with procedures and deadlines in the Project Agreement.

(b) *Nature of Relief*

Where a Relief Event arises neither party can terminate the Project Agreement and no Service Default Points can be applied for the consequences of the event constituting the Relief Event. All other rights and obligations of the parties remain unaffected by the occurrence of a Relief Event except that delays incurred to the Works due to a Relief Event will extend the longstop date. Also, ProjectCo (passed down to the Building Contractor) is not liable for the University's mobilisation costs under the Soft FM mobilisation plan in the event of a delay to Planned Phase Completion Date in respect of a relevant Phase due to a Relief Event.

(c) *Nature of Relief – Financial Consequences*

ProjectCo (passed down to the Building Contractor and/or the Service Provider (as appropriate)) bears the financial consequences of any Relief Events that affect the Works or the Accommodation. Thus, for example, no compensation is payable to ProjectCo (or to the Building Contractor) for late completion of the Works.

During the construction period, a Relief Event that delays construction may delay the date on which revenue is received. This loss of revenue, together with other costs will be recovered either through the Building Contractor (subject to the Building Contract Cap) and/or through insurance.

ProjectCo will carry delay in start-up and business interruption insurance which will respond where physical damage is caused by a Relief Event. These are intended (subject to applicable deductibles) to mitigate the financial risks of those events (see the section entitled "*Insurance Arrangements*" below).

1.17 **Force Majeure**

(a) *List of Force Majeure Events*

Force Majeure Events apply during both the construction period and the services phase and are passed down to the Building Contractor and/or the Service Provider (as appropriate).

They comprise the following:

(i) war, civil war, armed conflict or terrorism (but excluding an insured terrorist event); or

(ii) nuclear, chemical or biological contamination; or

(iii) pressure waves caused by devices travelling at supersonic speeds,

(the **Force Majeure Events**)

None of the above will be treated as a Force Majeure Event if the event has been caused by ProjectCo.

(b) *Immediate Consequences of Force Majeure*

Provided it has given notice in accordance with the Project Agreement's requirements, where ProjectCo is unable to perform its obligations under the Project Agreement because of a Force Majeure Event, it is relieved from liability for breach. This includes relief from termination where this would otherwise result from its non-performance.

Where the Force Majeure Event occurs during the construction period, the Force Majeure Event will also entitle ProjectCo to relief. Any delay to construction completion due to Force Majeure does not affect the Planned Phase Completion Date of a Phase but the University cannot terminate for default, including failure to complete by the longstop date.

(c) *Consequences of Force Majeure – Termination*

The parties will seek to agree modification to the Project Agreement having regard to the nature of the Force Majeure Event. If no agreement is reached and the event has continued for six calendar months, either party may terminate the Project Agreement with immediate effect (in which case the Building Contract and/or the Service Contract (as the case may be) will also immediately terminate).

(d) *Financial Consequences of Force Majeure (Pre-Termination)*

No compensation is payable to ProjectCo under the Project Agreement (or to either Sub-Contractor under the Sub-Contracts) for the financial consequences of a Force Majeure Event (including loss of revenue), unless the Project Agreement and/or the Sub-Contracts are terminated.

Where a Force Majeure Event delays the Works, ProjectCo bears the resulting delay in commencement of the Total Reserved Rent, subject to the arrangements described above in

the section entitled "*Relief Events - Nature of Relief – Financial Consequences*". This risk is passed down to the Building Contractor.

Except to the extent noted below in relation to terrorism (see the section entitled "*Insurance Arrangements*" below), Force Majeure Events will not be insured against by ProjectCo.

1.18 **Change Events**

Either party may request a change to the Works, the Accommodation and/or the Services (a **Change Event**). The University may also request a change to the length of a Core Period. The parties are not obliged to consent to the proposed change unless both parties agree to give effect to the Change Event and the method of financing it or, where the Change Event is proposed by the University, the parties have agreed arrangements which would put ProjectCo in a no better and no worse position.

1.19 **Insurance**

(a) *ProjectCo Obligations*

ProjectCo must ensure that certain required insurances (the **Insurances**), specified in the Project Agreement, have been taken out. The Insurances include contractor's all risks, delay in start-up, construction third party liability, property damage (for the completed Premises), loss of revenue (business interruption insurance) and operational third party liability (including product liability) insurance. ProjectCo (together with its Sub-Contractors) must also take out those insurances required by legislation.

(b) *Application of proceeds*

All insurance proceeds that are paid for a single event or series of related events insured under ProjectCo's property damage insurance policies must be paid into a joint bank account. This is in the names of the University and ProjectCo. These will be used to cover the insured event.

Subject to the Funders' Direct Agreement, all insurance proceeds received under any of ProjectCo's third party liability insurances must be applied by it to satisfy the relevant claim and insurance proceeds received under any other insurances must be applied to ensure performance by ProjectCo of its obligations under the Project Agreement including to repair, reinstate and/or replace loss or damage to the Accommodation.

(c) *Uninsurable Risks*

ProjectCo does not have to take out insurance where an insurable risk becomes Uninsurable. Accordingly, ProjectCo will not be held in breach of its insuring obligations under the Project Agreement.

For a risk to be **Uninsurable**, the relevant risk must broadly be:

(i) not available in the worldwide insurance market with reputable insurers of good standing; or

(ii) the insurance premium payable for insuring that risk is at such a level that the risk is not generally being insured against in the worldwide insurance market with reputable insurers of good standing by contractors in the United Kingdom

If third party liability insurance is Uninsurable, the University may terminate the Project Agreement (and pay compensation as described below) or allow the Project Agreement to continue. If it does so and a risk occurs that is Uninsurable, the University must elect either to pay to ProjectCo (or the claimant in the case of a risk insured under third party liability insurance) the amount that would have been paid had the relevant insurance continued to be available or terminate the Project Agreement. If the Project Agreement is terminated, compensation is payable on the same basis as where the Project Agreement is terminated for a Force Majeure Event (see the section entitled "*Compensation on Termination*" below) and, in

the case of third party liability insurance, the University must pay the amount of the insurance proceeds.

Where the actual cost of placing the Insurances is more than the costs assumed as at the Issue Date, ProjectCo will generally have to meet the increased costs, unless the increase is such that it makes the risk Uninsurable or to the extent passed on to student rents (see section entitled "*Rent Setting*" above).

(d) *Unavailability of Terms*

To the extent that on the renewal of any of the Insurances:

(i) any insurance term is not available to ProjectCo in the worldwide insurance market with reputable insurers of good standing; and/or

(ii) the insurance premium payable for Insurance incorporating such insurance term is such that the insurance term is not generally being incorporated in insurance procured in the worldwide insurance market with reputable insurers of good standing by contractors in the United Kingdom;

then provided that the reason for the unavailability is not due to the actions of ProjectCo the University will waive ProjectCo's obligation of having to seek insurance containing the relevant term which is unavailable. The parties may agree (or it may be determined under the disputes resolution procedure) that an alternative or replacement term or condition is available to ProjectCo within the worldwide insurance market.

Where the University has waived ProjectCo's obligation of having to seek insurance containing the relevant term which is unavailable, the University shall be entitled to deduct an amount equal to the amount paid for the particular insurance term from the Total Reserved Rent less any amount paid or payable by ProjectCo to maintain and/or procure the maintenance of any alternative or replacement insurance in respect of such insurance term.

(e) *Damage to the Accommodation*

ProjectCo is responsible for the cost of all damage on or to the Accommodation (or any part thereof) other than damage caused by the University in its provision of the Soft FM Services prior to the Soft FM Services Trigger Date. As noted above in the section dealing with Student Damage, ProjectCo may be entitled to recover the costs of physical damage to the extent it is Student Damage.

(f) *Insurance Premia*

Generally ProjectCo is responsible for the payment of the premia in respect of each of the Insurances.

Generally, if there is an increase in the cost of insurance to be taken out by ProjectCo under the Project Agreement and that increase cannot be recovered through an increase in the Student Rent, this increase is borne by ProjectCo.

(g) *University Liability for Student Union*

Excesses and deductibles applicable in respect of claims arising out of the carrying out of the fit out works or a Student Union Compensation Event will be met by the University. If any insurance premia increases are caused a Student Union Compensation Event these will also be met by the University.

(h) *Service Provider Liability*

The Service Provider is responsible for excesses and deductibles under the Insurances where the relevant claim is due to its act, omission or default. The Service Provider is also responsible for any failure to recover under the Insurances due to its act, omission or default.

1.20 **Change in Law**

The University cannot prevent ProjectCo from changing the methods of carrying out the Works or Services as a result of a change in legislation. A change in law does not automatically entitle ProjectCo to additional payment. Certain changes in law constitute a Qualifying Change in Law. It is only in respect of these Qualifying Changes in Law that ProjectCo is entitled to any payment

A **Qualifying Change in Law** means a change in law or guidance which comes into effect after the earlier of:

(a) the third anniversary of the Effective Date; or

(b) the date falling two (2) years of the UK government giving notice to the European Council under Article 50 of the Treaty on the European Union, provided such notice has not been withdrawn during such two year period:

and which

(i) impacts on the Works or the carrying out of the Works, in either case, before the Planned Phase Completion Date (subject to Relief Events); and

(ii) was not foreseeable at the date of the Project Agreement.

If a Qualifying Change in Law occurs or is anticipated then the parties will write and provide full details of the effects of the change in law including the change in project costs or required capital expenditure. The parties are required to meet and discuss ways in which the Qualifying Change in Law can be mitigated. ProjectCo bears the risk of managing the Qualifying change in Law and is required to produce evidence to show how it has minimised any increase in costs and avoided or measured capital expenditure in a cost effective manner. If capital expenditure is required ProjectCo has an obligation, and must use its reasonable endeavours to obtain funding. The University bears the ultimate risk of Qualifying Change in Law and if funding is not available it is agreed that the University will pay for the capital expenditure.

Certain changes in law constitute a **Relevant Change in Law**. A Relevant Change in Law means a change in Law which:

(a) comes into effect during the Services period;

(b) involves capital expenditure; and

(c) was not foreseeable at the Effective Date.

Relevant Changes in Law are included as an adjustment factor in relation to the calculation of Student Rent under the Project Agreement. As stated above (see the section entitled "*Risk Factors – Risks relating to the Project - Changes in Legislation*" above) Nevertheless, the Service Provider does not take the risk on capital expenditure arising as a result of a Relevant Change in Law, so this risk remains

with ProjectCo and is managed by way of adjustment to the rents (see the section entitled "*Rent Setting*" above).

Where a Change in Law occurs that is not a Relevant Change in Law in respect of the Services (other than in relation to lifecycle works), this risk is passed to the Service Provider under the Service Contract. This includes where there is an increase in the operating costs for the Service Provider as a result of a Change in Law (other than a Qualifying Change in Law) requiring capital works during the construction period.

1.21 **TUPE**

It is contractually agreed between the parties that neither the commencement nor the provision of the Services by ProjectCo will constitute a relevant transfer under the Transfer of Undertakings (Protection of Employment) Regulations 2006 or Directive 2001/23/EC (together the **TUPE Regulations**). If there is a TUPE transfer through which a University employee or an employee of a University sub-contractor transfers to ProjectCo, the University may offer to employ that employee under a new employment contract. ProjectCo may terminate the employment of the transferred employee and the University will indemnify ProjectCo against all liabilities that arise from the employment of that employee.

Regardless of whether the TUPE Regulations apply where the ProjectCo ceases to provide all or part of the Services and the University and/or a new Service Provider that has been appointed by the University (a **Replacement Service Provider**) to provide all or part of those Services, the University and/or any Replacement Service Provider may offer employment to those employees of ProjectCo or any other person wholly or mainly engaged in providing the Services (a **Service Provider**), and if such offers are made then ProjectCo must (and shall procure that any Service Provider must also) waive its/their entitlement to dismiss the employees and must not restrict, prevent or delay them from taking up employment with the University and/or any Replacement Service Provider on the termination of the Project Agreement or the termination of the part of the Services in which those employees are engaged.

1.22 **Termination of Service Contract at the University's Request**

If five or more service default notices are issued by the University in any consecutive nine month period the University may require ProjectCo to replace any Service Provider engaged in the provision of the affected Services. On replacement ProjectCo may elect (but no more than four times during the Term) that all relevant Service Default Points and service default notices are cancelled.

1.23 **Termination of the Project Agreement**

(a) *ProjectCo Default Events*

There are a number of specific events which, upon their occurrence or in certain cases if they are not remedied in accordance with the Project Agreement, entitle the University to terminate the Project Agreement (**ProjectCo Default Events**), including:

(i) insolvency of ProjectCo or the Issuer;

(ii) a material breach having a material and adverse effect on the delivery of the Services;

(iii) the occurrence of a prohibited Change in Control of ProjectCo, Intermediate Co or HoldCo;

(iv) failure to achieve completion of a Phase of the Works by the longstop date;

(v) a wilful breach of the refinancing provisions;

(vi) failure by ProjectCo to pay to the University an undisputed amount either singly or in aggregate exceeding £100,000 (index-linked) for 20 business days after notice of non-payment;

(vii) a breach of the insurance obligations;

(viii) the receipt of a specified number of services default notices over a specified period;

(ix) proceedings to forfeit the Headlease made by the Brighton & Hove City Council (or its successors in title) are issued by a court or any exercise of any right to forfeit the Headlease due to peaceable re-entry which has lawfully arisen in each case due to a breach of the Project Agreement by ProjectCo or ProjectCo related party ("Forfeiture Proceedings");

(x) the abandonment of the Project Agreement by ProjectCo;

(xi) the assignation, transfer or disposal of the whole of the Project Agreement and/or of the Leases and/or the Building Contract and/or the Service Contract by ProjectCo in breach of the restrictions in the Project Agreement;

(xii) a material breach which results in a health and safety conviction; and

(xiii) an order of possession is granted in any Forfeiture Proceedings or the Brighton & Hove City Council (or its successors in title) lawfully obtain possession of the Property following Forfeiture Proceedings.

Extended Term

If, prior to the senior debt discharge date, the University has the right to terminate for a ProjectCo Default Event due to ProjectCo's failure to pay (where the ADSCR is less than 1:1 on a look forward and look back basis) or insolvency but the University has not exercised its right to terminate, then, following notice served by ProjectCo (at the instruction of the Security Trustee) if the University does not terminate within a specified time period, ProjectCo may serve a notice requiring the term of the Project Agreement, Project Leases and Student Union and Retail Units Underlease be extended by 10 years (or, if earlier, the senior debt discharge date) (an **Extension Notice**).

If an Extension Notice is served, both parties undertake to use all reasonable endeavours to take all necessary steps and enter into all necessary documents to give effect to the extension (the **Necessary Actions**) within 6 months. The University can terminate at any time until the Necessary Actions are completed. If the Necessary Actions are not completed within 6 months or within 2 months of execution documents being provided to the University, the University is deemed to have terminated.

If the Necessary Actions are completed and the parties agree it is not reasonably likely the senior debt discharge date will occur before the extended term expires, the University and ProjectCo will meet to discuss lowering the rent levels to increase demand, subject to such levels not materially adversely impacting upon demand across the wider campus or the ability of ProjectCo to perform its obligations.

In the event the Project Agreement term is extended, the Service Contract term shall also be extended, subject to market testing of the contract price for any period in excess of the current term length.

(b) *Force Majeure*

If a Force Majeure Event has substantially prevented any party from performing its obligations for six months and during that period the parties have failed to reach agreement on how to continue the Project Agreement, the University or ProjectCo may terminate the Project Agreement.

(c) *Corrupt Gifts and Fraud*

A **Prohibited Act** can be summarised as meaning:

(i) offering, giving or agreeing to give to the University or any other public body any gift or consideration as an inducement or reward for doing or not doing any act or showing or not showing favour or disfavour to any person in relation to the Project Agreement or any other agreement with the University or any other public body;

(ii) entering into the Project Agreement or any other agreement with the University or any other public body in connection with which commission has been paid or has been agreed to be paid by ProjectCo without prior disclosure to the University;

(iii) committing any offence under the Bribery Act 2010, under any law creating offences in respect of fraudulent acts or at common law in respect of fraudulent acts in relation to the Project Agreement or any other agreement with the University or any other public body; or

(iv) defrauding or attempting to defraud the University or any other public body.

In the event that ProjectCo, any ProjectCo party or any of their employees commits a Prohibited Act, then the University may be entitled to terminate the Project Agreement. In certain cases, ProjectCo has the ability to prevent termination by "curing" the breach in specified ways. This may be achieved by terminating the employment of the relevant employee or terminating the contract of the relevant Sub-Contractor (as the case may be) who committed the Prohibited Act.

(d) *University Events of Default*

University events of default (**University Events of Default**) are:

(i) failure by the University to pay to ProjectCo an undisputed amount either singly or in aggregate exceeding £100,000 (index-linked) for more than 20 business days after notice of non-payment;

(ii) a material breach by the University of its obligations under the Project Agreement or the Leases which materially adversely affects ProjectCo's ability to perform its material obligations under the Project Agreement for a continuous period of not less than 30 business days;

(iii) a petition, resolution or order for the dissolution or winding up of the University;

(iv) the transfer of all or a substantial part of the University's undertaking, property, rights or liabilities to another person without ProjectCo's consent;

(v) the assignation, transfer or disposal of the whole of the Project Agreement and/or of the Leases and/or the Funder's Direct Agreement by the University in breach of the restrictions in the Project Agreement;

(vi) forfeiture of the Headlease not caused by the ProjectCo or a ProjectCo related party;

(vii) where the University has entered any agreement or arrangement concerning the construction of and/or provision of additional residential accommodation to be let to relevant students by or on behalf of the University, where certain demand-based ratio tests (**Applicable Tests**) are not met and the University has neither terminated the agreement or arrangement) nor served notice on ProjectCo undertaking to nominate 100 per cent. of the Available Rooms which are the subject of an Availability Notice in respect of each Core Period until such time as the Applicable Tests are satisfied in full; and

(viii) the University is in material breach of its financial covenants/restrictions imposed by HEFCE and/or ceasing to operate either in whole or in part as a provider of higher education at the Falmer campus (in either case in comparison to levels as at financial close) which have, will or are reasonably likely (on a balance of probabilities) to materially contribute within three academic years to the ratio of total student demand to total bed supply being less than or equal to 2.00:1.00 (a **Material Adverse Impact**) .

Where a University Event of Default occurs, ProjectCo may terminate the Project Agreement if the default is not remedied within a specified period following notice.

(e) *Voluntary Termination*

The University may terminate the Project Agreement at any time on three months' written notice.

(f) *Uninsurability*

If certain risks that would normally be insured under the terms of the Project Agreement become Uninsurable, and if the Parties cannot agree as to how to manage or share the risk that has become Uninsurable, then in certain circumstances termination may occur.

1.24 **Compensation on Termination**

(a) *Compensation on Termination for ProjectCo Default and Corrupt Gifts and Fraud*

If the Project Agreement is terminated for a ProjectCo event of default or corrupt gifts and fraud, the University will pay the RDP Termination Amount less:

(i) the value of any right to receive insurance proceeds (save where such insurance proceeds are held in the joint insurance account and are to be applied in accordance with the Project Agreement) or sums due from third parties; and

(ii) to the extent realised before the invoice date (being the date on which the termination sum was invoiced to the University and supporting evidence provided), the market value of any other assets and rights of ProjectCo less liabilities of ProjectCo in carrying out its obligations under the Project Agreement as at the termination date provided that the following shall not be taken into account: agreements entered into by ProjectCo that are not in connection with the Project Agreement; and agreements that were not entered into in the ordinary course of business and on commercial arms-length terms.

The **RDP Termination Amount** consists of the Non-Spens Redemption Amount plus certain other amounts outstanding at the termination date payable by ProjectCo and/or the Issuer in respect of certain permitted borrowings less (without double counting): credit balances on bank accounts; amounts claimable in respect of contingent funding liabilities; breakage costs payable by Senior Creditors to ProjectCo and the Issuer; all other amounts received by Senior Creditors between the termination date and the date on which compensation is payable and all distributions for the period during which the Additional Permitted Borrowing (as defined below) subsists. Spens breakage costs are not payable in this situation.

To the extent that distributions are made during the period when Additional Permitted Borrowings are outstanding, the compensation paid by the University will not include the full amount of that additional borrowing. The compensation amount will not in any circumstances include default interest (if any) and other fees and expenses accrued on such additional borrowing. This may impact on the compensation available to meet the Issuer's obligations in relation to the Bonds.

The termination sum is payable either: as a lump sum within 40 business days of invoice and supporting evidence from ProjectCo, with interest at the no default interest rate from the termination date until the date 40 business days after the invoice date and thereafter at the default interest rate; or at the University's discretion, by instalments on Scheduled Payment

Dates (prior to any acceleration) of amounts equal to the scheduled interest, indexation, principal or other amounts due under the senior funding agreements.

Where the University gives notice that payment will be in instalments, it must satisfy the following conditions within 80 days:

(i) no interest, principal or other amounts which have become due under the Senior Finance Documents remains unpaid;

(ii) each Financial Guarantee is in full force and effect;

(iii) the University and Controlling Creditor, and University and ProjectCo, agreeing the terms of new agreements to give effect to the instalment option; and

(iv) the University has granted to the Security Trustee (or other nominee of Senior Creditors) a standard security over the Premises and the Controlling Creditor is satisfied as to the legal efficacy of such security;

and if the University fails to meet those conditions and the Security Trustee serves a notice on the University to that effect, the outstanding amount of compensation (together with interest at the no default interest rate) shall become due and payable immediately. The "Termination Date" shall be deemed to be the date of such notice from the Security Trustee.

Where compensation is to be paid by way of a lump sum the Intermediate Lease shall continue in accordance with its terms until payment of the lump sum at which point the Intermediate Leases shall terminate. The Underlease(s) shall continue until the expiry of the then current core period or until payment of the lump sum (if sooner) at which point such lease(s) will terminate. The rent due under the Underlease(s) for this period shall be such sum as ProjectCo requires to discharge any ongoing obligations under the Intermediate Lease.

Where the University has elected to pay in instalments, and is in breach of its obligations (being one instalment due and payable for 20 business days after service of notice by the Security Trustee), the following shall become payable immediately: an amount equal to the compensation that would be payable under the calculation for compensation on termination for ProjectCo Default and Corrupt Gifts and Fraud, provided that the "Termination Date" shall be the date of the Security Trustee notice.

The University may elect to discontinue the instalment option. In such circumstances, the University shall pay the RDP Termination Amount provided that the date on which the Security Trustee certifies the RDP Termination Amount shall be deemed the "Termination Date".

(b) *Compensation in the event of termination for University Default and Voluntary Termination*

If the Project Agreement is terminated for University Default or on Voluntary Termination, the University will pay: (i) the Base Senior Debt Termination Amount; (ii) redundancy payments and sub-contractor losses and (iii) an amount which the total membership interest of ProjectCo and Subordinated Debt could have been sold on an open market basis (on the assumption there is no default by the University, the sale is on a going concern basis, there are no restrictions on the transfer of share capital and no Additional Permitted Borrowing has taken place).

However, if the amounts in (i) and (iii) (above) are less than the Revised Senior Debt Termination Amount, then the amount payable by the University shall be increased to be equal to the Revised Senior Debt Termination Amount plus the amounts in (ii) above, provided that the amount comprising redundancy and sub-contractor losses shall only be paid to the extent ProjectCo has demonstrated that it will not be applied in payment of a profit to the members and if at the time of termination there are Additional Permitted Borrowings (as defined below) outstanding, no sub-contractor losses shall be paid in circumstances where there is an event of default under such sub-contract which would entitle ProjectCo to terminate that sub-contract.

The **Revised Senior Debt Termination Amount** consists of the Spens Redemption Amount plus certain other amounts outstanding at the termination date (including Breakage Costs) payable by ProjectCo and/or the Issuer under the senior funding agreements less (without double counting): credit balances on bank accounts; amounts claimable in respect of contingent funding liabilities; breakage costs payable by Senior Creditors to ProjectCo, the Issuer or HoldCo; all other amounts received by Senior Creditors between the termination date and the date on which compensation is payable; and all distributions for the period during which the Additional Permitted Borrowing subsists (being an amount equal to the aggregate of all distributions made during that period up to an amount equal to the principal of the Additional Permitted Borrowing on the first day of that period).

The **Base Senior Debt Termination Amount** is calculated on the same basis as the Revised Senior Debt Termination Amount, but excludes all effects, additive and subtractive, in respect of Additional Permitted Borrowing.

The compensation amount is reduced by:

(i) the value of the right to receive insurance proceeds (save where such insurance proceeds are held in the joint insurance account and are to be applied in accordance with the Project Agreement) or sums due from third parties; and

(ii) to the extent realised before the invoice date (being the date on which the termination sum was invoiced to the University and supporting evidence provided), the market value of any other assets and rights of ProjectCo less liabilities of ProjectCo in carrying out its obligations under the Project Agreement as at the termination date provided that the following shall not be taken into account: agreements entered into by ProjectCo that are not in connection with the Project Agreement; and agreements that were not entered into in the ordinary course of business and on commercial arms-length terms.

ProjectCo is entitled under the Project Agreement to raise Additional Permitted Borrowings without the consent of the University, subject to a limit (the **Additional Permitted Borrowings Limit**). **Additional Permitted Borrowing** is that amount of principal that exceeds the amount scheduled at financial close to be outstanding at any time, and the Additional Permitted Borrowings Limit is initially 10 per cent. of the original senior debt commitments at the Issue Date until outstanding principal is 50 per cent. or less of those commitments, when the limit reduces to 5 per cent. of those commitments (or the then outstanding Additional Permitted Borrowings if higher).

Additional borrowing invested in a qualifying variation is not treated as Additional Permitted Borrowings.

To the extent any additional senior secured borrowing was not promptly notified to the University or exceeds the Additional Permitted Borrowings Limit, or to the extent that distributions are made during the period when Additional Permitted Borrowings are outstanding, the compensation paid by the University will not include the full amount of that additional borrowing. The compensation amount will not in any circumstances include default interest (if any) and other fees and expenses accrued on such additional borrowing. This may impact on the compensation available to meet the Issuer's obligations in relation to the Bonds.

The termination sum is payable only as a lump sum within 40 business days of invoice and supporting evidence from ProjectCo, with interest at the no default interest rate from the termination date until the date 40 business days after the invoice date and thereafter at the default interest rate.

(c) *Compensation in the event of termination for Force Majeure and Uninsurable Risk*

Compensation has been structured in a similar way to that described in paragraph (b) – *"Compensation in the event of termination for University Default and Voluntary Termination"* above, except that the termination sum does not include the open market value of the member

interests in ProjectCo and the Subordinated Debt. Instead the compensation sum does include an amount equal to the Subordinated Debt (less an amount equal to interest paid) and an amount equal to those amounts paid to ProjectCo by way of any membership interests less member drawings and other profits paid to the members.

Similar considerations apply to those noted under paragraph (b) *"Compensation in the event of termination for University Default and Voluntary Termination"* above in relation to the possible impact of additional borrowings on the ability of ProjectCo to meet its obligations under the Bonds in full.

The termination sum is payable either: as a lump sum within 40 business days of invoice and supporting evidence from ProjectCo, with interest at the no default interest rate from the termination date until the date 40 business days after the invoice date and thereafter at the default interest rate; or at the University's discretion, by instalments on Scheduled Payment Dates (prior to any acceleration) of amounts equal to the scheduled interest, indexation, principal or other amounts due under the senior funding agreements, with equity and subordinated debt being paid by four equal instalments over the next four Scheduled Payment Dates.

The University cannot pay redundancy payments or sub-contractor losses in instalments; these must be paid in a lump sum.

Where the University gives notice that payment will be in instalments, it must satisfy the following conditions within 80 business days:

(i) no interest, principal or other amounts which have become due under the Senior Finance Documents remains unpaid;

(ii) each Financial Guarantee is in full force and effect;

(iii) the University and Controlling Creditor, and University and ProjectCo, agreeing the terms of new agreements to give effect to the instalment option; and

(iv) the University has granted to the Security Trustee (or other nominee of Senior Creditors) a standard security over the Premises and the Controlling Creditor is satisfied as to the legal efficacy of such security;

and if the University fails to meet those conditions and the Security Trustee serves a notice on the University to that effect, the outstanding amount of compensation (together with interest at the no default interest rate) shall become due and payable immediately. The "Termination Date" shall be deemed to be the date of such notice from the Security Trustee.

Where compensation is to be paid by way of a lump sum the Intermediate Lease shall continue in accordance with its terms until payment of the lump sum at which point the Intermediate Leases shall terminate. The Underlease(s) shall continue until the expiry of the then current core period or until payment of the lump sum (if sooner) at which point such lease(s) will terminate. The rent due under the Underlease(s) for this period shall be such sum as ProjectCo requires to discharge any ongoing obligations under the Intermediate Lease.

Where the University has elected to pay in instalments, and is in breach of its obligations (being one instalment due and payable for 20 business days after service of notice), the following shall become payable immediately: an amount equal to the compensation that would be payable under the calculation for compensation on termination for Force Majeure and Uninsurable Risk, provided that the "Termination Date" shall be the date of the Security Trustee notice.

The University may elect to discontinue the instalment option. In such circumstances, the University shall pay the termination amount and the equity and subordinated debt provided that the date on which the Security Trustee certifies the termination amount shall be deemed the "Termination Date".

(d) *UK Tax Gross-Up*

This is payable by the University in case of compensation payments for all circumstances leading to termination.

2. The Building Contract

2.1 General

The Building Contractor's obligations have been described in detail by reference to the pass down of ProjectCo's Works-related obligations in the section entitled "*The Project Agreement*" above, but included below is a summary of the circumstances under which termination of the Building Contract can occur together with supporting Building Contract document information.

In addition, under the Building Contract, the completion criteria includes satisfaction of planning conditions to the extent required to enable occupation of the Accommodation.

2.2 Termination

(a) *Building Contractor Default*

Events of default entitling ProjectCo to terminate the Building Contract include:

(i) Insolvency

(ii) Repudiation of the Building Contractor's funders direct agreement

(iii) Assignment of the Building Contract without ProjectCo consent

(iv) Abandonment of the Works

(v) Failing to complete every Phase by the long stop date

(vi) Suspension of the Works (without reasonable cause)

(vii) Failure to comply with instructions to remove defective work

(viii) Insolvency of the bond providers (unless replacement bonds are provided)

(ix) Disposal of the whole or a material part of the Building Contractor's undertaking

(x) Building Contractor commits a material breach which adversely affects the carrying out of the Works

(xi) Acts or omissions materially prejudicing the Adjudication Bond, Retention Bond, parent company guarantee and collateral warranty provided by the Building Contractor

(xii) Failure to provide replacement bonds, parent company guarantee or collateral warranty in the event that the existing ones become unenforceable

(xiii) Breach of any obligation on the Building Contractor to maintain insurance

(xiv) Building Contractor fails to pay sums due to ProjectCo in excess of £100,000

(xv) The Project Agreement is terminated due to any act or omission of the Building Contractor

(xvi) Building Contractor commits a material breach which results in a health and safety conviction

(xvii) Building Contractor commits a prohibited act

(xviii) ProjectCo has made a demand under a bond which has not been met within the prescribed period

(xix) The Building Contractor's guarantor repudiates the parent company guarantee

(xx) The bonds and/or parent company guarantee (and any replacement) will expire before the date on which it is required to be maintained and the Building Contractor has failed to provide a replacement

(xxi) The Building Contractor's liability reaches and/or exceeds the Building Contract Cap

(xxii) Any breach of the Building Contract by the Building Contractor or a Building Contractor related party gives rise to an event of default under the funding agreements;

(xxiii) Failure by the Building Contractor to comply with its obligations in relation to the longstop rectification plan

(b) *ProjectCo Default*

Events of default entitling the Building Contractor to terminate the Building Contract include:

(i) Failure by ProjectCo to pay sums in excess of £100,000

(ii) Failure by ProjectCo to issue interim payment certificates whose value (together with any previously outstanding sums) exceeds £100,000.

2.3 **Supporting Documents**

The Building Contractor's obligations under the Building Contract are guaranteed by Balfour Beatty plc under the Building Contractor’s parent company guarantee. This limits the liability of Balfour Beatty plc to the Building Contractor's liability under the Building Contract. ProjectCo, the Building Contractor and the Security Trustee will, by the Effective Date, enter into a direct agreement which acknowledges the funders' security over the Building Contract and regulates step-in rights under the Building Contract. Balfour Beatty plc will also be party to that direct agreement.

In terms of liquidity support there is:

(a) an Adjudication Bond to support the obligations of the Building Contractor under the Building Contract, subject to (i) an agreed maximum liability equal to 15 per cent. of the Building Contract sum stepping down proportionally upon completion of each Phase of the Works and (ii) the precondition of an unsatisfied demand under the Building Contractor’s parent company guarantee and an adjudicator's award (except in the case of an insolvency event in respect of the Building Contractor or Balfour Beatty plc); and

(b) an "on demand" Retention Bond in lieu of ProjectCo making retentions from interim payments (equal to up to 3 per cent. of the Building Contract sum, stepping down proportionally to 1.5 per cent. upon completion of each Phase of the Works and then to 0 per cent. on issue of the certificate of completion of making good defects.

3. **The Service Contract**

3.1 **General**

The Service Provider's obligations have been described in detail by reference to the pass down of ProjectCo's Services-related obligations in the section entitled "*The Project Agreement*" above, but included immediately below is a summary of the circumstances under which termination of the Service Contract can occur together with supporting Service Contract document information.

3.2 **Termination**

ProjectCo can terminate the Service Contract for events of default analogous to those under the Project Agreement. Many of the events, however, will be triggered before they could lead to default under the Project Agreement. This provides ProjectCo with an opportunity to engage a replacement Service Provider and restore standards of performance under the Project Agreement prior to any right to terminate arising under the Project Agreement. The Service Contract may be terminated on a number of additional grounds. These include the Service Contract Guarantee ceasing to be in force without a replacement or suitable alternative (to the reasonable satisfaction of ProjectCo) being provided within thirty (30) business days and, in any year, the Service Provider 's liability exceeding an agreed percentage of its cap.

3.3 **Supporting Documents**

The Service Provider's obligations under the Service Contract are guaranteed by Balfour Beatty plc under the Services Contract Guarantee. This limits the liability of Balfour Beatty plc to the Service Provider's liability under the Service Contract other than in respect of costs and expenses arising as a result of pursuing or enforcing ProjectCo rights under or in connection with the parent company guarantee. ProjectCo, the Service Provider and the Security Trustee will, by the Effective Date, enter into a direct agreement which acknowledges the funders' security over the Service Contract and regulates step-in rights under the Service Contract. Balfour Beatty plc will also be party to that direct agreement.

4. **Funders' Direct Agreement**

On or before the Effective Date, the University, the Security Trustee and ProjectCo will enter into a direct agreement (the **Funders' Direct Agreement**) providing for rights of step-in and step-out in default situations that might otherwise cause termination of the Project Agreement.

5. **Performance Monitoring and Service Default**

5.1 **General**

The University is to provide ProjectCo and the liaison group with the performance monitoring report on a monthly basis, in accordance with the requirements of the Service Level Agreement and the service default schedule.

The performance monitoring report is to identify for each service category the total number of failures by priority. The performance standards and priorities for each service category are described in the Service Level Agreement.

During the services phase these risks are, subject to certain exceptions in respect of lifecycle and utilities, passed to the Service Provider.

5.2 **Unavailability**

Unavailability is linked to:

(a) action having been taken in respect of the Premises pursuant to Part 1 of the Housing Act 2004 relating to certain safety standards or fire safety; or

(b) the Premises not being accessible and safe for occupation; or

(c) the Premises not being supplied with hot and cold running water and toilet facilities;

in each case due to ProjectCo failing to comply with its obligations.

If there is Unavailability, the consequences broadly are:

(a) for the University, if able, to provide alternative rooms within the University's accommodation estate;

(b) to the extent that the University cannot provide alternative accommodation, for ProjectCo to procure Suitable Alternative Equivalent Accommodation; and

(c) for ProjectCo to meet any reasonable and proper costs of the University associated with the Unavailability (including ex gratia payments to the affected tenants).

During the services phase these risks are, subject to certain exceptions, passed to the Service Provider.

5.3 **Service Defaults**

A service default is (subject to Compensation Events and Relief Events):

(a) any failure to carry out Services in accordance with the service requirements and the relevant performance standard;

(b) any failure to respond in relation to a Service as required in the Service Level Agreement within a designated response period; and

(c) any failure to rectify an existing service default within any applicable rectification period.

ProjectCo does not incur service default points to the extent a service default is caused by a breach by the University of its obligations in the Project Agreement or the Underlease schedules relating to the Soft FM Services.

If there is a service default, ProjectCo (to the extent the University is not already aware) shall notify the University's Representative, rectify the service default within the rectification period (or such longer period agreed by the University), and take remedial action as necessary to prevent a recurrence of the service default. The University is to notify ProjectCo's Representative if it becomes aware of an alleged service default. The University is to ensure that it logs each service default.

The University is to include in the performance monitoring report any service default identified, including reasonable details of the service default, the priority attributable to the service default, and the number of service default points (if any) attributable.

The University shall raise with ProjectCo any areas of concerns that arise from the performance monitoring reports and that the University considers may impact on the delivery of the service requirements but do not constitute a service default and ProjectCo shall have the opportunity to respond to such concerns.

If the number of service defaults in a month in a respect of priority in a service category is equal to the relevant default threshold (being a service threshold breach), then the University will be entitle to allocate the relevant number of service default points to ProjectCo.

The obligations of ProjectCo described in this section are passed down to the Service Provider.

5.4 **Recurring and Serious Service Default**

In respect of a month, if the aggregate service default points awarded to ProjectCo across all services is equal to or greater than the monthly all services threshold, or the aggregate service default points awarded to ProjectCo across all of the services in a particular service category is equal to or greater than the monthly service category threshold, then in each case ProjectCo

must provide the liaison group with: a written report on the nature and frequency of the service defaults including an explanation for their occurrence; and a plan for remedying the reasons for each such service default, such plan to be implemented in the next month. If a service threshold breach does occur in respect of the relevant services in the next calendar month, then each such occurrence shall itself be deemed to be a service default and the University may issue a service default notice to ProjectCo in respect of each such occurrence.

In respect of a service quarter (three consecutive calendar months), if the aggregate service default points awarded to ProjectCo across all services is equal to or greater than the quarterly all services threshold, or the aggregate service default points awarded to ProjectCo across all of the services in a particular service category is equal to or greater than the quarterly service category threshold, then in each case the University may issue a service default notice to ProjectCo. Where such service default notice has been given, the University may require ProjectCo to operate an improvement plan.

Where the University has requested an improvement plan, ProjectCo shall submit a draft within five business days. If the University requires more detail in the improvement plan, or considers that it will take too long to complete or will not remedy the relevant service defaults then it may agree further time for development of the improvement plan or refer the matter to the dispute resolution process.

ProjectCo may continue to accrue service default points in respect of any category while it is implementing its improvement plan.

If ProjectCo fails to discharge its obligation in respect to preparing, agreeing and implementing an improvement plan, then the University may issue a further service default notice.

The obligations of ProjectCo described in this section are passed down to the Service Provider with "buffers" within threshold levels to enable ProjectCo to trigger remedial rights ahead of the University's rights at Project Agreement level becoming exercisable.

5.5 **Service Provider Replacement and Default**

Should the Service Provider seriously fail in the performance of the Services, ProjectCo may terminate the Service Contract. The University is entitled to require ProjectCo to terminate the Service Contract if it issues five or more service default notices in any nine month rolling period. While this is the same trigger event as in the Project Agreement, the thresholds at which a service default notice can be served on the Service Provider by ProjectCo are lower than the thresholds at which a service default notice can be served on ProjectCo by the University (reflecting the "buffers" referred to in the section entitled "*Recurring and Serious Service Default*" above).

6. **Real Estate Documents – Project Leases**

The University has a Headlease of the entire campus. Out of this Headlease, the University will grant to ProjectCo the Intermediate Lease demising the Premises, being a part of the University's campus. ProjectCo will then grant back to the University Underleases of each Phase of the Project on completion of each Phase, together with the Student Union and Retail Units Underlease and the Temporary Leaseback on the Effective Date.

Save for the Student Union and Retail Units Underlease which will form an operational part of the University's campus, the Project Leases cannot be assigned except with the Project Agreement.

(a) The Intermediate Lease shall be in the following terms:

(i) The Intermediate Lease shall be for the Term – namely for a period of 50 years plus the build period, to expire at the end of the then current academic year. The Term will run from the Effective Date to the 31 August 2071.

(ii) The Intermediate Lease is subject to early termination upon the expiry or following payment of Compensation or agreement of Conditions for instalment payment of Compensation on early termination of the Project Agreement. In addition the Intermediate Lease contains a limited forfeiture Clause on non-payment of sums due and breach of tenant obligations (see paragraph (v) below) to reflect that the Headlease contains a forfeiture Clause. This forfeiture Clause can only be exercised by the University in limited circumstances where the head landlord serves a formal notice on the University to forfeit the Headlease. This forfeiture Clause is, in any event, subject to the operation of the Funders' Direct Agreement.

(iii) The Intermediate Lease will be registered at the Land Registry of England and Wales.

(iv) A peppercorn lease is reserved.

(v) A premium (the capital payment) is payable under the Intermediate Lease by ProjectCo to the University. The premium will be payable on the grant of the Intermediate Lease and is £36,205,093 (comprising £23,500,000 in cash as capital payment to the University, £1,045,498 being the value attributed to the road works carried out by the ProjectCo, £490,821 being the value attributed to the car park works carried out by the ProjectCo and £11,168,774 being the value attributed to the works carried out by the ProjectCo to deliver the student union.

(vi) the Intermediate Lease is subject to the terms of the Project Agreement. Save in relation to the forfeiture Clause above, the Project Agreement applies in relation to enforcement of any remedy under the Intermediate Lease. Accordingly the additional occupational obligations on the ProjectCo are not extensive and are restricted to those obligations needed to ensure on-going compliance with the University's Headlease. The occupational obligations include:

    (A) to pay all charges for rates, gas, electricity, water and other outgoings in relation to the premises.

    (B) to pay reasonable costs on breach of the Intermediate Lease in limited circumstances where the head landlord serves a formal notice to forfeit, or an application for consent under the Intermediate Lease (no consents are required to deliver any of the Project Services).

    (C) to carry out any items of disrepair as a result of non-compliance with the ProjectCo's obligations in the Project Agreement, where the freeholder owner serves a notice of disrepair on the University under the Headlease.

    (D) after the construction period, to permit the University and head landlord reasonable access to the Premises on prior reasonable notice for limited operational purposes, for example to inspect or to carry out repairs to common service media. This access is subject to the University causing as little inconvenience as possible and making good any damage caused.

    (E) unless required to comply with the ProjectCo's obligations in the Project Agreement, not to make any structural or external alterations to the Premises without the University's consent.

    (F) to only use the Premises for student accommodation, as a hub, laundrette areas and the other non-student accommodation uses provided for in the planning permission, conferencing during vacation periods and as a student union (in respect of the part of the premises being demised back to the

University under the Student Union and Retail Units Underlease). This is in line with the uses envisaged by the Project Agreement.

(G) unless required to comply with the ProjectCo's obligations in the Project Agreement, not to erect any signs, advertising hoardings, satellite dishes or telecommunications masts.

(H) to comply with planning laws and, unless required to comply with the ProjectCo's obligations in the Project Agreement not to make any planning application in relation to the University campus without the University's consent.

(I) save where they conflict with the ProjectCo's obligations in the Project Agreement, to comply with the University's regulations for the campus.

(J) Where compliance falls within the ProjectCo's obligations in the Project Agreement, to comply with any formal legal notices served in respect of the Premises.

(K) not to assign the Intermediate Lease except with the Project Agreement, and not to grant sub-tenancies except for the grant of the Project Leases, short term vacation lets and underleases of substations required for the Project. The Tenant is also only entitled to charge the premises as permitted in the Project Agreement.

(L) yielding up the premises in the condition required by the handback requirements in the Project Agreement.

(M) save for any wayleave or right required for performance of the ProjectCo's obligations under the Project Agreement, not to create any private rights across the Premise.

(N) to comply with limited provisions of the Headlease where these do not conflict with the ProjectCo's obligations in the Project Agreement.

(a) The Underleases are to be granted in the following phases:

Phase 1	Phase 1 Underlease
Phase 1A	Phase 1A Underlease
Phase 1B	Phase 1B Underlease
Phase 2	Phase 2 Underlease
Phase 2A	Phase 2A Underlease
Phase 3	Phase 3 Student Union and Retail Units Underlease
Phase 4	Phase 4 Underlease
Phase 5	Phase 5 Underlease

The Underleases run with the Intermediate Lease and terminate 3 days before expiry of the Intermediate Lease term. Generally, the occupational obligations on the Tenant under the Intermediate Lease are transferred down as occupational obligations on the University as Sub-Tenant under the Underleases. Points to note include:

(A) the Sub-Tenant is not obliged to pay the cost of rates or the cost of providing services (i.e. these remain the responsibility of the ProjectCo under the Intermediate Lease as the intention is that the Underleases are cost neutral to the University).

(B) the permitted use is the use permitted under the Intermediate Lease.

(C) the Sub-Tenant is not permitted to assign or sub-let otherwise than an assignment of the whole where the Project Agreement is also assigned. The

Sub-Tenant is, however, entitled to grant student leases and short-term lets during vacation periods.

(D) the Underleases contain obligations on the Sub-Tenant to provide the Soft FM Services and University Services (being Soft FM Services and Retained Services), in terms of those obligations contained in the Project Agreement.

(b) The Temporary Leaseback is to be granted on the Effective Date and in the following terms:

(A) The term of the Temporary Leaseback will terminate on the Phase 2 Commencement Date.

(B) The permitted use is as student accommodation.

(C) There is an obligation to pay outgoings in relation to this demise.

(D) The Sub-Tenant is prohibited from dealing with its interest in the Temporary Leaseback in any way, save for assured shorthold tenancies or the grant of licences in each case for no longer than 12 months.

(E) There is a prohibition on any alterations being carried out at all, and the Sub-Tenant must yield up with vacant possession.

(c) The Student Union and Retail Units Underlease is to be granted on the Phase Completion Date for Phase 3 and in the following terms:

(A) The Student Union and Retail Units Underlease will terminate on the date 3 days before termination of the Intermediate Lease.

(B) The Sub-Tenant is obliged to pay all charges for rates, gas, electricity, water and other outgoings in relation to the premises.

(C) Assignment of the Student Union and Retail Units Underlease is only permitted as a whole and to a body who replaces the University as an education provider. The Sub-Tenant may underlet freely as this is intended to be an operational part of the University campus.

(D) The permitted use is any use which is not inconsistent with the Head Lease, however there are controls around causing nuisance and prohibition on allowing noise above levels agreed by the ProjectCo to ensure only comfortable levels of noise emanate from the premises to the nearby Accommodation.

(E) There are no restrictions on carrying out alterations to the demise.

7. Insurance Arrangements

7.1 Summary of Insurance

ProjectCo will place cover in respect of the Insurances in two phases, the construction phase and the operational phase. Policies will name the respective interested parties as insured parties. The principal areas of cover, values at risk, limits of indemnity and deductibles will be as required in the Project Documents and Senior Finance Documents.

7.2 Risk Areas Covered

(a) *Contractor's All Risks Insurance – Construction Phase*

Construction "All Risks" insurance is being arranged for the construction period for all permanent and temporary works, materials, goods, plant and equipment for incorporation in the Works and all other property used or for use in association with the Project.

(b) *Property Damage Insurance – Operational Phase*

All Risks protection will be effected by ProjectCo for the commencement of the relevant operational phase for ProjectCo, the University, the Service Provider and the Senior Creditors. They are included as insured parties. The insured property is the project assets for which ProjectCo is responsible.

(c) *Delay in Start-Up and Business Interruption Insurance – Construction Period and Operational Phase*

Cover is being arranged for the construction period for delay in start-up (to cover, among other things, revenue and anticipated third party income that would have been applied to debt servicing and fixed overheads) as a consequence of insured damage that delays the construction programme. Business interruption protection for loss of revenue streams during the operational phase is arranged on similar lines and responds following asset damage insured under the policy noted above.

Proposed extensions include failure of utilities, denial of access and terrorism.

Additional Increased Cost of Working Insurance cover is also being arranged for additional costs incurred from having to procure Suitable Alternative Equivalent Accommodation (and associated costs) as a result of either a delay in the completion of the Works or unavailability during the operational phase (including in relation to unavailability caused by a failure in energy supply arising from an insured peril).

(d) *Third Party Liability – Construction Period and Operational Phase*

Cover for ProjectCo's legal liability for third party death, injury or disease and property damage will be effected to a limit of indemnity specified in the Project Agreement for any one occurrence (but limited to an overall limit specified in the Project Agreement in aggregate for pollution).

(e) *Others*

Other insurances required by legislation, including employers' liability and motor vehicle insurances, will be effected by ProjectCo.

8. **Secondment Services Agreement**

ProjectCo will enter into a secondment services agreement (**SSA**) with BBIPIL for the provision of appropriately qualified and experienced staff to undertake services relating to (amongst other matters) operational management, financial management, record-keeping, variation management, company secretarial, insurance, health and safety, IT and general reporting.

A base monthly fee is payable by ProjectCo to BBPIL, which is set out in a schedule to the SSA and is indexed by reference to RPI. BBIPIL is also entitled to charge additional fees for any additional services that it provides, which is calculated by reference to a daily charge-out rate of the relevant staff. ProjectCo is also liable to pay for certain out-of-pocket expenses incurred by BBIPIL.

The SSA remains in effect until the expiry or termination of the Project Agreement (unless terminated earlier, including as a result of any insolvency event or any breach by the parties).

THE UNIVERSITY OF SUSSEX

University Background / History

The University of Sussex is a higher education and research institution near Brighton, in the south of England. Sussex was the first of the new wave of UK universities founded in the 1960s, receiving its Royal Charter in 1961.

The University was founded with the structure of "Schools of Study" rather than traditional university departments within arts and science faculties. In 2009 the University adopted a new organisational structure. The University now consists of 12 Schools:

- Engineering and Informatics
- Life Sciences
- Mathematical and Physical Sciences
- Psychology
- Business, Management and Economics
- Education and Social Work
- Global Studies
- Law, Politics and Sociology
- English
- History, Art History and Philosophy
- Media, Film and Music
- Brighton and Sussex Medical School (Jointly operated with University of Brighton 50:50 share)

The University currently has over 16,000 students and 2,400 staff (which include over 1,100 teaching and research staff). Sussex has had on its staff three Nobel Prize winners and a winner of the prestigious Crafoord Prize.

Sussex is a research focused university, as reflected in the 2014 Research Excellence Framework (REF). Over 75 per cent. of research activity at Sussex is categorised as world leading (4*) or internationally excellent (3*) in terms of originality, significance and rigour.

The University has students from over 120 different countries across the world. Sussex has links with institutions worldwide, such as Chinese University of Hong Kong, Renmin University of China and Georgetown University.

The University of Sussex is a campus university situated at Falmer on the edge of the city of Brighton & Hove. Designed by Sir Basil Spence, the buildings that make up the heart of the campus were given listed building status in 1993. Falmer House is Grade I listed in recognition of its exceptional interest. A campus masterplan to develop the University to provide teaching and living space for 18,000 students was granted outline planning permission in 2015.

Sussex engages with business and the community through activities such as innovation support to business, public lectures and service to the community. The goal is to help businesses and organisations in the region develop higher staff skill levels through training.

The Sussex Innovation Centre provides support for the creation and growth of technology and knowledge-based companies in Sussex, and since 2015, in Croydon. Since its creation over 160 companies have been based at the Centre in Falmer.

Rankings and Collaborations

The University sets key performance indicators and targets, as part of its long term strategic plan, against which strategic and charitable objectives are measured. The University strategy 'Making the Future 2013–18' sets targets in multiple domains, principally on growth to 18,000 students and major capital developments on the Falmer campus. The results and evidence of progress are considered by Council at each meeting and through its key committees, Full details of the University's vision up to 2018 are available at: www.sussex.ac.uk/aboutus/ourstrategy

Council has set a target of being in the top 20 UK institutions in published UK league tables. The University is currently in 18th position in both the "Times and Sunday Times Good University Guide 2017" and "The Complete University Guide 2017". The University is ranked 20th in "The Guardian University League Tables 2017" in which it is 7th for graduate prospects. "The Times Higher Education World University Rankings 2016/17" ranks Sussex 23rd in the UK and 149th in the world. According to the 2015 National Student Survey, 89 per cent. of Sussex students report overall satisfaction with their experience.

Governance

The University is an independent corporate body whose legal status derives from a Royal Charter. Its objects, powers and framework of governance are set out in the Charter and supporting Statutes.

The Charter and Statutes establish three separate bodies –Council, Senate and Court – each with clearly defined functions and responsibilities, to manage and oversee the University's activities:

Council is the governing body of the University, responsible for setting the general strategic direction of the institution, for ensuring proper accountability, and for managing its finances, property and investments and the general business of the University. Council is made up of independent, professional services, academic and student members appointed or elected under the Statutes and Regulations of the University. The majority are independent, non-staff, non-student members. The roles of Chair and Vice-Chairs of the Council are separate from the role of the University's Chief Executive, the Vice-Chancellor. Council has a membership of 25. These are: the Vice-Chancellor; Deputy Vice-Chancellor; up to 15 independent members appointed by Council; three members of the Senate; two other members of the academic staff; one member of professional services staff, the President of the Students' Union and the Research Postgraduate School representative sitting on Senate. Council meets at least four times a year and has five committees and two joint committees, one with Senate and one with the University of Brighton. The matters specially reserved to Council for decision are set out in a list specifically approved by Council by its own decision and under the Memorandum of Assurance and Accountability with the Higher Education Funding Council for England (HEFCE).

Senate is the main academic body of the University and draws its membership entirely from the staff and students of the University. Its principal role is to direct and regulate the teaching and research of the University. It oversees quality assurance and standards of education provided by the University.

Court (Sussex Annual Forum) is an annual meeting to promote the Research, Teaching and interests of the University to the local area, enhance relationships with businesses to strengthen placement opportunities and provide an opportunity for networking.

The University Governing Body

Principal Officers

CHANCELLOR	Sanjeev Bhaskar OBE
CHAIR OF COUNCIL	Christian Brodie MA (Oxon)
VICE-CHAIR (FINANCE)	Kirstin Baker CBE
VICE-CHAIR (PERFORMANCE)	Arjo Ghosh BA (Lanc)
VICE-CHANCELLOR	Professor Adam Tickell BA (Manc), PhD (Manc), AcSS
PRO-VICE-CHANCELLOR	Professor Michael Davies BSc (Eng) (Lond), AKC, MPhil, PhD (Cantab), CEng, FICE, FGS, FIPENZ, FRSE
PRO-VICE-CHANCELLOR	Professor Clare Mackie BSc (Strath), MSc (Glas), Phd (Strath), MCPP, MRPharms

PRO-VICE-CHANCELLOR	Professor Stephen Shute LLB (Kingston), BCL, MA (Oxon), PhD (Birm)
REGISTRAR & SECRETARY	Vacant John Duffy MA (Glas), MBA (City) in post until 31 December 2016, successor being recruited
DIRECTOR OF FINANCE	Allan Spencer MA (Oxon), ACA

TAXATION

United Kingdom Taxation

The following is a summary of the Issuer's understanding of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Bonds. The comments also summarise the Issuer's understanding of certain other United Kingdom tax aspects of acquiring, holding or disposing of Bonds. The comments relate only to the position of investors who are absolute beneficial owners of the Bonds and do not apply to the Issuer if it holds any Bonds. The following is a general guide and is based on current UK law and what is understood to be current H.M. Revenue & Customs practice (which may not be binding), both of which are subject to change (potentially with retrospective effect), should be treated with appropriate caution and may not apply to certain classes of Bondholders who are subject to special rules. Bondholders, Receiptholders or Couponholders who are in any doubt as to their tax position should consult their professional advisers.

Bondholders, Receiptholders or Couponholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Bonds are particularly advised to consult their professional advisers as to whether they might be so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Bonds. In particular, Bondholders, Receiptholders and Couponholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

1. UK Withholding Tax on UK Source Interest

The Bonds issued by the Issuer will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007. The Irish Stock Exchange is a recognised stock exchange for these purposes and this condition should be satisfied so long as the Bonds are and remain both: (i) listed on the Official List of the Irish Stock Exchange; and (ii) admitted to trading on the Irish Stock Exchange. Whilst the Bonds are and continue to be quoted Eurobonds, payments of interest on the Bonds may be made without withholding or deduction for or on account of United Kingdom income tax.

Interest on the Bonds may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Bonds is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Bonds is paid reasonably believes) that the beneficial owner is a company within the charge to United Kingdom corporation tax as regards the payment of interest (the **Excepted Payments Exemption**), provided that H.M. Revenue & Customs has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid subject to a deduction of tax.

In other cases, interest on the Bonds may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty.

Interest on the Bonds will have a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment on the Bondholder, Receiptholders or Couponholder. Where the interest is paid without withholding or deduction in respect of tax, the interest will not be subject to United Kingdom tax in the hands of Bondholders, Receiptholders or Couponholders who are not resident in the United Kingdom, except where such persons carry on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency (or, in the case of corporate Bondholders, Receiptholders or Couponholders, through a United Kingdom permanent establishment) in connection with which the interest is received or to which the Bonds are attributable, in which case (subject to exemptions for interest received by certain categories of agent) United Kingdom tax may be levied on the United Kingdom branch or agency or permanent establishment.

2. Payments by AGE and AGM under the Financial Guarantees

If AGE and/or AGM make any payments in respect of interest on the Bonds (or other amounts due under the Bonds other than the repayment of amounts subscribed for the Bonds) such payments may be subject to United Kingdom withholding tax subject to any available exemptions and such relief as may be available under the provisions of any applicable double taxation treaty. Such payments by AGE and AGM may not be eligible for the quoted Eurobond exemption or the Excepted Payments Exemption described above.

3. Provision of Information

HMRC has powers, in certain circumstances, to obtain information about certain payments of interest, payments derived from securities (whether income or capital) and securities transactions.

The persons from whom HMRC can obtain information include a person by or through whom interest is paid or credited, each registered or inscribed holder of securities, a person who receives (or is entitled to receive) a payment derived from securities, a person who makes such a payment (received from, or paid on behalf of, another person), a person who effects or is a party to securities transactions (which includes an issue of securities) on behalf of others and registrars or administrators in respect of securities transactions.

The information HMRC can obtain includes: in relation to interest paid or credited on money received or retained in the United Kingdom, the identity of the security under which interest is paid; in relation to payments derived from securities, details of the beneficial owner of securities; details of the person for whom the securities are held, or the person to whom the payment is to be made (and, if more than one, their respective interests); and in relation to securities transactions, information and documents relating to securities transactions.

4. European Union Tax Administrative Cooperation Directive and the OECD Common Reporting Standard

The EU Directive on administrative co-operation in the field of taxation (2011/16/EU), as amended by EU Directive 2014/107/EU (the Administrative Cooperation Directive) aims to implement across the EU the OECD Common Reporting Standard on the automatic exchange of financial account information (the OECD CRS) reported by financial institutions and other agents in a Member State covering all types of financial products including the Notes held directly or indirectly by individuals or certain other entities that are tax resident in other Member States. The Administrative Cooperation Directive applies in the UK with effect from 1 January 2016. The UK currently also applies similar measures with United States of America (relating to FATCA) and with the Crown Dependencies and Gibraltar.

5. Other Rules Relating to United Kingdom Withholding Tax

Where Bonds are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax and reporting requirements as outlined above.

Where interest has been paid under deduction of United Kingdom income tax, Bondholders, Receiptholders or Couponholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" in this withholding tax summary mean "interest" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Bonds or any related documentation.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer as principal obligor under the Bonds and does not consider the tax consequences of any such substitution.

6. Stamp Duty and Stamp Duty Reserve Tax

No United Kingdom stamp duty or stamp duty reserve tax (**SDRT**) should be payable on the issue of a Bond or on its redemption. No stamp duty should be payable on a transfer of a Bond by delivery and (for so long as interests in the Bonds continue to be held within Euroclear and/or Clearstream, Luxembourg and no election has been made for the alternative system of charge provided for under section 97A Finance Act 1986 to apply in respect of the Bonds) no SDRT should be payable on a transfer of interests in the Bonds.

Republic of Ireland Taxation

The following is a summary of the Irish withholding tax treatment of the Bonds. The summary does not purport to be a comprehensive description of all of the Irish tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds.

The summary is based upon the laws of Ireland and the published practices of the Revenue Commissioners of Ireland as in effect on the date hereof. Prospective investors in the Bonds should consult their own advisers as to the Irish or other tax consequences of the purchase, beneficial ownership and disposition of the Bonds including, in particular, the effect of any state or local law taxes, if applicable.

1. Irish Withholding Tax

Irish withholding tax applies to certain payments including payments of:

(a) Irish source yearly interest (yearly interest is interest that is capable of arising for a period in excess of one year);

(b) Irish source annual payments (annual payments are payments that are capable of being made for a period in excess of one year and are pure income-profit in the hands of the recipient); and

(c) Distributions (including interest that is treated as a distribution under Irish law) made by companies that are resident in Ireland for the purposes of Irish tax;

at the standard rate of income tax (currently 20 per cent).

On the basis that the Issuer is not resident in Ireland for the purposes of Irish tax, nor does the Issuer operate in Ireland through a branch or agency with which the issue of the Bonds is connected, nor are the Bonds held in Ireland through a depository or otherwise located in Ireland, then to the extent that payments of interest or annual payments arise on the Bonds, such payments should not be regarded as payments having an Irish source for the purposes of Irish taxation.

Accordingly, the Issuer or any paying agent acting on behalf of the Issuer should not be obliged to deduct any amount on account of these Irish withholding taxes from payments made in connection with the Bonds.

Separately, for as long as the Bonds are quoted on a stock exchange, a purchaser of the Bonds should not be obliged to deduct any amount on account of Irish tax from a payment made by it in connection with the purchase of the Bonds.

2. Irish Encashment Tax

Payments on any Bonds paid by a paying agent in Ireland or collected or realised by an agent in Ireland acting on behalf of the beneficial owner of Bonds will be subject to Irish encashment tax at the standard rate of Irish tax (currently 20 per cent.), unless it is proved, on a claim made in the required manner to the Revenue Commissioners of Ireland, that the beneficial owner of the Bonds entitled to the interest or distribution is not resident in Ireland for the purposes of Irish tax and such interest or distribution is not deemed, under the provisions of Irish tax legislation, to be income of another person that is resident in Ireland.

SUBSCRIPTION AND SALE

Subscription

HSBC Bank plc (the **Manager**) has, in a subscription agreement dated the date of this Prospectus (the **Subscription Agreement**) between it, the Issuer, ProjectCo, IntermediateCo, University SubCo, BBI HoldCo, Sussex HoldCo, AGE and AGM upon the terms and subject to the conditions contained therein, agreed to subscribe and pay for the Bonds at the issue price of 105.874 per cent. of their principal amount less an underwriting commission of the principal amount of the Bonds plus accrued interest, if any. In addition, such amount as may be agreed in writing between the Issuer and the Manager in respect of guarantee fees payable to the Financial Guarantors may be deducted by the Manager from the issue price and paid by the Manager, on behalf of the Issuer, to AGE and AGM. The Issuer has also agreed to reimburse the Manager for certain of its expenses incurred in connection with the management of the issue of the Bonds. The Manager is entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issue of the Bonds.

Except for the fees payable to the Manager and to the Financial Guarantors and save as otherwise disclosed in this Propectus, no person has any interest, including conflicting interests, that are material to the issue of the Bonds.

The issue of the Bonds is not designed to comply with the U.S. Risk Retention Rules. **U.S. Risk Retention Rules** means Regulation RR (17 C.F.R Part 246) implementing the risk retention requirements of section 15G of the U.S. Securities Exchange Act of 1934, as amended, adopted pursuant to the requirements of section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The Bonds offered and sold by the Issuer may not be purchased by, or for the account or benefit of, any "U.S. Person" as defined in the U.S. Risk Retention Rules.

Selling Restrictions — United States

The Bonds, the Obligor Guarantees and the Financial Guarantees have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S of the Securities Act (**Regulation S**).

The Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code of 1986 and regulations thereunder.

The Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds, the Obligor Guarantees and the Financial Guarantees (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Bonds, within the United States or to, or for the account or benefit of, a U.S. person, and that it will have sent to each dealer to which it sells Bonds, the Obligor Guarantees and the Financial Guarantees during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds, the Obligor Guarantees and the Financial Guarantees within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after commencement of the offering of the Bonds, the Obligor Guarantees and the Financial Guarantees, an offer or sale of Bonds, the Obligor Guarantees or the Financial Guarantees within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Selling Restrictions — United Kingdom

The Manager has represented and agreed that:

(i) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act (**FSMA**) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer, or the Financial Guarantors; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Selling Restrictions — General

No action has been or will be taken in any jurisdiction by the Issuer or the Manager that would, or is intended to, permit a public offering of the Bonds, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. The Manager has undertaken that it will comply (to the extent of its knowledge and belief) with all applicable securities, laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Bonds or has in its possession or distributes the Prospectus. Persons into whose hands this Prospectus comes are required by the Issuer and the Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Bonds or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Bonds, in all cases at their own expense.

Attention is also drawn to the information set out in the section entitled "*Important Notice*" above.

GENERAL INFORMATION

1. The creation and issue of the Bonds has been authorised by a resolution of the Board of Directors of the Issuer dated 20 March 2017.

2. AGE has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the AGE Financial Guarantee.

3. AGM has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the AGM Financial Guarantee.

4. There has been no significant change in the financial or trading position of the Issuer and no material adverse change in the prospects of the Issuer since its date of incorporation.

5. There has been no significant change in the financial or trading position of ProjectCo, and no material adverse change in the prospects of ProjectCo since the date of its incorporation.

6. There has been no significant change in the financial or trading position of IntermediateCo, and no material adverse change in the prospects of IntermediateCo since the date of its incorporation.

7. There has been no significant change in the financial or trading position of University SubCo, and no material adverse change in the prospects of University SubCo since the date of its incorporation.

8. The Issuer is not, and has not been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which it is aware) which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on its financial position or profitability.

9. ProjectCo is not, and has not been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which it is aware) which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on its financial position or profitability.

10. BBI HoldCo and its subsidiaries are not, and have not been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which it is aware) which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on its financial position or profitability.

11. Sussex HoldCo and its subsidiaries are not, and have not been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which it is aware) which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on its financial position or profitability.

12. IntermediateCo is not, and has not been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which it is aware) which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on its financial position or profitability.

13. University SubCo is not, and has not been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which it is aware) which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on its financial position or profitability.

14. No audited accounts have been prepared in relation to the Issuer, ProjectCo, IntermediateCo, University SubCo or BBI HoldCo.

15. For as long as the Prospectus remains in effect or any Bonds shall be outstanding, copies of the following documents may be inspected in physical and/or electronic form during normal

business hours at the offices of the Principal Paying Agent at its specified office, currently at One Canada Square, London E14 5AL:

(i) articles of association of each of the Issuer, IntermediateCo, University SubCo Sussex HoldCo and BBI HoldCo;

(ii) limited liability partnership agreement of ProjectCo;

(iii) articles of association of AGE;

(iv) by-laws of AGM;

(v) prior to the Issue Date, drafts (subject to notification) of and after the Issue Date:

(A) the Finance Documents;

(B) the AGE Financial Guarantee;

(C) the AGM Financial Guarantee;

(D) the Collateral Deed; and

(E) the Bond Trust Deed;

(vi) audited accounts of AGE for the financial years ended 31 December 2014 and 31 December 2015;

(vii) audited accounts of AGM for the financial years ended 31 December 2015 and 31 December 2016;

(viii) the Demand Report; and

(ix) the Technical Adviser's Report.

16. The Bonds and any Receipts, Coupons and Talons appertaining thereto will bear a legend to the following effect: "Any United States person (as defined in the Internal Revenue Code) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in section 165(j) and 1287(a) of the Internal Revenue Code."

17. The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN of the Bonds is XS1571341087 and the common code of the Bonds is 157134108.

18. It is expected that the Bonds will be admitted to the Official List and admitted to trading on the Irish Stock Exchange on or about 31 March 2017, subject only to the issue of each Temporary Global Bond and to the execution by AGE of the AGE Financial Guarantee and AGM of the AGM Financial Guarantee.

19. The total estimated expenses to be paid by the Issuer in relation to the admission to trading are €6,641.20.

20. Past and further performance information of the Index can be found at www.ons.gov.uk/economy/inflationandpriceindices/timeseries/czbh/mm23

21. Save for the Bondholder Report, the Issuer does not intend to provide any post-issuance information.

22. CBRE, global commercial property consultants of St Martin's Court, 10 Paternoster Row, London EC4M 7HP, has given and not withdrawn its written consent to the inclusion in this Prospectus of its demand report which is set out in Appendix 5 in the form and context in

which it is included. CBRE was engaged to produce that report under an appointment which obliged CBRE to exercise all reasonable professional skill, care and diligence in its production. CBRE has no material interest in the Issuer.

23. Gleeds, international management and construction consultants of 95 New Cavendish Street, London W1W 6XF, has given and not withdrawn its written consent to the inclusion in this Prospectus of its technical adviser's report which is set out in Appendix 6 to this Prospectus, in the form and context in which it is included. Gleeds was engaged to produce that report under an appointment which obliged Gleeds to exercise all reasonable professional skill, care and diligence in its production. Gleeds consent to the disclosure of the report is not, however, intended to create, and Gleeds does not accept, any duty of care to any recipient of this Prospectus. Gleeds has no material interest in the Issuer.

24. Any websites referred to herein do not form part of this Prospectus.

APPENDIX 1

2015 FINANCIAL STATEMENTS OF ASSURED GUARANTY (EUROPE) LTD.

Assured Guaranty (Europe) Ltd.

Registered Number: 2510099

Annual report and financial statements
For the year ended 31 December 2015

Annual report and financial statements
For the year ended 31 December 2015

Contents

Company information

Directors
Robert Adam Bailenson (appointed 31 March 2015)
Charles Peter Barrington (appointed 3 September 2015)
Dominic John Frederico
Simon William de Mussenden Leathes (Chairman)
James Michael Michener
Robert Bruce Mills (resigned 31 March 2015)
Anthony Robin Dominic Monro-Davies (ceased to hold office 19 September 2015)
Dominic James Brian Nathan
Nicholas James Proud

Company secretary
Sandali Seneviratne

Registered office
1 Finsbury Square
London
EC2A 1AE

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Strategic report for the year ended 31 December 2015

The directors present their strategic report on the Company for the year ended 31 December 2015.

Principal activities

The principal activity of Assured Guaranty (Europe) Ltd. (the "Company") is providing financial guarantees for European Union public finance, infrastructure finance and structured finance obligations. Financial guarantee insurance written by the Company generally guarantees scheduled payments on an issuer's obligations in the event, and to the extent of, a payment default by the obligor.

The Company is a wholly owned subsidiary of Assured Guaranty Municipal Corp. ("AGM"). AGM is an insurance company domiciled in the State of New York, United States of America ("U.S."). AGM currently provides financial guarantee insurance on debt obligations issued in the U.S. public finance and global public finance and infrastructure markets. Previously, AGM also offered insurance and reinsurance in the global structured finance market.

The Company obtained authorisation from the Financial Services Authority ("FSA') on 1 December 2001 to effect and carry out certain classes of general insurance, specifically: classes 14 (credit), 15 (suretyship) and 16 (miscellaneous financial loss). This scope of permission is sufficient to enable the Company to effect and carry out financial guarantee insurance and reinsurance. The Company also has permission to advise on, to arrange and to assist in the administration and performance of its financial guarantee insurance contracts. The FSA was replaced by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") on 1 April 2013. The Company is authorised by the PRA and regulated by both the PRA and the FCA

Review of business

For transactions closed prior to 2011, the Company typically guaranteed obligations directly and reinsured to AGM approximately 92% of the Company's retention, after cessions to other reinsurers, under the quota share cover of the Reinsurance Agreement (as defined below under *Parental Support Agreements*). In 2011, the Company implemented a co-guarantee structure pursuant to which the Company directly guarantees a portion of the guaranteed obligations in an amount equal to what would have been the Company's pro rata retention percentage under the quota share cover. AGM directly guarantees the remaining balance of the guaranteed obligations and also provides a second-to-pay guarantee for the Company's portion of the guaranteed obligations.

The results of the Company for the year are as set out within the profit and loss account, on pages 15 and 16.

Ratings

Obligations insured by the Company are generally awarded ratings on the basis of the financial strength ratings given to the Company by major securities rating agencies.

As of 30 March 2016, each of the Company and AGM has been assigned the insurance financial strength ratings set out below, by Standard & Poor's Ratings Services ("S&P") and Moody's Investors Service, Inc. ("Moody's"). These ratings are subject to continuous review.

S&P: AA / Stable Outlook

Moody's: A2 / Stable Outlook

In the last several years, S&P and Moody's have taken financial strength rating actions on AGM and the Company. On 29 June 2015, S&P issued a credit rating report in which it affirmed AGM's and the Company's financial strength rating of "AA" (stable outlook). On 2 July 2014, Moody's issued a rating action report stating that it had affirmed AGM's and the Company's insurance financial strength rating of "A2" (stable outlook). On 8 December 2015, Moody's published a credit opinion under its new financial guarantor ratings methodology maintaining its existing rating and outlook on AGM and the Company.

While the outlook for the ratings from S&P and Moody's is stable, the Company can give no assurance as to any further rating action that S&P and Moody's may take on AGM's and the Company's ratings.

Business Written

The Company successfully closed one refinancing transaction during the year.

The Company recorded gross written premiums ("GWP") of £13.6 million during 2015 (2014: negative £4.4 million). This was primarily due to the successful closure of the refinancing transaction. The prior year's negative GWP arose because a revised future inflation assumption resulted in a reduction in the projected total premiums to be received on several obligations insured by the Company. The Company recorded ceded written premium of £13.1 million (2014: £8.9 million).

Loss Reserves and Unexpired Risk Provision

The Company did not record loss reserves during 2015 (2014: nil). However the Company recorded a gross unexpired risk provision, included in other technical provisions, of £21.7 million (2014: £28.2 million) in relation to four transactions as at the end of 2015. The Company has substantial reinsurance associated with these transactions resulting in a net provision of £0.3 million (2014: £0.4 million).

Portfolio

As of 31 December 2015, gross outstanding par insured was £15.0 billion and net par after reinsurance was £0.3 billion. Of this, 97.0% related to public finance exposures and 3.0% to structured finance exposures.

Several European countries have experienced significant economic, fiscal and/or political strains such that the likelihood of default on obligations with a nexus to those countries may be higher than the Company anticipated when such factors did not exist. The Company has identified those European countries where it has exposure and where it believes heightened uncertainties exist to be: Hungary, Italy and Spain (the "Selected European Countries"). The Company's exposure to the Selected European Countries - based on par for financial guarantee contracts - is shown in the following table, both gross and net of reinsurance:

Country	Gross exposure £'million	Net exposure £'million
Hungary	224.6	4.4
Italy	993.9	21.9
Spain	302.1	5.0

As of 31 December 2015, the Company has not guaranteed any sovereign bonds of the Selected European Countries. The exposure shown in the above table is from transactions primarily backed by receivable payments from sub-sovereign entities.

Parental Support Agreements

AGM currently provides support to the Company, through a quota share and excess of loss reinsurance agreement (the “Reinsurance Agreement”) and a net worth maintenance agreement (the "Net Worth Agreement"), which were effective from 1 April 2014. Such agreements replaced and superseded the second amended and restated quota share and stop loss reinsurance agreement and the second amended and restated net worth maintenance agreement, respectively, which were previously in place between the parties. The PRA approved these agreements, Moody’s and S&P confirmed that their implementation will not adversely impact the Company’s or AGM’s ratings and the New York State Department of Financial Services (“NYSDFS”), AGM’s primary regulator, reviewed the agreements and provided their non-disapproval.

Under the excess of loss cover of the Reinsurance Agreement, AGM pays the Company quarterly the amount by which (i) the sum of (a) the Company’s incurred losses calculated in accordance with UK GAAP as reported in its financial returns filed with the PRA and (b) the Company’s paid losses and loss adjustment expenses, in both cases net of all other performing reinsurance, including the reinsurance provided by AGM under the quota share cover of the Reinsurance Agreement, exceeds (ii) an amount equal to (a) the Company’s capital resources under U.K. law minus (b) the greatest of the amounts as may be required by the PRA as a condition for the Company to maintain its authorisation to carry on a financial guarantee business in the U.K.

The Reinsurance Agreement permits the Company to terminate the Reinsurance Agreement upon the following events: (i) a downgrade of AGM’s ratings by Moody’s below Aa3 or by S&P below AA- if AGM fails to restore its rating(s) to the required level within a prescribed period of time; (ii) AGM's insolvency; (iii) failure by AGM to maintain the minimum capital required by its domiciliary jurisdiction; or (iv) AGM filing a petition in bankruptcy, going into liquidation or rehabilitation or having a receiver appointed.

The quota share and excess loss covers under the Reinsurance Agreement each exclude transactions guaranteed by the Company on or after 1 July 2009 that are not municipal, utility, project finance or infrastructure risks or similar types of risks.

The Reinsurance Agreement provides that AGM must post collateral to support AGM’s reinsurance obligations to the Company. AGM’s collateral requirement was measured during 2015 as of the end of each calendar quarter by (i) using the PRA’s FG Benchmark Model (the “Benchmark Model”) to calculate at the 99.5% confidence interval the losses expected to be borne collectively by the Company’s four affiliated reinsurers, AGM, Assured Guaranty Re Ltd. (“AG Re”), Assured Guaranty Corp. (“AGC”) and Assured Guaranty Re Overseas Ltd. (“AGRO”); (ii) deducting from such calculation the Company’s capital resources under such model; and (iii) requiring AGM, AG Re, AGC and AGRO collectively to maintain collateral equal to fifty percent (50%) of such difference, i.e., the excess of AGM’s, AG Re’s, AGC and AGRO’s assumed modelled losses over the Company’s capital resources. During 2015, the Benchmark Model was the model used by the PRA to determine the capital adequacy of UK financial guarantee companies. It broadly adopted Basel II’s risk weighting approach for setting bank capital requirements, but with certain modifications to account for differences between banks and financial guarantors. The Company reviews the amount of collateral required under the Reinsurance Agreement at the end of each calendar quarter to ensure that the amount of collateral deposited by AGM in a reinsurance trust account for the benefit of the Company

satisfies the PRA's collateral requirement, measured in accordance with the Reinsurance Agreement. The assets held in the reinsurance trust account at 31 December 2015 met the requirement of the

Reinsurance Agreement.

Pursuant to the Net Worth Agreement, AGM is obligated to cause the Company to maintain capital resources equal to 110% of the greatest of the amounts as may be required by the PRA as a condition for the Company to maintain its authorisation to carry on a financial guarantee business in the U.K., provided that AGM's contributions (a) do not exceed 35% of AGM's policyholders' surplus on an accumulated basis as determined by the laws of the State of New York, and (b) are in compliance with Section 1505 of the New York Insurance Law. AGM has never been required to make any contributions to the Company's capital under the current Net Worth Agreement or the prior net worth maintenance agreement.

Solvency II

The Company has invested significant financial and management resources into complying with the requirements established by the European Union's "Solvency II" directive (Directive 2009/138/EC). In 2014, the PRA requested that the Company use the standard formula (as defined in the Solvency II directive) to calculate its solvency capital requirement. Solvency II was adopted on 1 January 2016.

Prior to the adoption of Solvency II, the PRA continued to supplement the Individual Capital Assessment ("ICA") model for the Company with the Benchmark Model. Beginning 1 January 2016, with the approval of the PRA, the Company no longer uses the Benchmark Model and instead uses the ICA model. Should the level of capital at the Company fall below the capital requirement as indicated by the ICA, the PRA may require the Company to undertake further work, following which Individual Capital Guidance may result.

Supervisory Categories

The Company is authorised by the PRA and regulated by both the PRA and the FCA. The Company is classified as follows:

(i) PRA - C3 firm; and
(ii) FCA – C4 firm (the lowest risk monitoring category).

Principal risks and uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All of these policies are subject to Board approval and ongoing review by management, risk management and internal audit. Compliance with regulation and legal and ethical standards is a high priority for the Company. The compliance function and the finance function take on an important oversight role in this regard.

The Audit and Risk Oversight Committee is responsible for satisfying itself that a proper internal control framework exists to manage financial risks and that the controls operate effectively.

The Company has developed a framework for identifying the risks that each business function is exposed to and their impact on economic capital. These risks are inventoried in the Company's Risk Register. The Company has a Risk Appetite Statement that describes the Company's willingness to take, or not to take, certain types of risks and sets limits on how much of each risk the Company

will take. The Company measures its level of risk relative to its limits in the Own Risk and Solvency Assessment, which is risk based and uses the ICA principles to manage the Company's capital requirements and to ensure that the Company has the financial strength and capital adequacy to support the growth of the business and to meet the requirements of policyholders, regulators and rating agencies.

The principal risks from the Company's financial guarantee business arise from (i) inaccurate pricing; (ii) fluctuations in the timing, frequency and severity of claims compared to the Company's expectations; (iii) inadequate reinsurance protection; and (iv) inadequate reserving.

In addition, the Company is exposed to financial risks arising from the investments that it holds. The Board reviews and approves the Company's investment guidelines at least annually.

The Company's underwriting and reinsurance strategies are approved by the Board and communicated clearly throughout the business through policy statements and guidelines.

Key performance indicators ("KPIs")

Among other measures, the Board monitors the progress of the Company by reference to the following KPIs:

(i) Present value of new business written ("PVP") by the Company.
PVP, which is a non-GAAP ("Generally Accepted Accounting Principles") financial measure, is defined as gross upfront and instalment premiums received and the present value of gross estimated future instalment premiums, on contracts written in the current year, discounted at 6% per year. The Company believes PVP is a useful measure for management and other users of the financial statements because it enables the evaluation of the value of new business production by the Company by taking into account the of estimated future instalment premiums on all new contracts underwritten in a reporting period, which are not adequately measured by GAAP gross premiums written.

(ii) Solvency
Solvency, which is a PRA regulatory financial measure, is defined as the excess of capital resources over the capital resources requirement. The Company believes this is a useful measure as it measures the adequacy of the capital resources of the Company and monitors compliance with the PRA's capital requirements.

(iii) Number of new transactions
Number of new transactions is the number of new contracts of insurance incepted during the year.

(iv) Loss ratio
The ratio of net claims incurred to net earned premiums.

The KPIs at the end of 2015 and 2014 are as follows:

	2015	2014
	£'000	£'000
PVP	**9,993**	252
Capital in excess of capital resources requirement	**165,296**	163,051
Number of new transactions	**1**	1
Loss ratio	**0%**	0%

The PVP increased and the solvency increased for 2015 when compared to the prior year. The Company successfully closed one refinancing transaction during the year, which generated PVP of £10.0 million, compared to 2014 where one transaction was closed generating a lower PVP of £0.3 million. The solvency position increased during 2015 primarily due to additional profits generated by the Company during the year.

Results

The Company's profit for the financial year is £2.6 million (2014: £17.4 million). The year on year reduction in profit was primarily due to higher commutation premium earnings and higher unrealised gains in 2014.

Approved by the Board of Directors on 30 March 2016 and signed for on its behalf by:

Nicholas James Proud
Director
30 March 2016

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2015.

Future developments

Numerous governments across Europe have announced plans to develop and renew infrastructure. The forward pipeline of European infrastructure transactions in procurement and set to close in 2016 and beyond is reasonable. The Company expects a greater volume of transactions in the future as issuers return to the public markets for financing. The Company also expects that institutional investors will utilise financial guarantees again, as they value the Company's underwriting skills and surveillance abilities in addition to the value of the Company's guarantees.

Dividends

The directors do not recommend the payment of dividends (2014: nil).

Financial risk management objectives

The Company is exposed to financial risk through its financial investments, reinsurance assets and liabilities to holders of its financial guarantees. The key financial risk in its financial investments is that the proceeds from its financial investments are not sufficient to fund the obligations arising from financial guarantees as they fall due. The key financial risk in financial investments held within the underlying structure of contracts guaranteed is that the proceeds from those investments are not sufficient to meet the obligations inherent in those contracts, and thus trigger defaults. The most important components of this financial risk are interest rate, currency, credit and liquidity risk.

The Company manages its exposures to financial risks noted above using a range of risk management techniques. Investment policy is set with reference to preserving the highest possible ratings for the Company and to maintaining sufficient liquidity to cover unexpected stress in the insurance portfolio. The primary objective is to conserve and accumulate capital to cover future obligations and to support the Company's business objectives.

Interest rate risk
Interest rate risk arises primarily from investments in fixed interest securities. Interest rate risk is monitored by comparing the average duration of the investment portfolio to benchmarks. The Company's investment guidelines require the portfolio to have an average duration within two years of relevant benchmark index, on a weighted average basis.

Currency risk
The Company is exposed to currency risk in respect of liabilities under financial guarantees denominated in currencies other than pounds sterling. The most significant currency to which the Company is exposed is the Euro.

The Company manages its exposure from time to time by maintaining balances denominated in those currencies in which it is exposed in order to meet liabilities that may fall due.

Credit risk
Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The main areas where the Company is exposed to credit risk are:

- Reinsurer's shares of insurance liabilities
- Premiums due from financial guarantee holders and / or bond issuers

Reinsurance is used to manage risk. This does not, however, discharge the Company's liability as primary financial guarantor. The Company remains primarily liable for all risks it writes directly and is required to pay all gross claims. The Company seeks reimbursement from its reinsurers for their proportionate share. The creditworthiness of a reinsurer is considered before it is used and strict criteria are applied (including the financial strength of the reinsurer) before a reinsurer is approved. Furthermore, where deemed appropriate, collateral is required by the Company from the reinsurer for the reinsurer's share of insurance liabilities.

To manage the risk of non-recoverability of premiums due from financial guarantee holders and / or bond issuers, the Company undertakes extensive due diligence prior to underwriting a contract with its counterparties

Liquidity risk

Liquidity risk is the risk that cash may not be available at a reasonable cost to pay obligations as they fall due. The Company maintains holdings in short term deposits to ensure there are sufficient funds available to cover anticipated liabilities. Furthermore, the Company's investment managers are mandated to invest only in debt securities traded on recognised exchanges with the objective of maintaining a high degree of liquidity within the financial resources of the Company. Additionally, in the event of claims arising over a threshold amount, the Company may make claims for reinsurance payments under its reinsurance agreements in advance of paying claims.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Robert Adam Bailenson (appointed 31 March 2015)
Charles Peter Barrington (appointed 3 September 2015)
Dominic John Frederico
Simon William de Mussenden Leathes (Chairman)
James Michael Michener
Robert Bruce Mills (resigned 31 March 2015)
Anthony Robin Dominic Monro-Davies (ceased to hold office 19 September 2015)
Dominic James Brian Nathan
Nicholas James Proud

Qualifying Third Party Indemnity Provision

The Company's articles of association include a qualifying third party indemnity provision for the benefit of the members of the Board of Directors.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under this law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure of information to auditors

Each of the persons who is a director at the date of this report confirms that:

1) so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2015 of which the auditors are unaware; and

2) the director has taken all steps that he ought to have taken in his duty as a director in order to make him aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. A resolution concerning their reappointment was approved at the meeting of the Company's Board of Directors on 30 March 2016.

Approved by the Board of Directors on 30 March 2016 and signed for on its behalf by:

Nicholas James Proud
Director
30 March 2016

Independent auditors' report to the members of Assured Guaranty (Europe) Ltd.

Report on the financial statements

Our opinion

In our opinion, Assured Guaranty (Europe) Ltd.'s financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Assured Guaranty (Europe) Ltd.'s financial statements comprise:

- the Balance Sheet as at 31 December 2015;
- the Profit and Loss Account for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared, is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Assured Guaranty (Europe) Ltd. (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 11 and 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Damian Cooper

Damian Cooper (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 March 2016

Profit and loss account for the year ended 31 December 2015

	Note	**2015 £'000**	2014 £'000
Technical Account – General Business			
Earned premiums, net of reinsurance			
Gross premiums written	*5*	**13,586**	(4,361)
Outward reinsurance premiums		**(13,111)**	(8,901)
Net premiums written		**475**	(13,262)
Change in the gross provision for unearned premiums		**24,255**	34,119
Change in the provision for unearned premiums, reinsurers' share		**(25,059)**	(21,294)
		(804)	12,825
Earned premiums, net of reinsurance		**(329)**	(437)
Other technical income	*23*	**140**	14,252
Total technical income		**(189)**	13,815
Changes in other technical provisions, net of reinsurance		**(116)**	(52)
Net operating expenses	*6*	**2,708**	3,609
Total technical charges		**2,592**	3,557
Balance on the technical account for general business		**(2,781)**	10,258

Profit and loss account for the year ended 31 December 2015

	Note	**2015 £'000**	2014 £'000
Non-Technical Account			
Balance on the general business technical account		**(2,781)**	10,258
Investment income	*10*	**6,725**	6,485
Unrealised (loss) / gain on investments	*10*	**(4,598)**	4,027
Investment expenses and charges	*10*	**(377)**	(485)
Other income	*22*	**3,172**	3,624
Profit on ordinary activities before tax	*11*	**2,141**	23,909
Tax on profit on ordinary activities	*12*	**417**	(6,506)
Profit for the financial year		**2,558**	17,403

The notes on pages 20 to 36 form part of the financial statements.

All of the results set out are derived from continuing activities.

The Company has no material recognised gains and losses other than the profit / (loss) for the financial year above and therefore no separate statement of total comprehensive income has been presented.

Gains and losses of an insurance company arising on the holding or disposal of investments are not required to be included in a note of historical profits and losses. There are no other differences between the profit on ordinary activities before tax for the profit for the financial year stated above and their historical cost equivalents.

Balance sheet as at 31 December 2015

	Note	2015 £'000	2014 £'000
Assets			
Investments			
Other financial investments	15	**183,031**	185,570
Reinsurers' share of technical provisions			
Provision for unearned premiums		**480,897**	509,373
Other technical provisions	21	**21,399**	27,751
		502,296	537,124
Debtors			
Debtors arising out of direct insurance operations		**281,052**	288,367
Other debtors		**80,696**	81,754
	14	**361,748**	370,121
Other Assets			
Cash at bank and in hand		**10,245**	10,792
Deferred tax assets	13	**12,161**	11,768
		22,406	22,560
Prepayments and accrued income			
Accrued interest and rent		**2,801**	2,773
Deferred acquisition costs		**31,055**	34,024
Other prepayments and accrued income		**15**	14
		33,871	36,811
Total assets		**1,103,352**	1,152,186

Balance sheet as at 31 December 2015

	Note	2015 £'000	2014 £'000
Liabilities			
Capital and reserves			
Called up share capital	20	**55,000**	55,000
Capital contribution reserve		**62,985**	62,985
Profit and loss account		**76,114**	73,556
Total shareholder's funds		**194,099**	191,541
Technical provisions			
Provision for unearned premiums		**471,121**	500,023
Other technical provisions	21	**21,731**	28,179
		492,852	528,202
Creditors			
Creditors arising out of reinsurance operations		**272,567**	279,640
Other creditors including taxation and social security		**3,232**	3,938
	16	**275,799**	283,578
Accruals and deferred income	17	**140,602**	148,865
Total liabilities		**909,253**	960,645
Total liabilities and shareholder's funds		**1,103,352**	1,152,186

The notes on pages 20 to 36 form part of the financial statements.

The financial statements on pages 15 to 36 were approved by the Board of Directors on 30 March 2016 and were signed on its behalf by:

Nicholas James Proud
Director

Statement of changes in equity for the year ended 31 December 2015

	Called up share capital	Capital contribution reserve	Profit and loss account	Total shareholder's funds
	£'000	£'000	£'000	£'000
Balance as at 1 January 2015	55,000	62,985	73,556	191,541
Profit for the financial year	-	-	2,558	2,558
Balance as at 31 December 2015	55,000	62,985	76,114	194,099

1 General information

The principal activity of Assured Guaranty (Europe) Ltd. (the "Company") is providing financial guarantees for European Union public finance, infrastructure finance and structured finance obligations. Financial guarantee insurance written by the Company generally guarantees scheduled payments on an issuer's obligation in the event, and to the extent of, a payment default by the obligor.

The company is a private company limited by shares and is incorporated and domiciled in England. Its registered office is 1 Finsbury Square, London EC2A 1AE.

2 Statement of compliance

The individual financial statements of Assured Guaranty (Europe) Ltd. have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 and Financial Reporting Standard 103, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102", "FRS103") and the Companies Act 2006.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. The Company adopted FRS 102 and FRS 103 in these financial statements. Details of the transition to FRS 102 and FRS 103 are disclosed in note 26.

(a) Basis of preparation
These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit and loss.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Those areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

(b) Premiums written
Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums receivable but not yet due.

(i) Where the premium on a policy is received up front, the premium is recognised as written on the date of inception, and earned in the technical account over the period of the policy having regard to the incidence of risk.

(ii) Where a premium is received in instalments and the underlying bonds are callable, management considers the nature of the call provision(s) and the likelihood of exercise of those provisions, and determines whether it is reasonably certain that the contract will run its full term. The full expected premium is recorded when it is reasonably certain that the contract will run its full term. When the contract is not expected to run its full term, the premium that is recognised as written is either the

3 Summary of significant accounting policies (continued)

premium amount to the first call point under the contract and guaranteed minimum premium (where such a clause exists in the policy documents) or where the contract is callable without any notice period, the Company records the instalments as they fall due. When the underlying bonds are non-callable, the premium recognised as written is the full expected premium that is reasonably certain to be received over the life of the contract. Written premiums are recognised as earned income over the period of the policy having regard to the incidence of risk.

When instalment premiums to be received under the policy are linked to an outstanding debt that could be paid down faster than anticipated, or where a premium is linked to an index, the Company recognises premiums written based upon an analysis of the premium it is reasonably certain to receive. Any anticipated change in the expected premium receivable is recognised as an adjustment to premium, in the case of decreases in premium, as soon as it is foreseen and in the case of increases, when such an adjustment is assessed as reasonably certain.

(c) Unearned premiums
Unearned premiums represent the proportion of premiums written in the current or prior years that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.

(d) Claims and claims expenses
Claims incurred comprise claims and related claims expenses paid in the year and the change in provisions for outstanding claims. When applicable, deductions are made for salvage and subrogation. The provision for unpaid claims and direct claims expenses is recorded when there is a significant deterioration on specific insured obligations and the obligations are in default at the balance sheet date, or when, in management's opinion, the likelihood of default is probable and determinable at the balance sheet date. When appropriate, the provision is discounted to its present value. Provisions are calculated gross of any reinsurance recoveries.

A substantial measure of experience and judgment is involved in assessing outstanding losses, the ultimate cost of which may not be known with certainty at a balance sheet date. The gross insurance provisions and related reinsurance recoveries are determined on the basis of information available at the balance sheet date; however, it is inherent in the nature of business written that the ultimate liabilities may vary as a result of subsequent developments.

(e) Reinsurance
Outward reinsurance premiums are accounted for with regard to the incidence of risk of the premiums for the direct business to which they relate.

Contracts entered into by the Company with reinsurers, under which the Company is compensated for losses on insurance policies issued by the Company and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. The recoverability of reinsurance recoveries is assessed having regards to market data on the financial strength of each of the reinsurance companies and any collateral provided to the Company. The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as "outward reinsurance premiums".

3 Summary of significant accounting policies (continued)

(f) Acquisition costs and ceding commission income

Acquisition costs incurred, which represent expenses related to the production of business and ceding commission income to be received are deferred, subject to recoverability, and amortised over the period in which the related premiums are earned. These costs include direct and indirect expenses such as the cost of underwriting personnel. Management uses its judgment in determining what types of costs should be deferred, as well as what percentage of these costs should be deferred. The Company conducts an annual study to determine which operating costs qualify for deferral. Costs incurred by the insurer for soliciting potential customers, market research, training, administration, unsuccessful acquisition efforts, and product development as well as all overhead type costs are charged to expense as incurred. When an insured obligation is retired early, the remaining related DAC is expensed at that time.

(g) Investments

The Company policy is to measure all financial investments at fair value through profit or loss. Net gains or losses arising from changes in the fair value of financial assets are presented in the profit and loss account within 'Unrealised gain / (loss) on investments' in the period in which they arise.

(h) Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses.

(i) Foreign currencies

Transactions in foreign currencies are translated to sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into sterling at the rates of exchange ruling at that date. Differences arising on exchange are reflected in the non-technical account. All insurance balances are treated as monetary and foreign currency insurance balances are translated to sterling as described above.

(j) Deferred taxation

Deferred taxation has been recognised as a liability or an asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities recognised have not been discounted.

(k) Operating leases

Leases of assets where a significant portion of the risk and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

3 Summary of significant accounting policies (continued)

(l) Unexpired risks provision
Provision has been made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated based on information available at the balance sheet date. The unexpired risks provision is included in Other technical provisions.

(m) Exemption for qualifying entities under FRS 102
FRS 102 allows a qualifying entity certain exemptions. The company has taken advantage of the following exemption:

i) Cash flows
FRS 102 paragraph 1.12(b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate parent company includes the Company's cash flows in its own consolidated financial statements'

ii) Related party transactions
FRS 102 paragraph 1.12(e), the company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group who are wholly owned.

4 Critical accounting judgement and estimation uncertainties

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following are applicable critical accounting judgements and estimation uncertainties:

(a) Critical judgement in applying the entity's accounting policies

i) Exemptions on transition to FRS 102
The Company has elected to use the previous UK GAAP valuations of certain items of leasehold improvements and furniture as the deemed cost of transition to FRS 102. The items are being depreciated from the date of transition (1 January 2015) in accordance with the Company's accounting policies.

(b) Critical accounting estimates and assumptions

i) Premiums written
The amount of premiums written at contract inception is determined as follows:

For premiums received upfront on financial guaranty insurance contracts that were originally underwritten by the Company, premium written is equal to the amount of cash received.

For premiums received in instalments, premium written is equal to the value of the expected premiums to be collected over the life of the contract, where premium payments must be contractually payable, the amount of premium payments must be

4 Critical accounting judgement and estimation uncertainties (continued)

probable, and the amount of premium payments must be reasonably estimated. When the Company adjusts premium payment assumptions or expected premium collections, an adjustment is recorded to the premium written, with a corresponding adjustment to the premium receivable.

ii) Claims reserves
The determination of expected loss to be paid is an inherently subjective process involving numerous estimates, assumptions and judgments by management, using both internal and external data sources with regard to frequency, severity of loss, economic projections, governmental actions, negotiations 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 year, and as a result the Company's loss estimates may change materially over that same period.

The Company does not use traditional actuarial approaches to determine its estimates of expected losses. Actual losses will ultimately depend on future events or transaction performance and may be influenced by many interrelated factors that are difficult to predict. As a result, the Company's current projections of probable and estimated losses may be subject to considerable volatility and may not reflect the Company's ultimate claims paid.

5 Segmental analysis

The Company has only one business segment, which is financial guarantee. The net assets and the business written by the Company are predominantly based in the United Kingdom, with business underwriting decisions made in the United Kingdom.

Gross written premiums by geographical segment

	2015	**2015**	2014	2014
	£'000	**£'000**	£'000	£'000
- UK	**6,586**		(1,191)	
- Europe, excluding UK	**6,998**		(3,157)	
- US	**2**		(13)	
Total gross premiums written		**13,586**		(4,361)
Gross earned premium		**37,841**		29,758
Gross operating expense		**(13,997)**		(12,447)
Reinsurance balance		**(26,881)**		(21,357)

Total gross premiums written relate to new business written in the year and in-force business written in prior years. Negative premiums have arisen where estimated total premiums receivable on an issue insured by the Company have been either adjusted for inflation, refunded or cancelled. The Company does not measure profit and loss by geographical segment.

6 Net operating expenses

	2015	2014
	£'000	£'000
Acquisition costs deferred	636	408
Movement in deferred acquisition costs	(3,605)	(3,244)
Administration expenses	(11,028)	(9,611)
Reinsurance commissions	11,289	8,838
	(2,708)	(3,609)

7 Auditors' remuneration

During the year, the Company obtained the following services from the auditors at costs as detailed below:

	2015	2014
	£'000	£'000
Fees payable to the Company's auditors for the audit of the Company and financial statements	191	212
Tax compliance services	18	12
Other non-audit services	29	80
	238	304

8 Directors' emoluments

	2015	2014
	£'000	£'000
Aggregate emoluments	1,053	871
Sums paid to non-executive directors	37	27
Company contributions to defined contributions scheme	58	62
	1,148	960

Highest paid director

	2015	2014
	£'000	£'000
Total amount of emoluments	507	461
Company contributions to defined contributions scheme	27	32
	534	493

8 Directors' emoluments (continued)

All of the 2015 salaries and emoluments are paid by an affiliate, Assured Guaranty (UK) Services Limited ("AGUKS"), and charged back to the Company as part of a management fee.

Five directors are eligible to receive deferred cash and six directors are eligible to receive shares under the long-term incentive scheme of the ultimate parent company, Assured Guaranty Limited ("AGL"). The amount charged to the Company in relation to long-term incentive awards for executive directors during the year was £200,000 (2014: £206,000). In addition, retirement benefits are accruing for five directors under a money purchase pension scheme.

9 Employees

There were no people (including executive directors) employed directly by the Company during 2015 or 2014.

All salaries and benefits were paid by AGUKS, Assured Guaranty Finance Overseas Limited ("AGFOL") and AGC. In consideration for this service, management service fees were levied on the Company. Additionally some directors salaries and benefits were shared with AGL. The total amount levied during the year was £6,855,000 (2014: £6,259,000).

10 Investment return

	2015	2014
	£'000	£'000
Investment Income		
Income from investments	**6,699**	6,289
Realised (loss) / gain on investments	**26**	196
	6,725	6,485
Unrealised (loss) / gain on investments	**(4,598)**	4,027
Investment expenses and charges		
Investment management expenses	**(218)**	(139)
Realised loss on investments	**(159)**	(346)
	(377)	(485)
Total investment return	**1,750**	10,027

11 Profit on ordinary activities before tax

	2015 £'000	2014 £'000
Profit on ordinary activities before tax is stated after charging / (crediting):		
Operating lease charges	**337**	311
Foreign exchange gain	**(3,172)**	(3,624)

The Company has arrangements with an affiliate, AGFOL, whereby operating expenses including operating lease charges are paid by AGFOL. These expenses are subsequently recharged to the Company at a mark-up of 10%. These expenses also have been included in Operating lease charges in the above table.

12 Tax on profit on ordinary activities

The Company has made an election with the Internal Revenue Service pursuant to Section 953(d) of the Internal Revenue Code. Section 953(d) allows certain foreign insurance companies to elect to be treated as a U.S. corporation for federal income tax purposes. The impact of the election is that the Company will be taxed as a U.S. corporation subject to tax on its worldwide income, subject to a credit for any taxes paid to a foreign jurisdiction. The current US federal tax rate is 35% (2014: 35%) as compared with 20.25% (2014: 21.50%) – the effective rate of corporation tax in the UK.

	2015 £'000	2014 £'000
UK corporation tax		
- Current	**-**	-
- Deferred	**2**	(738)
Overseas corporation tax		
- Current	**1,264**	(6,440)
- Adjustments to prior year overseas corporation tax	**100**	16,461
- Deferred	**(949)**	(15,789)
Tax on profit on ordinary activities	**417**	(6,506)

12 Tax on profit on ordinary activities (continued)

The tax assessed for the year is lower (2014: higher) than the standard rate of corporation tax in the UK. A reconciliation between the current tax provision and that expected from the standard UK tax rate of 20.25% (2014: 21.50%) is as follows:

	2015	2014
	£'000	£'000
Profit on ordinary activities before tax	**2,141**	23,909
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.25% (2014: 21.50%)	**(433)**	(5,140)
Expenses not deductible for tax purposes	**-**	(6)
Adjustment to prior year	**5**	-
Change in accounting	**-**	20
Group relief benefit	**430**	3,852
Prior year taxable loss utilised	**-**	537
Adjustments to prior year overseas corporation tax	**100**	16,461
Overseas corporation tax	**315**	(22,230)
Tax income / (charge) for the year	**417**	(6,506)

The Finance Bill 2015 introduced a reduction to the UK corporation tax rate from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020.

13 Deferred tax (liabilities) / assets

Based on its projections for continued future taxable income, the Company believes that its deferred tax assets are more likely than not to be realised. The items that gave rise to the Company's net deferred tax asset are noted below:

	UK Corporation Deferred Taxes		Overseas Corporation Deferred Taxes		Total Deferred Taxes	
Description	**2015**	2014	**2015**	2014	**2015**	2014
UK and US tax differences	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Timing difference on revenue recognition	**-**	-	**-**	(352)	**-**	(352)
Other temporary timing differences	**(13)**	(16)	**(85)**	-	**(98)**	(16)
Total deferred tax liabilities	**(13)**	(16)	**(85)**	(352)	**(98)**	(368)

	UK Corporation Deferred Taxes		Overseas Corporation Deferred Taxes		Total Deferred Taxes	
	2015	2014	**2015**	2014	**2015**	2014
Description	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Deferred acquisition costs	**-**	-	**11,189**	12,016	**11,189**	12,016
Employee benefits	**-**	-	**-**	21	**-**	21
Market discounts	**-**	-	**-**	99	**-**	99
Timing difference on revenue recognition	**-**	-	**1,070**	-	**1,070**	-
Total deferred tax assets	**-**	-	**12,259**	12,136	**12,259**	12,136
Net deferred tax asset	**(13)**	(16)	**12,174**	11,784	**12,161**	11,768

The movement in the net deferred tax asset is as follows:

	UK Corporation Deferred Taxes		Overseas Corporation Deferred Taxes		Total Deferred Taxes	
	2015	2014	**2015**	2014	**2015**	2014
Description	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
As of 1 January	**-**	-	**11,783**	25,349	**11,783**	25,349
Movement in year	**-**	-	**391**	(13,565)	**391**	(13,565)
Adoption of FRS103	**(13)**	(16)	**-**	-	**(13)**	(16)
	(13)	(16)	**12,174**	11,783	**12,161**	11,768

14 Debtors

	2015 £'000	2014 £'000
Arising out of direct insurance operations	**281,052**	288,367
Arising out of reinsurance operations	**79,308**	81,407
Other debtors including taxation and social security	**1,388**	347
At 31 December	**361,748**	370,121

15 Other financial investments

The table below analyses financial instruments carried at fair value. The classification category has been defined as follows:

Category B: The fair values of investments traded in active markets are based on quoted prices on the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The following table presents the Company's assets measured at fair value at 31 December 2015 and at 31 December 2014. No liabilities were measured at fair value at 31 December 2015 or 31 December 2014.

Category	Financial investments	2015 £'000	2014 £'000
B	UK government bonds	**123,009**	129,604
B	Corporate bonds	**60,022**	55,966
	At 31 December	**183,031**	185,570

All investments shown above are at market value and all are listed investments.

16 Creditors

	2015 £'000	2014 £'000
Arising out of reinsurance operations	**272,567**	279,640
Amounts owed to group undertakings	**3,232**	3,866
Amounts due under pension plan obligations	**-**	13
Other creditors including taxation and social security	**-**	59
At 31 December	**275,799**	283,578

Amounts owed to group undertakings are unsecured and interest free.

17 Accruals and deferred income

	2015	2014
	£'000	£'000
Other liabilities	**504**	293
Reinsurance commission deferred	**140,098**	148,572
At 31 December	**140,602**	148,865

18 Other financial commitments and guarantees

The Company has guaranteed the obligations of its affiliate, Assured Guaranty Credit Protection Limited ("AGCPL") . AGCPL sells credit protection to counterparties through credit default swaps and may incur a loss in the event of payment default by an obligor. The Company is not aware of any actual or potential liabilities in relation to this guarantee. In 2015 and 2014, the transaction fees incurred by the Company totalled approximately £37,000 and £33,000, respectively. The Company, in turn, was paid an administrative fee by AGCPL of £15,000 in each of 2015 and 2014, pursuant to a cooperative agreement between the two companies for AGCPL's use of the Company's services. The Company does not expect AGCPL to sell credit default swaps in the future.

19 Significant risk management activities

The Board of Directors has established the following committees and functions to provide oversight of the Company's risk management policies and procedures: Audit and Risk Oversight Committee, Internal Audit Function, Compliance Function, Credit Committee, Executive Committee, Reserve Committee, Risk Management Committee, Risk Management Function and Surveillance Function. The Company's Chief Executive Officer also is a member of the Portfolio Risk Management Committee for AGL, which sets risk policies and limits for AGL and its subsidiaries. Within the limits established by the Portfolio Risk Management Committee, the Company sets its own specific risk policies and limits. As part of its risk management strategy, the Company may seek to obtain third party reinsurance and may also periodically enter into other arrangements to alleviate all or a portion of this risk.

Surveillance personnel are responsible for monitoring and reporting on all transactions in the Company's portfolio. The primary objective of the surveillance process is to monitor trends and changes in transaction credit quality, detect any deterioration in credit quality, and recommend to management such remedial actions as may be necessary or appropriate. All transactions in the insured portfolio are assigned internal credit ratings, and surveillance personnel are responsible for recommending adjustments to those ratings to reflect changes in transaction credit quality. Risk Management and Surveillance personnel also are responsible for managing work-out and loss situations when necessary. For transactions where a loss is considered probable, surveillance personnel and the Actuarial Function make recommendations on loss reserves to the Reserve Committee.

19 Significant risk management activities (continued)

The Surveillance Function may request that the immediate parent company's work-out committee develop and implement loss mitigation strategies when the Surveillance Function identifies transactions that would benefit from active loss mitigation.

The Company segregates its insured portfolio into investment grade and below-investment-grade 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. Below investment grade 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 a default and loss severity in the event of a default. Internal credit ratings are expressed on a ratings scale similar to that used by the rating agencies and generally are reflective of an approach similar to that employed by the rating agencies, except that, beginning the third quarter of 2013, the Company's internal credit ratings focus on future performance, rather than lifetime performance. See "*Approach to internal credit ratings and surveillance categories*" below.

The Company monitors its investment grade credits to determine whether any new credits need to be internally downgraded to below investment grade. Quarterly procedures include qualitative and quantitative analysis on the Company's insured portfolio to identify potential new below investment grade credits. The Company refreshes its internal credits ratings on individual credits in cycles based on the Company's view of the credit's quality, loss potential, volatility and sector. Ratings on credits and in sectors identified as under the most stress or with the most potential volatility are reviewed every quarter. Credits identified through this process as below investment grade are subjected to further review by surveillance personnel to determine the various probabilities of a loss. Surveillance personnel present analyses related to potential loss scenarios to the Reserve Committee. The Reserve Committee considers the information provided by surveillance personnel and by the Actuarial Function when setting reserves.

Approach to internal credit ratings and surveillance categories

Typically, when an issuer of a debt security has defaulted on a payment and has not made up that missed payment, the debt security is considered by the rating agencies to be below-investment-grade regardless of its current credit condition. Similarly, the Company had previously considered those securities on which it had made an insurance claim payment, which had not been reimbursed, to be below investment grade regardless of the issuer's current credit condition.

The Company's current approach to internal credit ratings is based on whether future losses are projected on a transaction (as opposed to whether lifetime loses are projected). Accordingly, the Company may rate a transaction investment grade if it (a) has turned generally cash-flow positive and (b) is projected to have net future reimbursements with sufficient cushion to warrant an investment grade rating - even if it is projected to have ending lifetime unreimbursed insurance claim payments.

20 Called up share capital

	2015 £'000	2014 £'000
Authorised		
500,000,000 (2014: 500,000,000) ordinary shares of £1 each	**500,000**	500,000
Allotted and fully paid		
55,000,000(2014: 55,000,000) ordinary shares of £1 each	**55,000**	55,000

21 Other technical provisions

	2015 £'000	2014 £'000
Unexpired risks provision	**21,731**	28,179
Reinsurers' share of unexpired risks provision	**(21,399)**	(27,751)
At 31 December	**332**	428

The discount rate used in calculating the unexpired risk provision is a rate of 2.61% (2014: 2.64%).

22 Other income

	2015 £'000	2014 £'000
Foreign exchange gain	**3,172**	3,624
At 31 December	**3,172**	3,624

23 Other technical income

	2015	2014
	£'000	£'000
Other technical income	140	14,252
At 31 December	140	14,252

Other technical income for 2014 primarily relates to settlements received on the cancellation of a reinsurance contract.

24 Development claims table

There are no loss reserves recorded in the Company's balance sheet and as such a claims development table has not been presented.

25 Ultimate and immediate parent company

The immediate parent undertaking of the Company is Assured Guaranty Municipal Corp ("AGM"), a stock insurance corporation organised under the laws of the State of New York, United States of America. The ultimate parent undertaking and controlling party of the Company is AGL, a Bermuda incorporated insurance holding company.

AGL is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2015. The consolidated financial statements of AGL can be obtained from 30 Woodbourne Avenue, Hamilton HM 08, Bermuda.

AGM is the parent undertaking of the smallest group of undertakings to consolidate these financial statements. The consolidated financial statements of AGM can be obtained from 31 West 52nd Street, New York, NY 10019, United States of America.

26 Transition to FRS 102

This is the first year that the Company has presented its results under FRS 102 and FRS 103. The last financial statements under the UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2015.

FRS 103 requires that all assets and liabilities arising from an insurance contract are treated as monetary items for foreign currency translation purposes. Previously, balances such as unearned premiums and deferred reinsurance commissions were treated as non-monetary items. This had the impact of adjusting 2014 profit for the financial year and total equity. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 December 2014 and the total equity as at 1 January 2014 and 31 December 2014 between UK GAAP as previously reported and FRS 102.

Profit for the financial year	**2014 £'000**	**2014 £'000**
UK GAAP – As previously reported		**14,650**
Gross premium written	**(2,077)**	
Outward reinsurance premiums	**2,012**	
Change in gross provision for unearned premiums	**3,574**	
Change in the provision for unearned premiums reinsurer's share	**(3,455)**	
Net operating expense	**121**	
Foreign exchange loss	**3,342**	
Total adjustment to profit before tax for financial year		**3,517**
Deferred tax impact of adjustments		
– Gross written premium	**162**	
– Outward reinsurance premium	**(158)**	
– Change in gross provision for unearned premium	**(715)**	
– Change in provision for unearned reinsurance share	**691**	
– Net operating expense	**(49)**	
– Foreign exchange loss	**(669)**	
– Adjustment to overseas corporation	**(26)**	
Total adjustment to tax expense		**(764)**
FRS 102		**17,403**

26 Transition to FRS 102 (continued)

Total equity	1 January 2014 £'000	31 December 2014 £'000
UK GAAP – As previously reported	**176,853**	**191,503**
Provision for reinsurer's share of unearned premiums	**24,425**	16,483
Provision for unearned premiums	**(25,362)**	(15,891)
Reinsurance commission deferred	**(2,499)**	(512)
Deferred tax		
– Provision for reinsurer's share of unearned premiums	**(5,618)**	(3,296)
– Provision of unearned premiums	**5,833**	3,178
– Reinsurance commissions deferred	**575**	102
– Adjustment to overseas corporation	**-**	(26)
FRS 102	**174,207**	**191,541**

APPENDIX 2

2014 FINANCIAL STATEMENTS OF ASSURED GUARANTY (EUROPE) LTD.

Assured Guaranty (Europe) Ltd.

Registered Number: 2510099

Annual report and financial statements
For the year ended 31 December 2014

Assured Guaranty (Europe) Ltd.
Registered in England No. 2510099

Annual report and financial statements
For the year ended 31 December 2014

Contents

Company information

Directors

Dominic John Frederico
Simon William de Mussenden Leathes
James Michael Michener
Robert Bruce Mills
Anthony Robin Dominic Monro-Davies
Dominic James Brian Nathan
Nicholas James Proud

Company secretary
Sandali Seneviratne

Registered office
1 Finsbury Square
London
EC2A 1AE

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Strategic report for the year ended 31 December 2014

The directors present their strategic report on the Company for the year ended 31 December 2014.

Principal activities

The principal activity of Assured Guaranty (Europe) Ltd. (the "Company") is providing financial guarantees for European Union public finance, infrastructure finance and structured finance obligations. Financial guarantee insurance written by the Company generally guarantees scheduled payments on an issuer's obligations when there is a payment default by the obligor.

The Company is a wholly owned subsidiary of Assured Guaranty Municipal Corp. ("AGM"). AGM provides financial guaranty insurance on debt obligations issued in the United States ("U.S.") public finance and in the global infrastructure markets. Previously, AGM also offered insurance and reinsurance in the global structured finance market.

The Company obtained authorisation from the Financial Services Authority ("FSA') to effect and carry out certain classes of general insurance, specifically: classes 14 (credit), 15 (suretyship) and 16 (miscellaneous financial loss) on 1 December 2001. This scope of permission is sufficient to enable the Company to effect and carry out financial guarantee insurance and reinsurance. The Company also has permission to advise on, arrange and to assist in the administration and performance of its financial guarantee insurance contracts. The FSA was replaced by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") on 1 April 2013. The Company is authorised by the PRA and regulated by both the PRA and the FCA.

Obligations insured by the Company are generally awarded ratings on the basis of the financial strength ratings given to the Company by the major securities rating agencies.

For transactions closed prior to 2011, the Company typically guaranteed all of the guaranteed obligations directly and AGM reinsured approximately 92% of the Company's retention after cessions to other reinsurers under the quota share cover of the Reinsurance Agreement (as defined below). In 2011, the Company implemented a co-guarantee structure pursuant to which the Company directly guarantees a portion of the guaranteed obligations in an amount equal to what would have been the Company's pro rata retention percentage under the quota share cover. AGM directly guarantees the remaining balance of the guaranteed obligations and also provides a second-to-pay guarantee for the Company's portion of the guaranteed obligations.

Review of business

The results of the Company for the year are as set out, within the profit and loss account, on pages 15 and 16.

Ratings

The Company has been assigned the following insurance financial strength ratings, by Standard & Poor's Ratings Services ("S&P") and Moody's Investors Service, Inc. ("Moody's"), as of 31 March 2015. These ratings are subject to continuous review:

S&P: AA / Stable Outlook

Moody's: A2 / Stable Outlook

In the last several years, S&P and Moody's have taken financial strength rating actions on AGM and the Company. The latest rating action took place on 18 March 2014 when S&P upgraded the financial strength ratings of AGM and the Company to AA from AA-. On 3 February 2014, Moody's affirmed

its ratings on AGM and the Company as A2. While the outlook for the ratings from S&P and Moody's is stable, there can be no assurance that S&P and Moody's will not take further action on AGM's and the Company's ratings.

Business Written

The Company successfully closed one new primary infrastructure transaction during the year.

The Company recorded negative gross written premiums ("GWP") of £2.3 million during 2014 (2013: negative £7.0 million). The current year's negative GWP arose because a revised future inflation assumption resulted in a reduction in the projected total premiums to be received on several obligations insured by the Company.

The Company recorded ceded written premium of £10.9 million (2013: negative £7.8 million) and other technical income of £14.3 million (2013: £0.1 million). This was primarily a result of the Company entering into a commutation agreement with an unrelated reinsurer to reassume ceded business consisting predominantly of outstanding U.K. utility and infrastructure exposures. For the reassumption, the Company received the statutory unearned premium outstanding as of the commutation date, calculated in accordance with U.S. Statutory Accounting Principles, less deferred ceding commissions, plus a commutation premium. The reassumed ceded business was subsequently reinsured to AGM for which the Company received ceding commissions.

The Company has recorded a gross unexpired risk provision, included in other technical provisions, of £28.2 million (2013: £29.9 million) in relation to four transactions as at the end of 2014. The Company has substantial reinsurance associated with these transactions resulting in a net provision of £0.4 million (2013: £0.5 million).

Portfolio

As of 31 December 2014, gross outstanding par insured was £15,952.9 million and net par after reinsurance was £297.5 million. Of this, 95.0% related to public finance exposures and 5.0% to structured finance exposures.

Several European countries have experienced significant economic, fiscal and/or political strains such that the likelihood of default on obligations with a nexus to those countries may be higher than the Company anticipated when such factors did not exist. The Company has identified those European countries where it has exposure and where it believes heightened uncertainties exist to be: Hungary, Italy and Spain (the "Selected European Countries"). The Company's exposure to the Selected European Countries listed below - based on par for financial guaranty contracts - is shown in the following table, both gross and net of ceded reinsurance:

Country	Gross exposure £'million	Net exposure £'million
Hungary	255.2	5.0
Italy	1,068.3	23.7
Spain	323.5	5.4

As of 31 December 2014, the Company has not guaranteed any sovereign bonds of the Selected European Countries. The exposure shown in the above table is from transactions primarily backed by receivable payments from sub-sovereign entities. The Company understands that Moody's had undertaken a review of redenomination risk in selected countries in the Eurozone, including some of the Selected European Countries listed above. No redenomination from the Euro to another currency

has yet occurred and it may never occur. Therefore, it is not possible to be certain at this point how a redenomination of an issuer's obligations might be implemented in the future and, in particular, whether any redenomination would extend to the Company's obligations under a related financial guarantee. As of 31 December 2014, the Company has no exposure to Greece.

Parental Support Agreements

AGM currently provides support to the Company, through a quota share and excess of loss reinsurance agreement (the "Reinsurance Agreement") and a net worth maintenance agreement (the "Net Worth Agreement"). Such agreements replace and supersede the second amended and restated quota share and stop loss reinsurance agreement and the second amended and restated net worth maintenance agreement, respectively, previously in place between the parties. The PRA approved these agreements, Moody's and S&P confirmed that their implementation will not adversely impact the Company's or AGM's ratings and the NYSDFS reviewed the agreements and provided their non-disapproval.

For transactions closed prior to 2011, the Company typically guaranteed all of the guaranteed obligations directly and AGM reinsured under the quota share cover of the Reinsurance Agreement approximately 92% of the Company's retention after cessions to other reinsurers. In 2011, the Company and AGM implemented a co-guarantee structure pursuant to which (i) the Company directly guarantees a portion of the guaranteed obligations in an amount equal to what would have been the Company's pro rata retention percentage under the quota share cover, (ii) AGM directly guarantees the balance of the guaranteed obligations, and (iii) AGM also provides a second-to-pay guarantee for the Company's portion of the guaranteed obligations.

Under the excess of loss cover of the Reinsurance Agreement, AGM will pay the Company quarterly the amount by which (i) the sum of (a) the Company's incurred losses calculated in accordance with UK GAAP as reported in its financial returns filed with the PRA and (b) the Company's paid losses and loss adjustment expenses, in both cases net of all other performing reinsurance, including the reinsurance provided by AGM under the quota share cover of the Reinsurance Agreement, exceeds (ii) an amount equal to (a) the Company's capital resources under U.K. law minus (b) the greatest of the amounts as may be required by the PRA as a condition for the Company to maintain its authorisation to carry on a financial guarantee business in the U.K. In addition, the Reinsurance Agreement permits the Company to terminate the Reinsurance Agreement upon the following events: a downgrade of AGM's ratings by Moody's below Aa3 or by S&P below AA- if the company fails to restore its rating(s) to the required level within a prescribed period of time; AGM's insolvency; failure by AGM to maintain the minimum capital required by its domiciliary jurisdiction; or AGM filing a petition in bankruptcy, going into liquidation or rehabilitation or having a receiver appointed. The Reinsurance Agreement also provides that no amounts are owing under the excess of loss cover (or the stop loss cover of the second amended and restated quota share and stop loss reinsurance agreement previously in place between the parties) with respect to any quarter ending prior to April 1, 2014.

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

The Reinsurance Agreement also contemplates the establishment of collateral by AGM to support its reinsurance obligations to the Company. In December 2014, to satisfy a new PRA requirement that AGM post collateral to support its reinsurance obligations to the Company, AGM and the Company amended the Reinsurance Agreement to incorporate the PRA's requirement. Pursuant to such amended Reinsurance Agreement, AGM's collateral requirement will be measured as of the end of each calendar quarter by (i) using the PRA's FG Benchmark Model (the "Benchmark Model") to

calculate at the 99.5% confidence interval the losses expected to be borne collectively by the Company's three affiliated reinsurers, AGM, Assured Guaranty Re Ltd. ("AG Re") and Assured Guaranty Re Overseas Ltd. ("AGRO"); (ii) deducting from such calculation the Company's capital resources under such model; and (iii) requiring AGM, AG Re and AGRO collectively to maintain collateral equal to fifty percent (50%) of such difference, i.e., the excess of AGM's, AG Re's and AGRO's assumed modelled losses over the Company's capital resources. The Benchmark Model is the model currently used by the PRA to determine the capital adequacy of UK financial guaranty companies. It broadly adopts Basel II's risk weighting approach for setting bank capital requirements, but with certain modifications to account for differences between banks and financial guarantors. In December 2014, AGM and the Company also entered into a related trust agreement pursuant to which AGM, prior to year-end, established, and deposited assets into, a reinsurance trust account for the benefit of the Company to satisfy the PRA's collateral requirement as of September 30, 2014, as measured in accordance with such amended Reinsurance Agreement.

Pursuant to the Net Worth Agreement, AGM is obligated to cause the Company to maintain capital resources equal to 110% of the greatest of the amounts as may be required by the PRA as a condition for the Company to maintain its authorisation to carry on a financial guarantee business in the U.K., provided that AGM's contributions (a) do not exceed 35% of AGM's policyholders' surplus on an accumulated basis as determined by the laws of the State of New York, and (b) are in compliance with Section 1505 of the New York Insurance Law. AGM has never been required to make any contributions to the Company's capital under the current Net Worth Agreement or the prior net worth maintenance agreement.

Solvency II

The Company has invested significant financial and management resources into conforming with the requirements established by the European Union's "Solvency II" directive (Directive 2009/138/EC). At the request of the PRA, the Company will be using the standard formula (as defined in the Solvency II directive) to calculate its solvency capital requirement. Previously, the Company had intended to use the partial internal model methodology for calculation of its solvency capital requirement, which combines standard formulas developed by the European Insurance and Occupational Pensions Authority, under the direction of the European Commission, for calculation of certain capital requirements with an internally developed model for calculation of other capital requirements, and had begun the process to apply for approval from the PRA for use of such model. The date for the scheduled adoption of Solvency II is 1 January 2016.

Prior to the adoption of Solvency II the PRA continues to supplement the individual capital assessment for the Company with Benchmark Model. Should the level of capital at the Company fall below the capital requirement as indicated by the Benchmark Model, the PRA may require the Company to undertake further work, following which Individual Capital Guidance may result.

Supervisory Categories
The Company is authorised by the PRA and regulated by both the PRA and the FCA.

The PRA classifies the Company as a C3 firm.

In July 2014, the FCA completed its first review of the Company. As a result of this review, the FCA reclassified the Company as a C4 firm (the lowest risk monitoring category) on 13 October 2014 (rather than a C3 firm).

Principal risks and uncertainties

The principal risks in the Company's financial guarantee business include insurance risk, credit risk, market risk, liquidity risk, operational risk and systems and control risk.

Insurance risk means the basic risk that the losses associated with the business will not be adequately covered by the Company's revenues and other resources. Insurance risk includes the risk of unanticipated losses, due to the Company's management failing to understand the loss potential of obligations insured by the Company or unexpected third party events, inappropriate policy wording, unexpected legal judgments or legal change with retroactive effect, as well as the risk of revenues and other resources being below expectations due to inadequate premium rates based on ultimate loss experience or expense levels, inadequate reserves and capital resources and other factors.

Credit risk means the risk of loss if another party fails to perform its obligations. The Company faces credit risk as a result of its transactions with a variety of counterparties, including reinsurers, issuers of securities held in its investment portfolio, servicers of asset pools supporting insured structured transactions and other counterparties within the structures of insured transaction. The Company is exposed to the credit risk of its immediate parent company, AGM, in respect of the intra-group reinsurance and other support arrangements between AGM and the Company, which are material to the ability of the Company to engage in its financial guarantee business. The Company's business is dependent on maintaining its ratings and its ratings are dependent on these intra-group agreements and the ratings of AGM. AGM has posted collateral to collateralise its reinsurance obligations to the Company under the Reinsurance Agreement, in an amount that is calculated by reference to the Benchmark Model.

Market risk means the risk of a decline in value of the Company's assets as a consequence of market movements, such as interest rates and foreign exchange rates, which are not matched by corresponding movements in the value of the liabilities.

Liquidity risk means the risk that the Company may have insufficient liquid assets to fund the debt service requirements of defaulted obligations that the Company has insured and that losses will be realised in liquidating assets to fund the portions of claims retained by the Company following reinsurance.

Operational risk means the risk of unanticipated losses relating to error or failure associated with the administrative aspects of the Company's business, failure to comply with applicable laws and internal Company requirements, the impact of significant events such as a financial system crisis or natural disaster, fraud, corporate governance failure, failure to implement appropriate business plans or conduct effective strategic planning and failures associated with the Company's technology.

Systems and control risk is related to operational risk and means the risk that the Company's systems and controls do not include appropriate plans and procedures for dealing adequately with adverse scenarios.

The Company's management seeks to mitigate the foregoing risks by various means and to assure the availability of adequate capital to cover any liabilities or losses which eventuate notwithstanding the implementation of risk mitigants.

Key performance indicators ("KPIs")

The Board monitors the progress of the Company by reference to the following KPIs:

(i) Present value of new business written ("PVP") of transactions written by Company. PVP, which is a non-GAAP ("Generally Accepted Accounting Principle") financial measure, is defined as gross upfront and instalment premiums received and the present value of gross estimated future instalment premiums, on contracts written in the current year, discounted at 6% per year. We believe PVP is a useful measure for management and other users of the financial statement because it enables the evaluation of the value of new business production by the Company by taking into account the value of estimated future instalment premiums on all new contracts underwritten in a reporting period, which GAAP gross premiums written do not adequately measure

(ii) Solvency
Solvency, which is a PRA regulatory financial measure, is defined as the excess of capital resources over the capital resources requirement. We believe this is a useful measure as it measures the adequacy of the capital resources of the Company and monitors compliance with the PRA capital requirements.

(iii) Number of new transactions
Number of new transactions is the number of new contracts of insurance incepted during the year.

(iv) Loss ratio
The ratio of net claims incurred to net earned premiums.

The KPIs at the end of 2014 and 2013 are as follows:

	2014	2013
	£'000	£'000
PVP	**252**	702
Capital in excess of capital resources requirement	**163,051**	134,861
Loss ratio	**0%**	0.2%
Number of new transactions	**1**	3

The PVP decreased and solvency increased for 2014 when compared to the prior year. The Company successfully closed one new primary infrastructure transaction during the year, which generated a PVP of £0.3 million compared to 2013 where three transactions were closed generating a higher PVP of £0.7 million. The solvency position increased during 2014 primarily due to additional profits generated by the Company during the year and a reduction in non-admissible assets for solvency purposes.

Results

The Company's profit for the financial year is £14.6 million (2013: loss of £1.7 million). The profit for the year was higher primarily due to commutation premium earnings shown in other technical income and increase in unrealised gains on the Company's financial investments.

Approved by the Board of Directors on 31 March 2015 and signed for on its behalf by:

Nicholas James Proud
Director
31 March 2015

Directors' report for the year ended 31 December 2014

The directors present their report and the audited financial statements of the company for the year ended 31 December 2014.

Future developments

Numerous governments across Europe have announced plans to develop and renew infrastructure. The forward pipeline of European infrastructure transactions in procurement and set to close in 2015 is strong. The Company expects a greater volume of transactions in 2015 and beyond as the global economic environment stabilises and issuers return to the public markets for financings and that institutional investors will utilise financial guarantees again, as they value the Company's underwriting skills and surveillance functions as well as the value of the Company's guarantees.

Dividends

The directors do not recommend the payment of dividends (2013: nil).

Financial risk management objectives

The Company is exposed to financial risk through its financial investments, reinsurance assets, liabilities to holders of its financial guarantees and financial investments held within the underlying structures of contracts guaranteed. The key financial risk in its financial investments is that the proceeds from its financial investments are not sufficient to fund the obligations arising from financial guarantees as they fall due. The key financial risk in financial investments held within the underlying structure of contracts guaranteed is that the proceeds from those investments are not sufficient to meet obligations inherent in those contracts, and thus trigger defaults. The most important components of this financial risk are interest rate, currency, credit and liquidity risk.

The Company manages its exposures using a range of risk management techniques. Investment policy is set with reference to the overall risks faced by the Company, with the primary objective to conserve and accumulate capital to cover future obligations and to support the Company's business objectives.

Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. Interest rate risk is monitored by comparing the average duration of the investment portfolio. The Company's investment guidelines require the portfolio to have an average duration within two years of the market value weighted average of the relevant benchmark index.

Currency risk

The Company is exposed to currency risk in respect of liabilities under financial guarantees denominated in currencies other than pounds sterling. The most significant currency to which the Company is exposed is the Euro.

The Company manages its exposure from time to time by maintaining balances denominated in those currencies in which it is exposed in order to meet liabilities that may fall due.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The main areas where the Company is exposed to credit risk are:

- Reinsurer's shares of insurance liabilities
- Premiums due from financial guarantee holders

Reinsurance is used to manage risk. This does not, however, discharge the Company's liability as primary financial guarantor. If a reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder. The creditworthiness of a reinsurer is considered before it is used and strict criteria are applied (including the financial strength of the reinsurer) before a reinsurer is approved. Furthermore, where deemed appropriate, collateral is required by the Company from the reinsurer for the reinsurers share of insurance liabilities.

To manage the risk of non-recoverability of premiums from financial guarantee holders, the Company undertakes extensive due diligence prior to underwriting a contract with its counterparties.

Liquidity risk
Liquidity risk is the risk that cash may not be available to pay obligations as they fall due at a reasonable cost. The Company maintains holdings in short term deposits to ensure there are sufficient funds available to cover anticipated liabilities and unexpected levels of demand. Furthermore, the Company's investment managers are mandated to invest only in debt securities traded on recognised exchanges with the objective of maintaining a high degree of liquidity within the financial resources of the Company. Additionally, in the event of claims arising over a threshold amount, the Company may make claims for reinsurance payments under its reinsurance agreements in advance of paying claims.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

Dominic John Frederico
Simon William de Mussenden Leathes (Chairman)
James Michael Michener
Robert Bruce Mills
Anthony Robin Dominic Monro-Davies
Dominic James Brian Nathan
Nicholas James Proud

The Company amended its articles of association on 20 November 2014. The amended articles include a qualifying third party indemnity provision for the benefit of the members of the Board of Directors.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under this law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

Directors' report for the year ended 31 December 2014 (continued)

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure of information to auditors

Each of the persons who is a director at the date of this report confirms that:

1) so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2014 of which the auditors are unaware; and

2) the director has taken all steps that he ought to have taken in his duty as a director in order to make him aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. A resolution concerning their reappointment was approved at the meeting of the Company's Board of Directors on 31 March 2015.

Approved by the Board of Directors on 31 March 2015 and signed for on its behalf by:

Nicholas James Proud
Director
31 March 2015

Independent auditors' report to the members of Assured Guaranty (Europe) Ltd.

Report on the financial statements

Our opinion
In our opinion, Assured Guaranty (Europe) Ltd.'s financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited
Assured Guaranty (Europe) Ltd.'s financial statements comprise:

- the Balance Sheet as at 31 December 2014;
- the Profit and Loss Account for the year then ended;
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements..

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Assured Guaranty (Europe) Ltd. (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Damian Cooper

Damian Cooper (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
31 March 2015

Assured Guaranty (Europe) Ltd.

Registered in England No. 2510099

Profit and loss account for the year ended 31 December 2014

	Note	**2014 £'000**	2013 £'000
Technical Account – General Business			
Earned premiums, net of reinsurance			
Gross premiums written	*3*	**(2,283)**	(6,974)
Outward reinsurance premiums		**(10,913)**	7,790
Net premiums written		**(13,196)**	816
Change in the gross provision for unearned premiums		**30,544**	53,657
Change in the provision for unearned premiums, reinsurers' share		**(17,839)**	(54,034)
		12,705	(377)
Earned premiums, net of reinsurance		**(491)**	439
Other technical income	*22*	**14,252**	149
Total technical income		**13,761**	588
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		**-**	20
- reinsurers' share		**-**	(19)
Claims incurred, net of reinsurance		**-**	1
Changes in other technical provisions, net of reinsurance		**(52)**	114
Net operating expenses	*4*	**3,730**	967
Total technical charges		**3,678**	1,082
Balance on the technical account for general business		**10,083**	(494)

Profit and loss account for the year ended 31 December 2014

	Note	**2014 £'000**	2013 £'000
Non-Technical Account			
Balance on the general business technical account		**10,083**	(494)
Investment income	*8*	**6,485**	4,790
Unrealised gain / (loss) on investments	*8*	**4,027**	(7,868)
Investment expenses and charges	*8*	**(485)**	(116)
Other income / (charges)	*21*	**282**	(235)
Profit/ (loss) on ordinary activities before tax	*9*	**20,392**	(3,923)
Tax on profit /(loss) on ordinary activities	*10*	**(5,742)**	2,198
Profit / (loss) for the financial year	*19*	**14,650**	(1,725)

The notes on pages 19 to 31 form part of the financial statements.

All of the results set out are derived from continuing activities.

The Company has no material recognised gains and losses other than the profit / (loss) for the financial year above and therefore no separate statement of total recognised gains and losses has been presented.

Gains and losses of an insurance company arising on the holding or disposal of investments are not required to be included in a note of historical profits and losses. There are no other differences between the profit / (loss) on ordinary activities before tax or the profit / (loss) for the financial year stated above and their historical cost equivalents.

Assured Guaranty (Europe) Ltd.

Registered in England No. 2510099

Balance sheet as at 31 December 2014

	Notes	2014 £'000	2013 £'000
Assets			
Investments			
Other financial investments	13	**185,642**	158,168
Reinsurers' share of technical provisions			
Provision for unearned premiums		**492,890**	510,729
Other technical provisions	20	**27,751**	29,416
		520,641	540,145
Debtors			
Debtors arising out of direct insurance operations		**288,367**	314,085
Other debtors		**81,754**	91,167
	12	**370,121**	405,252
Other Assets			
Cash at bank and in hand		**10,720**	19,808
Deferred tax assets	11	**11,810**	25,350
		22,530	45,158
Prepayments and accrued income			
Accrued interest and rent		**2,773**	2,519
Deferred acquisition costs		**34,024**	36,861
Other prepayments and accrued income		**14**	20
		36,811	39,400
Total assets		**1,135,745**	1,188,123

Assured Guaranty (Europe) Ltd.

Registered in England No. 2510099

Balance sheet as at 31 December 2014

	Notes	**2014 £'000**	2013 £'000
Liabilities			
Capital and reserves			
Called up share capital	*18,19*	**55,000**	55,000
Capital contribution reserve	*19*	**62,985**	62,985
Profit and loss account	*19*	**73,518**	58,868
Total shareholder's funds	*19*	**191,503**	176,853
Technical provisions			
Provision for unearned premiums		**484,133**	514,677
Other technical provisions	*20*	**28,179**	29,871
		512,312	544,548
Creditors			
Creditors arising out of reinsurance operations		**279,640**	308,947
Other creditors including taxation and social security		**3,938**	4,317
	14	**283,578**	313,264
Accruals and deferred income	*15*	**148,352**	153,458
Total liabilities		**944,242**	1,011,270
Total liabilities and shareholder's funds		**1,135,745**	1,188,123

The notes on pages 19 to 31 form part of the financial statements.

The financial statements on pages 15 to 31 were approved by the Board of Directors on 31 March 2015 and were signed on its behalf by:

Nicholas James Proud
Director

1 Statement of significant accounting policies

The financial statements have been prepared in accordance with the applicable Accounting Standards in the United Kingdom. The financial statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance companies and in accordance with the Companies Act 2006 and the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005 and amended December 2006. The financial statements are prepared on a going concern basis. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

Basis of accounting

(a) Premiums written
Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums receivable but not yet due.

(i) Where the premium on a policy is received up front, the premium is recognised as written on the date of inception, and earned in the technical account over the period of the policy having regard to the incidence of risk.

(ii) Where a premium is received in instalments and the underlying bonds are callable, management considers the nature of the call provision(s) and the likelihood of exercise of those provisions, and determines whether it is reasonably certain that the contract will run its full term. The full expected premium is recorded when it is reasonably certain that the contract will run its full term. When the contract is not expected to run its full term, the premium that is recognised as written is either the premium amount to the first call point under the contract and guaranteed minimum premium (where such a clause exists in the policy documents) or where the contract is callable without any notice period, the Company records the instalments as they fall due. When the underlying bonds are non-callable, the premium recognised as written is the full expected premium that is reasonably certain to be received over the life of the contract. Written premiums are recognised as earned income over the period of the policy having regard to the incidence of risk.

When instalment premiums to be received under the policy are linked to an outstanding debt that could be paid down faster than anticipated, or where a premium is linked to an index, the Company recognises premiums written based upon an analysis of the premium it is reasonably certain to receive. Any anticipated change in the expected premium receivable is recognised as an adjustment to premium, in the case of decreases in premium, as soon as it is foreseen and in the case of increases, when such an adjustment is assessed as reasonably certain.

(b) Unearned premiums
Unearned premiums represent the proportion of premiums written in the current or prior years that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.

1 Statement of significant accounting policies (continued)

(c) Claims and claims expenses
Claims incurred comprise claims and related claims expenses paid in the year and the change in provisions for outstanding claims. When applicable, deductions are made for salvage and subrogation. The provision for unpaid claims and direct claims expenses is recorded when there is a significant deterioration on specific insured obligations and the obligations are in default at the balance sheet date, or when, in management's opinion, the likelihood of default is probable and determinable at the balance sheet date. When appropriate, the provision is discounted to its present value. Provisions are calculated gross of any reinsurance recoveries.

A substantial measure of experience and judgment is involved in assessing outstanding losses, the ultimate cost of which may not be known with certainty at a balance sheet date. The gross insurance provisions and related reinsurance recoveries are determined on the basis of information available at the balance sheet date; however, it is inherent in the nature of business written that the ultimate liabilities may vary as a result of subsequent developments.

(d) Reinsurance
Outward reinsurance premiums are accounted for with regard to the incidence of risk of the premiums for the direct business to which they relate.

Contracts entered into by the Company with reinsurers, under which the Company is compensated for losses on insurance policies issued by the Company and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. The recoverability of reinsurance recoveries is assessed having regards to market data on the financial strength of each of the reinsurance companies and any collateral provided to the Company. The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as "outward reinsurance premiums" when due.

(e) Acquisition costs and ceding commission income
Acquisition costs incurred, which represent expenses related to the production of business and ceding commission income to be received are deferred, subject to recoverability, and amortised over the period in which the related premiums are earned. These costs include direct and indirect expenses such as the cost of underwriting personnel. Management uses its judgment in determining what types of costs should be deferred, as well as what percentage of these costs should be deferred. The Company conducts an annual study to determine which operating costs qualify for deferral. Costs incurred by the insurer for soliciting potential customers, market research, training, administration, unsuccessful acquisition efforts, and product development as well as all overhead type costs are charged to expense as incurred. DAC are amortised in proportion to net earned premiums. When an insured obligation is retired early, the remaining related DAC is expensed at that time.

(f) Investments
The fair values of investments traded in active markets are based on quoted prices on the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices

1 Statement of significant accounting policies (continued)

represent actual and regularly occurring market transactions on an arm's length basis. The fair values of financial instruments that are not traded in an active market, are established by the directors using valuation techniques which seek to arrive at the price at which an orderly transaction would take between market participants, including broker prices and, if applicable, models.

(g) Investment return
Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges.

(h) Foreign currencies
Transactions in foreign currencies are translated to sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into sterling at the rates of exchange ruling at that date. Differences arising on exchange are reflected in the non-technical account. Non-monetary items such as deferred acquisition costs and provision for unearned premium are not translated but reported at historic rates.

(i) Deferred taxation
Deferred taxation has been recognised as a liability or an asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets recognised have not been discounted.

(j) Operating leases
Leases of assets where a significant portion of the risk and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(k) Unexpired risks provision
Provision has been made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated based on information available at the balance sheet date. The unexpired risks provision is included in Other technical provisions.

2 Cash flow statement and related party disclosures

The Company is a wholly-owned indirect subsidiary of Assured Guaranty Ltd. ("AGL"). The cash flows of the Company are included in the financial statements of AGL, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996). The Company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are wholly owned subsidiaries of AGL.

3 Segmental analysis

The Company has only one business segment, which is financial guarantee. The net assets and the business written by the Company are predominantly based in the United Kingdom, with business underwriting decisions made in the United Kingdom.

(a) Gross written premiums by geographical segment

	2014	2014	2013	2013
	£'000	£'000	£'000	£'000
- UK	(953)		(2,316)	
- Europe, excluding UK	(1,321)		(2,459)	
- US	(9)		49	
- Japan	-		(2,248)	
Total gross premiums written		(2,283)		(6,974)
Gross earned premium		28,261		46,683
Gross operating expense		(12,447)		(11,850)
Reinsurance balance		(20,035)		(35,342)

Total gross premiums written relate to new business written in the year and in-force business written in prior years. Negative premiums have arisen where estimated total premiums receivable on an issue insured by the Company have been either adjusted for inflation, refunded or cancelled. The Company does not measure profit and loss by geographical segment.

(b) Gross claims incurred by geographical segment

	2014	2014	2013	2013
	£'000	£'000	£'000	£'000
- Europe, excluding UK	-		20	
Total gross claims incurred		-		20

4 Net operating expense

	2014	2013
	£'000	£'000
Acquisition costs deferred	408	415
Movement in deferred acquisition costs	(3,244)	(3,111)
Administration expenses	(9,611)	(9,154)
Reinsurance commissions	8,717	10,883
	(3,730)	(967)

5 Auditors' remuneration

During the year, the Company obtained the following services from the auditors at costs as detailed below:

	2014	2013
	£'000	£'000
Fees payable to the Company's auditors for the audit of the Company and financial statements	212	202
Tax compliance services	12	-
Other non-audit services	80	90
	304	292

6 Directors' emoluments

	2014	2013
	£'000	£'000
Aggregate emoluments	871	746
Sums paid to non-executive directors	27	71
Company contributions to defined contributions scheme	62	57
	960	844

Highest paid director

	2014	2013
	£'000	£'000
Total amount of emoluments	461	411
Company contributions to defined contributions scheme	32	30
	493	441

All of the 2014 salaries and emoluments are paid by an affiliate, Assured Guaranty (UK) Services Limited ("AGUKS"), and charged back to the Company as part of the management fee.

Five directors are eligible to receive deferred cash and seven directors are eligible to receive shares under the long-term incentive scheme of the ultimate parent company, AGL. The amount charged to the Company in relation to long-term incentive award during the year was £206,000 (2013: £146,000). In addition, retirement benefits are accruing for the directors under a money purchase pension scheme.

7 Employees

There were no people (including executive directors) employed directly by the Company during 2014 or 2013.

All salaries and benefits were paid by AGUKS, Assured Guaranty Finance Overseas Limited ("AGFOL") and Assured Guaranty Corp. In consideration for this service, management service fees were levied on the Company. The total amount levied during the year was £6,259,000 (2013: £6,207,000).

8 Investment return

	2014	2013
	£'000	£'000
Investment Income		
Income from investments	**6,289**	4,581
Realised gain on investments	**196**	209
	6,485	4,790
Unrealised gains / (losses) on investments	**4,027**	(7,868)
Investment expenses and charges		
Investment management expenses	**(139)**	(116)
Realised loss on investments	**(346)**	-
	(485)	(116)
Total investment return	**10,027**	(3,194)

9 Profit / (loss) on ordinary activities before tax

	2014	2013
	£'000	£'000
Profit / (loss) on ordinary activities before tax is stated after charging / (crediting):		
Operating lease charges	**311**	403
Foreign exchange (gain) / loss	**(282)**	235

The Company has arrangements with an affiliate, AGFOL, whereby operating expenses including operating lease charges are paid by AGFOL. These expenses are subsequently recharged to the Company at a mark-up of 10%. These expenses also have been included in Operating lease charges in the above table.

10 Tax on profit / (loss) on ordinary activities

The Company has made an election with the Internal Revenue Service pursuant to Section 953(d) of the Internal Revenue Code. Section 953(d) allows certain foreign insurance companies to elect to be treated as a U.S. corporation for federal income tax purposes. The impact of the election is that the Company will be taxed as a U.S. corporation subject to tax on its worldwide income, subject to a credit for any taxes paid to a foreign jurisdiction. The current US federal tax rate is 35% (2013: 35%) as compared with 21.50% (2013: 23.25%) – the effective rate of corporation tax in the UK.

	2014	2013
	£'000	£'000
UK corporation tax		
- Current	-	909
Overseas corporation tax		
- Current	**(6,440)**	-
- Adjustments to prior year overseas corporation tax	**16,461**	1,922
- Deferred	**(15,763)**	(633)
Tax on profit on ordinary activities	**(5,742)**	2,198

The tax assessed for the year is higher (2013: higher) than the standard rate of corporation tax in the UK. A reconciliation between the current tax provision and that expected from the standard UK tax rate of 21.50% (2013: 23.25%) is as follows:

	2014	2013
	£'000	£'000
Profit / (loss) on ordinary activities before tax	**20,392**	(3,923)
Profit / (loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 21.50% (2013: 23.25%)	**(4,384)**	912
Expenses not deductible for tax purposes	**(5)**	(3)
Group relief benefit	**3,852**	-
Prior year taxable loss utilised	**537**	-
Adjustments to prior year overseas corporation tax	**16,461**	1,922
Overseas corporation tax	**(6,440)**	-
Provision for current income taxes	**10,021**	2,831

The Finance Bill 2013 introduced a reduction to the UK corporation tax rate from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015.

The Profit and Loss Account reflects adjustments for prior years overseas tax related to the reclassification of foreign tax credits available in the United States to offset United States income tax in future periods offset by settlement for foreign tax credits utilised in prior tax years. The company reported a £15.5m carried forward balance of the foreign tax credits to 2014.

10 Tax on profit / (loss) on ordinary activities (continued)

Of the £15.5m deferred tax asset, £14.3m of the balance was a result of Dexia, the previous ultimate parent of the Company, filing an amended U.S. tax return for the 2008 tax year during 2010. The company utilised all remaining foreign tax credits carryover on its 2013 tax return.

11 Deferred tax (liabilities) / assets

Based on its projections for continued future taxable income, the Company believes that its deferred tax assets are more likely than not to be realised. The items that gave rise to the Company's net deferred tax asset are noted below:

	UK Corporation Deferred Taxes		Overseas Corporation Deferred Taxes		Total Deferred Taxes	
Description	**2014**	2013	**2014**	2013	**2014**	2013
UK and US tax differences	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Market discounts	-	-	-	(355)	-	(355)
Timing difference on revenue recognition	-	-	**(147)**	-	**(147)**	-
Total deferred tax liabilities	-	-	**(147)**	(355)	**(147)**	(355)

	UK Corporation Deferred Taxes		Overseas Corporation Deferred Taxes		Total Deferred Taxes	
	2014	2013	**2014**	2013	**2014**	2013
Description	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Deferred acquisition costs	-	-	**11,837**	10,064	**11,837**	10,064
Employee benefits	-	-	**21**	69	**21**	69
Tax credits for UK tax paid	-	-	-	15,505	-	15,505
Market discounts			**99**	-	**99**	-
Other temporary timing differences	-	-	-	67	-	67
Total deferred tax assets	-	-	**11,957**	25,705	**11,957**	25,705
Net deferred tax asset	-	-	**11,810**	25,350	**11,810**	25,350

11 Deferred tax (liabilities) / assets (continued)

The movement in the net deferred tax asset is as follows:

	UK Corporation Deferred Taxes		Overseas Corporation Deferred Taxes		Total Deferred Taxes	
	2014	2013	**2014**	2013	**2014**	2013
Description	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
As of 1 January	-	-	**25,350**	26,698	**25,350**	26,698
Movement in year	-	-	**(13,540)**	(1,348)	**(13,540)**	(1,348)
	-	-	**11,810**	25,350	**11,810**	25,350

12 Debtors

	2014	2013
	£'000	£'000
Arising out of direct insurance operations	**288,367**	314,085
Arising out of reinsurance operations	**81,407**	89,527
Other debtors including taxation and social security	**347**	1,640
At 31 December	**370,121**	405,252

13 Other financial investments

	2014	2013
	£'000	£'000
Financial investments		
- UK government bonds	**129,604**	112,828
- Non-UK government bonds	-	690
- Corporate bonds	**55,966**	44,482
- Asset-backed securities	-	104
- Short-term investments	**72**	64
At 31 December	**185,642**	158,168

13 Other financial investments (continued)

All investments shown above are at market value. Of the above investments, £185,570,000 were listed investments (2013: £158,104,000) The book cost of all investments were £177,904,000 (2013: £156,062,000).

14 Creditors

	2014	2013
	£'000	£'000
Arising out of reinsurance operations	**279,640**	308,947
Amounts owed to group undertakings	**3,866**	4,019
Amounts due under pension plan obligations	**13**	14
Other creditors including taxation and social security	**59**	284
At 31 December	**283,578**	313,264

Amounts owed to group undertakings are unsecured and interest free.

15 Accruals and deferred income

	2014	2013
	£'000	£'000
Other liabilities	**292**	294
Reinsurance commission deferred	**148,060**	153,164
At 31 December	**148,352**	153,458

16 Other financial commitments and guarantees

The Company has guaranteed the obligations of Assured Guaranty Credit Protection Limited ("AGCPL"), a fellow group company. AGCPL sells credit protection to counterparties through credit default swaps and may incur a loss in the event of payment default by the obligor. The Company is not aware of any actual or potential liabilities in relation to this guarantee. In 2014 and 2013, the transaction fees incurred by the Company totalled approximately £33,000 and £31,000, respectively. The Company, in turn, was paid an administrative fee of £15,000 and £15,000 in 2014 and 2013, respectively, by AGCPL in connection with a cooperative agreement between the two companies for AGCPL's use of the Company's services. The Company does not intend to sell credit default swaps in the future.

17 Significant risk management activities

The Board of Directors has established the following committees and functions to provide oversight of the Company's risk management policies and procedures: Audit and Risk Oversight Committee, Compliance Function, Credit Committee, Executive Committee, Reserve Committee, Risk Management Committee, Risk Management Function and Surveillance Function. The Company's Chief Executive Officer also is a member of the Portfolio Risk Management Committee for AGL, which sets risk policies and limits for AGL and its subsidiaries. Within the limits established by the Portfolio Risk Management Committee, the Company sets its own specific risk policies and limits. As part of its risk management strategy, the Company may seek to obtain third party reinsurance and may also periodically enter into other arrangements to alleviate all or a portion of this risk.

Surveillance personnel are responsible for monitoring and reporting on all transactions in the Company's portfolio. The primary objective of the surveillance process is to monitor trends and changes in transaction credit quality, detect any deterioration in credit quality, and recommend to management such remedial actions as may be necessary or appropriate. All transactions in the insured portfolio are assigned internal credit ratings, and surveillance personnel are responsible for recommending adjustments to those ratings to reflect changes in transaction credit quality. Risk Management and Surveillance personnel also are responsible for managing work-out and loss situations when necessary. For transactions where a loss is considered probable, surveillance personnel and the Actuarial Function make recommendations on loss reserves to the Reserve Committee.

The Surveillance Function may request that the immediate parent company's work-out committee develop and implement loss mitigation strategies when the Surveillance Function identifies transactions that would benefit from active loss mitigation.

The Company segregates its insured portfolio into investment grade and below-investment-grade 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. Below investment grade 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 a default and loss severity in the event of a default. Internal credit ratings are expressed on a ratings scale similar to that used by the rating agencies and generally are reflective of an approach similar to that employed by the rating agencies, except that, beginning the third quarter of 2013, the Company's internal credit ratings focus on future performance, rather than lifetime performance. See "Refinement of Approach to Internal Credit Ratings and Surveillance Categories" below.

The Company monitors its investment grade credits to determine whether any new credits need to be internally downgraded to below investment grade. Quarterly procedures include qualitative and quantitative analysis on the Company's insured portfolio to identify potential new below investment grade credits. The Company refreshes its internal credits ratings on individual credits in cycles based on the Company's view of the credit's quality, loss potential, volatility and sector. Ratings on credits and in sectors identified as under the most stress or with the most potential volatility are reviewed every quarter. Credits identified through this process as below investment grade are subjected to further review by surveillance personnel to determine the various probabilities of a loss. Surveillance personnel present analyses related to potential loss scenarios to the Reserve Committee. The Reserve Committee considers the information provided by surveillance personnel and by the Actuarial Function when setting reserves.

17 Significant risk management activities (continued)

Approach to internal credit ratings and surveillance categories

Typically, when an issuer of a debt security has defaulted on a payment and has not made up that missed payment, the debt security is considered by the rating agencies to be below-investment-grade regardless of its current credit condition. Similarly, the Company had previously considered those securities on which it had made an insurance claim payment, which had not been reimbursed, to be below investment grade - regardless of the issuer's current credit condition.

The Company's current approach to internal credit ratings is based on whether future losses are projected on a transaction (as opposed to whether lifetime loses are projected). Accordingly, the Company may rate a transaction investment grade if it (a) has turned generally cash-flow positive and (b) is projected to have net future reimbursements with sufficient cushion to warrant an investment grade rating - even if it is projected to have ending lifetime unreimbursed insurance claim payments.

18 Called up share capital

	2014	2013
	£'000	£'000
Authorised		
500,000,000 (2013: 500,000,000) ordinary shares of £1 each	**500,000**	500,000
Allotted and fully paid		
55,000,000(2013: 55,000,000) ordinary shares of £1 each	**55,000**	55,000

19 Reconciliation of movements in shareholder's funds and reserves

	Called up share capital	**Profit and loss account**	**Capital contribution reserve**	**2014**	2013
	£'000	**£'000**	**£'000**	**£'000**	£'000
At 1 January	**55,000**	**58,868**	**62,985**	**176,853**	178,578
Profit / (loss) for the financial year	-	**14,650**	-	**14,650**	(1,725)
At 31 December	**55,000**	**73,518**	**62,985**	**191,503**	176,853

20 Other technical provisions

	2014	2013
	£'000	£'000
Unexpired risks provision	**28,179**	29,871
Reinsurers' share of unexpired risks provision	**(27,751)**	(29,416)
At 31 December	**428**	455

The discount rate used in calculating the unexpired risk provision is a rate of 2.64% (2013: 2.83%).

21 Other income / (charges)

	2014	2013
	£'000	£'000
Foreign exchange gain / (loss)	**282**	(235)
At 31 December	**282**	(235)

22 Other technical income

	2014	2013
	£'000	£'000
Other technical income	**14,252**	149
At 31 December	**14,252**	149

Other technical income for 2014 primarily relates to settlements received on the cancellation of a reinsurance contract.

23 Ultimate and immediate parent company

The immediate parent undertaking of the Company is Assured Guaranty Municipal Corp ("AGM"), a stock insurance corporation organised under the laws of the State of New York, United States of America. The ultimate parent undertaking and controlling party of the Company is AGL, a Bermuda incorporated insurance holding company.

AGL is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2014. The consolidated financial statements of AGL can be obtained from 30 Woodbourne Avenue, Hamilton HM 08, Bermuda.

AGM is the parent undertaking of the smallest group of undertakings to consolidate these financial statements. The consolidated financial statements of AGM can be obtained from 31 West 52nd Street, New York, NY 10019, United States of America.

APPENDIX 3

2016 FINANCIAL STATEMENTS OF ASSURED GUARANTY MUNICIPAL CORP.

Exhibit 99.1

Assured Guaranty Municipal Corp.

Consolidated Financial Statements

December 31, 2016 and 2015

ASSURED GUARANTY MUNICIPAL CORP.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Auditors

To the Board of Directors of Assured Guaranty Municipal Corp.:

We have audited the accompanying consolidated financial statements of Assured Guaranty Municipal Corp. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and December 31, 2015, and the related consolidated statements of operations, of comprehensive income, of shareholder's equity and of cash flows for the years then ended.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Assured Guaranty Municipal Corp. and its subsidiaries at December 31, 2016 and December 31, 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP

New York, New York
March 17, 2017

Assured Guaranty Municipal Corp.

Consolidated Balance Sheets

(dollars in millions except per share and share amounts)

	As of December 31, 2016	As of December 31, 2015
Assets		
Investment portfolio:		
Fixed-maturity securities, available-for-sale, at fair value (amortized cost of $5,325 and $5,901)	$ 5,388	$ 6,090
Short-term investments, at fair value	143	257
Other invested assets (includes Surplus Note from affiliate of $300 in 2016 and 2015)	357	360
Total investment portfolio	5,888	6,707
Cash	29	22
Premiums receivable	326	425
Ceded unearned premium reserve	788	845
Reinsurance recoverable on unpaid losses	192	154
Salvage and subrogation recoverable	249	109
Credit derivative assets	7	63
Deferred tax asset, net	176	103
Financial guaranty variable interest entities' assets, at fair value	644	735
Other assets	149	132
Total assets	**$ 8,448**	**$ 9,295**
Liabilities and shareholder's equity		
Unearned premium reserve	$ 2,487	$ 2,933
Loss and loss adjustment expense reserve	686	488
Reinsurance balances payable, net	137	118
Notes payable	10	13
Credit derivative liabilities	97	154
Current income tax payable	75	16
Financial guaranty variable interest entities' liabilities with recourse, at fair value	602	713
Financial guaranty variable interest entities' liabilities without recourse, at fair value	110	121
Other liabilities	229	295
Total liabilities	**4,433**	**4,851**
Commitments and contingencies (See Note 14)		
Preferred stock ($1,000 par value, 5,000.1 shares authorized; 0 shares issued and outstanding)	—	—
Common stock ($73,171 par value, 205 shares authorized, issued and outstanding in 2016 and $45,455 par value, 330 shares authorized, issued and outstanding in 2015)	15	15
Additional paid-in capital	676	975
Retained earnings	2,994	2,967
Accumulated other comprehensive income, net of tax of $22 and $66	35	110
Total shareholder's equity attributable to Assured Guaranty Municipal Corp.	**3,720**	**4,067**
Noncontrolling interest	295	377
Total shareholder's equity	**4,015**	**4,444**
Total liabilities and shareholder's equity	**$ 8,448**	**$ 9,295**

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

Assured Guaranty Municipal Corp.

Consolidated Statements of Operations

(in millions)

	Year Ended December 31,	
	2016	2015
Revenues		
Net earned premiums	$ 445	$ 404
Net investment income	238	282
Net realized investment gains (losses):		
Other-than-temporary impairment losses	(36)	(32)
Less: portion of other-than-temporary impairment loss recognized in other comprehensive income	8	(1)
Net impairment loss	(44)	(31)
Other net realized investment gains (losses)	6	4
Net realized investment gains (losses)	(38)	(27)
Net change in fair value of credit derivatives:		
Realized gains (losses) and other settlements	(18)	17
Net unrealized gains (losses)	51	117
Net change in fair value of credit derivatives	33	134
Fair value gains (losses) on committed capital securities	1	12
Fair value gains (losses) on financial guaranty variable interest entities	25	32
Other income (loss)	19	19
Total revenues	723	856
Expenses		
Loss and loss adjustment expenses	200	110
Amortization of deferred ceding commissions	(14)	(14)
Interest expense	0	(2)
Other operating expenses	115	107
Total expenses	301	201
Income (loss) before income taxes	422	655
Provision (benefit) for income taxes:		
Current	122	88
Deferred	(18)	98
Total provision (benefit) for income taxes	104	186
Net income (loss)	**318**	**469**
Less: Noncontrolling interest	44	39
Net income (loss) attributable to Assured Guaranty Municipal Corp.	**$ 274**	**$ 430**

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

Assured Guaranty Municipal Corp.

Consolidated Statements of Comprehensive Income

(in millions)

	Year Ended December 31,	
	2016	2015
Net income (loss)	**$ 318**	**$ 469**
Unrealized holding gains (losses) arising during the period on:		
Investments with no other-than-temporary impairment, net of tax provision (benefit) of $(47) and $(27)	(90)	(49)
Investments with other-than-temporary impairment, net of tax provision (benefit) of $(9) and $(20)	(16)	(37)
Unrealized holding gains (losses) arising during the period, net of tax	(106)	(86)
Less: reclassification adjustment for gains (losses) included in net income (loss), net of tax provision (benefit) of $(12) and $(6)	(23)	(11)
Other comprehensive income (loss)	(83)	(75)
Comprehensive income (loss)	**235**	**394**
Less: Comprehensive income (loss) attributable to noncontrolling interest	36	38
Comprehensive income (loss) attributable to Assured Guaranty Municipal Corp.	**$ 199**	**$ 356**

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

Assured Guaranty Municipal Corp.

Consolidated Statements of Shareholder's Equity

Years Ended December 31, 2016 and 2015

(dollars in millions, except share data)

	Common Shares Outstanding	Common Stock Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholder's Equity Attributable to Assured Guaranty Municipal Corp.	Noncontrolling Interest	Total Shareholder's Equity
Balance at December 31, 2014	**330**	**$ 15**	**$ 1,000**	**$ 2,752**	**$ 184**	**$ 3,951**	**$ 339**	**$ 4,290**
Net income	—	—	—	430	—	430	39	469
Dividends	—	—	—	(215)	—	(215)	—	(215)
Other comprehensive loss	—	—	—	—	(74)	(74)	(1)	(75)
Return of capital	—	—	(25)	—	—	(25)	—	(25)
Balance at December 31, 2015	**330**	**15**	**975**	**2,967**	**110**	**4,067**	**377**	**4,444**
Net income	—	—	—	274	—	274	44	318
Dividends	—	—	—	(247)	—	(247)	(114)	(361)
Common stock repurchases (See Note 10)	(125)	—	(300)	—	—	(300)	—	(300)
Other comprehensive loss	—	—	—	—	(75)	(75)	(8)	(83)
Return of capital	—	—	—	—	—	—	(4)	(4)
Other	—	—	1	—	—	1	—	1
Balance at December 31, 2016	**205**	**15**	**676**	**2,994**	**35**	**3,720**	**295**	**4,015**

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

Assured Guaranty Municipal Corp.

Consolidated Statements of Cash Flows

(in millions)

	Year Ended December 31,	
	2016	**2015**
Operating Activities:		
Net Income	$ 318	$ 469
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Net amortization of premium (discount) on investments	(9)	(32)
Provision (benefit) for deferred income taxes	(18)	98
Net realized investment losses (gains)	38	18
Net unrealized losses (gains) on credit derivatives	(51)	(117)
Fair value losses (gains) on committed capital securities	(1)	(12)
Change in deferred ceding commissions, net	(2)	(3)
Change in premiums receivable, net of premiums payable	90	(3)
Change in unearned premium reserve net of ceded unearned premium reserve	(389)	(379)
Change in loss and loss adjustment expense reserve and salvage and subrogation, net	26	20
Change in current income tax	59	(41)
Change in financial guaranty variable interest entities' assets and liabilities, net	(14)	(4)
(Purchases) sales of trading securities, net	—	8
Other	(22)	19
Net cash flows provided by (used in) operating activities	**25**	**41**
Investing activities		
Fixed-maturity securities:		
Purchases	(654)	(1,193)
Sales	488	566
Maturities	731	515
Net sales (purchases) of short-term investments	114	195
Net proceeds from paydowns on financial guaranty variable interest entities' assets	118	253
Other	(10)	33
Net cash flows provided by (used in) investing activities	**787**	**369**
Financing activities		
Dividends paid to Assured Guaranty Municipal Holdings Inc.	(247)	(215)
Dividends paid to AGC (see Note 10)	(114)	—
Repurchases of common stock	(300)	—
Return of capital to AGC (see Note 10)	(4)	—
Repayment of notes payable	(2)	(4)
Net paydowns of financial guaranty variable interest entities' liabilities	(135)	(166)
Repayment of Surplus Notes	—	(25)
Net cash flows provided by (used in) financing activities	**(802)**	**(410)**
Effect of foreign exchange rate changes	(3)	(1)
Increase (decrease) in cash	**7**	**(1)**
Cash at beginning of period	22	23
Cash at end of period	**$ 29**	**$ 22**
Supplemental cash flow information		
Cash paid (received) during the period for:		
Income taxes	$ 57	$ 120
Interest	$ 0	$ 0

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

Assured Guaranty Municipal Corp.

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

1. Business and Basis of Presentation

Business

Assured Guaranty Municipal Corp. (AGM, or together with its direct and indirect subsidiaries, the Company), a New York domiciled insurance company, is a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. (AGMH). AGMH is an indirect and wholly owned subsidiary of Assured Guaranty Ltd. (AGL and, together with its subsidiaries, Assured Guaranty). AGL is a Bermuda-based holding company that provides, through its operating subsidiaries, credit protection products to the United States (U.S.) and international public finance (including infrastructure) and structured finance markets. AGM was formerly known as Financial Security Assurance Inc.

The Company applies its credit underwriting judgment, risk management skills and capital markets experience primarily to offer financial guaranty insurance that protects holders of debt instruments and other monetary obligations from defaults in scheduled payments. If an obligor defaults on a scheduled payment due on an obligation, including a scheduled principal or interest payment (debt service), the Company is required under its unconditional and irrevocable financial guaranty to pay the amount of the shortfall to the holder of the obligation. Obligations insured by the Company include bonds issued by U.S. state or municipal governmental authorities and notes issued to finance international infrastructure projects. AGM had previously offered insurance and reinsurance in the global structured finance market, but has not done so since mid-2008. AGM and its indirect subsidiary Municipal Assurance Corp. (MAC) each markets its financial guaranty insurance directly to issuers and underwriters of public finance securities as well as to investors in such obligations. The Company guarantees obligations issued principally in the U.S. and the United Kingdom (U.K.), and also guarantees obligations issued in other countries and regions, including Australia and Western Europe.

In the past, the Company sold credit protection by issuing policies that guaranteed payment obligations under credit derivatives, primarily credit default swaps (CDS). Contracts accounted for as credit derivatives are generally structured such that the circumstances giving rise to the Company's obligation to make loss payments are similar to those for financial guaranty insurance contracts. The Company's credit derivative transactions are governed by International Swaps and Derivative Association, Inc. (ISDA) documentation. The Company has not entered into any new CDS in order to sell credit protection since 2008. Regulatory guidelines were issued in 2009 that limited the terms under which such protection could be sold. The capital and margin requirements applicable under the Dodd-Frank Wall Street Reform and Consumer Protection Act also contributed to the Company not entering into such new CDS in the U.S. since 2009. The Company actively pursues opportunities to terminate existing CDS, which have the effect of reducing future fair value volatility in income and/or reducing rating agency capital charges.

Basis of Presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and, in the opinion of management, reflect all adjustments that are of a normal recurring nature, necessary for a fair statement of the financial condition, results of operations and cash flows of the Company and its consolidated financial guaranty variable interest entities (FG VIEs) for the periods presented. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of AGM, its direct and indirect subsidiaries (collectively, the Subsidiaries), and its consolidated FG VIEs. Intercompany accounts and transactions between and among all consolidated entities have been eliminated. Certain prior year balances have been reclassified to conform to the current year's presentation.

AGM's direct and indirect subsidiaries are as follows:

- Assured Guaranty (Europe) Ltd. (AGE), organized in the U.K. and 100% owned by AGM;

- Municipal Assurance Holdings Inc. (MAC Holdings), incorporated in Delaware and 60.7% owned by AGM and 39.3% owned by AGM's affiliate, Assured Guaranty Corp. (AGC). MAC Holdings owns 100% of MAC, domiciled in New York.

Significant Accounting Policies

The Company revalues assets, liabilities, revenue and expenses denominated in non-U.S. currencies into U.S. dollars using applicable exchange rates. Gains and losses relating to AGM's foreign currency transactions are reported in the consolidated statement of operations.

The chief operating decision maker manages the operations of the Company at a consolidated level. Therefore, all results of operations are reported as one segment.

Other significant accounting policies are included in the following notes.

Significant Accounting Policies

Expected loss to be paid (insurance, credit derivatives and FG VIE contracts)	Note 4
Contracts accounted for as insurance (premium revenue recognition, loss and loss adjustment expense and policy acquisition cost)	Note 5
Fair value measurement	Note 6
Credit derivatives (at fair value)	Note 7
Variable interest entities (at fair value)	Note 8
Investments and cash	Note 9
Income taxes	Note 11

Future Application of Accounting Standards

Income Taxes

In October 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-16, Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory, which removes the current prohibition against immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. Under the ASU, the selling (transferring) entity is required to recognize a current income tax expense or benefit upon transfer of the asset. Similarly, the purchasing (receiving) entity is required to recognize a deferred tax asset or deferred tax liability, as well as the related deferred tax benefit or expense, upon receipt of the asset. The ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, and early adoption is permitted. The ASU's amendments are to be applied on a modified retrospective basis recognizing the effects in retained earnings as of the beginning of the year of adoption. The Company is currently evaluating the effect on its Consolidated Financial Statements of adopting this ASU.

Statement of Cash Flows

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (a consensus of the Emerging Issues Task Force), which addresses the presentation of changes in restricted cash and restricted cash equivalents in the statement of cash flows with the objective of reducing the existing diversity in practice. Under the ASU, entities are required to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, the ASU requires a reconciliation be presented either on the face of the statement of cash flows or in the notes to the financial statements showing the totals in the statement of cash flows to the related captions in the balance sheet. The ASU is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If the ASU is adopted in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. This ASU will not have a material impact on the Company's Consolidated Statements of Cash Flows.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (a consensus of the Emerging Issues Task Force), which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The issues addressed in the new guidance include debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investments, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. This ASU will not have a material impact on the Company's Consolidated Statements of Cash Flows.

Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this ASU are intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions will use forward-looking information to better inform their credit loss estimates as a result of the ASU. While many of the loss estimation techniques applied today will still be permitted, the inputs to those techniques will change to reflect the full amount of expected credit losses. The ASU requires enhanced disclosures to help investors and other financial statement users to better understand significant estimates and judgments used in estimating credit losses, as well as credit quality and underwriting standards of an organization’s portfolio.

In addition, the ASU amends the accounting for credit losses on available-for-sale securities and purchased financial assets with credit deterioration. The ASU also eliminates the concept of “other than temporary” from the impairment model for certain available-for-sale securities. Accordingly, the ASU states that an entity must use an allowance approach, must limit the allowance to an amount at which the security’s fair value is less than its amortized cost basis, may not consider the length of time fair value has been less than amortized cost, and may not consider recoveries in fair value after the balance sheet date when assessing whether a credit loss exists. For purchased financial assets with credit deterioration, the ASU requires an entity’s method for measuring credit losses to be consistent with its method for measuring expected losses for originated and purchased non-credit-deteriorated assets.

The ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For most debt instruments, entities will be required to record a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is adopted. The changes to the impairment model for available-for-sale securities and changes to purchased financial assets with credit deterioration are to be applied prospectively. For the Company, this would be as of January 1, 2020. Early adoption is permitted for fiscal years, and interim periods with those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the effect on its Consolidated Financial Statements of adopting this ASU.

Share-Based Payments

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment*, which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also will allow an employer to repurchase more of an employee’s shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, and early adoption is permitted. The Company does not expect that the ASU will have a material effect on its Consolidated Financial Statements.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to present right-of-use assets and lease liabilities on the balance sheet. ASU 2016-02 is to be applied using a modified retrospective approach at

the beginning of the earliest comparative period in the financial statements. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the impact that this ASU will have on its Consolidated Financial Statements.

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this ASU are intended to make targeted improvements to GAAP by addressing certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Under the ASU, certain equity securities will need to be accounted for at fair value with changes in fair value recognized through net income. Currently, the Company recognizes unrealized gains and losses for these securities in OCI. Another amendment pertains to liabilities that an entity has elected to measure at fair value in accordance with the fair value option for financial instruments. For these liabilities, the portion of fair value change related to credit risk will be separately presented in OCI. Currently, the entire change in the fair value of these liabilities is reflected in the income statement. The Company elected the fair value option to account for its consolidated FG VIEs. FG VIE financial liabilities with recourse are sensitive to changes in the Company's implied credit worthiness and will be impacted by the ASU.

The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Entities will be required to record a cumulative-effect adjustment to the statement of financial position as of the beginning of the fiscal year in which the guidance is adopted. For the Company, this would be as of January 1, 2018. Early adoption is permitted only for the amendment related to the change in presentation of financial liabilities that are fair valued using the fair value option. The Company does not expect that the amendment related to certain equity securities will have a material effect on its Consolidated Financial Statements. Upon the adoption date, the Company will present the total change in credit risk for FG VIEs' financial liabilities with recourse separately in OCI.

2. Rating Actions

When a rating agency assigns a public rating to a financial obligation insured by AGM or MAC or guaranteed by AGE, it generally awards that obligation the same rating it has assigned to the financial strength of those insurance companies. Investors in products insured by AGM or MAC or guaranteed by AGE frequently rely on ratings published by the rating agencies because such ratings influence the trading value of securities and form the basis for many institutions' investment guidelines as well as individuals' bond purchase decisions. Therefore, the Company manages its business with the goal of achieving strong financial strength ratings. However, the methodologies and models used by rating agencies differ, presenting conflicting goals that may make it inefficient or impractical to reach the highest rating level. The methodologies and models are not fully transparent, contain subjective elements and data (such as assumptions about future market demand for the Company's products) and may change. Ratings are subject to continuous review and revision or withdrawal at any time. If the financial strength ratings of one (or more) of AGM, AGE or MAC were reduced below current levels, the Company expects it could have adverse effects on the impacted insurance company's future business opportunities as well as the premiums the impacted company could charge for its insurance policies.

The Company periodically assesses the value of each rating assigned to each of its companies, and as a result of such assessment may request that a rating agency add or drop a rating from certain of its companies. For example, the Kroll Bond Rating Agency (KBRA) ratings were first assigned to MAC in 2013 and to AGM in 2014, while a Moody's Investors Service, Inc. (Moody's) rating was never requested for MAC.

The rating agencies' most recent actions related to AGM and its subsidiaries are:

- On December 14, 2016 and July 8, 2016, KBRA affirmed the AA+ (stable outlook) financial strength ratings of AGM and MAC, respectively.

- On August 8, 2016, Moody's affirmed the existing insurance financial strength ratings of A2 (stable outlook) on AGM and AGE.

- On July 27, 2016, S&P affirmed the AA (stable) financial strength and financial enhancement ratings of AGM, AGE and MAC.

There can be no assurance that any of the rating agencies will not take negative action on the financial strength ratings of AGM or its insurance subsidiaries in the future.

For a discussion of the effects of rating actions on the Company, see the following:

- Note 5, Contracts Accounted for as Insurance
- Note 12, Reinsurance and Other Monoline Exposures

3. Outstanding Exposure

The Company's financial guaranty contracts are written in either insurance or credit derivative form, but collectively are considered financial guaranty contracts. The Company seeks to limit its exposure to losses by underwriting obligations that it views as investment grade at inception, although, as part of its loss mitigation strategy for existing troubled credits, it may underwrite new issuances that it views as below-investment-grade (BIG). The Company diversifies its insured portfolio across asset classes and, in the structured finance portfolio, requires rigorous subordination or collateralization requirements. Reinsurance may be used in order to reduce net exposure to certain insured transactions.

The Company has issued financial guaranty insurance policies on public finance obligations and, prior to mid-2008, structured finance obligations. Public finance obligations insured by the Company consist primarily of general obligation bonds supported by the taxing powers of U.S. state or municipal governmental authorities, as well as tax-supported bonds, revenue bonds and other obligations supported by covenants from state or municipal governmental authorities or other municipal obligors to impose and collect fees and charges for public services or specific infrastructure projects. The Company also includes within public finance obligations those obligations backed by the cash flow from leases or other revenues from projects serving substantial public purposes, including utilities, toll roads, health care facilities and government office buildings. The Company also includes within public finance similar obligations issued by territorial and non-U.S. sovereign and sub-sovereign issuers and governmental authorities.

Structured finance obligations insured by the Company are generally issued by special purpose entities, including VIEs, and backed by pools of assets having an ascertainable cash flow or market value or other specialized financial obligations. Some of these VIEs are consolidated as described in Note 8, Consolidated Variable Interest Entities. Unless otherwise specified, the outstanding par and debt service amounts presented in this note include outstanding exposures on VIEs whether or not they are consolidated. While AGM has ceased insuring new originations of asset-backed securities, a significant portfolio of such obligations remains outstanding. AGM's wholly owned subsidiary AGE provides financial guarantees in the international public finance market and intends to provide such guarantees in the international structured finance market, subject to regulatory approval.

Debt service and par outstanding exposures presented in these financial statements are presented on a consolidated basis. That is, amounts presented include 100% of the exposures of AGM, AGE and MAC, despite the fact that AGM indirectly owns only 60.7% of MAC.

Significant Risk Management Activities

Assured Guaranty's Portfolio Risk Management Committee, which includes members of AGM's senior management and its senior credit and surveillance officers, sets specific risk policies and limits and is responsible for enterprise risk management, establishing the Company's risk appetite, credit underwriting of new business, surveillance and work-out.

As part of the surveillance process, the Company monitors trends and changes in transaction credit quality, detects any deterioration in credit quality, and recommends such remedial actions as may be necessary or appropriate. All transactions in the insured portfolio are assigned internal credit ratings, which are updated based on changes in transaction credit quality. The Company also develops strategies to enforce its contractual rights and remedies and to mitigate its losses, engage in negotiation discussions with transaction participants and, when necessary, manage the Company's litigation proceedings.

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 for each exposure. BIG exposures include all exposures with internal credit ratings below BBB-. The Company's internal credit ratings are based on internal assessments of the likelihood of default and loss severity in the event of default. Internal credit ratings are expressed on a ratings scale similar to that used by the rating agencies and are generally reflective of an approach similar to that employed by the rating agencies, except that the Company's internal credit ratings focus on future performance, rather than lifetime performance.

The Company monitors its investment grade credits to determine whether any need to be internally downgraded to BIG and refreshes its internal credit ratings on individual credits in quarterly, semi-annual or annual cycles based on the Company's view of the credit's quality, loss potential, volatility and sector. Ratings on credits in sectors identified as under the most stress or with the most potential volatility are reviewed every quarter.

Credits identified as BIG are subjected to further review to determine the probability of a loss. See Note 4, Expected Loss to be Paid for additional information. Surveillance personnel then assign each BIG transaction to the appropriate BIG surveillance category based upon whether a future loss is expected and whether a claim has been paid. For surveillance purposes, the Company calculates present value using a discount rate of 5%. (A risk-free rate is used for calculating the expected loss for financial statement measurement purposes.)

More extensive monitoring and intervention is employed for all BIG surveillance categories, with internal credit ratings reviewed quarterly. The Company expects "future losses" on a transaction when the Company believes there is at least a 50% chance that, on a present value basis, it will pay more claims in the future of that transaction than it will have reimbursed. The three BIG categories are:

- BIG Category 1: Below-investment-grade transactions showing sufficient deterioration to make future losses possible, but for which none are currently expected.

- BIG Category 2: Below-investment-grade transactions for which future losses are expected but for which no claims (other than liquidity claims, which 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.

Components of Outstanding Exposure

Unless otherwise noted, ratings disclosed herein on the Company's insured portfolio reflect its internal ratings. The Company classifies those portions of risks benefiting from reimbursement obligations collateralized by eligible assets held in trust in acceptable reimbursement structures as the higher of 'AA' or their current internal rating.

The Company purchases securities that it has insured, and for which it has expected losses to be paid, in order to mitigate the economic effect of insured losses (loss mitigation securities). The Company excludes amounts attributable to loss mitigation securities (unless otherwise indicated) from par and debt service outstanding, because it manages such securities as investments and not insurance exposure. As of December 31, 2016 and December 31, 2015, the Company excluded $664 million and $659 million, respectively, of net par as a result of loss mitigation strategies, including loss mitigation securities held in the investment portfolio, which are primarily BIG. The following table presents the gross and net debt service for financial guaranty contracts.

Financial Guaranty
Debt Service Outstanding

	Gross Debt Service Outstanding (1)		Net Debt Service Outstanding(1)	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	(in millions)			
Public finance	$ 350,156	$ 415,968	$ 248,426	$ 302,557
Structured finance	15,642	22,880	14,291	20,479
Total financial guaranty	$ 365,798	$ 438,848	$ 262,717	$ 323,036

(1) Includes 100% of MAC's gross and net debt service outstanding. However, AGM's indirect ownership of MAC is only 60.7%. The net debt service outstanding amount includes $77.5 billion and $104.5 billion as of December 31, 2016 and 2015, respectively, from MAC.

Financial Guaranty Portfolio by Internal Rating
As of December 31, 2016

	Public Finance U.S.		Public Finance Non-U.S.		Structured Finance U.S.		Structured Finance Non-U.S.		Total	
Rating Category	**Net Par Outstanding**	**%**	**Net Par Outstanding**	**%**	**Net Par Outstanding**	**%**	**Net Par Outstanding**	**%**	**Net Par Outstanding**	**%**
					(dollars in millions)					
AAA	$ 1,684	1.1%	$ 546	3.4%	$ 5,727	54.5%	$ 1,175	67.4%	$ 9,132	5.1%
AA	30,808	20.5	165	1.0	2,465	23.4	27	1.5	33,465	18.7
A	83,901	55.5	4,557	28.5	67	0.6	144	8.3	88,669	49.5
BBB	31,887	21.1	9,919	62.2	80	0.8	223	12.8	42,109	23.4
BIG	2,789	1.8	777	4.9	2,175	20.7	174	10.0	5,915	3.3
Total net par outstanding (1)	$ 151,069	100.0%	$ 15,964	100.0%	$ 10,514	100.0%	$ 1,743	100.0%	$ 179,290	100.0%

(1) Includes $56.6 billion of net par outstanding as of December 31, 2016, from MAC, which represents 100% of MAC's net par outstanding. However, AGM's indirect ownership of MAC is only 60.7%.

Financial Guaranty Portfolio by Internal Rating
As of December 31, 2015

	Public Finance U.S.		Public Finance Non-U.S.		Structured Finance U.S.		Structured Finance Non-U.S.		Total	
Rating Category	**Net Par Outstanding**	**%**	**Net Par Outstanding**	**%**	**Net Par Outstanding**	**%**	**Net Par Outstanding**	**%**	**Net Par Outstanding**	**%**
					(dollars in millions)					
AAA	$ 2,431	1.3%	$ 553	3.0%	$ 8,529	57.6%	$ 1,786	66.1%	$ 13,299	6.1%
AA	47,028	25.9	134	0.7	3,421	23.1	35	1.3	50,618	23.3
A	98,954	54.6	5,126	27.7	41	0.3	153	5.7	104,274	48.0
BBB	30,443	16.8	11,832	64.1	123	0.9	329	12.1	42,727	19.6
BIG	2,522	1.4	837	4.5	2,681	18.1	401	14.8	6,441	3.0
Total net par outstanding (1)	$ 181,378	100.0%	$ 18,482	100.0%	$ 14,795	100.0%	$ 2,704	100.0%	$ 217,359	100.0%

(1) Includes $73.5 billion of net par outstanding as of December 31, 2015, from MAC, which represents 100% of MAC's net par outstanding. However, AGM's indirect ownership of MAC is only 60.7%.

Financial Guaranty Portfolio by Sector

Sector	Gross Par Outstanding		Ceded Par Outstanding		Net Par Outstanding	
	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015	As of December 31, 2016	As of December 31, 2015
			(in millions)			
Public finance:						
U.S.:						
General obligation	$ 96,667	$ 111,296	$ 25,641	$ 28,164	$ 71,026	$ 83,132
Tax backed	42,258	47,218	12,132	12,458	30,126	34,760
Municipal utilities	33,498	39,896	8,261	8,631	25,237	31,265
Transportation	14,615	17,772	3,725	4,067	10,890	13,705
Higher education	7,514	8,367	2,035	1,966	5,479	6,401
Healthcare	7,713	10,564	2,654	3,640	5,059	6,924
Housing	1,423	1,794	307	284	1,116	1,510
Infrastructure finance	1,034	2,795	459	806	575	1,989
Other public finance	1,789	1,886	228	194	1,561	1,692
Total public finance-U.S.	206,511	241,588	55,442	60,210	151,069	181,378
Non-U.S.:						
Infrastructure finance	10,749	13,164	3,533	4,376	7,216	8,788
Regulated utilities	9,751	11,229	5,066	5,778	4,685	5,451
Other public finance	5,491	5,693	1,428	1,450	4,063	4,243
Total public finance-non-U.S.	25,991	30,086	10,027	11,604	15,964	18,482
Total public finance	$ 232,502	$ 271,674	$ 65,469	$ 71,814	$ 167,033	$ 199,860
Structured finance:						
U.S.:						
Pooled corporate obligations	5,616	9,185	221	704	5,395	8,481
Residential Mortgage-Backed Securities (RMBS)	3,767	4,668	474	566	3,293	4,102
Financial products	1,540	1,906	—	—	1,540	1,906
Consumer receivables	120	143	7	8	113	135
Commercial receivables	26	33	2	2	24	31
Other structured finance	199	246	50	106	149	140
Total structured finance-U.S.	11,268	16,181	754	1,386	10,514	14,795
Non-U.S.:						
Pooled corporate obligations	1,397	2,545	298	579	1,099	1,966
RMBS	428	529	71	78	357	451
Other structured finance	310	310	23	23	287	287
Total structured finance- non-U.S.	2,135	3,384	392	680	1,743	2,704
Total structured finance	$ 13,403	$ 19,565	$ 1,146	$ 2,066	$ 12,257	$ 17,499
Total par outstanding	$ 245,905	$ 291,239	$ 66,615	$ 73,880	$ 179,290	$ 217,359

In addition to amounts shown in the tables above, AGM had outstanding commitments to provide guaranties of $393 million for public finance obligations as of December 31, 2016, all of which expired prior to the date of this filing.

Actual maturities of insured obligations could differ from contractual maturities because borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties. The expected maturities of structured finance obligations are, in general, considerably shorter than the contractual maturities for such obligations.

Expected Amortization of
Net Par Outstanding
As of December 31, 2016

	Public Finance	Structured Finance	Total
		(in millions)	
0 to 5 years	$ 59,150	$ 8,876	$ 68,026
5 to 10 years	35,547	1,262	36,809
10 to 15 years	28,491	1,445	29,936
15 to 20 years	21,055	371	21,426
20 years and above	22,790	303	23,093
Total net par outstanding	$ 167,033	$ 12,257	$ 179,290

Components of BIG Portfolio

Components of BIG Net Par Outstanding
(Insurance and Credit Derivative Form)
As of December 31, 2016

	BIG Net Par Outstanding				Net Par
	BIG 1	BIG 2	BIG 3	Total BIG	Outstanding
			(in millions)		
Public finance:					
U.S. public finance	$ 967	$ 1,082	$ 740	$ 2,789	$ 151,069
Non-U.S. public finance	777	—	—	777	15,964
Public finance	1,744	1,082	740	3,566	167,033
Structured finance:					
U.S. RMBS	45	255	1,793	2,093	3,293
Other structured finance	174	48	34	256	8,964
Structured finance	219	303	1,827	2,349	12,257
Total	$ 1,963	$ 1,385	$ 2,567	$ 5,915	$ 179,290

Components of BIG Net Par Outstanding
(Insurance and Credit Derivative Form)
As of December 31, 2015

	BIG Net Par Outstanding				Net Par
	BIG 1	BIG 2	BIG 3	Total BIG	Outstanding
			(in millions)		
Public finance:					
U.S. public finance	$ 1,559	$ 902	$ 61	$ 2,522	$ 181,378
Non-U.S. public finance	622	215	—	837	18,482
Public finance	2,181	1,117	61	3,359	199,860
Structured finance:					
U.S. RMBS	414	208	1,916	2,538	4,102
Other structured finance	451	54	39	544	13,397
Structured finance	865	262	1,955	3,082	17,499
Total	$ 3,046	$ 1,379	$ 2,016	$ 6,441	$ 217,359

BIG Net Par Outstanding
and Number of Risks
As of December 31, 2016

	Net Par Outstanding			Number of Risks(2)		
Description	**Financial Guaranty Insurance(1)**	**Credit Derivative**	**Total**	**Financial Guaranty Insurance(1)**	**Credit Derivative**	**Total**
			(dollars in millions)			
BIG:						
Category 1	$ 1,910	$ 53	$ 1,963	56	3	59
Category 2	1,385	—	1,385	12	—	12
Category 3	2,567	—	2,567	49	—	49
Total BIG	$ 5,862	$ 53	$ 5,915	117	3	120

BIG Net Par Outstanding
and Number of Risks
As of December 31, 2015

	Net Par Outstanding			Number of Risks(2)		
Description	**Financial Guaranty Insurance(1)**	**Credit Derivative**	**Total**	**Financial Guaranty Insurance(1)**	**Credit Derivative**	**Total**
		(dollars in millions)				
BIG:						
Category 1	$ 2,955	$ 91	$ 3,046	59	2	61
Category 2	1,379	—	1,379	14	—	14
Category 3	2,000	16	2,016	43	2	45
Total BIG	$ 6,334	$ 107	$ 6,441	116	4	120

(1) Includes net par outstanding for VIEs.

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

Geographic Distribution of Net Par Outstanding

The Company seeks to maintain a diversified portfolio of insured obligations designed to spread its risk across a number of geographic areas.

Geographic Distribution of
Net Par Outstanding
As of December 31, 2016

	Number of Risks	Net Par Outstanding	Percent of Total Net Par Outstanding
		(dollars in millions)	
U.S.:			
U.S. Public finance:			
California	1,275	$ 26,863	15.0%
Pennsylvania	806	13,258	7.4
Texas	1,172	12,418	6.9
New York	878	11,904	6.6
Illinois	695	11,424	6.4
Florida	246	7,574	4.2
New Jersey	464	7,291	4.1
Michigan	466	5,459	3.0
Georgia	146	4,276	2.4
Arizona	154	3,643	2.0
Other states and U.S. territories	3,299	46,959	26.2
Total U.S. public finance	9,601	151,069	84.2
U.S. Structured finance (multiple states)	189	10,514	5.9
Total U.S.	9,790	161,583	90.1
Non-U.S.:			
United Kingdom	78	8,684	4.8
Canada	9	2,500	1.4
Australia	11	1,737	1.0
France	9	1,011	0.6
Italy	8	904	0.5
Other	29	2,871	1.6
Total non-U.S.	144	17,707	9.9
Total	9,934	$ 179,290	100.0%

Exposure to Puerto Rico

The Company has insured exposure to general obligation bonds of the Commonwealth of Puerto Rico (Puerto Rico or the Commonwealth) and various obligations of its related authorities and public corporations, aggregating $2.0 billion net par as of December 31, 2016, $1.9 billion of which is rated BIG. Puerto Rico has experienced significant general fund budget deficits in recent years and a challenging economic environment. Beginning on January 1, 2016, a number of Puerto Rico credits have defaulted on bond payments, and the Company has now paid claims on several Puerto Rico credits as shown in the table "Puerto Rico Net Par Outstanding" below.

On November 30, 2015 and December 8, 2015, Governor García Padilla of Puerto Rico (the Former Governor) issued executive orders (Clawback Orders) directing the Puerto Rico Department of Treasury and the Puerto Rico Tourism Company to retain or transfer certain taxes pledged to secure the payment of bonds issued by the Puerto Rico Highways and Transportation Authority (PRHTA), Puerto Rico Infrastructure Financing Authority (PRIFA), and Puerto Rico Convention Center District Authority (PRCCDA). On January 7, 2016, the Company sued various Puerto Rico governmental officials in the United States District Court, District of Puerto Rico, asserting that this attempt to “claw back” pledged taxes is unconstitutional, and demanding declaratory and injunctive relief. The Puerto Rico credits insured by the Company subject to the Clawback Orders are shown in the table “Puerto Rico Net Par Outstanding” below.

On April 6, 2016, the Former Governor signed into law the Puerto Rico Emergency Moratorium & Financial Rehabilitation Act (the Moratorium Act). The Moratorium Act purportedly empowers the governor to declare, entity by entity, states of emergencies and moratoriums on debt service payments on obligations of the Commonwealth and its related authorities and public corporations, as well as instituting a stay against related litigation, among other things. The Former Governor used the authority of the Moratorium Act to take a number of actions related to issuers of obligations the Company insures. National Public Finance Guarantee Corporation (National) (another financial guarantor), holders of the Commonwealth general obligation bonds and certain Puerto Rico residents (the National Plaintiffs) have filed suits to invalidate the Moratorium Act, and after the passage of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), the National Plaintiffs sought a relief from the stay of litigation imposed by PROMESA to pursue the action. On July 21, 2016, the Company filed a motion and form of complaint in the U.S. District Court for the District of Puerto Rico seeking relief from the stay of litigation imposed by PROMESA to seek a declaration that the Moratorium Act is preempted by Federal bankruptcy law. In November 2016 that court denied both the Company's and the National Plaintiffs' motions for relief from stay in the respective actions. The PROMESA stay expires on May 1, 2017.

On June 30, 2016, PROMESA was signed into law by the President of the United States. PROMESA establishes a seven-member federal financial oversight board (Oversight Board) with authority to require that balanced budgets and fiscal plans be adopted and implemented by Puerto Rico. PROMESA provides a legal framework under which the debt of the Commonwealth and its related authorities and public corporations may be voluntarily restructured, and grants the Oversight Board the sole authority to file restructuring petitions in a federal court to restructure the debt of the Commonwealth and its related authorities and public corporations if voluntary negotiations fail, provided that any such restructuring must be in accordance with an Oversight Board approved fiscal plan that respects the liens and priorities provided under Puerto Rico law. PROMESA also appears to preempt at least portions of the Moratorium Act and to stay debt-related litigation, including the Company’s litigation regarding the Clawback Orders. On August 31, 2016, the President of the United States appointed the seven members of the Oversight Board.

The Oversight Board has begun meeting and has hired Ramón Ruiz-Comas as interim executive director. On January 2, 2017, Ricardo Antonio Rosselló Nevares (the Governor) took office, replacing the Former Governor. On January 29, 2017, the Governor signed the Puerto Rico Emergency and Fiscal Responsibility Act (Emergency Act) that, among other things, repeals portions of the Moratorium Act, defines an emergency period until May 1, 2017, continues diversion of collateral away from bonds the Company insures, and defines the powers and duties of the Fiscal Agency and Financial Advisory Authority (FAFAA). The final shape, timing and validity of responses to Puerto Rico’s distress eventually enacted or implemented under the auspices of PROMESA and the Oversight Board or otherwise, and the impact of any such responses on obligations insured by the Company, are uncertain.

The Company groups its Puerto Rico exposure into three categories:

- *Constitutionally Guaranteed.* The Company includes in this category public debt benefiting from Article VI of the Constitution of the Commonwealth, which expressly provides that interest and principal payments on the public debt are to be paid before other disbursements are made.

- *Public Corporations – Certain Revenues Potentially Subject to Clawback.* The Company includes in this category the debt of public corporations for which applicable law permits the Commonwealth to claw back, subject to certain conditions and for the payment of public debt, at least a portion of the revenues supporting the bonds the Company insures. As a Constitutional condition to clawback, available Commonwealth revenues for any fiscal year must be insufficient to pay Commonwealth debt service before the payment of any appropriations for that year. The Company believes that this condition has not been satisfied to date, and accordingly that the Commonwealth has not to date been entitled to claw back revenues supporting debt insured by the Company. As noted above, the Company sued various Puerto Rico governmental officials in the United States District Court, District of Puerto Rico asserting that Puerto Rico's recent attempt to “claw back” pledged taxes is unconstitutional, and demanding declaratory and injunctive relief.

- *Other Public Corporations.* The Company includes in this category the debt of public corporations that are supported by revenues it does not believe are subject to clawback.

Constitutionally Guaranteed

General Obligation. As of December 31, 2016, the Company had $680 million insured net par outstanding of the general obligations of Puerto Rico, which are supported by the good faith, credit and taxing power of the Commonwealth. On July 1, 2016, despite the requirements of Article VI of its Constitution but pursuant to an executive order issued by the Former

Governor under the Moratorium Act, the Commonwealth defaulted on most of the debt service payment due that day, and the Company made its first claim payments on these bonds, and has continued to make claim payments on these bonds.

Puerto Rico Public Buildings Authority (PBA). As of December 31, 2016, the Company had $11 million insured net par outstanding of PBA bonds, which are supported by a pledge of the rents due under leases of government facilities to departments, agencies, instrumentalities and municipalities of the Commonwealth, and that benefit from a Commonwealth guaranty supported by a pledge of the Commonwealth's good faith, credit and taxing power. On July 1, 2016, despite the requirements of Article VI of its Constitution but pursuant to an executive order issued by the Former Governor under the Moratorium Act, the PBA defaulted on most of the debt service payment due that day, and the Company made its first claim payments on these bonds, and has continued to make claim payments on these bonds.

Public Corporations - Certain Revenues Potentially Subject to Clawback

PRHTA. As of December 31, 2016, the Company had $273 million insured net par outstanding of PRHTA (Transportation revenue) bonds and $213 million insured net par of PRHTA (Highways revenue) bonds. The transportation revenue bonds are secured by a subordinate gross pledge of gasoline and gas oil and diesel oil taxes, motor vehicle license fees and certain tolls, plus a first lien on up to $120 million annually of taxes on crude oil, unfinished oil and derivative products. The highways revenue bonds are secured by a gross pledge of gasoline and gas oil and diesel oil taxes, motor vehicle license fees and certain tolls. The Clawback Orders cover Commonwealth-derived taxes that are allocated to PRHTA. The Company believes that such sources represented a substantial majority of PRHTA's revenues in 2015. The PRHTA bonds are subject to executive orders issued pursuant to the Moratorium Act. As noted above, the Company filed a motion and form of complaint in the U.S. District Court for the District of Puerto Rico seeking relief from the PROMESA stay to seek a declaration that the Moratorium Act is preempted by Federal bankruptcy law and that certain gubernatorial executive orders diverting PRHTA pledged toll revenues (which are not subject to the Clawback Orders) are preempted by PROMESA and violate the U.S. Constitution, and also seeking damages and injunctive relief. That motion was denied on November 2, 2016, on procedural grounds. The PROMESA stay expires on May 1, 2017. There were sufficient funds in the PRHTA bond accounts to make the July 1, 2016 and January 1, 2017 PRHTA debt service payments guaranteed by the Company on a primary basis, and those payments were made in full.

Other Public Corporations

Puerto Rico Electric Power Authority (PREPA). As of December 31, 2016, the Company had $417 million insured net par outstanding of PREPA obligations, which are payable from a pledge of net revenues of the electric system.

On December 24, 2015, AGM and AGC entered into a Restructuring Support Agreement (RSA) with PREPA, an ad hoc group of uninsured bondholders and a group of fuel-line lenders that would, subject to certain conditions, result in, among other things, modernization of the utility and a restructuring of current debt. Upon finalization of the contemplated restructuring transaction, insured PREPA revenue bonds (with no reduction to par or stated interest rate or extension of maturity) will be supported by securitization bonds issued by a special purpose corporation and secured by a transition charge assessed on ratepayers. To facilitate the securitization transaction and in exchange for a market premium, Assured Guaranty will issue surety insurance policies in an aggregate amount not expected to exceed $113 million ($14 million for AGC and $99 million for AGM) to support a portion of the reserve fund for the securitization bonds. Certain of the creditors also agreed, subject to certain conditions, to participate in a bridge financing, which was closed in two tranches on May 19, 2016 and June 22, 2016. AGM's and AGC's share of the bridge financing was approximately $15 million ($2 million for AGC and $13 million for AGM). Legislation meeting the requirements of the RSA was enacted on February 16, 2016, and a transition charge to be paid by PREPA rate payers for debt service on the securitization bonds as contemplated by the RSA was approved by the Puerto Rico Energy Commission on June 20, 2016. The closing of the restructuring transaction and the issuance of the surety bonds are subject to certain conditions, including execution of acceptable documentation and legal opinions. The RSA has been extended to March 31, 2017. Recent press reports indicate that the Governor and the Oversight Board both support renegotiating the RSA, while maintaining its general framework.

On July 1, 2016, PREPA made full payment of the $41 million of principal and interest due on PREPA revenue bonds insured by AGM and AGC. That payment was funded in part by AGM's purchase of $26 million of PREPA bonds maturing in 2020. Upon finalization of the transactions contemplated by the RSA, these new PREPA revenue bonds will be supported by securitization bonds contemplated by the RSA. On January 1, 2017 PREPA made full payment of the $18 million of interest due on PREPA revenue bonds insured by AGM and AGC.

There can be no assurance that the conditions in the RSA will be met or that, if the conditions are met, the RSA's other provisions, including those related to the insured PREPA revenue bonds, will be implemented as currently agreed. In addition,

the impact of PROMESA, the Moratorium Act and Emergency Act or any attempt to exercise the power purportedly granted by the Moratorium Act or the Emergency Act on the implementation of the RSA is uncertain. PREPA, during the pendency of the agreements, has suspended deposits into its debt service fund.

Municipal Finance Agency (MFA). As of December 31, 2016, the Company had $175 million net par outstanding of bonds issued by MFA secured by a pledge of local property tax revenues. There were sufficient funds in the MFA bond accounts to make the July 1, 2016 and January 1, 2017 MFA bond payments guaranteed by the Company, and those payments were made in full.

Puerto Rico Sales Tax Financing Corporation (COFINA). As of December 31, 2016, the Company had $262 million insured net par outstanding of junior COFINA bonds, which are secured primarily by a second lien on certain sales and use taxes. There were no debt service payments due on July 1, 2016, or January 1, 2017, on Company-insured COFINA bonds, and, as of the date of this filing, all payments on Company-insured COFINA bonds had been made.

All Puerto Rico exposures are internally rated BIG, except the General Obligation, PBA and PRHTA (Transportation revenue) second-to-pay policies on an affiliate exposure which are rated AA based on the obligation of the Company's affiliate to pay under its insurance policy if the obligor fails to pay. The following tables show the Company’s insured exposure to general obligation bonds of Puerto Rico and various obligations of its related authorities and public corporations.

Puerto Rico
Gross Par and Gross Debt Service Outstanding

	Gross Par Outstanding		Gross Debt Service Outstanding	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	(in millions)			
Exposure to Puerto Rico	$ 3,542	$ 3,761	$ 5,672	$ 6,081

Puerto Rico
Net Par Outstanding

	As of December 31, 2016	As of December 31, 2015
	(in millions)	
Commonwealth Constitutionally Guaranteed		
Commonwealth of Puerto Rico - General Obligation Bonds (1)	$ 677	$ 720
Commonwealth of Puerto Rico - General Obligation Bonds (Second-to-pay policies on affiliate exposure)	3	—
Commonwealth of Puerto Rico - General Obligation Bonds total	680	720
PBA (1)	—	14
PBA (Second-to-pay policies on affiliate exposure)	11	—
PBA total	11	14
Public Corporations - Certain Revenues Potentially Subject to Clawback		
PRHTA (Transportation revenue)	190	209
PRHTA (Transportation revenue) (Second-to-pay policies on affiliate exposure)	83	80
PRHTA (Transportation revenue) total	273	289
PRHTA (Highways revenue)	213	219
Other Public Corporations		
PREPA	417	431
COFINA	262	261
MFA	175	206
Total net exposure to Puerto Rico	$ 2,031	$ 2,140

(1) As of the date of this filing, the Company has paid claims on these credits.

The following table shows the scheduled amortization of the insured general obligation bonds of Puerto Rico and various obligations of its related authorities and public corporations rated BIG by the Company. The Company guarantees payments of interest and principal when those amounts are scheduled to be paid and cannot be required to pay on an accelerated basis. In the event that obligors default on their obligations, the Company would only be required to pay the shortfall between the principal and interest due in any given period and the amount paid by the obligors.

Amortization Schedule of Puerto Rico BIG Net Par Outstanding and Net Debt Service Outstanding As of December 31, 2016

	Scheduled BIG Net Par Amortization	Scheduled BIG Net Debt Service Amortization
	(in millions)	
2017 (January 1 - March 31)	$ 0	$ 47
2017 (April 1 - June 30)	0	2
2017 (July 1 - September 30)	102	150
2017 (October 1 - December 31)	0	1
Subtotal 2017	102	200
2018	60	153
2019	90	180
2020	92	176
2021	48	128
2022-2026	405	758
2027-2031	402	655
2032-2036	420	569
2037-2041	165	228
2042-2043	150	159
Total	$ 1,934	$ 3,206

Exposure to the Selected European Countries

The European countries where the Company has exposure and believes heightened uncertainties exist are: Hungary, Italy, Portugal, and Spain (collectively, the Selected European Countries). The Company's direct economic exposure to the Selected European Countries (based on par for financial guaranty contracts and notional amount for financial guaranty contracts accounted for as derivatives) is shown in the following table, net of ceded reinsurance.

Net Direct Economic Exposure to Selected European Countries(1)
As of December 31, 2016

	Hungary	Italy	Portugal	Spain	Total
			(in millions)		
Sub-sovereign exposure(2)	$ 183	$ 598	$ 73	$ 264	$ 1,118
Non-sovereign exposure(3)	105	295	—	—	400
Total	$ 288	$ 893	$ 73	$ 264	$ 1,518
Total BIG (See Note 4)	$ 223	$ —	$ 73	$ 264	$ 560

(1) While exposures are shown in U.S. dollars, the obligations are in various currencies, primarily euros.

(2) Sub-sovereign exposure in Selected European Countries includes transactions backed by receivables from or supported by sub-sovereigns, which are governmental or government-backed entities other than the ultimate governing body of the country.

(3) Non-sovereign exposure in Selected European Countries includes debt of regulated utilities and RMBS.

When the Company directly insures an obligation, it assigns the obligation to a geographic location or locations based on its view of the geographic location of the risk.

The Company has excluded from the exposure tables above its indirect economic exposure to the Selected European Countries through policies it provides on pooled corporate transactions. The Company calculates indirect exposure to a country by multiplying the par amount of a transaction insured by the Company times the percent of the relevant collateral pool reported as having a nexus to the country. On that basis, the Company has calculated exposure of $38 million to Selected European Countries in transactions with $2.1 billion of net par outstanding.

4. Expected Loss to be Paid

The insured portfolio includes policies accounted for under three separate accounting models depending on the characteristics of the contract and the Company's control rights. The Company has paid and expects to pay future losses on policies which fall under each of the three accounting models. The following provides a summarized description of the three accounting models prescribed by GAAP with a reference to the notes that describe the accounting policies and required disclosures throughout this report. The three models are: (1) insurance, (2) derivative and (3) VIE consolidation.

In order to effectively evaluate and manage the economics and liquidity of the entire insured portfolio, management compiles and analyzes loss information for all policies on a consistent basis. The Company monitors and assigns ratings and calculates expected losses in the same manner for all its exposures regardless of form or differing accounting models.

This note provides information regarding expected claim payments to be made under all contracts in the insured portfolio, regardless of the accounting model. Net expected loss to be paid in the tables below consists of the present value of future: expected claim and loss adjustment expenses (LAE) payments, expected recoveries in the transaction structures, cessions to reinsurers, and expected recoveries for breaches of representations and warranties (R&W) and other loss mitigation strategies. Expected loss to be paid is important from a liquidity perspective in that it represents the present value of amounts that the Company expects to pay or recover in future periods, regardless of the accounting model. Expected loss to be paid is an important measure used by management to analyze the net economic loss on all contracts.

Accounting Policy

Insurance Accounting

For contracts accounted for as financial guaranty insurance, loss and LAE reserve is recorded only to the extent and for the amount that expected losses to be paid exceed the unearned premium reserve. As a result, the Company has expected loss to be paid that have not yet been expensed. Such amounts will be recognized in future periods as deferred premium revenue amortizes into income. Expected loss to be expensed is important because it represents the Company's projection of incurred losses that will be recognized in future periods (excluding accretion of discount). See "Financial Guaranty Insurance Losses" in Note 5, Contracts Accounted for as Insurance.

Derivative Accounting, at Fair Value

For contracts that do not meet the financial guaranty scope exception in the derivative accounting guidance (primarily due to the fact that the insured is not required to be exposed to the insured risk throughout the life of the contract), the Company records such credit derivative contracts at fair value on the consolidated balance sheet with changes in fair value recorded in the consolidated statement of operations. The fair value recorded on the balance sheet represents an exit price in a hypothetical market because the Company does not trade its credit derivative contracts. The fair value is determined using significant Level 3 inputs in an internally developed model while the expected loss to be paid (which represents the net present value of expected cash outflows) uses methodologies and assumptions consistent with financial guaranty insurance expected losses to be paid. See Note 6, Fair Value Measurement and Note 7, Contracts Accounted for as Credit Derivatives.

VIE Consolidation, at Fair Value

For financial guaranty insurance contracts issued on the debt of variable interest entities over which the Company is deemed to be the primary beneficiary due to its control rights, as defined in GAAP, the Company consolidates the FG VIE. The Company carries the assets and liabilities of the FG VIEs at fair value under the fair value option. Management assesses the expected losses on the insured debt of the consolidated FG VIEs in the same manner as other financial guaranty insurance and credit derivative contracts. See Note 8, Consolidated Variable Interest Entities.

Expected Loss to be Paid

The expected loss to be paid is equal to the present value of expected future cash outflows for claim and LAE payments, net of inflows for expected salvage and subrogation (e.g., excess spread on the underlying collateral, and expected and contractual recoveries for breaches of R&W or other expected recoveries), using current risk-free rates. When the Company becomes entitled to the cash flow from the underlying collateral of an insured credit under salvage and subrogation rights as a result of a claim payment or estimated future claim payment, it reduces the expected loss to be paid on the contract. Net expected loss to be paid is defined as expected loss to be paid, net of amounts ceded to reinsurers.

The Company updates the discount rate 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 the likelihood of all possible outcomes. The Company estimates the expected cash outflows and inflows using management's assumptions about the likelihood of all possible outcomes based on all information available to it. Those assumptions consider the relevant facts and circumstances and are consistent with the information tracked and monitored through the Company's risk-management activities.

Economic Loss Development

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

Expected loss to be paid and economic loss development include the effects of loss mitigation strategies such as negotiated and estimated recoveries for breaches of R&W, and purchases of insured debt obligations. Additionally, in certain cases, issuers of insured obligations elected, or the Company and an issuer mutually agreed as part of a negotiation, to deliver the underlying collateral or insured obligation to the Company.

In circumstances where the Company has purchased its own insured obligations that have expected losses, expected loss to be paid is reduced by the proportionate share of the insured obligation that is held in the investment portfolio. The

difference between the purchase price of the obligation and the fair value excluding the value of the Company's insurance is treated as a paid loss. Assets that are purchased by the Company are recorded in the investment portfolio, at fair value, excluding the value of the Company's insurance. See Note 9, Investments and Cash and Note 6, Fair Value Measurement.

Loss Estimation Process

The Company’s loss reserve committee estimates expected loss to be paid for all contracts by reviewing analyses that consider various scenarios with corresponding probabilities assigned to them. Depending upon the nature of the risk, the Company’s view of the potential size of any loss and the information available to the Company, that analysis may be based upon individually developed cash flow models, internal credit rating assessments and sector-driven loss severity assumptions or judgmental assessments. The Company monitors the performance of its transactions with expected losses and each quarter the Company’s loss reserve committee reviews and refreshes its loss projection assumptions and scenarios and the probabilities it assigns to those scenarios based on actual developments during the quarter and its view of future performance.

The financial guaranties issued by the Company insure the credit performance of the guaranteed obligations over an extended period of time, in some cases over 30 years, and in most circumstances the Company has no right to cancel such financial guaranties. As a result, the Company's estimate of ultimate losses on a policy is subject to significant uncertainty over the life of the insured transaction. Credit performance can be adversely affected by economic, fiscal and financial market variability over the long life of most contracts.

The determination of expected loss to be paid is an inherently subjective process involving numerous estimates, assumptions and judgments by management, using both internal and external data sources with regard to frequency, severity of loss, economic projections, governmental actions, negotiations 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 as a result the Company’s loss estimates may change materially over that same period.

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. For example, changes over a reporting period in the Company’s loss estimates for its RMBS transactions may be influenced by such factors as the level and timing of loan defaults experienced; changes in housing prices; results from the Company’s loss mitigation activities; and other variables.

Similarly, changes over a reporting period in the Company’s loss estimates for municipal obligations supported by specified revenue streams, such as revenue bonds issued by toll road authorities, municipal utilities or airport authorities, generally will be influenced by factors impacting their revenue levels, such as changes in demand; changing demographics; and other economic factors, especially if the obligations do not benefit from financial support from other tax revenues or governmental authorities. Changes over a reporting period in the Company’s loss estimates for its tax-supported public finance transactions generally will be influenced by factors impacting the public issuer’s ability and willingness to pay, such as changes in the economy and population of the relevant area; changes in the issuer’s ability or willingness to raise taxes, decrease spending or receive federal assistance; new legislation; rating agency downgrades that reduce the issuer’s ability to refinance maturing obligations or issue new debt at a reasonable cost; changes in the priority or amount of pensions and other obligations owed to workers; developments in restructuring or settlement negotiations; and other political and economic factors.

The Company does not use traditional actuarial approaches to determine its estimates of expected losses. Actual losses will ultimately depend on future events or transaction performance and may be influenced by many interrelated factors that are difficult to predict. As a result, the Company's current projections of probable and estimable losses may be subject to considerable volatility and may not reflect the Company's ultimate claims paid.

In some instances, the terms of the Company's policy gives it the option to pay principal losses that have been recognized in the transaction but which it is not yet required to pay, thereby reducing the amount of guaranteed interest due in the future. The Company has sometimes exercised this option, which uses cash but reduces projected future losses.

The following tables present a roll forward of the present value of net expected loss to be paid for all contracts, whether accounted for as insurance, credit derivatives or FG VIEs, by sector, after the benefit for expected recoveries for breaches of R&W and other expected recoveries. The Company used risk-free rates for U.S. dollar denominated obligations, that ranged from 0.0% to 3.23% with a weighted average of 2.68% as of December 31, 2016 and 0.0% to 3.25% with a weighted average of 2.21% as of December 31, 2015.

Net Expected Loss to be Paid
Roll Forward

	Year Ended December 31,	
	2016	2015
	(in millions)	
Net expected loss to be paid, beginning of period	$ 565	$ 619
Economic loss development due to:		
Accretion of discount	9	14
Changes in discount rates	(10)	(11)
Changes in timing and assumptions	102	76
Total economic loss development	101	79
Paid losses	(159)	(133)
Net expected loss to be paid, end of period	$ 507	$ 565

Net Expected Loss to be Paid,
Roll Forward by Sector
Year Ended December 31, 2016

	Net Expected Loss to be Paid (Recovered) as of December 31, 2015(2)	Economic Loss Development	(Paid) Recovered Losses(1)	Net Expected Loss to be Paid (Recovered) as of December 31, 2016(2)
		(in millions)		
Public finance:				
U.S. public finance	$ 214	$ 184	$ (75)	$ 323
Non-U.S. public finance	26	(5)	—	21
Public finance	240	179	(75)	344
Structured finance:				
U.S. RMBS	302	(72)	(83)	147
Other structured finance	23	(6)	(1)	16
Structured finance	325	(78)	(84)	163
Total	$ 565	$ 101	$ (159)	$ 507

Net Expected Loss to be Paid,
Roll Forward by Sector
Year Ended December 31, 2015

	Net Expected Loss to be Paid (Recovered) as of December 31, 2014	Economic Loss Development	(Paid) Recovered Losses(1)	Net Expected Loss to be Paid (Recovered) as of December 31, 2015(2)
		(in millions)		
Public finance:				
U.S. public finance	$ 142	$ 87	$ (15)	$ 214
Non-U.S. public finance	34	(8)	—	26
Public finance	176	79	(15)	240
Structured finance:				
U.S. RMBS	419	1	(118)	302
Other structured finance	24	(1)	0	23
Structured finance	443	0	(118)	325
Total	$ 619	$ 79	$ (133)	$ 565

(1) Net of ceded paid losses, whether or not such amounts have been settled with reinsurers. Ceded paid losses are typically settled 45 days after the end of the reporting period. Such amounts are recorded in reinsurance recoverable on paid losses included in other assets. The Company paid $6 million and $8 million in LAE for the years ended December 31, 2016 and 2015, respectively.

(2) Includes expected LAE to be paid of $3 million as of December 31, 2016 and $3 million as of December 31, 2015.

Future Net R&W Recoverable (Payable)(1)

	Future Net R&W Benefit as of December 31, 2016	Future Net R&W Benefit as of December 31, 2015	Future Net R&W Benefit as of December 31, 2014
		(in millions)	
U.S. RMBS:			
First lien	$ (67)	$ (9)	$ 115
Second lien	26	71	76
Total	$ (41)	$ 62	$ 191

(1) The Company’s agreements with R&W providers generally provide that, as the Company makes claim payments, the R&W providers reimburse it for those claims; if the Company later receives reimbursement through the transaction (for example, from excess spread), the Company repays the R&W providers. See the section “Breaches of Representations and Warranties” for information about the R&W agreements. When the Company projects receiving more reimbursements in the future than it projects paying in claims on transactions covered by R&W settlement agreements, the Company will have a net R&W payable.

The following table presents the present value of net expected loss to be paid for all contracts by accounting model, by sector and after the benefit for expected recoveries for breaches of R&W.

Net Expected Loss to be Paid (Recovered)
By Accounting Model

	As of December 31, 2016			As of December 31, 2015		
	Public Finance	Structured Finance	Total	Public Finance	Structured Finance	Total
			(in millions)			
Financial guaranty insurance	$ 344	$ 76	$ 420	$ 240	$ 204	$ 444
FG VIEs(1) and other	—	90	90	—	114	114
Credit derivatives (2)	—	(3)	(3)	—	7	7
Total	$ 344	$ 163	$ 507	$ 240	$ 325	$ 565

(1) Refer to Note 8, Consolidated Variable Interest Entities.

(2) Refer to Note 7, Contracts Accounted for as Credit Derivatives.

The following table presents the net economic loss development for all contracts by accounting model, by sector and after the benefit for expected recoveries for breaches of R&W.

Net Economic Loss Development (Benefit)
By Accounting Model

	Year Ended December 31, 2016			Year Ended December 31, 2015		
	Public Finance	Structured Finance	Total	Public Finance	Structured Finance	Total
			(in millions)			
Financial guaranty insurance	$ 179	$ (64)	$ 115	$ 79	$ (17)	$ 62
FG VIEs(1) and other	—	(6)	(6)	—	15	15
Credit derivatives (2)	—	(8)	(8)	—	2	2
Total	$ 179	$ (78)	$ 101	$ 79	$ 0	$ 79

(1) Refer to Note 8, Consolidated Variable Interest Entities.

(2) Refer to Note 7, Contracts Accounted for as Credit Derivatives.

Selected U.S. Public Finance Transactions

The Company insures general obligation bonds of the Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations aggregating $2.0 billion net par as of December 31, 2016, $1.9 billion of which is rated BIG. For additional information regarding the Company's exposure to general obligations of Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations, please refer to "Exposure to Puerto Rico" in Note 3, Outstanding Exposure.

On February 25, 2015, a plan of adjustment resolving the bankruptcy filing of the City of Stockton, California under chapter 9 of the U.S. Bankruptcy Code became effective. As of December 31, 2016, the Company's net par subject to the plan consists of $60 million of pension obligation bonds. As part of the plan settlement, the City will repay the pension obligation bonds from certain fixed payments and certain variable payments contingent on the City's revenue growth.

The Company projects that its total net expected loss across its troubled U.S. public finance credits as of December 31, 2016, including those mentioned above, which incorporated the likelihood of the various outcomes, will be $323 million

compared with a net expected loss of $214 million as of December 31, 2015. Economic loss development in 2016 was $184 million, which was primarily attributable to Puerto Rico exposures.

Certain Selected European Country Sub-Sovereign Transactions

The Company insures credits with sub-sovereign exposure to various Spanish and Portuguese issuers where a Spanish and Portuguese sovereign default may cause the related sub-sovereigns also to default. The Company's exposure net of reinsurance to these Spanish and Portuguese credits is $264 million and $73 million, respectively. The Company rates all these issuers BIG due to the financial condition of Spain and Portugal and their dependence on the sovereign. The Company's Hungary exposure is to infrastructure bonds dependent on payments from Hungarian governmental entities. The Company's exposure net of reinsurance to these Hungarian credits is $183 million, all of which is rated BIG. The Company estimated net expected losses of $21 million related to these Spanish, Portuguese and Hungarian credits. The economic benefit of approximately $5 million during 2016 was primarily related to changes in the exchange rate between the euro and U.S. Dollar.

Approach to Projecting Losses in U.S. RMBS

The Company projects losses on its insured U.S. RMBS on a transaction-by-transaction basis by projecting the performance of the underlying pool of mortgages over time and then applying the structural features (i.e., payment priorities and tranching) of the RMBS and any R&W agreements to the projected performance of the collateral over time. The resulting projected claim payments or reimbursements are then discounted using risk-free rates.

The further behind a mortgage borrower falls in making payments, the more likely it is that he or she will default. The rate at which borrowers from a particular delinquency category (number of monthly payments behind) eventually default is referred to as the “liquidation rate.” The Company derives its liquidation rate assumptions from observed roll rates, which are the rates at which loans progress from one delinquency category to the next and eventually to default and liquidation. The Company applies liquidation rates to the mortgage loan collateral in each delinquency category and makes certain timing assumptions to project near-term mortgage collateral defaults from loans that are currently delinquent.

Mortgage borrowers that are not more than one payment behind (generally considered performing borrowers) have demonstrated an ability and willingness to pay throughout the recession and mortgage crisis, and as a result are viewed as less likely to default than delinquent borrowers. Performing borrowers that eventually default will also need to progress through delinquency categories before any defaults occur. The Company projects how many of the currently performing loans will default and when they will default, by first converting the projected near term defaults of delinquent borrowers derived from liquidation rates into a vector of conditional default rates (CDR), then projecting how the CDR will develop over time. Loans that are defaulted pursuant to the CDR after the near-term liquidation of currently delinquent loans represent defaults of currently performing loans and projected re-performing loans. A CDR is the outstanding principal amount of defaulted loans liquidated in the current month divided by the remaining outstanding amount of the whole pool of loans (or collateral pool balance). The collateral pool balance decreases over time as a result of scheduled principal payments, partial and whole principal prepayments, and defaults.

In order to derive collateral pool losses from the collateral pool defaults it has projected, the Company applies a loss severity. The loss severity is the amount of loss the transaction experiences on a defaulted loan after the application of net proceeds from the disposal of the underlying property. The Company projects loss severities by sector based on its experience to date. The Company continues to update its evaluation of these loss severities as new information becomes available.

The Company had been enforcing claims for breaches of R&W regarding the characteristics of the loans included in the collateral pools, but has now completed its active pursuit of significant R&W claims. The Company calculates a credit for R&W recoveries to include in its cash flow projections based on agreements it has with R&W providers, which are described in more detail under "Breaches of Representations and Warranties" below.

The Company projects the overall future cash flow from a collateral pool by adjusting the payment stream from the principal and interest contractually due on the underlying mortgages for the collateral losses it projects as described above; assumed voluntary prepayments; and servicer advances. The Company then applies an individual model of the structure of the transaction to the projected future cash flow from that transaction’s collateral pool to project the Company’s future claims and claim reimbursements for that individual transaction. Finally, the projected claims and reimbursements are discounted using risk-free rates. The Company runs several sets of assumptions regarding mortgage collateral performance, or scenarios, and probability weights them.

The Company's RMBS loss projection methodology assumes that the housing and mortgage markets will continue improving. Each period the Company makes a judgment as to whether to change the assumptions it uses to make RMBS loss projections based on its observation during the period of the performance of its insured transactions (including early stage delinquencies, late stage delinquencies and loss severity) as well as the residential property market and economy in general, and, to the extent it observes changes, it makes a judgment as whether those changes are normal fluctuations or part of a trend.

Year-End 2016 Compared to Year-End 2015 U.S. RMBS Loss Projections

Based on its observation during the period of the performance of its insured transactions (including early stage delinquencies, late stage delinquencies and loss severity) as well as the residential property market and economy in general, the Company chose to use the same general assumptions to project RMBS losses as of December 31, 2016 as it used as of December 31, 2015, except it (1) increased severities for specific vintages of Alt-A first lien, Option ARM and subprime transactions, (2) decreased liquidation rates for specific non-performing categories of subprime transactions and Option ARM and (3) increased liquidation rates for specific non-performing categories of second lien transactions. In 2016 the economic benefit was $46 million for first lien U.S. RMBS and $26 million for second lien U.S. RMBS.

Year-End 2015 Compared to Year-End 2014 U.S. RMBS Loss Projections

Based on its observation during the period of the performance of its insured transactions (including early stage delinquencies, late stage delinquencies and loss severity) as well as the residential property market and economy in general, the Company chose to use the same general assumptions to project RMBS losses as of December 31, 2015 as it used as of December 31, 2014, except that, for its first lien RMBS loss projections for 2015, it shortened by twelve months the period it is projecting it will take in the base case to reach the final CDR as compared with December 31, 2014. The methodology and revised assumptions the Company used to project first lien RMBS losses and the scenarios it employed are described in more detail below under " - U.S. First Lien RMBS Loss Projections: Alt A First Lien, Option ARM, Subprime and Prime", and the methodology and assumptions the Company uses to project second lien RMBS losses and the scenarios it employs are described in more detail below under " - U.S. Second Lien RMBS Loss Projections." In 2015 the economic benefit was $36 million for first lien U.S. RMBS and loss development was $37 million for second lien U.S. RMBS.

U.S. First Lien RMBS Loss Projections: Alt-A First Lien, Option ARM and Subprime

The majority of projected losses in first lien RMBS transactions are expected to come from non-performing mortgage loans (those that are or in the past twelve months have been two or more payments behind, have been modified, are in foreclosure, or have been foreclosed upon). Changes in the amount of non-performing loans from the amount projected in the previous period are one of the primary drivers of loss development in this portfolio. In order to determine the number of defaults resulting from these delinquent and foreclosed loans, the Company applies a liquidation rate assumption to loans in each of various non-performing categories. The Company arrived at its liquidation rates based on data purchased from a third party provider and assumptions about how delays in the foreclosure process and loan modifications may ultimately affect the rate at which loans are liquidated. Each quarter the Company reviews the most recent twelve months of this data and (if necessary) adjusts its liquidation rates based on its observations. The following table shows liquidation assumptions for various non-performing categories.

First Lien Liquidation Rates

	December 31, 2016	December 31, 2015
Current Loans Modified in the Previous 12 Months		
Alt-A	25%	25%
Option ARM	25	25
Subprime	25	25
Current Loans Delinquent in the Previous 12 Months		
Alt-A	25	25
Option ARM	25	25
Subprime	25	25
30 - 59 Days Delinquent		
Alt-A	35	35
Option ARM	35	40
Subprime	40	45
60 - 89 Days Delinquent		
Alt-A	45	45
Option ARM	50	50
Subprime	50	55
90 + Days Delinquent		
Alt-A	55	55
Option ARM	55	60
Subprime	55	60
Bankruptcy		
Alt-A	45	45
Option ARM	50	50
Subprime	40	40
Foreclosure		
Alt-A	65	65
Option ARM	65	70
Subprime	65	70
Real Estate Owned		
All	100	100

While the Company uses liquidation rates as described above to project defaults of non-performing loans (including current loans modified or delinquent within the last 12 months), it projects defaults on presently current loans by applying a CDR trend. The start of that CDR trend is based on the defaults the Company projects will emerge from currently nonperforming, recently nonperforming and modified loans. The total amount of expected defaults from the non-performing loans is translated into a constant CDR (*i.e.*, the CDR plateau), which, if applied for each of the next 36 months, would be sufficient to produce approximately the amount of defaults that were calculated to emerge from the various delinquency categories. The CDR thus calculated individually on the delinquent collateral pool for each RMBS is then used as the starting point for the CDR curve used to project defaults of the presently performing loans.

In the base case, after the initial 36-month CDR plateau period, each transaction's CDR is projected to improve over 12 months to an intermediate CDR (calculated as 20% of its CDR plateau); that intermediate CDR is held constant for 36 months and then trails off in steps to a final CDR of 5% of the CDR plateau. In the base case, the Company assumes the final CDR will be reached 6.5 years after the initial 36-month CDR plateau period. Under the Company's methodology, defaults projected to occur in the first 36 months represent defaults that can be attributed to loans that were modified or delinquent in the last 12 months or that are currently delinquent or in foreclosure, while the defaults projected to occur using the projected CDR trend after the first 36 month period represent defaults attributable to borrowers that are currently performing or are projected to reperform.

Another important driver of loss projections is loss severity, which is the amount of loss the transaction incurs on a loan after the application of net proceeds from the disposal of the underlying property. Loss severities experienced in first lien transactions have reached historically high levels, and the Company is assuming in the base case that these high levels generally will continue for another 18 months. The Company determines its initial loss severity based on actual recent experience. As a result the Company updated severities for specific asset classes and vintages based on observed data, as shown in the tables below. The Company then assumes that loss severities begin returning to levels consistent with underwriting assumptions beginning after the initial 18 month period, declining to 40% in the base case over 2.5 years.

The following table shows the range as well as the average, weighted by outstanding net insured par, for key assumptions used in the calculation of expected loss to be paid for individual transactions for direct vintage 2004 - 2008 first lien U.S. RMBS.

Key Assumptions in Base Case Expected Loss Estimates
First Lien RMBS(1)

	As of December 31, 2016		As of December 31, 2015	
	Range	Weighted Average	Range	Weighted Average
Alt-A First Lien				
Plateau CDR	3.9% - 10.5%	6.1%	4.0% - 12.0%	7.7%
Final CDR	0.2% - 0.5%	0.3%	0.2% - 0.6%	0.4%
Initial loss severity:				
2005 and prior	60.0%		60.0%	
2006	80.0%		70.0%	
2007	70.0%		65.0%	
Option ARM				
Plateau CDR	3.2% - 7.0%	5.7%	3.5% - 10.3%	7.9%
Final CDR	0.2% - 0.3%	0.3%	0.2% - 0.5%	0.4%
Initial loss severity:				
2005 and prior	60.0%		60.0%	
2006	70.0%		70.0%	
2007	75.0%		65.0%	
Subprime				
Plateau CDR	4.3% - 10.1%	8.1%	5.4% - 13.2%	9.7%
Final CDR	0.2% - 0.5%	0.4%	0.3% - 0.7%	0.5%
Initial loss severity:				
2005 and prior	80.0%		75.0%	
2006	90.0%		90.0%	
2007	90.0%		90.0%	

(1) Represents variables for most heavily weighted scenario (the base case).

The rate at which the principal amount of loans is voluntarily prepaid may impact both the amount of losses projected (since that amount is a function of the CDR, the loss severity and the loan balance over time) as well as the amount of excess spread (the amount by which the interest paid by the borrowers on the underlying loan exceeds the amount of interest owed on the insured obligations). The assumption for the voluntary conditional prepayment rate (CPR) follows a similar pattern to that of the CDR. The current level of voluntary prepayments is assumed to continue for the plateau period before gradually increasing over 12 months to the final CPR, which is assumed to be 15% in the base case. For transactions where the initial CPR is higher than the final CPR, the initial CPR is held constant and the final CPR is not used. These CPR assumptions are the same as those the Company used for December 31, 2015.

In estimating expected losses, the Company modeled and probability weighted sensitivities for first lien transactions by varying its assumptions of how fast a recovery is expected to occur. One of the variables used to model sensitivities was how quickly the CDR returned to its modeled equilibrium, which was defined as 5% of the initial CDR. The Company also stressed CPR and the speed of recovery of loss severity rates. The Company probability weighted a total of five scenarios as of December 31, 2016. The Company used a similar approach to establish its pessimistic and optimistic scenarios as of December 31, 2016 as it used as of December 31, 2015, increasing and decreasing the periods of stress from those used in the base case.

In the Company's most stressful scenario where loss severities were assumed to rise and then recover over nine years and the initial ramp-down of the CDR was assumed to occur over 15 months and other assumptions were the same as the other stress scenario, expected loss to be paid would increase from current projections by approximately $8 million for Alt-A first liens, $4 million for Option ARM and $27 million for subprime transactions.

In the Company's least stressful scenario where the CDR plateau was six months shorter (30 months, effectively assuming that liquidation rates would improve) and the CDR recovery was more pronounced, (including an initial ramp-down of the CDR over nine months), expected loss to be paid would decrease from current projections by approximately $10 million for Alt-A first liens, $18 million for Option ARM and $22 million for subprime transactions.

U.S. Second Lien RMBS Loss Projections

Second lien RMBS transactions include both home equity lines of credit (HELOC) and closed end second lien. The Company believes the primary variable affecting its expected losses in second lien RMBS transactions is the amount and timing of future losses in the collateral pool supporting the transactions. Expected losses are also a function of the structure of the transaction; the voluntary prepayment rate (typically also referred to as CPR of the collateral); the interest rate environment; and assumptions about the draw rate and loss severity.

In second lien transactions the projection of near-term defaults from currently delinquent loans is relatively straightforward because loans in second lien transactions are generally “charged off” (treated as defaulted) by the securitization’s servicer once the loan is 180 days past due. The Company estimates the amount of loans that will default over the next six months by calculating current representative liquidation rates. A liquidation rate is the percent of loans in a given cohort (in this instance, delinquency category) that ultimately default. Similar to first liens, the Company then calculates a CDR for six months, which is the period over which the currently delinquent collateral is expected to be liquidated. That CDR is then used as the basis for the CDR plateau period that follows the embedded five months of losses.

For the base case scenario, the CDR (the plateau CDR) was held constant for six months. Once the plateau period has ended, the CDR is assumed to gradually trend down in uniform increments to its final long-term steady state CDR. (The long-term steady state CDR is calculated as the constant CDR that would have yielded the amount of losses originally expected at underwriting.) In the base case scenario, the time over which the CDR trends down to its final CDR is 28 months. Therefore, the total stress period for second lien transactions is 34 months, comprising six months of delinquent data, and 28 months of decrease to the steady state CDR, the same as of December 31, 2015.

HELOC loans generally permit the borrower to pay only interest for an initial period (often ten years) and, after that period, require the borrower to make both the monthly interest payment and a monthly principal payment, and so increase the borrower's aggregate monthly payment. Some of the HELOC loans underlying the Company's insured HELOC transactions have reached their principal amortization period. The Company has observed that the increase in monthly payments occurring when a loan reaches its principal amortization period, even if mitigated by borrower relief offered by the servicer, is associated with increased borrower defaults. Thus, most of the Company's HELOC projections incorporate an assumption that a percentage of loans reaching their amortization periods will default around the time of the payment increase. These projected defaults are in addition to those generated using the CDR curve as described above. This assumption is similar to the one used as of December 31, 2015.

When a second lien loan defaults, there is generally a very low recovery. The Company assumed as of December 31, 2016 that it will generally recover only 2% of the collateral defaulting in the future and declining additional amounts of post-default receipts on previously defaulted collateral. This is the same assumption used as of December 31, 2015.

The rate at which the principal amount of loans is prepaid may impact both the amount of losses projected as well as the amount of excess spread. In the base case, an average CPR (based on experience of the past year) is assumed to continue until the end of the plateau before gradually increasing to the final CPR over the same period the CDR decreases. The final CPR is assumed to be 15% for second lien transactions, which is lower than the historical average but reflects the Company’s

continued uncertainty about the projected performance of the borrowers in these transactions. For transactions where the initial CPR is higher than the final CPR, the initial CPR is held constant and the final CPR is not used. This pattern is generally consistent with how the Company modeled the CPR as of December 31, 2015. To the extent that prepayments differ from projected levels it could materially change the Company's projected excess spread and losses.

The Company uses a number of other variables in its second lien loss projections, including the spread between relevant interest rate indices. These variables have been relatively stable and in the relevant ranges have less impact on the projection results than the variables discussed above. However, in a number of HELOC transactions the servicers have been modifying poorly performing loans from floating to fixed rates, and, as a result, rising interest rates would negatively impact the excess spread available from these modified loans to support the transactions. The Company incorporated these modifications in its assumptions.

In estimating expected losses, the Company modeled and probability weighted five possible CDR curves applicable to the period preceding the return to the long-term steady state CDR. The Company used five scenarios at December 31, 2016 and December 31, 2015. The Company believes that the level of the elevated CDR and the length of time it will persist, the ultimate prepayment rate, and the amount of additional defaults because of the expiry of the interest only period, are the primary drivers behind the likely amount of losses the collateral will suffer. The Company continues to evaluate the assumptions affecting its modeling results.

The Company believes the most important driver of its projected second lien RMBS losses is the performance of its HELOC transactions. The following table shows the range as well as the average, weighted by outstanding net insured par, for key assumptions for the calculation of expected loss to be paid for individual transactions for direct vintage 2004 - 2008 HELOCs.

Key Assumptions in Base Case Expected Loss Estimates
HELOCs(1)

	As of December 31, 2016		As of December 31, 2015	
	Range	**Weighted Average**	**Range**	**Weighted Average**
Plateau CDR	3.5% - 22.4%	13.5%	4.9% - 23.5%	11.0%
Final CDR trended down to	0.6% - 3.2%	1.2%	0.6% - 3.2%	1.2%
Liquidation rates:				
Current Loans Modified in the Previous 12 Months	25%		25%	
Current Loans Delinquent in the Previous 12 Months	25		25	
30 - 59 Days Delinquent	50		50	
60 - 89 Days Delinquent	65		65	
90+ Days Delinquent	80		75	
Bankruptcy	55		55	
Foreclosure	75		75	
Real Estate Owned	100		100	
Loss severity	98%		98%	

(1) Represents variables for most heavily weighted scenario (the base case).

The Company's base case assumed a six month CDR plateau and a 28 month ramp-down (for a total stress period of 34 months). The Company also modeled a scenario with a longer period of elevated defaults and another with a shorter period of elevated defaults. Increasing the CDR plateau to eight months and increasing the ramp-down by three months to 31-months (for a total stress period of 39 months), and doubling the defaults relating to the end of the interest only period would increase the expected loss by approximately $26 million for HELOC transactions. On the other hand, reducing the CDR plateau to four months and decreasing the length of the CDR ramp-down to 25 months (for a total stress period of 29 months), and lowering the ultimate prepayment rate to 10% would decrease the expected loss by approximately $17 million for HELOC transactions.

Breaches of Representations and Warranties

The Company entered into agreements with R&W providers under which those providers made payments to the Company, agreed to make payments to the Company in the future, and / or repurchased loans from the transactions, all in return for releases of related liability by the Company. As of December 31, 2016, the Company had two such agreements remaining. Under the Company's agreement with Bank of America Corporation and certain of its subsidiaries (Bank of America), Bank of America agreed to reimburse the Company for 80% of claims on the first lien transactions covered by the agreement that the Company pays in the future, subject to a cap the Company currently projects it will not reach. Under the Company's agreement with UBS Real Estate Securities Inc. and affiliates (UBS), UBS agreed to reimburse the Company for 85% of future losses on three first lien RMBS transactions. Bank of America and UBS have posted collateral to secure their obligations under these agreements. The Company also had an R&W reimbursement agreement with Deutsche Bank AG and certain of its affiliates (collectively, Deutsche Bank), but Deutsche Bank's reimbursement obligations under that agreement were terminated in May 2016 in return for a cash payment to the Company. The Company uses the same RMBS projection scenarios and weightings to project its future R&W benefit or payable as it uses to project RMBS losses on its portfolio.

As of December 31, 2016 the Company had a net R&W payable of $41 million to R&W counterparties, compared to an R&W recoverable of $62 million as of December 31, 2015. The decrease represents improvements in underlying collateral performance and the termination of the Deutsche Bank agreement described above. The Company's agreements with providers of R&W generally provide for reimbursement to the Company as claim payments are made and, to the extent the Company later receives reimbursements of such claims from excess spread or other sources, for the Company to provide reimbursement to the R&W providers. When the Company projects receiving more reimbursements in the future than it projects to pay in claims on transactions covered by R&W settlement agreements, the Company will have a net R&W payable.

Other structured finance

The Company's other structured finance includes $256 million net par rated BIG, including transactions backed by pooled corporate obligations and manufactured housing loans. The economic benefit during 2016 was $6 million, which was attributable primarily to improved performance of various credits.

Recovery Litigation

On January 7, 2016, AGM, AGC and Ambac Assurance Corporation (Ambac) commenced an action for declaratory judgment and injunctive relief in the U.S. District Court for the District of Puerto Rico to invalidate the executive orders issued by the Governor on November 30, 2015 and December 8, 2015 directing that the Secretary of the Treasury of the Commonwealth of Puerto Rico and the Puerto Rico Tourism Company retain or transfer (in other words, claw back) certain taxes and revenues pledged to secure the payment of bonds issued by the PRHTA, the PRCCDA and the PRIFA. The Commonwealth defendants filed a motion to dismiss the action for lack of subject matter jurisdiction, which the Court denied on October 4, 2016. On October 14, 2016, the Commonwealth defendants filed a notice of PROMESA automatic stay.

On July 21, 2016, AGC and AGM filed a motion and form of complaint in the U.S. District Court for the District of Puerto Rico seeking relief from the stay provided by PROMESA. Upon a grant of relief from the PROMESA stay, the lawsuit further seeks a declaration that the Moratorium Act is preempted by Federal bankruptcy law and that certain gubernatorial executive orders diverting PRHTA pledged toll revenues (which are not subject to the Clawback) are preempted by PROMESA and violate the U.S. Constitution. Additionally, it seeks damages for the value of the PRHTA toll revenues diverted and injunctive relief prohibiting the defendants from taking any further action under these executive orders. On October 28, 2016, the Oversight Board filed a motion seeking leave to intervene in the action, which motion was denied on November 1, 2016, without prejudice, on procedural grounds. On November 2, 2016, the Court denied AGC's and AGM's motion for relief from the PROMESA stay on procedural grounds. The PROMESA stay expires on May 1, 2017.

For a discussion of the Company's exposure to Puerto Rico related to the litigation described above, please see Note 3, Outstanding Exposure.

5. Contracts Accounted for as Insurance

Financial Guaranty Insurance Premiums

The portfolio of outstanding exposures discussed in Note 3, Outstanding Exposure, includes financial guaranty contracts that meet the definition of insurance contracts as well as those that meet the definition of a derivative under GAAP, and those that are accounted for as consolidated FG VIEs. Amounts presented in this note relate to financial guaranty insurance contracts, unless otherwise noted. See Note 7, Contracts Accounted for as Credit Derivatives for amounts that relate to CDS and Note 8, Consolidated Variable Interest Entities for amounts that relate to FG VIEs.

Accounting Policies

Accounting for financial guaranty contracts that meet the scope exception under derivative accounting guidance are subject to industry specific guidance for financial guaranty insurance. The accounting for contracts that fall under the financial guaranty insurance definition are consistent whether the contract was written on a direct basis, assumed from another financial guarantor under a reinsurance treaty, ceded to another insurer under a reinsurance treaty, or acquired in a business combination.

Premiums receivable comprise the present value of contractual or expected future premium collections discounted using the risk-free rate. Unearned premium reserve represents deferred premium revenue, less claim payments made and recoveries received that have not yet been recognized in the statement of operations (contra-paid). The following discussion relates to the deferred premium revenue component of the unearned premium reserve, while the contra-paid is discussed below under "Financial Guaranty Insurance Losses."

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

- For premiums received upfront on financial guaranty insurance contracts that were originally underwritten by the Company, deferred premium revenue is equal to the amount of cash received. Upfront premiums typically relate to public finance transactions.

- For premiums received in installments on financial guaranty insurance contracts that were originally underwritten by the Company, deferred premium revenue is the present value of either (1) contractual premiums due or (2) in cases where the underlying collateral is comprised of homogeneous pools of assets, the expected premiums to be collected over the life of the contract. To be considered a homogeneous pool of assets, prepayments must be contractually prepayable, the amount of prepayments must be probable, and the timing and amount of prepayments must be reasonably estimable. When the Company adjusts prepayment assumptions or expected premium collections, an adjustment is recorded to the deferred premium revenue, with a corresponding adjustment to the premium receivable, and prospective changes are recognized in premium revenues. Premiums receivable are discounted at the risk-free rate at inception and such discount rate is updated only when changes to prepayment assumptions are made that change the expected date of final maturity. Installment premiums typically relate to structured finance transactions, where the insurance premium rate is determined at the inception of the contract but the insured par is subject to prepayment throughout the life of the transaction.

- For financial guaranty insurance contracts subject to push-down acounting, deferred premium revenue is equal to the fair value of the Company's stand-ready obligation portion of the insurance contract at the date of acquisition based on what a hypothetical similarly rated financial guaranty insurer would have charged for the contract at that date and not the actual cash flows under the insurance contract. The amount of deferred premium revenue may differ significantly from cash collections due primarily to fair value adjustments recorded in connection with a business combination.

The Company recognizes deferred premium revenue as earned premium over the contractual period or expected period of the contract in proportion to the amount of insurance protection provided. As premium revenue is recognized, a corresponding decrease to the deferred premium revenue is recorded. The amount of insurance protection provided is a function of the insured principal amount outstanding. Accordingly, the proportionate share of premium revenue recognized in a given reporting period is a constant rate calculated based on the relationship between the insured principal amounts outstanding in the reporting period compared with the sum of each of the insured principal amounts outstanding for all periods. When an insured financial obligation is retired before its maturity, the financial guaranty insurance contract is extinguished. Any nonrefundable deferred premium revenue related to that contract is accelerated and recognized as premium revenue. When a premium receivable balance is deemed uncollectible, it is written off to bad debt expense.

Deferred premium revenue ceded to reinsurers (ceded unearned premium reserve) is recorded as an asset. Direct, assumed and ceded earned premium revenue are presented together as net earned premiums in the statement of operations. Net earned premiums comprise the following:

Net Earned Premiums

	Year Ended December 31, 2016	Year Ended December 31, 2015
	(in millions)	
Scheduled net earned premiums	$ 204	$ 243
Accelerations:		
Refundings	170	122
Terminations	64	29
Total Accelerations	234	151
Accretion of discount on net premiums receivable	7	10
Net earned premiums (1)	$ 445	$ 404

(1) Excludes $16 million and $19 million for the year ended December 31, 2016 and 2015, respectively, related to consolidated FG VIEs.

Components of Unearned Premium Reserve

	As of December 31, 2016			As of December 31, 2015		
	Gross	Ceded	Net(1)	Gross	Ceded	Net(1)
			(in millions)			
Deferred premium revenue	$ 2,514	$ 789	$ 1,725	$ 2,943	$ 853	$ 2,090
Contra-paid(2)	(27)	(1)	(26)	(10)	(8)	(2)
Unearned premium reserve	$ 2,487	$ 788	$ 1,699	$ 2,933	$ 845	$ 2,088

(1) Excludes $82 million and $97 million of deferred premium revenue, and $25 million and $30 million of contra-paid related to FG VIEs as of December 31, 2016 and December 31, 2015, respectively.

(2) See "Financial Guaranty Insurance Losses - Insurance Contracts' Loss Information" below for an explanation of "contra-paid".

Gross Premium Receivable
Roll Forward

	Year Ended December 31,	
	2016	2015
	(in millions)	
Beginning of period, December 31	$ 425	$ 450
Gross written premiums	189	169
Gross premiums received	(223)	(171)
Adjustments:		
Changes in the expected term	(29)	(7)
Accretion of discount	4	13
Foreign exchange translation	(40)	(25)
Consolidation/deconsolidation of FG VIEs	—	(4)
End of period, December 31(1)	$ 326	$ 425

(1) Excludes $4 million and $5 million as of December 31, 2016 and 2015, respectively, related to consolidated FG VIEs.

Foreign exchange translation relates to installment premiums receivable denominated in currencies other than the U.S. dollar. Approximately 85% and 82% of installment premiums at December 31, 2016 and 2015, respectively, are denominated in currencies other than the U.S. dollar, primarily the euro and pound sterling.

The timing and cumulative amount of actual collections may differ from expected collections in the tables below due to factors such as foreign exchange rate fluctuations, counterparty collectability issues, accelerations, commutations and changes in expected lives.

Expected Collections of
Financial Guaranty Insurance Gross Premiums Receivable
(Undiscounted)

	As of December 31, 2016
	(in millions)
2017 (January 1 – March 31)	$ 15
2017 (April 1 – June 30)	14
2017 (July 1 – September 30)	8
2017 (October 1 – December 31)	8
2018	32
2019	28
2020	26
2021	26
2022-2026	99
2027-2031	73
2032-2036	49
After 2036	46
Total (1)	$ 424

(1) Excludes expected cash collections on FG VIEs of $5 million.

Scheduled Financial Guaranty Insurance Net Earned Premiums

	As of December 31, 2016
	(in millions)
2017 (January 1 – March 31)	$ 45
2017 (April 1 – June 30)	44
2017 (July 1 – September 30)	43
2017 (October 1 – December 31)	41
Subtotal 2017	173
2018	158
2019	138
2020	125
2021	113
2022-2026	435
2027-2031	275
2032-2036	163
After 2036	145
Net deferred premium revenue(1)	1,725
Future accretion	65
Total future net earned premiums	$ 1,790

(1) Excludes scheduled net earned premiums on consolidated FG VIEs of $82 million.

Selected Information for Financial Guaranty Insurance Policies Paid in Installments

	As of December 31, 2016	As of December 31, 2015
	(dollars in millions)	
Premiums receivable	$ 326	$ 425
Gross deferred premium revenue	750	966
Weighted-average risk-free rate used to discount premiums	3.1%	3.2%
Weighted-average period of premiums receivable (in years)	9.8	10.0

Financial Guaranty Insurance Acquisition Costs

Accounting Policy

Policy acquisition costs that are directly related and essential to successful insurance contract acquisition and ceding commission income on ceded reinsurance contracts are deferred for contracts accounted for as insurance and reported net. Amortization of deferred ceding commissions includes the accretion of discount on ceding commission income and expense.

Capitalized policy acquisition costs include expenses such as the cost of underwriting personnel attributable to successful underwriting efforts. Ceding commission expense on assumed reinsurance contracts and ceding commission income on ceded reinsurance contracts that are associated with premiums received in installments are calculated at their contractually defined commission rates, discounted consistent with premiums receivable for all future periods, and included in deferred acquisition costs (DAC), with a corresponding offset to net premiums receivable or reinsurance balances payable. Management uses its judgment in determining the type and amount of costs to be deferred. The Company conducts an annual study to determine which operating costs qualify for deferral. Costs incurred for soliciting potential customers, market research,

training, administration, unsuccessful acquisition efforts, and product development as well as all overhead type costs are charged to expense as incurred. DAC, net of deferred ceding commission income, is amortized in proportion to net earned premiums. When an insured obligation is retired early, the remaining related DAC, net of ceding commission income is recognized at that time.

Rollforward of
Deferred Ceding Commissions,
Net of DAC(1)

	Year Ended December 31,	
	2016	2015
	(in millions)	
Beginning of period	$ (75)	$ (78)
Costs deferred during the period:		
Commissions on ceded business	(21)	(19)
Premium taxes	4	1
Compensation and other acquisition costs	6	8
Total	(11)	(10)
Costs amortized during the period	13	13
End of period	$ (73)	$ (75)

(1) The balances are included in other liabilities on the consolidated balance sheets.

Financial Guaranty Insurance Losses

Accounting Policies

Loss and LAE Reserve

Loss and LAE reserve reported on the balance sheet relates only to direct and assumed reinsurance contracts that are accounted for as insurance, substantially all of which are financial guaranty insurance contracts. The corresponding reserve ceded to reinsurers is reported as reinsurance recoverable on unpaid losses. As discussed in Note 6, Fair Value Measurement, contracts that meet the definition of a derivative, as well as consolidated FG VIE assets and liabilities, are recorded separately at fair value. Any expected losses related to consolidated FG VIEs are eliminated upon consolidation. Any expected losses on credit derivatives are not recorded as loss and LAE reserve on the consolidated balance sheet rather, credit derivatives are recorded at fair value on the balance sheet.

Under financial guaranty insurance accounting, the sum of unearned premium reserve and loss and LAE reserve represents the Company's stand-ready obligation. Unearned premium reserve is deferred premium revenue, less claim payments and recoveries received that have not yet been recognized in the statement of operations (contra-paid). At contract inception, the entire stand-ready obligation is represented by unearned premium reserve. A loss and LAE reserve for an insurance contract is recorded only to the extent, and for the amount, that expected loss to be paid net of contra-paid ("total losses") exceed the deferred premium revenue, on a contract by contract basis. As a result, the Company has expected loss to be paid that has not yet been expensed. Such amounts will be recognized in future periods as deferred premium revenue amortizes into income.

When a claim or LAE payment is made on a contract, it first reduces any recorded loss and LAE reserve. To the extent there is no loss and LAE reserve on a contract, then such claim payment is recorded as “contra-paid,” which reduces the unearned premium reserve. The contra-paid is recognized in the line item “loss and LAE” in the consolidated statement of operations when and for the amount that total losses exceed the remaining deferred premium revenue on the insurance contract. Loss and LAE in the consolidated statement of operations is presented net of cessions to reinsurers.

Salvage and Subrogation Recoverable

When the Company becomes entitled to the cash flow from the underlying collateral of an insured credit under salvage and subrogation rights as a result of a claim payment or estimated future claim payment, it reduces the expected loss to be paid on the contract. Such reduction in expected loss to be paid can result in one of the following:

- a reduction in the corresponding loss and LAE reserve with a benefit to the income statement,
- no entry recorded, if "total loss" is not in excess of deferred premium revenue, or
- the recording of a salvage asset with a benefit to the income statement if the transaction is in a net recovery position at the reporting date.

The Company recognizes the expected recovery of claim payments (including recoveries from settlement with R&W providers) made by the Company prior to the date of its acquisition by AGL consistent with its policy for recognizing recoveries on all financial guaranty insurance contracts. To the extent that the estimated amount of recoveries increases or decreases, due to changes in facts and circumstances, the Company would recognize a benefit or expense consistent with how changes in the expected recovery of all other claim payments are recorded. The ceded component of salvage and subrogation recoverable is recorded in the line item reinsurance balances payable.

Expected Loss to be Expensed

Expected loss to be expensed represents past or expected future net claim payments that have not yet been expensed. Such amounts will be expensed in future periods as deferred premium revenue amortizes into income on financial guaranty insurance policies. Expected loss to be expensed is the Company's projection of incurred losses that will be recognized in future periods, excluding accretion of discount.

Insurance Contracts' Loss Information

The following table provides information on loss and LAE reserves and salvage and subrogation recoverable, net of reinsurance. The Company used risk-free rates for U.S. dollar denominated financial guaranty insurance obligations that ranged from 0.0% to 3.23% with a weighted average of 2.69% as of December 31, 2016 and 0.0% to 3.25% with a weighted average of 2.21% as of December 31, 2015.

Loss and LAE Reserve
and Salvage and Subrogation Recoverable
Net of Reinsurance
Insurance Contracts

	As of December 31, 2016			As of December 31, 2015		
	Loss and LAE Reserve, net	Salvage and Subrogation Recoverable, net	Net Reserve (Recoverable)	Loss and LAE Reserve, net	Salvage and Subrogation Recoverable, net	Net Reserve (Recoverable)
			(in millions)			
Public finance:						
U.S. public finance	$ 307	$ 18	$ 289	$ 178	$ 0	$ 178
Non-U.S. public finance	13	—	$ 13	15	—	15
Public finance	320	18	302	193	—	193
Structured finance:						
U.S. RMBS	216	197	19	194	102	92
Other structured finance	13	—	13	19	1	18
Structured finance	229	197	32	213	103	110
Subtotal	549	215	334	406	103	303
Elimination of losses attributable to FG VIEs	(55)	—	(55)	(72)	0	(72)
Total (1)	$ 494	$ 215	$ 279	$ 334	$ 103	$ 231

(1) See “Components of Net Reserves (Salvage)” table for loss and LAE reserve and salvage and subrogation recoverable components.

Components of Net Reserves (Salvage)

	As of December 31, 2016	As of December 31, 2015
	(in millions)	
Loss and LAE reserve	$ 686	$ 488
Reinsurance recoverable on unpaid losses	(192)	(154)
Loss and LAE reserve, net	494	334
Salvage and subrogation recoverable	(249)	(109)
Salvage and subrogation payable(1)	34	6
Salvage and subrogation recoverable, net	(215)	(103)
Net reserves (salvage)	$ 279	$ 231

(1) Recorded as a component of reinsurance balances payable.

The table below provides a reconciliation of net expected loss to be paid to net expected loss to be expensed. Expected loss to be paid differs from expected loss to be expensed due to: (i) the contra-paid which represent the claim payments made and recoveries received that have not yet been recognized in the statement of operations, (ii) salvage and subrogation recoverable for transactions that are in a net recovery position where the Company has not yet received recoveries on claims previously paid (having the effect of reducing net expected loss to be paid by the amount of the previously paid claim and the expected recovery), but will have no future income effect (because the previously paid claims and the corresponding recovery of those claims will offset in income in future periods), and (iii) loss reserves that have already been established (and therefore expensed but not yet paid).

Reconciliation of Net Expected Loss to be Paid and Net Expected Loss to be Expensed Financial Guaranty Insurance Contracts

	As of December 31, 2016
	(in millions)
Net expected loss to be paid - financial guaranty insurance (1)	420
Contra-paid, net	26
Salvage and subrogation recoverable, net of reinsurance	215
Loss and LAE reserve, net of reinsurance	(494)
Net expected loss to be expensed (present value)(2)	$ 167

(1) See "Net Expected Loss to be Paid (Recovered) by Accounting Model" table in Note 4, Expected Loss to be Paid.

(2) Excludes $60 million as of December 31, 2016 related to consolidated FG VIEs.

The following table provides a schedule of the expected timing of net expected losses to be expensed. The amount and timing of actual loss and LAE may differ from the estimates shown below due to factors such as accelerations, commutations, changes in expected lives and updates to loss estimates. This table excludes amounts related to FG VIEs, which are eliminated in consolidation.

Net Expected Loss to be Expensed
Financial Guaranty Insurance Contracts

	As of December 31, 2016
	(in millions)
2017 (January 1 – March 31)	$ 5
2017 (April 1 – June 30)	5
2017 (July 1 – September 30)	5
2017 (October 1 – December 31)	5
Subtotal 2017	20
2018	18
2019	17
2020	16
2021	14
2022-2026	44
2027-2031	22
2032-2036	12
After 2036	4
Net expected loss to be expensed	167
Future accretion	149
Total expected future loss and LAE	$ 316

The following table presents the loss and LAE recorded in the consolidated statements of operations by sector for insurance contracts. Amounts presented are net of reinsurance.

Loss and LAE
Reported on the
Consolidated Statements of Operations

	Year Ended December 31,	
	2016	2015
	(in millions)	
Public finance:		
U.S. public finance	$ 191	$ 78
Non-U.S. public finance	(2)	0
Public finance	189	78
Structured finance:		
U.S. RMBS	23	59
Other structured finance	(4)	0
Structured finance	19	59
Loss and LAE on insurance contracts before FG VIE consolidation	208	137
Gain (loss) related to FG VIE consolidation	(8)	(27)
Loss and LAE	$ 200	$ 110

The following table provides information on financial guaranty insurance contracts categorized as BIG.

Financial Guaranty Insurance
BIG Transaction Loss Summary
As of December 31, 2016

	BIG Categories								
	BIG 1		BIG 2		BIG 3				
	Gross	Ceded	Gross	Ceded	Gross	Ceded	Total BIG, Net	Effect of Consolidating VIEs	Total
	(dollars in millions)								
Number of risks(1)	56	(48)	12	(12)	49	(49)	117	—	117
Remaining weighted-average contract period (in years)	8.1	7.4	10.9	9.3	8.2	9.8	8.9	—	8.9
Outstanding exposure:									
Principal	$ 2,838	$ (928)	$ 2,192	$ (807)	$ 3,440	$ (873)	$ 5,862	$ —	$ 5,862
Interest	1,274	(379)	1,225	(382)	1,460	(436)	2,762	—	2,762
Total(2)	$ 4,112	$ (1,307)	$ 3,417	$ (1,189)	$ 4,900	$ (1,309)	$ 8,624	$ —	$ 8,624
Expected cash outflows (inflows)	$ 106	$ (38)	$ 770	$ (181)	$ 1,055	$ (178)	$ 1,534	$ (274)	$ 1,260
Potential recoveries									
Undiscounted R&W	120	(4)	—	—	(38)	2	80	—	80
Other(3)	(406)	45	(111)	8	(595)	124	(935)	164	(771)
Total potential recoveries	(286)	41	(111)	8	(633)	126	(855)	164	(691)
Subtotal	(180)	3	659	(173)	422	(52)	679	(110)	569
Discount	34	(7)	(175)	35	(44)	(12)	(169)	20	(149)
Present value of expected cash flows	$ (146)	$ (4)	$ 484	$ (138)	$ 378	$ (64)	$ 510	$ (90)	$ 420
Deferred premium revenue	$ 45	$ (11)	$ 64	$ (11)	$ 297	$ (49)	$ 335	$ (82)	$ 253
Reserves (salvage)(4)	$ (170)	$ 5	$ 440	$ (128)	$ 222	$ (35)	$ 334	$ (55)	$ 279

Financial Guaranty Insurance
BIG Transaction Loss Summary
As of December 31, 2015

	BIG Categories								
	BIG 1		BIG 2		BIG 3		Total BIG, Net	Effect of Consolidating VIEs	Total
	Gross	Ceded	Gross	Ceded	Gross	Ceded			
	(dollars in millions)								
Number of risks(1)	59	(52)	14	(14)	43	(43)	116	—	116
Remaining weighted-average contract period (in years)	10.2	9.8	10.0	8.7	6.8	7.1	9.3	—	9.3
Outstanding exposure:									
Principal	$ 4,718	$ (1,763)	$ 1,923	$ (544)	$ 2,325	$ (325)	$ 6,334	$ —	$ 6,334
Interest	2,665	(952)	983	(234)	786	(101)	3,147	—	3,147
Total(2)	$ 7,383	$ (2,715)	$ 2,906	$ (778)	$ 3,111	$ (426)	$ 9,481	$ —	$ 9,481
Expected cash outflows (inflows)	$ 274	$ (84)	$ 531	$ (136)	$ 1,044	$ (115)	$ 1,514	$ (290)	$ 1,224
Potential recoveries									
Undiscounted R&W	72	(2)	(47)	3	(77)	7	(44)	—	(44)
Other(3)	(336)	19	(134)	16	(441)	71	(805)	146	(659)
Total potential recoveries	(264)	17	(181)	19	(518)	78	(849)	146	(703)
Subtotal	10	(67)	350	(117)	526	(37)	665	(144)	521
Discount	30	10	(62)	21	(98)	(8)	(107)	30	(77)
Present value of expected cash flows	$ 40	$ (57)	$ 288	$ (96)	$ 428	$ (45)	$ 558	$ (114)	$ 444
Deferred premium revenue	$ 168	$ (44)	$ 69	$ (8)	$ 343	$ (47)	$ 481	$ (95)	$ 386
Reserves (salvage)(4)	$ (13)	$ (37)	$ 240	$ (90)	$ 224	$ (21)	$ 303	$ (72)	$ 231

(1) A risk represents the aggregate of the financial guaranty policies that share the same revenue source for purposes of making debt service payments. The ceded number of risks represents the number of risks for which the Company ceded a portion of its exposure.

(2) Includes BIG amounts related to FG VIEs.

(3) Includes excess spread.

(4) See table "Components of net reserves (salvage)."

Ratings Impact on Financial Guaranty Business

A downgrade of the Company may result in increased claims under financial guaranties issued by the Company, if the insured obligors were unable to pay.

For example, AGM has issued financial guaranty insurance policies in respect of the obligations of municipal obligors under interest rate swaps. AGM insures periodic payments owed by the municipal obligors to the bank counterparties. In certain cases, AGM also insures termination payments that may be owed by the municipal obligors to the bank counterparties. If (i) AGM has been downgraded below the rating trigger set forth in a swap under which it has insured the termination payment, which rating trigger varies on a transaction by transaction basis; (ii) the municipal obligor has the right to cure by, but has failed in, posting collateral, replacing AGM or otherwise curing the downgrade of AGM; (iii) the transaction documents include as a condition that an event of default or termination event with respect to the municipal obligor has occurred, such as the rating of the municipal obligor being downgraded past a specified level, and such condition has been met; (iv) the bank counterparty has elected to terminate the swap; (v) a termination payment is payable by the municipal obligor; and (vi) the municipal obligor has failed to make the termination payment payable by it, then AGM would be required to pay the termination payment due by the municipal obligor, in an amount not to exceed the policy limit set forth in the financial

guaranty insurance policy. At AGM's current financial strength ratings, if the conditions giving rise to the obligation of AGM to make a termination payment under the swap termination policies were all satisfied, then AGM could pay claims in an amount not exceeding approximately $125 million in respect of such termination payments. Taking into consideration whether the rating of the municipal obligor is below any applicable specified trigger, if the financial strength ratings of AGM were further downgraded below "A" by S&P or below "A2" by Moody's, and the conditions giving rise to the obligation of AGM to make a payment under the swap policies were all satisfied, then AGM could pay claims in an additional amount not exceeding approximately $291 million in respect of such termination payments.

As another example, with respect to variable rate demand obligations (VRDOs) for which a bank has agreed to provide a liquidity facility, a downgrade of AGM may provide the bank with the right to give notice to bondholders that the bank will terminate the liquidity facility, causing the bondholders to tender their bonds to the bank. Bonds held by the bank accrue interest at a “bank bond rate” that is higher than the rate otherwise borne by the bond (typically the prime rate plus 2.00% - 3.00%, and capped at the lesser of 25% and the maximum legal limit). In the event the bank holds such bonds for longer than a specified period of time, usually 90-180 days, the bank has the right to demand accelerated repayment of bond principal, usually through payment of equal installments over a period of not less than five years. In the event that a municipal obligor is unable to pay interest accruing at the bank bond rate or to pay principal during the shortened amortization period, a claim could be submitted to AGM under its financial guaranty policy. As of December 31, 2016, the Company had insured approximately $4.0 billion net par of VRDOs, of which approximately $0.2 billion of net par constituted VRDOs issued by municipal obligors rated BBB- or lower pursuant to the Company’s internal rating. The specific terms relating to the rating levels that trigger the bank’s termination right, and whether it is triggered by a downgrade by one rating agency or a downgrade by all rating agencies then rating the insurer, vary depending on the transaction.

In addition, AGM may be required to pay claims in respect of AGMH’s former financial products business if Dexia SA and its affiliates, from which the Company had purchased AGMH and its subsidiaries, do not comply with their obligations following a downgrade of the financial strength rating of AGM. A downgrade of the financial strength rating of AGM could trigger a payment obligation of AGM in respect to AGMH's former guaranteed investment contracts (GIC) business. Most GICs insured by AGM allow for the termination of the GIC contract and a withdrawal of GIC funds at the option of the GIC holder in the event of a downgrade of AGM below a specified threshold, generally below A- by S&P or A3 by Moody's. FSA Asset Management LLC is expected to have sufficient eligible and liquid assets to satisfy any expected withdrawal and collateral posting obligations resulting from future rating actions affecting AGM.

6. Fair Value Measurement

The Company carries a significant portion of its assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., exit price). The price represents the price available in the principal market for the asset or liability. If there is no principal market, then the price is based on a hypothetical market that maximizes the value received for an asset or minimizes the amount paid for a liability (i.e., the most advantageous market).

Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on either internally developed models that primarily use, as inputs, market-based or independently sourced market parameters, including but not limited to yield curves, interest rates and debt prices or with the assistance of an independent third-party using a discounted cash flow approach and the third party’s proprietary pricing models. In addition to market information, models also incorporate transaction details, such as maturity of the instrument and contractual features designed to reduce the Company’s credit exposure, such as collateral rights as applicable.

Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, the Company’s creditworthiness and constraints on liquidity. As markets and products develop and the pricing for certain products becomes more or less transparent, the Company may refine its methodologies and assumptions. During 2016, no changes were made to the Company’s valuation models that had, or are expected to have, a material impact on the Company’s consolidated balance sheets or statements of operations and comprehensive income.

The Company’s methods for calculating fair value produce a fair value that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The 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 as follows, with Level 1 being the highest and Level 3 the lowest. An asset or liability's categorization is based on the lowest level of significant input to its valuation.

Level 1—Quoted prices for identical instruments in active markets. The Company generally defines an active market as a market in which trading occurs at significant volumes. Active markets generally are more liquid and have a lower bid-ask spread than an inactive market.

Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and observable inputs other than quoted prices, such as interest rates or yield curves and other inputs derived from or corroborated by observable market inputs.

Level 3—Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

Transfers between Levels 1, 2 and 3 are recognized at the end of the period when the transfer occurs. The Company reviews the classification between Levels 1, 2 and 3 quarterly to determine whether a transfer is necessary. During the periods presented, there were no transfers between Levels 1, 2 and 3.

Measured and Carried at Fair Value

Fixed-Maturity Securities and Short-Term Investments

The fair value of bonds in the investment portfolio is generally based on prices received from third party pricing services or alternative pricing sources with reasonable levels of price transparency. The pricing services prepare estimates of fair value measurements using their pricing models, which include available relevant market information, benchmark curves, benchmarking of like securities, 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. The market inputs used in the pricing evaluation include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data and industry and economic events. Benchmark yields have in many cases taken priority over reported trades for securities that trade less frequently or those that are distressed trades, and therefore may not be indicative of the market. The extent of the use of each input is dependent on the asset class and the market conditions. Given the asset class, the priority of the use of inputs may change or some market inputs may not be relevant. Additionally, the valuation of fixed-maturity investments is more subjective when markets are less liquid due to the lack of market based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction would occur.

Short-term investments that are traded in active markets are classified within Level 1 in the fair value hierarchy and their value is based on quoted market prices. Securities such as discount notes are classified within Level 2 because these securities are typically not actively traded due to their approaching maturity and, as such, their cost approximates fair value. Short-term securities that were obtained as part of loss mitigation efforts and whose prices were determined based on models, where at least one significant model assumption or input is unobservable, are considered to be Level 3 in the fair value hierarchy.

Annually, the Company reviews each pricing service's procedures, controls and models used in the valuations of the Company's investment portfolio, as well as the competency of the pricing service's key personnel. In addition, on a quarterly basis, the Company holds a meeting of the internal valuation committee (comprised of individuals within the Company with market, valuation, accounting, and/or finance experience) that reviews and approves prices and assumptions used by the pricing services.

For Level 1 and 2 securities, the Company, on a quarterly basis, reviews internally developed analytic packages that highlight, at a CUSIP level, price changes from the previous quarter to the current quarter. Where unexpected price movements are noted for a specific CUSIP, the Company formally challenges the price provided, and reviews all key inputs utilized in the third party's pricing model, and compares such information to management's own market information.

For Level 3 securities, the Company, on a quarterly basis:

- reviews methodologies, any model updates and inputs and compares such information to management's own market information and, where applicable, the internal models,

- reviews internally developed analytic packages that highlight, at a CUSIP level, price changes from the previous quarter to the current quarter, and evaluates, documents, and resolves any significant pricing differences with the assistance of the third party pricing source, and

- compares prices received from different third party pricing sources, and evaluates, documents the rationale for, and resolves any significant pricing differences.

As of December 31, 2016, the Company used models to price 28 fixed-maturity securities (primarily securities that were purchased or obtained for loss mitigation or other risk management purposes), which were 13% or $717 million of the Company's fixed-maturity securities and short-term investments at fair value. Most Level 3 securities were priced with the assistance of an independent third-party. The pricing is based on a discounted cash flow approach using the third-party's proprietary pricing models. The models use inputs such as projected prepayment speeds; severity assumptions; recovery lag assumptions; estimated default rates (determined on the basis of an analysis of collateral attributes, historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); home price 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 bond including collateral type, weighted average life, sensitivity to losses, vintage, and convexity, in conjunction with market data on comparable securities. Significant changes to any of these inputs could materially change the expected timing of cash flows within these securities which is a significant factor in determining the fair value of the securities.

Other Invested Assets

As of December 31, 2016 and December 31, 2015, other invested assets include investments carried and measured at fair value on a recurring basis of $49 million and $51 million, respectively, and include primarily an investment in the global property catastrophe risk market and an investment in a fund that invests primarily in senior loans and bonds. Fair values for the majority of these investments are based on their respective net asset value (NAV) per share or equivalent.

Other Assets

Committed Capital Securities (CCS)

The fair value of AGM Committed Preferred Trust Securities (the AGM CPS), which is recorded in "other assets" on the consolidated balance sheets, represents the difference between the present value of remaining expected put option premium payments under AGM CPS agreements, and the estimated present value that the Company would hypothetically have to pay currently for a comparable security (see Note 15, Notes Payable and Credit Facilities). The AGM CPS are carried at fair value with changes in fair value recorded in the consolidated statement of operations. The estimated current cost of the AGM CPS is based on several factors, including AGM CDS spreads, the U.S. dollar forward swap curve, London Interbank Offered Rate (LIBOR) curve projections, Assured Guaranty's publicly traded debt and the term the securities are estimated to remain outstanding.

Contracts Accounted for as Credit Derivatives

The Company's credit derivatives consist primarily of insured CDS contracts, and also include interest rate swaps that fall under derivative accounting standards requiring fair value accounting through the statement of operations. The following is a description of the fair value methodology applied to the Company's insured CDS that are accounted for as credit derivatives, which constitute the vast majority of the net credit derivative liability in the consolidated balance sheets. The Company did not enter into CDS with the intent to trade these contracts and the Company may not unilaterally terminate a CDS contract absent an event of default or termination event that entitles the Company to terminate such contracts; however, the Company has mutually agreed with various counterparties to terminate certain CDS transactions. Such terminations generally are done for an amount that approximates the present value of future premiums or for a negotiated amount; not at fair value.

The terms of the Company's CDS contracts differ from more standardized credit derivative contracts sold by companies outside the financial guaranty industry. The non-standard terms generally include the absence of collateral support agreements or immediate settlement provisions. In addition, the Company employs relatively high attachment points and does

not exit derivatives it sells or purchases for credit protection purposes, except under specific circumstances such as mutual agreements with counterparties. Management considers the non-standard terms of its credit derivative contracts in determining the fair value of these contracts.

Due to the lack of quoted prices and other observable inputs for its instruments or for similar instruments, the Company determines the fair value of its credit derivative contracts primarily through internally developed, proprietary models that use both observable and unobservable market data inputs to derive an estimate of the fair value of the Company's contracts in its principal markets (see "Assumptions and Inputs"). There is no established market where financial guaranty insured credit derivatives are actively traded; therefore, management has determined that the exit market for the Company’s credit derivatives is a hypothetical one based on its entry market. Management has tracked the historical pricing of the Company’s deals to establish historical price points in the hypothetical market that are used in the fair value calculation. These contracts are classified as Level 3 in the fair value hierarchy since there is reliance on at least one unobservable input deemed significant to the valuation model, most importantly the Company’s estimate of the value of the non-standard terms and conditions of its credit derivative contracts and of the Company’s current credit standing.

The Company’s models and the related assumptions are continuously reevaluated by management and enhanced, as appropriate, based upon improvements in modeling techniques and availability of more timely and relevant market information.

The fair value of the Company’s credit derivative contracts represents the difference between the present value of remaining premiums the Company expects to receive or pay and the estimated present value of premiums that a financial guarantor of comparable credit-worthiness would hypothetically charge or pay at the reporting date for the same protection. The fair value of the Company’s credit derivatives depends on a number of factors, including notional amount of the contract, expected term, credit spreads, changes in interest rates, the credit ratings of referenced entities, the Company’s own credit risk and remaining contractual cash flows. The expected remaining contractual premium cash flows are the most readily observable inputs since they are based on the CDS contractual terms. Credit spreads capture the effect of recovery rates and performance of underlying assets of these contracts, among other factors. Consistent with previous years, market conditions at December 31, 2016 were such that market prices of the Company’s CDS contracts were not available.

Management considers factors such as current prices charged for similar agreements, when available, performance of underlying assets, life of the instrument, and the nature and extent of activity in the financial guaranty credit derivative marketplace. The assumptions that management uses to determine the fair value may change in the future due to market conditions. Due to the inherent uncertainties of the assumptions used in the valuation models, actual experience may differ from the estimates reflected in the Company’s consolidated financial statements and the differences may be material.

Assumptions and Inputs

The various inputs and assumptions that are key to the establishment of the Company’s fair value for CDS contracts are as follows:

- Gross spread.
- The allocation of gross spread among:
    - the profit the originator, usually an investment bank, realizes for putting the deal together and funding the transaction (bank profit);
    - premiums paid to the Company for the Company’s credit protection provided (net spread); and
    - the cost of CDS protection purchased by the originator to hedge their counterparty credit risk exposure to the Company (hedge cost).
- The weighted average life which is based on debt service schedules.

The rates used to discount future expected premium cash flows ranged from 1.00% to 2.08% at December 31, 2016 and 0.54% to 2.38% at December 31, 2015.

The Company obtains gross spreads on its outstanding contracts from market data sources published by third parties (e.g., dealer spread tables for the collateral similar to assets within the Company’s transactions), as well as collateral-specific spreads provided by trustees or obtained from market sources. If observable market credit spreads are not available or reliable

for the underlying reference obligations, then market indices are used that most closely resemble the underlying reference obligations, considering asset class, credit quality rating and maturity of the underlying reference obligations. These indices are adjusted to reflect the non-standard terms of the Company's CDS contracts. Market sources determine credit spreads by reviewing new issuance pricing for specific asset classes and receiving price quotes from their trading desks for the specific asset in question. Management validates these quotes by cross-referencing quotes received from one market source against quotes received from another market source to ensure reasonableness. In addition, the Company compares the relative change in price quotes received from one quarter to another, with the relative change experienced by published market indices for a specific asset class. Collateral specific spreads obtained from third-party, independent market sources are un-published spread quotes from market participants or market traders who are not trustees. Management obtains this information as the result of direct communication with these sources as part of the valuation process.

With respect to CDS transactions for which there is an expected claim payment within the next twelve months, the allocation of gross spread reflects a higher allocation to the cost of credit rather than the bank profit component. In the current market, it is assumed that a bank would be willing to accept a lower profit on distressed transactions in order to remove these transactions from its financial statements.

The following spread hierarchy is utilized in determining which source of gross spread to use, with the rule being to use CDS spreads where available. If not available, CDS spreads are either interpolated or extrapolated based on similar transactions or market indices.

- Actual collateral specific credit spreads (if up-to-date and reliable market-based spreads are available).
- Deals priced or closed during a specific quarter within a specific asset class and specific rating. No transactions closed during the periods presented.
- Credit spreads interpolated based upon market indices.
- Credit spreads provided by the counterparty of the CDS.
- Credit spreads extrapolated based upon transactions of similar asset classes, similar ratings, and similar time to maturity.

As of December 31, 2016 and December 31, 2015, all of the Company's CDS contracts were fair valued utilizing credit spreads interpolated based upon market indices.

Over time the data inputs can change as new sources become available or existing sources are discontinued or are no longer considered to be the most appropriate. It is the Company's objective to move to higher levels on the hierarchy whenever possible, but it is sometimes necessary to move to lower priority inputs because of discontinued data sources or management's assessment that the higher priority inputs are no longer considered to be representative of market spreads for a given type of collateral. This can happen, for example, if transaction volume changes such that a previously used spread index is no longer viewed as being reflective of current market levels.

The Company interpolates a curve based on the historical relationship between the premium the Company receives when a credit derivative is closed to the daily closing price of the market index related to the specific asset class and rating of the deal. This curve indicates expected credit spreads at each indicative level on the related market index. For transactions with unique terms or characteristics where no price quotes are available, management extrapolates credit spreads based on a similar transaction for which the Company has received a spread quote from one of the first three sources within the Company's spread hierarchy. This alternative transaction will be within the same asset class, have similar underlying assets, similar credit ratings, and similar time to maturity. The Company then calculates the percentage of relative spread change quarter over quarter for the alternative transaction. This percentage change is then applied to the historical credit spread of the transaction for which no price quote was received in order to calculate the transaction's current spread. Counterparties determine credit spreads by reviewing new issuance pricing for specific asset classes and receiving price quotes from their trading desks for the specific asset in question. These quotes are validated by cross-referencing quotes received from one market source with those quotes received from another market source to ensure reasonableness.

The premium the Company receives is referred to as the "net spread." The Company's pricing model takes into account not only how credit spreads on risks that it assumes affect pricing, but also how the Company's own credit spread affects the pricing of its deals. The Company's own credit risk is factored into the determination of net spread based on the impact of changes in the quoted market price for credit protection bought on the Company, as reflected by quoted market prices

on CDS referencing AGM. For credit spreads on the Company's name the Company obtains the quoted price of CDS contracts traded on AGM from market data sources published by third parties. The cost to acquire CDS protection referencing AGM affects the amount of spread on CDS deals that the Company retains and, hence, their fair value. As the cost to acquire CDS protection referencing AGM increases, the amount of premium the Company retains on a deal generally decreases. As the cost to acquire CDS protection referencing AGM decreases, the amount of premium the Company retains on a deal generally increases. In the Company's valuation model, the premium the Company captures is not permitted to go below the minimum rate that the Company would currently charge to assume similar risks. This assumption can have the effect of mitigating the amount of unrealized gains that are recognized on certain CDS contracts. Given the current market conditions and the Company's own credit spreads, approximately 34%, and 14%, based on number of deals, of the Company's CDS contracts are fair valued using this minimum premium as of December 31, 2016 and December 31, 2015, respectively. The percentage of deals that price using the minimum premiums fluctuates due to changes in AGM's credit spreads. In general when AGM's credit spreads narrow, the cost to hedge AGM's name declines and more transactions price above previously established floor levels. Meanwhile, when AGM's credit spreads widen, the cost to hedge AGM's name increases causing more transactions to price at previously established floor levels. The Company corroborates the assumptions in its fair value model, including the portion of exposure to AGM hedged by its counterparties, with independent third parties each reporting period. The current level of AGM's own credit spread has resulted in the bank or deal originator hedging a significant portion of its exposure to AGM. This reduces the amount of contractual cash flows AGM can capture as premium for selling its protection.

The amount of premium a financial guaranty insurance market participant can demand is inversely related to the cost of credit protection on the insurance company as measured by market credit spreads assuming all other assumptions remain constant. This is because the buyers of credit protection typically hedge a portion of their risk to the financial guarantor, due to the fact that the contractual terms of the Company's contracts typically do not require the posting of collateral by the guarantor. The extent of the hedge depends on the types of instruments insured and the current market conditions.

A fair value resulting in a credit derivative asset on protection sold is the result of contractual cash inflows on in-force deals in excess of what a hypothetical financial guarantor could receive if it sold protection on the same risk as of the reporting date. If the Company were able to freely exchange these contracts (i.e., assuming its contracts did not contain proscriptions on transfer and there was a viable exchange market), it would be able to realize a gain representing the difference between the higher contractual premiums to which it is entitled and the current market premiums for a similar contract. The Company determines the fair value of its CDS contracts by applying the difference between the current net spread and the contractual net spread for the remaining duration of each contract to the notional value of its CDS contracts and taking the present value of such amounts discounted at the corresponding LIBOR over the weighted average remaining life of the contract.

Example

The following is an example of how changes in gross spreads, the Company's own credit spread and the cost to buy protection on the Company affect the amount of premium the Company can demand for its credit protection. The assumptions used in these examples are hypothetical amounts. Scenario 1 represents the market conditions in effect on the transaction date and Scenario 2 represents market conditions at a subsequent reporting date.

	Scenario 1		Scenario 2	
	bps	% of Total	bps	% of Total
Original gross spread/cash bond price (in bps)	185		500	
Bank profit (in bps)	115	62%	50	10%
Hedge cost (in bps)	30	16%	440	88%
The premium the Company receives per annum (in bps)	40	22%	10	2%

In Scenario 1, the gross spread is 185 basis points. The bank or deal originator captures 115 basis points of the original gross spread and hedges 10% of its exposure to AGM, when the CDS spread on AGM was 300 basis points (300 basis points × 10% = 30 basis points). Under this scenario the Company receives premium of 40 basis points, or 22% of the gross spread.

In Scenario 2, the gross spread is 500 basis points. The bank or deal originator captures 50 basis points of the original gross spread and hedges 25% of its exposure to AGM, when the CDS spread on AGM was 1,760 basis points (1,760 basis points × 25% = 440 basis points). Under this scenario the Company would receive premium of 10 basis points, or 2% of the gross spread. Due to the increased cost to hedge AGM's name, the amount of profit the bank would expect to receive, and the premium the Company would expect to receive decline significantly.

In this example, the contractual cash flows (the Company premium received per annum above) exceed the amount a market participant would require the Company to pay in today's market to accept its obligations under the CDS contract, thus resulting in an asset.

Strengths and Weaknesses of Model

The Company's credit derivative valuation model, like any financial model, has certain strengths and weaknesses.

The primary strengths of the Company's CDS modeling techniques are:

- The model takes into account the transaction structure and the key drivers of market value. The transaction structure includes par insured, weighted average life, level of subordination and composition of collateral.

- The model maximizes the use of market-driven inputs whenever they are available. The key inputs to the model are market-based spreads for the collateral, and the credit rating of referenced entities. These are viewed by the Company to be the key parameters that affect fair value of the transaction.

- The model is a consistent approach to valuing positions. The Company has developed a hierarchy for market-based spread inputs that helps mitigate the degree of subjectivity during periods of high illiquidity.

The primary weaknesses of the Company's CDS modeling techniques are:

- There is no exit market or actual exit transactions. Therefore the Company's exit market is a hypothetical one based on the Company's entry market.

- There is a very limited market in which to validate the reasonableness of the fair values developed by the Company's model.

- The markets for the inputs to the model were highly illiquid, which impacts their reliability.

- Due to the non-standard terms under which the Company enters into derivative contracts, the fair value of its credit derivatives may not reflect the same prices observed in an actively traded market of credit derivatives that do not contain terms and conditions similar to those observed in the financial guaranty market.

These contracts were classified as Level 3 in the fair value hierarchy because there is a reliance on at least one unobservable input deemed significant to the valuation model, most significantly the Company's estimate of the value of non-standard terms and conditions of its credit derivative contracts and amount of protection purchased on AGM's name.

Fair Value Option on FG VIEs' Assets and Liabilities

The Company elected the fair value option for all the FG VIEs' assets and liabilities. See Note 8, Consolidated Variable Interest Entities.

The FG VIEs issued securities collateralized by first lien and second lien RMBS. The lowest level input that is significant to the fair value measurement of these assets and liabilities was a Level 3 input (i.e., unobservable), therefore management classified them as Level 3 in the fair value hierarchy. Prices are generally determined with the assistance of an independent third-party, based on a discounted cash flow approach. The models to price the FG VIEs' liabilities used, where appropriate, inputs such as estimated prepayment speeds; market values of the assets that collateralize the securities; estimated default rates (determined on the basis of an analysis of collateral attributes, historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); yields implied by market prices for similar securities; house price depreciation/appreciation rates based on macroeconomic forecasts and, for those liabilities insured by the Company, the benefit from the Company's insurance policy guaranteeing the timely payment of principal and interest, taking into account the timing of the potential default and the Company's own credit rating. The third-party also utilizes an internal model to determine an appropriate yield at which to discount the cash flows of the security, by factoring in collateral types, weighted-average lives, and other structural attributes specific to the security being priced. The expected yield is further calibrated by utilizing algorithms designed to aggregate market color, received by the third-party, on comparable bonds.

The fair value of the Company's FG VIE assets is generally sensitive to changes related to estimated prepayment speeds; estimated default rates (determined on the basis of an analysis of collateral attributes such as: historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); yields implied by

market prices for similar securities; and house price depreciation/appreciation rates based on macroeconomic forecasts. Significant changes to some of these inputs could materially change the market value of the FG VIE's assets and the implied collateral losses within the transaction. In general, the fair value of the FG VIE asset is most sensitive to changes in the projected collateral losses, where an increase in collateral losses typically leads to a decrease in the fair value of FG VIE assets, while a decrease in collateral losses typically leads to an increase in the fair value of FG VIE assets. These factors also directly impact the fair value of the Company's FG VIE liabilities.

The fair value of the Company's FG VIE liabilities is generally sensitive to the various model inputs described above. In addition, the Company's FG VIE liabilities with recourse are also sensitive to changes in the Company's implied credit worthiness. Significant changes to any of these inputs could materially change the timing of expected losses within the insured transaction which is a significant factor in determining the implied benefit from the Company's insurance policy guaranteeing the timely payment of principal and interest for the tranches of debt issued by the FG VIE that is insured by the Company. In general, extending the timing of expected loss payments by the Company into the future typically leads to a decrease in the value of the Company's insurance and a decrease in the fair value of the Company's FG VIE liabilities with recourse, while a shortening of the timing of expected loss payments by the Company typically leads to an increase in the value of the Company's insurance and an increase in the fair value of the Company's FG VIE liabilities with recourse.

Not Carried at Fair Value

Financial Guaranty Insurance Contracts

On a quarterly basis, the Company also discloses the fair value of its outstanding financial guaranty insurance contracts. The fair value of the Company's financial guaranty contracts accounted for as insurance is based on management's estimate of what a similarly rated financial guaranty insurance company would demand to acquire the Company's in-force book of financial guaranty insurance business. It is based on a variety of factors that may include pricing assumptions management has observed for portfolio transfers, commutations, and acquisitions that have occurred in the financial guaranty market, as well as prices observed in the credit derivative market with an adjustment for illiquidity so that the terms would be similar to a financial guaranty insurance contract, and includes adjustments to the carrying value of unearned premium reserve for stressed losses, ceding commissions and return on capital. The significant inputs were not readily observable. The Company accordingly classified this fair value measurement as Level 3.

Notes Payable

The fair value of the notes payable was determined by calculating the present value of the expected cash flows. The fair value measurement was classified as Level 3 in the fair value hierarchy.

Other Invested Assets

The other invested assets not carried at fair value consist primarily of a surplus note issued by AGC to AGM. The fair value of the surplus note was determined by calculating the effect of changes in U.S. Treasury yield adjusted for a credit factor at the end of each reporting period. The fair value measurement of the surplus note was classified as Level 3.

Other Assets and Other Liabilities

The Company's other assets and other liabilities consist predominantly of accrued interest, receivables for securities sold and payables for securities purchased, the carrying values of which approximate fair value.

Financial Instruments Carried at Fair Value

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, 2016

		Fair Value Hierarchy		
	Fair Value	Level 1	Level 2	Level 3
	(in millions)			
Assets:				
Investment portfolio, available-for-sale:				
Fixed-maturity securities				
Obligations of state and political subdivisions	$ 3,615	$ —	$ 3,579	$ 36
U.S. government and agencies	39	—	39	—
Corporate securities	565	—	505	60
Mortgage-backed securities:				
RMBS	434	—	107	327
Commercial mortgage-backed securities (CMBS)	259	—	259	—
Asset-backed securities	325	—	31	294
Foreign government securities	151	—	151	—
Total fixed-maturity securities	5,388	—	4,671	717
Short-term investments	143	140	3	—
Other invested assets (1)	5	—	—	5
Credit derivative assets	7	—	—	7
FG VIEs' assets, at fair value	644	—	—	644
Other assets	30	—	—	30
Total assets carried at fair value	$ 6,217	$ 140	$ 4,674	$ 1,403
Liabilities:				
Credit derivative liabilities	$ 97	$ —	$ —	$ 97
FG VIEs' liabilities with recourse, at fair value	602	—	—	602
FG VIEs' liabilities without recourse, at fair value	110	—	—	110
Total liabilities carried at fair value	$ 809	$ —	$ —	$ 809

Fair Value Hierarchy of Financial Instruments Carried at Fair Value
As of December 31, 2015

	Fair Value	Fair Value Hierarchy		
		Level 1	Level 2	Level 3
		(in millions)		
Assets:				
Investment portfolio, available-for-sale:				
Fixed-maturity securities				
Obligations of state and political subdivisions	$ 4,041	$ —	$ 4,033	$ 8
U.S. government and agencies	51	—	51	—
Corporate securities	668	—	597	71
Mortgage-backed securities:				
RMBS	532	—	208	324
CMBS	223	—	223	—
Asset-backed securities	394	—	64	330
Foreign government securities	181	—	181	—
Total fixed-maturity securities	6,090	—	5,357	733
Short-term investments	257	176	21	60
Other invested assets (1)	10	—	5	5
Credit derivative assets	63	—	—	63
FG VIEs' assets, at fair value	735	—	—	735
Other assets	29	—	—	29
Total assets carried at fair value	$ 7,184	$ 176	$ 5,383	$ 1,625
Liabilities:				
Credit derivative liabilities	$ 154	$ —	$ —	$ 154
FG VIEs' liabilities with recourse, at fair value	713	—	—	713
FG VIEs' liabilities without recourse, at fair value	121	—	—	121
Total liabilities carried at fair value	$ 988	$ —	$ —	$ 988

(1) Excluded from the table above are investments funds of $48 million and $45 million as of December 31, 2016 and December 31, 2015, respectively, measured using NAV per share. Includes Level 3 mortgage loans that are recorded at fair value on a non-recurring basis.

Changes in Level 3 Fair Value Measurements

The table below presents a roll forward of the Company's Level 3 financial instruments carried at fair value on a recurring basis during the years ended December 31, 2016 and 2015.

Fair Value Level 3 Rollforward
Recurring Basis
Year Ended December 31, 2016

	Fixed-Maturity Securities									
	Obligations of State and Political Subdivisions	Corporate Securities	RMBS	Asset-Backed Securities	Short-Term Investments	FG VIEs' Assets at Fair Value	Other Assets (8)	Credit Derivative Asset (Liability), net(5)	FG VIEs' Liabilities with Recourse, at Fair Value	FG VIEs' Liabilities without Recourse, at Fair Value
	(in millions)									
Fair value as of December 31, 2015	$ 8	$ 71	$ 324	$ 330	$ 60	$ 735	$ 30	$ (91)	$ (713)	$ (121)
Total pretax realized and unrealized gains/(losses) recorded in:(1)										
Net income (loss)	2 (2)	(16) (2)	7 (2)	13 (2)	0 (2)	47 (3)	1 (4)	(17) (6)	(15) (3)	(18) (3)
Other comprehensive income (loss)	(4)	5	(10)	27	0	—	0	—	—	—
Purchases	31	—	66	—	—	—	—	—	—	—
Settlements	(1)	—	(60)	(76)	(60)	(118)	—	18	126	9
FG VIE deconsolidations	—	—	—	—	—	(20)	—	—	—	20
Fair value as of December 31, 2016	$ 36	$ 60	$ 327	$ 294	$ —	$ 644	$ 31	$ (90)	$ (602)	$ (110)
Change in unrealized gains/(losses) related to financial instruments held as of December 31, 2016	$ (4)	$ 5	$ (12)	$ 27	$ —	$ 82	$ 1	$ 43	$ (14)	$ (18)

Fair Value Level 3 Rollforward
Recurring Basis
Year Ended December 31, 2015

	Fixed-Maturity Securities									
	Obligations of State and Political Subdivisions	Corporate Securities	RMBS	Asset-Backed Securities	Short-Term Investments	FG VIEs' Assets at Fair Value	Other Assets (8)	Credit Derivative Asset (Liability), net(5)	FG VIEs' Liabilities with Recourse, at Fair Value	FG VIEs' Liabilities without Recourse, at Fair Value
	(in millions)									
Fair value as of December 31, 2014	$ 8	$ 79	$ 399	$ 95	$ —	$ 823	$ 19	$ (208)	$ (830)	$ (114)
Total pretax realized and unrealized gains/(losses) recorded in:(1)										
Net income (loss)	1 (2)	3 (2)	16 (2)	6 (2)	24 (2)	61 (3)	11 (4)	134 (6)	93 (3)	(18) (3)
Other comprehensive income (loss)	0	(11)	(8)	(17)	0	—	—	—	—	—
Purchases	—	—	46	278	52 (7)	—	—	—	—	—
Settlements	(1)	—	(129)	(32)	(16)	(253)	0	(17)	155	11
FG VIE consolidations	—	—	—	—	—	104	—	—	(131)	—
Fair value as of December 31, 2015	$ 8	$ 71	$ 324	$ 330	$ 60	$ 735	$ 30	$ (91)	$ (713)	$ (121)
Change in unrealized gains/(losses) related to financial instruments held as of December 31, 2015	$ 0	$ (11)	$ (6)	$ (17)	$ 0	$ 107	$ 12	$ 18	$ (15)	$ (8)

(1) Realized and unrealized gains (losses) from changes in values of Level 3 financial instruments represent gains (losses) from changes in values of those financial instruments only for the periods in which the instruments were classified as Level 3.

(2) Included in net realized investment gains (losses) and net investment income.

(3) Included in fair value gains (losses) on FG VIEs.

(4) Recorded in fair value gains (losses) on CCS, net investment income and other income.

(5) Represents net position of credit derivatives. The consolidated balance sheet presents gross assets and liabilities based on net counterparty exposure.

(6) Reported in net change in fair value of credit derivatives and other income.

(7) Primarily non-cash transaction.

(8) Includes CCS and other invested assets.

Level 3 Fair Value Disclosures

Quantitative Information About Level 3 Fair Value Inputs
At December 31, 2016

Financial Instrument Description (1)	Fair Value at December 31, 2016 (in millions)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Assets (2):				
Fixed-maturity securities:				
Obligations of state and political subdivisions	$ 36	Yield	4.3% - 22.8%	10.7%
Corporate securities	60	Yield	20.1%	
RMBS	327	CPR	2.1% - 8.5%	3.7%
		CDR	3.4% - 10.1%	7.0%
		Loss severity	60.0% - 100.0%	77.3%
		Yield	4.8% - 9.7%	5.8%
Asset-backed securities:				
Triple-X life insurance transactions	294	Yield	5.7%	
FG VIEs' assets, at fair value	644	CPR	3.5% - 12.0%	8.0%
		CDR	2.5% - 21.6%	5.9%
		Loss severity	50.0% - 100.0%	78.1%
		Yield	2.9% - 20.0%	6.8%
Other assets	30	Implied Yield	4.5%	
		Term (years)	10 years	
Liabilities:				
Credit derivative liabilities, net	(90)	Hedge cost (in bps)	7.2 - 118.1	10.0
		Bank profit (in bps)	3.9 - 655.6	26.2
		Internal floor (in bps)	7.0 - 100.0	10.7
		Internal credit rating	AAA - BB	AAA
FG VIEs' liabilities, at fair value	(712)	CPR	3.5% - 12.0%	8.0%
		CDR	2.5% - 21.6%	5.9%
		Loss severity	50.0% - 100.0%	78.1%
		Yield	2.4% - 20.0%	5.1%

(1) Discounted cash flow is used as valuation technique for all financial instruments.

(2) Excludes several investments recorded in other invested assets with fair value of $5 million.

Quantitative Information About Level 3 Fair Value Inputs
At December 31, 2015

Financial Instrument Description (1)	Fair Value at December 31, 2015 (in millions)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Assets (2):				
Fixed-maturity securities (3):				
Corporate securities	$ 71	Yield	21.8%	
RMBS	324	CPR	0.3% - 9.0%	2.2%
		CDR	4.2% - 9.3%	7.1%
		Loss severity	60.0% - 100.0%	74.5%
		Yield	4.7% - 8.2%	5.9%
Asset-backed securities:				
Investor owned utility	69	Cash flow receipts	100.0%	
		Collateral recovery period	2.9 years	
		Discount factor	7.0%	
Triple-X life insurance transactions	261	Yield	4.8%	
Short-term investments	60	Yield	17.0%	
FG VIEs' assets, at fair value	735	CPR	2.3% - 8.3%	3.9%
		CDR	2.3% - 16.0%	4.9%
		Loss severity	40.0% - 100.0%	83.7%
		Yield	3.1% - 20.0%	6.7%
Other assets	29	Implied Yield	5.5%	
		Term (years)	5 years	
Liabilities:				
Credit derivative liabilities, net	(91)	Hedge cost (in bps)	32.8 - 274.5	37.8
		Bank profit (in bps)	3.9 - 1,017.5	74.4
		Internal floor (in bps)	7.0 - 100.0	34.9
		Internal credit rating	AAA - CCC	AAA
FG VIEs' liabilities, at fair value	(834)	CPR	2.3% - 8.3%	3.9%
		CDR	2.3% - 16.0%	4.9%
		Loss severity	40.0% - 100.0%	83.7%
		Yield	3.1% - 20.0%	5.7%

(1) Discounted cash flow is used as valuation technique for all financial instruments.

(2) Excludes several investments recorded in other invested assets with fair value of $4 million.

(3) Excludes obligations of state and political subdivisions investments with fair value of $8 million.

The carrying amount and estimated fair value of the Company's financial instruments are presented in the following table.

Fair Value of Financial Instruments

	As of December 31, 2016		As of December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in millions)			
Assets:				
Fixed-maturity securities	$ 5,388	$ 5,388	$ 6,090	$ 6,090
Short-term investments	143	143	257	257
Other invested assets(1)	357	363	360	428
Credit derivative assets	7	7	63	63
FG VIEs' assets, at fair value	644	644	735	735
Other assets	85	85	91	91
Liabilities:				
Financial guaranty insurance contracts (2)	1,768	3,990	2,016	3,528
Notes payable	10	10	13	12
Credit derivative liabilities	97	97	154	154
FG VIEs' liabilities with recourse, at fair value	602	602	713	713
FG VIEs' liabilities without recourse, at fair value	110	110	121	121
Other liabilities	0	0	2	2

(1) Includes investments not carried at fair value with a carrying value of $304 million and $305 million as of December 31, 2016 and December 31, 2015, respectively.

(2) Carrying amount includes the assets and liabilities related to financial guaranty insurance contract premiums, losses, and salvage and subrogation and other recoverables net of reinsurance.

7. Contracts Accounted for as Credit Derivatives

The Company has a portfolio of financial guaranty contracts that meet the definition of a derivative in accordance with GAAP (primarily CDS).

Accounting Policy

Credit derivatives are recorded at fair value. Changes in fair value are recorded in "net change in fair value of credit derivatives" on the consolidated statement of operations. Realized gains (losses) and other settlements on credit derivatives include credit derivative premiums received and receivable for credit protection the Company has sold under its insured CDS contracts, premiums paid and payable for credit protection the Company has purchased, claims paid and payable and received and receivable related to insured credit events under these contracts, ceding commission expense or income and realized gains or losses related to their early termination. Fair value of credit derivatives is reflected as either net assets or net liabilities determined on a contract by contract basis in the Company's consolidated balance sheets. See Note 6, Fair Value Measurement, for a discussion on the fair value methodology for credit derivatives.

Credit Derivative Net Par Outstanding by Sector

Credit derivative transactions are governed by ISDA documentation and have different characteristics from financial guaranty insurance contracts. For example, the Company's control rights with respect to a reference obligation under a credit derivative may be more limited than when the Company issues a financial guaranty insurance contract. In addition, there are more circumstances under which the Company may be obligated to make payments. Similar to a financial guaranty insurance contract, the Company would be obligated to pay if the obligor failed to make a scheduled payment of principal or interest in full. However, the Company may also be required to pay if the obligor becomes bankrupt or if the reference obligation were

restructured if, after negotiation, those credit events are specified in the documentation for the credit derivative transactions. Furthermore, the Company may be required to make a payment due to an event that is unrelated to the performance of the obligation referenced in the credit derivative. If events of default or termination events specified in the credit derivative documentation were to occur, the non-defaulting or the non-affected party, which may be either the Company or the counterparty, depending upon the circumstances, may decide to terminate a credit derivative prior to maturity. In that case, the Company may be required to make a termination payment to its swap counterparty upon such termination. Absent such an event of default or termination event, the Company may not unilaterally terminate a CDS contract; however, the Company on occasion has mutually agreed with various counterparties to terminate certain CDS transactions.

The estimated remaining weighted average life of credit derivatives was 1.8 years at December 31, 2016 and 2.3 years at December 31, 2015. The components of the Company's credit derivative net par outstanding are presented below.

Credit Derivatives

	As of December 31, 2016		As of December 31, 2015	
Asset Type	Net Par Outstanding	Weighted Average Credit Rating	Net Par Outstanding	Weighted Average Credit Rating
	(dollars in millions)			
Pooled corporate obligations:				
Collateralized loan obligations (CLO)/ collateralized bond obligations	$ 1,404	AAA	$ 3,980	AAA
Synthetic investment grade pooled corporate	4,845	AAA	4,859	AAA
TruPS collateralized debt obligations (CDO)	—	—	2	AAA
Market value CDOs of corporate obligations	—	—	946	AAA
Total pooled corporate obligations	6,249	AAA	9,787	AAA
U.S. RMBS	80	AA	98	AA-
Other	1,434	A-	1,756	A-
Total	$ 7,763	AAA	$ 11,641	AAA

The Company’s exposure to pooled corporate obligations is highly diversified in terms of obligors and industries. Most pooled corporate transactions are structured to limit exposure to any given obligor and industry. The majority of the Company’s pooled corporate exposure consists of CLO or synthetic pooled corporate obligations. Most of these CLOs have an average obligor size of less than 1% of the total transaction and typically restrict the maximum exposure to any one industry to approximately 10%. The Company’s exposure also benefits from embedded credit enhancement in the transactions which allows a transaction to sustain a certain level of losses in the underlying collateral, further insulating the Company from industry specific concentrations of credit risk on these deals.

The $1.4 billion of exposure in "Other" CDS contracts as of December 31, 2016 comprises numerous deals typically structured with significant underlying credit enhancement and spread across various asset classes, such as commercial receivables, international RMBS, infrastructure, regulated utilities and healthcare.

Distribution of Credit Derivative Net Par Outstanding by Internal Rating

Ratings	As of December 31, 2016 Net Par Outstanding	As of December 31, 2016 % of Total	As of December 31, 2015 Net Par Outstanding	As of December 31, 2015 % of Total
	(dollars in millions)			
AAA	$ 5,845	75.3%	$ 9,089	78.1%
AA	723	9.3	985	8.5
A	618	8.0	853	7.3
BBB	524	6.7	607	5.2
BIG	53	0.7	107	0.9
Credit derivative net par outstanding	$ 7,763	100.0%	$ 11,641	100.0%

Fair Value of Credit Derivatives

Net Change in Fair Value of Credit Derivatives Gain (Loss)

	Year Ended December 31, 2016	Year Ended December 31, 2015
	(in millions)	
Realized gains on credit derivatives	$ 18	$ 32
Net credit derivative losses (paid and payable) recovered and recoverable and other settlements	(36)	(15)
Realized gains (losses) and other settlements	(18)	17
Net unrealized gains (losses):		
Pooled corporate obligations	11	(17)
U.S. RMBS	(1)	1
Other	41	133
Net unrealized gains (losses)	51	117
Net change in fair value of credit derivatives	$ 33	$ 134

Terminations and Settlements of Direct Credit Derivative Contracts

	Year Ended December 31, 2016	Year Ended December 31, 2015
	(in millions)	
Net par of terminated credit derivative contracts	$ 1,086	$ 485
Realized gains on credit derivatives	2	11
Net unrealized gains (losses) on credit derivatives	8	98

During 2016, unrealized fair value gains were generated primarily as a result of CDS terminations in the pooled corporate and other sectors, run-off of CDS par and price improvements on the underlying collateral of the Company's CDS. The majority of the CDS transactions were terminated as a result of settlement agreements with several CDS counterparties. The unrealized fair value gains were partially offset by unrealized losses resulting from wider implied net spreads across all sectors. The wider implied net spreads were primarily a result of the decreased cost to buy protection in AGM's name, as the market cost of AGM's credit protection decreased significantly during the period. These transactions were pricing at or above their floor levels (or the minimum rate at which the Company would consider assuming these risks based on historical

experience); therefore when the cost of purchasing CDS protection on AGM, which management refers to as the CDS spread on AGM, decreased the implied spreads that the Company would expect to receive on these transactions increased.

During 2015, unrealized fair value gains were generated primarily as a result of a CDS termination. The Company terminated a Triple-X life insurance securitization transaction during the period and recognized unrealized fair value gains of $99 million. This was the primary driver of the unrealized fair value gains in the Other sector during the period. The remainder of the fair value gains for the period were a result of tighter implied net spreads across the Other and U.S. RMBS sectors. The tighter implied net spreads were primarily a result of the increased cost to buy protection in AGM's name, particularly for the one year CDS spread. These transactions were pricing at or above their floor levels, therefore when the cost of purchasing CDS protection on AGM increased, the implied spreads that the Company would expect to receive on these transactions decreased. The unrealized fair value gains were partially offset by unrealized fair value losses in the pooled corporate sector where the Company's transactions are quickly approaching maturity. The majority of transactions in this sector are marked in an asset position as they are AAA rated and performing well. As these transactions approach maturity the positive marks on these transactions will naturally revert to zero, leading to unrealized fair value losses.

The impact of changes in credit spreads will vary based upon the volume, tenor, interest rates, and other market conditions at the time these fair values are determined. In addition, since each transaction has unique collateral and structural terms, the underlying change in fair value of each transaction may vary considerably. The fair value of credit derivative contracts also reflects the change in the Company's own credit cost based on the price to purchase credit protection on AGM. The Company determines its own credit risk based on quoted CDS prices traded on the Company at each balance sheet date.

CDS Spread on AGM
Quoted price of CDS contract (in basis points)

	As of December 31,		
	2016	2015	2014
Five-year CDS spread	158	366	325
One-year CDS spread	29	131	85

Fair Value of Credit Derivatives Assets (Liabilities)
and Effect of AGM Credit Spreads

	As of December 31, 2016	As of December 31, 2015
	(in millions)	
Fair value of credit derivatives before effect of AGM credit spread	$ (97)	$ (145)
Plus: Effect of AGM credit spread	7	54
Net fair value of credit derivatives	$ (90)	$ (91)

The fair value of CDS contracts at December 31, 2016, before considering the implications of AGM's credit spreads, is a direct result of continued wide credit spreads in the fixed income security markets and ratings downgrades. The asset classes that remain most affected are pooled corporate obligations. The mark to market benefit between December 31, 2016 and December 31, 2015, resulted primarily from several CDS terminations, run-off of CDS par and a narrowing of credit spreads related to the Company's non-U.S. public finance obligations in the Other sector.

Management believes that the trading level of AGM's credit spreads over the past several years has been due to the correlation between AGM's risk profile and the current risk profile of the broader financial markets, as well as the overall lack of liquidity in the CDS market. Offsetting the benefit attributable to AGM's credit spread were higher credit spreads in the fixed income security markets. The higher credit spreads in the fixed income security market are due to the lack of liquidity in the high yield CDO, and CLO markets as well as continuing market concerns over the 2005-2007 vintages of RMBS.

The following table presents the fair value and the present value of expected claim payments or recoveries (i.e. net expected loss to be paid as described in Note 4) for contracts accounted for as derivatives.

Net Fair Value and Expected Losses of Credit Derivatives

	As of December 31, 2016	As of December 31, 2015
	(in millions)	
Fair value of credit derivative asset (liability), net	$ (90)	$ (91)
Expected loss to be (paid) recovered	3	(7)

Sensitivity to Changes in Credit Spread

The following table summarizes the estimated change in fair values on the net balance of the Company's credit derivative positions assuming immediate parallel shifts in credit spreads on AGM and on the risks that it assumes.

Effect of Changes in Credit Spread As of December 31, 2016

Credit Spreads(1)	Estimated Net Fair Value (Pre-Tax)	Estimated Change in Gain/(Loss) (Pre-Tax)
	(in millions)	
100% widening in spreads	$ (102)	$ (12)
50% widening in spreads	(96)	(6)
25% widening in spreads	(93)	(3)
10% widening in spreads	(91)	(1)
Base Scenario	(90)	—
10% narrowing in spreads	(89)	1
25% narrowing in spreads	(88)	2
50% narrowing in spreads	(85)	5

(1) Includes the effects of spreads on both the underlying asset classes and the Company's own credit spread.

8. Consolidated Variable Interest Entities

Background

The Company provides financial guaranties with respect to debt obligations of special purpose entities, including VIEs. AGM does not act as the servicer or collateral manager for any VIE obligations that it insures. The transaction structure generally provides certain financial protections to the Company. This financial protection can take several forms, the most common of which are overcollateralization, first loss protection (or subordination) and excess spread. In the case of overcollateralization (i.e., the principal amount of the securitized assets exceeds the principal amount of the structured finance obligations guaranteed by the Company), the structure allows defaults of the securitized assets before a default is experienced on the structured finance obligation guaranteed by the Company. In the case of first loss, the financial guaranty insurance policy only covers a senior layer of losses experienced by multiple obligations issued by special purpose entities, including VIEs. The first loss exposure with respect to the assets is either retained by the seller or sold off in the form of equity or mezzanine debt to other investors. In the case of excess spread, the financial assets contributed to special purpose entities, including VIEs, generate interest income that are in excess of the interest payments on the debt issued by the special purpose entity. Such excess spread is typically distributed through the transaction's cash flow waterfall and may be used to create additional credit enhancement, applied to redeem debt issued by the special purpose entities, including VIEs (thereby, creating additional overcollateralization), or distributed to equity or other investors in the transaction.

AGM is not primarily liable for the debt obligations issued by the VIEs it insures and would only be required to make payments on those insured debt obligations in the event that the issuer of such debt obligations defaults on any principal or interest due and only for the amount of the shortfall. AGM's creditors do not have any rights with regard to the collateral supporting the debt issued by the FG VIEs. Proceeds from sales, maturities, prepayments and interest from such underlying collateral may only be used to pay debt service on VIE liabilities. Net fair value gains and losses on FG VIEs are expected to reverse to zero at maturity of the VIE debt, except for net premiums received and net claims paid by AGM under the financial guaranty insurance contract. The Company's estimate of expected loss to be paid for FG VIEs is included in Note 4, Expected Loss to be Paid.

Accounting Policy

The Company evaluates whether it is the primary beneficiary of its VIEs. If the Company concludes that it is the primary beneficiary, it is required to consolidate the entire VIE in the Company's financial statements and eliminate the effects of the financial guaranty insurance contracts issued by AGM on the consolidated FG VIEs debt obligations.

The primary beneficiary of a VIE is the enterprise that has both 1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance; and 2) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

As part of the terms of its financial guaranty contracts, the Company obtains certain protective rights with respect to the VIE that are triggered by the occurrence of certain events, such as failure to be in compliance with a covenant due to poor deal performance or a deterioration in a servicer or collateral manager's financial condition. At deal inception, the Company typically is not deemed to control a VIE; however, once a trigger event occurs, the Company's control of the VIE typically increases. The Company continuously evaluates its power to direct the activities that most significantly impact the economic performance of VIEs that have debt obligations insured by the Company and, accordingly, where the Company is obligated to absorb VIE losses or receive benefits that could potentially be significant to the VIE. The Company obtains protective rights under its insurance contracts that give the Company additional controls over a VIE if there is either deterioration of deal performance or in the financial health of the deal servicer. The Company is deemed to be the control party for certain VIEs under GAAP, typically when its protective rights give it the power to both terminate and replace the deal servicer, which are characteristics specific to the Company's financial guaranty contracts. If the protective rights that could make the Company the control party have not been triggered, then the VIE is not consolidated. If the Company is deemed no longer to have those protective rights, the transaction is deconsolidated.

The FG VIEs' liabilities that are insured by the Company are considered to be with recourse, because the Company guarantees the payment of principal and interest regardless of the performance of the related FG VIEs' assets. FG VIEs' liabilities that are not insured by the Company are considered to be without recourse, because the payment of principal and interest of these liabilities is wholly dependent on the performance of the FG VIEs' assets.

The Company has limited contractual rights to obtain the financial records of its consolidated FG VIEs. The FG VIEs do not prepare separate GAAP financial statements; therefore, the Company compiles GAAP financial information for them based on trustee reports prepared by and received from third parties. Such trustee reports are not available to the Company until approximately 30 days after the end of any given period. The time required to perform adequate reconciliations and analyses of the information in these trustee reports results in a one quarter lag in reporting the FG VIEs' activities. The Company records the fair value of FG VIE assets and liabilities based on modeled prices. The Company updates the model assumptions each reporting period for the most recent available information, which incorporates the impact of material events that may have occurred since the quarter lag date. The net change in the fair value of consolidated FG VIE assets and liabilities is recorded in "fair value gains (losses) on FG VIEs" in the consolidated statements of operations. Interest income and interest expense are derived from the trustee reports and also included in "fair value gains (losses) on FG VIEs." The Company has elected the fair value option for assets and liabilities classified as FG VIEs' assets and liabilities because the carrying amount transition method was not practical.

The cash flows generated by the FG VIE assets, including R&W recoveries, are classified as cash flows from investing activities. Paydowns of FG liabilities are supported by the cash flows generated by FG VIE assets, and for liabilities with recourse, possibly claim payments made by AGM under its financial guaranty insurance contracts. Paydowns of FG liabilities both with and without recourse are classified as cash flows used in financing activities by the Company. Interest income, interest expense and other expenses of the FG VIE assets and liabilities are classified as operating cash flows. Claim payments made by AGM under the financial guaranty contracts issued to the FG VIEs are eliminated upon consolidation and

therefore such claim payments are treated as paydowns of FG VIE liabilities as a financing activity as opposed to an operating activity of AGM.

Consolidated FG VIEs

Number of FG VIEs Consolidated

	Year Ended December 31,	
	2016	2015
Beginning of the period, December 31	24	25
Consolidated(1)	—	1
Deconsolidated(1)	(1)	—
Matured	—	(2)
End of the period, December 31	23	24

(1) There was no gain or loss on deconsolidation in 2016. Net loss on consolidation was $26 million in 2015 and recorded in “fair value gains (losses) on FG VIEs” in the consolidated statement of operations.

The total unpaid principal balance for the FG VIEs' assets that were over 90 days or more past due was approximately $103 million at December 31, 2016 and $136 million at December 31, 2015. The aggregate unpaid principal of the FG VIEs' assets was approximately $360 million greater than the aggregate fair value at December 31, 2016. The aggregate unpaid principal of the FG VIEs' assets was approximately $610 million greater than the aggregate fair value at December 31, 2015. The change in the instrument-specific credit risk of the FG VIEs' assets held as of December 31, 2016 that was recorded in the consolidated statements of operations for 2016 were gains of $45 million. The change in the instrument-specific credit risk of the FG VIEs' assets held as of December 31, 2015 that was recorded in the consolidated statements of operations for 2015 were gains of $23 million. To calculate the instrument specific credit risk, the changes in the fair value of the FG VIE assets are allocated between changes that are due to the instrument specific credit risk and changes due to other factors, including interest rates. The instrument specific credit risk amount is determined by using expected contractual cash flows versus current expected cash flows discounted at original contractual rate. The net present value is calculated by discounting the expected cash flows of the underlying security, at the relevant effective interest rate.

The unpaid principal for FG VIE liabilities with recourse, which represent obligations insured by AGM, was $651 million and $802 million as of December 31, 2016 and December 31, 2015, respectively. FG VIE liabilities with recourse will mature at various dates ranging from 2025 to 2038. The aggregate unpaid principal balance of the FG VIE liabilities with and without recourse was approximately $80 million greater than the aggregate fair value of the FG VIEs’ liabilities as of December 31, 2016. The aggregate unpaid principal balance was approximately $285 million greater than the aggregate fair value of the FG VIEs’ liabilities as of December 31, 2015.

The table below shows the carrying value of the consolidated FG VIEs' assets and liabilities in the consolidated financial statements, segregated by the types of assets that collateralize their respective debt obligations for FG VIE liabilities with recourse.

Consolidated FG VIEs
By Type of Collateral

	As of December 31, 2016		As of December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
	(in millions)			
With recourse:				
U.S. RMBS first lien	$ 390	$ 428	$ 449	$ 494
U.S. RMBS second lien	144	174	159	219
Total with recourse	534	602	608	713
Without recourse	110	110	127	121
Total	$ 644	$ 712	$ 735	$ 834

The consolidation of FG VIEs affects net income and shareholders' equity due to (i) changes in fair value gains (losses) on FG VIE assets and liabilities, (ii) the elimination of premiums and losses related to the FG VIE liabilities with recourse and (iii) the elimination of investment balances related to the Company's purchase of AGM insured FG VIE debt. Upon consolidation of a FG VIE, the related insurance and, if applicable, the related investment balances, are considered intercompany transactions and therefore eliminated. Such eliminations are included in the table below to present the full effect of consolidating FG VIEs.

Effect of Consolidating FG VIEs on Net Income,
Cash Flows From Operating Activities and Shareholders' Equity

	Year Ended December 31,	
	2016	2015
	(in millions)	
Net earned premiums	$ (16)	$ (19)
Net investment income	(5)	(18)
Net realized investment gains (losses)	1	2
Fair value gains (losses) on FG VIEs	25	32
Loss and LAE	8	27
Effect on income before tax	13	24
Less: tax provision (benefit)	5	8
Effect on net income (loss)	$ 8	$ 16
Effect on cash flows from operating activities	$ 28	$ 44

	As of December 31, 2016	As of December 31, 2015
	(in millions)	
Effect on shareholders' equity (decrease) increase	$ (1)	$ (9)

Fair value gains (losses) on FG VIEs represent the net change in fair value on the consolidated FG VIEs' assets and liabilities. In 2016, the Company recorded a pre-tax net fair value gain on consolidated FG VIEs of $25 million. The primary driver of the 2016 gain in fair value of FG VIE assets and liabilities was net mark-to-market gains due to price appreciation resulting from improvements in the underlying collateral of HELOC RMBS assets of the FG VIEs.

In 2015, the Company recorded a pre-tax net fair value gain on consolidated FG VIEs of $32 million which was primarily driven by price appreciation on the Company's FG VIE assets during the year that resulted from improvements in the underlying collateral, as well as large principal paydowns made on the Company's FG VIEs.

Non-Consolidated VIEs

As of December 31, 2016 and December 31, 2015 the Company had financial guaranty contracts outstanding for approximately 300 and 360 VIEs, respectively, that it did not consolidate. To date, the Company's analyses have indicated that it is not the primary beneficiary of any other VIEs and, as a result, they are not consolidated. The Company's exposure provided through its financial guaranties with respect to debt obligations of special purpose entities is included within net par outstanding in Note 3, Outstanding Exposure.

9. Investments and Cash

Accounting Policy

The vast majority of the Company's investment portfolio is composed of fixed-maturity and short-term investments, classified as available-for-sale at the time of purchase (approximately 98.9% based on fair value as of December 31, 2016), and therefore carried at fair value. Changes in fair value for other-than-temporarily-impaired (OTTI) securities are bifurcated between credit losses and non-credit changes in fair value. The credit loss on OTTI securities is recorded in the statement of operations and the non-credit component of the change in fair value of securities, whether OTTI or not, is recorded in other

comprehensive income (OCI). For securities in an unrealized loss position where the Company has the intent to sell or it is more-likely-than-not that it will be required to sell the security before recovery, the entire impairment loss (i.e., the difference between the security's fair value and its amortized cost) is recorded in the consolidated statements of operations.

Credit losses reduce the amortized cost of impaired securities. The amortized cost basis is adjusted for accretion and amortization (using the effective interest method) with a corresponding entry recorded in net investment income.

Realized gains and losses on sales of investments are determined using the specific identification method. Realized loss includes amounts recorded for other-than-temporary impairments on debt securities and the declines in fair value of securities for which the Company has the intent to sell the security or inability to hold until recovery of amortized cost.

For mortgage-backed securities, and any other holdings for which there is prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any necessary adjustments due to changes in effective yields and maturities are recognized in net investment income using the retrospective method.

Loss mitigation securities are generally purchased at a discount and are accounted for based on their underlying investment type, excluding the effects of the Company’s insurance. Interest income on loss mitigation securities is recognized on a level yield basis over the remaining life of the security.

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

Other invested assets primarily include:

- a surplus note issued by AGC to AGM (see Note 13, Related Party Transactions). The surplus note is being held to maturity,
- preferred stocks, which are carried at fair value with changes in unrealized gains and losses recorded in OCI.

Cash consists of cash on hand and demand deposits. As a result of the lag in reporting FG VIEs, cash and short-term investments do not reflect cash outflow to the holders of the debt issued by the FG VIEs for claim payments made by the Company to the consolidated FG VIEs until the subsequent reporting period.

Assessment for Other-Than-Temporary Impairments

If an entity does not intend to sell the security and it is not more-likely-than-not that the Company will be required to sell the security before recovery of its amortized cost basis, the other-than-temporary-impairment is separated into (1) the amount representing the credit loss and (2) the amount related to all other factors.

The Company has a formal review process to determine other-than-temporary-impairment for securities in its investment portfolio where there is no intent to sell and it is not more-likely-than-not that it will be required to sell the security before recovery. Factors considered when assessing impairment include:

- a decline in the market value of a security by 20% or more below amortized cost for a continuous period of at least six months;
- a decline in the market value of a security for a continuous period of 12 months;
- recent credit downgrades of the applicable security or the issuer by rating agencies;
- the financial condition of the applicable issuer;
- whether loss of investment principal is anticipated;
- the impact of foreign exchange rates; and
- whether scheduled interest payments are past due.

The Company assesses the ability to recover the amortized cost by comparing the net present value of projected future cash flows with the amortized cost of the security. If the security is in an unrealized loss position and its net present value is less than the amortized cost of the investment, an other-than-temporary impairment is recorded. The net present value is calculated by discounting the Company's estimate of projected future cash flows at the effective interest rate implicit in the debt security at the time of purchase. The Company's estimates of projected future cash flows are driven by assumptions regarding probability of default and estimates regarding timing and amount of recoveries associated with a default. The Company develops these estimates using information based on historical experience, credit analysis and market observable data, such as industry analyst reports and forecasts, sector credit ratings and other relevant data. For mortgage-backed and asset backed securities, cash flow estimates also include prepayment and other assumptions regarding the underlying collateral including default rates, recoveries and changes in value. The assumptions used in these projections requires the use of significant management judgment.

The Company's assessment of a decline in value included management's current assessment of the factors noted above. The Company also seeks advice from its outside investment managers. If that assessment changes in the future, the Company may ultimately record a loss after having originally concluded that the decline in value was temporary.

Net Investment Income and Realized Gains (Losses)

Net investment income is a function of the yield that the Company earns on invested assets and the size of the portfolio. The investment yield is a function of market interest rates at the time of investment as well as the type, credit quality and maturity of the invested assets. Accrued investment income, which is recorded in Other Assets, was $55 million and $62 million as of December 31, 2016 and December 31, 2015, respectively.

Net Investment Income

	Year Ended December 31,	
	2016	2015
	(in millions)	
Income from fixed-maturity securities managed by third parties	$ 169	$ 190
Income from internally managed securities:		
Fixed maturities	57	46
Other	17	51
Gross investment income	243	287
Investment expenses	(5)	(5)
Net investment income	$ 238	$ 282

Net Realized Investment Gains (Losses)

	Year Ended December 31,	
	2016	2015
	(in millions)	
Gross realized gains on available-for-sale securities	$ 9	$ 16
Gross realized losses on available-for-sale securities	(5)	(3)
Net realized gains (losses) on other invested assets	2	(9)
Other-than-temporary impairment	(44)	(31)
Net realized investment gains (losses)	$ (38)	$ (27)

The following table presents the roll-forward of the credit losses of fixed-maturity securities for which the Company has recognized an other-than-temporary-impairment and where the portion of the fair value adjustment related to other factors was recognized in OCI.

Roll Forward of Credit Losses
in the Investment Portfolio

	Year Ended December 31,	
	2016	2015
	(in millions)	
Balance, beginning of period	$ 97	$ 104
Additions for credit losses on securities for which an other-than-temporary-impairment was not previously recognized	3	3
Reductions for securities sold during the period	(4)	(17)
Additions for credit losses on securities for which an other-than-temporary-impairment was previously recognized	27	7
Balance, end of period	$ 123	$ 97

Investment Portfolio

Fixed-Maturity Securities and Short-Term Investments
by Security Type
As of December 31, 2016

Investment Category	Percent of Total (1)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	AOCI (2) Gain (Loss) on Securities with Other-Than-Temporary Impairment	Weighted Average Credit Rating (3)
				(dollars in millions)			
Fixed-maturity securities:							
Obligations of state and political subdivisions	64%	$ 3,507	$ 129	$ (21)	$ 3,615	$ 1	AA
U.S. government and agencies	1	36	3	0	39	—	AA+
Corporate securities	11	580	9	(24)	565	(8)	BBB
Mortgage-backed securities(4):							
RMBS	8	452	12	(30)	434	(19)	BB
CMBS	4	254	7	(2)	259	—	AAA
Asset-backed securities	6	314	11	—	325	11	AA
Foreign government securities	3	182	—	(31)	151	—	AA
Total fixed-maturity securities	97	5,325	171	(108)	5,388	(15)	A+
Short-term investments	3	143	0	—	143	—	AAA
Total investment portfolio	100%	$ 5,468	$ 171	$ (108)	$ 5,531	$ (15)	AA-

Fixed-Maturity Securities and Short-Term Investments
by Security Type
As of December 31, 2015

Investment Category	Percent of Total(1)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	AOCI Gain (Loss) on Securities with Other-Than-Temporary Impairment	Weighted Average Credit Rating (3)
				(dollars in millions)			
Fixed-maturity securities:							
Obligations of state and political subdivisions	62%	$ 3,820	$ 222	$ (1)	$ 4,041	$ 1	AA
U.S. government and agencies	1	47	4	0	51	—	AA+
Corporate securities	11	675	11	(18)	668	(13)	BBB+
Mortgage-backed securities(4):							
RMBS	9	538	11	(17)	532	(7)	BBB-
CMBS	3	219	4	0	223	—	AAA
Asset-backed securities	7	410	1	(17)	394	(16)	AA-
Foreign government securities	3	192	0	(11)	181	—	AA+
Total fixed-maturity securities	96	5,901	253	(64)	6,090	(35)	AA-
Short-term investments	4	257	0	—	257	—	A+
Total investment portfolio	100%	$ 6,158	$ 253	$ (64)	$ 6,347	$ (35)	AA-

(1) Based on amortized cost.

(2) Accumulated OCI (AOCI). See also Note 17, Other Comprehensive Income.

(3) Ratings in the tables above represent the lower of the Moody's and S&P classifications except for bonds purchased for loss mitigation or risk management strategies, which use internal ratings classifications. The Company's portfolio consists primarily of high-quality, liquid instruments.

(4) Government-agency obligations were approximately 17% of mortgage backed securities as of December 31, 2016 and 29% as of December 31, 2015 based on fair value.

The Company’s investment portfolio in tax-exempt and taxable municipal securities includes issuances by a wide number of municipal authorities across the U.S. and its territories.

The following tables present the fair value of the Company's available-for-sale portfolio of obligations of state and political subdivisions as of December 31, 2016 and December 31, 2015 by state.

Fair Value of Available-for-Sale Portfolio of
Obligations of State and Political Subdivisions
As of December 31, 2016 (1)

State	State General Obligation	Local General Obligation	Revenue Bonds	Fair Value	Amortized Cost	Average Credit Rating
			(in millions)			
Fixed-maturity securities:						
New York	$ 13	$ 15	$ 342	$ 370	$ 359	AA
Texas	4	95	206	305	297	AA
California	35	45	216	296	278	AA-
Florida	6	8	195	209	202	AA-
Washington	26	33	138	197	196	AA
Massachusetts	47	—	100	147	140	AA
Illinois	4	44	91	139	135	A
Michigan	—	—	95	95	92	A+
Georgia	—	7	87	94	90	A+
Ohio	16	7	60	83	82	AA-
All others	101	113	685	899	883	AA-
Subtotal	$ 252	$ 367	$ 2,215	$ 2,834	$ 2,754	AA-

Fair Value of Available-for-Sale Portfolio of Obligations of State and Political Subdivisions As of December 31, 2015 (1)

State	State General Obligation	Local General Obligation	Revenue Bonds	Fair Value	Amortized Cost	Average Credit Rating
			(in millions)			
Fixed-maturity securities:						
New York	$ 13	$ 21	$ 356	$ 390	$ 370	AA
California	36	50	255	341	311	AA-
Texas	4	119	202	325	307	AA
Florida	6	—	218	224	209	AA-
Washington	27	39	146	212	202	AA
Massachusetts	44	—	110	154	142	AA
Illinois	4	44	100	148	139	A+
Arizona	—	7	123	130	123	AA
Pennsylvania	37	26	37	100	95	A
Georgia	1	7	89	97	91	A+
All others	104	116	821	1,041	987	AA-
Subtotal	276	429	2,457	3,162	2,976	AA-
Short-term investments (2)	—	—	60	60	60	CC
Total	$ 276	$ 429	$ 2,517	$ 3,222	$ 3,036	AA-

(1) Excludes $781 million and $879 million as of December 31, 2016 and 2015, respectively, of pre-refunded bonds, at fair value. The credit ratings are based on the underlying ratings and do not include any benefit from bond insurance.

(2) Matured in the first quarter of 2016.

The revenue bond portfolio is comprised primarily of essential service revenue bonds issued by transportation authorities and other utilities, water and sewer authorities, universities and healthcare providers.

Revenue Bonds Sources of Funds

Type	As of December 31, 2016		As of December 31, 2015	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
		(in millions)		
Fixed-maturity securities:				
Transportation	$ 569	$ 548	$ 614	$ 573
Tax backed	377	367	416	394
Higher education	347	338	362	342
Water and sewer	331	322	388	365
Municipal utilities	284	280	325	309
Healthcare	212	201	259	239
All others	95	94	93	89
Subtotal	2,215	2,150	2,457	2,311
Short-term investments (1)	—	—	60	60
Total	$ 2,215	$ 2,150	$ 2,517	$ 2,371

(1) Matured in the first quarter of 2016.

The following tables summarize, for all fixed-maturity securities in an unrealized loss position, the aggregate fair value and gross unrealized loss by length of time the amounts have continuously been in an unrealized loss position.

Fixed-Maturity Securities
Gross Unrealized Loss by Length of Time
As of December 31, 2016

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(dollars in millions)			
Obligations of state and political subdivisions	$ 648	$ (21)	$ —	$ —	$ 648	$ (21)
U.S. government and agencies	3	0	—	—	3	0
Corporate securities	81	(4)	118	(20)	199	(24)
Mortgage-backed securities:						
RMBS	189	(18)	86	(12)	275	(30)
CMBS	47	(2)	—	—	47	(2)
Asset-backed securities	—	—	—	—	—	—
Foreign government securities	38	(4)	113	(27)	151	(31)
Total	$ 1,006	$ (49)	$ 317	$ (59)	$ 1,323	$ (108)
Number of securities (1)		249		47		292
Number of securities with other-than-temporary impairment		5		7		12

Fixed-Maturity Securities
Gross Unrealized Loss by Length of Time
As of December 31, 2015

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(dollars in millions)			
Obligations of state and political subdivisions	$ 90	$ (1)	$ 3	$ 0	$ 93	$ (1)
U.S. government and agencies	3	0	—	—	3	0
Corporate securities	153	(4)	90	(14)	243	(18)
Mortgage-backed securities:						
RMBS	150	(3)	74	(14)	224	(17)
CMBS	49	0	—	—	49	0
Asset-backed securities	269	(17)	—	—	269	(17)
Foreign government securities	92	(4)	82	(7)	174	(11)
Total	$ 806	$ (29)	$ 249	$ (35)	$ 1,055	$ (64)
Number of securities (1)		116		32		139
Number of securities with other-than-temporary impairment		6		4		10

(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.

Of the securities in an unrealized loss position for 12 months or more as of December 31, 2016, 38 securities had unrealized losses greater than 10% of book value. The total unrealized loss for these securities as of December 31, 2016 was $56 million. As of December 31, 2015, of the securities in an unrealized loss position for 12 months or more, nine securities had unrealized losses greater than 10% of book value with an unrealized loss of $26 million. The Company has determined that the unrealized losses recorded as of December 31, 2016 and December 31, 2015 were yield related and not the result of other-than-temporary-impairment.

The amortized cost and estimated fair value of available-for-sale fixed-maturity securities by contractual maturity as of December 31, 2016 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Distribution of Fixed-Maturity Securities
by Contractual Maturity
As of December 31, 2016

	Amortized Cost	Estimated Fair Value
	(in millions)	
Due within one year	$ 57	$ 57
Due after one year through five years	852	829
Due after five years through 10 years	1,191	1,212
Due after 10 years	2,520	2,597
Mortgage-backed securities:		
RMBS	452	434
CMBS	253	259
Total	$ 5,325	$ 5,388

The investment portfolio contains securities and cash that are either held in trust for the benefit of third party reinsurers in accordance with statutory requirements, placed on deposit to fulfill state licensing requirements, or otherwise restricted in the amount of $16 million and $33 million, based on fair value, as of December 31, 2016 and December 31, 2015, respectively. In addition, the total collateral required to be funded into a reinsurance trust account by AGM for the benefit of AGE as of December 31, 2016 and December 31, 2015 was approximately $208 million and $244 million, respectively, based on fair value.

No material investments of the Company were non-income producing for years ended December 31, 2016 and 2015, respectively.

Externally Managed Portfolio

The majority of the investment portfolio is managed by four outside managers. The Company has established detailed guidelines regarding credit quality, exposure to a particular sector and exposure to a particular obligor within a sector. The Company's investment guidelines generally do not permit its outside managers to purchase securities rated lower than A- by S&P or A3 by Moody’s, excluding a 2.5% allocation to corporate securities not rated lower than BBB by S&P or Baa2 by Moody’s.

Internally Managed Portfolio

The investment portfolio tables shown above include both assets managed externally and internally. In the table below, more detailed information is provided for the component of the total investment portfolio that is internally managed (excluding short-term investments and surplus note from affiliate). The internally managed portfolio, as defined below, represents approximately 15% and 14% of the investment portfolio, on a fair value basis as of December 31, 2016 and December 31, 2015, respectively. The internally managed portfolio consists primarily of the Company's investments in securities for (i) loss mitigation purposes, (ii) other risk management purposes and (iii) where the Company believes a particular security presents an attractive investment opportunity.

One of the Company's strategies for mitigating losses has been to purchase securities it has insured that have expected losses, at discounted prices (loss mitigation securities). In addition, the Company holds other invested assets that were obtained or purchased as part of negotiated settlements with insured counterparties or under the terms of our financial guaranties (other risk management assets). During 2016, Assured Guaranty established an alternative investments group to focus on deploying a portion of the Company's excess capital to pursue acquisitions and develop new business opportunities that complement the Company's financial guaranty business, are in line with its risk profile and benefit from its core competencies. The alternative investments group has been investigating a number of such opportunities, including, among others, both controlling and non-controlling investments in investment managers. In February 2017 the Company agreed to purchase up to $100 million of limited partnership interests in a fund that invests in the equity of private equity managers.

Internally Managed Portfolio
Carrying Value

	As of December 31, 2016	As of December 31, 2015
	(in millions)	
Assets purchased for loss mitigation and other risk management purposes:		
Fixed maturity securities, at fair value	$ 855	$ 870
Other invested assets	9	15
Other	48	45
Total	$ 912	$ 930

10. Insurance Company Regulatory Requirements

The Company's ability to pay dividends depends, among other things, upon their financial condition, results of operations, cash requirements, compliance with rating agency requirements, and is also subject to restrictions contained in the insurance laws and related regulations of their state of domicile and other states. Financial statements prepared in accordance with accounting practices prescribed or permitted by local insurance regulatory authorities differ in certain respects from GAAP.

The Company's U.S. domiciled insurance companies prepare statutory financial statements in accordance with accounting practices prescribed or permitted by the National Association of Insurance Commissioners (NAIC) and their respective insurance departments. Prescribed statutory accounting practices are set forth in the NAIC Accounting Practices and Procedures Manual. The Company has no permitted accounting practices on a statutory basis.

GAAP differs in certain significant respects from U.S. insurance companies' statutory accounting practices prescribed or permitted by insurance regulatory authorities. The principal differences result from the following statutory accounting practices:

- upfront premiums are earned when related principal and interest have expired rather than earned over the expected period of coverage;
- acquisition costs are charged to expense as incurred rather than over the period that related premiums are earned;
- a contingency reserve is computed based on statutory requirements, whereas no such reserve is required under GAAP;
- certain assets designated as “non-admitted assets” are charged directly to statutory surplus, rather than reflected as assets under GAAP;
- investments in subsidiaries are carried on the balance sheet on the equity basis, to the extent admissible, rather than consolidated with the parent;
- the amount of deferred tax assets that may be admitted is subject to an adjusted surplus threshold and is generally limited to the lesser of those assets the Company expects to realize within three years of the balance sheet date or fifteen percent of the Company's adjusted surplus. This realization period and surplus percentage is subject to change based on the amount of adjusted surplus. Under GAAP there is no non-admitted asset determination, rather a valuation allowance is recorded to reduce the deferred tax asset to an amount that is more likely than not to be realized;
- insured credit derivatives are accounted for as insurance contracts rather than as derivative contracts measured at fair value;
- bonds are generally carried at amortized cost rather than fair value;
- insured obligations of VIEs and refinancing vehicles debt, where the Company is deemed the primary beneficiary, are accounted for as insurance contracts. Under GAAP, such VIEs and refinancing vehicles are consolidated and any transactions with the Company are eliminated;
- surplus notes are recognized as surplus and each payment of principal and interest is recorded only upon approval of the insurance regulator rather than liabilities with periodic accrual of interest;
- push-down acquisition accounting is not applicable under statutory accounting practices, as it is under GAAP;
- losses are discounted at a rate of 5%, recorded when the loss is deemed probable and without consideration of the deferred premium revenue. Under GAAP, expected losses are discounted at the risk free rate at the end of each reporting period and are recorded only to the extent they exceed deferred premium revenue; and
- the present value of installment premiums and commissions are not recorded on the balance sheet as they are under GAAP.

Insurance Regulatory Amounts Reported

	Policyholders' Surplus		Net Income (Loss)	
	As of December 31,		Year Ended December 31,	
	2016	2015	2016	2015
	(in millions)			
AGM(1)	$ 2,321	$ 2,441	$ 191	$ 217
MAC	487	730	142	102

(1) Policyholders' surplus of AGM includes its indirect ownership share of MAC. AGM owns approximately 61% of the outstanding stock of MAC Holdings, which owns 100% of the outstanding common stock of MAC.

Contingency Reserves

On July 15, 2013, AGM and its wholly-owned subsidiary AGE (together, the AGM Group), were notified that the New York State Department of Financial Services (NYDFS) does not object to the AGM Group reassuming all of the outstanding contingency reserves that the AGM Group had ceded to Assured Guaranty Re Ltd. (AG Re) and electing to cease ceding future contingency reserves to AG Re. The insurance regulator permitted the AGM Group to reassume the contingency reserves in increments over three years. In the third quarter of 2015, the AGM Group reassumed its final installment and as of December 31, 2015, the AGM Group had collectively reassumed an aggregate of approximately $255 million.

From time to time, AGM has obtained the approval of their regulators to release contingency reserves based on losses or because the accumulated reserve is deemed excessive in relation to the insurer's outstanding insured obligations. In 2016, on the latter basis, AGM obtained the NYDFS's approval for a contingency reserve release of approximately $175 million. In addition, MAC also released approximately $53 million of contingency reserves, which consisted of the assumed contingency reserves maintained by MAC, as reinsurer of AGM, in respect of the same obligations that were the subject of AGM's $175 million release.

With respect to the regular, quarterly contributions to contingency reserves required by New York laws and regulations, such laws and regulations permit the discontinuation of such quarterly contributions to a company's contingency reserves when such company's aggregate contingency reserves for a particular line of business (i.e., municipal or non-municipal) exceed the sum of the company's outstanding principal for each specified category of obligations within the particular line of business multiplied by the specified contingency reserve factor for each such category. In accordance with such laws and regulations, and with the approval of the NYDFS, AGM ceased making quarterly contributions to its contingency reserves for non-municipal business, beginning in the fourth quarter of 2014. Such cessations are expected to continue for as long as AGM satisfies the foregoing condition for its applicable line of business.

Dividend Restrictions and Capital Requirements

Under New York insurance law, AGM and MAC may only pay dividends out of "earned surplus," which is the portion of the company's surplus that represents the net earnings, gains or profits (after deduction of all losses) that have not been distributed to shareholders as dividends, transferred to stated capital or capital surplus, or applied to other purposes permitted by law, but does not include unrealized appreciation of assets. AGM and MAC may each pay dividends without the prior approval of the New York Superintendent of Financial Services (New York Superintendent) that, together with all dividends declared or distributed by it during the preceding 12 months, do not exceed the lesser of 10% of its policyholders' surplus (as of its last annual or quarterly statement filed with the New York Superintendent) or 100% of its adjusted net investment income during that period. The maximum amount available during 2017 for AGM to distribute as dividends without regulatory approval is estimated to be approximately $232 million, of which approximately $81 million is estimated to be available for distribution in the first quarter of 2017. The maximum amount available during 2017 for MAC to distribute as dividends without regulatory approval is estimated to be approximately $49 million. Since its capitalization in 2013, MAC has not distributed any dividends. MAC currently intends to allocate the distribution of such amount quarterly in 2017.

On June 30, 2016, MAC obtained approval from the NYDFS to repay its $300 million surplus note to MAC Holdings and its $100 million surplus note (plus accrued interest) to AGM. Accordingly, on June 30, 2016, MAC transferred cash and/or marketable securities to (i) MAC Holdings in an aggregate amount equal to $300 million, and (ii) AGM in an aggregate amount of $102.5 million. MAC Holdings, upon receipt of such $300 million from MAC, distributed cash and/or marketable

securities in an aggregate amount of $300 million to its shareholders, AGM and AGC, in proportion to their respective 61% and 39% ownership interests such that AGM received $182 million and AGC received $118 million.

U.K. company law prohibits AGE from declaring a dividend to its shareholder unless it has “profits available for distribution.” The determination of whether a company has profits available for distribution is based on its accumulated realized profits less its accumulated realized losses. While the U.K. insurance regulatory laws impose no statutory restrictions on a general insurer's ability to declare a dividend, the Prudential Regulation Authority's capital requirements may in practice act as a restriction on dividends.

Dividends and Surplus Note
By Insurance Company

	Year Ended December 31,	
	2016	2015
	(in millions)	
Dividends paid by AGM to AGMH	$ 247	$ 215
Repayment of surplus note by AGM to AGMH	—	25
Repayment of surplus note by MAC to AGM	100	—
Repayment of surplus note by MAC to MAC Holdings (1)	300	—

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(1) MAC Holdings returned $300 million to AGM and AGC, in proportion to their ownership percentages, in the second quarter of 2016.

Stock Redemption Plan

On November 25, 2016, the New York Superintendent approved AGM's request to repurchase 125 of its shares of common stock from its direct parent, AGMH, for approximately $300 million. AGM implemented the stock redemption plan in December 2016. Each share repurchased by AGM was retired and ceased to be an authorized share. Pursuant to AGM's Amended and Restated Charter, the par value of AGM's remaining shares of common stock issued and outstanding increased automatically in order to maintain AGM's total paid-in capital at $15 million and its authorized capital at $20 million.

11. Income Taxes

Accounting Policy

The provision for income taxes consists of an amount for taxes currently payable and an amount for deferred taxes. Deferred income taxes are provided for temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities, using enacted rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded to reduce the deferred tax asset to an amount that is more likely than not to be realized.

Non-interest-bearing tax and loss bonds are purchased in the amount of the tax benefit that results from deducting contingency reserves as provided under Internal Revenue Code Section 832(e). The Company records the purchase of tax and loss bonds in deferred taxes.

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

Overview

The Company files its U.S. federal tax return as a part of the consolidated group for Assured Guaranty US Holdings Inc. (AGUS), an indirect parent holding company. Each member of the AGUS consolidated tax group is part of a tax sharing agreement and pays or receives its proportionate share of the consolidated regular federal tax liability for the group as if each company filed on a separate return basis.

Provision for Income Taxes

A reconciliation of the difference between the provision for income taxes and the expected tax provision at statutory rates in taxable jurisdictions is presented below:

Effective Tax Rate Reconciliation

	Year Ended December 31,	
	2016	2015
	(in millions)	
Expected tax provision (benefit) at statutory rate	$ 148	$ 229
Tax-exempt interest	(37)	(41)
Change in liability for uncertain tax positions	6	8
Effect of provision to tax return filing adjustments	(6)	(8)
Other	(7)	(2)
Total provision (benefit) for income taxes	$ 104	$ 186
Effective tax rate	24.8%	28.4%

The expected tax provision at statutory rates in taxable jurisdictions is calculated as the sum of pretax income in each jurisdiction multiplied by the statutory tax rate of the jurisdiction by which it will be taxed. Pretax income of the Company's subsidiaries which are not U.S. domiciled but are subject to U.S. tax by election are included at the U.S. statutory tax rate.

Components of Net Deferred Tax Assets

	As of December 31,	
	2016	2015
	(in millions)	
Deferred tax assets:		
Unrealized losses on credit derivative financial instruments, net	$ 25	$ 28
Unearned premium reserves, net	53	122
Loss and LAE reserve	66	—
Tax and loss bonds	50	39
Deferred ceding commission	27	25
FG VIEs	23	29
Deferred compensation	13	12
Investment basis difference	48	51
Other	6	14
Total deferred income tax assets	311	320
Deferred tax liabilities:		
Contingency reserves	82	64
Loss and LAE reserve	—	50
Unrealized appreciation on committed capital securities	10	10
Unrealized appreciation on investments	23	66
Market discount	14	21
Other	6	6
Total deferred income tax liabilities	135	217
Net deferred income tax asset	$ 176	$ 103

Valuation Allowance

The Company came to the conclusion that it is more likely than not that the net deferred tax asset will be fully realized after weighing all positive and negative evidence available as required under GAAP. The positive evidence that was considered included the cumulative income the Company has earned over the last three years, and the significant unearned premium income to be included in taxable income. The positive evidence outweighs any negative evidence that exists. As such, the Company believes that no valuation allowance is necessary in connection with this deferred tax asset. The Company will continue to analyze the need for a valuation allowance on a quarterly basis.

Audits

AGUS has open tax years with the U.S. Internal Revenue Service (IRS) for 2009 forward and is currently under audit for the 2009 - 2012 tax years. In December of 2016 the IRS issued a Revenue Agent Report which did not identify any material adjustments that were not already accounted for in the prior periods. It is expected that the audit will close in 2017 and depending on the final outcome reserves for uncertain tax positions may be released. The Company's U.K. subsidiary, AGE, is not currently under examination and has open tax years of 2014 forward.

Uncertain Tax Positions

The following table provides a reconciliation of the beginning and ending balances of the total liability for unrecognized tax positions.

	2016	2015
	(in millions)	
Balance as of January 1,	$ 18	$ 11
Effect of provision to tax return filing adjustments	3	7
Increase in unrecognized tax positions as a result of position taken during the current year	2	—
Balance as of December 31,	$ 23	$ 18

The Company's policy is to recognize interest related to uncertain tax positions in income tax expense and has accrued $0.8 million for 2016 and $0.5 million for 2015. As of December 31, 2016 and December 31, 2015, the Company has accrued $3.6 million and $2.8 million of interest, respectively.

The total amount of unrecognized tax positions as of December 31, 2016 would affect the effective tax rate, if recognized.

Tax Treatment of CDS

The Company treats the guaranty it provides on CDS as an insurance contract for tax purposes and as such a taxable loss does not occur until the Company expects to make a loss payment to the buyer of credit protection based upon the occurrence of one or more specified credit events with respect to the contractually referenced obligation or entity. The Company holds its CDS to maturity, at which time any unrealized fair value loss in excess of credit-related losses would revert to zero. The tax treatment of CDS is an unsettled area of the law. The uncertainty relates to the IRS determination of the income or potential loss associated with CDS as either subject to capital gain (loss) or ordinary income (loss) treatment. In treating CDS as insurance contracts the Company treats both the receipt of premium and payment of losses as ordinary income and believes it is more likely than not that any CDS credit related losses will be treated as ordinary by the IRS. To the extent the IRS takes the view that the losses are capital losses in the future and the Company incurred actual losses associated with the CDS, the Company would need sufficient taxable income of the same character within the carryback and carryforward period available under the tax law.

12. Reinsurance and Other Monoline Exposures

The Company assumes exposure on insured obligations (Assumed Business) and may cede portions of its exposure on obligations it has insured (Ceded Business) in exchange for premiums, net of ceding commissions. The Company historically entered into ceded reinsurance contracts in order to obtain greater business diversification and reduce the net potential loss from large risks.

Accounting Policy

For business assumed and ceded, the accounting model of the underlying direct financial guaranty contract dictates the accounting model used for the reinsurance contract (except for those eliminated as FG VIEs). For any assumed or ceded financial guaranty insurance premiums and financial guaranty insurance losses, the accounting models described in Note 5 are followed. For any ceded credit derivative contracts, the accounting model in Note 7 is followed.

Ceded and Assumed Business

The Company has Ceded Business to affiliated and non-affiliated companies to limit its exposure to risk. Under these relationships, the Company ceded a portion of its insured risk to the reinsurer in exchange for the reinsurer receiving a share of the Company's premiums for the insured risk (typically, net of a ceding commission). The Company remains primarily liable for all risks it directly underwrites and is required to pay all gross claims. It then seeks reimbursement from the reinsurer for its proportionate share of claims. The Company may be exposed to risk for this exposure if it were required to pay the gross claims and not be able to collect ceded claims from an assuming company experiencing financial distress. A number of the financial guaranty insurers to which the Company has ceded par have experienced financial distress and been downgraded by the rating agencies as a result. In addition, state insurance regulators have intervened with respect to some of these insurers. The Company's ceded contracts generally allow the Company to recapture Ceded Business after certain triggering events, such as reinsurer downgrades.

AGM is also party to reinsurance agreements as a reinsurer to its affiliated financial guaranty insurance companies. In 2013, MAC assumed a book of U.S. public finance business from AGM and AGC.

The Company has assumed business primarily from its affiliate, AGC. Under this relationship, the Company assumes a portion of the ceding company’s insured risk in exchange for a premium. The Company may be exposed to risk in this portfolio in that the Company may be required to pay losses without a corresponding premium in circumstances where the ceding company is experiencing financial distress and is unable to pay premiums. The Company's agreement with AGC is generally subject to termination at the option of the ceding company if the Company fails to meet certain financial and regulatory criteria or to maintain a specified minimum financial strength rating. Upon termination under these conditions, the Company may be required to return to the ceding company unearned premiums and loss reserves calculated on a statutory basis of accounting, attributable to the reinsurance assumed, after which the Company would be released from liability with respect to the Assumed Business. Upon the occurrence of the conditions set forth above, whether or not an agreement is terminated, the Company may be obligated to increase the level of ceding commission paid.

Over the past several years, the Company has entered into several commutations in order to reassume previously ceded books of business from its reinsurers. The Company expects to complete another such commutation, this time of the entire remaining portfolio assumed by one of its unaffiliated reinsurers, before the end of the first quarter of 2017. The size of such portfolio is approximately $1 billion of par, consisting predominantly of U.S. public finance and international public and project finance exposures. For such reassumption, the Company will receive the statutory unearned premium (net of commission) and loss and loss adjustment expense reserves outstanding as of the commutation date, plus a commutation premium. The Company is in the process of finalizing the effect of the commutation and expects to record a benefit in the first quarter of 2017.

Net Effect of Commutations of Ceded Reinsurance Contracts

	Year Ended December 31, 2016	Year Ended December 31, 2015
	(in millions)	
Increase (decrease) in net unearned premium reserve	$ —	$ 23
Increase (decrease) in net par outstanding	56	855
Commutation gains	13	28

The following table presents the components of premiums and losses reported in the consolidated statement of operations and the contribution of the Company's Assumed and Ceded Businesses.

Effect of Reinsurance on Statement of Operations

	Year Ended December 31,	
	2016	2015
	(in millions)	
Premiums Written:		
Direct	$ 160	$ 146
Assumed	1	16
Ceded	(83)	(47)
Net	$ 78	$ 115
Premiums Earned:		
Direct	$ 542	$ 521
Assumed	52	37
Ceded	(149)	(154)
Net	$ 445	$ 404
Loss and LAE:		
Direct	$ 285	$ 157
Ceded	(85)	(47)
Net	$ 200	$ 110

In addition to the items presented in the table above, the Company records in net change in fair value of credit derivatives on the consolidated statements of operations, the effect of ceded credit derivative exposures. These amounts were losses of $54 million in 2016 and gains of $14 million in 2015. The Company has no assumed credit derivative exposures.

Other Monoline Exposures

In addition to assumed and ceded reinsurance arrangements, the Company may also have exposure to some financial guaranty reinsurers (i.e., monolines) in other areas. Second-to-pay insured par outstanding represents transactions the Company has insured that were previously insured by third party insurers and reinsurers as well as affiliated companies. The Company underwrites such transactions based on the underlying insured obligation without regard to the primary insurer. Another area of exposure is in the investment portfolio where the Company holds fixed-maturity securities that are wrapped by monolines and whose value may change based on the rating of the monoline. As of December 31, 2016, based on fair value, the Company had fixed-maturity securities in its investment portfolio consisting of $87 million insured by National, $83 million insured by Ambac, $54 million insured by AGC, $294 million insured by the Company's affiliate Assured Guaranty (UK) Ltd., and $8 million insured by other guarantors.

In addition, the Company acquired bonds for loss mitigation or other risk management purposes in the amount of $126 million insured by FGIC UK Limited.

In accordance with U.S. statutory accounting requirements and U.S. insurance laws and regulations, in order for the Company to receive credit for liabilities ceded to reinsurers domiciled outside of the U.S., such reinsurers must secure their liabilities to the Company. All of the unauthorized reinsurers in the tables below are required to post collateral for the benefit of the Company in an amount at least equal to the sum of their ceded unearned premium reserve, loss reserves and contingency reserves all calculated on a statutory basis of accounting. In addition, certain authorized reinsurers in the tables below post collateral on terms negotiated with the Company.

Monoline and Reinsurer Exposure by Company

Reinsurer	Par Outstanding As of December 31, 2016		
	Ceded Par Outstanding (1)	Second-to-Pay Insured Par Outstanding (2)	Assumed Par Outstanding
		(in millions)	
Affiliated Companies:			
AGC (3) (4)	$ 2,705	$ 168	$ 16,923
AG Re (4)	53,414	—	—
Affiliated Companies	56,119	168	16,923
Non-Affiliated Companies:			
Reinsurers rated investment grade:			
Tokio Marine & Nichido Fire Insurance Co., Ltd. (4) (5)	3,440	—	—
Mitsui Sumitomo Insurance Co. Ltd. (4) (5)	1,274	—	—
National	—	2,849	—
Subtotal	4,714	2,849	—
Reinsurers rated BIG, that had rating withdrawn or not rated:			
American Overseas Reinsurance Company Limited (3)	3,063	—	30
Syncora Guarantee Inc. (4)	2,062	412	462
ACA Financial Guaranty Corp.	637	—	—
Ambac	—	1,555	—
FGIC (6)	—	586	—
MBIA Insurance Corp.	—	570	—
MBIA UK Insurance Limited (7)	—	154	—
Ambac Assurance Corp. Segregated Account	—	71	—
Other (4)	20	—	0
Subtotal	5,782	3,348	492
Non-Affiliated Companies	10,496	6,197	492
Total	$ 66,615	$ 6,365	$ 17,415

(1) Of the total ceded par to reinsurers rated BIG, that had rating withdrawn or not rated, $340 million is rated BIG.

(2) The par on second-to-pay exposure where the primary insurer and underlying transaction rating are both BIG is $340 million.

(3) Assumed par outstanding includes $16,894 million assumed by MAC from AGC.

(4) The total collateral posted by all affiliated and non-affiliated reinsurers required or had agreed to post collateral as of December 31, 2016, is approximately $955 million. The collateral excludes amounts posted by AGM for the benefit of AGE, See Note 13, Related Party Transactions.

(5) The Company benefits from trust arrangements that satisfy the triple-A credit requirement of S&P and/or Moody's.

(6) FGIC includes subsidiaries Financial Guaranty Insurance Company and FGIC UK Limited.

(7) On January 10, 2017, the Company's affiliate AGC completed its acquisition of MBIA UK Insurance Limited, which subsequently changed its name to Assured Guaranty (London) Ltd. (AGLN). On January 12, 2017, S&P placed AGLN's BB financial strength rating on credit watch positive. On January 13, 2017, Moody's upgraded the insurance financial strength rating of AGLN to Baa2 from Ba2.

Amounts Due (To) From Reinsurers
As of December 31, 2016

	Assumed Premium	Ceded Premium, net of Commissions	Ceded Expected Loss to be Paid
		(in millions)	
Affiliated Companies:			
AGC	$ 1	$ (10)	$ 30
AG Re	—	(50)	89
Affiliated Companies	1	(60)	119
Non-Affiliated Companies:			
Reinsurers rated investment grade	—	(11)	62
Reinsurers rated non-investment grade, had rating withdrawn or not rated:			
American Overseas Reinsurance Company Limited	—	(4)	28
Syncora Guarantee Inc.	12	(18)	(3)
Other	—	(10)	—
Subtotal	12	(32)	25
Non-Affiliated Companies	12	(43)	87
Total	$ 13	$ (103)	$ 206

Excess of Loss Reinsurance Facility

AGC, AGM and MAC entered into a $360 million aggregate excess of loss reinsurance facility with a number of reinsurers, effective as of January 1, 2016. This facility replaces a similar $450 million aggregate excess of loss reinsurance facility that AGC, AGM and MAC had entered into effective January 1, 2014 and which terminated on December 31, 2015. The new facility covers losses occurring either from January 1, 2016 through December 31, 2023, or January 1, 2017 through December 31, 2024, at the option of AGC, AGM and MAC. It terminates on January 1, 2018, unless AGC, AGM and MAC choose to extend it. The new facility covers certain U.S. public finance credits insured or reinsured by AGC, AGM and MAC as of September 30, 2015, excluding credits that were rated non-investment grade as of December 31, 2015 by Moody’s or S&P or internally by AGC, AGM or MAC and is subject to certain per credit limits. Among the credits excluded are those associated with the Commonwealth of Puerto Rico and its related authorities and public corporations. The new facility attaches when AGC’s, AGM’s and MAC’s net losses (net of AGC’s and AGM's reinsurance (including from affiliates) and net of recoveries) exceed $1.25 billion in the aggregate. The new facility covers a portion of the next $400 million of losses, with the reinsurers assuming pro rata in the aggregate $360 million of the $400 million of losses and AGC, AGM and MAC jointly retaining the remaining $40 million. The reinsurers are required to be rated at least AA- or to post collateral sufficient to provide AGC, AGM and MAC with the same reinsurance credit as reinsurers rated AA-. AGC, AGM and MAC are obligated to pay the reinsurers their share of recoveries relating to losses during the coverage period in the covered portfolio. AGC, AGM and MAC paid approximately $9 million of premiums in 2016 (of which AGM and MAC paid approximately $8 million) for the term January 1, 2016 through December 31, 2016 and had approximately $9 million of cash in trust accounts for the benefit of the reinsurers to be used to pay the premium for January 1, 2017 through December 31, 2017.

13. Related Party Transactions

Guarantees or Contingencies for Related Parties

AGM currently provides support to AGE, through a quota share and excess of loss reinsurance agreement (the Reinsurance Agreement) and a net worth maintenance agreement (the AGE Net Worth Agreement). For transactions closed prior to 2011, AGE typically guaranteed all of the guaranteed obligations directly and AGM reinsured under the quota share cover of the Reinsurance Agreement approximately 92% of AGE's retention after cessions to other reinsurers. In 2011, AGE and AGM implemented a co-guarantee structure pursuant to which (i) AGE directly guarantees a portion of the guaranteed obligations in an amount equal to what would have been AGE's pro rata retention percentage under the quota share cover, (ii)

AGM directly guarantees the balance of the guaranteed obligations, and (iii) AGM also provides a second-to-pay guarantee for AGE's portion of the guaranteed obligations. AGM's ability to provide such direct guaranties outside of the U.K. is uncertain.

Under the excess of loss cover of the Reinsurance Agreement, AGM pays AGE quarterly the amount by which (i) the sum of (a) AGE’s incurred losses calculated in accordance with U.K. GAAP as reported by AGE in its financial returns filed with the PRA and (b) AGE’s paid losses and LAE, in both cases net of all other performing reinsurance, including the reinsurance provided by the Company under the quota share cover of the Reinsurance Agreement, exceeds (ii) an amount equal to (a) AGE’s capital resources under U.K. law minus (b) 110% of the greatest of the amounts as may be required by the PRA as a condition for AGE to maintain its authorization to carry on a financial guarantee business in the U.K. The Reinsurance Agreement permits AGE to terminate the Reinsurance Agreement upon the following events: a downgrade of AGM’s ratings by Moody’s below Aa3 or by S&P below AA- if AGM fails to restore its rating(s) to the required level within a prescribed period of time; AGM's insolvency; failure by AGM to maintain the minimum capital required by its domiciliary jurisdiction; or AGM filing a petition in bankruptcy, going into liquidation or rehabilitation or having a receiver appointed.

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

The Reinsurance Agreement also contemplates the establishment of collateral by AGM to support AGM’s reinsurance obligations to AGE. In December 2014, to satisfy the PRA’s collateral requirements, AGM and AGE entered into a trust agreement pursuant to which AGM established and deposited assets into a reinsurance trust account for the benefit of AGE. AGM’s collateral requirement was measured during 2015, as of the end of each calendar quarter, by (i) using the PRA’s FG Benchmark Model to calculate at the 99.5% confidence interval the losses expected to be borne collectively by AGE’s three affiliated reinsurers, AGM, AG Re and Assured Guaranty Re Overseas Ltd. (AGRO); (ii) deducting from such calculation AGE’s capital resources under such model; and (iii) requiring AGM, AG Re and AGRO collectively to maintain collateral equal to fifty percent (50%) of such difference, i.e., the excess of AGM’s, AG Re’s and AGRO’s assumed modeled losses over AGE’s capital resources. As of January 1, 2016, the PRA agreed to allow AGM’s collateral requirement to be determined using AGE’s internal capital requirement model instead of the FG Benchmark Model under the same formula described above. This change in the calculation of AGM's required collateral was reflected in an amendment to the Reinsurance Agreement approved by the NYDFS and made effective in April 2016.

Pursuant to the AGE Net Worth Agreement, AGM is obligated to cause AGE to maintain capital resources equal to 110% of the greatest of the amounts as may be required by the PRA as a condition for AGE to maintain its authorization to carry on a financial guarantee business in the U.K., provided that AGM's contributions (a) do not exceed 35% of AGM's policyholders' surplus on an accumulated basis as determined by the laws of the State of New York, and (b) are in compliance with Section 1505 of the New York Insurance Law. AGM has never been required to make any contributions to AGE's capital under the AGE Net Worth Agreement or the prior net worth maintenance agreement. With the approval of the NYDFS, AGE and AGM amended the AGE Net Worth Agreement effective in April 2016 to provide for use of the internal capital requirement model.

Management, Service Contracts or Cost Sharing Arrangements

Until December 31, 2016, the Company and various of its affiliates were parties to the Amended and Restated Service Agreement, effective as April 1, 2015 (the Group Service Agreement). Under the Group Service Agreement, the Company’s Maryland affiliate, AGC, was the payroll company for, and employer of, the U.S. employees of the Assured Guaranty group. AGC’s employees made available to its Bermuda, U.S. and U.K. affiliates, as applicable, equipment, insurance, reinsurance and such other services, including actuarial, marketing, underwriting, claims handling, surveillance, legal, corporate secretarial, information technology, human resources, accounting, tax, financial reporting and investment planning services. In addition, under the Group Service Agreement the Company made available to AGC and the other affiliates the use of certain equipment and office space leased by the Company. Expenses under the Group Service Agreement were allocated directly where appropriate and, where not appropriate, based upon an allocation of employee time and corresponding office overhead. The agreement provided for 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.

In the first quarter of 2017, the Company’s indirect parent, AG US Holdings, formed and capitalized AG US Group Services Inc. (AG Services), a Delaware corporation, to act as the payroll company and employer for all U.S. personnel and the central, dedicated service provider within the Assured Guaranty group in place of AGC. This structure is consistent with the way in which numerous other insurance holding companies provide inter-company staff and services. Accordingly, effective January 1, 2017, (i) AGC transferred the employees and the employee benefit, retirement and health plans relating to such employees to AG Services; and (ii) the Group Service Agreement was amended and restated to replace AGC with AG Services

as the payroll company and service provider under the agreement. Such amended and restated agreement is substantially identical to the Group Service Agreement except for a few changes primarily related to operational matters, including pre-funding by affiliates who are the largest consumers of group services and inter-company allocation of expenses.

See Note 16, Employee Benefit Plans for expenses related to Long-Term Compensation Plans of AGL which are allocated to AGM.

The following table summarizes the allocated expenses from (to) affiliate companies under the expense sharing agreements.

Expenses Allocated From (To) Affiliated Companies

	Year Ended December 31, 2016	Year Ended December 31, 2015
	(in millions)	
Affiliated companies:		
AGC	$ 77	$ 68
Assured Guaranty Finance Overseas Ltd.	3	9
AGL	6	6
Assured Guaranty (UK) Services Limited	5	5
Total	$ 91	$ 88

The following table summarizes the amounts due (to) from affiliate companies under the expense sharing agreements.

Amounts Due (To) From Affiliated Companies

	As of December 31, 2016	As of December 31, 2015
	(in millions)	
Affiliated companies:		
AGC	$ (45)	$ (36)
AGL	(4)	(5)
Assured Guaranty Finance Overseas Ltd.	(1)	(2)
Other	(2)	(3)
Total	$ (52)	$ (46)

Reinsurance Agreements

The Company cedes to and assumes from affiliated entities under certain reinsurance agreements. See below for material balance sheet and statement of operations items related to insurance transactions.

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

	As of December 31,	
	2016	2015
	(in millions)	
Assets:		
Premium receivable		
AGC	$ 1	$ 2
Ceded unearned premium reserve		
AG Re	544	564
AGC	45	56
Reinsurance recoverable on unpaid losses		
AG Re	79	62
AGC	33	24
Profit commission receivable (1)		
AG Re	1	0
Net credit derivative assets		
AG Re	2	18
AGC	0	0
Liabilities:		
Unearned premium reserve		
AGC	121	172
Ceded premium payable, net of ceding commission (2)		
AG Re	50	53
AGC	10	13
Ceded salvage and subrogation recoverable (2)		
AG Re	7	1
AGC	9	1
Ceded funds held (3)		
AG Re	15	35
AGC	12	25
Deferred ceding commissions (3)		
AG Re	119	113
AGC	1	1
Other liabilities		
AG Re	—	6
AGC	—	5
Other information:		
Exposure		
Assumed par outstanding		
AGC	16,923	19,836
Ceded par outstanding		
AG Re	53,414	56,985
AGC	2,705	3,349

(1) Included in other assets on the consolidated balance sheets.
(2) Included in reinsurance balances payable, net on the consolidated balance sheets.
(3) Included in other liabilities on the consolidated balance sheets.

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

	Year Ended December 31,	
	2016	2015
	(in millions)	
Revenues:		
Net earned premiums		
AG Re	$ (91)	$ (80)
AGC	41	25
Profit commission income		
AG Re	1	0
Realized gains and other settlements on credit derivatives		
AG Re	0	0
AGC	0	4
Net unrealized gains (losses) on credit derivatives		
AG Re	(1)	(5)
Expenses:		
Loss and loss adjustment expenses (recoveries)		
AG Re	(39)	(15)
AGC	(14)	(12)
Commissions incurred (earned)		
AG Re	(17)	(15)
AGC	0	0

Other Invested Assets

Surplus Note from AGC

On December 18, 2009, AGC issued a surplus note with a principal amount of $300 million to AGM. This note carried a simple interest rate of 5.0% per annum and matures on December 31, 2029. Principal is payable at the option of AGC prior to the final maturity of the note in 2029 and interest is payable on the note annually in arrears as of December 31 of each year, commencing December 31, 2010. Payments of principal and interest are subject to AGC having policyholders' surplus in excess of statutory minimum requirements after such payment and to prior written approval by the Maryland Insurance Administration. On April 11, 2016, the surplus note agreement was amended to reduce the simple interest rate to 3.5% per annum effective January 1, 2016. AGM recognized $11 million and $15 million of interest income in each of the years ended December 31, 2016 and 2015. AGM also received $11 million and $15 million of interest from AGC in each of the years ended December 31, 2016 and 2015. There was no principal paydown on the surplus note by AGC.

Capital Contributions from AGMH

In the third quarter of 2008, AGM issued a non-interest bearing surplus note with no term to AGMH in exchange for $300 million which, due to the terms of the agreement, is recorded as capital. Principal on the surplus note may be paid at any time at the option of the Company, subject to prior approval of the New York Superintendent and in compliance with the conditions to such payments as contained in the New York Insurance Laws. The Company repaid $25 million in principal on this surplus note in 2015. AGM fully repaid the surplus note in March 2015 after obtaining approval from the New York Department of Financial Services.

14. Commitments and Contingencies

Leases

AGM and AGE are party to various lease agreements accounted for as operating leases. The Company leases and occupies space in New York City through 2032. In addition, AGM and AGE lease additional office space in various locations under non-cancelable operating leases which expire at various dates through 2029. Rent expense allocated to the Company for all premises was $7.0 million in 2016 and $4.7 million in 2015.

AGM entered into an operating lease effective January 1, 2016, for new office space comprising one full floor and one partial floor at 1633 Broadway in New York City. Assured Guaranty moved the principal place of business of AGM, AGC, MAC and AGL's other U.S. based subsidiaries from 31 West 52nd Street in New York City to this new location during the summer of 2016. The new lease is for approximately 88,000 square feet and runs until 2032, with an option, subject to certain conditions, to renew for five years at a fair market rent. The fixed annual rent, which commences after an initial rent holiday, begins at $6.2 million, rising in two steps to $7.3 million for the last five years of the initial term. In connection with the move and in return for rent abatement and certain other concessions, AGM terminated its lease on its existing office space at 31 West 52nd Street, which had been scheduled to run until 2026. On September 23, 2016, AGM entered into an amendment to the 1633 Broadway lease to include the remaining portion of the partial floor for the remainder of the lease term. The fixed annual rent, which commences after an initial rent holiday, begins at $1.1 million per annum, rising in two steps to $1.3 million for the last five years of the initial term.

Future Minimum Rental Payments

Year	(in millions)
2017	$ 6
2018	7
2019	9
2020	9
2021	9
Thereafter	86
Total	$ 126

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.

In addition, in the ordinary course of their respective businesses, the Company and its affiliates assert claims in legal proceedings against third parties to recover losses paid in prior periods or prevent losses in the future, including those described in the "Recovery Litigation," section of Note 4, Expected Loss to be Paid. For example, as described there, in January 2016, the Company commenced an action for declaratory judgment and injunctive relief in the U.S. District Court for the District of Puerto Rico to invalidate executive orders issued by the Governor of Puerto Rico directing the retention or transfer of certain taxes and revenues pledged to secure the payment of certain bonds insured by the Company, and in July 2016, the Company filed a motion and form of complaint in the U.S. District Court for the District of Puerto Rico seeking relief from the PROMESA stay in order to file a complaint to protect its interest in certain pledged PRHTA toll revenues. The amounts, if any, the Company will recover in these and other proceedings to recover losses are uncertain, and recoveries, or failure to obtain recoveries, in any one or more of these proceedings during any quarter or year could be material to the Company’s results of operations in that particular quarter or year.

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

Litigation

Proceedings Relating to the Company's Financial Guaranty Business

AGM receives subpoenas *duces tecum* and interrogatories from regulators from time to time.

On September 25, 2013, Wells Fargo Bank, N.A., as trust administrator of the MASTR Adjustable Rate Mortgages Trust 2007-3 (Wells Fargo), filed an interpleader complaint in the U.S. District Court for the Southern District of New York seeking adjudication of a dispute between Wales LLC (Wales) and AGM as to whether AGM is entitled to reimbursement from certain cashflows for principal claims paid in respect of insured certificates. On September 30, 2016, the court issued an opinion denying a motion for judgment on the pleadings filed by Wales. On January 3, 2017, the Court approved a Stipulation and Order of Dismissal of Wales from the action due to Wales having sold its interests in the MASTR Adjustable Rate Mortgages Trust 2007-3 certificates. On February 9, 2017, the remaining parties submitted a Stipulation and (Proposed) Order of Voluntary Dismissal, which the Court has not yet so-ordered. The Company estimates that an adverse outcome to the interpleader proceeding could increase losses on the transaction by approximately $10 - $20 million, net of expected settlement payments and reinsurance in force.

Proceedings Related to AGMH's Former Financial Products Business

The following is a description of legal proceedings involving AGMH's former Financial Products Business. Although Assured Guaranty did not acquire AGMH's former Financial Products Business, which included AGMH's former GIC business, medium term notes business and portions of the leveraged lease businesses, certain legal proceedings relating to those businesses were against entities that Assured Guaranty did acquire. While Dexia SA and Dexia Crédit Local S.A (together, Dexia) have paid all expenses and settlement amounts due to date as a result of the proceedings described below, such indemnification might not be sufficient to fully hold the Company harmless against any injunctive relief or civil or criminal sanction that is imposed against the Company as a result of any potential newly asserted claims related to these matters.

Governmental Investigations into Former Financial Products Business

AGMH and/or AGM received subpoenas *duces tecum* and interrogatories or civil investigative demands from the Attorneys General of the States of Connecticut, Florida, Illinois, Massachusetts, Missouri, New York, Texas and West Virginia relating to their investigations of alleged bid rigging of municipal GICs. In addition, AGMH received a subpoena from the Antitrust Division of the Department of Justice in November 2006 issued in connection with an ongoing criminal investigation of bid rigging of awards of municipal GICs and other municipal derivatives. AGMH responded to such requests when they were received several years ago. While it is possible AGMH may receive additional inquiries from these or other regulators, the Company is not currently aware that any governmental authority, including such Attorneys General or the Department of Justice, are actively pursuing or contemplating legal proceedings with respect to AGMH's former Financial Products Business.

Lawsuits Relating to Former Financial Products Business

From 2008 through 2010, complaints were brought on behalf of a purported class of state, local and municipal government entities alleging federal antitrust violations in the municipal derivatives industry, seeking damages and alleging, among other things, a conspiracy to fix the pricing of, and manipulate bids for, municipal derivatives, including GICs. These actions were consolidated before one judge in the Southern District of New York as Municipal Derivatives Antitrust Litigation (MDL 1950). Following motions to dismiss, amended class action complaints were filed on behalf of a putative class of plaintiffs. The most recently amended, operative class action complaint does not list AGMH or its affiliates as defendants or co-conspirators. On July 8, 2016, the MDL 1950 Court entered an order approving settlement of the remaining class claims, resolving the putative class case.

In addition, the Attorney General of the State of West Virginia filed a lawsuit that, as amended, named AGM and Assured Guaranty U.S. Holdings as defendants and alleged a conspiracy to decrease the returns that West Virginia public entities earned on municipal derivative instruments. Also, approximately 19 California and New York government entities brought individual lawsuits that were not a part of the class action and that did not dismiss AGMH or its affiliates. All these cases were transferred to the Southern District of New York and consolidated with MDL 1950 for pretrial purposes. In June and July 2016, Dexia executed settlement agreements covering the action brought by the Attorney General of the State of West Virginia and the actions brought by the individual California and New York plaintiffs, and on July 1, 2016 and July 27, 2016, respectively, the MDL 1950 court dismissed with prejudice the claims against Assured Guaranty U.S. Holdings and AGM in all such actions. Those settlements release all claims as to Assured Guaranty U.S. Holdings, AGMH and AGM, as well as their parents, subsidiaries and affiliates.

15. Notes Payable and Credit Facilities

Notes Payable

Notes Payable represents debt issued by VIEs consolidated by AGM to one of the Financial Products Companies that were transferred to Dexia Holdings Inc. prior to the acquisition of AGMH. The funds borrowed were used to finance the purchase of the underlying obligations of AGM-insured obligations which had breached triggers allowing AGM to exercise its right to accelerate payment of a claim in order to mitigate loss. The assets purchased are classified as assets acquired in refinancing transactions and recorded in "other invested assets." The terms of the notes payable match the terms of the assets acquired in refinancing transactions.

The principal and carrying values of the Company's notes payable are presented in the table below.

Principal and Carrying Amounts of Notes Payable

	As of December 31,			
	2016		2015	
	Principal	Carrying Value	Principal	Carrying Value
	(in millions)			
Notes Payable	$ 9	$ 10	$ 12	$ 13

Principal payments due under the notes payable are as follows:

Expected Maturity Schedule of Notes Payable

Expected Withdrawal Date	Principal Amount
	(in millions)
2017	$ 4
2018	2
2019	1
2020	1
2021	0
Thereafter	1
Total	$ 9

Recourse Credit Facilities

2009 Strip Coverage Facility

In connection with the Company's acquisition of AGMH and its subsidiaries from Dexia Holdings Inc., AGM agreed to retain the risks relating to the debt and strip policy portions of the leveraged lease business.

In a leveraged lease transaction, a tax-exempt entity (such as a transit agency) transfers tax benefits to a tax-paying entity by transferring ownership of a depreciable asset, such as subway cars. The tax-exempt entity then leases the asset back from its new owner.

If the lease is terminated early, the tax-exempt entity must make an early termination payment to the lessor. A portion of this early termination payment is funded from monies that were pre-funded and invested at the closing of the leveraged lease transaction (along with earnings on those invested funds). The tax-exempt entity is obligated to pay the remaining, unfunded portion of this early termination payment (known as the strip coverage) from its own sources. AGM issued financial guaranty insurance policies (known as strip policies) that guaranteed the payment of these unfunded strip coverage amounts to the lessor,

in the event that a tax-exempt entity defaulted on its obligation to pay this portion of its early termination payment. AGM can then seek reimbursement of its strip policy payments from the tax-exempt entity, and can also sell the transferred depreciable asset and reimburse itself from the sale proceeds.

Currently, all the leveraged lease transactions in which AGM acts as strip coverage provider are breaching a rating trigger related to AGM and are subject to early termination. However, early termination of a lease does not result in a draw on the AGM policy if the tax-exempt entity makes the required termination payment. If all the leases were to terminate early and the tax-exempt entities do not make the required early termination payments, then AGM would be exposed to possible liquidity claims on gross exposure of approximately $953 million as of December 31, 2016. To date, none of the leveraged lease transactions that involve AGM has experienced an early termination due to a lease default and a claim on the AGM policy. At December 31, 2016, approximately $1.5 billion of cumulative strip par exposure had been terminated since 2008 on a consensual basis. The consensual terminations have resulted in no claims on AGM.

On July 1, 2009, AGM and Dexia Crédit Local S.A., acting through its New York Branch (Dexia Crédit Local (NY)), entered into a credit facility (the Strip Coverage Facility). Under the Strip Coverage Facility, Dexia Crédit Local (NY) agreed to make loans to AGM to finance all draws made by lessors on AGM strip policies that were outstanding as of November 13, 2008, up to the commitment amount.

There have never been any borrowings under the Strip Coverage Facility, the amount of the leveraged leases covered by the Strip Coverage Facility has declined since July 1, 2009 and to date none of the leveraged lease transactions in which AGM acts as the strip coverage provider has experienced an early termination due to a lease default. Consequently, and in view of the credit quality of the relevant tax-exempt entities and the cost of the Strip Coverage Facility, the Company determined that maintaining the Strip Coverage Facility was no longer warranted. On July 29, 2016, the parties terminated the Strip Coverage Facility.

AGM CPS Securities

In June 2003, $200 million of AGM CPS, money market preferred trust securities, were issued by trusts created for the primary purpose of issuing the AGM CPS, investing the proceeds in high-quality commercial paper and selling put options to AGM, allowing AGM to issue the trusts non-cumulative redeemable perpetual preferred stock (the AGM Preferred Stock) of AGM in exchange for cash. There are four trusts, each with an initial aggregate face amount of $50 million. These trusts hold auctions every 28 days, at which time investors submit bid orders to purchase AGM CPS. If AGM were to exercise a put option, the applicable trust would transfer the portion of the proceeds attributable to principal received upon maturity of its assets, net of expenses, to AGM in exchange for AGM Preferred Stock. AGM pays a floating put premium to the trusts, which represents the difference between the commercial paper yield and the winning auction rate (plus all fees and expenses of the trust). If an auction does not attract sufficient clearing bids, however, the auction rate is subject to a maximum rate of one-month LIBOR plus 200 basis points for the next succeeding distribution period. Beginning in August 2007, the AGM CPS required the maximum rate for each of the relevant trusts. AGM continues to have the ability to exercise its put option and cause the related trusts to purchase AGM Preferred Stock. The trusts provide AGM access to new capital at its sole discretion through the exercise of the put options. As of December 31, 2016 the put option had not been exercised.

See Note 6, Fair Value Measurement, -Other Assets-Committed Capital Securities, for a fair value measurement discussion.

16. Employee Benefit Plans

Accounting Policy

AGM 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.

Assured Guaranty Ltd. 2004 Long-Term Incentive Plan

Under the Assured Guaranty Ltd. 2004 Long-Term Incentive Plan, as amended (the Incentive Plan), the number of AGL common shares that may be delivered under the Incentive Plan may not exceed 18,670,000. In the event of certain transactions affecting AGL's common shares, the number or type of shares subject to the Incentive Plan, the number and type of shares subject to outstanding awards under the Incentive Plan, and the exercise price of awards under the Incentive Plan, may be adjusted.

The Incentive Plan authorizes the grant of incentive stock options, non-qualified stock options, stock appreciation rights, and full value awards that are based on AGL's common shares. The grant of full value awards may be in return for a participant's previously performed services, or in return for the participant surrendering other compensation that may be due, or may be contingent on the achievement of performance or other objectives during a specified period, or may be subject to a risk of forfeiture or other restrictions that will lapse upon the achievement of one or more goals relating to completion of service by the participant, or achievement of performance or other objectives. Awards under the Incentive Plan may accelerate and become vested upon a change in control of AGL.

The Incentive Plan is administered by the Compensation Committee of the Board of Directors of AGL, except as otherwise determined by the Board. The Board may amend or terminate the Incentive Plan. As of December 31, 2016, 10,232,649 common shares of AGL were available for grant under the Incentive Plan.

The Company recognized expenses of $5 million and $4 million for the years ended December 31, 2016 and 2015, respectively, under the Incentive Plan.

Time Vested Stock Options

Stock options are generally granted once a year with exercise prices equal to the closing price on the date of grant. To date, AGL has only issued non-qualified stock options. All stock options, except for performance stock options, granted to employees vest in equal annual installments over a three-year period and expire seven years or ten years from the date of grant. None of AGL's options, except for performance stock options, have a performance or market condition.

Performance Stock Options

Assured Guaranty grants performance stock options under the Incentive Plan. These awards are non-qualified stock options with exercise prices equal to the closing price of an AGL common share on the applicable date of grant. These awards vest 35%, 50% or 100%, if the price of AGL's common shares using the highest 40-day average share price during the relevant three-year performance period reaches certain hurdles. If the share price is between the specified levels, the vesting level will be interpolated accordingly. These awards expire seven years from the date of grant.

Restricted Stock Awards

Restricted stock awards are valued based on the closing price of the underlying shares at the date of grant. These restricted stock awards to employees generally vest in equal annual installments over a four-year period.

Restricted Stock Units

Restricted stock units are valued based on the closing price of the underlying shares at the date of grant. Restricted stock units generally vest in equal annual installments over a four-year period or fully vest after a three-year period.

Performance Restricted Stock Units

Assured Guaranty has granted performance restricted stock units under the Incentive Plan. These awards vest 35%, 50%, 100%, or 200%, if the price of AGL's common shares using the highest 40-day average share price during the relevant three-year performance period reaches certain hurdles. If the share price is between the specified levels, the vesting level will be interpolated accordingly.

Employee Stock Purchase Plan

Assured Guaranty established the AGL Employee Stock Purchase Plan (Stock Purchase Plan) in accordance with Internal Revenue Code Section 423, and participation is available to all eligible employees. Maximum annual purchases by participants are limited to the number of whole shares that can be purchased by an amount equal to 10% of the participant's compensation or, if less, shares having a value of $25,000. Participants may purchase shares at a purchase price equal to 85% of the lesser of the fair market value of the stock on the first day or the last day of the subscription period. The Company recorded $0.1 million and $0.1 million in share-based compensation, after the effects of DAC, under the Stock Purchase Plan during the years ended December 31, 2016 and 2015, respectively.

Defined Contribution Plan

Employees receive employer contributions into the AGC Employee Retirement Plan (AGC ERP) based on a fixed percentage of the employee's compensation and are eligible to make employee contributions and to receive matching employer contributions based on a percentage of compensation up to limits prescribed by Internal Revenue Code Section 401(k). Effective January 1, 2017, the plans name has changed to AG US Group Services Inc. Employee Retirement Plan (AGS ERP). Any amounts over the IRS limits are contributed to a nonqualified supplemental executive retirement plan. The Company recognized defined contribution expenses of $5 million and $5 million for the years ended December 31, 2016 and 2015, respectively.

Cash-Based Compensation Plans

Assured Guaranty Ltd. maintains a Performance Retention Plan (PRP) that permits the grant of deferred cash based awards to selected employees. Generally, each PRP award is divided into three installments that vest over four years. The cash payment depends on growth in certain measures of intrinsic value and financial return defined in each PRP award agreement. The Company recognized performance retention plan expenses of $6 million and $5 million for the years ended December 31, 2016 and 2015, respectively, representing its proportionate share of the Assured Guaranty expense.

Assured Guaranty's executive officers are eligible to receive compensation under a non-equity incentive plan. The amount of compensation payable is subject to a performance goal being met. AGL's Compensation Committee then uses discretion to determine the actual amount of cash incentive compensation payable to each executive officer for such performance year based on factors and criteria as determined by the Compensation Committee of AGL, provided that such discretion cannot be used to increase the amount that was determined to be payable to each executive officer. For an applicable performance year, the Compensation Committee of AGL establishes target financial performance measures for AGL and individual non-financial objectives for the executive officers. Most employees other than executive officers are eligible to receive discretionary bonuses.

17. Other Comprehensive Income

The following tables present the changes in each component of AOCI and the effect of reclassifications out of AOCI on the respective line items in net income.

Changes in Accumulated Other Comprehensive Income by Component
Year Ended December 31, 2016

	Net Unrealized Gains (Losses) on Investments with no Other-Than-Temporary Impairment	Net Unrealized Gains (Losses) on Investments with Other-Than-Temporary Impairment	Total Accumulated Other Comprehensive Income
		(in millions)	
Balance, December 31, 2015	$ 133	$ (23)	$ 110
Other comprehensive income (loss) attributable to AGM before reclassifications	(82)	(16)	(98)
Amounts reclassified from AOCI to:			
Net realized investment gains (losses)	(7)	45	38
Net investment income	(3)	—	(3)
Tax (provision) benefit	4	(16)	(12)
Total amount reclassified from AOCI, net of tax	(6)	29	23
Net current period other comprehensive income (loss) attributable to AGM	(88)	13	(75)
Balance, December 31, 2016	$ 45	$ (10)	$ 35

Changes in Accumulated Other Comprehensive Income by Component
Year Ended December 31, 2015

	Net Unrealized Gains (Losses) on Investments with no Other-Than-Temporary Impairment	Net Unrealized Gains (Losses) on Investments with Other-Than-Temporary Impairment	Total Accumulated Other Comprehensive Income
		(in millions)	
Balance, December 31, 2014	$ 186	$ (2)	$ 184
Other comprehensive income (loss) attributable to AGM before reclassifications	(48)	(37)	(85)
Amounts reclassified from AOCI to:			
Net realized investment gains (losses)	1	25	26
Net investment income	(9)	—	(9)
Tax (provision) benefit	3	(9)	(6)
Total amount reclassified from AOCI, net of tax	(5)	16	11
Net current period other comprehensive income (loss) attributable to AGM	(53)	(21)	(74)
Balance, December 31, 2015	$ 133	$ (23)	$ 110

18. Subsequent Events

Subsequent events have been considered through March 17, 2017, the date on which these financial statements were issued.

APPENDIX 4

2015 FINANCIAL STATEMENTS OF ASSURED GUARANTY MUNICIPAL CORP.

Exhibit 99.1

Assured Guaranty Municipal Corp.

Consolidated Financial Statements

December 31, 2015 and 2014

ASSURED GUARANTY MUNICIPAL CORP.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditor's Report

To the Board of Directors of Assured Guaranty Municipal Corp.:

We have audited the accompanying consolidated financial statements of Assured Guaranty Municipal Corp. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2015 and December 31, 2014, and the related consolidated statements of operations, of comprehensive income, of shareholder's equity and of cash flows for the years then ended.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Assured Guaranty Municipal Corp. and its subsidiaries at December 31, 2015 and December 31, 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP

New York, New York
March 30, 2016

Assured Guaranty Municipal Corp.

Consolidated Balance Sheets

(dollars in millions except per share and share amounts)

	As of December 31, 2015	As of December 31, 2014
Assets		
Investment portfolio:		
Fixed-maturity securities, available-for-sale, at fair value (amortized cost of $5,901 and $5,920)	$ 6,090	$ 6,212
Short-term investments, at fair value	257	377
Other invested assets (includes Surplus Note from affiliate of $300 and $300)	360	406
Total investment portfolio	6,707	6,995
Cash	22	23
Premiums receivable	425	450
Ceded unearned premium reserve	845	958
Reinsurance recoverable on unpaid losses	154	133
Salvage and subrogation recoverable	109	130
Credit derivative assets	63	79
Deferred tax asset, net	103	161
Financial guaranty variable interest entities’ assets, at fair value	735	823
Other assets	132	154
Total assets	**$ 9,295**	**$ 9,906**
Liabilities and shareholder's equity		
Unearned premium reserve	$ 2,933	$ 3,425
Loss and loss adjustment expense reserve	488	404
Reinsurance balances payable, net	118	158
Notes payable	13	19
Credit derivative liabilities	154	287
Current income tax payable	16	57
Financial guaranty variable interest entities’ liabilities with recourse, at fair value	713	830
Financial guaranty variable interest entities’ liabilities without recourse, at fair value	121	114
Other liabilities	295	322
Total liabilities	**4,851**	**5,616**
Commitments and contingencies (See Note 15)		
Preferred stock ($1,000 par value, 5,000.1 shares authorized; 0 shares issued and outstanding)	—	—
Common stock ($45,455 par value, 330 shares authorized; issued and outstanding)	15	15
Additional paid-in capital	975	1,000
Retained earnings	2,967	2,752
Accumulated other comprehensive income, net of tax of $66 and $107	110	184
Total shareholder's equity attributable to Assured Guaranty Municipal Corp.	**4,067**	**3,951**
Noncontrolling interest	377	339
Total shareholder's equity	**4,444**	**4,290**
Total liabilities and shareholder's equity	**$ 9,295**	**$ 9,906**

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

Assured Guaranty Municipal Corp.

Consolidated Statements of Operations

(in millions)

	Year Ended December 31, 2015	Year Ended December 31, 2014
Revenues		
Net earned premiums	$ 404	$ 374
Net investment income	282	267
Net realized investment gains (losses):		
Other-than-temporary impairment losses	(32)	(69)
Less: portion of other-than-temporary impairment loss recognized in other comprehensive income	(1)	1
Net impairment loss	(31)	(70)
Other net realized investment gains (losses)	4	11
Net realized investment gains (losses)	(27)	(59)
Net change in fair value of credit derivatives:		
Realized gains (losses) and other settlements	17	22
Net unrealized gains (losses)	117	19
Net change in fair value of credit derivatives	134	41
Fair value gains (losses) on committed capital securities	12	(4)
Fair value gains (losses) on financial guaranty variable interest entities	32	234
Other income (loss)	19	4
Total revenues	856	857
Expenses		
Loss and loss adjustment expenses	110	(25)
Amortization of deferred ceding commissions	(14)	(4)
Interest expense	(2)	2
Other operating expenses	107	111
Total expenses	201	84
Income (loss) before income taxes	655	773
Provision (benefit) for income taxes:		
Current	88	102
Deferred	98	127
Total provision (benefit) for income taxes	186	229
Net income (loss)	**469**	**544**
Less: Noncontrolling interest	39	32
Net income (loss) attributable to Assured Guaranty Municipal Corp.	**$ 430**	**$ 512**

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

Assured Guaranty Municipal Corp.

Consolidated Statements of Comprehensive Income

(in millions)

	Year Ended December 31,	
	2015	2014
Net income (loss)	**$ 469**	**$ 544**
Unrealized holding gains (losses) arising during the period on:		
Investments with no other-than-temporary impairment, net of tax provision (benefit) of $(27) and $56	(49)	103
Investments with other-than-temporary impairment, net of tax provision (benefit) of $(20) and $(15)	(37)	(28)
Unrealized holding gains (losses) arising during the period, net of tax	(86)	75
Less: reclassification adjustment for gains (losses) included in net income (loss), net of tax provision (benefit) of $(6) and $(21)	(11)	(40)
Other comprehensive income (loss)	(75)	115
Comprehensive income (loss)	**394**	**659**
Less: Comprehensive income (loss) attributable to noncontrolling interest	38	49
Comprehensive income (loss) attributable to Assured Guaranty Municipal Corp.	**$ 356**	**$ 610**

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

Assured Guaranty Municipal Corp.

Consolidated Statements of Shareholder's Equity

(dollars in millions, except share data)

	Common Shares Outstanding	Common Stock Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholder's Equity Attributable to Assured Guaranty Municipal Corp.	Noncontrolling Interest	Total Shareholder's Equity
Balance at December 31, 2013	**330**	**15**	**1,051**	**2,400**	**86**	**$ 3,552**	**$ 289**	**$ 3,841**
Net income	—	—	—	512	—	512	32	544
Dividends	—	—	—	(160)	—	(160)	—	(160)
Other comprehensive income (loss)	—	—	—	—	98	98	17	115
Return of capital:								
Repayment of Surplus Note	—	—	(50)	—	—	(50)	—	(50)
Other	—	—	(1)	—	—	(1)	1	—
Balance at December 31, 2014	**330**	**15**	**1,000**	**2,752**	**184**	**3,951**	**339**	**4,290**
Net income	—	—	—	430	—	430	39	469
Dividends	—	—	—	(215)	—	(215)	—	(215)
Other comprehensive income (loss)	—	—	—	—	(74)	(74)	(1)	(75)
Return of capital:								
Repayment of Surplus Note	—	—	(25)	—	—	(25)	—	(25)
Balance at December 31, 2015	**330**	**$ 15**	**$ 975**	**$ 2,967**	**$ 110**	**$ 4,067**	**$ 377**	**$ 4,444**

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

Assured Guaranty Municipal Corp.

Consolidated Statements of Cash Flows

(in millions)

	Year Ended December 31, 2015	Year Ended December 31, 2014
Operating Activities:		
Net Income	$ 469	$ 544
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Net amortization of premium (discount) on investments	(32)	(15)
Provision (benefit) for deferred income taxes	98	127
Net realized investment losses (gains)	18	59
Net unrealized losses (gains) on credit derivatives	(117)	(19)
Fair value losses (gains) on committed capital securities	(12)	4
Change in deferred ceding commissions, net	(3)	(8)
Change in premiums receivable, net of premiums payable	(3)	75
Change in unearned premium reserve net of ceded unearned premium reserve	(379)	(138)
Change in loss and loss adjustment expense reserve and salvage and subrogation, net	20	66
Change in current income tax	(41)	(76)
Change in financial guaranty variable interest entities' assets and liabilities, net	(4)	(145)
(Purchases) sales of trading securities, net	8	37
Other	19	(49)
Net cash flows provided by (used in) operating activities	**41**	**462**
Investing activities		
Fixed-maturity securities:		
Purchases	(1,193)	(1,387)
Sales	566	362
Maturities	515	459
Net sales (purchases) of short-term investments	195	312
Net proceeds from paydowns on financial guaranty variable interest entities' assets	253	360
Other	33	(1)
Net cash flows provided by (used in) investing activities	**369**	**105**
Financing activities		
Dividends paid	(215)	(160)
Repayment of notes payable	(4)	(19)
Net paydowns of financial guaranty variable interest entities' liabilities	(166)	(365)
Repayment of Surplus Note	(25)	(50)
Net cash flows provided by (used in) financing activities	**(410)**	**(594)**
Effect of foreign exchange rate changes	(1)	(3)
Increase (decrease) in cash	**(1)**	**(30)**
Cash at beginning of period	23	53
Cash at end of period	**$ 22**	**$ 23**
Supplemental cash flow information		
Cash paid (received) during the period for:		
Income taxes	$ 120	$ 155
Interest	$ 0	$ 3

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

1. Business and Basis of Presentation

Business

Assured Guaranty Municipal Corp. ("AGM," or together with its direct and indirect subsidiaries, the "Company"), a New York domiciled insurance company, is a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("AGMH"). AGMH is an indirect and wholly owned subsidiary of Assured Guaranty Ltd. ("AGL" and, together with its subsidiaries, "Assured Guaranty"). AGL is a Bermuda-based holding company that provides, through its operating subsidiaries, credit protection products to the United States ("U.S.") and international public finance (including infrastructure) and structured finance markets. AGM was formerly known as Financial Security Assurance Inc.

The Company applies its credit underwriting judgment, risk management skills and capital markets experience to offer financial guaranty insurance that protects holders of debt instruments and other monetary obligations from defaults in scheduled payments. If an obligor defaults on a scheduled payment due on an obligation, including a scheduled principal or interest payment ("Debt Service"), the Company is required under its unconditional and irrevocable financial guaranty to pay the amount of the shortfall to the holder of the obligation. Obligations insured by the Company include bonds issued by U.S. state or municipal governmental authorities and notes issued to finance international infrastructure projects. AGM had previously offered insurance and reinsurance in the global structured finance market, but has not done so since mid-2008. AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") markets its financial guaranty insurance directly to issuers and underwriters of public finance securities as well as to investors in such obligations. The Company guarantees obligations issued principally in the U.S. and the United Kingdom ("U.K."), and also guarantees obligations issued in other countries and regions, including Australia and Western Europe.

In the past, the Company sold credit protection by issuing policies that guaranteed payment obligations under credit derivatives, primarily credit default swaps ("CDS"). Financial guaranty contracts accounted for as credit derivatives are generally structured such that the circumstances giving rise to the Company's obligation to make loss payments are similar to those for financial guaranty insurance contracts. The Company's credit derivative transactions are governed by International Swaps and Derivative Association, Inc. ("ISDA") documentation. The Company has not entered into any new CDS in order to sell credit protection since 2008. Regulatory guidelines were issued in 2009 that limited the terms under which such protection could be sold. The capital and margin requirements applicable under the Dodd-Frank Wall Street Reform and Consumer Protection Act also contributed to the Company not entering into new CDS. The Company actively pursues opportunities to terminate existing CDS, which have the effect of reducing future fair value volatility in income and/or reducing rating agency capital charges.

Basis of Presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and, in the opinion of management, reflect all adjustments that are of a normal recurring nature, necessary for a fair statement of the financial condition, results of operations and cash flows of the Company and its consolidated financial guaranty variable interest entities ("FG VIEs") for the periods presented. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of AGM, its direct and indirect subsidiaries (collectively, the "Subsidiaries"), and its consolidated FG VIEs. Intercompany accounts and transactions between and among all consolidated entities have been eliminated. Certain prior year balances have been reclassified to conform to the current year's presentation.

AGM's direct and indirect subsidiaries are as follows:

- Assured Guaranty (Europe) Ltd. (“AGE”), organized in the U.K. and 100% owned by AGM;
- Municipal Assurance Holdings Inc. (“MAC Holdings”), incorporated in Delaware and 60.7% owned by AGM and 39.3% owned by AGM's affiliate, Assured Guaranty Corp. ("AGC"); and
- MAC, domiciled in New York and 100% owned by MAC Holdings.

Significant Accounting Policies

The Company revalues assets, liabilities, revenue and expenses denominated in non-U.S. currencies into U.S. dollars using applicable exchange rates. Gains and losses relating to AGM's foreign currency transactions are reported in the consolidated statement of operations.

The chief operating decision maker manages the operations of the Company at a consolidated level. Therefore, all results of operations are reported as one segment.

Other significant accounting policies are included in the following notes.

Significant Accounting Policies

Expected loss to be paid (insurance, credit derivatives and FG VIE contracts)	Note 4
Financial guaranty insurance (premium revenue recognition, loss and loss adjustment expense and policy acquisition cost)	Note 5
Fair value measurement	Note 6
Credit derivatives (at fair value)	Note 7
Variable interest entities (at fair value)	Note 8
Investments and cash	Note 9
Income taxes	Note 12

Future Application of Accounting Standards

Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to present right-of-use assets and lease liabilities on the balance sheet. ASU 2016-02 is to be applied using a modified retrospective approach at the beginning of the earliest comparative period in the financial statements. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the impact that this ASU will have on its Consolidated Financial Statements.

Financial Instruments

In January 2016, the FASB issued Accounting Standards Update ("ASU") 2016-01, *Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this ASU are intended to make targeted improvements to GAAP by addressing certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. One of the amendments pertains to liabilities that an entity has elected to measure at fair value in accordance with the fair value option for financial instruments. For these liabilities, the portion of fair value change related to credit risk will be separately presented in other comprehensive income. Currently, the entire change in the fair value of these liabilities is reflected in the income statement.

The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Entities will be required to record a cumulative-effect adjustment to the statement of financial position as of the beginning of the fiscal year in which the guidance is adopted. For the Company, this would be as of January 1, 2018. Early adoption is permitted only for the amendment related to the change in presentation of financial liabilities that are fair valued using the fair value option. The Company is currently evaluating the effect of adopting this ASU on its Consolidated Financial Statements.

Short Duration Insurance Contracts

In May 2015, the FASB issued ASU 2015-09, *Financial Services - Insurance (Topic 944) - Disclosures about Short-Duration Contracts.* The primary objective of this ASU is to improve disclosures for insurance entities which issue short-duration contracts. The ASU 2015-09 will have no impact on the Company's financial statement disclosures. The ASU is effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016.

Consolidation

In February 2015, the FASB issued ASU No. 2015-02, Consolidation *(Topic 810): Amendments to the Consolidation Analysis*, which is intended to improve certain areas of consolidation guidance for legal entities such as limited partnerships, limited liability companies, and securitization structures. The ASU will be effective on January 1, 2016. Early adoption is permitted, including adoption in an interim period. The Company does not expect that ASU 2015-02 will have an effect on its Consolidated Financial Statements.

2. Rating Actions

When a rating agency assigns a public rating to a financial obligation guaranteed by AGM, AGE or MAC, it generally awards that obligation the same rating it has assigned to the financial strength of those insurance companies. Investors in products insured by AGM or MAC or guaranteed by AGE frequently rely on ratings published by the rating agencies because such ratings influence the trading value of securities and form the basis for many institutions' investment guidelines as well as individuals' bond purchase decisions. Therefore, the Company manages its business with the goal of achieving strong financial strength ratings. However, the methodologies and models used by rating agencies differ, presenting conflicting goals that may make it inefficient or impractical to reach the highest rating level. The methodologies and models are not fully transparent, contain subjective elements and data (such as assumptions about future market demand for the Company's products) and change frequently. Ratings are subject to continuous review and revision or withdrawal at any time. If the financial strength ratings of one (or more) of AGM, AGE or MAC were reduced below current levels, the Company expects it could have adverse effects on the impacted insurance company's future business opportunities as well as the premiums the impacted company could charge for its insurance policies.

The Company periodically assesses the value of each rating assigned to each of its companies, and may as a result of such assessment request that a rating agency add or drop a rating from certain of its companies. For example, the Kroll Bond Rating Agency ("KBRA") ratings were first assigned to MAC in 2013 and to AGM in 2014, while a Moody's Investors Service, Inc. ("Moody's") rating was never requested for MAC.

In the last several years, Standard & Poor's Ratings Services ("S&P") and Moody's have changed, multiple times, their financial strength ratings of AGM and AGE, or changed the outlook on such ratings. More recently, KBRA has assigned financial strength ratings to MAC and AGM. The rating agencies' most recent actions related to AGM and its subsidiaries are:

- On March 18, 2014, S&P upgraded the financial strength ratings of AGM, AGE and MAC to AA (stable outlook) from AA- (stable outlook); it most recently affirmed such ratings in a credit analysis issued on June 29, 2015.

- On July 2, 2014, Moody's affirmed AGM's and AGE's A2 (stable outlook) financial strength ratings. Moody's adopted changes to its credit methodology for financial guaranty insurance companies on January 20, 2015 and, on February 18, 2015, Moody's published a credit opinion maintaining its existing ratings of AGM and AGE under that new methodology. On December 8, 2015 Moody's published credit opinions maintaining its existing insurance financial strength ratings of A2 (stable outlook) on AGM.

- On June 22, 2013, KBRA assigned a financial strength rating of AA+ (stable outlook) to MAC, and affirmed that rating on August 3, 2015. On November 13, 2014, KBRA assigned a financial strength rating of AA+ (stable outlook) to AGM, and affirmed that rating on December 10, 2015.

There can be no assurance that any of the rating agencies will not take negative action on the financial strength ratings of AGM or its insurance subsidiaries in the future.

For a discussion of the effects of rating actions on the Company, see the following:

- Note 5, Financial Guaranty Insurance
- Note 13, Reinsurance and Other Monoline Exposures
- Note 16, Notes Payable and Credit Facilities (regarding the impact on AGM's insured leveraged lease transactions)

3. Outstanding Exposure

The Company’s financial guaranty contracts are written in either insurance or credit derivative form, but collectively are considered financial guaranty contracts. The Company seeks to limit its exposure to losses by underwriting obligations that it views as investment grade at inception, although, as part of its loss mitigation strategy for existing troubled credits, it may underwrite new issuances that it views as below-investment-grade ("BIG"). The Company diversifies its insured portfolio across asset classes and, in the structured finance portfolio, requires rigorous subordination or collateralization requirements. Reinsurance may be used in order to reduce net exposure to certain insured transactions.

The Company has issued financial guaranty insurance policies on public finance obligations and, prior to mid-2008, structured finance obligations. Public finance obligations insured by the Company consist primarily of general obligation bonds supported by the taxing powers of U.S. state or municipal governmental authorities, as well as tax-supported bonds, revenue bonds and other obligations supported by covenants from state or municipal governmental authorities or other municipal obligors to impose and collect fees and charges for public services or specific infrastructure projects. The Company also includes within public finance obligations those obligations backed by the cash flow from leases or other revenues from projects serving substantial public purposes, including utilities, toll roads, health care facilities and government office buildings. The Company also includes within public finance similar obligations issued by territorial and non-U.S. sovereign and sub-sovereign issuers and governmental authorities.

Structured finance obligations insured by the Company are generally issued by special purpose entities, including VIEs, and backed by pools of assets having an ascertainable cash flow or market value or other specialized financial obligations. Some of these VIEs are consolidated as described in Note 8, Consolidated Variable Interest Entities. Unless otherwise specified, the outstanding par and Debt Service amounts presented in this note include outstanding exposures on VIEs whether or not they are consolidated. While AGM has ceased insuring new originations of asset-backed securities, a significant portfolio of such obligations remains outstanding. AGM's wholly owned subsidiary AGE provides financial guarantees in the international public finance market and intends to provide such guarantees in the international structured finance market, subject to regulatory approval.

Debt Service and par outstanding exposures presented in these financial statements are presented on a consolidated basis. That is, amounts presented include 100% of the exposures of AGM, AGE and MAC, despite the fact that AGM indirectly owns only 60.7% of MAC.

Significant Risk Management Activities

The Portfolio Risk Management Committee, which includes members of senior management and senior credit and surveillance officers, sets specific risk policies and limits and is responsible for enterprise risk management, establishing the Company's risk appetite, credit underwriting of new business, surveillance and work-out.

As part of the surveillance process, the Company monitors trends and changes in transaction credit quality, detects any deterioration in credit quality, and recommends such remedial actions as may be necessary or appropriate. All transactions in the insured portfolio are assigned internal credit ratings, which are updated based on changes in transaction credit quality. The Company also develops strategies to enforce its contractual rights and remedies and to mitigate its losses, engage in negotiation discussions with transaction participants and, when necessary, manage the Company's litigation proceedings.

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 for each exposure. BIG exposures include all exposures with internal credit ratings below BBB-. The Company’s internal credit ratings are based on internal assessments of the likelihood of default and loss severity in the event of default. Internal credit ratings are expressed on a ratings scale similar to that used by the rating agencies and are generally reflective of an approach similar to that employed by the rating agencies, except that the Company's internal credit ratings focus on future performance, rather than lifetime performance.

The Company monitors its investment grade credits to determine whether any need to be internally downgraded to BIG and refreshes its internal credit ratings on individual credits in quarterly, semi-annual or annual cycles based on the Company’s view of the credit’s quality, loss potential, volatility and sector. Ratings on credits in sectors identified as under the most stress or with the most potential volatility are reviewed every quarter.

Credits identified as BIG are subjected to further review to determine the probability of a loss. See Note 4, Expected Loss to be Paid for additional information. Surveillance personnel then assign each BIG transaction to the appropriate BIG surveillance category based upon whether a future loss is expected and whether a claim has been paid. For surveillance purposes, the Company calculates present value using a constant discount rate of 5%. (A risk-free rate is used for calculating the expected loss for financial statement measurement purposes.)

More extensive monitoring and intervention is employed for all BIG surveillance categories, with internal credit ratings reviewed quarterly. The Company expects “future losses” on a transaction when the Company believes there is at least a 50% chance that, on a present value basis, it will pay more claims in the future of that transaction than it will have reimbursed. The three BIG categories are:

- BIG Category 1: Below-investment-grade transactions showing sufficient deterioration to make future losses possible, but for which none are currently expected.

- BIG Category 2: Below-investment-grade transactions for which future losses are expected but for which no claims (other than liquidity claims, which is a claim that the Company expects to be reimbursed within one year) have yet been paid.

- BIG Category 3: Below-investment-grade transactions for which future losses are expected and on which claims (other than liquidity claims) have been paid.

Components of Outstanding Exposure

Unless otherwise noted, ratings disclosed herein on the Company's insured portfolio reflect its internal ratings. The Company classifies those portions of risks benefiting from reimbursement obligations collateralized by eligible assets held in trust in acceptable reimbursement structures as the higher of 'AA' or their current internal rating.

The Company purchases securities that it has insured, and for which it has expected losses to be paid, in order to mitigate the economic effect of insured losses ("loss mitigation securities"). The Company excludes amounts attributable to loss mitigation securities (unless otherwise indicated) from par and Debt Service outstanding, because it manages such securities as investments and not insurance exposure. The following table presents the gross and net debt service for all financial guaranty contracts.

Financial Guaranty
Debt Service Outstanding

	Gross Debt Service Outstanding		Net Debt Service Outstanding(1)	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
	(in millions)			
Public finance	$ 415,968	$ 473,492	$ 302,557	$ 348,905
Structured finance	22,880	33,196	20,479	29,756
Total financial guaranty	$ 438,848	$ 506,688	$ 323,036	$ 378,661

(1) Includes $104.5 billion and $132.0 billion of net debt service outstanding, as of December 31, 2015 and 2014, respectively, from MAC, which represents 100% of MAC's net debt service outstanding. However, AGM's indirect ownership of MAC is only 60.7%.

Financial Guaranty Portfolio by Internal Rating
As of December 31, 2015

	Public Finance U.S.		Public Finance Non-U.S.		Structured Finance U.S.		Structured Finance Non-U.S.		Total	
Rating Category	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%
					(dollars in millions)					
AAA	$ 2,431	1.3%	$ 553	3.0%	$ 8,529	57.6%	$ 1,786	66.1%	$ 13,299	6.1%
AA	47,028	25.9	134	0.7	3,421	23.1	35	1.3	50,618	23.3
A	98,954	54.6	5,126	27.7	41	0.3	153	5.7	104,274	48.0
BBB	30,443	16.8	11,832	64.1	123	0.9	329	12.1	42,727	19.6
BIG	2,522	1.4	837	4.5	2,681	18.1	401	14.8	6,441	3.0
Total net par outstanding (1) (2)	$ 181,378	100.0%	$ 18,482	100.0%	$ 14,795	100.0%	$ 2,704	100.0%	$ 217,359	100.0%

(1) Excludes $659 million of loss mitigation securities insured and held by the Company as of December 31, 2015, which are primarily BIG.

(2) Includes $73.5 billion of net par outstanding as of December 31, 2015, from MAC, which represents 100% of MAC's net par outstanding. However, AGM's indirect ownership of MAC is only 60.7%.

Financial Guaranty Portfolio by Internal Rating
As of December 31, 2014

	Public Finance U.S.		Public Finance Non-U.S.		Structured Finance U.S.		Structured Finance Non-U.S.		Total	
Rating Category	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%	Net Par Outstanding	%
					(dollars in millions)					
AAA	$ 3,254	1.6%	$ 541	2.7%	$ 13,185	61.3%	$ 3,311	73.1%	$ 20,291	8.0%
AA	62,175	30.1	348	1.7	4,883	22.7	312	6.9	67,718	26.8
A	112,119	54.3	5,488	27.1	45	0.2	175	3.9	117,827	46.6
BBB	25,604	12.4	12,891	63.5	266	1.2	226	5.0	38,987	15.5
BIG	3,274	1.6	1,024	5.0	3,130	14.6	501	11.1	7,929	3.1
Total net par outstanding (1) (2)	$ 206,426	100.0%	$ 20,292	100.0%	$ 21,509	100.0%	$ 4,525	100.0%	$ 252,752	100.0%

(1) Excludes $675 million of loss mitigation securities insured and held by the Company as of December 31, 2014, which are primarily BIG.
(2) Includes $90.6 billion of net par outstanding as of December 31, 2014, from MAC, which represents 100% of MAC's net par outstanding. However, AGM's indirect ownership of MAC is only 60.7%.

Financial Guaranty Portfolio
by Sector

Sector	Gross Par Outstanding As of December 31, 2015	Gross Par Outstanding As of December 31, 2014	Ceded Par Outstanding As of December 31, 2015	Ceded Par Outstanding As of December 31, 2014	Net Par Outstanding As of December 31, 2015	Net Par Outstanding As of December 31, 2014
			(in millions)			
Public finance:						
U.S.:						
General obligation	$ 111,296	$ 124,967	$ 28,164	$ 29,979	$ 83,132	$ 94,988
Tax backed	47,218	51,522	12,458	12,510	34,760	39,012
Municipal utilities	39,896	45,468	8,631	9,045	31,265	36,423
Transportation	17,772	20,632	4,067	4,528	13,705	16,104
Healthcare	10,564	11,184	3,640	3,828	6,924	7,356
Higher education	8,367	9,693	1,966	2,449	6,401	7,244
Infrastructure finance	2,795	2,606	806	1,284	1,989	1,322
Housing	1,794	2,677	284	509	1,510	2,168
Other public finance	1,886	1,998	194	189	1,692	1,809
Total public finance-U.S.	241,588	270,747	60,210	64,321	181,378	206,426
Non-U.S.:						
Infrastructure finance	13,164	14,242	4,376	4,794	8,788	9,448
Regulated utilities	11,229	12,996	5,778	6,705	5,451	6,291
Other public finance	5,693	6,115	1,450	1,562	4,243	4,553
Total public finance-non-U.S.	30,086	33,353	11,604	13,061	18,482	20,292
Total public finance	$ 271,674	$ 304,100	$ 71,814	$ 77,382	$ 199,860	$ 226,718
Structured finance:						
U.S.:						
Pooled corporate obligations	9,185	$ 14,517	$ 704	$ 943	8,481	$ 13,574
Residential Mortgage-Backed Securities ("RMBS")	4,668	5,777	566	810	4,102	4,967
Financial products	1,906	2,276	—	—	1,906	2,276
Insurance securitizations	—	383	—	55	—	328
Consumer receivables	143	170	8	10	135	160
Commercial receivables	33	40	2	2	31	38
Other structured finance	246	290	106	124	140	166
Total structured finance-U.S.	16,181	23,453	1,386	1,944	14,795	21,509
Non-U.S.:						
Pooled corporate obligations	2,545	4,310	579	881	1,966	3,429
RMBS	529	837	78	113	451	724
Other structured finance	310	400	23	28	287	372
Total structured finance- non-U.S.	3,384	5,547	680	1,022	2,704	4,525
Total structured finance	$ 19,565	$ 29,000	$ 2,066	$ 2,966	$ 17,499	$ 26,034
Total net par outstanding	$ 291,239	$ 333,100	$ 73,880	$ 80,348	$ 217,359	$ 252,752

In addition to amounts shown in the tables above, AGM had outstanding commitments to provide guaranties of $471 million for public finance obligations as of December 31, 2015, all of which expired prior to the date of this filing. AGM also had outstanding commitments of $124 million as of December 31, 2015 which can be used together with AGC, an affiliate of the Company. The expiration dates for these commitments range between June 30, 2016 and February 25, 2017. The commitments are contingent on the satisfaction of all conditions set forth in them and may expire unused or be canceled at the counterparty's request. Therefore, the total commitment amount does not necessarily reflect actual future guaranteed amounts.

Actual maturities of insured obligations could differ from contractual maturities because borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties. The expected maturities of structured finance obligations are, in general, considerably shorter than the contractual maturities for such obligations.

Expected Amortization of Net Par Outstanding As of December 31, 2015

	Public Finance	Structured Finance	Total
		(in millions)	
0 to 5 years	$ 65,045	$ 13,267	$ 78,312
5 to 10 years	43,083	1,383	44,466
10 to 15 years	36,669	1,237	37,906
15 to 20 years	26,649	955	27,604
20 years and above	28,414	657	29,071
Total net par outstanding	$ 199,860	$ 17,499	$ 217,359

Components of BIG Portfolio

Components of BIG Net Par Outstanding (Insurance and Credit Derivative Form) As of December 31, 2015

	BIG Net Par Outstanding				Net Par
	BIG 1	BIG 2	BIG 3	Total BIG	Outstanding
			(in millions)		
U.S. public finance	$ 1,559	$ 902	$ 61	$ 2,522	$ 181,378
Non-U.S. public finance	622	215	—	837	18,482
Structured finance:					
First lien U.S. RMBS:					
Prime first lien	—	17	—	17	49
Alt-A first lien	26	30	438	494	644
Option ARM	2	—	45	47	101
Subprime	45	143	807	995	2,200
Second lien U.S. RMBS	341	18	626	985	1,108
Total U.S. RMBS	414	208	1,916	2,538	4,102
Other structured finance	451	54	39	544	13,397
Total	$ 3,046	$ 1,379	$ 2,016	$ 6,441	$ 217,359

Components of BIG Net Par Outstanding
(Insurance and Credit Derivative Form)
As of December 31, 2014

	BIG Net Par Outstanding				Net Par
	BIG 1	BIG 2	BIG 3	Total BIG	Outstanding
			(in millions)		
U.S. public finance	$ 2,748	$ 464	$ 62	$ 3,274	$ 206,426
Non-U.S. public finance	1,024	—	—	1,024	20,292
Structured finance:					
First lien U.S. RMBS:					
Prime first lien	—	—	—	—	57
Alt-A first lien	27	98	523	648	819
Option ARM	4	—	56	60	175
Subprime	46	483	573	1,102	2,487
Second lien U.S. RMBS	636	19	495	1,150	1,429
Total U.S. RMBS	713	600	1,647	2,960	4,967
Other structured finance	565	62	44	671	21,067
Total	$ 5,050	$ 1,126	$ 1,753	$ 7,929	$ 252,752

BIG Net Par Outstanding
and Number of Risks
As of December 31, 2015

	Net Par Outstanding			Number of Risks(2)		
Description	Financial Guaranty Insurance(1)	Credit Derivative	Total	Financial Guaranty Insurance(1)	Credit Derivative	Total
			(dollars in millions)			
BIG:						
Category 1	$ 2,955	$ 91	$ 3,046	59	2	61
Category 2	1,379	—	1,379	14	—	14
Category 3	2,000	16	2,016	43	2	45
Total BIG	$ 6,334	$ 107	$ 6,441	116	4	120

BIG Net Par Outstanding
and Number of Risks
As of December 31, 2014

	Net Par Outstanding			Number of Risks(2)		
Description	**Financial Guaranty Insurance(1)**	**Credit Derivative**	**Total**	**Financial Guaranty Insurance(1)**	**Credit Derivative**	**Total**
	(dollars in millions)					
BIG:						
Category 1	$ 4,940	$ 110	$ 5,050	71	2	73
Category 2	1,126	—	1,126	14	—	14
Category 3	1,734	19	1,753	38	2	40
Total BIG	$ 7,800	$ 129	$ 7,929	123	4	127

(1) Includes net par outstanding for FG VIEs.

(2) A risk represents the aggregate of the financial guaranty policies that share the same revenue source for purposes of making Debt Service payments.

Geographic Distribution of Net Par Outstanding

The Company seeks to maintain a diversified portfolio of insured obligations designed to spread its risk across a number of geographic areas.

Geographic Distribution of Net Par Outstanding As of December 31, 2015

	Number of Risks	Net Par Outstanding	Percent of Total Net Par Outstanding
		(dollars in millions)	
U.S.:			
U.S. Public finance:			
California	1,286	$ 30,555	14.1%
Pennsylvania	882	15,027	6.9
Illinois	726	14,843	6.8
Texas	1,186	14,546	6.7
New York	897	13,597	6.3
Florida	272	9,818	4.5
New Jersey	512	8,122	3.7
Michigan	531	7,437	3.4
Georgia	154	4,674	2.2
Ohio	423	4,348	2.0
Other states and U.S. territories	3,404	58,411	26.9
Total U.S. public finance	10,273	181,378	83.5
U.S. Structured finance (multiple states)	224	14,795	6.8
Total U.S.	10,497	196,173	90.3
Non-U.S.:			
United Kingdom	72	9,880	4.5
Canada	9	2,834	1.3
Australia	13	2,014	0.9
France	11	1,401	0.6
Italy	8	986	0.5
Other	41	4,071	1.9
Total non-U.S.	154	21,186	9.7
Total	10,651	$ 217,359	100.0%

Exposure to Puerto Rico

The Company has insured exposure to general obligation bonds of the Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations, aggregating $2.14 billion net par as of December 31, 2015, $2.06 billion of which is rated BIG. In 2015, the Company's Puerto Rico exposures increased due to a commutation of previously ceded Puerto Rico exposures.

Puerto Rico has experienced significant general fund budget deficits in recent years. These deficits, until recently, were covered primarily with the net proceeds of bond issuances, interim financings provided by Government Development Bank for Puerto Rico (“GDB”) and, in some cases, one-time revenue measures or expense adjustment measures. In addition to high debt levels, Puerto Rico faces a challenging economic environment.

In June 2014, the Puerto Rico legislature passed the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Recovery Act") in order to provide a legislative framework for certain public corporations experiencing severe financial stress to restructure their debt, including Puerto Rico Highway and Transportation Authority ("PRHTA") and Puerto Rico Electric Power Authority ("PREPA"). Subsequently, the Commonwealth stated PREPA might need to seek relief under the Recovery Act due to liquidity constraints. Investors in bonds issued by PREPA filed suit in the United States District Court for the District of Puerto Rico challenging the Recovery Act. On February 6, 2015, the U.S. District Court for the District of Puerto Rico ruled the Recovery Act is preempted by the U.S. Bankruptcy Code and is therefore void. On July 6, 2015, the U.S. Court of Appeals for the First Circuit upheld that ruling, and on December 4, 2015, the U.S. Supreme Court granted petitions for writs of certiorari relating to that ruling. Oral arguments were held on March 22, 2016. Typical Supreme Court practice suggests a decision could be announced in June 2016, but there is no assurance that an opinion will be announced at such time, especially in light of the recent Supreme Court vacancy.

On June 28, 2015, Governor García Padilla of Puerto Rico (the "Governor") publicly stated that the Commonwealth's public debt, considering the current level of economic activity, is unpayable and that a comprehensive debt restructuring may be necessary, and he has made similar statements since then. On June 29, 2015 a report commissioned by the Commonwealth and authored by former World Bank Chief Economist and former Deputy Director of the International Monetary Fund Dr. Anne Krueger and economists Dr. Ranjit Teja and Dr. Andrew Wolfe and calling for debt restructuring of all Puerto Rico bonds was released ("Krueger Report").

Puerto Rico Public Finance Corporation ("PFC"), a subsidiary of the GDB, failed to make most of an approximately $58 million Debt Service payment on August 3, 2015 and to make subsequent Debt Service payments because the Commonwealth's legislature did not appropriate funds for payment. The Company does not insure any obligations of the PFC. On January 1, 2016 Puerto Rico Infrastructure Finance Authority ("PRIFA") defaulted on payment of a portion of the interest due on its bonds on that date. The Company does not insure any obligations of PRIFA, although the Company's affiliate AGC does, and paid approximately $451 thousand of claims for the interest payments on which PRIFA had defaulted.

On September 9, 2015, the Working Group for the Fiscal and Economic Recovery of Puerto Rico ("Working Group") established by the Governor published its "Puerto Rico Fiscal and Economic Growth Plan" (the "FEGP"). The FEGP projected that the Commonwealth would face a cumulative financing gap of $27.8 billion from fiscal year 2016 to fiscal year 2020 without corrective action. Various stakeholders and analysts have publicly questioned the accuracy of the $27.8 billion gap projected by the Working Group. The FEGP recommended economic development, structural, fiscal and institutional reform measures that it projects would reduce that gap to $14.0 billion. The Working Group asserts that the Commonwealth's debt, including debt with a constitutional priority, is not sustainable. The FEGP included a recommendation that the Commonwealth's advisors begin to work on a voluntary exchange offer to its creditors as part of the FEGP. The FEGP does not have the force of law and implementation of its recommendations would require actions by the governments of the Commonwealth and of the United States as well as the cooperation and agreement of various creditors.

On November 30, 2015, and December 8, 2015, the Governor issued executive orders ("Clawback Orders") directing the Puerto Rico Department of Treasury and the Puerto Rico Tourism Company to retain or transfer certain taxes and revenues pledged to secure the payment of bonds issued by PRHTA, PRIFA and Puerto Rico Convention Center District Authority ("PRCCDA"). On January 7, 2016 the Company sued various Puerto Rico governmental officials in the United States District Court, District of Puerto Rico asserting that this attempt to "claw back" pledged taxes and revenues is unconstitutional, and demanding declaratory and injunctive relief. The Puerto Rico credits insured by the Company impacted by the Clawback Orders are shown in the table "Puerto Rico Net Par Outstanding" below.

On January 18, 2016 the Working Group published an updated FEGP that projected the cumulative financing gap beyond 2020 would continue to increase to $63.4 billion without corrective action. The Working Group followed that up with the publication on February 1, 2016, of a proposal for a voluntary exchange of $49.2 billion of tax supported debt into $26.5 billion of new mandatorily payable base bonds and $22.7 billion of growth bonds.

There have been a number of other proposals, plans and legislative initiatives offered in Puerto Rico and in the United States aimed at addressing Puerto Rico's fiscal issues. Among the responses proposed is a federal financial control board and access to bankruptcy courts or another restructuring mechanism. U.S. House of Representatives Speaker Paul Ryan has asked that a legislative response be presented to the House of Representatives by the end of March 2016. The final shape and timing of responses to Puerto Rico's distress eventually enacted or implemented by Puerto Rico or the United States, if any, and the impact of any such actions on obligations insured by the Company, is uncertain and may differ substantially from the recommendations of the Working Group or any other proposals or plans described in the press or offered to date or in the future.

S&P, Moody's and Fitch Ratings have lowered the credit rating of the Commonwealth's bonds and on its public corporations several times over the past approximately two years, and the Commonwealth has disclosed its liquidity has been adversely affected by rating agency downgrades and by the limited market access for its debt, and also noted it has relied on short-term financings and interim loans from the GDB and other private lenders, which reliance has constrained its liquidity and increased its near-term refinancing risk.

PREPA

As of December 31, 2015, the Company had $431 million insured net par outstanding of PREPA obligations. In August 2014, PREPA entered into forbearance agreements with the GDB, its bank lenders, and bondholders and financial guaranty insurers (including AGM and AGC) that hold or guarantee more than 60% of PREPA's outstanding bonds, in order to address its near-term liquidity issues. Creditors, including AGM and AGC, agreed not to exercise available rights and remedies until March 31, 2015, and the bank lenders agreed to extend the maturity of two revolving lines of credit to the same date. PREPA agreed it would continue to make principal and interest payments on its outstanding bonds, and interest payments on its lines of credit. It also agreed it would develop a five year business plan and a recovery program in respect of its operations. Subsequently, most of the parties extended these forbearance agreements several times.

On July 1, 2015, PREPA made full payment of the $416 million of principal and interest due on its bonds, including bonds insured by AGM and AGC. However, that payment was conditioned on and facilitated by AGM and AGC agreeing, also on July 1, to purchase a portion of $131 million of interest-bearing bonds to help replenish certain of the operating funds PREPA used to make the $416 million of principal and interest payments. On July 31, 2015, AGM purchased $74 million aggregate principal amount of those bonds; the bonds were repaid in full in 2016.

On December 24, 2015, AGM and AGC entered into a Restructuring Support Agreement ("RSA") with PREPA, an ad hoc group of uninsured bondholders and a group of fuel-line lenders that would, subject to certain conditions, result in, among other things, modernization of the utility and a restructuring of current debt. Upon finalization of the contemplated restructuring transaction, insured PREPA revenue bonds (with no reduction to par or stated interest rate or extension of maturity) will be supported by securitization bonds issued by a special purpose corporation and secured by a transition charge assessed on ratepayers. To facilitate the securitization transaction, which enables PREPA to achieve debt relief and more efficient capital markets financing, AGM and AGC will issue surety insurance policies in an aggregate amount not expected to exceed $113 million ($99 million for AGM and $14 million for AGC) in exchange for a market premium and to support a portion of the reserve fund for the securitization bonds. Certain of the creditors also agreed, subject to certain conditions, to participate in a bridge financing. The AGM's and AGC's shares of the bridge financing is approximately $15 million ($13 million for AGM and $2 million for AGC). Legislation purportedly meeting the requirements of the RSA was enacted on February 16, 2016. The closing of the restructuring transaction, the issuance of the surety bonds and the closing of the bridge financing are subject to certain conditions, including confirmation that the enacted legislation meets all requirements of the RSA and execution of acceptable documentation and legal opinions.

There can be no assurance that the conditions in the RSA will be met or that, if the conditions are met, the RSA's other provisions, including those related to the restructuring of the insured PREPA revenue bonds, will be implemented. PREPA, during the pendency of the agreements, has suspended deposits into its debt service fund.

PRHTA

As of December 31, 2015, the Company had $289 million insured net par outstanding of PRHTA (Transportation revenue) bonds and $219 million net par of PRHTA (Highway revenue) bonds. In March 2015, legislation was passed in the Commonwealth that would have supported proposals involving the GDB and PRIFA and would have, among other things, strengthened PRHTA. The proposals involved the issuance of up to $2.95 billion of bonds by PRIFA, but the Company believes the Commonwealth is no longer pursuing those proposals. In addition, PRHTA is one of the public corporations affected by the Clawback Orders.

Municipal Finance Agency

As of December 31, 2015, the Company had $206 million net par outstanding of bonds issued by the Puerto Rico Municipal Finance Agency ("MFA") secured by a pledge of local property tax revenues. On October 13, 2015, the Company and AGC filed a motion to intervene in litigation between Centro de Recaudación de Ingresos Municipales ("CRIM") and the GDB in which CRIM was seeking to ensure that the pledged tax revenues are, and will continue to be, available to support the MFA bonds. While the Company's motion to intervene was denied, the GDB and CRIM have reported that they executed a new deed of trust that requires the GDB, as fiduciary, to keep the pledged tax revenues separate from any other GDB monies or accounts and that governs the manner in which the pledged revenues may be invested and dispersed.

The following tables show the Company's insured exposure to general obligation bonds of Puerto Rico and various obligations of its related authorities and public corporations.

Puerto Rico
Gross Par and Gross Debt Service Outstanding

	Gross Par Outstanding		Gross Debt Service Outstanding	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
	(in millions)			
Previously Subject to the Voided Recovery Act (1)	$ 1,708	$ 1,844	$ 2,639	$ 2,868
Not Previously Subject to the Voided Recovery Act	2,053	2,204	3,442	3,711
Total	$ 3,761	$ 4,048	$ 6,081	$ 6,579

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(1) On February 6, 2015, the U.S. District Court for the District of Puerto Rico ruled that the Recovery Act is preempted by the U.S. Bankruptcy Code and is therefore void. On July 6, 2015, the U.S. Court of Appeals for the First Circuit upheld that ruling, and on December 4, 2015, the U.S. Supreme Court granted petitions for writs of *certiorari* relating to that ruling.

Puerto Rico
Net Par Outstanding

	As of December 31, 2015			As of December 31, 2014		
	Total (2)		Internal Rating	Total		Internal Rating
	(in millions)					
Exposures Previously Subject to the Voided Recovery Act:						
PRHTA (Transportation revenue) ("Primary policies") (3)	$	209	CCC-	$	223	BB-
PRHTA (Transportation revenue) ("Second-to-pay policies") (1)(3)		80	AA		80	AA
Total		289			303	
PREPA		431	CC		464	B-
PRHTA (Highway revenue) (3)		219	CCC		197	BB
Total		939			964	
Exposures Not Previously Subject to the Voided Recovery Act:						
Commonwealth of Puerto Rico - General Obligation Bonds		720	CCC		749	BB
Puerto Rico Sales Tax Financing Corporation		261	CCC+		261	BBB
MFA		206	CCC-		223	BB-
Puerto Rico Public Buildings Authority		14	B		18	BB+
Total		1,201			1,251	
Total net exposure to Puerto Rico	$	2,140		$	2,215	

(1) Represents exposure as to which AGM guarantees payment of principal and interest when due in the event that both the obligor and the AGM affiliate that issued a primary insurance policy fail to pay.

(2) As of December 31, 2015, the Company's Puerto Rico net exposures include a commutation of previously ceded Puerto Rico exposures.

(3) The Governor issued executive orders on November 30, 2015, and December 8, 2015, directing the Puerto Rico Department of Treasury and the Puerto Rico Tourism Company to retain or transfer certain taxes and revenues pledged to secure the payment of bonds issued by PRHTA. On January 7, 2016 the Company sued various Puerto Rico governmental officials in the United States District Court, District of Puerto Rico asserting that this attempt to "claw back" pledged taxes and revenues is unconstitutional, and demanding declaratory and injunctive relief.

The following table shows the scheduled amortization of the insured general obligation bonds of Puerto Rico and various obligations of its related authorities and public corporations rated BIG by the Company. The Company guarantees payments of interest and principal when those amounts are scheduled to be paid and cannot be required to pay on an accelerated basis. In the event that obligors default on their obligations, the Company would only be required to pay the shortfall between the principal and interest due in any given period and the amount paid by the obligors.

Amortization Schedule of Puerto Rico BIG Net Par Outstanding
and Net Debt Service Outstanding
As of December 31, 2015

	Scheduled BIG Net Par Amortization			Scheduled BIG Net Debt Service Amortization		
	Previously Subject to the Voided Recovery Act	Not Previously Subject to the Voided Recovery Act	Total	Previously Subject to the Voided Recovery Act	Not Previously Subject to the Voided Recovery Act	Total
			(in millions)			
2016	$ 36	$ 74	$ 110	$ 78	$ 138	$ 216
2017	29	74	103	70	134	204
2018	23	41	64	61	96	157
2019	33	58	91	72	110	182
2020	47	51	98	83	101	184
2021	35	13	48	68	60	128
2022	31	25	56	62	72	134
2023	73	12	85	104	56	160
2024	58	45	103	85	90	175
2025	49	43	92	73	84	157
2026 - 2030	246	138	384	332	322	654
2031 - 2035	170	287	457	201	429	630
2036 - 2040	29	187	216	30	260	290
2041 - 2043	—	153	153	—	168	168
Total	$ 859	$ 1,201	$ 2,060	$ 1,319	$ 2,120	$ 3,439

Exposure to the Selected European Countries

Several European countries continue to experience significant economic, fiscal and/or political strains such that the likelihood of default on obligations with a nexus to those countries may be higher than the Company anticipated when such factors did not exist. The European countries where the Company has exposure and believes heightened uncertainties exist are: Hungary, Italy, Portugal and Spain (collectively, the “Selected European Countries”). The Company is closely monitoring its exposures in the Selected European Countries where it believes heightened uncertainties exist. The Company’s direct economic exposure to the Selected European Countries (based on par for financial guaranty contracts and notional amount for financial guaranty contracts accounted for as derivatives) is shown in the following table, net of ceded reinsurance.

Net Direct Economic Exposure to Selected European Countries(1)
As of December 31, 2015

	Hungary	Italy	Portugal	Spain	Total
			(in millions)		
Sub-sovereign exposure:					
Non-infrastructure public finance (2)	$ —	$ 632	$ 79	$ 166	$ 877
Infrastructure finance	210	5	—	111	326
Total sub-sovereign exposure	210	637	79	277	1,203
Non-sovereign exposure:					
Regulated utilities	—	122	—	—	122
RMBS	160	215	—	—	375
Total non-sovereign exposure	160	337	—	—	497
Total	$ 370	$ 974	$ 79	$ 277	$ 1,700
Total BIG (See Note 4)	$ 305	$ —	$ 79	$ 277	$ 661

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(1) While the Company's exposures are shown in U.S. dollars, the obligations the Company insures are in various currencies, primarily Euros. One of the RMBS included in the table above includes residential mortgages in both Italy and Germany, and only the portion of the transaction equal to the portion of the original mortgage pool in Italian mortgages is shown in the table.

(2) The exposure shown in the “Non-infrastructure public finance” category is from transactions backed by receivable payments from sub-sovereigns in Italy, Spain and Portugal. Sub-sovereign debt is debt issued by a governmental entity or government backed entity, or supported by such an entity, that is other than direct sovereign debt of the ultimate governing body of the country.

When the Company directly insures an obligation, it assigns the obligation to a geographic location or locations based on its view of the geographic location of the risk.

The Company has excluded from the exposure tables above its indirect economic exposure to the Selected European Countries through policies it provides on pooled corporate transactions. The Company calculates indirect exposure to a country by multiplying the par amount of a transaction insured by the Company times the percent of the relevant collateral pool reported as having a nexus to the country. On that basis, the Company has calculated exposure of $46 million to Selected European Countries in transactions with $2.2 billion of net par outstanding.

4. Expected Loss to be Paid

The insured portfolio includes policies accounted for under three separate accounting models depending on the characteristics of the contract and the Company's control rights. The Company has paid and expects to pay future losses on policies which fall under each of the three accounting models. The following provides a summarized description of the three accounting models prescribed by GAAP with a reference to the notes that describe the accounting policies and required disclosures throughout this report. The three models are: (1) insurance, (2) derivative and (3) VIE consolidation.

In order to effectively evaluate and manage the economics and liquidity of the entire insured portfolio, management compiles and analyzes loss information for all policies on a consistent basis. The Company monitors and assigns ratings and calculates expected losses in the same manner for all its exposures regardless of form or differing accounting models.

This note provides information regarding expected claim payments to be made under all contracts in the insured portfolio. Net expected loss to be paid in the tables below consists of the present value of future: expected claim and loss adjustment expenses ("LAE") payments, expected recoveries in the transaction structures, cessions to reinsurers, and expected recoveries for breaches of representations and warranties ("R&W") and other loss mitigation strategies. Expected loss to be paid is important from a liquidity perspective in that it represents the present value of amounts that the Company expects to pay or recover in future periods, regardless of the accounting model. Expected loss to be paid is an important measure used by management to analyze the net economic loss on all contracts.

Accounting Policy

Insurance Accounting

For contracts accounted for as financial guaranty insurance, loss and LAE reserve is recorded only to the extent and for the amount that expected losses to be paid, exceed unearned premium reserve. As a result, the Company has expected loss to be paid that have not yet been expensed. Such amounts will be recognized in future periods as deferred premium revenue amortizes into income. Expected loss to be expensed is important because it presents the Company's projection of incurred losses that will be recognized in future periods (excluding accretion of discount). See "Financial Guaranty Insurance Losses" in Note 5, Financial Guaranty Insurance.

Derivative Accounting, at Fair Value

For contracts that do not meet the financial guaranty scope exception in the derivative accounting guidance (primarily due to the fact that the insured is not required to be exposed to the insured risk throughout the life of the contract), the Company records such credit derivative contracts at fair value on the consolidated balance sheet with changes in fair value recorded in the consolidated statement of operations. The fair value recorded on the balance sheet represents an exit price in a hypothetical market because the Company does not trade its credit derivative contracts. The fair value is determined using significant Level 3 inputs in an internally developed model while the expected loss to be paid (which represents the net present value of expected cash outflows) uses methodologies and assumptions consistent with financial guaranty insurance expected losses to be paid. See Note 6, Fair Value Measurement and Note 7, Financial Guaranty Contracts Accounted for as Credit Derivatives.

VIE Consolidation, at Fair Value

For financial guaranty insurance contracts issued on the debt of variable interest entities over which the Company is deemed to be the primary beneficiary due to its control rights, as defined in GAAP, the Company consolidates the FG VIE. The Company carries the assets and liabilities of the FG VIEs at fair value under the fair value option election. Management assesses the losses on the insured debt of the consolidated FG VIEs in the same manner as other financial guaranty insurance and credit derivative contracts. See Note 8, Consolidated Variable Interest Entities.

Expected Loss to be Paid

The expected loss to be paid is equal to the present value of expected future cash outflows for claim and LAE payments, net of inflows for expected salvage and subrogation (e.g., excess spread on the underlying collateral, and expected and contractual recoveries for breaches of R&W or other expected recoveries), using current risk-free rates. When the Company becomes entitled to the cash flow from the underlying collateral of an insured credit under salvage and subrogation rights as a result of a claim payment or estimated future claim payment, it reduces the expected loss to be paid on the contract. Net expected loss to be paid is defined as expected loss to be paid, net of amounts ceded to reinsurers.

The current risk-free rate is based on the remaining period of the contract used in the premium revenue recognition calculation (i.e., the contractual or expected period, as applicable). The Company updates the discount rate each quarter and records the effect of such changes in economic loss development. Expected cash outflows and inflows are probability weighted cash flows that reflect the likelihood of all possible expected outcomes. The Company estimates the expected cash outflows and inflows using management's assumptions about the likelihood of all possible outcomes based on all information available to it. Those assumptions consider the relevant facts and circumstances and are consistent with the information tracked and monitored through the Company's risk-management activities.

Economic Loss Development

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

Expected loss to be paid and economic loss development include the effects of loss mitigation strategies such as negotiated and estimated recoveries for breaches of R&W, and purchases of insured debt obligations. Additionally, in certain cases, issuers of insured obligations elected, or the Company and an issuer mutually agreed as part of a negotiation, to deliver the underlying collateral or insured obligation to the Company.

In circumstances where the Company has purchased its own insured obligations that have expected losses, expected loss to be paid is reduced by the proportionate share of the insured obligation that is held in the investment portfolio. The difference between the purchase price of the obligation and the fair value excluding the value of the Company's insurance, is treated as a paid loss. Assets that are purchased by the Company are recorded in the investment portfolio, at fair value, excluding the value of the Company's insurance. See Note 9, Investments and Cash and Note 6, Fair Value Measurement.

Loss Estimation Process

The Company’s loss reserve committee estimates expected loss to be paid for all contracts by reviewing analyses that consider various scenarios with corresponding probabilities assigned to them. Depending upon the nature of the risk, the Company’s view of the potential size of any loss and the information available to the Company, that analysis may be based upon individually developed cash flow models, internal credit rating assessments and sector-driven loss severity assumptions or judgmental assessments. The Company monitors the performance of its transactions with expected losses and each quarter the Company’s loss reserve committee reviews and refreshes its loss projection assumptions and scenarios and the probabilities it assigns to those scenarios based on actual developments during the quarter and its view of future performance.

The financial guaranties issued by the Company insure the credit performance of the guaranteed obligations over an extended period of time, in some cases over 30 years, and in most circumstances, the Company has no right to cancel such financial guaranties. As a result, the Company's estimate of ultimate losses on a policy is subject to significant uncertainty over the life of the insured transaction. Credit performance can be adversely affected by economic, fiscal and financial market variability over the long duration of most contracts.

The determination of expected loss to be paid is an inherently subjective process involving numerous estimates, assumptions and judgments by management, using both internal and external data sources with regard to frequency, severity of loss, economic projections, governmental actions, negotiations 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 quarter, and as a result the Company’s loss estimates may change materially over that same period. Changes over a quarter 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. For example, changes over a quarter in the Company’s loss estimates for its RMBS transactions may be influenced by such factors as the level and timing of loan defaults experienced; changes in housing prices; results from the Company’s loss mitigation activities; and other variables. Similarly, changes over a quarter in the Company’s

loss estimates for municipal obligations supported by specified revenue streams, such as revenue bonds issued by toll road authorities, municipal utilities or airport authorities, generally will be influenced by factors impacting their revenue levels, such as changes in demand; changing demographics; and other economic factors, especially if the obligations do not benefit from financial support from other tax revenues or governmental authorities. On the other hand, changes over a quarter in the Company's loss estimates for its tax-supported public finance transactions generally will be influenced by factors impacting the public issuer's ability and willingness to pay, such as changes in the economy and population of the relevant area; changes in the issuer's ability or willingness to raise taxes, decrease spending or receive federal assistance; new legislation; rating agency downgrades that reduce the issuer's ability to refinance maturing obligations or issue new debt at a reasonable cost; changes in the priority or amount of pensions and other obligations owed to workers; developments in restructuring or settlement negotiations; and other political and economic factors.

The Company does not use traditional actuarial approaches to determine its estimates of expected losses. Actual losses will ultimately depend on future events or transaction performance and may be influenced by many interrelated factors that are difficult to predict. As a result, the Company's current projections of probable and estimable losses may be subject to considerable volatility and may not reflect the Company's ultimate claims paid.

In some instances, the terms of the Company's policy gives it the option to pay principal losses that have been recognized in the transaction but which it is not yet required to pay, thereby reducing the amount of guaranteed interest due in the future. The Company has sometimes exercised this option, which uses cash but reduces projected future losses.

The following tables present a roll forward of the present value of net expected loss to be paid for all contracts, whether accounted for as insurance, credit derivatives or FG VIEs, by sector, after the benefit for expected recoveries for breaches of R&W or other expected recoveries. The Company used weighted average risk-free rates for U.S. dollar denominated obligations that ranged from 0.0% to 3.25% as of December 31, 2015 and 0.0% to 2.95% as of December 31, 2014.

Net Expected Loss to be Paid
After Net Expected Recoveries for Breaches of R&W
Roll Forward

	Year Ended December 31, 2015
	(in millions)
Net expected loss to be paid, beginning of period	$ 619
Economic loss development due to:	
Accretion of discount	14
Changes in discount rates	(11)
Changes in timing and assumptions	76
Total economic loss development	79
Paid losses	(133)
Net expected loss to be paid, end of period	$ 565

Net Expected Loss to be Paid,
After Net Expected Recoveries for Breaches of R&W
Roll Forward by Sector
Year Ended December 31, 2015

	Net Expected Loss to be Paid (Recovered) as of December 31, 2014(2)	Economic Loss Development	(Paid) Recovered Losses(1)	Net Expected Loss to be Paid (Recovered) as of December 31, 2015(2)
		(in millions)		
Public Finance:				
U.S. public finance	$ 142	$ 87	$ (15)	$ 214
Non-U.S. public finance	34	(8)	—	26
Public Finance	176	79	(15)	240
Structured Finance:				
U.S. RMBS:				
First lien:				
Alt-A first lien	237	(40)	(108)	89
Option ARM	(19)	(16)	4	(31)
Subprime	223	20	(36)	207
Total first lien	441	(36)	(140)	265
Second lien	(22)	37	22	37
Total U.S. RMBS	419	1	(118)	302
Other structured finance	24	(1)	0	23
Structured Finance	443	0	(118)	325
Total	$ 619	$ 79	$ (133)	$ 565

Net Expected Loss to be Paid,
After Net Expected Recoveries for Breaches of R&W
Roll Forward by Sector
Year Ended December 31, 2014

	Net Expected Loss to be Paid (Recovered) as of December 31, 2013	Economic Loss Development	(Paid) Recovered Losses(1)	Net Expected Loss to be Paid (Recovered) as of December 31, 2014(2)
		(in millions)		
Public Finance:				
U.S. public finance	$ 61	$ 97	$ (16)	$ 142
Non-U.S. public finance	42	(8)	—	34
Public Finance	103	89	(16)	176
Structured Finance:				
U.S. RMBS:				
First lien:				
Alt-A first lien	183	(73)	127	237
Option ARM	(4)	(34)	19	(19)
Subprime	222	(12)	13	223
Total first lien	401	(119)	159	441
Second lien	(128)	(40)	146	(22)
Total U.S. RMBS	273	(159)	305	419
Other structured finance	27	(2)	(1)	24
Structured Finance	300	(161)	304	443
Total	$ 403	$ (72)	$ 288	$ 619

(1) Net of ceded paid losses, whether or not such amounts have been settled with reinsurers. Ceded paid losses are typically settled 45 days after the end of the reporting period. Such amounts are recorded in reinsurance recoverable on paid losses included in other assets. The Company paid $8 million and $23 million in LAE for the years ended December 31, 2015 and 2014, respectively.

(2) Includes expected LAE to be paid of $3 million as of December 31, 2015 and $4 million as of December 31, 2014.

Future Net R&W Benefit
As of December 31, 2015, 2014 and 2013

	Future Net R&W Benefit as of December 31, 2015 (1)	Future Net R&W Benefit as of December 31, 2014	Future Net R&W Benefit as of December 31, 2013
		(in millions)	
U.S. RMBS:			
First lien	$ (9)	$ 115	$ 293
Second lien	71	76	127
Total	$ 62	$ 191	$ 420

(1) See the section "Breaches of Representations and Warranties" below for eligible assets held in trust.

The following tables present the present value of net expected loss to be paid for all contracts by accounting model, by sector and after the benefit for estimated and contractual recoveries for breaches of R&W.

Net Expected Loss to be Paid (Recovered)
By Accounting Model
As of December 31, 2015

	Financial Guaranty Insurance	FG VIEs(1)	Credit Derivatives (2)	Total
		(in millions)		
Public Finance:				
U.S. public finance	$ 214	$ —	$ —	$ 214
Non-U.S. public finance	26	—	—	26
Public Finance	240	—	—	240
Structured Finance:				
U.S. RMBS:				
First lien:				
Alt-A first lien	72	17	—	89
Option ARM	(31)	—	—	(31)
Subprime	147	60	—	207
Total first lien	188	77	—	265
Second lien	(4)	37	4	37
Total U.S. RMBS	184	114	4	302
Other structured finance	20	—	3	23
Structured Finance	204	114	7	325
Total	$ 444	$ 114	$ 7	$ 565

Net Expected Loss to be Paid (Recovered)
By Accounting Model
As of December 31, 2014

	Financial Guaranty Insurance	FG VIEs(1)	Credit Derivatives (2)	Total
		(in millions)		
Public Finance:				
U.S. public finance	$ 142	$ —	$ —	$ 142
Non-U.S. public finance	34	—	—	$ 34
Public Finance	176	—	—	176
Structured Finance				
U.S. RMBS:				
First lien:				
Alt-A first lien	220	17	—	237
Option ARM	(19)	—	—	(19)
Subprime	153	70	—	223
Total first lien	354	87	—	441
Second lien	(58)	32	4	(22)
Total U.S. RMBS	296	119	4	419
Other structured finance	22	—	2	24
Structured Finance	318	119	6	443
Total	$ 494	$ 119	$ 6	$ 619

(1) Refer to Note 8, Consolidated Variable Interest Entities.

(2) Refer to Note 7, Financial Guaranty Contracts Accounted for as Credit Derivatives.

The following tables present the net economic loss development for all contracts by accounting model, by sector and after the benefit for estimated and contractual recoveries for breaches of R&W.

Net Economic Loss Development (Benefit)
By Accounting Model
Year Ended December 31, 2015

	Financial Guaranty Insurance	FG VIEs(1)	Credit Derivatives(2)	Total
		(in millions)		
Public Finance:				
U.S. public finance	$ 87	$ —	$ —	$ 87
Non-U.S. public finance	(8)	—	—	(8)
Public Finance	79	—	—	79
Structured Finance:				
U.S. RMBS:				
First lien:				
Alt-A first lien	(40)	—	—	(40)
Option ARM	(16)	—	—	(16)
Subprime	11	9	—	20
Total first lien	(45)	9	—	(36)
Second lien	30	6	1	37
Total U.S. RMBS	(15)	15	1	1
Other structured finance	(2)	—	1	(1)
Structured Finance	(17)	15	2	0
Total	$ 62	$ 15	$ 2	$ 79

Net Economic Loss Development (Benefit)
By Accounting Model
Year Ended December 31, 2014

	Financial Guaranty Insurance	FG VIEs(1)	Credit Derivatives(2)	Total
		(in millions)		
Public Finance:				
U.S. public finance	$ 97	$ —	$ —	$ 97
Non-U.S. public finance	(8)	—	—	(8)
Public Finance	89	—	—	89
Structured Finance:				
U.S. RMBS:				
First lien:				
Alt-A first lien	(72)	(1)	—	(73)
Option ARM	(35)	1	—	(34)
Subprime	(19)	7	—	(12)
Total first lien	(126)	7	—	(119)
Second lien	(127)	90	(3)	(40)
Total U.S. RMBS	(253)	97	(3)	(159)
Other structured finance	1	—	(3)	(2)
Structured Finance	(252)	97	(6)	(161)
Total	$ (163)	$ 97	$ (6)	$ (72)

(1) Refer to Note 8, Consolidated Variable Interest Entities.

(2) Refer to Note 7, Financial Guaranty Contracts Accounted for as Credit Derivatives.

Selected U.S. Public Finance Transactions

The Company insures general obligation bonds of the Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations aggregating $2.14 billion net par as of December 31, 2015, $2.06 billion of which is rated BIG. For additional information regarding the Company's exposure to general obligations of Commonwealth of Puerto Rico and various obligations of its related authorities and public corporations, please refer to "Exposure to Puerto Rico" in Note 3, Outstanding Exposure.

On February 25, 2015, a plan of adjustment resolving the bankruptcy filing of the City of Stockton, California under chapter 9 of the U.S. Bankruptcy Code became effective. As of December 31, 2015, the Company’s net exposure subject to the plan consists of $61 million of pension obligation bonds. As part of the plan settlement, the City will repay the pension obligation bonds from certain fixed payments and certain variable payments contingent on the City's revenue growth.

The Company projects that its total net expected loss across its troubled U.S. public finance credits as of December 31, 2015, which incorporated the likelihood of the various outcomes, will be $214 million compared with a net expected loss of $142 million as of December 31, 2014. Economic loss development in 2015 was $87 million, which was primarily attributable to Puerto Rico exposures.

Certain Selected European Country Sub-Sovereign Transactions

The Company insures credits with sub-sovereign exposure to various Spanish and Portuguese issuers where a Spanish and Portuguese sovereign default may cause the sub-sovereigns also to default. The Company's gross exposure to these Spanish and Portuguese credits is $445 million and $91 million, respectively and exposure net of reinsurance for Spanish and Portuguese credits is $277 million and $79 million, respectively. The Company rates most of these issuers in the BB category due to the financial condition of Spain and Portugal and their dependence on the sovereign. The Company's Hungary exposure is to infrastructure bonds dependent on payments from Hungarian governmental entities. The Company's gross exposure to these Hungarian credits is $274 million and its exposure net of reinsurance is $210 million, all of which is rated BIG. The Company estimated net expected losses of $26 million related to these Spanish, Portuguese and Hungarian credits. The economic benefit of approximately $8 million during 2015, was primarily related to changes in the exchange rate between the Euro and US Dollar and certain assumption updates.

Infrastructure Finance

As of December 31, 2015, the Company had exposure of approximately $2.6 billion to infrastructure transactions with refinancing risk. The Company may be required to make claim payments on such exposure, the aggregate amount of the claim payments may be substantial and, although the Company may not experience ultimate loss on a particular transaction, reimbursement may not occur for an extended time. These transactions generally involve long-term infrastructure projects that were financed by bonds that mature prior to the expiration of the project concession. The Company expects the cash flows from these projects to be sufficient to repay all of the debt over the life of the project concession, but also expects the debt to be refinanced in the market at or prior to its maturity. If the issuer is unable to refinance the debt due to market conditions, the Company may have to pay a claim when the debt matures, and then recover from cash flows produced by the project in the future. The Company generally projects that in most scenarios it will be fully reimbursed for such claim payments. However, the recovery of such amounts is uncertain and may take from 10 to 35 years, depending on the transaction and the performance of the underlying collateral. As of December 31, 2015, the Company estimated total claims for the two largest transactions with significant refinancing risk, assuming no refinancing, and based on certain performance assumptions, could be $1.5 billion on a gross basis; such claims would occur from 2017 through 2022. Of such $1.5 billion in estimated gross claims, an estimated $1.3 billion related to obligations of Skyway Concession Company LLC (“SCC”), which owned the concession for the Chicago Skyway toll road. On February 25, 2016, a consortium of three Canadian pension plans purchased SCC for $2.8 billion and the various SCC obligations insured by the Company were retired without a claim on the Company.

Approach to Projecting Losses in U.S. RMBS

The Company projects losses on its insured U.S. RMBS on a transaction-by-transaction basis by projecting the performance of the underlying pool of mortgages over time and then applying the structural features (i.e., payment priorities and tranching) of the RMBS and any R&W agreements to the projected performance of the collateral over time. The resulting projected claim payments or reimbursements are then discounted using risk-free rates.

The further behind a mortgage borrower falls in making payments, the more likely it is that he or she will default. The rate at which borrowers from a particular delinquency category (number of monthly payments behind) eventually default is referred to as the “liquidation rate.” The Company derives its liquidation rate assumptions from observed roll rates, which are the rates at which loans progress from one delinquency category to the next and eventually to default and liquidation. The Company applies liquidation rates to the mortgage loan collateral in each delinquency category and makes certain timing assumptions to project near-term mortgage collateral defaults from loans that are currently delinquent.

Mortgage borrowers that are not more than one payment behind (generally considered performing borrowers) have demonstrated an ability and willingness to pay throughout the recession and mortgage crisis, and as a result are viewed as less likely to default than delinquent borrowers. Performing borrowers that eventually default will also need to progress through delinquency categories before any defaults occur. The Company projects how many of the currently performing loans will default and when they will default, by first converting the projected near term defaults of delinquent borrowers derived from liquidation rates into a vector of conditional default rates ("CDR"), then projecting how the CDR will develop over time. Loans that are defaulted pursuant to the conditional default rate after the near-term liquidation of currently delinquent loans represent defaults of currently performing loans and projected re-performing loans. A conditional default rate is the outstanding principal amount of defaulted loans liquidated in the current month divided by the remaining outstanding amount of the whole pool of loans (or “collateral pool balance”). The collateral pool balance decreases over time as a result of scheduled principal payments, partial and whole principal prepayments, and defaults.

In order to derive collateral pool losses from the collateral pool defaults it has projected, the Company applies a loss severity. The loss severity is the amount of loss the transaction experiences on a defaulted loan after the application of net proceeds from the disposal of the underlying property. The Company projects loss severities by sector based on its experience to date. The Company continues to update its evaluation of these loss severities as new information becomes available.

The Company had been enforcing claims for breaches of R&W regarding the characteristics of the loans included in the collateral pools, but has now completed its active pursuit of significant R&W claims. The Company calculates a credit for R&W recoveries to include in its cash flow projections based on agreements it has with R&W providers, which are described in more detail under "Breaches of Representations and Warranties" below.

The Company projects the overall future cash flow from a collateral pool by adjusting the payment stream from the principal and interest contractually due on the underlying mortgages for the collateral losses it projects as described above; assumed voluntary prepayments; and servicer advances. The Company then applies an individual model of the structure of the transaction to the projected future cash flow from that transaction's collateral pool to project the Company's future claims and claim reimbursements for that individual transaction. Finally, the projected claims and reimbursements are discounted using risk-free rates. The Company runs several sets of assumptions regarding mortgage collateral performance, or scenarios, and probability weights them.

The Company's RMBS loss projection methodology assumes that the housing and mortgage markets will continue improving. Each period the Company makes a judgment as to whether to change the assumptions it uses to make RMBS loss projections based on its observation during the period of the performance of its insured transactions (including early stage delinquencies, late stage delinquencies and loss severity) as well as the residential property market and economy in general, and, to the extent it observes changes, it makes a judgment as whether those changes are normal fluctuations or part of a trend.

Year-End 2015 Compared to Year-End 2014 U.S. RMBS Loss Projections

Based on its observation during the period of the performance of its insured transactions (including early stage delinquencies, late stage delinquencies and loss severity) as well as the residential property market and economy in general, the Company chose to use the same general assumptions to project RMBS losses as of December 31, 2015 as it used as of December 31, 2014, except that, for its first lien RMBS loss projections for 2015, it shortened by twelve months the period it is projecting it will take in the base case to reach the final CDR as compared with December 31, 2014. The methodology and revised assumptions the Company used to project first lien RMBS losses and the scenarios it employed are described in more detail below under " - U.S. First Lien RMBS Loss Projections: Alt A First Lien, Option ARM and Subprime", and the methodology and assumptions the Company uses to project second lien RMBS losses and the scenarios it employs are described in more detail below under " - U.S. Second Lien RMBS Loss Projections."

Year-End 2014 Compared to Year-End 2013 U.S. RMBS Loss Projections

Based on its observations of the performance of its insured transactions (including early stage delinquencies, late stage delinquencies and loss severity) as well as the residential property market and economy in general, the Company chose to use the same general methodology to project first lien RMBS losses as of December 31, 2014 as it used as of December 31, 2013, but it made a number of refinements to reflect its observations, notably:

- updated the liquidation rates it uses on delinquent loans based on observations and on an assumption that loan modifications (which improve liquidation rates) would over the next year be less frequent than they were over the most recent year

- updated the liquidation rate it uses for loans reported as current but that had been reported as modified over the previous twelve months, based on observed data

- established a liquidation rate assumption for loans reported as current and not modified in the past twelve months but that had been reported as delinquent in the previous twelve months

- established loss severity assumptions by vintage category as well as product type, rather than just product type as done previously

- beginning with the third quarter 2014, each quarter shortened by three months the period it is projecting it will take in the base case to reach the final CDR

The Company estimated the impact of all of the refinements to its first lien RMBS assumptions described above to be a decrease of expected losses (gross of reinsurance) of approximately $28 million (before adjustments for settlements or loss mitigation purchases) in 2014.

Based on its observations of the performance of its insured transactions (including early stage delinquencies, late stage delinquencies and loss severity) as well as the residential property market and economy in general, the Company chose to use the same general methodology to project second lien RMBS losses as of December 31, 2014 as it used as of December 31, 2013, but it made a number of refinements to reflect its observations, notably with respect to most home equity lines of credit ("HELOC") projections to:

- reflect increased recoveries on newly defaulted loans as well as previously defaulted loans
- project incremental defaults associated with increased monthly payments that occur when interest-only periods end
- increase the assumed final conditional prepayment rate ("CPR") from 10% to 15%

The net impact of the refinements in the first two bullet points, which were implemented in the third quarter 2014, was an increase of $30 million in expected losses (gross of reinsurance) in the Company's base case as of September 30, 2014. The net impact of the refinements in the third bullet point was an increase of approximately $12 million in expected losses (gross of reinsurance) in the Company's base case as of December 31, 2014.

U.S. First Lien RMBS Loss Projections: Alt-A First Lien, Option ARM and Subprime

The majority of projected losses in first lien RMBS transactions are expected to come from non-performing mortgage loans (those that are or in the past twelve months have been two or more payments behind, have been modified, are in foreclosure, or have been foreclosed upon). Changes in the amount of non-performing loans from the amount projected in the previous period are one of the primary drivers of loss development in this portfolio. In order to determine the number of defaults resulting from these delinquent and foreclosed loans, the Company applies a liquidation rate assumption to loans in each of various non-performing categories. The Company arrived at its liquidation rates based on data purchased from a third party provider and assumptions about how delays in the foreclosure process and loan modifications may ultimately affect the rate at which loans are liquidated. Each quarter the Company reviews the most recent twelve months of this data and (if necessary) adjusts its liquidation rates based on its observations. The following table shows liquidation assumptions for various non-performing categories.

First Lien Liquidation Rates

	December 31, 2015	December 31, 2014
Current Loans Modified in the Previous 12 Months		
Alt-A	25%	25%
Option ARM	25	25
Subprime	25	25
Current Loans Delinquent in the Previous 12 Months		
Alt-A	25	25
Option ARM	25	25
Subprime	25	25
30 - 59 Days Delinquent		
Alt-A	35	35
Option ARM	40	40
Subprime	45	35
60 - 89 Days Delinquent		
Alt-A	45	50
Option ARM	50	55
Subprime	55	40
90 + Days Delinquent		
Alt-A	55	60
Option ARM	60	65
Subprime	60	55
Bankruptcy		
Alt-A	45	45
Option ARM	50	50
Subprime	40	40
Foreclosure		
Alt-A	65	75
Option ARM	70	80
Subprime	70	70
Real Estate Owned		
All	100	100

While the Company uses liquidation rates as described above to project defaults of non-performing loans (including current loans modified or delinquent within the last 12 months), it projects defaults on presently current loans by applying a CDR trend. The start of that CDR trend is based on the defaults the Company projects will emerge from currently nonperforming, recently nonperforming and modified loans. The total amount of expected defaults from the non-performing loans is translated into a constant CDR (*i.e.*, the CDR plateau), which, if applied for each of the next 36 months, would be sufficient to produce approximately the amount of defaults that were calculated to emerge from the various delinquency categories. The CDR thus calculated individually on the delinquent collateral pool for each RMBS is then used as the starting point for the CDR curve used to project defaults of the presently performing loans.

In the base case, after the initial 36-month CDR plateau period, each transaction's CDR is projected to improve over 12 months to an intermediate CDR (calculated as 20% of its CDR plateau); that intermediate CDR is held constant for 36 months and then trails off in steps to a final CDR of 5% of the CDR plateau. In the base case, the Company assumes the final CDR will be reached 7.5 years after the initial 36-month CDR plateau period, which is twelve months shorter than assumed at December 31, 2014. Under the Company's methodology, defaults projected to occur in the first 36 months represent defaults that can be attributed to loans that were modified or delinquent in the last 12 months or that are currently delinquent or in foreclosure, while the defaults projected to occur using the projected CDR trend after the first 36 month period represent defaults attributable to borrowers that are currently performing or are projected to reperform.

Another important driver of loss projections is loss severity, which is the amount of loss the transaction incurs on a loan after the application of net proceeds from the disposal of the underlying property. Loss severities experienced in first lien transactions have reached historically high levels, and the Company is assuming in the base case that these high levels generally will continue for another 18 months. The Company determines its initial loss severity based on actual recent experience. The Company then assumes that loss severities begin returning to levels consistent with underwriting assumptions beginning after the initial 18 month period, declining to 40% in the base case over 2.5 years. Beginning for December 31, 2014, the Company differentiated the loss severity assumptions depending on the vintage of the transaction, as shown in the table below.

The following table shows the range as well as the average, weighted by outstanding net insured par, for key assumptions used in the calculation of expected loss to be paid for individual transactions for direct vintage 2004 - 2008 first lien U.S. RMBS.

Key Assumptions in Base Case Expected Loss Estimates
First Lien RMBS(1)

	As of December 31, 2015		As of December 31, 2014	
	Range	Weighted Average	Range	Weighted Average
Alt-A First Lien				
Plateau CDR	4.0% - 12.0%	7.7%	3.7% - 13.4%	9.3%
Intermediate CDR	0.8% - 2.4%	1.5%	0.7% - 2.7%	1.9%
Period until intermediate CDR	48 months		48 months	
Final CDR	0.2% - 0.6%	0.4%	0.2% - 0.7%	0.5%
Initial loss severity:				
2005 and prior	60.0%		60.0%	
2006	70.0%		70.0%	
2007	65.0%		65.0%	
Initial CPR	2.7% - 14.3%	6.2%	1.7% - 9.5%	5.1%
Final CPR(2)	15%		15%	
Option ARM				
Plateau CDR	3.5% - 10.3%	7.9%	4.3% - 14.2%	10.9%
Intermediate CDR	0.7% - 2.1%	1.6%	0.9% - 2.8%	2.2%
Period until intermediate CDR	48 months		48 months	
Final CDR	0.2% - 0.5%	0.4%	0.2% - 0.7%	0.5%
Initial loss severity:				
2005 and prior	60.0%		60.0%	
2006	70.0%		70.0%	
2007	65.0%		65.0%	
Initial CPR	1.5% - 6.5%	2.7%	2.3% - 6.2%	3.3%
Final CPR(2)	15%		15%	
Subprime				
Plateau CDR	5.4% - 13.2%	9.7%	6.0% - 15.0%	10.8%
Intermediate CDR	1.1% - 2.6%	1.9%	1.2% - 3.0%	2.2%
Period until intermediate CDR	48 months		48 months	
Final CDR	0.3% - 0.7%	0.5%	0.3% - 0.7%	0.5%
Initial loss severity:				
2005 and prior	75.0%		75.0%	
2006	90.0%		90.0%	
2007	90.0%		90.0%	
Initial CPR	0.0% - 6.7%	3.4%	0.1% - 5.3%	3.4%
Final CPR(2)	15%		15%	

(1) Represents variables for most heavily weighted scenario (the “base case”).

(2) For transactions where the initial CPR is higher than the final CPR, the initial CPR is held constant and the final CPR is not used.

The rate at which the principal amount of loans is voluntarily prepaid may impact both the amount of losses projected (since that amount is a function of the conditional default rate, the loss severity and the loan balance over time) as well as the amount of excess spread (the amount by which the interest paid by the borrowers on the underlying loan exceeds the amount of interest owed on the insured obligations). The assumption for the voluntary CPR follows a similar pattern to that of the conditional default rate. The current level of voluntary prepayments is assumed to continue for the plateau period before gradually increasing over 12 months to the final CPR, which is assumed to be 15% in the base case. For transactions where the initial CPR is higher than the final CPR, the initial CPR is held constant and the final CPR is not used. These assumptions are the same as those the Company used for December 31, 2014.

In estimating expected losses, the Company modeled and probability weighted sensitivities for first lien transactions by varying its assumptions of how fast a recovery is expected to occur. One of the variables used to model sensitivities was how quickly the conditional default rate returned to its modeled equilibrium, which was defined as 5% of the initial conditional default rate. The Company also stressed CPR and the speed of recovery of loss severity rates. The Company probability weighted a total of five scenarios as of December 31, 2015. The Company used a similar approach to establish its pessimistic and optimistic scenarios as of December 31, 2015 as it used as of December 31, 2014, increasing and decreasing the periods of stress from those used in the base case.

In a somewhat more stressful environment than that of the base case, where the conditional default rate plateau was extended six months (to be 42 months long) before the same more gradual conditional default rate recovery and loss severities were assumed to recover over 4.5 rather than 2.5 years (and subprime loss severities were assumed to recover only to 60% and Option ARM and Alt A loss severities to only 45%), expected loss to be paid would increase from current projections by approximately $9 million for Alt-A first liens, $5 million for Option ARM and $38 million for subprime transactions.

In an even more stressful scenario where loss severities were assumed to rise and then recover over nine years and the initial ramp-down of the conditional default rate was assumed to occur over 15 months and other assumptions were the same as the other stress scenario, expected loss to be paid would increase from current projections by approximately $24 million for Alt-A first liens, $9 million for Option ARM and $53 million for subprime transactions.

In a scenario with a somewhat less stressful environment than the base case, where conditional default rate recovery was somewhat less gradual, expected loss to be paid would decrease from current projections by approximately $1 million for Alt-A first liens, $12 million for Option ARM and $9 million for subprime transactions.

In an even less stressful scenario where the conditional default rate plateau was six months shorter (30 months, effectively assuming that liquidation rates would improve) and the conditional default rate recovery was more pronounced, (including an initial ramp-down of the conditional default rate over nine months), expected loss to be paid would decrease from current projections by approximately $10 million for Alt-A first liens, $21 million for Option ARM and $31 million for subprime transactions.

U.S. Second Lien RMBS Loss Projections

Second lien RMBS transactions include both HELOC and closed end second lien. The Company believes the primary variable affecting its expected losses in second lien RMBS transactions is the amount and timing of future losses in the collateral pool supporting the transactions. Expected losses are also a function of the structure of the transaction; the voluntary prepayment rate (typically also referred to as CPR of the collateral); the interest rate environment; and assumptions about the draw rate and loss severity.

In second lien transactions the projection of near-term defaults from currently delinquent loans is relatively straightforward because loans in second lien transactions are generally “charged off” (treated as defaulted) by the securitization’s servicer once the loan is 180 days past due. Most second lien transactions report the amount of loans in five monthly delinquency categories (*i.e.*, 30-59 days past due, 60-89 days past due, 90-119 days past due, 120-149 days past due and 150-179 days past due). The Company estimates the amount of loans that will default over the next five months by calculating current representative liquidation rates. A liquidation rate is the percent of loans in a given cohort (in this instance, delinquency category) that ultimately default. Similar to first liens, the Company then calculates a CDR for six months, which is the period over which the currently delinquent collateral is expected to be liquidated. That CDR is then used as the basis for the plateau period that follows the embedded five months of losses. Liquidation rates assumed as of December 31, 2015, were from 10% to 100%.

For the base case scenario, the CDR (the “plateau CDR”) was held constant for six months. Once the plateau period has ended, the CDR is assumed to gradually trend down in uniform increments to its final long-term steady state CDR. (The

long-term steady state CDR is calculated as the constant CDR that would have yielded the amount of losses originally expected at underwriting.) In the base case scenario, the time over which the CDR trends down to its final CDR is 28 months. Therefore, the total stress period for second lien transactions is 34 months, comprising five months of delinquent data, a one month plateau period and 28 months of decrease to the steady state CDR, the same as of December 31, 2014.

HELOC loans generally permit the borrower to pay only interest for an initial period (often ten years) and, after that period, require the borrower to make both the monthly interest payment and a monthly principal payment, and so increase the borrower's aggregate monthly payment. Some of the HELOC loans underlying the Company's insured HELOC transactions have reached their principal amortization period. The Company has observed that the increase in monthly payments occurring when a loan reaches its principal amortization period, even if mitigated by borrower relief offered by the servicer, is associated with increased borrower defaults. Thus, most of the Company's HELOC projections incorporate an assumption that a percentage of loans reaching their amortization periods will default around the time of the payment increase. These projected defaults are in addition to those generated using the CDR curve as described above. This assumption is similar to the one used at December 31, 2014. For December 31, 2015 the Company used the approach it had refined in the third quarter of 2015 to calculate the number of additional delinquencies as a function of the number of modified loans in the transaction and the final steady state CDR but increased those additional resulting defaults. Under this refined approach, transactions that have worse than average expected experience will have higher defaults and transactions where borrowers are receiving modifications so that they will not default when their interest only period ends will have higher losses.

When a second lien loan defaults, there is generally a very low recovery. The Company had assumed as of December 31, 2015 that it will generally recover only 2% of the collateral defaulting in the future and declining additional amounts of post-default receipts on previously defaulted collateral. Based on experience, the Company changed this assumption from the assumption it had used as at December 31, 2014, when it assumed it would generally recover 10% or less of the collateral defaulting in the future and declining additional amounts of post-default receipts on previously defaulted collateral.

The rate at which the principal amount of loans is prepaid may impact both the amount of losses projected as well as the amount of excess spread. In the base case, an average CPR (based on experience of the most recent three quarters) is assumed to continue until the end of the plateau before gradually increasing to the final CPR over the same period the CDR decreases. The final CPR is assumed to be 15% for second lien transactions, which is lower than the historical average but reflects the Company’s continued uncertainty about the projected performance of the borrowers in these transactions. For transactions where the initial CPR is higher than the final CPR, the initial CPR is held constant and the final CPR is not used. This pattern is generally consistent with how the Company modeled the CPR at December 31, 2014. To the extent that prepayments differ from projected levels it could materially change the Company’s projected excess spread and losses.

The Company uses a number of other variables in its second lien loss projections, including the spread between relevant interest rate indices. These variables have been relatively stable and in the relevant ranges have less impact on the projection results than the variables discussed above. However, in a number of HELOC transactions the servicers have been modifying poorly performing loans from floating to fixed rates, and, as a result, rising interest rates would negatively impact the excess spread available from these modified loans to support the transactions. The Company incorporated these modifications in its assumptions.

In estimating expected losses, the Company modeled and probability weighted five possible CDR curves applicable to the period preceding the return to the long-term steady state CDR. The Company used five scenarios at December 31, 2015 and three scenarios at December 31, 2014. The Company believes that the level of the elevated CDR and the length of time it will persist, the ultimate prepayment rate, and the amount of additional defaults because of the expiry of the interest only period, are the primary drivers behind the likely amount of losses the collateral will suffer. The Company continues to evaluate the assumptions affecting its modeling results.

Most of the Company's projected second lien RMBS losses are from HELOC transactions. The following table shows the range as well as the average, weighted by outstanding net insured par, for key assumptions for the calculation of expected loss to be paid for individual transactions for direct vintage 2004 - 2008 HELOCs.

Key Assumptions in Base Case Expected Loss Estimates
HELOCs(1)

	As of December 31, 2015		As of December 31, 2014	
	Range	Weighted Average	Range	Weighted Average
Plateau CDR	4.9% - 23.5%	11.0%	2.8% - 6.8%	4.1%
Final CDR trended down to	0.6% - 3.2%	1.2%	0.6% - 3.2%	1.2%
Period until final CDR	34 months		34 months	
Initial CPR	10.9%		6.9% - 21.8%	10.8%
Final CPR(2)	10.0% - 15.0%	13.3%	15.0% - 21.8%	15.6%
Loss severity	98.0%		90.0% - 98.0%	90.3%

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(1) Represents variables for most heavily weighted scenario (the "base case").

(2) For transactions where the initial CPR is higher than the final CPR, the initial CPR is held constant and the final CPR is not used.

The Company's base case assumed a six month CDR plateau and a 28 month ramp-down (for a total stress period of 34 months). The Company also modeled a scenario with a longer period of elevated defaults and another with a shorter period of elevated defaults. Increasing the CDR plateau to eight months and increasing the ramp-down by three months to 31-months (for a total stress period of 39 months), and doubling the defaults relating to the end of the interest only period would increase the expected loss by approximately $36 million for HELOC transactions. On the other hand, reducing the CDR plateau to four months and decreasing the length of the CDR ramp-down to 25 months (for a total stress period of 29 months) and lowering the ultimate prepayment rate to 10% would decrease the expected loss by approximately $22 million for HELOC transactions.

Breaches of Representations and Warranties

Generally, when mortgage loans were transferred into a securitization, the loan originator(s) and/or sponsor(s) provided R&W that the loans meet certain characteristics, and a breach of such R&W often requires that the loan be repurchased from the securitization. The Company has pursued such breaches of R&W on a loan-by-loan basis or in cases where a provider of R&W refused to honor its repurchase obligations, the Company sometimes chose to initiate litigation. The Company's success in pursuing these strategies permitted the Company to enter into agreements with R&W providers under which those providers made payments to the Company, agreed to make payments to the Company in the future, and / or repurchased loans from the transactions, all in return for releases of related liability by the Company.

Through December 31, 2015 the Company has caused entities providing R&Ws to pay, or agree to pay approximately $3.2 billion (gross of reinsurance) in respect of their R&W liabilities for transactions in which the Company has provided insurance.

The Company has included in its net expected loss estimates as of December 31, 2015 an estimated net benefit of $62 million (net of reinsurance), all of which is projected to be received pursuant to existing agreements with R&W providers or is otherwise collateralized. The Company is no longer actively pursuing R&W providers where it does not have such an agreement. Most of the amount projected to be received pursuant to existing agreements with R&W providers benefits from eligible assets placed in trusts to collateralize the R&W provider's future reimbursement obligation, with the amount of such collateral subject to increase or decrease from time to time as determined by rating agency requirements. Currently the Company has agreements with three counterparties where a future reimbursement obligation is collateralized by eligible assets held in trust:

- **Bank of America**. Under Assured Guaranty's agreement with Bank of America Corporation and certain of its subsidiaries ("Bank of America"), Bank of America agreed to reimburse Assured Guaranty for 80% of claims on the first lien transactions covered by the agreement that Assured Guaranty pays in the future, until the aggregate lifetime collateral losses (not insurance losses or claims) on those transactions reach $6.6 billion. As of December 31, 2015, aggregate lifetime collateral losses on those transactions was $4.4 billion ($4.0 billion for AGM and $0.4 billion for AGC), and Assured Guaranty was projecting in its base case that such collateral losses would eventually reach $5.2 billion ($4.73 billion for AGM and $0.42 billion for AGC). Bank of America's reimbursement obligation is secured by

$138 million of collateral held in trust for the AGM's benefit and $327 million of collateral held in trust that is available for either AGM or AGC.

- **Deutsche Bank.** Under Assured Guaranty's May 2012 agreement with Deutsche Bank AG and certain of its affiliates (collectively, “Deutsche Bank”), Deutsche Bank agreed to reimburse Assured Guaranty for certain claims it pays in the future on eight first and second lien transactions, including 80% of claims it pays on those transactions until the aggregate lifetime claims (before reimbursement) reach $319 million. As of December 31, 2015, Assured Guaranty was projecting in its base case that such aggregate lifetime claims would remain below $319 million. In the event aggregate lifetime claims paid exceed $389 million, Deutsche Bank must reimburse Assured Guaranty for 85% of such claims paid (in excess of $389 million) until such claims paid reach $600 million. Deutsche Bank's reimbursement obligation is secured by $55 million of collateral held in trust for AGM's benefit and $0.7 million of collateral held in trust that is available for either AGM or AGC.

- **UBS.** On May 6, 2013, Assured Guaranty entered into an agreement with UBS Real Estate Securities Inc. and affiliates ("UBS") and a third party resolving Assured Guaranty’s claims and liabilities related to specified RMBS transactions that were issued, underwritten or sponsored by UBS and insured by AGM or AGC under financial guaranty insurance policies. Under the agreement, UBS agreed to reimburse the Company for 85% of future losses on three first lien RMBS transactions, and such reimbursement obligation is secured by $54 million of collateral held in trust for the Company's benefit.

The Company uses the same RMBS projection scenarios and weightings to project its future R&W benefit as it uses to project RMBS losses on its portfolio. To the extent the Company increases its loss projections, the R&W benefit generally will also increase, subject to the agreement limits and thresholds described above. Similarly, to the extent the Company decreases its loss projections, the R&W benefit generally will also decrease, subject to the agreement limits and thresholds described above.

Other structured finance

The Company's other structured finance includes $544 million net par rated BIG, including transactions backed by manufactured housing loans. The Company has expected loss to be paid of $23 million as of December 31, 2015. The economic benefit during 2015 was $1 million.

Recovery Litigation

Public Finance Transactions

On January 7, 2016, AGM, AGC and Ambac Insurance Corporation (“Ambac”) commenced an action for declaratory judgment and injunctive relief in the U.S. District Court for the District of Puerto Rico to invalidate the executive orders issued by the Governor on November 30, 2015 and December 8, 2015 directing that the Secretary of the Treasury of the Commonwealth of Puerto Rico and the Puerto Rico Tourism Company retain or transfer certain taxes and revenues pledged to secure the payment of bonds issued by the Puerto Rico Highways and Transportation Authority, the Puerto Rico Convention Center District Authority and the Puerto Rico Infrastructure Financing Authority. The action is still in its early stages.

5. Financial Guaranty Insurance

Financial Guaranty Insurance Premiums

The portfolio of outstanding exposures discussed in Note 3, Outstanding Exposure, includes financial guaranty contracts that meet the definition of insurance contracts as well as those that meet the definition of a derivative under GAAP. Amounts presented in this note relate only to financial guaranty insurance contracts. See Note 7, Financial Guaranty Contracts Accounted for as Credit Derivatives for amounts that relate to CDS and Note 8, Consolidated Variable Interest Entities for amounts that relate to FG VIEs.

Accounting Policies

Accounting for financial guaranty contracts that meet the scope exception under derivative accounting guidance are subject to industry specific guidance for financial guaranty insurance. The accounting for contracts that fall under the financial guaranty insurance definition are consistent whether the contract was written on a direct basis, assumed from another financial guarantor under a reinsurance treaty, ceded to another insurer under a reinsurance treaty, or acquired in a business combination.

Premium receivables comprise the present value of contractual or expected future premium collections discounted using the risk-free rate. Unearned premium reserve represents deferred premium revenue, less claim payments and recoveries received that have not yet been recognized in the statement of operations (“contra-paid”). The following discussion relates to the deferred premium revenue component of the unearned premium reserve, while the contra-paid is discussed below under "Financial Guaranty Insurance Losses."

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

- For premiums received upfront on financial guaranty insurance contracts that were originally underwritten by the Company, deferred premium revenue is equal to the amount of cash received. Upfront premiums typically relate to public finance transactions.

- For premiums received in installments on financial guaranty insurance contracts that were originally underwritten by the Company, deferred premium revenue is the present value of either (1) contractual premiums due or (2) in cases where the underlying collateral is comprised of homogeneous pools of assets, the expected premiums to be collected over the life of the contract. To be considered a homogeneous pool of assets, prepayments must be contractually prepayable, the amount of prepayments must be probable, and the timing and amount of prepayments must be reasonably estimable. When the Company adjusts prepayment assumptions or expected premium collections, an adjustment is recorded to the deferred premium revenue, with a corresponding adjustment to the premium receivable, and prospective changes are recognized in premium revenues. Premiums receivable are discounted at the risk-free rate at inception and such discount rate is updated only when changes to prepayment assumptions are made that change the expected date of final maturity. Installment premiums typically relate to structured finance transactions, where the insurance premium rate is determined at the inception of the contract but the insured par is subject to prepayment throughout the life of the transaction.

- For financial guaranty insurance contracts acquired in a business combination, deferred premium revenue is equal to the fair value of the Company's stand-ready obligation portion of the insurance contract at the date of acquisition based on what a hypothetical similarly rated financial guaranty insurer would have charged for the contract at that date and not the actual cash flows under the insurance contract. The amount of deferred premium revenue may differ significantly from cash collections due primarily to fair value adjustments recorded in connection with a business combination.

The Company recognizes deferred premium revenue as earned premium over the contractual period or expected period of the contract in proportion to the amount of insurance protection provided. As premium revenue is recognized, a corresponding decrease to the deferred premium revenue is recorded. The amount of insurance protection provided is a function of the insured principal amount outstanding. Accordingly, the proportionate share of premium revenue recognized in a given reporting period is a constant rate calculated based on the relationship between the insured principal amounts outstanding in the reporting period compared with the sum of each of the insured principal amounts outstanding for all periods. When an insured financial obligation is retired before its maturity, the financial guaranty insurance contract is extinguished. Any nonrefundable deferred premium revenue related to that contract is accelerated and recognized as premium revenue. When a premium receivable balance is deemed uncollectible, it is written off to bad debt expense.

Deferred premium revenue ceded to reinsurers (ceded unearned premium reserve) is recorded as an asset. Direct, assumed and ceded earned premium revenue are presented together as net earned premiums in the statement of operations. Net earned premiums comprise the following:

Net Earned Premiums

	Year Ended December 31,	
	2015	2014
	(in millions)	
Scheduled net earned premiums	$ 243	$ 278
Acceleration of net earned premiums (1)	151	88
Accretion of discount on net premiums receivable	10	8
Net earned premiums(2)	$ 404	$ 374

(1) Reflects the unscheduled refunding or termination of the insurance on an insured obligation as well as changes in scheduled earnings due to changes in the expected lives of the insured obligations.

(2) Excludes $19 million and $31 million for the year ended December 31, 2015 and 2014, respectively, related to consolidated FG VIEs.

Components of Unearned Premium Reserve

	As of December 31, 2015			As of December 31, 2014		
	Gross	Ceded	Net(1)	Gross	Ceded	Net(1)
	(in millions)					
Deferred premium revenue	$ 2,943	$ 853	$ 2,090	$ 3,331	$ 966	$ 2,365
Contra-paid(2)	(10)	(8)	(2)	94	(8)	102
Unearned premium reserve	$ 2,933	$ 845	$ 2,088	$ 3,425	$ 958	$ 2,467

(1) Excludes $97 million and $114 million of deferred premium revenue, and $30 million and $42 million of contra-paid related to FG VIEs as of December 31, 2015 and December 31, 2014, respectively.

(2) See "Financial Guaranty Insurance Losses" below for an explanation of "contra-paid".

Gross Premium Receivable
Roll Forward

	Year Ended December 31,	
	2015	2014
	(in millions)	
Beginning of period, December 31	$ 450	$ 578
Gross premium written	169	136
Gross premiums received	(171)	(192)
Adjustments:		
Changes in the expected term	(7)	(47)
Accretion of discount	13	3
Foreign exchange translation	(25)	(28)
Consolidation/deconsolidation of FG VIEs	(4)	0
End of period, December 31(1)	$ 425	$ 450

(1) Excludes $5 million and $6 million as of December 31, 2015 and 2014, respectively, related to consolidated FG VIEs.

Foreign exchange translation relates to installment premium receivables denominated in currencies other than the U.S. dollar. Approximately 82% and 78% of installment premiums at December 31, 2015 and 2014, respectively, are denominated in currencies other than the U.S. dollar, primarily the Euro and British Pound Sterling.

The timing and cumulative amount of actual collections may differ from expected collections in the tables below due to factors such as foreign exchange rate fluctuations, counterparty collectability issues, accelerations, commutations and changes in expected lives.

Expected Collections of
Financial Guaranty Gross Premiums Receivable
(Undiscounted)

	As of December 31, 2015
	(in millions)
2016 (January 1 – March 31)	$ 23
2016 (April 1 – June 30)	15
2016 (July 1 – September 30)	11
2016 (October 1 – December 31)	9
2017	40
2018	35
2019	33
2020	32
2021-2025	133
2026-2030	96
2031-2035	69
After 2035	64
Total (1)	$ 560

(1) Excludes expected cash collections on FG VIEs of $6 million.

Scheduled Financial Guaranty Net Earned Premiums

	As of December 31, 2015
	(in millions)
2016 (January 1 – March 31)	$ 59
2016 (April 1 – June 30)	57
2016 (July 1 – September 30)	55
2016 (October 1 – December 31)	53
Subtotal 2016	224
2017	191
2018	169
2019	152
2020	138
2021-2025	528
2026-2030	327
2031-2035	196
After 2035	165
Net deferred premium revenue(1)	2,090
Future accretion	92
Total future net earned premiums	$ 2,182

(1) Excludes scheduled net earned premiums on consolidated FG VIEs of $97 million.

Selected Information for Financial Guaranty Policies Paid in Installments

	As of December 31, 2015	As of December 31, 2014
	(dollars in millions)	
Premiums receivable	$ 425	$ 450
Gross deferred premium revenue	966	1,097
Weighted-average risk-free rate used to discount premiums	3.2%	3.6%
Weighted-average period of premiums receivable (in years)	10.0	10.1

Financial Guaranty Insurance Acquisition Costs

Accounting Policy

Policy acquisition costs that are directly related and essential to successful insurance contract acquisition and ceding commission income on ceded reinsurance contracts are deferred for contracts accounted for as insurance and reported net. Amortization of deferred ceding commissions includes the accretion of discount on ceding commission income and expense.

Capitalized policy acquisition costs include expenses such as the cost of underwriting personnel attributable to successful underwriting efforts. Ceding commission expense on assumed reinsurance contracts and ceding commission income on ceded reinsurance contracts that are associated with premiums received in installments are calculated at their contractually defined commission rates, discounted consistent with premiums receivable for all future periods, and included in deferred acquisition costs ("DAC"), with a corresponding offset to net premiums receivable or reinsurance balances payable. Management uses its judgment in determining the type and amount of costs to be deferred. The Company conducts an annual study to determine which operating costs qualify for deferral. Costs incurred for soliciting potential customers, market research, training, administration, unsuccessful acquisition efforts, and product development as well as all overhead type costs are charged to expense as incurred. DAC, net of deferred ceding commission income, is amortized in proportion to net earned

premiums. When an insured obligation is retired early, the remaining related DAC, net of ceding commission income is recognized at that time.

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

Rollforward of
Deferred Ceding Commissions,
Net of DAC(1)

	Year Ended December 31,	
	2015	2014
	(in millions)	
Beginning of period	$ (78)	$ (86)
Costs deferred during the period:		
Commissions on ceded business	(19)	(7)
Premium taxes	1	3
Compensation and other acquisition costs	8	7
Total	(10)	3
Costs amortized during the period	13	5
End of period	$ (75)	$ (78)

(1) The balances are included in other liabilities on the consolidated balance sheets.

Financial Guaranty Insurance Losses

Accounting Policies

Loss and LAE Reserve

Loss and LAE reserve reported on the balance sheet relates only to direct and assumed reinsurance contracts that are accounted for as insurance, all of which are financial guaranty insurance contracts. The corresponding reserve ceded to reinsurers is reported as reinsurance recoverable on unpaid losses. As discussed in Note 6, Fair Value Measurement, contracts that meet the definition of a derivative, as well as consolidated FG VIE assets and liabilities, are recorded separately at fair value. Any expected losses related to consolidated FG VIEs are eliminated upon consolidation. Any expected losses on credit derivatives are not recorded as loss and LAE reserve on the consolidated balance sheet.

Under financial guaranty insurance accounting, the sum of unearned premium reserve and loss and LAE reserve represents the Company's stand-ready obligation. Unearned premium reserve is deferred premium revenue, less claim payments and recoveries received that have not yet been recognized in the statement of operations ("contra-paid"). At contract inception, the entire stand-ready obligation is represented by unearned premium reserve. A loss and LAE reserve for an insurance contract is recorded only to the extent, and for the amount, that expected loss to be paid net of contra-paid (“total losses”) exceed the deferred premium revenue, on a contract by contract basis. As a result, the Company has expected loss to be paid that has not yet been expensed. Such amounts will be recognized in future periods as deferred premium revenue amortizes into income.

When a claim or LAE payment is made on a contract, it first reduces any recorded loss and LAE reserve. To the extent there is no loss and LAE reserve on a contract, then such claim payment is recorded as “contra-paid,” which reduces the unearned premium reserve. The contra-paid is recognized in the line item “loss and LAE” in the consolidated statement of operations when and for the amount that total losses exceed the remaining deferred premium revenue on the insurance contract. Loss and LAE in the consolidated statement of operations is presented net of cessions to reinsurers.

Salvage and Subrogation Recoverable

When the Company becomes entitled to the cash flow from the underlying collateral of an insured credit under salvage and subrogation rights as a result of a claim payment or estimated future claim payment, it reduces the expected loss to be paid on the contract. Such reduction in expected loss to be paid can result in one of the following:

- a reduction in the corresponding loss and LAE reserve with a benefit to the income statement,
- no entry recorded, if "total loss" is not in excess of deferred premium revenue, or
- the recording of a salvage asset with a benefit to the income statement if the transaction is in a net recovery position at the reporting date.

The Company recognizes the expected recovery of claim payments (including recoveries from settlement with R&W providers) made by the Company prior to the date of its acquisition by AGL consistent with its policy for recognizing recoveries on all financial guaranty insurance contracts. To the extent that the estimated amount of recoveries increases or decreases, due to changes in facts and circumstances, the Company would recognize a benefit or expense consistent with how changes in the expected recovery of all other claim payments are recorded. The ceded component of salvage and subrogation recoverable is recorded in the line item reinsurance balances payable.

Expected Loss to be Expensed

Expected loss to be expensed represents past or expected future net claim payments that have not yet been expensed. Such amounts will be expensed in future periods as deferred premium revenue amortizes into income on financial guaranty insurance policies. Expected loss to be expensed is the Company's projection of incurred losses that will be recognized in future periods, excluding accretion of discount.

__Insurance Contracts' Loss Information__

The following table provides information on loss and LAE reserves and salvage and subrogation recoverable, net of reinsurance. The Company used weighted average risk-free rates for U.S. dollar denominated financial guaranty insurance obligations that ranged from 0.0% to 3.25% as of December 31, 2015 and 0.0% to 2.95% as of December 31, 2014. Financial guaranty insurance expected LAE reserve was $3 million as of December 31, 2015 and $4 million as of December 31, 2014.

Loss and LAE Reserve and Salvage and Subrogation Recoverable Net of Reinsurance Insurance Contracts

	As of December 31, 2015			As of December 31, 2014		
	Loss and LAE Reserve, net	Salvage and Subrogation Recoverable, net	Net Reserve (Recoverable)	Loss and LAE Reserve, net	Salvage and Subrogation Recoverable, net	Net Reserve (Recoverable)
			(in millions)			
Public Finance:						
U.S. public finance	$ 178	$ 0	$ 178	$ 119	$ —	$ 119
Non-U.S. public finance	15	—	15	21	—	21
Public Finance	193	—	193	140	—	140
Structured Finance:						
U.S. RMBS:						
First lien:						
Alt-A first lien	13	—	13	22	—	22
Option ARM	7	40	(33)	11	39	(28)
Subprime	159	15	144	156	7	149
First lien	179	55	124	189	46	143
Second lien	15	47	(32)	0	73	(73)
Total U.S. RMBS	194	102	92	189	119	70
Other structured finance	19	1	18	20	—	20
Structured Finance	213	103	110	209	119	90
Subtotal	406	103	303	349	119	230
Effect of consolidating FG VIEs	(72)	0	(72)	(78)	(1)	(77)
Total (1)	$ 334	$ 103	$ 231	$ 271	$ 118	$ 153

(1) See “Components of Net Reserves (Salvage)” table for loss and LAE reserve and salvage and subrogation recoverable components.

Components of Net Reserves (Salvage)

	As of December 31, 2015	As of December 31, 2014
	(in millions)	
Loss and LAE reserve	$ 488	$ 404
Reinsurance recoverable on unpaid losses	(154)	(133)
Loss and LAE reserve, net	334	271
Salvage and subrogation recoverable	(109)	(130)
Salvage and subrogation payable(1)	6	12
Salvage and subrogation recoverable, net	(103)	(118)
Net reserves (salvage)	$ 231	$ 153

(1) Recorded as a component of reinsurance balances payable.

The table below provides a reconciliation of net expected loss to be paid to net expected loss to be expensed. Expected loss to be paid differs from expected loss to be expensed due to: (1) the contra-paid which represent the claim payments made and recoveries received that have not yet been recognized in the statement of operations, (2) salvage and subrogation recoverable for transactions that are in a net recovery position where the Company has not yet received recoveries on claims previously paid (having the effect of reducing net expected loss to be paid by the amount of the previously paid claim and the expected recovery), but will have no future income effect (because the previously paid claims and the corresponding recovery of those claims will offset in income in future periods), and (3) loss reserves that have already been established (and therefore expensed but not yet paid).

Reconciliation of Net Expected Loss to be Paid and Net Expected Loss to be Expensed Financial Guaranty Insurance Contracts

	As of December 31, 2015
	(in millions)
Net expected loss to be paid	$ 558
Less: net expected loss to be paid for FG VIEs	114
Total	444
Contra-paid, net	2
Salvage and subrogation recoverable, net of reinsurance	103
Loss and LAE reserve, net of reinsurance	(334)
Net expected loss to be expensed (present value)(1)	$ 215

(1) Excludes $72 million as of December 31, 2015 related to consolidated FG VIEs.

The following table provides a schedule of the expected timing of net expected losses to be expensed. The amount and timing of actual loss and LAE may differ from the estimates shown below due to factors such as accelerations, commutations, changes in expected lives and updates to loss estimates. This table excludes amounts related to FG VIEs, which are eliminated in consolidation.

Net Expected Loss to be Expensed
Financial Guaranty Insurance Contracts

	As of December 31, 2015
	(in millions)
2016 (January 1 – March 31)	$ 9
2016 (April 1 – June 30)	8
2016 (July 1 – September 30)	6
2016 (October 1 – December 31)	6
Subtotal 2016	29
2017	22
2018	20
2019	19
2020	16
2021-2025	56
2026-2030	29
2031-2035	16
After 2035	8
Net expected loss to be expensed	215
Discount	121
Total expected future loss and LAE	$ 336

The following table presents the loss and LAE recorded in the consolidated statements of operations by sector for insurance contracts. Amounts presented are net of reinsurance.

Loss and LAE
Reported on the
Consolidated Statements of Operations

	Year Ended December 31,	
	2015	2014
	(in millions)	
Public Finance:		
U.S. public finance	$ 78	$ 96
Non-U.S. public finance	0	(1)
Public finance	78	95
Structured Finance:		
U.S. RMBS:		
First lien:		
Alt-A first lien	(15)	(39)
Option ARM	(8)	(24)
Subprime	31	4
First lien	8	(59)
Second lien	51	(31)
Total U.S. RMBS	59	(90)
Other structured finance	0	1
Structured finance	59	(89)
Loss and LAE on insurance contracts before FG VIE consolidation	137	6
Effect of consolidating FG VIEs	(27)	(31)
Loss and LAE	$ 110	$ (25)

The following table provides information on financial guaranty insurance contracts categorized as BIG.

Financial Guaranty Insurance
BIG Transaction Loss Summary
As of December 31, 2015

	BIG Categories								
	BIG 1		BIG 2		BIG 3				
	Gross	Ceded	Gross	Ceded	Gross	Ceded	Total BIG, Net	Effect of Consolidating VIEs	Total
	(dollars in millions)								
Number of risks(1)	59	(52)	14	(14)	43	(43)	116	—	116
Remaining weighted-average contract period (in years)	10.2	9.8	10.0	8.7	6.8	7.1	9.3	—	9.3
Outstanding exposure:									
Principal	$ 4,718	$ (1,763)	$ 1,923	$ (544)	$ 2,325	$ (325)	$ 6,334	$ —	$ 6,334
Interest	2,665	(952)	983	(234)	786	(101)	3,147	—	3,147
Total(2)	$ 7,383	$ (2,715)	$ 2,906	$ (778)	$ 3,111	$ (426)	$ 9,481	$ —	$ 9,481
Expected cash outflows (inflows)	$ 274	$ (84)	$ 531	$ (136)	$ 1,044	$ (115)	$ 1,514	$ (290)	$ 1,224
Potential recoveries									
Undiscounted R&W	72	(2)	(47)	3	(77)	7	(44)	—	(44)
Other(3)	(409)	21	(87)	14	(364)	64	(761)	146	(615)
Total potential recoveries	(337)	19	(134)	17	(441)	71	(805)	146	(659)
Subtotal	(63)	(65)	397	(119)	603	(44)	709	(144)	565
Discount	103	7	(109)	24	(175)	(1)	(151)	30	(121)
Present value of expected cash flows	$ 40	$ (58)	$ 288	$ (95)	$ 428	$ (45)	$ 558	$ (114)	$ 444
Deferred premium revenue	$ 168	$ (44)	$ 69	$ (8)	$ 343	$ (47)	$ 481	$ (95)	$ 386
Reserves (salvage)(4)	$ (13)	$ (37)	$ 240	$ (90)	$ 224	$ (21)	$ 303	$ (72)	$ 231

Financial Guaranty Insurance
BIG Transaction Loss Summary
As of December 31, 2014

	BIG Categories								
	BIG 1		BIG 2		BIG 3		Total BIG, Net	Effect of Consolidating VIEs	Total
	Gross	Ceded	Gross	Ceded	Gross	Ceded			
	(dollars in millions)								
Number of risks(1)	71	(65)	14	(14)	38	(38)	123	—	123
Remaining weighted-average contract period (in years)	8.4	8.1	7.9	8.8	7.6	8.1	8.2	—	8.2
Outstanding exposure:									
Principal	$ 8,281	$ (3,341)	$ 1,594	$ (468)	$ 2,013	$ (279)	$ 7,800	$ —	$ 7,800
Interest	3,693	(1,435)	616	(187)	784	(105)	3,366	—	3,366
Total(2)	$ 11,974	$ (4,776)	$ 2,210	$ (655)	$ 2,797	$ (384)	$ 11,166	$ —	$ 11,166
Expected cash outflows (inflows)	$ 1,538	$ (796)	$ 621	$ (128)	$ 1,101	$ (101)	$ 2,235	$ (298)	$ 1,937
Potential recoveries									
Undiscounted R&W	(12)	0	(46)	2	(160)	11	(205)	—	(205)
Other(3)	(1,526)	767	(197)	6	(326)	44	(1,232)	149	(1,083)
Total potential recoveries	(1,538)	767	(243)	8	(486)	55	(1,437)	149	(1,288)
Subtotal	0	(29)	378	(120)	615	(46)	798	(149)	649
Discount	11	0	(67)	18	(150)	3	(185)	30	(155)
Present value of expected cash flows	$ 11	$ (29)	$ 311	$ (102)	$ 465	$ (43)	$ 613	$ (119)	$ 494
Deferred premium revenue	$ 324	$ (100)	$ 107	$ (9)	$ 287	$ (43)	$ 566	$ (111)	$ 455
Reserves (salvage)(4)	$ (41)	$ (9)	$ 207	$ (92)	$ 185	$ (20)	$ 230	$ (77)	$ 153

(1) A risk represents the aggregate of the financial guaranty policies that share the same revenue source for purposes of making Debt Service payments. The ceded number of risks represents the number of risks for which the Company ceded a portion of its exposure.

(2) Includes BIG amounts related to FG VIEs.

(3) Includes excess spread and draws on HELOCs.

(4) See table "Components of net reserves (salvage)."

Ratings Impact on Financial Guaranty Business

A downgrade of the Company may result in increased claims under financial guaranties issued by the Company, if the insured obligors were unable to pay.

For example, AGM has issued financial guaranty insurance policies in respect of the obligations of municipal obligors under interest rate swaps. AGM insures periodic payments owed by the municipal obligors to the bank counterparties. In certain cases, AGM also insures termination payments that may be owed by the municipal obligors to the bank counterparties. If (i) AGM has been downgraded below the rating trigger set forth in a swap under which it has insured the termination payment, which rating trigger varies on a transaction by transaction basis; (ii) the municipal obligor has the right to cure by, but has failed in, posting collateral, replacing AGM or otherwise curing the downgrade of AGM; (iii) the transaction documents include as a condition that an event of default or termination event with respect to the municipal obligor has occurred, such as the rating of the municipal obligor being downgraded past a specified level, and such condition has been met; (iv) the bank counterparty has elected to terminate the swap; (v) a termination payment is payable by the municipal obligor; and (vi) the municipal obligor has failed to make the termination payment payable by it, then AGM would be required to pay the termination payment due by the municipal obligor, in an amount not to exceed the policy limit set forth in the financial

guaranty insurance policy. At AGM's current financial strength ratings, if the other conditions giving rise to the obligation of AGM to make a termination payment under the swap termination policies were all satisfied, then AGM could pay claims in an amount not exceeding approximately $150 million in respect of such termination payments. Taking into consideration whether the rating of the municipal obligor is below any applicable specified trigger, if the financial strength ratings of AGM were further downgraded below "A" by S&P or below "A2" by Moody's, and the other conditions giving rise to the obligation of AGM to make a payment under the swap policies were all satisfied, then AGM could pay claims in an additional amount not exceeding approximately $377 million in respect of such termination payments.

As another example, with respect to variable rate demand obligations ("VRDOs") for which a bank has agreed to provide a liquidity facility, a downgrade of AGM may provide the bank with the right to give notice to bondholders that the bank will terminate the liquidity facility, causing the bondholders to tender their bonds to the bank. Bonds held by the bank accrue interest at a “bank bond rate” that is higher than the rate otherwise borne by the bond (typically the prime rate plus 2.00% - 3.00%, and capped at the lesser of 25% and the maximum legal limit). In the event the bank holds such bonds for longer than a specified period of time, usually 90-180 days, the bank has the right to demand accelerated repayment of bond principal, usually through payment of equal installments over a period of not less than five years. In the event that a municipal obligor is unable to pay interest accruing at the bank bond rate or to pay principal during the shortened amortization period, a claim could be submitted to AGM under its financial guaranty policy. As of December 31, 2015, the Company had insured approximately $4.8 billion net par of VRDOs, of which approximately $0.2 billion of net par constituted VRDOs issued by municipal obligors rated BBB- or lower pursuant to the Company’s internal rating. The specific terms relating to the rating levels that trigger the bank’s termination right, and whether it is triggered by a downgrade by one rating agency or a downgrade by all rating agencies then rating the insurer, vary depending on the transaction.

In addition, AGM may be required to pay claims in respect of AGMH’s former financial products business if Dexia SA and its affiliates, from which Assured Guaranty had purchased AGMH and its subsidiaries, do not comply with their obligations following a downgrade of the financial strength rating of AGM. Most of the guaranteed investment contracts ("GICs") insured by AGM allow the GIC holder to terminate the GIC and withdraw the funds in the event of a downgrade of AGM below A3 or A-, with no right of the GIC issuer to avoid such withdrawal by posting collateral or otherwise enhancing its credit. Each GIC contract stipulates the thresholds below which the GIC issuer must post eligible collateral, along with the types of securities eligible for posting and the collateralization percentage applicable to each security type. These collateralization percentages range from 100% of the GIC balance for cash posted as collateral to, typically, 108% for asset-backed securities. If the entire aggregate accreted GIC balance of approximately $1.8 billion as of December 31, 2015 were terminated, the assets of the GIC issuers (which had an aggregate market value which exceed the liabilities by $0.8 billion) would be sufficient to fund the withdrawal of the GIC funds.

6. Fair Value Measurement

The Company carries a significant portion of its assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., exit price). The price represents the price available in the principal market for the asset or liability. If there is no principal market, then the price is based on a hypothetical market that maximizes the value received for an asset or minimizes the amount paid for a liability (i.e., the most advantageous market).

Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on either internally developed models that primarily use, as inputs, market-based or independently sourced market parameters, including but not limited to yield curves, interest rates and debt prices or with the assistance of an independent third-party using a discounted cash flow approach and the third party’s proprietary pricing models. In addition to market information, models also incorporate transaction details, such as maturity of the instrument and contractual features designed to reduce the Company’s credit exposure, such as collateral rights as applicable.

Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, the Company’s creditworthiness and constraints on liquidity. As markets and products develop and the pricing for certain products becomes more or less transparent, the Company may refine its methodologies and assumptions. During 2015, no changes were made to the Company’s valuation models that had or are expected to have, a material impact on the Company’s consolidated balance sheets or statements of operations and comprehensive income.

The Company’s methods for calculating fair value produce a fair value that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The fair value hierarchy is determined based on whether the inputs to valuation techniques used to measure fair value are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Company estimates of market assumptions. The fair value hierarchy prioritizes model inputs into three broad levels as follows, with Level 1 being the highest and Level 3 the lowest. An asset or liability's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation.

Level 1—Quoted prices for identical instruments in active markets. The Company generally defines an active market as a market in which trading occurs at significant volumes. Active markets generally are more liquid and have a lower bid-ask spread than an inactive market.

Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and observable inputs other than quoted prices, such as interest rates or yield curves and other inputs derived from or corroborated by observable market inputs.

Level 3—Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

In May 2015, the FASB issued ASU No. 2015-07, Fair Value Measurement *(Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share*, which removes the requirement to make certain disclosures and categorize within the fair value hierarchy certain investments for which fair value is measured using net asset value ("NAV") per share as a practical expedient. Effective December 31, 2015, the Company retrospectively adopted this accounting guidance that no longer requires investments measured at fair value using the NAV per share practical expedient to be categorized within the fair value hierarchy. Therefore, the Company no longer includes its investments in partially-owned investment companies, investment funds, and limited partnerships within the fair value hierarchy and the Level 3 rollforward tables disclosed below. Prior period amounts within the fair value hierarchy disclosures contained in this section have been revised to conform to the current period presentation. This guidance requires a change in disclosure only and adoption of this guidance did not have an impact on our financial condition or results of operations.

Transfers between Levels 1, 2 and 3 are recognized at the end of the period when the transfer occurs. The Company reviews the classification between Levels 1, 2 and 3 quarterly to determine whether a transfer is necessary. During the periods presented, there were no transfers between Level 1, 2 and 3.

Measured and Carried at Fair Value

Fixed-Maturity Securities and Short-Term Investments

The fair value of bonds in the investment portfolio is generally based on prices received from third party pricing services or alternative pricing sources with reasonable levels of price transparency. The pricing services prepare estimates of fair value measurements using their pricing models, which include available relevant market information, benchmark curves, benchmarking of like securities, 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. The market inputs used in the pricing evaluation include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data and industry and economic events. Benchmark yields have in many cases taken priority over reported trades for securities that trade less frequently or those that are distressed trades, and therefore may not be indicative of the market. The extent of the use of each input is dependent on the asset class and the market conditions. Given the asset class, the priority of the use of inputs may change or some market inputs may not be relevant. Additionally, the valuation of fixed-maturity investments is more subjective when markets are less liquid due to the lack of market based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction would occur.

Short-term investments that are traded in active markets are classified within Level 1 in the fair value hierarchy and their value is based on quoted market prices. Securities such as discount notes are classified within Level 2 because these securities are typically not actively traded due to their approaching maturity and, as such, their cost approximates fair value. Short-term securities that were obtained as part of loss mitigation efforts and whose prices were determined based on models,

where at least one significant model assumption or input is unobservable, are considered to be Level 3 in the fair value hierarchy.

Annually, the Company reviews each pricing service's procedures, controls and models used in the valuations of the Company's investment portfolio, as well as the competency of the pricing service's key personnel. In addition, on a quarterly basis, the Company holds a meeting of the internal valuation committee (comprised of individuals within the Company with market, valuation, accounting, and/or finance experience) that reviews and approves prices and assumptions used by the pricing services.

For Level 1 and 2 securities, the Company, on a quarterly basis, reviews internally developed analytic packages that highlight, at a CUSIP level, price changes from the previous quarter to the current quarter. Where unexpected price movements are noted for a specific CUSIP, the Company formally challenges the price provided, and reviews all key inputs utilized in the third party's pricing model, and compares such information to management's own market information.

For Level 3 securities, the Company, on a quarterly basis:

- reviews methodologies, any model updates and inputs and compares such information to management's own market information and, where applicable, the internal models,

- reviews internally developed analytic packages that highlight, at a CUSIP level, price changes from the previous quarter to the current quarter, and evaluates, documents, and resolves any significant pricing differences with the assistance of the third party pricing source, and

- compares prices received from different third party pricing sources, and evaluates, documents the rationale for, and resolves any significant pricing differences.

As of December 31, 2015, the Company used models to price 27 fixed-maturity securities and short-term investments (which were purchased or obtained for loss mitigation or other risk management purposes), which was 12.5% or $793 million of the Company's fixed-maturity securities and short-term investments at fair value. Most Level 3 securities were priced with the assistance of an independent third-party. The pricing is based on a discounted cash flow approach using the third-party's proprietary pricing models. The models use inputs such as projected prepayment speeds; severity assumptions; recovery lag assumptions; estimated default rates (determined on the basis of an analysis of collateral attributes, historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); home price depreciation/appreciation rates based on macroeconomic forecasts and recent trading activity. The yield used to discount the projected cash flows is determined by reviewing various attributes of the bond including collateral type, weighted average life, sensitivity to losses, vintage, and convexity, in conjunction with market data on comparable securities. Significant changes to any of these inputs could materially change the expected timing of cash flows within these securities which is a significant factor in determining the fair value of the securities.

Other Invested Assets

As of December 31, 2015 and December 31, 2014, other invested assets include investments carried and measured at fair value on a recurring basis of $51 million and $94 million, respectively, and include primarily an investment in the global property catastrophe risk market and an investment in a fund that invests primarily in senior loans and bonds. Fair values for the majority of these investments are based on their respective NAV per share or equivalent, as a practical expedient, and are excluded from the fair value hierarchy table below. Other invested assets also include fixed-maturity securities classified as trading carried as Level 2.

Other Assets

Committed Capital Securities

The fair value of AGM Committed Preferred Trust Securities (the "AGM CPS"), which is recorded in "other assets" on the consolidated balance sheets, represents the difference between the present value of remaining expected put option premium payments under AGM CPS agreements, and the estimated present value that the Company would hypothetically have to pay currently for a comparable security (see Note 16, Notes Payable and Credit Facilities). The AGM CPS are carried at fair value with changes in fair value recorded in the consolidated statement of operations. The estimated current cost of the AGM CPS is based on several factors, including broker-dealer quotes for the outstanding securities, AGM CDS spreads, the U.S. dollar forward swap curve, London Interbank Offered Rate ("LIBOR") curve projections and the term the securities are estimated to remain outstanding.

Financial Guaranty Contracts Accounted for as Credit Derivatives

The Company's credit derivatives consist primarily of insured CDS contracts, and also include interest rate swaps that fall under derivative accounting standards requiring fair value accounting through the statement of operations. The Company did not enter into CDS with the intent to trade these contracts and the Company may not unilaterally terminate a CDS contract absent an event of default or termination event that entitles the Company to terminate such contracts; however, the Company has mutually agreed with various counterparties to terminate certain CDS transactions. Such terminations generally are not completed at fair value but instead for an amount that approximates the present value of future premiums or for a negotiated amount.

The terms of the Company's CDS contracts differ from more standardized credit derivative contracts sold by companies outside the financial guaranty industry. The non-standard terms include the absence of collateral support agreements or immediate settlement provisions. In addition, the Company employs relatively high attachment points and does not exit derivatives it sells or purchases for credit protection purposes, except under specific circumstances such as mutual agreements with counterparties. Management considers the non-standard terms of its credit derivative contracts in determining the fair value of these contracts.

Due to the lack of quoted prices and other observable inputs for its instruments or for similar instruments, the Company determines the fair value of its credit derivative contracts primarily through internally developed, proprietary models that use both observable and unobservable market data inputs to derive an estimate of the fair value of the Company's contracts in its principal markets (see "Assumptions and Inputs"). There is no established market where financial guaranty insured credit derivatives are actively traded; therefore, management has determined that the exit market for the Company's credit derivatives is a hypothetical one based on its entry market. Management has tracked the historical pricing of the Company's deals to establish historical price points in the hypothetical market that are used in the fair value calculation. These contracts are classified as Level 3 in the fair value hierarchy since there is reliance on at least one unobservable input deemed significant to the valuation model, most importantly the Company's estimate of the value of the non-standard terms and conditions of its credit derivative contracts and of the Company's current credit standing.

The Company's models and the related assumptions are continuously reevaluated by management and enhanced, as appropriate, based upon improvements in modeling techniques and availability of more timely and relevant market information.

The fair value of the Company's credit derivative contracts represents the difference between the present value of remaining premiums the Company expects to receive or pay and the estimated present value of premiums that a financial guarantor of comparable credit-worthiness would hypothetically charge or pay at the reporting date for the same protection. The fair value of the Company's credit derivatives depends on a number of factors, including notional amount of the contract, expected term, credit spreads, changes in interest rates, the credit ratings of referenced entities, the Company's own credit risk and remaining contractual cash flows. The expected remaining contractual premium cash flows are the most readily observable inputs since they are based on the CDS contractual terms. Credit spreads capture the effect of recovery rates and performance of underlying assets of these contracts, among other factors. Consistent with previous years, market conditions at December 31, 2015 were such that market prices of the Company's CDS contracts were not available.

Management considers factors such as current prices charged for similar agreements, when available, performance of underlying assets, life of the instrument, and the nature and extent of activity in the financial guaranty credit derivative marketplace. The assumptions that management uses to determine the fair value may change in the future due to market conditions. Due to the inherent uncertainties of the assumptions used in the valuation models, actual experience may differ from the estimates reflected in the Company's consolidated financial statements and the differences may be material.

Assumptions and Inputs

The various inputs and assumptions that are key to the establishment of the Company's fair value for CDS contracts are as follows:

- Gross spread.
- The allocation of gross spread among:
    - the profit the originator, usually an investment bank, realizes for putting the deal together and funding the transaction ("bank profit");
    - premiums paid to the Company for the Company's credit protection provided ("net spread"); and
    - the cost of CDS protection purchased by the originator to hedge their counterparty credit risk exposure to the Company ("hedge cost").
- The weighted average life which is based on Debt Service schedules.

The rates used to discount future expected premium cash flows ranged from 0.54% to 2.38% at December 31, 2015 and 0.26% to 2.66% at December 31, 2014.

The Company obtains gross spreads on its outstanding contracts from market data sources published by third parties (e.g., dealer spread tables for the collateral similar to assets within the Company's transactions), as well as collateral-specific spreads provided by trustees or obtained from market sources. If observable market credit spreads are not available or reliable for the underlying reference obligations, then market indices are used that most closely resemble the underlying reference obligations, considering asset class, credit quality rating and maturity of the underlying reference obligations. These indices are adjusted to reflect the non-standard terms of the Company's CDS contracts. Market sources determine credit spreads by reviewing new issuance pricing for specific asset classes and receiving price quotes from their trading desks for the specific asset in question. Management validates these quotes by cross-referencing quotes received from one market source against quotes received from another market source to ensure reasonableness. In addition, the Company compares the relative change in price quotes received from one quarter to another, with the relative change experienced by published market indices for a specific asset class. Collateral specific spreads obtained from third-party, independent market sources are un-published spread quotes from market participants or market traders who are not trustees. Management obtains this information as the result of direct communication with these sources as part of the valuation process.

With respect to CDS transactions for which there is an expected claim payment within the next twelve months, the allocation of gross spread reflects a higher allocation to the cost of credit rather than the bank profit component. In the current market, it is assumed that a bank would be willing to accept a lower profit on distressed transactions in order to remove these transactions from its financial statements.

The following spread hierarchy is utilized in determining which source of gross spread to use, with the rule being to use CDS spreads where available. If not available, CDS spreads are either interpolated or extrapolated based on similar transactions or market indices.

- Actual collateral specific credit spreads (if up-to-date and reliable market-based spreads are available).
- Deals priced or closed during a specific quarter within a specific asset class and specific rating. No transactions closed during the periods presented.
- Credit spreads interpolated based upon market indices.
- Credit spreads provided by the counterparty of the CDS.
- Credit spreads extrapolated based upon transactions of similar asset classes, similar ratings, and similar time to maturity.

Information by Credit Spread Type (1)

	As of December 31, 2015	As of December 31, 2014
Based on actual collateral specific spreads	—%	0.1%
Based on market indices	100.0%	99.9%
Total	100%	100%

(1) Based on par.

Over time the data inputs can change as new sources become available or existing sources are discontinued or are no longer considered to be the most appropriate. It is the Company's objective to move to higher levels on the hierarchy whenever possible, but it is sometimes necessary to move to lower priority inputs because of discontinued data sources or management's assessment that the higher priority inputs are no longer considered to be representative of market spreads for a given type of collateral. This can happen, for example, if transaction volume changes such that a previously used spread index is no longer viewed as being reflective of current market levels.

The Company interpolates a curve based on the historical relationship between the premium the Company receives when a credit derivative is closed to the daily closing price of the market index related to the specific asset class and rating of the deal. This curve indicates expected credit spreads at each indicative level on the related market index. For transactions with unique terms or characteristics where no price quotes are available, management extrapolates credit spreads based on a similar transaction for which the Company has received a spread quote from one of the first three sources within the Company's spread hierarchy. This alternative transaction will be within the same asset class, have similar underlying assets, similar credit ratings, and similar time to maturity. The Company then calculates the percentage of relative spread change quarter over quarter for the alternative transaction. This percentage change is then applied to the historical credit spread of the transaction for which no price quote was received in order to calculate the transactions' current spread. Counterparties determine credit spreads by reviewing new issuance pricing for specific asset classes and receiving price quotes from their trading desks for the specific asset in question. These quotes are validated by cross-referencing quotes received from one market source with those quotes received from another market source to ensure reasonableness.

The premium the Company receives is referred to as the "net spread." The Company's pricing model takes into account not only how credit spreads on risks that it assumes affect pricing, but also how the Company's own credit spread affects the pricing of its deals. The Company's own credit risk is factored into the determination of net spread based on the impact of changes in the quoted market price for credit protection bought on the Company, as reflected by quoted market prices on CDS referencing AGM. For credit spreads on the Company's name the Company obtains the quoted price of CDS contracts traded on AGM from market data sources published by third parties. The cost to acquire CDS protection referencing AGM affects the amount of spread on CDS deals that the Company retains and, hence, their fair value. As the cost to acquire CDS protection referencing AGM increases, the amount of premium the Company retains on a deal generally decreases. As the cost to acquire CDS protection referencing AGM decreases, the amount of premium the Company retains on a deal generally increases. In the Company's valuation model, the premium the Company captures is not permitted to go below the minimum rate that the Company would currently charge to assume similar risks. This assumption can have the effect of mitigating the amount of unrealized gains that are recognized on certain CDS contracts. Given the current market conditions and the Company's own credit spreads, approximately 14%, and 19%, based on number of deals, of the Company's CDS contracts are fair valued using this minimum premium as of December 31, 2015 and December 31, 2014, respectively. The percentage of deals that price using the minimum premiums fluctuates due to changes in AGM's credit spreads. In general when AGM's credit spreads narrow, the cost to hedge AGM's name declines and more transactions price above previously established floor levels. Meanwhile, when AGM's credit spreads widen, the cost to hedge AGM's name increases causing more transactions to price at previously established floor levels. The Company corroborates the assumptions in its fair value model, including the portion of exposure to AGM hedged by its counterparties, with independent third parties each reporting period. The current level of AGM's own credit spread has resulted in the bank or deal originator hedging a significant portion of its exposure to AGM. This reduces the amount of contractual cash flows AGM can capture as premium for selling its protection.

The amount of premium a financial guaranty insurance market participant can demand is inversely related to the cost of credit protection on the insurance company as measured by market credit spreads assuming all other assumptions remain constant. This is because the buyers of credit protection typically hedge a portion of their risk to the financial guarantor, due to the fact that the contractual terms of the Company's contracts typically do not require the posting of collateral by the guarantor. The extent of the hedge depends on the types of instruments insured and the current market conditions.

A fair value resulting in a credit derivative asset on protection sold is the result of contractual cash inflows on in-force deals in excess of what a hypothetical financial guarantor could receive if it sold protection on the same risk as of the reporting date. If the Company were able to freely exchange these contracts (i.e., assuming its contracts did not contain proscriptions on transfer and there was a viable exchange market), it would be able to realize a gain representing the difference between the higher contractual premiums to which it is entitled and the current market premiums for a similar contract. The Company determines the fair value of its CDS contracts by applying the difference between the current net spread and the contractual net spread for the remaining duration of each contract to the notional value of its CDS contracts and taking the present value of such amounts discounted at the corresponding LIBOR over the weighted average remaining life of the contract.

Example

The following is an example of how changes in gross spreads, the Company's own credit spread and the cost to buy protection on the Company affect the amount of premium the Company can demand for its credit protection. The assumptions used in these examples are hypothetical amounts. Scenario 1 represents the market conditions in effect on the transaction date and Scenario 2 represents market conditions at a subsequent reporting date.

	Scenario 1		Scenario 2	
	bps	% of Total	bps	% of Total
Original gross spread/cash bond price (in bps)	185		500	
Bank profit (in bps)	115	62%	50	10%
Hedge cost (in bps)	30	16%	440	88%
The premium the Company receives per annum (in bps)	40	22%	10	2%

In Scenario 1, the gross spread is 185 basis points. The bank or deal originator captures 115 basis points of the original gross spread and hedges 10% of its exposure to AGM, when the CDS spread on AGM was 300 basis points (300 basis points × 10% = 30 basis points). Under this scenario the Company receives premium of 40 basis points, or 22% of the gross spread.

In Scenario 2, the gross spread is 500 basis points. The bank or deal originator captures 50 basis points of the original gross spread and hedges 25% of its exposure to AGM, when the CDS spread on AGM was 1,760 basis points (1,760 basis points × 25% = 440 basis points). Under this scenario the Company would receive premium of 10 basis points, or 2% of the gross spread. Due to the increased cost to hedge AGM's name, the amount of profit the bank would expect to receive, and the premium the Company would expect to receive decline significantly.

In this example, the contractual cash flows (the Company premium received per annum above) exceed the amount a market participant would require the Company to pay in today's market to accept its obligations under the CDS contract, thus resulting in an asset.

Strengths and Weaknesses of Model

The Company's credit derivative valuation model, like any financial model, has certain strengths and weaknesses.

The primary strengths of the Company's CDS modeling techniques are:

- The model takes into account the transaction structure and the key drivers of market value. The transaction structure includes par insured, weighted average life, level of subordination and composition of collateral.

- The model maximizes the use of market-driven inputs whenever they are available. The key inputs to the model are market-based spreads for the collateral, and the credit rating of referenced entities. These are viewed by the Company to be the key parameters that affect fair value of the transaction.

- The model is a consistent approach to valuing positions. The Company has developed a hierarchy for market-based spread inputs that helps mitigate the degree of subjectivity during periods of high illiquidity.

The primary weaknesses of the Company's CDS modeling techniques are:

- There is no exit market or actual exit transactions. Therefore the Company's exit market is a hypothetical one based on the Company's entry market.

- There is a very limited market in which to validate the reasonableness of the fair values developed by the Company's model.

- At December 31, 2015 and 2014, the markets for the inputs to the model were highly illiquid, which impacts their reliability.

- Due to the non-standard terms under which the Company enters into derivative contracts, the fair value of its credit derivatives may not reflect the same prices observed in an actively traded market of credit derivatives that do not contain terms and conditions similar to those observed in the financial guaranty market.

These contracts were classified as Level 3 in the fair value hierarchy because there is a reliance on at least one unobservable input deemed significant to the valuation model, most significantly the Company's estimate of the value of non-standard terms and conditions of its credit derivative contracts and amount of protection purchased on AGM's name.

Fair Value Option on FG VIEs' Assets and Liabilities

The Company elected the fair value option for all the FG VIEs' assets and liabilities. See Note 8, Consolidated Variable Interest Entities.

The FG VIEs issued securities collateralized by first lien and second lien RMBS. The lowest level input that is significant to the fair value measurement of these assets and liabilities was a Level 3 input (i.e., unobservable), therefore management classified them as Level 3 in the fair value hierarchy. Prices are generally determined with the assistance of an independent third-party, based on a discounted cash flow approach. The models to price the FG VIEs' liabilities used, where appropriate, inputs such as estimated prepayment speeds; market values of the assets that collateralize the securities; estimated default rates (determined on the basis of an analysis of collateral attributes, historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); yields implied by market prices for similar securities; house price depreciation/appreciation rates based on macroeconomic forecasts and, for those liabilities insured by the Company, the benefit from the Company's insurance policy guaranteeing the timely payment of principal and interest, taking into account the timing of the potential default and the Company's own credit rating. The third-party also utilizes an internal model to determine an appropriate yield at which to discount the cash flows of the security, by factoring in collateral types, weighted-average lives, and other structural attributes specific to the security being priced. The expected yield is further calibrated by utilizing algorithms designed to aggregate market color, received by the third-party, on comparable bonds.

The fair value of the Company's FG VIE assets is generally sensitive to changes related to estimated prepayment speeds; estimated default rates (determined on the basis of an analysis of collateral attributes such as: historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); discount rates implied by market prices for similar securities; and house price depreciation/appreciation rates based on macroeconomic forecasts. Significant changes to some of these inputs could materially change the market value of the FG VIE's assets and the implied collateral losses within the transaction. In general, the fair value of the FG VIE asset is most sensitive to changes in the projected collateral losses, where an increase in collateral losses typically leads to a decrease in the fair value of FG VIE assets, while a decrease in collateral losses typically leads to an increase in the fair value of FG VIE assets. These factors also directly impact the fair value of the Company's FG VIE liabilities.

The fair value of the Company's FG VIE liabilities is generally sensitive to the various model inputs described above. In addition, the Company's FG VIE liabilities with recourse are also sensitive to changes in the Company's implied credit worthiness. Significant changes to any of these inputs could materially change the timing of expected losses within the insured transaction which is a significant factor in determining the implied benefit from the Company's insurance policy guaranteeing the timely payment of principal and interest for the tranches of debt issued by the FG VIE that is insured by the Company. In general, extending the timing of expected loss payments by the Company into the future typically leads to a decrease in the value of the Company's insurance and a decrease in the fair value of the Company's FG VIE liabilities with recourse, while a shortening of the timing of expected loss payments by the Company typically leads to an increase in the value of the Company's insurance and an increase in the fair value of the Company's FG VIE liabilities with recourse.

Not Carried at Fair Value

Financial Guaranty Insurance Contracts

On a quarterly basis, the Company also discloses the fair value of its outstanding financial guaranty insurance contracts. The fair value of the Company's financial guaranty contracts accounted for as insurance is based on management’s estimate of what a similarly rated financial guaranty insurance company would demand to acquire the Company’s in-force book of financial guaranty insurance business. It is based on a variety of factors that may include pricing assumptions management has observed for portfolio transfers, commutations, and acquisitions that have occurred in the financial guaranty market, as well as prices observed in the credit derivative market with an adjustment for illiquidity so that the terms would be similar to a financial guaranty insurance contract, and includes adjustments to the carrying value of unearned premium reserve for stressed losses, ceding commissions and return on capital. The significant inputs were not readily observable. The Company accordingly classified this fair value measurement as Level 3.

Notes Payable

The fair value of the notes payable was determined by calculating the present value of the expected cash flows. The Company determines discounted future cash flows using market driven discount rates and a variety of assumptions, including a projection of the LIBOR rate, prepayment and default assumptions, and AGM CDS spreads. The fair value measurement was classified as Level 3 in the fair value hierarchy because there is a reliance on significant unobservable inputs to the valuation model, including the discount rates, prepayment and default assumptions, loss severity and recovery on delinquent loans.

Other Invested Assets

Other invested assets primarily consist of a surplus note issued by AGC to AGM. The fair value of the surplus note was determined by calculating the effect of changes in U.S. Treasury yield adjusted for a credit factor at the end of each reporting period. The fair value measurement of the surplus note was classified as Level 3.

Other Assets and Other Liabilities

The Company’s other assets and other liabilities consist predominantly of accrued interest, receivables for securities sold and payables for securities purchased, the carrying values of which approximate fair value.

Financial Instruments Carried at Fair Value

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, 2015

		Fair Value Hierarchy		
	Fair Value	Level 1	Level 2	Level 3
		(in millions)		
Assets:				
Investment portfolio, available-for-sale:				
Fixed-maturity securities				
Obligations of state and political subdivisions	$ 4,041	$ —	$ 4,033	$ 8
U.S. government and agencies	51	—	51	—
Corporate securities	668	—	597	71
Mortgage-backed securities:				
RMBS	532	—	208	324
Commercial mortgage-backed securities ("CMBS")	223	—	223	—
Asset-backed securities	394	—	64	330
Foreign government securities	181	—	181	—
Total fixed-maturity securities	6,090	—	5,357	733
Short-term investments	257	176	21	60
Other invested assets (1)	10	—	5	5
Credit derivative assets	63	—	—	63
FG VIEs’ assets, at fair value	735	—	—	735
Other assets	29	—	—	29
Total assets carried at fair value	$ 7,184	$ 176	$ 5,383	$ 1,625
Liabilities:				
Credit derivative liabilities	$ 154	$ —	$ —	$ 154
FG VIEs’ liabilities with recourse, at fair value	713	—	—	713
FG VIEs’ liabilities without recourse, at fair value	121	—	—	121
Total liabilities carried at fair value	$ 988	$ —	$ —	$ 988

Fair Value Hierarchy of Financial Instruments Carried at Fair Value
As of December 31, 2014

	Fair Value	Fair Value Hierarchy Level 1	Level 2	Level 3
		(in millions)		
Assets:				
Investment portfolio, available-for-sale:				
Fixed-maturity securities				
Obligations of state and political subdivisions	$ 4,189	$ —	$ 4,181	$ 8
U.S. government and agencies	69	—	69	—
Corporate securities	643	—	564	79
Mortgage-backed securities:				
RMBS	661	—	262	399
CMBS	266	—	266	—
Asset-backed securities	193	—	98	95
Foreign government securities	191	—	191	—
Total fixed-maturity securities	6,212	—	5,631	581
Short-term investments	377	197	180	—
Other invested assets (1)	23	—	16	7
Credit derivative assets	79	—	—	79
FG VIEs' assets, at fair value	823	—	—	823
Other assets	17	—	—	17
Total assets carried at fair value	$ 7,531	$ 197	$ 5,827	$ 1,507
Liabilities:				
Credit derivative liabilities	$ 287	$ —	$ —	$ 287
FG VIEs' liabilities with recourse, at fair value	830	—	—	830
FG VIEs' liabilities without recourse, at fair value	114	—	—	114
Total liabilities carried at fair value	$ 1,231	$ —	$ —	$ 1,231

(1) Excluded from the table above are investment funds of $45 million and $76 million as of December 31, 2015 and December 31, 2014, respectively, measured using the NAV per share practical expedient. Includes Level 3 mortgage loans that are recorded at fair value on a non-recurring basis.

Changes in Level 3 Fair Value Measurements

The table below presents a roll forward of the Company's Level 3 financial instruments carried at fair value on a recurring basis during the years ended December 31, 2015 and 2014.

Fair Value Level 3 Rollforward
Recurring Basis
Year Ended December 31, 2015

	Fixed-Maturity Securities									
	Obligations of State and Political Subdivisions	Corporate Securities	RMBS	Asset-Backed Securities	Short-Term Investments	FG VIEs' Assets at Fair Value	Other Assets (8)	Credit Derivative Asset (Liability), net(5)	FG VIEs' Liabilities with Recourse, at Fair Value	FG VIEs' Liabilities without Recourse, at Fair Value
	(in millions)									
Fair value as of December 31, 2014	$ 8	$ 79	$ 399	$ 95	$ —	$ 823	$ 19	$ (208)	$ (830)	$ (114)
Total pretax realized and unrealized gains/(losses) recorded in:(1)										
Net income (loss)	1 (2)	3 (2)	16 (2)	6 (2)	24 (2)	61 (3)	11 (4)	134 (6)	93 (3)	(18) (3)
Other comprehensive income (loss)	0	(11)	(8)	(17)	0	—	—	—	—	—
Purchases	—	—	46	278	52 (7)	—	—	—	—	—
Settlements	(1)	—	(129)	(32)	(16)	(253)	0	(17)	155	11
FG VIE consolidations	—	—	—	—	—	104	—	—	(131)	—
FG VIE deconsolidations	—	—	—	—	—	—	—	—	—	—
Fair value as of December 31, 2015	$ 8	$ 71	$ 324	$ 330	$ 60	$ 735	$ 30	$ (91)	$ (713)	$ (121)
Change in unrealized gains/(losses) related to financial instruments held as of December 31, 2015	$ 0	$ (11)	$ (6)	$ (17)	$ 0	$ 107	$ 12	$ 18	$ (15)	$ (8)

Fair Value Level 3 Rollforward
Recurring Basis
Year Ended December 31, 2014

	Fixed-Maturity Securities: Obligations of State and Political Subdivisions	Fixed-Maturity Securities: Corporate Securities	Fixed-Maturity Securities: RMBS	Fixed-Maturity Securities: Asset-Backed Securities	FG VIEs' Assets at Fair Value	Other Assets (8)	Credit Derivative Asset (Liability), net(5)	FG VIEs' Liabilities with Recourse, at Fair Value	FG VIEs' Liabilities without Recourse, at Fair Value
					(in millions)				
Fair value as of December 31, 2013	$ 8	$ 136	$ 238	$ 141	$ 1,691	$ 23	$ (228)	$ (1,275)	$ (686)
Total pretax realized and unrealized gains/(losses) recorded in: (1)									
Net income (loss)	1 (2)	(46) (2)	16 (2)	12 (2)	144 (3)	(4) (4)	41 (6)	(30) (3)	(48) (3)
Other comprehensive income (loss)	0	(6)	25	2	—	—	—	—	—
Purchases	—	—	160	—	—	—	—	—	—
Settlements	(1)	(5)	(41)	(60)	(360)	0	(21)	351	14
FG VIE consolidations	—	—	—	—	46	—	—	(25)	(21)
FG VIE deconsolidations	—	—	1	—	(698)	—	—	149	627
Fair value as of December 31, 2014	$ 8	$ 79	$ 399	$ 95	$ 823	$ 19	$ (208)	$ (830)	$ (114)
Change in unrealized gains/(losses) related to financial instruments held as of December 31, 2014	$ 0	$ (6)	$ 22	$ 1	$ 110	$ (4)	$ 19	$ (14)	$ (10)

(1) Realized and unrealized gains (losses) from changes in values of Level 3 financial instruments represent gains (losses) from changes in values of those financial instruments only for the periods in which the instruments were classified as Level 3.

(2) Included in net realized investment gains (losses) and net investment income.

(3) Included in fair value gains (losses) on FG VIEs.

(4) Recorded in fair value gains (losses) on committed capital securities ("CCS"), net realized investment gains (losses) and net investment income.

(5) Represents net position of credit derivatives. The consolidated balance sheet presents gross assets and liabilities based on net counterparty exposure.

(6) Reported in net change in fair value of credit derivatives.

(7) Primarily non-cash transaction.

(8) Includes CCS and other invested assets.

Level 3 Fair Value Disclosures

Quantitative Information About Level 3 Fair Value Inputs
At December 31, 2015

Financial Instrument Description (1)	Fair Value at December 31, 2015 (in millions)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Assets (2):				
Fixed-maturity securities (3):				
Corporate securities	$ 71	Yield	21.8%	
RMBS	324	CPR	0.3% - 9.0%	2.2%
		CDR	4.2% - 9.3%	7.1%
		Loss severity	60.0% - 100.0%	74.5%
		Yield	4.7% - 8.2%	5.9%
Asset-backed securities:				
Investor owned utility	69	Cash flow receipts	100.0%	
		Collateral recovery period	2.9 years	
		Discount factor	7.0%	
Triple-X life insurance transactions	261	Yield	4.8%	
Short-term investments	60	Yield	17.0%	
FG VIEs' assets, at fair value	735	CPR	2.3% - 8.3%	3.9%
		CDR	2.3% - 16.0%	4.9%
		Loss severity	40.0% - 100.0%	83.7%
		Yield	3.1% - 20.0%	6.7%
Other assets	29	Quotes from third party pricing	$45	
		Term (years)	5 years	

Financial Instrument Description (1)	Fair Value at December 31, 2015 (in millions)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Liabilities:				
Credit derivative liabilities, net	(91)	Hedge cost (in bps)	32.8 - 274.5	37.8
		Bank profit (in bps)	3.9 - 1,017.5	74.4
		Internal floor (in bps)	7.0 - 100.0	34.9
		Internal credit rating	AAA - CCC	AAA
FG VIEs' liabilities, at fair value	(834)	CPR	2.3% - 8.3%	3.9%
		CDR	2.3% - 16.0%	4.9%
		Loss severity	40.0% - 100.0%	83.7%
		Yield	3.1% - 20.0%	5.7%

(1) Discounted cash flow is used as valuation technique for all financial instruments.

(2) Excludes several investments recorded in other invested assets with fair value of $4 million.

(3) Excludes obligations of state and political subdivisions investments with fair value of $8 million.

Quantitative Information About Level 3 Fair Value Inputs
At December 31, 2014

Financial Instrument Description (1)	Fair Value at December 31, 2014 (in millions)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Assets:				
Fixed-maturity securities:				
Obligations of state and political subdivisions	$ 8	Rate of inflation	1.0% - 3.0%	2.0%
		Cash flow receipts	0.5% - 22.4%	22.1%
		Yield	4.6%	
		Collateral recovery period	1 month - 9 years	8.4 years
Corporate securities	79	Yield	17.8%	
RMBS	399	CPR	0.3% - 8.1%	3.1%
		CDR	3.1% - 10.6%	5.4%
		Loss severity	52.6% - 100.0%	75.7%
		Yield	4.6% - 11.7%	6.4%
Asset-backed securities:				
Investor owned utility	95	Cash flow receipts	100%	
		Collateral recovery period	4 years	
		Discount factor	7.0%	
Other invested assets	7	Discount for lack of liquidity	20%	
		Recovery on delinquent loans	40%	
		Default rates	0.0% - 7.0%	5.8%
		Loss severity	40.0% - 75.0%	68.3%
		Prepayment speeds	5.0% - 15.0%	12.3%
FG VIEs' assets, at fair value	823	CPR	0.3% - 7.0%	3.2%
		CDR	1.6% - 11.8%	4.4%
		Loss severity	40.0% - 100.0%	81.4%
		Yield	2.7% - 17.7%	7.9%
Other assets	17	Quotes from third party pricing	$ 52 - $57	$54.5
		Term (years)	5 years	

Financial Instrument Description (1)	Fair Value at December 31, 2014 (in millions)	Significant Unobservable Inputs	Range	Weighted Average as a Percentage of Current Par Outstanding
Liabilities:				
Credit derivative liabilities, net	(208)	Hedge cost (in bps)	21.2 - 243.8	38.6
		Bank profit (in bps)	1.0 - 916.9	48.6
		Internal floor (in bps)	7.0 - 100.0	9.2
		Internal credit rating	AAA - CCC	AAA
FG VIEs' liabilities, at fair value	(944)	CPR	0.3% - 7.0%	3.2%
		CDR	1.6% - 11.8%	4.4%
		Loss severity	40.0% - 100.0%	81.4%
		Yield	2.7% - 17.7%	6.2%

(1) Discounted cash flow is used as valuation technique for all financial instruments.

The carrying amount and estimated fair value of the Company's financial instruments are presented in the following table.

Fair Value of Financial Instruments

	As of December 31, 2015		As of December 31, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in millions)			
Assets:				
Fixed-maturity securities	$ 6,090	$ 6,090	$ 6,212	$ 6,212
Short-term investments	257	257	377	377
Other invested assets(1)	360	428	407	491
Credit derivative assets	63	63	79	79
FG VIEs' assets, at fair value	735	735	823	823
Other assets	91	91	89	89
Liabilities:				
Financial guaranty insurance contracts (2)	2,016	3,528	2,325	3,279
Notes payable	13	12	19	16
Credit derivative liabilities	154	154	287	287
FG VIEs' liabilities with recourse, at fair value	713	713	830	830
FG VIEs' liabilities without recourse, at fair value	121	121	114	114
Other liabilities	2	2	21	21

(1) Includes investments not carried at fair value with a carrying value of $305 million and $308 million as of December 31, 2015 and 2014, respectively.

(2) Carrying amount includes the assets and liabilities related to financial guaranty insurance contract premiums, losses, and salvage and subrogation and other recoverables net of reinsurance.

7. Financial Guaranty Contracts Accounted for as Credit Derivatives

The Company has a portfolio of financial guaranty contracts that meet the definition of a derivative in accordance with GAAP (primarily CDS).

Accounting Policy

Credit derivatives are recorded at fair value. Changes in fair value are recorded in “net change in fair value of credit derivatives” on the consolidated statement of operations. Realized gains (losses) and other settlements on credit derivatives include credit derivative premiums received and receivable for credit protection the Company has sold under its insured CDS contracts, premiums paid and payable for credit protection the Company has purchased, claims paid and payable and received and receivable related to insured credit events under these contracts, ceding commission expense or income and realized gains or losses related to their early termination. Fair value of credit derivatives is reflected as either net assets or net liabilities determined on a contract by contract basis in the Company's consolidated balance sheets. See Note 6, Fair Value Measurement, for a discussion on the fair value methodology for credit derivatives.

Credit Derivative Net Par Outstanding by Sector

Credit derivative transactions are governed by ISDA documentation and have different characteristics from financial guaranty insurance contracts. For example, the Company’s control rights with respect to a reference obligation under a credit derivative may be more limited than when the Company issues a financial guaranty insurance contract. In addition, there are more circumstances under which the Company may be obligated to make payments. Similar to a financial guaranty insurance contract, the Company would be obligated to pay if the obligor failed to make a scheduled payment of principal or interest in full. However, the Company may also be required to pay if the obligor becomes bankrupt or if the reference obligation were restructured if, after negotiation, those credit events are specified in the documentation for the credit derivative transactions. Furthermore, the Company may be required to make a payment due to an event that is unrelated to the performance of the obligation referenced in the credit derivative. If events of default or termination events specified in the credit derivative documentation were to occur, the non-defaulting or the non-affected party, which may be either the Company or the counterparty, depending upon the circumstances, may decide to terminate a credit derivative prior to maturity. In that case, the Company may be required to make a termination payment to its swap counterparty upon such termination. The Company may not unilaterally terminate a CDS contract; however, the Company on occasion has mutually agreed with various counterparties to terminate certain CDS transactions.

The estimated remaining weighted average life of credit derivatives was 2.3 years at December 31, 2015 and 2.5 years at December 31, 2014. The components of the Company's credit derivative net par outstanding are presented below.

Credit Derivatives
Subordination and Ratings

	As of December 31, 2015				As of December 31, 2014			
Asset Type	Net Par Outstanding	Original Subordination (1)	Current Subordination (1)	Weighted Average Credit Rating	Net Par Outstanding	Original Subordination (1)	Current Subordination (1)	Weighted Average Credit Rating
				(dollars in millions)				
Pooled corporate obligations:								
Collateralized loan obligations/ collateralized bond obligations	$ 3,980	29.1%	40.6%	AAA	$ 7,375	29.6%	33.6%	AAA
Synthetic investment grade pooled corporate	4,859	21.8	19.4	AAA	7,354	22.3	20.3	AAA
Trust preferred securities collateralized debt obligations ("TruPS CDOs")	2	56.0	96.9	AAA	9	56.0	86.4	AAA
Market value CDOs of corporate obligations	946	17.0	30.1	AAA	946	17.0	20.1	AAA
Total pooled corporate obligations	9,787	24.3	29.1	AAA	15,684	25.5	26.6	AAA
U.S. RMBS:								
Subprime first lien	47	—	—	AAA	55	—	—	AAA
Closed-end second lien	51	—	—	BBB+	61	—	—	BBB+
Total U.S. RMBS	98	—	—	AA-	116	—	—	AA-
Other	1,756	—	—	A-	2,393	—	—	A-
Total	$ 11,641			AAA	$ 18,193			AAA

(1) Represents the sum of subordinate tranches and over-collateralization and does not include any benefit from excess interest collections that may be used to absorb losses.

The Company’s exposure to pooled corporate obligations is highly diversified in terms of obligors and industries. Most pooled corporate transactions are structured to limit exposure to any given obligor and industry. The majority of the Company’s pooled corporate exposure consists of collateralized loan obligation (“CLO”) or synthetic pooled corporate obligations. Most of these CLOs have an average obligor size of less than 1% of the total transaction and typically restrict the maximum exposure to any one industry to approximately 10%. The Company’s exposure also benefits from embedded credit enhancement in the transactions which allows a transaction to sustain a certain level of losses in the underlying collateral, further insulating the Company from industry specific concentrations of credit risk on these deals.

The $1.8 billion of exposure in "Other" CDS contracts as of December 31, 2015 comprises numerous deals typically structured with significant underlying credit enhancement and spread across various asset classes, such as commercial receivables, international RMBS, infrastructure, regulated utilities and healthcare.

Distribution of Credit Derivative Net Par Outstanding by Internal Rating

Ratings	As of December 31, 2015 Net Par Outstanding	As of December 31, 2015 % of Total	As of December 31, 2014 Net Par Outstanding	As of December 31, 2014 % of Total
	(dollars in millions)			
AAA	$ 9,089	78.1%	$ 14,471	79.5%
AA	985	8.5	1,843	10.1
A	853	7.3	920	5.1
BBB	607	5.2	830	4.6
BIG	107	0.9	129	0.7
Credit derivative net par outstanding	$ 11,641	100.0%	$ 18,193	100.0%

Fair Value of Credit Derivatives

Net Change in Fair Value of Credit Derivatives Gain (Loss)

	Year Ended December 31, 2015	Year Ended December 31, 2014
	(in millions)	
Realized gains on credit derivatives	$ 32	$ 33
Net credit derivative losses (paid and payable) recovered and recoverable and other settlements	(15)	(11)
Realized gains (losses) and other settlements on credit derivatives	17	22
Net change in unrealized gains (losses) on credit derivatives:		
Pooled corporate obligations	(17)	13
U.S. RMBS	1	3
Other	133	3
Net change in unrealized gains (losses) on credit derivatives	117	19
Net change in fair value of credit derivatives	$ 134	$ 41

Net Par and Realized Gain
from Terminations of Credit Derivative Contracts

	Year Ended December 31, 2015	Year Ended December 31, 2014
	(in millions)	
Net par of terminated credit derivative contracts	$ 485	$ 565
Realized gains on credit derivatives	11	1

During 2015, unrealized fair value gains were generated primarily as a result of a CDS termination. The Company terminated a Triple-X life insurance securitization transaction during the period and recognized unrealized fair value gains of $99 million. This was the primary driver of the unrealized fair value gains in the Other sector during the period. The remainder of the fair value gains for the period were a result of tighter implied net spreads across the Other and U.S. RMBS sectors. The tighter implied net spreads were primarily a result of the increased cost to buy protection in AGM's name, particularly for the one year CDS spread. These transactions were pricing at or above their floor levels, therefore when the cost of purchasing CDS protection on AGM increased, the implied spreads that the Company would expect to receive on these transactions decreased. The unrealized fair value gains were partially offset by unrealized fair value losses in the pooled corporate sector where the Company's transactions are quickly approaching maturity. The majority of transactions in this sector are marked in an asset

position as they are AAA rated and performing well. As these transactions approach maturity the positive marks on these transactions will naturally revert to zero, leading to unrealized fair value losses.

During 2014, unrealized fair value gains were generated primarily in the pooled corporate obligations and Other sectors. The unrealized gains were a result of the run-off of outstanding exposure as the transactions in these sectors approach maturity, as well as the expiration of several large synthetic high yield pooled corporate transactions. These unrealized gains were partially offset by unrealized losses resulting from the decreased cost to buy protection in AGM's name as the market cost of AGM's credit protection decreased during the period. Several transactions were pricing above their floor levels (or the minimum rate at which the Company would consider assuming these risks based on historical experience); therefore when the cost of purchasing CDS protection on AGM decreased, which management refers to as the CDS spread on AGM, the implied spreads that the Company would expect to receive on these transactions increased.

The impact of changes in credit spreads will vary based upon the volume, tenor, interest rates, and other market conditions at the time these fair values are determined. In addition, since each transaction has unique collateral and structural terms, the underlying change in fair value of each transaction may vary considerably. The fair value of credit derivative contracts also reflects the change in the Company's own credit cost based on the price to purchase credit protection on AGM. The Company determines its own credit risk based on quoted CDS prices traded on the Company at each balance sheet date.

CDS Spread on AGM
Quoted price of CDS contract (in basis points)

	As of December 31,		
	2015	2014	2013
Five-year CDS spread	366	325	525
One-year CDS spread	131	85	220

Fair Value of Credit Derivatives Assets (Liabilities)
and Effect of AGM
Credit Spreads

	As of December 31, 2015	As of December 31, 2014
	(in millions)	
Fair value of credit derivatives before effect of AGM credit spread	$ (145)	$ (344)
Plus: Effect of AGM credit spread	54	136
Net fair value of credit derivatives	$ (91)	$ (208)

The fair value of CDS contracts at December 31, 2015, before considering the implications of AGM's credit spreads, is a direct result of continued wide credit spreads in the fixed income security markets and ratings downgrades. The asset classes that remain most affected are pooled corporate obligations. Comparing December 31, 2015 with December 31, 2014, there was large runoff of par outstanding and termination of CDS contracts, which resulted in a gain of approximately $199 million, before taking into account AGM's credit spreads.

Management believes that the trading level of AGM's credit spreads over the past several years has been due to the correlation between AGM's risk profile and the current risk profile of the broader financial markets and to increased demand for credit protection against AGM as the result of its financial guaranty volume, as well as the overall lack of liquidity in the CDS market. Offsetting the benefit attributable to AGM's credit spread were higher credit spreads in the fixed income security markets. The higher credit spreads in the fixed income security market are due to the lack of liquidity in the high yield CDO, and CLO markets as well as continuing market concerns over the 2005-2007 vintages of RMBS.

The following table presents the fair value and the present value of expected claim payments or recoveries (i.e. net expected loss to be paid as described in Note 4) for contracts accounted for as derivatives.

Net Fair Value and Expected Losses
Credit Derivatives by Sector

Asset Type	Fair Value of Credit Derivative Asset (Liability), net		Expected Loss to be (Paid) Recovered (1)	
	As of December 31, 2015	As of December 31, 2014	As of December 31, 2015	As of December 31, 2014
		(in millions)		
Pooled corporate obligations	$ (7)	$ 10	$ —	$ —
U.S. RMBS	(6)	(7)	(4)	(4)
Other	(78)	(211)	(3)	(2)
Total	$ (91)	$ (208)	$ (7)	$ (6)

Sensitivity to Changes in Credit Spread

The following table summarizes the estimated change in fair values on the net balance of the Company's credit derivative positions assuming immediate parallel shifts in credit spreads on AGM and on the risks that it assumes.

Effect of Changes in Credit Spread
As of December 31, 2015

Credit Spreads(1)	Estimated Net Fair Value (Pre-Tax)	Estimated Change in Gain/(Loss) (Pre-Tax)
	(in millions)	
100% widening in spreads	$ (165)	$ (74)
50% widening in spreads	(128)	(37)
25% widening in spreads	(110)	(19)
10% widening in spreads	(99)	(8)
Base Scenario	(91)	—
10% narrowing in spreads	(84)	7
25% narrowing in spreads	(76)	15
50% narrowing in spreads	(59)	32

____
(1) Includes the effects of spreads on both the underlying asset classes and the Company's own credit spread.

8. Consolidated Variable Interest Entities

Background

The Company provides financial guaranties with respect to debt obligations of special purpose entities, including VIEs. AGM does not act as the servicer or collateral manager for any VIE obligations that it insures. The transaction structure generally provides certain financial protections to the Company. This financial protection can take several forms, the most common of which are overcollateralization, first loss protection (or subordination) and excess spread. In the case of overcollateralization (i.e., the principal amount of the securitized assets exceeds the principal amount of the structured finance obligations guaranteed by the Company), the structure allows defaults of the securitized assets before a default is experienced on the structured finance obligation guaranteed by the Company. In the case of first loss, the financial guaranty insurance policy only covers a senior layer of losses experienced by multiple obligations issued by special purpose entities, including VIEs. The first loss exposure with respect to the assets is either retained by the seller or sold off in the form of equity or mezzanine debt to other investors. In the case of excess spread, the financial assets contributed to special purpose entities, including VIEs, generate interest income that are in excess of the interest payments on the debt issued by the special purpose entity. Such excess spread is typically distributed through the transaction's cash flow waterfall and may be used to create additional credit enhancement, applied to redeem debt issued by the special purpose entities, including VIEs (thereby, creating additional overcollateralization), or distributed to equity or other investors in the transaction.

AGM is not primarily liable for the debt obligations issued by the VIEs it insures and would only be required to make payments on those insured debt obligations in the event that the issuer of such debt obligations defaults on any principal or interest due and only for the amount of the shortfall. AGM's creditors do not have any rights with regard to the collateral supporting the debt issued by the FG VIEs. Proceeds from sales, maturities, prepayments and interest from such underlying collateral may only be used to pay Debt Service on VIE liabilities. Net fair value gains and losses on FG VIEs are expected to reverse to zero at maturity of the VIE debt, except for net premiums received and net claims paid by AGM under the financial guaranty insurance contract. The Company's estimate of expected loss to be paid for FG VIEs is included in Note 4, Expected Loss to be Paid.

Accounting Policy

The Company evaluates whether it is the primary beneficiary of its VIEs. If the Company concludes that it is the primary beneficiary, it is required to consolidate the entire VIE in the Company's financial statements and eliminate the effects of the financial guaranty insurance contracts issued by AGM on the consolidated FG VIEs debt obligations.

The primary beneficiary of a VIE is the enterprise that has both 1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance; and 2) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

As part of the terms of its financial guaranty contracts, the Company obtains certain protective rights with respect to the VIE that are triggered by the occurrence of certain events, such as failure to be in compliance with a covenant due to poor deal performance or a deterioration in a servicer or collateral manager's financial condition. At deal inception, the Company typically is not deemed to control a VIE; however, once a trigger event occurs, the Company's control of the VIE typically increases. The Company continuously evaluates its power to direct the activities that most significantly impact the economic performance of VIEs that have debt obligations insured by the Company and, accordingly, where the Company is obligated to absorb VIE losses or receive benefits that could potentially be significant to the VIE. The Company obtains protective rights under its insurance contracts that give the Company additional controls over a VIE if there is either deterioration of deal performance or in the financial health of the deal servicer. The Company is deemed to be the control party for certain VIEs under GAAP, typically when its protective rights give it the power to both terminate and replace the deal servicer, which are characteristics specific to the Company's financial guaranty contracts. If the protective rights that could make the Company the control party have not been triggered, then the VIE is not consolidated. If the Company is deemed no longer to have those protective rights, the transaction is deconsolidated.

The FG VIEs' liabilities that are insured by the Company are considered to be with recourse, because the Company guarantees the payment of principal and interest regardless of the performance of the related FG VIEs' assets. FG VIEs' liabilities that are not insured by the Company are considered to be without recourse, because the payment of principal and interest of these liabilities is wholly dependent on the performance of the FG VIEs' assets.

The Company has limited contractual rights to obtain the financial records of its consolidated FG VIEs. The FG VIEs do not prepare separate GAAP financial statements; therefore, the Company compiles GAAP financial information for them based on trustee reports prepared by and received from third parties. Such trustee reports are not available to the Company until approximately 30 days after the end of any given period. The time required to perform adequate reconciliations and analyses of the information in these trustee reports results in a one quarter lag in reporting the FG VIEs' activities. The Company records the fair value of FG VIE assets and liabilities based on modeled prices. The Company updates the model assumptions each reporting period for the most recent available information, which incorporates the impact of material events that may have occurred since the quarter lag date. The net change in the fair value of consolidated FG VIE assets and liabilities is recorded in "fair value gains (losses) on FG VIEs" in the consolidated statements of operations. Interest income and interest expense are derived from the trustee reports and also included in "fair value gains (losses) on FG VIEs." The Company has elected the fair value option for assets and liabilities classified as FG VIEs' assets and liabilities because the carrying amount transition method was not practical.

The cash flows generated by the FG VIE assets, including R&W recoveries, are classified as cash flows from investing activities. Paydowns of FG liabilities are supported by the cash flows generated by FG VIE assets, and for liabilities with recourse, possibly claim payments made by AGM under its financial guaranty insurance contracts. Paydowns of FG liabilities both with and without recourse are classified as cash flows used in financing activities by the Company. Interest income, interest expense and other expenses of the FG VIE assets and liabilities are classified as operating cash flows. Claim payments made by AGM under the financial guaranty contracts issued to the FG VIEs are eliminated upon consolidation and

therefore such claim payments are treated as paydowns of FG VIE liabilities as a financing activity as opposed to an operating activity of AGM.

Consolidated FG VIEs

Number of FG VIEs Consolidated

	Year Ended December 31,	
	2015	2014
Beginning of the period, December 31	25	32
Consolidated(1)	1	1
Deconsolidated(1)	—	(6)
Matured	(2)	(2)
End of the period, December 31	24	25

(1) Net loss on consolidation was $26 million in 2015 and net gain on deconsolidation was $102 million in 2014 and recorded in “fair value gains (losses) on FG VIEs” in the consolidated statement of operations.

The total unpaid principal balance for the FG VIEs' assets that were over 90 days or more past due was approximately $136 million at December 31, 2015 and $177 million at December 31, 2014. The aggregate unpaid principal of the FG VIEs' assets was approximately $610 million greater than the aggregate fair value at December 31, 2015. The aggregate unpaid principal of the FG VIEs' assets was approximately $670 million greater than the aggregate fair value at December 31, 2014.

The change in the instrument-specific credit risk of the FG VIEs' assets held as of December 31, 2015 that was recorded in the consolidated statements of operations for 2015 were gains of $23 million. The change in the instrument-specific credit risk of the FG VIEs' assets held as of December 31, 2014 that was recorded in the consolidated statements of operations for 2014 were gains of $171 million. To calculate the instrument specific credit risk, the changes in the fair value of the FG VIE assets are allocated between those changes that are due to the instrument specific credit risk and those are due to other factors, including interest rates. The instrument specific credit risk amount is determined by using expected contractual cash flows versus current expected cash flows discounted at original contractual rate. The net present value is calculated by discounting the expected cash flows of the underlying security, excluding the Company’s financial guaranty insurance, at the relevant effective interest rate.

The unpaid principal for FG VIE liabilities with recourse was $802 million and $1,132 million as of December 31, 2015 and December 31, 2014, respectively. FG VIE liabilities with recourse will mature at various dates ranging from 2025 to 2038. The aggregate unpaid principal balance of the FG VIE liabilities with and without recourse was approximately $285 million greater than the aggregate fair value of the FG VIEs’ liabilities as of December 31, 2015. The aggregate unpaid principal balance was approximately $548 million greater than the aggregate fair value of the FG VIEs’ liabilities as of December 31, 2014.

The table below shows the carrying value of the consolidated FG VIEs' assets and liabilities in the consolidated financial statements, segregated by the types of assets that collateralize their respective debt obligations for FG VIE liabilities with recourse.

Consolidated FG VIEs
By Type of Collateral

	As of December 31, 2015		As of December 31, 2014	
	Assets	Liabilities	Assets	Liabilities
	(in millions)			
With recourse:				
U.S. RMBS first lien	$ 449	$ 494	$ 498	$ 570
U.S. RMBS second lien	159	219	193	260
Total with recourse	608	713	691	830
Without recourse	127	121	132	114
Total	$ 735	$ 834	$ 823	$ 944

The consolidation of FG VIEs has a significant effect on net income and shareholders' equity due to (1) changes in fair value gains (losses) on FG VIE assets and liabilities, (2) the elimination of premiums and losses related to the FG VIE liabilities with recourse and (3) the elimination of investment balances related to the Company’s purchase of AGM insured FG VIE debt. Upon consolidation of a FG VIE, the related insurance and, if applicable, the related investment balances, are considered intercompany transactions and therefore eliminated. Such eliminations are included in the table below to present the full effect of consolidating FG VIEs.

Effect of Consolidating FG VIEs on Net Income,
Cash Flows From Operating Activities and Shareholders' Equity

	Year Ended December 31,	
	2015	2014
	(in millions)	
Net earned premiums	$ (19)	$ (31)
Net investment income	(18)	(9)
Net realized investment gains (losses)	2	(5)
Fair value gains (losses) on FG VIEs	32	234
Other income (loss)	0	(2)
Loss and LAE	27	31
Effect on net income before tax	24	218
Less: tax provision (benefit)	8	77
Effect on net income (loss)	$ 16	$ 141
Effect on cash flows from operating activities	$ 44	$ 62

	As of December 31, 2015	As of December 31, 2014
	(in millions)	
Effect on shareholders' equity (decrease) increase	$ (9)	$ (25)

In 2015, the Company recorded a pre-tax net fair value gain on consolidated FG VIEs of $32 million which was primarily driven by price appreciation on the Company's FG VIE assets during the year that resulted from improvements in the underlying collateral, as well as large principal paydowns made on the Company's FG VIEs.

In 2014, the Company recorded a pre-tax net fair value gain on consolidated FG VIEs of $234 million. The primary driver of this gain, $102 million, was a result of the deconsolidation of five VIEs. In addition, there was a gain of $37 million resulting from the Company exercising its option to accelerate two second lien RMBS bonds. The remainder of the gain for the period was driven by the price appreciation on the Company's FG VIE assets during the year resulting from improvements in the underlying collateral, as well as large principal paydowns made on the Company's FG VIEs.

Non-Consolidated VIEs

As of December 31, 2015 and December 31, 2014 the Company had financial guaranty contracts outstanding for approximately 360 and 430 VIEs, respectively, that it did not consolidate. To date, the Company's analyses have indicated that it does not have a controlling financial interest in any other VIEs and, as a result, they are not consolidated in the consolidated financial statements. The Company's exposure provided through its financial guaranties with respect to debt obligations of special purpose entities is included within net par outstanding in Note 3, Outstanding Exposure.

9. Investments and Cash

Accounting Policy

The vast majority of the Company's investment portfolio is composed of fixed-maturity and short-term investments, classified as available-for-sale at the time of purchase (approximately 94.6% based on fair value as of December 31, 2015), and therefore carried at fair value. Changes in fair value for other-than-temporarily-impaired ("OTTI") securities are bifurcated between credit losses and non-credit changes in fair value. The credit loss on OTTI securities is recorded in the statement of operations and the non-credit component of the change in fair value of securities, whether OTTI or not, is recorded in other comprehensive income ("OCI"). For securities where the Company has the intent to sell or it is more-likely-than-not that it will be required to sell the security before recovery, declines in fair value are recorded in the consolidated statements of operations.

Credit losses reduce the amortized cost of impaired securities. The amortized cost basis is adjusted for accretion and amortization (using the effective interest method) with a corresponding entry recorded in net investment income.

Realized gains and losses on sales of investments are determined using the specific identification method. Realized loss includes amounts recorded for other-than-temporary impairments on debt securities and the declines in fair value of securities for which the Company has the intent to sell the security or inability to hold until recovery of amortized cost.

For mortgage-backed securities, and any other holdings for which there is prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any necessary adjustments due to changes in effective yields and maturities are recognized in net investment income.

Loss mitigation securities are generally purchased at a discount and are accounted for based on their underlying investment type and exclude the effects of the Company’s insurance. Interest income on loss mitigation securities is recognized on a level yield basis over the life of the security.

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

Other invested assets primarily include:

- a surplus note issued by AGC to AGM (see Note 14, Related Party Transactions). The surplus note is being held to maturity,

- preferred stocks, which are carried at fair value with changes in unrealized gains and losses recorded in OCI.

Cash consists of cash on hand and demand deposits. As a result of the lag in reporting FG VIEs, cash and short-term investments do not reflect cash outflow to the holders of the debt issued by the FG VIEs for claim payments made by the Company to the consolidated FG VIEs until the subsequent reporting period.

Assessment for Other-Than-Temporary Impairments

The amount of other-than-temporary-impairment recognized in earnings depends on whether (1) an entity intends to sell the security or (2) it is more-likely-than-not that the entity will be required to sell the security before recovery of its amortized cost basis.

If an entity does not intend to sell the security and it is not more-likely-than-not that the Company will be required to sell the security before recovery of its amortized cost basis, the other-than-temporary-impairment is separated into (1) the amount representing the credit loss and (2) the amount related to all other factors.

The Company has a formal review process to determine other-than-temporary-impairment for securities in its investment portfolio where there is no intent to sell and it is not more-likely-than-not that it will be required to sell the security before recovery. Factors considered when assessing impairment include:

- a decline in the market value of a security by 20% or more below amortized cost for a continuous period of at least six months;
- a decline in the market value of a security for a continuous period of 12 months;
- recent credit downgrades of the applicable security or the issuer by rating agencies;
- the financial condition of the applicable issuer;
- whether loss of investment principal is anticipated;
- the impact of foreign exchange rates; and
- whether scheduled interest payments are past due.

The Company assesses the ability to recover the amortized cost by comparing the net present value of projected future cash flows with the amortized cost of the security. If the security is in an unrealized loss position and its net present value is less than the amortized cost of the investment, an other-than-temporary impairment is recorded. The net present value is calculated by discounting the Company's estimate of projected future cash flows at the effective interest rate implicit in the debt security at the time of purchase. The Company's estimates of projected future cash flows are driven by assumptions regarding probability of default and estimates regarding timing and amount of recoveries associated with a default. The Company develops these estimates using information based on historical experience, credit analysis and market observable data, such as industry analyst reports and forecasts, sector credit ratings and other relevant data. For mortgage-backed and asset backed securities, cash flow estimates also include prepayment and other assumptions regarding the underlying collateral including default rates, recoveries and changes in value. The assumptions used in these projections require the use of significant management judgment.

The Company's assessment of a decline in value included management's current assessment of the factors noted above. The Company also seeks advice from its outside investment managers. If that assessment changes in the future, the Company may ultimately record a loss after having originally concluded that the decline in value was temporary.

Net Investment Income and Realized Gains (Losses)

Net investment income is a function of the yield that the Company earns on invested assets and the size of the portfolio. The investment yield is a function of market interest rates at the time of investment as well as the type, credit quality and maturity of the invested assets. Accrued investment income, which is recorded in Other Assets, was $62 million and $63 million as of December 31, 2015 and December 31, 2014, respectively.

Net Investment Income

	Year Ended December 31,	
	2015	2014
	(in millions)	
Income from fixed-maturity securities managed by third parties	$ 190	$ 185
Income from internally managed securities:		
Fixed maturities	46	58
Other	51	29
Gross investment income	287	272
Investment expenses	(5)	(5)
Net investment income	$ 282	$ 267

Net Realized Investment Gains (Losses)

	Year Ended December 31,	
	2015	2014
	(in millions)	
Gross realized gains on available-for-sale securities	$ 16	$ 7
Gross realized gains on other assets in investment portfolio	1	7
Gross realized losses on available-for-sale securities	(3)	(1)
Gross realized losses on other assets in investment portfolio	(10)	(2)
Other-than-temporary impairment	(31)	(70)
Net realized investment gains (losses)	$ (27)	$ (59)

The following table presents the roll-forward of the credit losses of fixed-maturity securities for which the Company has recognized an other-than-temporary-impairment and where the portion of the fair value adjustment related to other factors was recognized in OCI.

Roll Forward of Credit Losses in the Investment Portfolio

	Year Ended December 31,	
	2015	2014
	(in millions)	
Balance, beginning of period	$ 104	$ 34
Reductions for securities sold during the period	(17)	—
Additions for credit losses on securities for which an other-than-temporary-impairment was not previously recognized	3	63
Additions for credit losses on securities for which an other-than-temporary-impairment was previously recognized	7	6
Other	—	1
Balance, end of period	$ 97	$ 104

Investment Portfolio

Fixed-Maturity Securities and Short-Term Investments
by Security Type
As of December 31, 2015

Investment Category	Percent of Total (1)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	AOCI (2) Gain (Loss) on Securities with Other-Than-Temporary Impairment	Weighted Average Credit Rating (3)
	(dollars in millions)						
Fixed-maturity securities:							
Obligations of state and political subdivisions	62%	$ 3,820	$ 222	$ (1)	$ 4,041	$ 1	AA
U.S. government and agencies	1	47	4	0	51	—	AA+
Corporate securities	11	675	11	(18)	668	(13)	BBB+
Mortgage-backed securities(4):							
RMBS	9	538	11	(17)	532	(7)	BBB-
CMBS	3	219	4	0	223	—	AAA
Asset-backed securities	7	410	1	(17)	394	(16)	AA-
Foreign government securities	3	192	0	(11)	181	—	AA+
Total fixed-maturity securities	96	5,901	253	(64)	6,090	(35)	AA-
Short-term investments	4	257	0	—	257	—	A+
Total investment portfolio	100%	$ 6,158	$ 253	$ (64)	$ 6,347	$ (35)	AA-

Fixed-Maturity Securities and Short-Term Investments
by Security Type
As of December 31, 2014

Investment Category	Percent of Total(1)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	AOCI Gain (Loss) on Securities with Other-Than-Temporary Impairment	Weighted Average Credit Rating (3)
				(dollars in millions)			
Fixed-maturity securities:							
Obligations of state and political subdivisions	63%	$ 3,928	$ 261	$ 0	$ 4,189	$ 1	AA
U.S. government and agencies	1	64	5	0	69	—	AA+
Corporate securities	10	632	15	(4)	643	(2)	A-
Mortgage-backed securities(4):							
RMBS	10	656	24	(19)	661	(3)	BIG
CMBS	4	258	8	0	266	—	AAA
Asset-backed securities	3	191	2	0	193	1	A
Foreign government securities	3	191	3	(3)	191	—	AA+
Total fixed-maturity securities	94	5,920	318	(26)	6,212	(3)	AA-
Short-term investments	6	377	0	0	377	—	AAA
Total investment portfolio	100%	$ 6,297	$ 318	$ (26)	$ 6,589	$ (3)	AA-

(1) Based on amortized cost.

(2) Accumulated OCI ("AOCI"). See also Note 18, Other Comprehensive Income.

(3) Ratings in the tables above represent the lower of the Moody's and S&P classifications except for bonds purchased for loss mitigation or risk management strategies, which use internal ratings classifications. The Company's portfolio consists primarily of high-quality, liquid instruments.

(4) Government-agency obligations were approximately 29% of mortgage backed securities as of December 31, 2015 and 24% as of December 31, 2014 based on fair value.

The Company’s investment portfolio in tax-exempt and taxable municipal securities includes issuances by a wide number of municipal authorities across the U.S. and its territories. Under the Company's investment guidelines, securities rated lower than A-/A3 by S&P or Moody’s are typically not purchased for the Company’s portfolio unless acquired for loss mitigation or risk management strategies.

The following tables present the fair value of the Company's available-for-sale portfolio of obligations of state and political subdivisions as of December 31, 2015 and December 31, 2014 by state.

Fair Value of Available-for-Sale Portfolio of Obligations of State and Political Subdivisions As of December 31, 2015 (1)

State	State General Obligation	Local General Obligation	Revenue Bonds	Fair Value	Amortized Cost	Average Credit Rating
			(in millions)			
Fixed-maturity securities:						
New York	$ 13	$ 21	$ 356	$ 390	$ 370	AA
California	36	50	255	341	311	AA-
Texas	4	119	202	325	307	AA
Florida	6	—	218	224	209	AA-
Washington	27	39	146	212	202	AA
Massachusetts	44	—	110	154	142	AA
Illinois	4	44	100	148	139	A+
Arizona	—	7	123	130	123	AA
Pennsylvania	37	26	37	100	95	A
Georgia	1	7	89	97	91	A+
All others	104	116	821	1,041	987	AA-
Subtotal	276	429	2,457	3,162	2,976	AA-
Short-term investments (2)	—	—	60	60	60	CC
Total	$ 276	$ 429	$ 2,517	$ 3,222	$ 3,036	AA-

Fair Value of Available-for-Sale Portfolio of Obligations of State and Political Subdivisions As of December 31, 2014 (1)

State	State General Obligation	Local General Obligation	Revenue Bonds	Fair Value	Amortized Cost	Average Credit Rating
			(in millions)			
Fixed-maturity securities:						
New York	$ 14	$ 18	$ 407	$ 439	$ 416	AA
Texas	26	174	206	406	383	AA
California	36	46	267	349	318	AA-
Florida	39	21	223	283	260	AA-
Illinois	4	61	133	198	183	A+
Washington	31	27	120	178	167	AA
Massachusetts	44	—	124	168	155	AA
Arizona	—	7	134	141	132	AA
Michigan	—	—	105	105	96	A+
Ohio	6	23	65	94	88	AA
All others	186	184	770	1,140	1,077	AA-
Total	$ 386	$ 561	$ 2,554	$ 3,501	$ 3,275	AA-

(1) Excludes $879 million and $688 million as of December 31, 2015 and 2014, respectively, of pre-refunded bonds, at fair value. The credit ratings are based on the underlying ratings and do not include any benefit from bond insurance.

(2) Matured in the first quarter of 2016.

The revenue bond portfolio is comprised primarily of essential service revenue bonds issued by transportation authorities and other utilities, water and sewer authorities, universities and healthcare providers.

Revenue Bonds Sources of Funds

Type	As of December 31, 2015		As of December 31, 2014	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
	(in millions)			
Fixed-maturity securities:				
Transportation	$ 614	$ 573	$ 643	$ 593
Tax backed	416	394	397	374
Water and sewer	388	365	365	343
Higher education	362	342	372	350
Municipal utilities	325	309	388	363
Healthcare	259	239	272	245
All others	93	89	117	111
Subtotal	2,457	2,311	2,554	2,379
Short-term investments (1)	60	60	—	—
Total	$ 2,517	$ 2,371	$ 2,554	$ 2,379

(1) Matured in the first quarter of 2016.

The majority of the investment portfolio is managed by four outside managers. The Company has established detailed guidelines regarding credit quality, exposure to a particular sector and exposure to a particular obligor within a sector.

The following tables summarize, for all securities in an unrealized loss position, the aggregate fair value and gross unrealized loss by length of time the amounts have continuously been in an unrealized loss position.

Fixed-Maturity Securities
Gross Unrealized Loss by Length of Time
As of December 31, 2015

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(dollars in millions)					
Obligations of state and political subdivisions	$ 90	$ (1)	$ 3	$ 0	$ 93	$ (1)
U.S. government and agencies	3	0	—	—	3	0
Corporate securities	153	(4)	90	(14)	243	(18)
Mortgage-backed securities:						
RMBS	150	(3)	74	(14)	224	(17)
CMBS	49	0	—	—	49	0
Asset-backed securities	269	(17)	—	—	269	(17)
Foreign government securities	92	(4)	82	(7)	174	(11)
Total	$ 806	$ (29)	$ 249	$ (35)	$ 1,055	$ (64)
Number of securities (1)		116		32		139
Number of securities with other-than-temporary impairment		6		4		10

Fixed-Maturity Securities
Gross Unrealized Loss by Length of Time
As of December 31, 2014

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(dollars in millions)					
Obligations of state and political subdivisions	$ 61	$ 0	$ 7	$ 0	$ 68	$ 0
U.S. government and agencies	2	0	12	0	14	0
Corporate securities	151	(3)	48	(1)	199	(4)
Mortgage-backed securities:						
RMBS	172	(3)	85	(16)	257	(19)
CMBS	22	0	—	—	22	0
Asset-backed securities	24	0	—	—	24	0
Foreign government securities	108	(3)	—	—	108	(3)
Total	$ 540	$ (9)	$ 152	$ (17)	$ 692	$ (26)
Number of securities		79		34		113
Number of securities with other-than-temporary impairment		3		5		8

(1) The number of securities does not add across because lots 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.

Of the securities in an unrealized loss position for 12 months or more as of December 31, 2015, nine securities had unrealized losses greater than 10% of book value. The total unrealized loss for these securities as of December 31, 2015 was $26 million. The Company has determined that the unrealized losses recorded as of December 31, 2015 are yield related and not the result of other-than-temporary-impairment.

The amortized cost and estimated fair value of available-for-sale fixed-maturity securities by contractual maturity as of December 31, 2015 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Distribution of Fixed-Maturity Securities
by Contractual Maturity
As of December 31, 2015

	Amortized Cost	Estimated Fair Value
	(in millions)	
Due within one year	$ 91	$ 89
Due after one year through five years	960	978
Due after five years through 10 years	1,320	1,380
Due after 10 years	2,773	2,888
Mortgage-backed securities:		
RMBS	538	532
CMBS	219	223
Total	$ 5,901	$ 6,090

The investment portfolio contains securities and cash that are either held in trust for the benefit of third party reinsurers in accordance with statutory requirements, placed on deposit to fulfill state licensing requirements, or otherwise restricted in the amount of $33 million and $50 million as of December 31, 2015 and December 31, 2014, respectively, based on fair value. In addition, the total collateral required to be funded into a reinsurance trust account by AGM for the benefit of AGE as of December 31, 2015 and December 31, 2014 was approximately $244 million and $238 million, respectively, based on fair value.

No material investments of the Company were non-income producing for years ended December 31, 2015 and 2014, respectively.

Internally Managed Portfolio

The investment portfolio tables shown above include both assets managed externally and internally. In the table below, more detailed information is provided for the component of the total investment portfolio that is internally managed (excluding short-term investments and surplus note from affiliate). The internally managed portfolio, as defined below, represents approximately 14% and 11% of the investment portfolio, on a fair value basis as of December 31, 2015 and December 31, 2014, respectively. The internally managed portfolio consists primarily of the Company's investments in securities for (i) loss mitigation purposes, (ii) other risk management purposes and (iii) where the Company believes a particular security presents an attractive investment opportunity.

One of the Company's strategies for mitigating losses has been to purchase securities it has insured that have expected losses, at discounted prices (assets purchased for loss mitigation purposes). In addition, the Company holds other invested assets that were obtained or purchased as part of negotiated settlements with insured counterparties or under the terms of our financial guaranties (other risk management assets).

Internally Managed Portfolio
Carrying Value

	As of December 31, 2015	As of December 31, 2014
	(in millions)	
Assets purchased for loss mitigation and other risk management purposes:		
Fixed maturity securities, at fair value	$ 870	$ 634
Other invested assets	15	28
Other	45	79
Total	$ 930	$ 741

10. Investment in MAC Holdings

On July 16, 2013, subsidiaries of Assured Guaranty Ltd. completed a series of transactions that increased the capitalization of its subsidiary, MAC, to $800 million on a statutory basis. The Company does not currently anticipate that MAC will distribute any dividends.

AGM and its subsidiaries Assured Guaranty Municipal Insurance Company ("AGMIC") and Assured Guaranty (Bermuda) Ltd. ("AGBM") terminated the reinsurance pooling agreement pursuant to which AGMIC and AGBM had assumed a quota share percentage of the financial guaranty insurance policies issued by AGM, and AGM reassumed such ceded business. Subsequently, AGMIC was merged into AGM, with AGM as the surviving company.

AGBM, which had made a loan of $82.5 million to Assured Guaranty US Holdings Inc. ("AGUS"), an indirect parent holding company of AGM, received all of the outstanding shares of MAC held by AGUS and cash, in full satisfaction of the principal of and interest on such loan. After AGBM distributed substantially all of its assets, including the MAC shares, to AGM as a dividend, AGM sold AGBM to its affiliate Assured Guaranty Re Ltd. (“AG Re”). Subsequently, AGBM and AG Re merged, with AG Re as the surviving company. The sale of AGBM to, and subsequent merger with, AG Re were each effective as of July 17, 2013.

MAC Holdings, was formed to own 100% of the outstanding stock of MAC. AGM and its affiliate AGC subscribed for approximately 61% and 39% of the outstanding MAC Holdings common stock, respectively, for which AGM paid $425 million and AGM's affiliate AGC paid $275 million, as consideration. The consideration consisted of all of MAC's outstanding common stock (in the case of AGM), cash and marketable securities.

MAC Holdings then contributed cash and marketable securities having a fair market value sufficient to increase MAC's policyholders' surplus to approximately $400 million, and purchased a surplus note issued by MAC in the principal amount of $300 million. In addition, AGM purchased a surplus note issued by MAC in the principal amount of $100 million.

Following the increase in MAC's capitalization, AGM ceded par exposure of approximately $87 billion and unearned premiums of approximately $468 million to MAC, and AGC ceded par exposure of approximately $24 billion and unearned premiums of approximately $249 million to MAC.

11. Insurance Company Regulatory Requirements

The Company's ability to pay dividends depends, among other things, upon their financial condition, results of operations, cash requirements, compliance with rating agency requirements, and is also subject to restrictions contained in the insurance laws and related regulations of their state of domicile and other states. Financial statements prepared in accordance with accounting practices prescribed or permitted by local insurance regulatory authorities differ in certain respects from GAAP.

The Company's U.S. domiciled insurance companies prepare statutory financial statements in accordance with accounting practices prescribed or permitted by the National Association of Insurance Commissioners (“NAIC”) and their respective insurance departments. Prescribed statutory accounting practices are set forth in the NAIC Accounting Practices and Procedures Manual. The Company has no permitted accounting practices on a statutory basis.

GAAP differs in certain significant respects from U.S. insurance companies' statutory accounting practices prescribed or permitted by insurance regulatory authorities. The principal differences result from the following statutory accounting practices:

- upfront premiums are earned when related principal and interest have expired rather than earned over the expected period of coverage;
- acquisition costs are charged to expense as incurred rather than over the period that related premiums are earned;
- a contingency reserve is computed based on statutory requirements, whereas no such reserve is required under GAAP;
- certain assets designated as “non-admitted assets” are charged directly to statutory surplus, rather than reflected as assets under GAAP;
- investments in subsidiaries are carried on the balance sheet on the equity basis, to the extent admissible, rather than consolidated with the parent;
- the amount of deferred tax assets that may be admitted is subject to an adjusted surplus threshold and is generally limited to the lesser of those assets the Company expects to realize within three years of the balance sheet date or fifteen percent of the Company's adjusted surplus. This realization period and surplus percentage is subject to change based on the amount of adjusted surplus. Under GAAP there is no non-admitted asset determination, rather a valuation allowance is recorded to reduce the deferred tax asset to an amount that is more likely than not to be realized;
- insured credit derivatives are accounted for as insurance contracts rather than as derivative contracts measured at fair value;
- bonds are generally carried at amortized cost rather than fair value;
- VIEs and refinancing vehicles are not consolidated;

- payment of principal and interest on surplus notes is recorded only upon approval of the insurance regulator rather than periodic accrual of interest;

- push-down acquisition accounting is not applicable under statutory accounting practices, as it is under GAAP;

- expected losses are discounted at a rate of 5%, recorded when the loss is deemed probable and without consideration of the deferred premium revenue rather than discounted at the risk free rate at the end of each reporting period and only to the extent they exceed deferred premium revenue;

- the present value of installment premiums and commissions are not recorded on the balance sheet as they are under GAAP.

Insurance Regulatory Amounts Reported

	Policyholders' Surplus		Net Income (Loss)	
	As of December 31,		Year Ended December 31,	
	2015	2014	2015	2014
	(in millions)			
AGM(1)	$ 2,441	$ 2,267	$ 217	$ 304
MAC	730	612	102	75

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(1) Policyholders' surplus of AGM includes its indirect share of MAC. AGM owns approximately 61% of the outstanding stock of MAC Holdings, which owns 100% of the outstanding common stock of MAC.

Contingency Reserves

On July 15, 2013, AGM and its wholly-owned subsidiary AGE (together, the "AGM Group"), were notified that the New York State Department of Financial Services ("NYDFS") does not object to the AGM Group reassuming all of the outstanding contingency reserves that the AGM Group had ceded to AG Re and electing to cease ceding future contingency reserves to AG Re. The insurance regulator permitted the AGM Group to reassume the contingency reserves in increments over three years. In the third quarter of 2015, the AGM Group reassumed its final installment and as of December 31, 2015, the AGM Group had collectively reassumed an aggregate of approximately $255 million.

From time to time, AGM has obtained the approval of its regulator to release contingency reserves based on losses or because the accumulated reserve is deemed excessive in relation to the insurer's outstanding insured obligations. In 2015, on the latter basis, AGM obtained the NYDFS's approval for a contingency reserve release of approximately $253 million. In addition, MAC also released approximately $56 million of contingency reserves, which consisted of the assumed contingency reserves maintained by MAC, as reinsurer of AGM, in respect of the same obligations that were the subject of AGM's $253 million release.

With respect to the regular, quarterly contributions to contingency reserves required by New York laws and regulations, such laws and regulations permit the discontinuation of such quarterly contributions to a company’s contingency reserves when such company’s aggregate contingency reserves for a particular line of business (i.e., municipal or non-municipal) exceed the sum of the company’s outstanding principal for each specified category of obligations within the particular line of business multiplied by the specified contingency reserve factor for each such category. In accordance with such laws and regulations, and with the approval of the NYDFS, AGM ceased making quarterly contributions to its contingency reserves for non-municipal business, beginning in the fourth quarter of 2014. Such cessations are expected to continue for as long as AGM satisfies the foregoing condition for its applicable line of business.

Dividend Restrictions and Capital Requirements

Under New York insurance law, AGM may only pay dividends out of "earned surplus," which is the portion of the company's surplus that represents the net earnings, gains or profits (after deduction of all losses) that have not been distributed to shareholders as dividends or transferred to stated capital or capital surplus, or applied to other purposes permitted by law, but does not include unrealized appreciation of assets. AGM may pay dividends without the prior approval of the New York Superintendent of Financial Services ("New York Superintendent") that, together with all dividends declared or distributed by it during the preceding 12 months, does not exceed the lesser of 10% of its policyholders' surplus (as of its last annual or quarterly statement filed with the New York Superintendent) or 100% of its adjusted net investment income during that period. The maximum amount available during 2016 for AGM to distribute as dividends without regulatory approval, is estimated to be approximately $244 million, of which approximately $95 million is estimated to be available for distribution in the first quarter of 2016.

MAC is a New York domiciled insurance company subject to the same dividend limitations described above for AGM. The Company does not currently anticipate that MAC will distribute any dividends.

U.K. company law prohibits AGE from declaring a dividend to its shareholder unless it has “profits available for distribution.” The determination of whether a company has profits available for distribution is based on its accumulated realized profits less its accumulated realized losses. While the U.K. insurance regulatory laws impose no statutory restrictions on a general insurer's ability to declare a dividend, the Prudential Regulation Authority's capital requirements may in practice act as a restriction on dividends. The Company does not expect AGE to distribute any dividends at this time.

Dividends and Surplus Note
By Insurance Company

	Year Ended December 31,	
	2015	2014
	(in millions)	
Dividends paid by AGM to AGMH	$ 215	$ 160
Repayment of surplus note by AGM to AGMH	25	50

12. Income Taxes

Accounting Policy

The provision for income taxes consists of an amount for taxes currently payable and an amount for deferred taxes. Deferred income taxes are provided for temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities, using enacted rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded to reduce the deferred tax asset to an amount that is more likely than not to be realized.

Non-interest-bearing tax and loss bonds are purchased in the amount of the tax benefit that results from deducting contingency reserves as provided under Internal Revenue Code Section 832(e). The Company records the purchase of tax and loss bonds in deferred taxes.

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

Overview

The Company files its US federal tax return as a part of the consolidated group for AGUS, an indirect parent holding company. Each member of the AGUS consolidated tax group is part of a tax sharing agreement and pays or receives its proportionate share of the consolidated regular federal tax liability for the group as if each company filed on a separate return basis.

Provision for Income Taxes

A reconciliation of the difference between the provision for income taxes and the expected tax provision at statutory rates in taxable jurisdictions is presented below:

Effective Tax Rate Reconciliation

	Year Ended December 31,	
	2015	2014
	(in millions)	
Expected tax provision (benefit) at statutory rate	$ 229	$ 270
Tax-exempt interest	(41)	(44)
Change in liability for uncertain tax position	8	6
Other	(10)	(3)
Total provision (benefit) for income taxes	$ 186	$ 229
Effective tax rate	28.4%	29.6%

The expected tax provision at statutory rates in taxable jurisdictions is calculated as the sum of pretax income in each jurisdiction multiplied by the statutory tax rate of the jurisdiction by which it will be taxed. Pretax income of the Company's subsidiaries which are not U.S. domiciled but are subject to U.S. tax by election are included at the U.S. statutory tax rate.

Components of Net Deferred Tax Assets

	As of December 31,	
	2015	2014
	(in millions)	
Deferred tax assets:		
Unrealized losses on credit derivative financial instruments, net	$ 28	$ 79
Unearned premium reserves, net	122	86
Loss and LAE reserve	—	47
Tax and loss bonds	39	39
Deferred ceding commission income	25	31
FG VIEs	29	9
Deferred compensation	12	15
Investment basis difference	51	66
Other	14	9
Total deferred income tax assets	320	381
Deferred tax liabilities:		
Contingency reserves	64	64
Loss and LAE reserve	50	—
Unrealized appreciation on committed capital securities	10	16
Unrealized appreciation on investments	66	106
Market discount	21	23
Other	6	11
Total deferred income tax liabilities	217	220
Net deferred income tax asset	$ 103	$ 161

Valuation Allowance

The Company came to the conclusion that it is more likely than not that its net deferred tax asset will be fully realized after weighing all positive and negative evidence available as required under GAAP. The positive evidence that was considered included the cumulative income the Company has earned over the last three years, and the significant unearned premium income to be included in taxable income. The positive evidence outweighs any negative evidence that exists. As such, the Company believes that no valuation allowance is necessary in connection with this deferred tax asset. The Company will continue to analyze the need for a valuation allowance on a quarterly basis.

Audits

AGUS has open tax years with the U.S. Internal Revenue Service ("IRS") for 2009 forward and is currently under audit for the 2009 - 2012 tax years. The Company's U.K. subsidiary, AGE, is not currently under examination and has open tax years of 2014 forward.

Uncertain Tax Positions

The following table provides a reconciliation of the beginning and ending balances of the total liability for unrecognized tax benefits. The Company does not believe it is reasonably possible that this amount will change significantly in the next twelve months.

	2015	2014
	(in millions)	
Balance as of January 1,	$ 11	$ 5
True-up from tax return filings	7	6
Balance as of December 31,	$ 18	$ 11

The Company's policy is to recognize interest and penalties related to uncertain tax positions in income tax expense and has accrued $0.5 million for 2015 and $0.5 million for 2014. As of December 31, 2015 and December 31, 2014, the Company has accrued $2.8 million and $2.3 million of interest, respectively.

The total amount of unrecognized tax benefits as of December 31, 2015 would affect the effective tax rate, if recognized.

Tax Treatment of CDS

The Company treats the guaranty it provides on CDS as an insurance contract for tax purposes and as such a taxable loss does not occur until the Company expects to make a loss payment to the buyer of credit protection based upon the occurrence of one or more specified credit events with respect to the contractually referenced obligation or entity. The Company holds its CDS to maturity, at which time any unrealized fair value loss in excess of credit-related losses would revert to zero. The tax treatment of CDS is an unsettled area of the law. The uncertainty relates to the IRS determination of the income or potential loss associated with CDS as either subject to capital gain (loss) or ordinary income (loss) treatment. In treating CDS as insurance contracts the Company treats both the receipt of premium and payment of losses as ordinary income and believes it is more likely than not that any CDS credit related losses will be treated as ordinary by the IRS. To the extent the IRS takes the view that the losses are capital losses in the future and the Company incurred actual losses associated with the CDS, the Company would need sufficient taxable income of the same character within the carryback and carryforward period available under the tax law.

13. Reinsurance and Other Monoline Exposures

The Company assumes exposure on insured obligations ("Assumed Business") and may cede portions of its exposure on obligations it has insured ("Ceded Business") in exchange for premiums, net of ceding commissions. The Company historically entered into ceded reinsurance contracts in order to obtain greater business diversification and reduce the net potential loss from large risks.

Accounting Policy

For business assumed and ceded, the accounting model of the underlying direct financial guaranty contract dictates the accounting model used for the reinsurance contract (except for those eliminated as FG VIEs). For any assumed or ceded financial guaranty insurance premiums and financial guaranty insurance losses, the accounting models described in Note 5 are followed. For any ceded credit derivative contracts, the accounting model in Note 7 is followed.

Ceded and Assumed Business

The Company has Ceded Business to affiliated and non-affiliated companies to limit its exposure to risk. Under these relationships, the Company cedes a portion of its insured risk in exchange for a premium paid to the reinsurer. The Company remains primarily liable for all risks it directly underwrites and is required to pay all gross claims. It then seeks reimbursement from the reinsurer for its proportionate share of claims. The Company may be exposed to risk for this exposure if it were required to pay the gross claims and not be able to collect ceded claims from an assuming company experiencing financial distress. A number of the financial guaranty insurers to which the Company has ceded par have experienced financial distress and been downgraded by the rating agencies as a result. In addition, state insurance regulators have intervened with respect to some of these insurers. The Company's ceded contracts generally allow the Company to recapture Ceded Business after certain triggering events, such as reinsurer downgrades.

AGM is also party to reinsurance agreements as a reinsurer to its affiliated financial guaranty insurance companies. In 2013, MAC assumed a book of U.S. public finance business from AGM and AGC.

The Company has assumed business primarily from its affiliate, AGC. Under this relationship, the Company assumes a portion of the ceding company’s insured risk in exchange for a premium. The Company may be exposed to risk in this portfolio in that the Company may be required to pay losses without a corresponding premium in circumstances where the ceding company is experiencing financial distress and is unable to pay premiums. The Company's agreement with AGC is generally subject to termination at the option of the ceding company if the Company fails to meet certain financial and regulatory criteria or to maintain a specified minimum financial strength rating. Upon termination under these conditions, the Company may be required to return to the ceding company unearned premiums and loss reserves calculated on a statutory basis of accounting, attributable to the reinsurance assumed, after which the Company would be released from liability with respect to the Assumed Business. Upon the occurrence of the conditions set forth above, whether or not an agreement is terminated, the Company may be obligated to increase the level of ceding commission paid.

Over the past several years, the Company has entered into several commutations in order to reassume previously ceded books of business from its reinsurers.

Net Effect of Commutations of Ceded Reinsurance Contracts

	Year Ended December 31,	
	2015	2014
	(in millions)	
Increase (decrease) in net unearned premium reserve	$ 23	$ 20
Increase (decrease) in net par outstanding	855	1,091
Commutation gains recorded in other income	28	23

The following table presents the components of premiums and losses reported in the consolidated statement of operations and the contribution of the Company's Assumed and Ceded Businesses.

Effect of Reinsurance on Statement of Operations

	Year Ended December 31,	
	2015	2014
	(in millions)	
Premiums Written:		
Direct	$ 146	$ 89
Assumed	16	0
Ceded	(47)	(31)
Net	$ 115	$ 58
Premiums Earned:		
Direct	$ 521	$ 476
Assumed	37	26
Ceded	(154)	(128)
Net	$ 404	$ 374
Loss and LAE:		
Direct	$ 157	$ 48
Ceded	(47)	(73)
Net	$ 110	$ (25)

Other Monoline Exposures

In addition to assumed and ceded reinsurance arrangements, the Company may also have exposure to some financial guaranty reinsurers (i.e., monolines) in other areas. Second-to-pay insured par outstanding represents transactions the Company has insured that were previously insured by other monolines. The Company underwrites such transactions based on the underlying insured obligation without regard to the primary insurer. Another area of exposure is in the investment portfolio where the Company holds fixed-maturity securities that are wrapped by monolines and whose value may change based on the rating of the monoline. As of December 31, 2015, based on fair value, the Company had fixed-maturity securities in its investment portfolio consisting of $164 million insured by National Public Finance Guarantee Corporation ("National"), $141 million insured by Ambac, $68 million insured by AGC, $260 million insured by the Company's affiliate Assured Guaranty (UK) Ltd., and $8 million insured by other guarantors. In addition, the Company acquired bonds for loss mitigation or other risk management purposes in the amount of $123 million insured by FGIC UK Limited.

In accordance with U.S. statutory accounting requirements and U.S. insurance laws and regulations, in order for the Company to receive credit for liabilities ceded to reinsurers domiciled outside of the U.S., such reinsurers must secure their liabilities to the Company. All of the unauthorized reinsurers in the tables below are required to post collateral for the benefit of the Company in an amount at least equal to the sum of their ceded unearned premium reserve, loss reserves and contingency reserves all calculated on a statutory basis of accounting. In addition, certain authorized reinsurers in the tables below post collateral on terms negotiated with the Company.

Exposure by Reinsurer

Reinsurer	Ratings at March 28, 2016 Moody's Reinsurer Rating	S&P Reinsurer Rating	Par Outstanding (1) As of December 31, 2015 Ceded Par Outstanding	Second-to-Pay Insured Par Outstanding	Assumed Par Outstanding
				(dollars in millions)	
Affiliated Companies: (3)					
AGC (2)	A3	AA	$ 3,349	$ 163	$ 19,836
AG Re (2)	WR (4)	AA	56,985	—	—
Affiliated Companies			60,334	163	19,836
Non-Affiliated Companies:					
American Overseas Reinsurance Company Limited (f/k/a Ram Re) (2)	WR	WR	4,320	—	30
Tokio Marine & Nichido Fire Insurance Co., Ltd. ("Tokio") (2)	Aa3 (5)	A+ (5)	4,219	—	—
Syncora Guarantee Inc. (2)	WR	WR	2,450	545	567
Mitsui Sumitomo Insurance Co. Ltd.(2)	A1	A+ (5)	1,819	—	—
ACA Financial Guaranty Corp.	NR (6)	WR	714	1	—
National (7)	A3	AA-	—	3,634	—
Ambac	WR	WR	—	2,126	—
MBIA	(8)	(8)	—	1,241	—
FGIC	(9)	(9)	—	798	—
Ambac Assurance Corp. Segregated Account	NR	NR	—	88	—
CIFG Assurance North America Inc.	WR	WR	—	21	—
Other	Various	Various	24	—	1
Non-Affiliated Companies			13,546	8,454	598
Total			$ 73,880	$ 8,617	$ 20,434

(1) Includes par related to insured credit derivatives.

(2) The total collateral posted by all affiliated and non-affiliated reinsurers required or agreeing to post collateral as of December 31, 2015, is approximately $1.2 billion. The collateral excludes amounts for the benefit of AGE, See Note 14.

(3) MAC is rated AA+ (stable outlook) from KBRA and of AA (stable outlook) from S&P. Assumed par outstanding includes $19,807 million assumed by MAC from AGC.

(4) Represents "Withdrawn Rating."

(5) The Company benefits from trust arrangements that satisfy the triple-A credit requirement of S&P and/or Moody's.

(6) Represents "Not Rated."

(7) National is rated AA+ by KBRA.

(8) MBIA includes subsidiaries MBIA Insurance Corp. rated B by S&P and B3 by Moody's and MBIA U.K. Insurance Ltd. rated BB by S&P and Ba2 by Moody's.

(9) FGIC includes subsidiaries Financial Guaranty Insurance Company and FGIC UK Limited both of which had their ratings withdrawn by rating agencies.

Ceded Par Outstanding by Reinsurer and Credit Rating
As of December 31, 2015

Reinsurer	Internal Credit Rating AAA	AA	A	BBB	BIG	Total
	(in millions)					
Affiliated Companies	$ 936	$ 11,620	$ 29,504	$ 16,762	$ 1,512	$ 60,334
American Overseas Reinsurance Company Limited (f/k/a Ram Re)	235	1,514	1,328	992	251	4,320
Tokio	565	532	1,131	1,364	627	4,219
Syncora Guarantee Inc.	—	132	429	1,766	123	2,450
Mitsui Sumitomo Insurance Co. Ltd.	131	551	591	372	174	1,819
ACA Financial Guaranty Corp.	—	449	246	19	—	714
Other	—	—	0	24	—	24
Total	$ 1,867	$ 14,798	$ 33,229	$ 21,299	$ 2,687	$ 73,880

Second-to-Pay
Insured Par Outstanding by Internal Rating
As of December 31, 2015(1)

	Public Finance					Structured Finance				
	AAA	AA	A	BBB	BIG	AAA	AA	BBB	BIG	Total
	(in millions)									
Affiliated Companies	$ —	$ 97	$ —	$ —	$ —	$ —	$ 66	$ —	$ —	$ 163
Non-Affiliated Companies:										
Syncora Guarantee Inc.	—	38	75	273	159	—	—	—	—	545
ACA Financial Guaranty Corp.	—	—	—	1	—	—	—	—	—	1
National	30	1,221	2,383	—	—	—	—	—	—	3,634
Ambac	9	706	977	396	—	—	—	32	6	2,126
MBIA	—	47	240	48	—	—	745	66	95	1,241
FGIC	—	6	531	25	65	149	—	—	22	798
Ambac Assurance Corp. Segregated Account	—	—	—	—	—	—	23	—	65	88
CIFG Assurance North America Inc.	—	—	—	1	20	—	—	—	—	21
Non-Affiliated Companies	39	2,018	4,206	744	244	149	768	98	188	8,454
Total	$ 39	$ 2,115	$ 4,206	$ 744	$ 244	$ 149	$ 834	$ 98	$ 188	$ 8,617

(1) Assured Guaranty's internal rating.

Amounts Due (To) From Reinsurers
As of December 31, 2015

	Assumed Premium	Ceded Premium, net of Commissions	Ceded Expected Loss to be Paid
		(in millions)	
AGC	$ 2	$ (13)	$ 31
AG Re	—	(53)	79
American Overseas Reinsurance Company Limited (f/k/a Ram Re)	—	(5)	24
Tokio	—	(12)	43
Syncora Guarantee Inc.	14	(22)	5
Mitsui Sumitomo Insurance Co. Ltd.	—	(3)	17
Swiss Reinsurance Co.	—	(3)	—
Total	$ 16	$ (111)	$ 199

Excess of Loss Reinsurance Facility

AGC, AGM and MAC entered into a $360 million aggregate excess of loss reinsurance facility with a number of reinsurers, effective as of January 1, 2016. This facility replaces a similar $450 million aggregate excess of loss reinsurance facility that AGC, AGM and MAC had entered into effective January 1, 2014 and which terminated on December 31, 2015. The new facility covers losses occurring either from January 1, 2016 through December 31, 2023, or January 1, 2017 through December 31, 2024, at the option of AGC, AGM and MAC. It terminates on January 1, 2018, unless AGC, AGM and MAC choose to extend it. The new facility covers certain U.S. public finance credits insured or reinsured by AGC, AGM and MAC as of September 30, 2015, excluding credits that were rated non-investment grade as of December 31, 2015 by Moody's or S&P or internally by AGC, AGM or MAC and is subject to certain per credit limits. Among the credits excluded are those associated with the Commonwealth of Puerto Rico and its related authorities and public corporations. The new facility attaches when AGC's, AGM's and MAC's net losses (net of AGC's and AGM's reinsurance (including from affiliates) and net of recoveries) exceed $1.25 billion in the aggregate. The new facility covers a portion of the next $400 million of losses, with the reinsurers assuming pro rata in the aggregate $360 million of the $400 million of losses and AGC, AGM and MAC jointly retaining the remaining $40 million. The reinsurers are required to be rated at least AA- or to post collateral sufficient to provide AGC, AGM and MAC with the same reinsurance credit as reinsurers rated AA-. AGC, AGM and MAC are obligated to pay the reinsurers their share of recoveries relating to losses during the coverage period in the covered portfolio. AGC, AGM and MAC paid approximately $9 million of premiums in 2016 for the term January 1, 2016 through December 31, 2016 and deposited approximately $9 million of securities into trust accounts for the benefit of the reinsurers to be used to pay the premium for January 1, 2017 through December 31, 2017. The main differences between the new facility and the prior facility that terminated on December 31, 2015 are the reinsurance attachment point ($1.25 billion versus $1.5 billion), the total reinsurance coverage ($360 million part of $400 million versus $450 million part of $500 million) and the annual premium ($9 million versus $19 million).

14. Related Party Transactions

Guarantees or Contingencies for Related Parties

AGM currently provides support to its subsidiary AGE through a quota share and excess of loss reinsurance agreement (the "Reinsurance Agreement") and a net worth maintenance agreement (the "Net Worth Agreement"). Such agreements replace and supersede the second amended and restated quota share and stop loss reinsurance agreement and the second amended and restated net worth maintenance agreement, respectively, previously in place between the parties. For transactions closed prior to 2011, AGE typically guaranteed all of the guaranteed obligations directly and AGM reinsured under the quota share cover of the Reinsurance Agreement approximately 92% of AGE's retention after cessions to other reinsurers. In 2011, AGE and AGM implemented a co-guarantee structure pursuant to which (i) AGE directly guarantees a portion of the guaranteed obligations in an amount equal to what would have been AGE's pro rata retention percentage under the quota share cover, (ii) AGM directly guarantees the balance of the guaranteed obligations, and (iii) AGM also provides a second-to-pay guarantee for AGE's portion of the guaranteed obligations.

Under the excess of loss cover of the Reinsurance Agreement, AGM will pay AGE quarterly the amount by which (i) the sum of (a) AGE's incurred losses calculated in accordance with UK GAAP as reported by AGE in its financial returns filed with the Prudential Regulation Authority ("PRA") and (b) AGE's paid losses and LAE, in both cases net of all other performing reinsurance, including the reinsurance provided by AGM under the quota share cover of the Reinsurance Agreement, exceeds (ii) an amount equal to (a) AGE's capital resources under U.K. law minus (b) the greatest of the amounts as may be required by the PRA as a condition for AGE to maintain its authorization to carry on a financial guarantee business in the U.K. In addition, the Reinsurance Agreement permits AGE to terminate the Reinsurance Agreement upon the following events: a downgrade of AGM's ratings by Moody's below Aa3 or by S&P below AA- if the company fails to restore its rating(s) to the required level within a prescribed period of time; AGM's insolvency; failure by AGM to maintain the minimum capital required by its domiciliary jurisdiction; or AGM filing a petition in bankruptcy, going into liquidation or rehabilitation or having a receiver appointed. The Reinsurance Agreement also provides that no amounts are owing under the excess of loss cover (or the stop loss cover of the second amended and restated quota share and stop loss reinsurance agreement previously in place between the parties) with respect to any quarter ending prior to April 1, 2014.

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

The Reinsurance Agreement also contemplates the establishment of collateral by AGM to support its reinsurance obligations to AGE. In December 2014, to satisfy a new PRA requirement that AGM post collateral to support its reinsurance obligations to AGE, AGM and AGE amended the Reinsurance Agreement to incorporate the PRA's requirement. Pursuant to such amended Reinsurance Agreement, AGM's collateral requirement will be measured as of the end of each calendar quarter by (i) using the PRA's FG Benchmark Model to calculate at the 99.5% confidence interval the losses expected to be borne collectively by AGE's three affiliated reinsurers, AGM, AG Re and Assured Guaranty Re Overseas Ltd. ("AGRO"); (ii) deducting from such calculation AGE's capital resources under such model; and (iii) requiring AGM, AG Re and AGRO collectively to maintain collateral equal to fifty percent (50%) of such difference, i.e., the excess of AGM's, AG Re's and AGRO's assumed modeled losses over AGE's capital resources. As of January 1, 2016, the FG Benchmark Model is no longer applicable and the PRA has agreed to allow AGM's collateral requirement to be determined using AGE's internal capital requirement model under the same formula described above. This change is subject to approval by the NYDFS. In December 2014, AGM and AGE also entered into a related trust agreement pursuant to which AGM, prior to year-end, established, and deposited assets into, a reinsurance trust account for the benefit of AGE to satisfy the PRA's collateral requirement as of September 30, 2014, as measured in accordance with such amended Reinsurance Agreement. The total collateral required to be funded into such reinsurance trust account by AGM as of December 31, 2015 was approximately $244 million.

Pursuant to the Net Worth Agreement, AGM is obligated to cause AGE to maintain capital resources equal to 110% of the greatest of the amounts as may be required by the PRA as a condition for AGE to maintain its authorization to carry on a financial guarantee business in the U.K., provided that AGM's contributions (a) do not exceed 35% of its policyholders' surplus on an accumulated basis as determined by the laws of the State of New York, and (b) are in compliance with Section 1505 of the New York Insurance Law. AGM has never been required to make any contributions to AGE's capital under the current Net Worth Agreement or the prior net worth maintenance agreement.

Management, Service Contracts or Cost Sharing Arrangements

In 2010, the Company entered into a service agreement with various of its affiliates, including AGC, which agreement was amended and restated, effective as of April 1, 2015. Pursuant to such service agreement, AGC makes available to it certain equipment, insurance, reinsurance and such other services, including underwriting, actuarial, surveillance, marketing, claims handling, legal, information technologies, corporate secretarial, human resources, accounting, tax, financial reporting and investment planning services. In addition, under the agreement the Company makes available to AGC and the other affiliate parties the use of certain equipment and office space owned by the Company. Expenses are allocated directly where appropriate and, where not appropriate, based upon an allocation of employee time and corresponding office overhead. The agreement provides for quarterly settlements and an express right of offset with regard to amounts owing between parties under this Agreement and other agreements between such parties.

See Note 17, Employee Benefit Plans for expenses related to Long-Term Compensation Plans of AGL which are allocated to AGM.

The following table summarizes the allocated expenses from (to) affiliate companies under the expense sharing agreements.

Expenses Allocated From (To) Affiliated Companies

	Year Ended December 31,	
	2015	2014
	(in millions)	
Affiliated companies:		
AGC	$ 68	$ 79
Assured Guaranty Finance Overseas Ltd.	9	8
AGL	6	6
Assured Guaranty (UK) Services Limited	5	5
Total	$ 88	$ 98

The following table summarizes the amounts due (to) from affiliate companies under the expense sharing agreements.

Amounts Due (To) From Affiliated Companies

	As of December 31,	
	2015	2014
	(in millions)	
Affiliated companies:		
AGC	$ (36)	$ (47)
AGL	(5)	(4)
Assured Guaranty Finance Overseas Ltd.	(2)	(2)
Other	(3)	(4)
Total	$ (46)	$ (57)

Reinsurance Agreements

The Company cedes to and assumes business from affiliated entities under certain reinsurance agreements. See below for material balance sheet and statement of operations items related to insurance transactions.

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

	As of December 31,	
	2015	2014
	(in millions)	
Assets:		
Premium receivable		
AGC	$ 2	$ 2
Ceded unearned premium reserve (1)		
AG Re (1)	564	591
AGC	56	—
Reinsurance recoverable on unpaid losses		
AG Re	62	55
AGC	24	—
Reinsurance recoverable on paid losses (2)		
AG Re	0	1
AGC	0	—
Profit commission receivable (2)		
AG Re	0	1
Net credit derivative assets		
AG Re	18	24
AGC	0	—
Liabilities:		
Unearned premium reserve		
AGC	172	209
Ceded premium payable, net of ceding commission (3)		
AG Re	53	55
AGC	13	—
Ceded salvage and subrogation recoverable (3)		
AG Re	1	2
AGC	1	—
Ceded funds held (4)		
AG Re	35	30
AGC	25	—
Deferred ceding commissions (4)		
AG Re	113	111
AGC	1	—
Other liabilities		
AG Re	6	—
AGC	5	—
Other information:		
Exposure		
Assumed par outstanding		
AGC	19,836	22,018
Ceded par outstanding		
AG Re	56,985	58,891
AGC	3,349	—

(1) Includes $1 million and $3 million of ceded contra-paid on losses at December 31, 2015 and December 31, 2014, respectively.
(2) Included in other assets on the consolidated balance sheets.
(3) Included in reinsurance balances payable, net on the consolidated balance sheets.
(4) Included in other liabilities on the consolidated balance sheets.

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

	Year Ended December 31,	
	2015	2014
	(in millions)	
Revenues:		
Net earned premiums		
AG Re	$ (80)	$ (75)
AGC	25	26
Profit commission income		
AG Re	0	1
Realized gains and other settlements on credit derivatives		
AG Re	0	(1)
AGC	4	—
Net unrealized gains (losses) on credit derivatives		
AG Re	(5)	(7)
Expenses:		
Loss and loss adjustment expenses (recoveries)		
AG Re	(15)	(30)
AGC	(12)	—
Commissions incurred (earned)		
AG Re	(15)	(13)
AGC	0	—

Other Invested Assets

Surplus Note from AGC

On December 18, 2009, AGC issued a surplus note with a principal amount of $300 million to AGM. This note carries a simple interest rate of 5.0% per annum and matures on December 31, 2029. Principal is payable at the option of AGC prior to the final maturity of the note in 2029 and interest is payable on the note annually in arrears as of December 31 of each year, commencing December 31, 2010. Payments of principal and interest are subject to AGC having policyholders' surplus in excess of statutory minimum requirements after such payment and to prior written approval by the Maryland Insurance Administration. AGM recognized $15 million and $15 million of interest income in each of the years ended December 31, 2015 and 2014. AGM also received $15 million and $15 million of interest from AGC in each of the years ended December 31, 2015 and 2014. There was no principal paydown on the surplus note by AGC.

Capital Contributions from AGMH

In the third quarter of 2008, AGM issued a non-interest bearing surplus note with no term to AGMH in exchange for $300 million which, due to the terms of the agreement, is recorded as capital. Principal on the surplus note may be paid at any time at the option of the Company, subject to prior approval of the New York Superintendent and in compliance with the conditions to such payments as contained in the New York Insurance Laws. The Company repaid $25 million in principal on this surplus note in 2015 and $50 million in 2014. AGM fully repaid the surplus note in March 2015 after obtaining approval from the New York Department of Financial Services.

15. Commitments and Contingencies

Leases

AGM and AGE are party to various lease agreements accounted for as operating leases. The Company leases and occupies space in New York City through 2032. In addition, AGM and AGE lease additional office space in various locations under non-cancelable operating leases which expire at various dates through 2029. Total rent expense allocated to the Company for all premises was $4.7 million in 2015 and $4.6 million in 2014.

AGM entered into an operating lease effective January 1, 2016, for new office space comprising one full floor and one partial floor at 1633 Broadway in New York City. Assured Guaranty plans to move the principal place of business of AGM, AGC, MAC and AGL's other U.S. based subsidiaries from 31 West 52nd Street in New York City to this new location during the summer of 2016. The new lease is for approximately 88,000 square feet and runs until 2032, with an option, subject to certain conditions, to renew for five years at a fair market rent. The fixed annual rent, which commences after an initial rent holiday, begins at $6.2 million, rising in two steps to $7.3 million for the last five years of the initial term. In connection with the move and in return for rent abatement and certain other concessions, AGM agreed to terminate, eight months after its new space is delivered, its lease on its existing office space at 31 West 52nd Street, which had been scheduled to run until 2026.

Future Minimum Rental Payments

Year	(in millions)
2016	$ 3
2017	5
2018	7
2019	7
2020	7
Thereafter	76
Total	$ 105

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.

In addition, in the ordinary course of their respective businesses, certain of the Company's subsidiaries assert claims in legal proceedings against third parties to recover losses paid in prior periods or prevent losses in the future. For example, as described in the "Recovery Litigation" section of Note 4, Expected Loss to be Paid, in January 2016 the Company commenced an action for declaratory judgment and injunctive relief in the U.S. District Court for the District of Puerto Rico to invalidate executive orders issued by the Governor of Puerto Rico directing the retention or transfer of certain taxes and revenues pledged to secure the payment of certain bonds insured by the Company. The amounts, if any, the Company will recover in proceedings to recover losses are uncertain, and recoveries, or failure to obtain recoveries, in any one or more of these proceedings during any quarter or year could be material to the Company's results of operations in that particular quarter or year.

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

Litigation

Proceedings Relating to the Company's Financial Guaranty Business

AGM and AGMH receive subpoenas *duces tecum* and interrogatories from regulators from time to time.

On September 25, 2013, Wells Fargo Bank, N.A., as trust administrator of the MASTR Adjustable Rate Mortgages Trust 2007-3, filed an interpleader complaint in the U.S. District Court for the Southern District of New York against AGM, among others, relating to the right of AGM to be reimbursed from certain cashflows for principal claims paid in respect of

insured certificates. The Company estimates that an adverse outcome to the interpleader proceeding could increase losses on the transaction by approximately $10 - $20 million, net of expected settlement payments and reinsurance in force.

Proceedings Related to AGMH's Former Financial Products Business

The following is a description of legal proceedings involving AGMH's former Financial Products Business. Although Assured Guaranty did not acquire AGMH's former Financial Products Business, which included AGMH's former GIC business, medium term notes business and portions of the leveraged lease businesses, certain legal proceedings relating to those businesses are against entities that Assured Guaranty did acquire. While Dexia SA and Dexia Crédit Local S.A., jointly and severally, have agreed to indemnify Assured Guaranty against liability arising out of the proceedings described below, such indemnification might not be sufficient to fully hold the Company harmless against any injunctive relief or civil or criminal sanction that is imposed against the Company.

Governmental Investigations into Former Financial Products Business

AGMH and/or AGM have received subpoenas *duces tecum* and interrogatories or civil investigative demands from the Attorneys General of the States of Connecticut, Florida, Illinois, Massachusetts, Missouri, New York, Texas and West Virginia relating to their investigations of alleged bid rigging of municipal GICs. AGMH has been responding to such requests. AGMH may receive additional inquiries from these or other regulators and expects to provide additional information to such regulators regarding their inquiries in the future. In addition, AGMH received a subpoena from the Antitrust Division of the Department of Justice in November 2006 issued in connection with an ongoing criminal investigation of bid rigging of awards of municipal GICs and other municipal derivatives. Pursuant to that subpoena, AGMH has furnished to the Department of Justice records and other information with respect to AGMH's municipal GIC business. The ultimate loss that may arise from these investigations remains uncertain.

Lawsuits Relating to Former Financial Products Business

During 2008, nine putative class action lawsuits were filed in federal court alleging federal antitrust violations in the municipal derivatives industry, seeking damages and alleging, among other things, a conspiracy to fix the pricing of, and manipulate bids for, municipal derivatives, including GICs. These cases have been coordinated and consolidated for pretrial proceedings in the U.S. District Court for the Southern District of New York as *MDL 1950, In re Municipal Derivatives Antitrust Litigation,* Case No. 1:08-cv-2516 ("MDL 1950"). Five of these cases named both AGMH and AGM: (a) *Hinds County, Mississippi v. Wachovia Bank, N.A.*; (b) *Fairfax County, Virginia v. Wachovia Bank, N.A.*; (c) *Central Bucks School District, Pennsylvania v. Wachovia Bank, N.A.*; (d) *Mayor and City Council of Baltimore, Maryland v. Wachovia Bank, N.A.*; and (e) *Washington County, Tennessee v. Wachovia Bank, N.A.* In April 2009, the MDL 1950 court granted the defendants' motion to dismiss on the federal claims for these five cases, but granted leave for the plaintiffs to file an amended complaint. The Corrected Third Consolidated Amended Class Action Complaint, filed on October 9, 2013, lists neither AGM nor AGMH as a named defendant or a co-conspirator. The complaint generally seeks unspecified monetary damages, interest, attorneys' fees and other costs. The other four cases named AGMH (but not AGM) and also alleged that the defendants violated California state antitrust law and common law by engaging in illegal bid-rigging and market allocation, thereby depriving the cities or municipalities of competition in the awarding of GICs and ultimately resulting in the cities paying higher fees for these products: (f) *City of Oakland, California v. AIG Financial Products Corp.*; (g) *County of Alameda, California v. AIG Financial Products Corp.*; (h) *City of Fresno, California v. AIG Financial Products Corp.*; and (i) *Fresno County Financing Authority v. AIG Financial Products Corp*. When the four plaintiffs filed a consolidated complaint in September 2009, the plaintiffs did not name AGMH as a defendant. However, the complaint does describe some of AGMH's and AGM's activities. The consolidated complaint generally seeks unspecified monetary damages, interest, attorneys' fees and other costs. In April 2010, the MDL 1950 court granted in part and denied in part the named defendants' motions to dismiss this consolidated complaint. On September 22, 2015, the remaining parties to the putative class action reported to the MDL 1950 Court that settlements in principle had been reached and a motion for preliminary approval of those putative class claims was filed on February 24, 2016. The parties have reported that final settlement with those remaining defendants would resolve the putative class case. The settlement fairness hearing for those putative class cases is scheduled for July 8, 2016. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from these lawsuits.

In 2008, AGMH and AGM also were named in five non-class action lawsuits originally filed in the California Superior Courts alleging violations of California law related to the municipal derivatives industry: (a) *City of Los Angeles, California v. Bank of America, N.A.*; (b) *City of Stockton, California v. Bank of America, N.A.*; (c) *County of San Diego, California v. Bank of America, N.A.*; (d) *County of San Mateo, California v. Bank of America, N.A.*; and (e) *County of Contra Costa, California v. Bank of America, N.A.* Amended complaints in these actions were filed in September 2009, adding a federal antitrust claim and naming AGM (but not AGMH) and AGUS, among other defendants. These cases have been transferred to the Southern District

of New York and consolidated with MDL 1950 for pretrial proceedings. In late 2009, AGM and AGUS, among other defendants, were named in six additional non-class action cases filed in federal court, which also have been coordinated and consolidated for pretrial proceedings with MDL 1950; one was voluntarily dismissed with prejudice in October 2010, leaving five that are currently pending: (f) *City of Riverside, California v. Bank of America, N.A.*; (g) *Los Angeles World Airports v. Bank of America, N.A.*; (h) *Redevelopment Agency of the City of Stockton v. Bank of America, N.A.*; (i) *Sacramento Suburban Water District v. Bank of America, N.A.*; and (j) *County of Tulare, California v. Bank of America, N.A.* The MDL 1950 court denied AGM and AGUS's motions to dismiss the eleven complaints that were pending as of April 2010. Amended complaints were filed in May 2010. The complaints in these lawsuits generally seek or sought unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from the remaining lawsuits.

In May 2010, AGM and AGUS, among other defendants, were named in five additional non-class action cases filed in federal court in California: (a) *City of Richmond, California v. Bank of America, N.A.* (filed on May 18, 2010, N.D. California); (b) *City of Redwood City, California v. Bank of America, N.A.* (filed on May 18, 2010, N.D. California); (c) *Redevelopment Agency of the City and County of San Francisco, California v. Bank of America, N.A.* (filed on May 21, 2010, N.D. California); (d) *East Bay Municipal Utility District, California v. Bank of America, N.A.* (filed on May 18, 2010, N.D. California); *and* (e) *City of San Jose and the San Jose Redevelopment Agency, California v. Bank of America, N.A* (filed on May 18, 2010, N.D. California). These cases have also been transferred to the Southern District of New York and consolidated with MDL 1950 for pretrial proceedings. In September 2010, AGM and AGUS, among other defendants, were named in a sixth additional non-class action filed in federal court in New York, but which alleges violation of New York's Donnelly Act in addition to federal antitrust law: *Active Retirement Community, Inc. d/b/a Jefferson's Ferry v. Bank of America, N.A.* (filed on September 21, 2010, E.D. New York), which has also been transferred to the Southern District of New York and consolidated with MDL 1950 for pretrial proceedings. In December 2010, AGM and AGUS, among other defendants, were named in a seventh additional non-class action filed in federal court in the Central District of California, *Los Angeles Unified School District v. Bank of America, N.A.*, and in an eighth additional non-class action filed in federal court in the Southern District of New York, *Kendal on Hudson, Inc. v. Bank of America, N.A.* These cases also have been consolidated with MDL 1950 for pretrial proceedings. The complaints in these lawsuits generally seek unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from these lawsuits.

In January 2011, AGM and AGUS, among other defendants, were named in an additional non-class action case filed in federal court in New York, which alleges violation of New York's Donnelly Act in addition to federal antitrust law: *Peconic Landing at Southold, Inc. v. Bank of America, N.A.* This case has been consolidated with MDL 1950 for pretrial proceedings. The complaint in this lawsuit generally seeks unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from this lawsuit.

In September 2009, the Attorney General of the State of West Virginia filed a lawsuit (Circuit Ct. Mason County, W. Va.) against Bank of America, N.A. alleging West Virginia state antitrust violations in the municipal derivatives industry, seeking damages and alleging, among other things, a conspiracy to fix the pricing of, and manipulate bids for, municipal derivatives, including GICs. An amended complaint in this action was filed in June 2010, adding a federal antitrust claim and naming AGM (but not AGMH) and AGUS, among other defendants. This case has been removed to federal court as well as transferred to the S.D.N.Y. and consolidated with MDL 1950 for pretrial proceedings. AGM and AGUS answered West Virginia's Second Amended Complaint on November 11, 2013. The complaint in this lawsuit generally seeks civil penalties, unspecified monetary damages, interest, attorneys' fees, costs and other expenses. The Company cannot reasonably estimate the possible loss, if any, or range of loss that may arise from this lawsuit.

16. Notes Payable and Credit Facilities

Notes Payable

Notes Payable represents debt issued by VIEs consolidated by AGM to one of the Financial Products Companies that were transferred to Dexia Holdings prior to the acquisition of AGMH. The funds borrowed were used to finance the purchase of the underlying obligations of AGM-insured obligations which had breached triggers allowing AGM to exercise its right to accelerate payment of a claim in order to mitigate loss. The assets purchased are classified as assets acquired in refinancing transactions and recorded in "other invested assets." The terms of the notes payable match the terms of the assets acquired in refinancing transactions.

The principal and carrying values of the Company's notes payable are presented in the table below.

Principal and Carrying Amounts of Notes Payable

	As of December 31,			
	2015		2014	
	Principal	Carrying Value	Principal	Carrying Value
	(in millions)			
Notes Payable	$ 12	$ 13	$ 16	$ 19

Principal payments due under the notes payable are as follows:

Expected Maturity Schedule of Notes Payable

Expected Withdrawal Date	Principal Amount
	(in millions)
2016	$ 4
2017	4
2018	2
2019	1
2020	0
Thereafter	1
Total	$ 12

Recourse Credit Facilities

2009 Strip Coverage Facility

In connection with the Company's acquisition of AGMH and its subsidiaries from Dexia Holdings Inc., AGM agreed to retain the risks relating to the debt and strip policy portions of the leveraged lease business. The liquidity risk to AGM related to the strip policy portion of the leveraged lease business is mitigated by the strip coverage facility described below.

In a leveraged lease transaction, a tax-exempt entity (such as a transit agency) transfers tax benefits to a tax-paying entity by transferring ownership of a depreciable asset, such as subway cars. The tax-exempt entity then leases the asset back from its new owner.

If the lease is terminated early, the tax-exempt entity must make an early termination payment to the lessor. A portion of this early termination payment is funded from monies that were pre-funded and invested at the closing of the leveraged lease transaction (along with earnings on those invested funds). The tax-exempt entity is obligated to pay the remaining, unfunded portion of this early termination payment (known as “strip coverage”) from its own sources. AGM issued financial guaranty insurance policies (known as “strip policies”) that guaranteed the payment of these unfunded strip coverage amounts to the lessor, in the event that a tax-exempt entity defaulted on its obligation to pay this portion of its early termination payment. AGM can then seek reimbursement of its strip policy payments from the tax-exempt entity, and can also sell the transferred depreciable asset and reimburse itself from the sale proceeds.

Currently, all the leveraged lease transactions in which AGM acts as strip coverage provider are breaching a rating trigger related to AGM and are subject to early termination. However, early termination of a lease does not result in a draw on the AGM policy if the tax-exempt entity makes the required termination payment. If all the leases were to terminate early and the tax-exempt entities do not make the required early termination payments, then AGM would be exposed to possible liquidity claims on gross exposure of approximately $1.1 billion as of December 31, 2015. To date, none of the leveraged lease transactions that involve AGM has experienced an early termination due to a lease default and a claim on the AGM policy. It is difficult to determine the probability that AGM will have to pay strip provider claims or the likely aggregate amount of such claims. At December 31, 2015, approximately $1.4 billion of cumulative strip par exposure had been terminated since 2008 on a consensual basis. The consensual terminations have resulted in no claims on AGM.

On July 1, 2009, AGM and Dexia Crédit Local S.A., acting through its New York Branch ("Dexia Crédit Local (NY)"), entered into a credit facility (the "Strip Coverage Facility"). Under the Strip Coverage Facility, Dexia Crédit Local (NY) agreed to make loans to AGM to finance all draws made by lessors on AGM strip policies that were outstanding as of November 13, 2008, up to the commitment amount. The commitment amount of the Strip Coverage Facility was $1 billion at closing of the Company's acquisition of AGMH. AGM has reduced the maximum commitment amount from time to time, after taking into account its experience with its exposure to leveraged lease transactions. Most recently, as of June 30, 2014, AGM reduced the maximum commitment amount to $495 million and agreed with Dexia Crédit Local (NY) that the commitment amount would no longer amortize on a scheduled monthly basis.

Fundings under this facility are subject to certain conditions precedent, and their repayment is collateralized by a security interest that AGM granted to Dexia Crédit Local (NY) in amounts that AGM recovers—from the tax-exempt entity, or from asset sale proceeds—following its payment of strip policy claims. On June 30, 2014, AGM and Dexia Crédit Local (NY) agreed to shorten the duration of the facility. Accordingly, the Strip Coverage Facility will terminate upon the earliest to occur of an AGM change of control, the reduction of the commitment amount to $0 in accordance with the terms of the facility, and June 30, 2024 (rather than the original maturity date of January 31, 2042).

The Strip Coverage Facility's financial covenants require that AGM and its subsidiaries maintain:

- a maximum debt-to-capital ratio of 30%; and

- a minimum net worth of 75% of consolidated net worth as of July 1, 2009, plus, beginning June 30, 2015 and on each anniversary of such date, an amount equal to the product of (i) 25% of the aggregate consolidated net income (or loss) for the period beginning July 2, 2009 and ending on June 30, 2014 and (ii) a fraction, the numerator of which is the commitment amount as of the relevant calculation date and the denominator of which is $1 billion.

The Company was in compliance with all financial covenants as of December 31, 2015.

The Strip Coverage Facility contains restrictions on AGM, including, among other things, in respect of its ability to incur debt, permit liens, pay dividends or make distributions, dissolve or become party to a merger or consolidation. Most of these restrictions are subject to exceptions. The Strip Coverage Facility has customary events of default, including (subject to certain materiality thresholds and grace periods) payment default, bankruptcy or insolvency proceedings and cross-default to other debt agreements.

As of December 31, 2015, no amounts were outstanding under this facility, nor have there been any borrowings during the life of this facility.

AGM CPS Securities

In June 2003, $200 million of "AGM CPS", money market preferred trust securities, were issued by trusts created for the primary purpose of issuing the AGM CPS, investing the proceeds in high-quality commercial paper and selling put options to AGM, allowing AGM to issue the trusts non-cumulative redeemable perpetual preferred stock (the "AGM Preferred Stock") of AGM in exchange for cash. There are four trusts, each with an initial aggregate face amount of $50 million. These trusts hold auctions every 28 days, at which time investors submit bid orders to purchase AGM CPS. If AGM were to exercise a put option, the applicable trust would transfer the portion of the proceeds attributable to principal received upon maturity of its assets, net of expenses, to AGM in exchange for AGM Preferred Stock. AGM pays a floating put premium to the trusts, which represents the difference between the commercial paper yield and the winning auction rate (plus all fees and expenses of the trust). If an auction does not attract sufficient clearing bids, however, the auction rate is subject to a maximum rate of one-month LIBOR plus 200 basis points for the next succeeding distribution period. Beginning in August 2007, the AGM CPS required the maximum rate for each of the relevant trusts. AGM continues to have the ability to exercise its put option and cause the related trusts to purchase AGM Preferred Stock. The trusts provide AGM access to new capital at its sole discretion through the exercise of the put options. As of December 31, 2015 the put option had not been exercised. The Company does not consider itself to be the primary beneficiary of the trusts. See Note 6, Fair Value Measurement, –Other Assets–Committed Capital Securities, for a fair value measurement discussion.

17. Employee Benefit Plans

Accounting Policy

AGM 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.

Assured Guaranty Ltd. 2004 Long-Term Incentive Plan

Under the Assured Guaranty Ltd. 2004 Long-Term Incentive Plan, as amended (the "Incentive Plan"), the number of AGL common shares that may be delivered under the Incentive Plan may not exceed 18,670,000. In the event of certain transactions affecting AGL's common shares, the number or type of shares subject to the Incentive Plan, the number and type of shares subject to outstanding awards under the Incentive Plan, and the exercise price of awards under the Incentive Plan, may be adjusted.

The Incentive Plan authorizes the grant of incentive stock options, non-qualified stock options, stock appreciation rights, and full value awards that are based on AGL's common shares. The grant of full value awards may be in return for a participant's previously performed services, or in return for the participant surrendering other compensation that may be due, or may be contingent on the achievement of performance or other objectives during a specified period, or may be subject to a risk of forfeiture or other restrictions that will lapse upon the achievement of one or more goals relating to completion of service by the participant, or achievement of performance or other objectives. Awards under the Incentive Plan may accelerate and become vested upon a change in control of AGL.

The Incentive Plan is administered by the Compensation Committee of the Board of Directors of AGL, except as otherwise determined by the Board. The Board may amend or terminate the Incentive Plan. As of December 31, 2015, 10,367,163 common shares of AGL were available for grant under the Incentive Plan.

The Company recognized expenses of $4 million and $4 million for the years ended December 31, 2015 and 2014, respectively, under the Incentive Plan.

Time Vested Stock Options

Stock options are generally granted once a year with exercise prices equal to the closing price on the date of grant. To date, AGL has only issued non-qualified stock options. All stock options, except for performance stock options, granted to employees vest in equal annual installments over a three-year period and expire seven years or ten years from the date of grant. None of AGL's options, except for performance stock options, have a performance or market condition.

Performance Stock Options

Assured Guaranty grants performance stock options under the Incentive Plan. These awards are non-qualified stock options with exercise prices equal to the closing price of an AGL common share on the applicable date of grant. These awards vest 35%, 50% or 100%, if the price of AGL's common shares using the highest 40-day average share price during the relevant three-year performance period reaches certain hurdles. If the share price is between the specified levels, the vesting level will be interpolated accordingly. These awards expire seven years from the date of grant.

Restricted Stock Awards

Restricted stock awards are valued based on the closing price of the underlying shares at the date of grant. These restricted stock awards to employees generally vest in equal annual installments over a four-year period.

Restricted Stock Units

Restricted stock units are valued based on the closing price of the underlying shares at the date of grant. Restricted stock units generally vest in equal annual installments over a four-year period or fully vest after a three-year period.

Performance Restricted Stock Units

Assured Guaranty has granted performance restricted stock units under the Incentive Plan. These awards vest 35%, 50%, 100%, or 200%, if the price of AGL's common shares using the highest 40-day average share price during the relevant three-year performance period reaches certain hurdles. If the share price is between the specified levels, the vesting level will be interpolated accordingly.

Employee Stock Purchase Plan

Assured Guaranty established the AGL Employee Stock Purchase Plan ("Stock Purchase Plan") in accordance with Internal Revenue Code Section 423, and participation is available to all eligible employees. Maximum annual purchases by participants are limited to the number of whole shares that can be purchased by an amount equal to 10% of the participant's compensation or, if less, shares having a value of $25,000. Participants may purchase shares at a purchase price equal to 85% of the lesser of the fair market value of the stock on the first day or the last day of the subscription period. The Company recorded $0.1 million and $0.1 million in share-based compensation, after the effects of DAC, under the Stock Purchase Plan during the years ended December 31, 2015 and 2014, respectively.

Defined Contribution Plan

Employees receive employer contributions into the AGC Employee Retirement Plan (“AGC ERP”) based on a fixed percentage of the employee's compensation and are eligible to make employee contributions and to receive matching employer contributions based on a percentage of compensation up to limits prescribed by Internal Revenue Code Section 401(k). The Company recognized defined contribution expenses of $5 million and $5 million for the years ended December 31, 2015 and 2014, respectively.

Cash-Based Compensation Plans

Assured Guaranty Ltd. maintains a Performance Retention Plan (“PRP”) that permits the grant of deferred cash based awards to selected employees. Generally, each PRP award is divided into three installments, that vest over four years. The cash payment depends on growth in adjusted book value per share and on operating return on equity, which are defined in each PRP award agreement. The Company recognized performance retention plan expenses of $5 million and $7 million for the years ended December 31, 2015 and 2014, respectively, representing its proportionate share of the Assured Guaranty expense.

Assured Guaranty's executive officers are eligible to receive compensation under a non-equity incentive plan. The amount of compensation payable is subject to a performance goal being met. AGL's Compensation Committee then uses discretion to determine the actual amount of cash incentive compensation payable to each executive officer for such performance year based on factors and criteria as determined by the Compensation Committee of AGL, provided that such discretion cannot be used to increase the amount that was determined to be payable to each executive officer. For an applicable performance year, the Compensation Committee of AGL establishes target financial performance measures for AGL and individual non-financial objectives for the executive officers.

18. Other Comprehensive Income

The following tables present the changes in each component of AOCI and the effect of significant reclassifications out of AOCI on the respective line items in net income.

Changes in Accumulated Other Comprehensive Income by Component
Year Ended December 31, 2015

	Net Unrealized Gains (Losses) on Investments with no Other-Than-Temporary Impairment	Net Unrealized Gains (Losses) on Investments with Other-Than-Temporary Impairment	Total Accumulated Other Comprehensive Income
		(in millions)	
Balance, December 31, 2014	$ 186	$ (2)	$ 184
Other comprehensive income (loss) attributable to AGM before reclassifications	(48)	(37)	(85)
Amounts reclassified from AOCI to:			
Net realized investment gains (losses)	1	25	26
Net investment income	(9)	—	(9)
Tax (provision) benefit	3	(9)	(6)
Total amount reclassified from AOCI, net of tax	(5)	16	11
Net current period other comprehensive income (loss) attributable to AGM	(53)	(21)	(74)
Balance, December 31, 2015	$ 133	$ (23)	$ 110

Changes in Accumulated Other Comprehensive Income by Component
Year Ended December 31, 2014

	Net Unrealized Gains (Losses) on Investments with no Other-Than-Temporary Impairment	Net Unrealized Gains (Losses) on Investments with Other-Than-Temporary Impairment	Total Accumulated Other Comprehensive Income
		(in millions)	
Balance, December 31, 2013	$ 105	$ (19)	$ 86
Other comprehensive income (loss) attributable to AGM before reclassifications	86	(28)	58
Amounts reclassified from AOCI to:			
Net realized investment gains (losses)	(9)	70	61
Tax (provision) benefit	4	(25)	(21)
Total amount reclassified from AOCI, net of tax	(5)	45	40
Net current period other comprehensive income (loss) attributable to AGM	81	17	98
Balance, December 31, 2014	$ 186	$ (2)	$ 184

19. Subsequent Events

Subsequent events have been considered through March 30, 2016, the date on which these financial statements were issued.

APPENDIX 5

DEMAND REPORT

UNIVERSITY OF SUSSEX

East Slope Residences Project

Demand Study

22 February 2017

Balfour Beatty
Investments

CBRE

CONTENTS

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22nd February 2017

Student Accommodation Demand Survey for the proposed Bond Issue on the Main Securities Market of the Irish Stock Exchange

We have been instructed to a undertake Student Demand Study for the proposed development of East Slope residences at the University of Sussex Falmer Campus. For the avoidance of doubt this is not a valuation report and no opinion of value is given.

This report has been prepared in accordance with our Terms of Engagement dated 22 February 2017. A copy of the Scope of Works from our Terms of Engagement is included as Appendix A to this Report, together with our Terms and Conditions.

We have referenced the source of our data throughout our report. This includes data supplied to us from the University of Sussex, the Higher Education Statistics Agency (HESA) which provides detailed data up to 2015/2016 (the most recent data available) and UCAS (last data released February 2017).

While CBRE has obtained third party information from sources believed to be reliable and has no reason to doubt its accuracy, it is not possible for CBRE to reasonably verify such information and consequently CBRE makes no guarantee, warranty or representation about it.

Every effort has been made to provide a complete and comprehensive analysis of the data available as at the date of this report. However, it is important to note that some of the trends identified by our analysis may become superseded over time by for example updated data releases, changes in the student population, new planning applications or changes to UK or overseas government policy. We therefore give no warranty that new trends will not emerge over time that may affect the performance of the asset during the lifespan of the bond. To the extent that these are reasonably foreseeable at this point in time, we have commented on this in our report.

Yours faithfully

Tim Pankhurst MRICS
Director
For and on behalf of CBRE Ltd

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EXECUTIVE SUMMARY

The University of Sussex (the 'University') is a top ranking[1] university which has begun on a recent expansion. It has increased its full time student population at a higher rate than the UK and its Peer Group[2] average over the past 5 years. This has been facilitated through a Masterplan which with the exception of student accommodation has largely been completed.

With a full population of 15,274 full time students in 2015/2016 (University of Sussex data including pre sessional Study Group students), The University are currently only just able to honour its accommodation guarantee, which is restricted to just first years and any non EU international students, approximately 40% of students (core demand). Further accommodation is therefore essentially needed as University numbers increase towards the target of 18,000 by 2018/2019.

The current target of 18,000 students was a product of the 2013-2018 Strategic Plan. Whilst the University are yet to release a subsequent plan, it is speculated that they will continue to build on recent success, utilising the strategies already in place to facilitate further growth subject to achieving any necessary planning permission. We have been informed by the University that a new plan to 2025 is currently being drafted by the Vice Chancellor.

With accommodation deemed to form a key part of the student offering by the University there is a desire to provide a high quality offer. With over 50% of the University's current stock being older non en-suite accommodation, there is a desire to improve the offering so it remains attractive to students.

Furthermore, the University have aspirations to offer accommodation to all its students, namely returners (non-first year) and all Study Group students which it has been unable to do so to date. Based on the University take up estimate, the additional demand group could be in the region of 3,000 full time students based on 2016/2017 student numbers.

For 2016/2017 the University will provide 5,024 bedspaces. This equates to a ratio of 3.37 students per bedspace, which is higher than the Peer Group average of 2.83 illustrating a lower provision of accommodation at the University of Sussex.

Based on the University student growth projections[3] and University estimated take up rates for returners, together with accommodation projects in the pipeline, in 2022/2023 this ratio is forecasted to be 2.63 students per bedspace. Restricting demand to just the current accommodation guarantee, there is still an expected shortfall of 168 beds even with pipeline built out. Including the estimated demand from returners this increases to 3,894. If the University decide to grow the population from 2018 then clearly this shortfall would increase.

The proposed scheme will be a flagship scheme for the University, designed to meet the requirements of today's student. It is centrally located on the University campus and will incorporate social spaces, en-suite bathrooms and a new ground floor student union. It will

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[1] Ranked in top 20 universities in the UK in the Times Good University Guide

[2] The Peer Group are a selection of universities that the University of Sussex has selected for benchmarking purposes

[3] University of Sussex student projections (total full time population including Study Group students) 2017/18 – 18,885 (up 11.3%) , 2018/19 – 19,075 (up 1.2%), 2019/20 – 19,115 (up 0.2%) 0% thereafter.

also include a town house style accommodation and include a number of environmental features. These were identified by students in a University Student Engagement Survey in 2014 as some of the top issues for students when choosing accommodation and consequently the proposed scheme has been designed to accommodate this.

Rent was the top consideration for students as low costs were considered the most desirable feature when choosing accommodation in the University Survey 2014. The proposed rent will be the same as the University's newest scheme, Northfield, albeit East Slope is considered to be superior in terms of specification and location.

Whilst there is limited supply in Brighton, rents in the private 'direct let' market are higher than the proposed rent at East Slope. In addition, HMO accommodation in Brighton is unlikely to grow after the introduction of Brighton and Hove's restrictive planning policy for new HMO supply. With increasing student numbers of students at both the University of Sussex and University of Brighton and no new HMO supply, existing HMO accommodation may become more expensive for students due to the potential limited supply and increased demand.

Outside term time there is likely to be demand for accommodation throughout the summer period from both educational users (students staying on, the University of Sussex's International Summer School and Language Schools in Brighton) and other sources such as tourism, conferences, leisure and sports events.

Based on the most up to date statistics available and present market dynamics, we believe there is a case for strong demand for accommodation. This is based on the following key metrics which are set out in the report:

- The current undersupply of University accommodation which is only just able to meet demand for first years;
- Strong growth in applications compared to the UK and University Peer Group for next year;
- High ranking university with plans to develop and improve its offering;
- University target to increase student numbers;
- The additional demand potential from returning students for university accommodation;
- The desire by the University to offer accommodation to returning students;
- The quality of the proposed scheme versus the existing dated university stock;
- The location of the scheme within the campus and the proposed affordable rents;
- The restrictive covenant preventing the university from over committing to further accommodation unless demand from returners is proven.

UNIVERSITY OF SUSSEX

Overview

The University of Sussex was the first of the new wave of UK universities founded in the 1960s, and received its Royal Charter in August 1961. It is situated on a large campus close to the South Downs, on the edge of the city of Brighton.

The university was a founding member of the 1994 Group (disbanded 2013) of smaller research-intensive universities, and continues to enjoy an excellent reputation as a leading research institution.

It maintains links with other research universities including Harvard University, Yale University, Georgetown University, University of California at Berkeley, University of Pennsylvania, Paris-Sorbonne University, and University of Toronto.

Sussex has good links with its neighbour the University of Brighton, and in 2003 the two institutions opened a joint medical school, The Brighton and Sussex Medical School, split between the Royal Sussex county hospital, and the two universities' Falmer campuses.

University Schools

The University was founded with the radical structure of 'Schools of Study' rather than separate departments within arts and science faculties. The twelve Schools intend to promote high-quality teaching and research with an inter-disciplinary approach to learning. Arts and social sciences students are the largest cohort, followed by life sciences.

The university recently re-examined their teaching approach, introducing a new School of Business Management and Economics in 2009.

University of Sussex Twelve Schools of Study

Twelve Schools of Study

SCHOOLS	
School of Media, Film and Music	School of Psychology
School of Education and Social Work	Brighton and Sussex Medical School
School of English	School of Engineering and Informatics
School of Global Studies	School of Business, Management and Economics
School of History, Art History and Philosophy	School of Life Sciences
School of Law, Politics and Sociology	School of Mathematical and Physical Sciences

Source: The University of Sussex

The Schools of Study system allows the University's courses to be conducted in a flexible manner to enable students to explore their chosen subject in depth. Each course is designed to ensure that core subject knowledge and skills – informed by leading research undertaken by academic staff at Sussex – are offered in a coherent programme of learning through core modules and options. In the 2014 Research Excellence Framework, Sussex was among the leaders in history, English, psychology and geography, scoring at least 40% meeting the standard for 4 stars. Three-quarters of the work submitted was judged to be world-leading or internationally excellent. Teaching is structured in the format of two 12-week teaching periods, with a mid-year assessment period.

Undergraduate courses are typically 3 years. Some courses have the option of a foundation year as well (therefore, 4 years in total). Postgraduate Taught courses are mostly 1-year courses. Doctoral programmes entail a minimum of 3 years' study at the University.

The University changed the structure of the academic year with effect from 2012-13. There are now three terms, autumn, spring and summer. There are two 12-week periods of teaching – one in the autumn, one in the spring. There is a mid-year examination and assessment period between the autumn and spring terms in January. The summer term is mainly for end-of-year examinations and assessment.

Subjects Studied

For the 2015/2016 academic year social studies, business and administrative studies and biological sciences all had over 1,000 students making up together 50% of the total student population.

University of Sussex Full Time Student Population by Subject Studied
HESA (excludes Study Group)

SUBJECTS STUDIED	TOTAL STUDENTS 2015/2016	% OF TOTAL
Social studies	2,848	19.69%
Business & administrative studies	2,592	17.92%
Biological sciences	1,761	12.17%
Languages	981	6.78%
Law	971	6.71%
Mass communications & documentation	867	5.99%
Historical & philosophical studies	805	5.57%
Physical sciences	792	5.47%
Engineering & technology	663	4.58%
Computer science	544	3.76%
Mathematical sciences	397	2.75%
Education	382	2.64%
Medicine & dentistry	363	2.51%
Subjects allied to medicine	269	1.86%
Creative arts & design	232	1.60%

Source: Higher Education Statistics Agency

Peer Group

Sussex was the first of the cohort of post-war universities founded in the 1960s, termed the 'plate glass universities'. It counts several of these amongst its peer group. Sussex was also a founding member of the 1994 Group of research-intensive universities promoting excellence in research and teaching. It also uses a self-selected peer group for benchmarking purposes, which also counts several Russell Group members. Both groups are shown below with their Time Good University Guide ranking in brackets:

University of Sussex versus Peer Group and 1994 Group

By Ranking – The Times Good University Guide (2014 to 2017)

"PEER GROUP" UNIVERSITIES	2014	2015	2016	2017
University of Warwick	10	8	6	7
University of Exeter	8	7	7	9
University of Surrey	12	11	8	14
University of Leeds	29	17	14	13
University of York	11	15	16	17
Southampton University	20	18	16	21
University of Sussex	**32**	**25**	**19**	**18**
University of Kent	33	30	23	23
University of Manchester	26	28	28	32
University of Essex	39	32	35	30
Royal Holloway, University of London	28	34	36	34
University of Brighton	76	82	90	104

Source: The Times Good University Guide 2014 to 2017

1994 GROUP	2014	2015	2016	2017
Lancaster University	12	12	11	9
Loughborough University	21	13	13	11
University of East Anglia	17	14	18	15
University of Sussex	**32**	**19**	**20**	**18**
University of Leicester	14	20	28	25
University of Essex	39	32	35	30
Royal Holloway, University of London	28	34	36	34
School of Oriental and African Studies	24	31	44	43
Goldsmiths, University of London	48	55	66	54
Birckbeck, University of London (N/A)	N/A	N/A	N/A	N/A

Source: The Times Good University Guide 2014 to 2017

Rankings

UK Rankings

There are four well known national rankings of universities in the United Kingdom which are published annually and are based on differing criteria, and two international league tables. Rankings are measured by student satisfaction, teaching quality, research quality as well as other measures such as graduate job prospects, degree outcomes achieved, entry qualifications, student-staff rations, services and facilities and completion rates.

University of Sussex: National Rankings

SOURCE	2015	2016	2017
The Complete University Guide	38	21	18
The Guardian 2014	43	19	20
QS UK University Rankings	29	30	29
The Times Good University Guide	19	20	18

Source: The Complete University Guide, The Guardian, QS Top Universities, The Times

International Rankings

University of Sussex: World Rankings

SOURCE	2015	2016	2017
QS World University Rankings	187	187	187
Times Higher Education	111	140	149

Source: QS Top Universities, The Times

Research Excellence Framework

Sussex performed well in the 2014 Research Excellence Framework. Three-quarters of Sussex research activity was rated as world leading, internationally excellent or internationally recognised, placing the University among the leading 20 research universities in the UK, on a simple average across all scores. 18 departments ranked in the top 20 in the UK across the arts, sciences and social sciences, with American studies ranked 1st in the UK, Politics 2nd, and Art history 3rd.

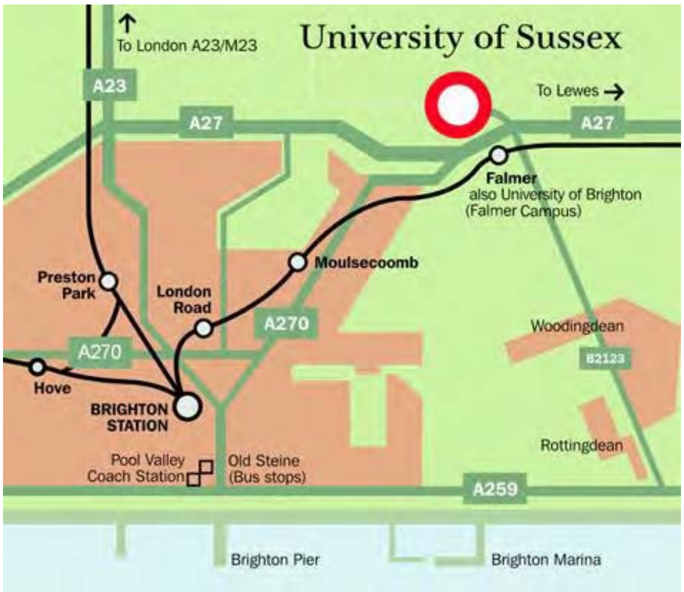
Falmer Campus Overview

The University of Sussex is situated four miles from the centre of Brighton, it features award-winning architecture, set entirely in parkland. The campus is surrounded by the South Downs National Park. The Amex Stadium is also adjacent to the campus, on the opposite side of the A27.

The buildings that make up the heart of the campus were designed by Sir Basil Spence, and given listed building status in 1993. The university recently completed a £100million campus development plan, refurbishing these original buildings, and adding several new ones.

All University activities take place on campus. Academic buildings and the Student Union are located towards the southern end, which is bounded by the A27. The Brighton & Sussex Medical School is also located on the Falmer campus. University accommodation is generally located towards the northern end of the campus, with Swanborough and East Slope being the closest residences to the heart of the catering and teaching areas.

University of Sussex Falmer Campus Location



Source: University of Sussex Website [Website accessed 16/02/2017]

Transport links

The University is easily accessible and is well served with buses from Central Brighton, and trains and taxis from Brighton train station. The No. 23, 28 and 29 buses run frequently between the centre of Brighton and the University. In particular, the number 25 bus route leaves the campus from the residences every 10 minutes during the day and every 15 minutes in the evening and weekends going into the City Centre, with a journey time of about 25 minutes. Trains run from Brighton to Falmer (on the south side of the campus) every 15-20 minutes. The adjoining A27 also gives good access by car. Access to the university is easiest from London Gatwick airport by National Rail train to Brighton; this takes about 40 minutes, with trains running approximately every 15-20 minutes during the day.

University of Sussex Strategic Plan 2013-2018

The University of Sussex launched a new Strategic Plan in 2013, entitled 'Making the Future[4]'. This document sets out the university's strategy for the next five years 2013-2018, and focuses upon three main objectives, with commitments related to each:

- Growth of staff and student numbers:
  - *"Our ambition is for substantial growth in student numbers of around 50 per cent by 2018".*
- Maintaining and advancing the quality of research, teaching and learning:
  - *"We will be placed in the top 20 institutions, with at least 50 per cent of our research units in the top 15 in their subject areas in the UK's national assessment of research quality."*
  - *"We will create at least three new large-scale University of Sussex research centres."*

[4] https://www.sussex.ac.uk/webteam/gateway/file.php?name=our-strategy-making-the-future-2013-18.pdf&site=271*[Website accessed 16/02/2017]*

   - *"We will enhance the quality of the Sussex student experience so that we consistently secure a top 10 position for overall satisfaction in the National Student Survey (NSS) and a top 25 position in each of the six NSS themes from 2015."*

- Continued distinctiveness and autonomy: championing an inter-disciplinary teaching approach, supporting the growth in international student numbers, and developing and preserving the campus and open spaces which characterise the university:
   - ***"We will deliver a new Campus Masterplan to increase capacity".***
   - ***"We will increase the residential accommodation to provide housing for 40 per cent of our students"***

"Our vision for 2018 is to be a university of high quality, recognised for our contribution to the global academy and human knowledge, with a size and scale to sustain our distinctive academic endeavour for the future."

Falmer Campus Masterplan

The University created a Campus Masterplan in 2004 to provide a planning framework to support an ambitious building and regeneration programme, in line with the academic mission and plans for strategic development. Much of this initial development has been delivered in support of the 2009 strategic plan.

These have included a new £29million academic building[5] offering a mix of lecture theatres, study and teaching space, and a social centre, completed in 2012 and named the Jubilee Building. The Gardner Centre was also revived as an interdisciplinary arts hub for the university and the wider community, renamed as the Attenborough Centre for the Creative Arts on its opening in 2012. The library has undergone a £6million redevelopment and introduced 24-hour opening during term time. Investment of £1.5million in IT has also doubled the number of computers available to students, and installed Wi-Fi in all student residences.

For this next phase of development in support of the Making the Future strategy 2013-18, the Masterplan has been extensively revised to ensure that the campus can accommodate the University's growing activity as it aims to expand to 18,000 students and beyond.

The Campus Masterplan provides for a phased development of the campus, so that at each stage the buildings are a coherent and useable mix, avoiding significant disruption to the teaching, learning or living experience.

[5] http://www.sussex.ac.uk/economics/about/jubilee [Website accessed 16/02/2017]

Campus Masterplan

University of Sussex's vision for development

Source: www.sussex.ac.uk/about/campus/campus-development/campus-development-student-residences [Website accessed 16/02/2017]

The key designs in the Campus Masterplan provide for an extra 40,000 sq m of academic space in the area currently taken up by the large science car park (P1). This major new development area is intended to transform the south-east section of campus over time as a new Great Court, distinctive buildings and green space are created.

Planned New Academic Space

Academic development in the south-east of campus will create new academic space, signature buildings and a 'Great Court'.

Source: www.sussex.ac.uk/about/campus/campus-development/campus-development-teaching-academic [Website accessed 16/02/2017]

Residential development is also a key component of the master plan. The replacement of the single-storey blocks of East Slope housing, which are now considered by the University to be at the end of their normal economic life, will add 1,587 study bedrooms on the east side of campus.

A further development in the next decade would be on the West Slope – gaining around 1,000 new study bedrooms.

Another significant project identified is the creation of a purpose-built student centre at the heart of the campus, bringing together many student services in one place.

Key Points

- The University of Sussex is a well ranked university, listed in the top 20 by the Times Good University Guide and The Guardian.
- It has an excellent reputation for research, with three-quarters of work submitted to REF judged as world leading.
- It provides a wide range of undergraduate and postgraduate courses through its unique Schools of Study structure.
- The University has already completed a large part of its Masterplan which has expanded and improved existing academic facilities.
- There is an objective to increase student numbers to over 18,000 by 2018. The progress of the Masterplan means that the University already has the academic facilities in place to cater for the increase in students.
- The new East Slope residences are required to support future growth by delivering additional student accommodation.

EAST SLOPE RESIDENCES PROJECT

Overview

The Masterplan prioritises the expansion and development of new student residences. After publishing it in 2013 the university are now 4 years into the five year plan.

The East Slope Residences project constitutes the first phase of this growth strategy, and will aim to build 2,117 new study bedrooms on the existing East Slope site (currently 592 bedspaces) representing a net gain of 1,525 bedspaces.

This will contribute towards the University's current objective of housing 40% of full-time students on campus set out in the Strategic Plan 2013-2018.

Objectives

The new residences are to be completed to a modern standard, and comparable in specification with the University's most recent residential projects i.e. Northfield. The concept and design of the residences must also show sensitivity to the natural setting and integrate with the University's Masterplan.

For new buildings, the University aims to achieve the best environmental performance within reasonable cost. The University's current policy is to achieve a BREEAM Excellent rating for new buildings.

The University would like the residential offering to retain its competitive position within the UK university marketplace and to ensure that the weekly rents for the new East Slope Residences remain consistent and comparable with the remaining estate and similar accommodation provided at competitor Universities. We understand that to achieve this, the University will agree a 'day 1' rent which will then be subject to an increase/decrease according to an index linked rent review mechanism.

The University wishes to provide new accommodation which enhances the student experience by delivering high quality living, social, and amenity spaces; improving the living and learning experience within the residences.

Contract

We have been informed that the new accommodation will be delivered in accordance with a Project Agreement. In broad terms under the Agreement the University will provide a grant a 50 year lease to Balfour Beatty, who in turn will demolish the current East Slope residences and replace them with new accommodation providing a total of 2,117 bedspaces.

Balfour Beatty will operate the new residences and at the end of the contract will return East Slope to the University. The university will not provide any occupation or financial guarantee during the period of the lease.

Location of East Slope

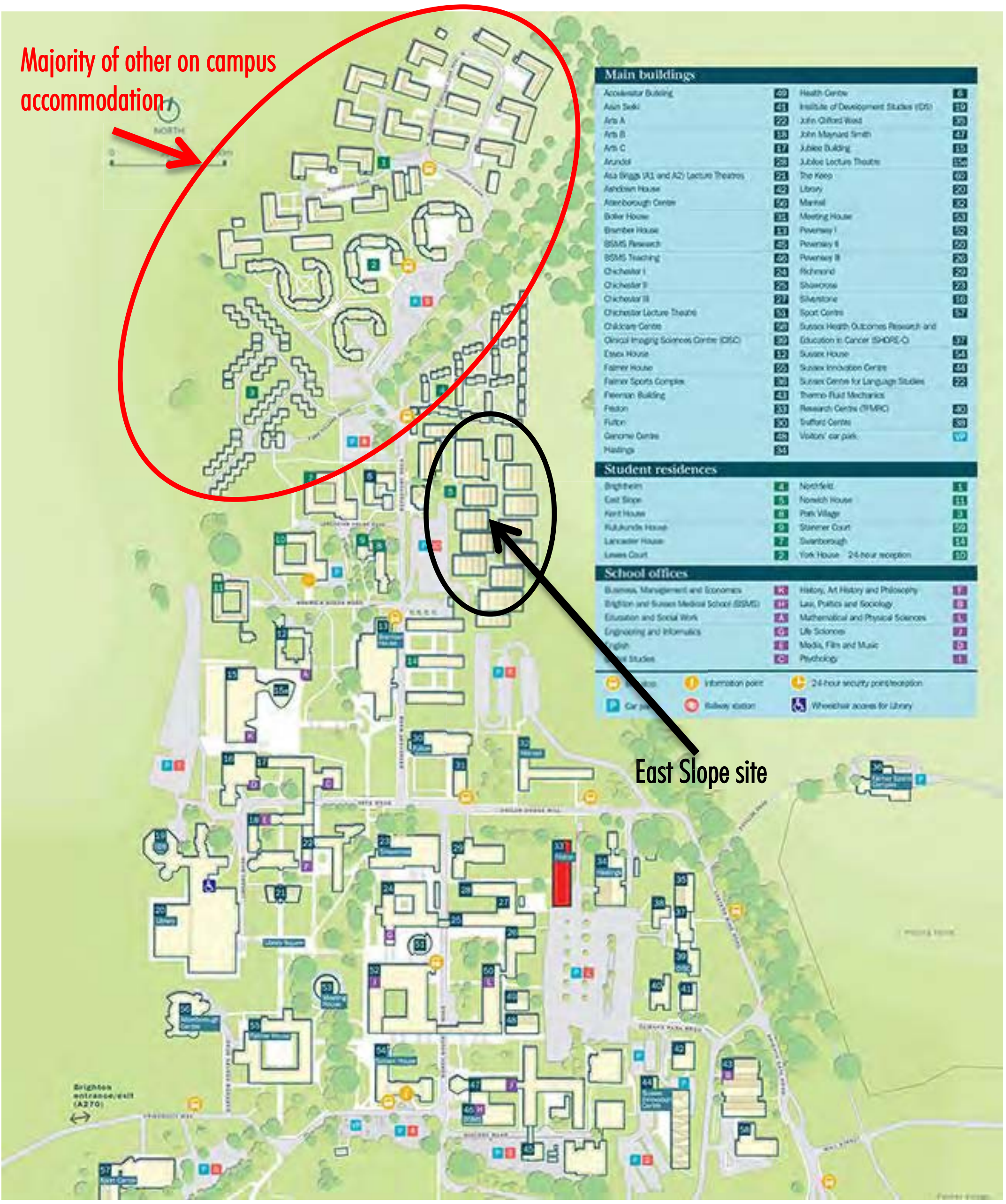
The scheme is to be located on the site of the former East Slope on the eastern perimeter. East Slope benefits from one of the most central positions of all university residences on campus, second only to Swanborough, a smaller scheme of just 250 beds. Students staying at East Slope can enjoy convenient access to the academic and social buildings which are located towards the southern end of the campus.

It offers good access to the key north south road through the campus, and also is situated close to Falmer Railway station. The completed project will also be fully integrated with the campus cycle paths and walkways.

It is also worth noting that the proposed student centre in the Masterplan is also located in close proximity to the East Slope location.

University of Sussex Campus

Current Layout and Location of East Slope



Source: www.sussex.ac.uk/about/campus/map-and-facilities [Website accessed 16/02/2017]

Description of the Scheme

We have been provided with a schedule from Balfour Beatty of the proposed unit mix and phasing as set out below:

East Slope Proposed Unit Mix and Phasing

		Phase 1	Phase 1a	Phase 2	Phase 4	Phase 5		Total
Room Type	**Room Area m2**	14-Sep-18	29-Sep-18	11-Jan-19	11-Sep-20	8-Jan-21	11-Sep-21	
Standard En-suite	13.0	202	160	84	512	300	269	**1,527**
Townhouse	11.0	381		209	-	-	-	**590**
	TOTAL	583	160	293	512	300	269	**2,117**

Source: Balfour Beatty Investments, November 2016

Included within the accommodation will be a number of residents communal social spaces such as breakout spaces, study areas and a gym.

East Slope Residences

Computer Generated Image view of proposed development on the site of the former East Slope

Source: http://www.sussex.ac.uk/sef/projects/future-projects/redevelopment-of-east-slope [Website accessed 16/02/2017]

In addition to the student accommodation the proposed scheme will include a new ground floor student union which can be used by all the students on campus.

Specification

The university has stipulated rooms are to be:

- A minimum of 13sqm for a standard en-suite bedroom (including bathroom)
- A minimum of 10sqm for a non en-suite bedroom

The development has a requirement for 20 flats with a larger en-suite bedroom which can be adapted to provide accessible rooms. The University proposes that four rooms be furnished and able to house a student with special needs from day one.

CBRE

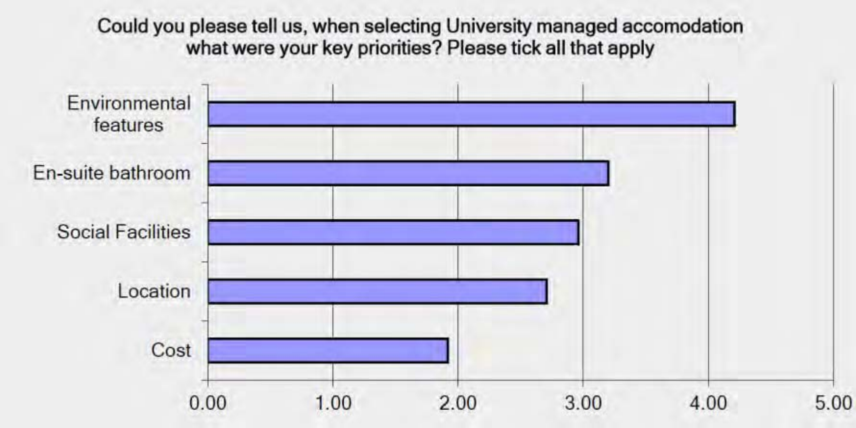
Student Consultation February 2014

A questionnaire was sent to all University of Sussex students to ascertain their views on the proposed plans for East Slope and what they would like to include in the redevelopment.

The study found that the key considerations in terms of importance were cost, location, social facilities, en-suite bathrooms and environmental facilities as detailed below.

Key Priorities When Selecting University Accommodation

Student Consultation February 2014



Please note that the x axis illustrates the key priorities with 1 being the most key

Source: The University of Sussex, Student Consultation February 2014

Based on the above student criteria the proposed scheme will offer students the best accommodation available on the Falmer Campus.

Key Points

- East Slope will be designed to meet the needs of the students. It will offer students the best location, social facilities and en-suite specification all of which has been identified as the student's key priorities in a recent University of Sussex Survey.
- The cost of the accommodation will be set by the University who will seek to offer affordable accommodation for students. This 'day 1' rent will then be subject to an annual index linked review throughout the project.
- The accommodation will have a broad appeal, offering en-suite cluster flats, and 'townhouse' style' shared bathroom clusters.
- The residence benefits from one of the most central campus locations for student accommodation, being located closer to the academic buildings than most other university residences.
- The student union being situated within the new building will also further add appeal to the location.

BRIGHTON AS A UNIVERSITY TOWN

Universities in Brighton

There are two major universities in Brighton;

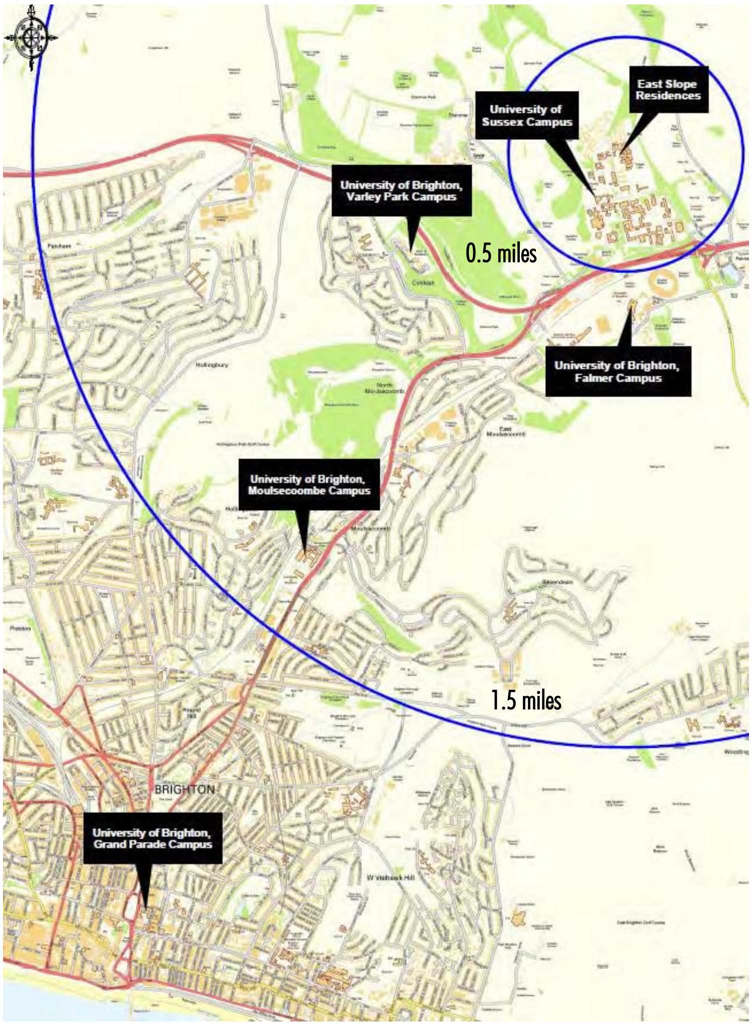
- University of Brighton (ranked 104 by The Times in 2017)
- University of Sussex (ranked 18 by The Times in 2017)

University Campus Locations

The University of Brighton is located in the City Centre, with five campuses in three South Coast locations. Brighton is home to the Grand Parade, Moulsecoomb and Falmer campuses, with two other campuses at Eastbourne and Hastings.

The University of Sussex is located entirely on campus in Falmer, 4.2 miles north east of Brighton City Centre. It is adjacent to the University of Brighton Varley Campus. A location plan showing relative campus locations is below:

East Slope Residences and Campus Locations
Brighton and Falmer



Source: University Websites

Students enrolled at Brighton Universities

As at 2015/2016 (most recent data available) HESA records that there were a total of 28,449 full time higher education students at the University of Sussex and attending the University of Brighton's main Brighton campuses, as set out below.

Total Students Attending Brighton Universities

Full Time and Sandwich Students (HESA data)

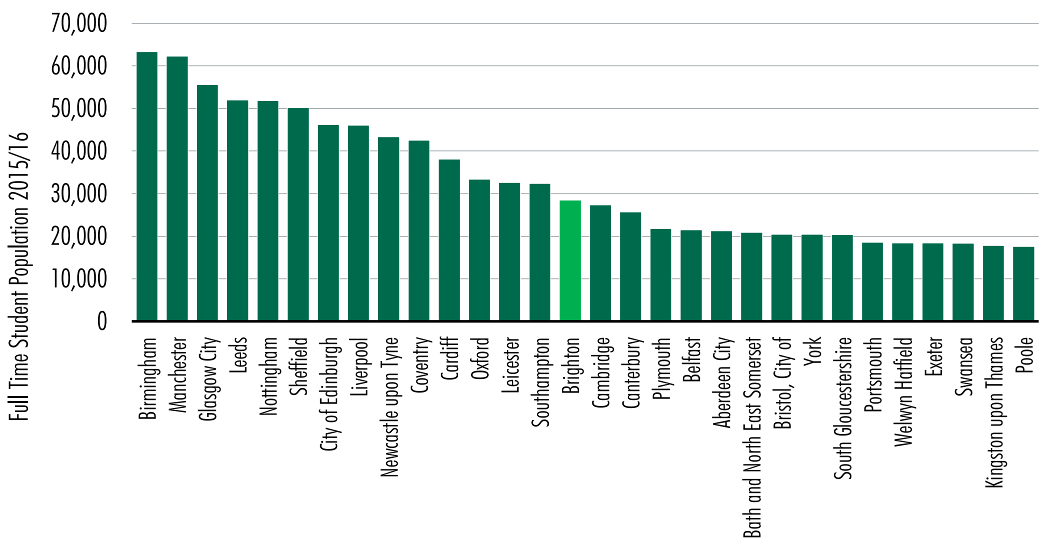
Institution	Level of study	2011/12	2012/13	2013/2014	2014/2015	2015/16
The University of Brighton	Undergraduate	12,649	12,429	12,178	12,475	12,645
(Main Campus)	Postgraduate	1,609	1,526	1,549	1,394	1,339
	Total	**14,258**	**13,955**	**13,727**	**13,869**	**13,984**
The University of Sussex	Undergraduate	9,310	9,567	10,136	10,140	10,937
	Postgraduate	2,828	2,686	2,659	2,565	3,527
	Total	**12,138**	**12,253**	**12,795**	**12,705**	**14,464**
Total		**26,396**	**26,208**	**26,522**	**26,574**	**28,449**

Source: Higher Education Statistics Agency

With 28,449 full time students collectively, when excluding Greater London, Brighton has the 15th largest student population in the UK as illustrated below. This is comparable in size to student populations at Cambridge, Leicester and Canterbury.

UK Student Populations by Local Authority (Excluding London)

Full Time & Sandwich Students 2015/2016



Source: HESA

Key Points

- Two universities located in Brighton, with a total full time population of 28,449 students.
- University of Brighton students in Brighton are spread across three campuses; Grand Parade, Moulsecombe and Falmer. There are also campuses located in Eastbourne and Hastings.
- University of Sussex students are located on one single campus, 4.2 miles from the City Centre.
- 15th largest full time student population in the UK (Excluding Greater London).

UNIVERSITY OF SUSSEX STUDENT POPULATION

Student Population

The University have informed us that in 2016/17 there are a total of 16,130 full time students (Excluding Study Group) attending the University of Sussex as detailed below. This number is provisional as of the 8th February 2017. These figures will be confirmed at the end of the 2016/17 academic year when they are formally submitted to HESA. Please note for the purpose of this demand study we have restricted data to full time students which includes students on sandwich courses.

Sandwich students are defined as those enrolled on a sandwich course (thick or thin), irrespective of whether they are in attendance at the institution or engaged in industrial training. During that time students are normally expected to undertake periods of study, tuition or work experience which amount to an average of at least 21 hours per week for a minimum of 24 weeks study/placement.

University of Sussex Student Numbers by Level and Mode of Study

Full Time & Sandwich Students (Excludes Study Group Students)

Academic Year	Undergraduate	Postgraduate	Total Full Time Students	Year on Year Change
2006/07	7,000	1,845	8,845	
2007/08	7,850	1,825	9,675	9%
2008/09	8,045	1,795	9,840	2%
2009/10	8,305	2,000	10,305	5%
2010/11	8,590	2,310	10,900	6%
2011/12	9,315	2,825	12,140	11%
2012/13	9,570	2,685	12,255	1%
2013/14	10,130	2,665	12,795	4%
2014/15	10,135	2,565	12,700	-1%
2015/16	11,133	3,493	14,626	15%
2016/17 (Provisional)	12,186	3,944	16,130	12%

Source: University of Sussex, May 2016, update for 15/16 and 16/17 8th Feb 17 UOS

Please note that the latest version of HESA data is for the 2015/16 academic year and the data for 2016/17 will not be released until January 2018. Also note that the HESA statistics vary slightly from the University's data. We understand that this is due to a difference in the dates within which the two data sets are calculated. In addition HESA data is rounded to the nearest 5 students which consequently create some minor inconsistencies. A comparison between the two data sets is shown below.

Comparison between HESA and University of Sussex Data

Full Time & Sandwich Students (excludes Study Group Students)

Academic Year	University of Sussex	HESA	Difference	% Change From University
2010/11	10,900	10,907	-7	0.06%
2011/12	12,140	12,138	2	-0.02%
2012/13	12,255	12,253	2	-0.02%
2013/14	12,795	12,795	0	0.00%
2014/15	12,700	12,705	-5	0.04%
2015/16	14,465	14,464	1	0.01%

2016/17	16,130	Not released (Due Jan 2018)

Source: University of Sussex / Higher Education Statistics Agency

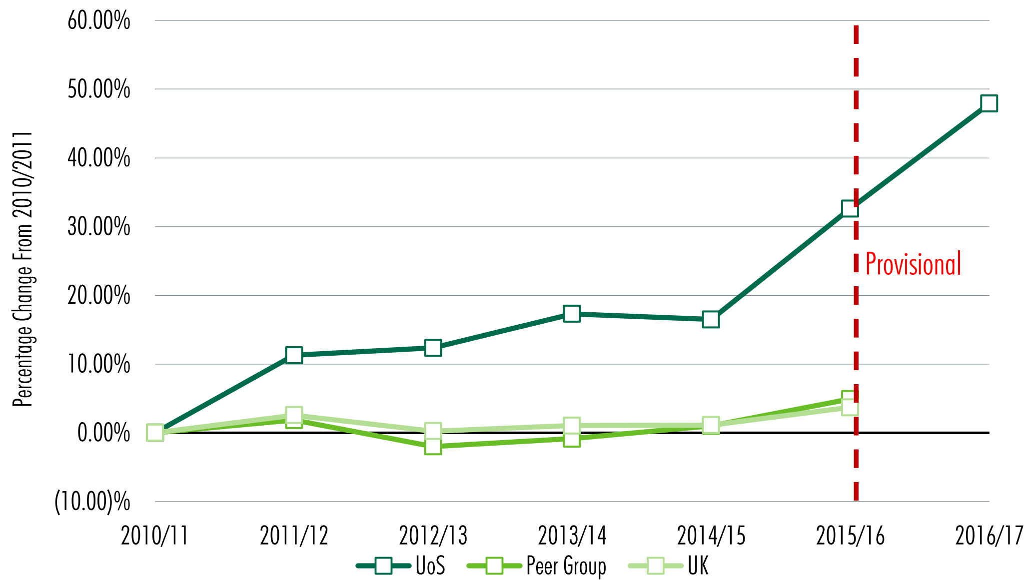
Within this report we have relied upon data from HESA to establish comparisons between the University of Sussex, its Peer Group and the UK.

Student Growth

As can be seen from the next graph, the University of Sussex full time student population has consistently grown faster than the UK average, and the Peer Group since 2010/2011.

Change in Full Time Student Population (excludes Study Group Students)

2010/2011 – 2015/2016 (Includes UOS 2016/17 Provisional release)



Source: Higher Education Statistics Agency/CBRE

The total University of Sussex full time student body has grown at a rate significantly above that of the UK and its Peer Group since 2010 increasing by 33%. There was a slight drop of 95 students from 2013/14 to 2014/15, however in 2015/16 saw an increase of 15% from the previous year.

It also attracted an increase in student numbers in 2012/13, a year which the UK and the Peer Group recorded a decrease.

The main drivers for growth are set out in the following undergraduate and postgraduate sections in this chapter.

Study Group

Study Group provides preparatory courses to international students which help them to make a successful transition into UK universities and colleges. Courses provided include: Foundation, International Year One, Pre-Masters and distance learning programmes.

The University of Sussex is home to the first International Study Centre (ISC) established in the UK. According to the University, it has provided a significant increase in international student numbers with 90% progression rates (2016/2017 enrolments) for students attending pre-sessional courses continuing onto undergraduate studies.

Students enrolled in Study Group courses are excluded from the HESA statistics, however, we have been provided with data from the University relating to Study Group actual and forecast enrolments.

Study Group numbers have rapidly grown since its introduction in 2010/11 with 294 students, to a forecast 1,200 students for the forthcoming 2017/2018 academic year.

Study Group	2013/14	2014/15	2015/16	2016/17	2017/18
Recruited (Starts)	677	637	780	816*	1,200*
Progressions To Sussex (Registration)	550	466	694*	711*	
Progression Rate	**81%**	**89%**	**89%**	**90%***	
*Forecast					

Source: University of Sussex, May 2016

Including the Study Group students there were a total of 15,770 full time students in 2015/2016.

The University have provided a forecast of student numbers for Study Group. By 2017/18 it is forecast that there will be 1,200 students enrolled.

Study Group offer courses in the following areas:

Study Group Courses

Course
Foundation Business, Management and Economics
Foundation Computing and Mathematics
Foundation Engineering and Physics
Foundation Law, International Relations and Social Studies
Foundation Life Sciences and Psychology
Foundation Media and Communications
International Year One Business and Management
International Year One Computing
International Year One Electrical and Electronic Engineering
International Year One International Relations and International Development
International Year One Media and Film Studies
Pre-Masters Computing
Pre-Masters International Relations and International Development
Pre-Masters Law
Pre-Masters Management and Finance
Pre-Masters Media, Journalism and Film Studies

Source: University of Sussex

The conversion rates of students on Study Group Pre-undergraduate and Pre-Masters courses are improving and for 2016/2017 are forecast to be 90% by the University.

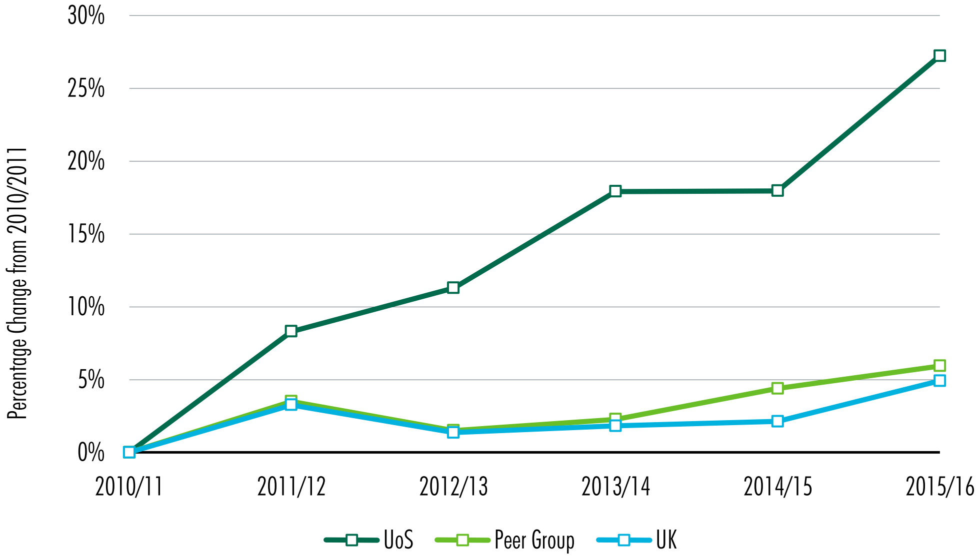
We understand that the Study Group partnership has a mutual break option in 2019/2020. However the University have informed us that given the success of the project they would

look to renew or enter into an agreement with an alternative pre sessional school in the event of a break.

Undergraduate Students

The full time undergraduate population has shown varying levels of growth over the past five years, ahead of its Peer Group, and the UK increasing 27% since 2010/2011. Only between 2013/14 and 2014/15 did the UK and Peer Group show greater growth than the University.

Change in Full Time Undergraduate Student Population (Exc. Study Group)
2010/2011 – 2015/2016



Source: HESA

Part of the University's successful growth story has been due to an expansion in international students which was a key objective of the former Strategic Plan.

The increase in recruitment of Non EU students has been considerably higher than the UK and the university's Peer Group, with a total of 192.3% over the period 2010/2011 to 2015/2016 - from 1,058 students in 2010/2011, to 2,081 in 2015/2016.

This has been attributed to the effect of Study Group students transitioning to undergraduate courses at the University of Sussex together with an increased focus on international recruitment through agencies, international partnerships and improved marketing. The University has been working with Study Group to expand the curriculum and develop new option for students.

The University comment that their strong league table position continues to attract the many students. In addition the University has increased its offering of unconditional offers to appeal to the high tariff students together with £3,000 'Excellence Scholarships' for students achieving AAA.

Finally the University have increased its recruitment of students who come to them through the clearing process by improving its marketing and social media initiatives.

Undergraduate Student Numbers Growth by Domicile
University of Sussex 2010/11 – 2015/16

Academic Year	UK	Other EU	Non-EU	Total
2011/12	7,569	683	1,058	8,596
2012/13	7,394	762	1,411	9,310

2013/14	7,532	821	1,783	9,567
2014/15	7,378	787	1,975	10,136
2015/16	8,078	778	2,081	10,937

Source: HESA

Undergraduate Student Numbers Growth

University of Sussex versus UK and Peer Group 2010/11 – 2015/16

Growth from 2010/2011

INSTITUTION	DOMICILE	2011/12	2012/13	2013/14	2014/15	2015/16
University of Sussex	UK	4%	1%	3%	1%	11%
	Other EU	15%	28%	38%	32%	31%
	Non-EU	49%	98%	150%	177%	192%
	Total	**8%**	**11%**	**18%**	**18%**	**27%**
Peer Group	UK	2%	-1%	0%	1%	2%
	Other EU	9%	8%	7%	7%	13%
	Non-EU	9%	17%	19%	27%	29%
	Total	**4%**	**2%**	**2%**	**4%**	**6%**
UK	UK	3%	0%	0%	0%	3%
	Other EU	6%	4%	4%	5%	11%
	Non-EU	7%	13%	19%	21%	24%
	Total	**3%**	**1%**	**2%**	**2%**	**5%**

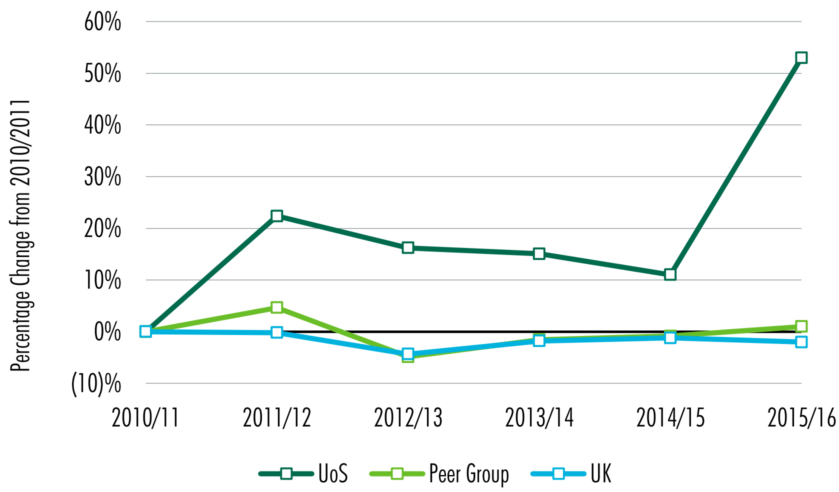
Source: HESA

Postgraduate Students

Postgraduate recruitment at the University of Sussex has historically moved broadly in line with UK average movements, however, it surged above the UK and its Peer Group in 2011/2012, and again in 2015/2016. There was a drop between 2011/12 and 2014/15. However as there were only 2,828 postgraduates in 2011/12, this is only a drop of 262 students.

Change in Full Time Postgraduate Student Population

2010/2011 – 2015/2016



Source: HESA

In 2015/2016 the number of postgraduates increased by 53% with an increase of 961 students. Non EU postgraduates have grown by 67% since 2010/11. EU Postgraduates have only grown by 1% but only comprise of 287 students in 2015/16. By comparison the UK and Peer Group long terms trend were -2% and 1% respectively in the same year.

Postgraduate Student Numbers Growth

University of Sussex 2010/11 – 2015/16

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
UoS	2,311	2,828	2,686	2,659	2,566	3,527
Peer Group	41,633	43,246	39,144	40,645	41,328	42,148
UK	310,137	309,413	296,472	304,445	305,444	305,122

Source: HESA

Postgraduate Student Numbers Growth by Domicile

University of Sussex versus UK and Peer Group 2010/11 – 2015/16

Growth from 2010/2011

INSTITUTION	DOMICILE	2011/12	2012/13	2013/14	2014/15	2015/16
University of Sussex	UK	10%	4%	16%	24%	52%
	Other EU	-6%	-25%	-29%	-19%	1%
	Non-EU	41%	39%	26%	7%	67%
	Total	**22%**	**16%**	**15%**	**11%**	**53%**
Peer Group	UK	2%	-9%	-8%	-8%	-10%
	Other EU	-6%	-13%	-14%	-13%	-15%
	Non-EU	8%	-2%	6%	9%	16%
	Total	**5%**	**-5%**	**-2%**	**-1%**	**1%**
UK	UK	0%	-4%	-3%	-3%	-1%
	Other EU	1%	-7%	-5%	-4%	-5%
	Non-EU	-1%	-4%	0%	0%	-1%
	Total	**0%**	**-4%**	**-2%**	**-1%**	**-2%**

Source: HESA

There has been significant growth in the number of postgraduate students compared to the rest of the UK. The University have attributed the increased number of enrolments to the following key initiatives:

- Scholarships – the introduction of several new scholarship programmes including:
  - International Country Scholarships – targeted at the higher tariff students[6] from counties such as India, Nigeria and Pakistan.
  - Sussex graduation scholarships of between £2,000 and £3,000 for UoS students converting to PG courses; and

[6] Higher tariff students are students who are able to acquire enough UCAS points in order to be accepted into higher tariff universities who have set a high UCAS point requirement.

- Chancellors Masters Scholarships for First Class Degrees – targeted to attract the higher tariff students from in the UK which has to date been awarded to over 100 students.

- **University Promotion and Diversification** – The introduction of over 250 recruitment agents working abroad together with increased digital advertising. This has allowed the University to recruit from more diverse countries..
- **Curriculum Reform** – The University have restructured the Schools and reformed the curriculum so that it will appeal to international students. They have also increased the number of staff and expanded the number of subjects available, including journalism, music, engineering and maths. The University have deliberately targeted subjects which are increasingly popular with students following the recent trend in enrolments after the introduction of increased tuition fees.

There has been an increase in the number of University of Sussex students converting from undergraduate to postgraduate courses as detailed below:

Conversion of University of Sussex students from UG to PG courses

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/2016
UG to PG	286	332	281	434	165	373
% Conversion	11%	11%	11%	16%	8.50%	23%

Source: University of Sussex September 2016, an update in Feb 2017

Student Domicile

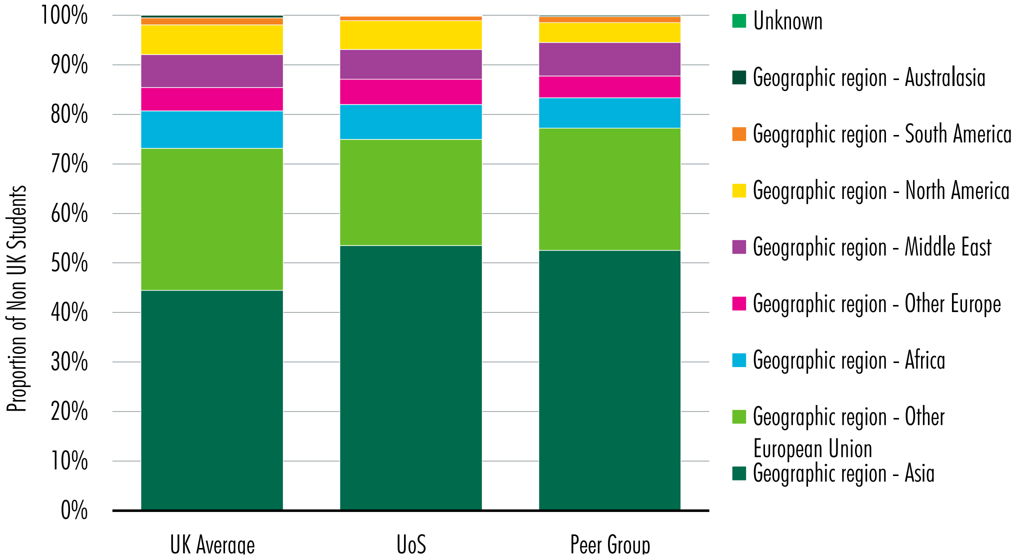
In 2015/2016, The Higher Education Statistics Agency recorded that 34% of the full time population of the University of Sussex were domiciled outside the UK. This is above both the UK and Peer Group averages at 23% and 30% respectively.

The University therefore had a lower proportion of UK domiciled students in attendance, at 66% of the cohort, compared to a UK average of 77%, and a Peer Group average of 70%. It also counted a large cohort of students from Asia, at 18% of total students (or 54% of the international population), compared to a UK average of 10%.

Approximately 7% of the full time population is from the EU, which is slightly higher than the UK average of 6%. This equates to 22% of the total international population attending the University of Sussex, which is lower than the proportion of EU students in the UK as a percentage of the total intentional students, which is 28%.

Region of Domicile Excluding UK Students

University of Sussex versus UK and Peer Group Average (Full Time and Sandwich 2015/2016)

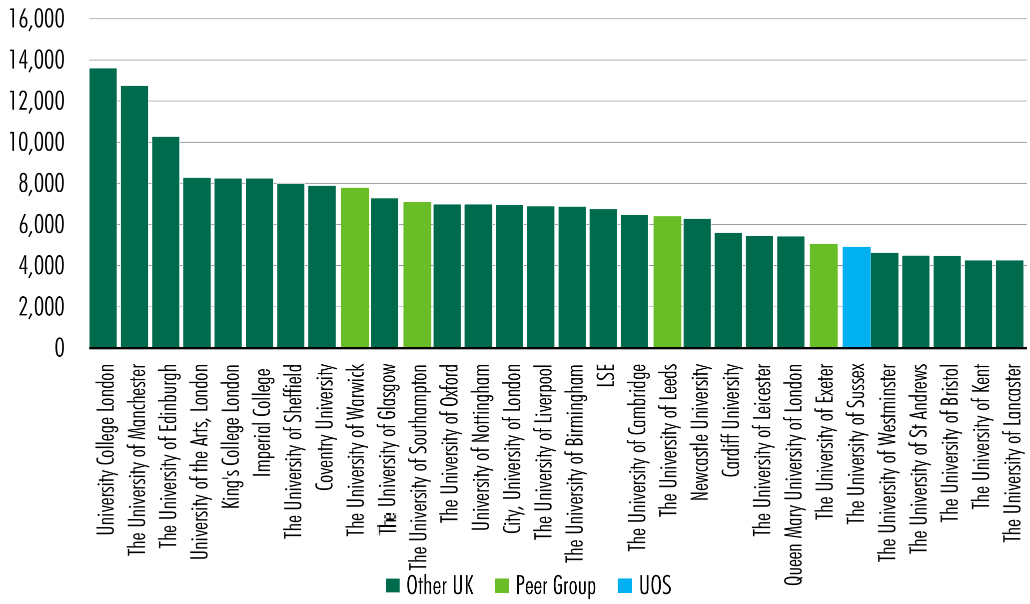


Source: HESA

The University of Sussex had the 25th largest (by University) international student population in the UK as at 2015/2016. In total there were 4,916 full time students enrolled at the University who were domiciled from outside the UK.

Top 30 Largest International Student Populations by University

Full Time and Sandwich 2015/2016



Source: HESA

Undergraduates

After the UK, the largest cohorts of undergraduate students were from China and Hong Kong, as the table below illustrates, making up 10% of the total student population. In total

7% of the students were from the EU (excluding the UK) which is equivalent to the Peer Group of 7% and slightly above the UK average of 6%.

University of Sussex 10 Largest Undergraduate Cohorts by Domicile

Full Time and Sandwich 2015/16

Domicile	Full time students 15/16	% of Undergraduates
UK	7,998	78%
China	510	5%
Hong Kong	506	5%
Greece	134	1%
Wales	108	1%
France	104	1%
Canada	97	1%
Italy	91	1%
Malaysia	83	1%
Nigeria	77	1%

Source: HESA

Postgraduates

The largest cohort of postgraduate students, after UK, was from China. Postgraduates were more likely to come from countries outside the EU such as: China, India, Japan, United States, Nigeria and Thailand. In total with 2,111 students, there were more International postgraduates than UK postgraduates. Chinese students increased by 169.5% from the previous year with only 345 students in 2014/2015.

University of Sussex 10 Largest Postgraduates Cohorts by Domicile

Full Time and Sandwich 2015/16

Domicile	Full time students 15/16	% of Postgraduates
UK	1,457	40%
China	935	27%
Turkey	77	2%
Japan	57	2%
Nigeria	55	2%
India	52	2%
Mexico	46	1%
Italy	45	1%
Thailand	44	1%
United states	44	1%

Source: HESA

Key Points

- The University of Sussex has increased its full time population (excluding pre-sessional students) by 27% between 2010/11 and 2015/16, significantly outperforming the Peer Group and the UK averages.
- Provisional data for 2016/2017 from the University show figures of a total full time student population of 16,130, a 48% increase since 2010/2011.
- It increased its student numbers in 2012/13, a year which both the UK and the Peer Group recorded a decrease.
- The University started a partnership with Study Group in 2010/11. In 2016/17 they provided pre-sessional courses for 816 international students and numbers are expected to grow to 1,200 over the next 3 years. 90% of the students enrol onto University of Sussex courses on completion.
- Undergraduate growth has been strong, largely driven by international students.
- Postgraduate growth has also been ahead of the Peer Group and UK average. This is a result of several targeted initiatives from the University.
- The University has a higher proportion of international undergraduate students than the UK and Peer Group averages.
- Approximately 7% of the full time population is from the EU, which is slightly above the UK average.

TUITION FEES

Undergraduate Students

For the 2012/13 intake the cap of most tuition fees was increased from £3,290 to £9,000. Tuition fees vary across national administrations for Scotland, Wales and Northern Ireland which is detailed below.

Fee caps remain unchanged for the current 2016/2017 academic year:

Maximum Annual Tuition Fees for 2016 Entry

Undergraduate Courses

	LOCATION OF INSTITUTION			
DOMICILE OF STUDENT	ENGLAND	SCOTLAND	WALES	NORTHERN IRELAND
England	Up to £9k	Up to £9k	Up to £9k	Up to £9k
Scotland	Up to £9k	No fee	Up to £9k	Up to £9k
Wales	Up to £9k	Up to £9k	Up to £9k	Up to £9k
NI	Up to £9k	Up to £9k	Up to £9k	Up to £3,575
EU	Up to £9k	No fee	Up to £9k	Up to £3,575
Other international	Variable	Variable	Variable	Variable

Source: Universities and Colleges Admissions Service

Tuition fees for International Non EU students at The University of Sussex vary between courses as detailed below:

Standard fees for 2016/17

Undergraduate Courses

LEVEL OF STUDY	LABORATORY	CLASSROOM
Average fee (HEU Students)	£9,000	£9,000
International UoS Fee	£17,500	£14,450

Source: University of Sussex/ The Complete University Guide 2016

Home and EU Students pay the upper band £9,000 tuition fee for their studies. However, International Students are charged above the UK average for International students' course fees, with Laboratory-based courses more than £4,000 above the average level for this type of course.

To date there has not been a statement setting out how tuition fees may change if the UK leaves the EU.

Paying Tuition Fees

Students from England do not pay any tuition fees upfront. Non-means tested loans from Student Finance England are available to cover tuition fees. The Student Loans Company (SLC) pays tuition fees direct to universities.

Welsh students may apply for Tuition Fee and Maintenance Loans (to be repaid), and Grants and Bursaries. Student Finance Wales provides Tuition Fee Loans of up to £3,685 plus a Tuition Fee Grant of up to £5,315, to make up the balance of the actual fee charged (up to £9,000). This applies wherever they study in the UK and for EU students planning to

study in Wales only. The subsidy will vary depending on what the university or college charges, for example if they charge £7,000 the Tuition Fee Grant will be £3,425.

Scottish students must apply to the Student Awards Agency for Scotland (SAAS) to have their fees paid in each year of the course.

In October 2016 the Government stated that EU students applying for a place at an English university or further education institution in the 2017 to 2018 academic year will be eligible for student loans and grants, and will be for the duration of their course.

The decision will mean that students applying to study from 2017 to 2018 will not only be eligible for the same funding and support as they are now, but that their eligibility will continue throughout their course, even if the UK exits the European Union during that period.

2017 Undergraduate Tuition Fees

In 2017, the Government will introduce the Teaching Excellence Framework (TEF) – this will give information about universities and colleges, to help applicants decide where to study.

Universities and colleges will have to meet certain criteria to achieve a TEF award. In its first year, all universities achieving the eligibility criteria will receive a 'Meet Expectations' award. Over time additional awards will be added.

Universities who achieve a TEF award will be able to increase their fees in line with inflation. This means that for 2017 entry, they can charge fees of up to £9,250. Tuition fee and living loans will also increase with inflation.

The changes apply to all new applicants for courses starting from September 2017, and existing students that started their studies after 1 September 2012.

The University of Sussex have indicated that they will be increasing tuition fees to £9,250 for Home EU undergraduates from 2017/2018.

Bursaries/ Grants

The main student finance package available in the UK includes a: Tuition Fee Loan, Maintenance Loan (full-time students only), and a Maintenance Grant or Special Support Grant (full-time students only). Bursaries are non-repayable awards based on criteria such as income, background and personal circumstances, and in some cases geographical area. These include:

- **Maintenance Grant**: Available to full-time English students on a means-tested basis. Student coming from households with an income of £25,000 or less may qualify for a grant of £3,354 for the 2014/15 academic year. However, for every £1 of Maintenance student grant received, the Maintenance Loan amount will be reduced by 50p
- **Special Support Grant:** Available to full-time English students instead of a Maintenance Grant if their household qualifies for Income Support or Housing Benefit. The amount received is the same as the Maintenance Grant, but will not reduce the Maintenance Loan figure received. This may also be available to lone parents or students with certain disabilities.
- **Disabled Students' Allowances (DSAs):** Available to help full-time or part-time undergraduate students who have disabilities, mental-health conditions or a specific learning difficulties like dyslexia or dyspraxia. Monetary allowances may go towards:

specialist equipment (up to £5,161), non-medical helpers (up to £20,520 per annum), general (up to £1,724 per annum), and travel.

University of Sussex Bursaries

- **The First-Generation Scholars Scheme:** The new University of Sussex bursary, targeted to help students who come from relatively low income families as determined by the University. Students are eligible for financial support if their household income is less than £42,875 per year. The scheme is for students on the £9,000 fee regime, and consists of a £2,000 fee waiver or a £2,000 University accommodation rent waiver, plus an additional £1,000 bursary.
- **Sussex PGCE bursary:** This bursary is paid to all PGCE students whose household income has been assessed by Student Finance England as being below £42,600. It is paid in one lump sum of £600.

Postgraduate Students

Postgraduate fees are not restricted and vary by institution and by course. The fees for University of Sussex are detailed below.

Some Postgraduate Taught courses charge 'non-standard' fees, which are higher than standard fees; these are generally more vocationally orientated courses (especially in Business, Management and Economics, Media , Film etc) with especially high market demand.

A survey of tuition fees for the coming academic year, compiled by The Complete University Guide suggests the average annual home fee for a taught postgraduate degree at £7,500 for 2016/2017 which is in broadly in line with the university's pricing.

Standard Postgraduate Fees for 2014/15 Onwards

Postgraduate Courses at University of Sussex

		Non-Lab Subjects (£)				Lab Subjects (£)			
		2014/15	2015/16	2016/17	2017/18	2014/15	2015/16	2016/17	2017/18
PGT*	HEU	5,775	6,060	7,500	7,700	5,775	6,060	9,000	9,250
	CIIOM***	5,775	6,060	7,500	7,700	5,775	6,060	9,000	9,250
	INTL	13,750	14,450	14,800	15,100	17,000	17,850	18,300	18,750
PGR**	HEU	3,996	4,052	4,121	4,121	3,996	4,052	4,121	4,195
	CIIOM***	3,996	4,052	4,121	4,121	3,996	4,052	4,121	4,195
	INTL	13,750	14,450	14,800	15,100	17,000	17,850	18,300	18,750

Source: University of Sussex

**Postgraduate Taught*
***Postgraduate Research*
**** Channel Islands and Isle of Man*

Undergraduate HEU students graduating in 2015, were the first group of students who had been liable to pay the full £9,000 tuition fees for three years. The Higher Education Funding Council (HFCE) were concerned about the implication of these students deciding not to continue onto postgraduate courses having already spent £27,000 on fees (in particular the impact on widening participation initiatives such as first generation scholars).

At this time it was decided by government to implement a postgraduate loan scheme (loans available up to the value of £10,000 administered by the Student Loans Company) in order for graduating students to have the option of continuing study.

However, the new loan scheme was not available in time for this particular 2015 cohort of students to access it, therefore instead, HEFCE offered national one year scholarships of up to £10,000 (these were half funded by HEFCE and match funded by participating universities). The University of Sussex was fully engaged with this and very successful in advertising, attracting and awarding scholarships.

This scholarship is understood to be partly responsible for a growth in both applications and enrolments of postgraduate students in 2015/2016.

Going forward the new postgraduate loan scheme is now available for 2016/2017 postgraduate students and the University has seen an increase in applications over 2015/2016 numbers despite the one off bursary being replaced by the new loan scheme.

Key Points

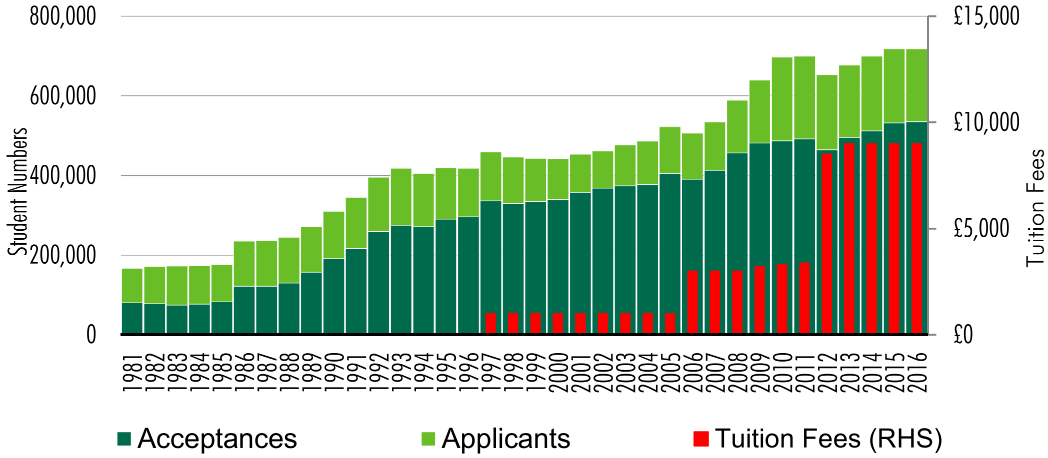
- University of Sussex fees are set at the UK upper band limit for undergraduate courses, in line with the average for the UK.
- Postgraduate Taught courses Home and EU students charge fees of £9,000 which are in line with the UK average.
- Tuition fees for international students are higher than tuition fees for UK students.
- The university operates a number of bursary and grants aimed at widening participation.
- For 2016/2017 postgraduates will have access to a new postgraduate loan scheme which will offer students borrowing of up to £10,000 per annum.

STUDENT APPLICATIONS

National Trends in Undergraduate Applications

As set out earlier, at the start of the 2012/2013 academic year the cap on tuition fees was increased to £9,000 per annum. There was a reduction in the number of undergraduate students enrolled onto courses. However, as illustrated below, nationally the system was oversubscribed by approximately 200,000 applicants who failed to secure a place, despite the increased fees.

Undergraduate Applications versus Acceptances (Full Time and Part Time Students) End of Cycle Figures (UCAS)



Source: UCAS End of Cycle Stats: www.ucas.com/corporate/data-and-analysis [Website accessed 16/02/2017]

The cause of this was 'grade deflation', whereby there was a reduction in the number of students achieving grades of AAB or greater. At the time for each university, the Government set a cap on the number of students that can be accepted with grades below AAB. With fewer students achieving AAB or above due to stricter marking practice, the pool from which universities could select students was reduced. In addition to grade deflation, deferrals dipped from their normal level for 2012/2013. This is believed to be a result of more prospective students taking places in 2011/2012 to avoid the increase in fees, which contributed to the spike in entries in 2011/2012.

However, phased in since 2013/2014 there have been a number of policy changes which has seen the student caps gradually be reduced each year until in 2015/2016 the cap on student numbers was removed altogether. This has effectively allowed universities to recruit any number of students without penalty. University growth will therefore be determined in an open market in which Sussex has so far proved to do well.

National Trends for 2017/18

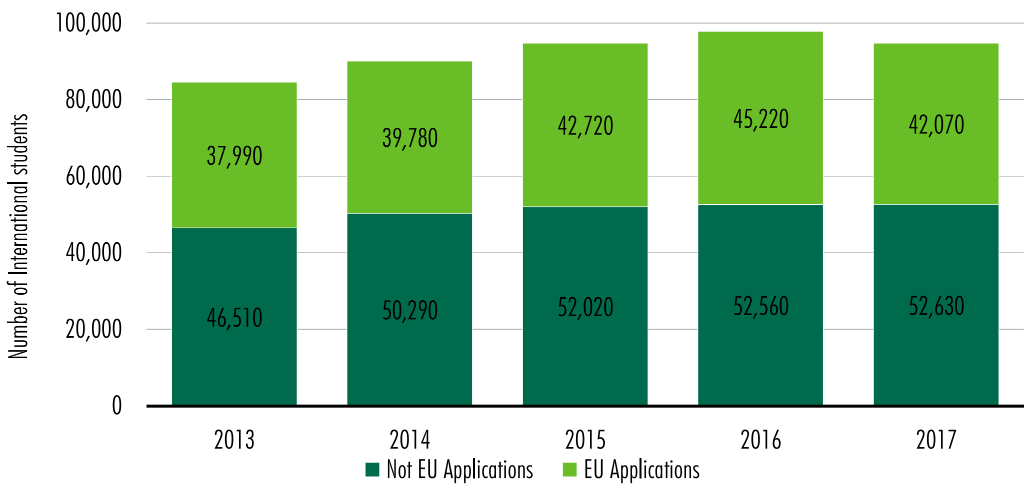
As at the 15 January 2017 deadline there were a total of 564,190 potential undergraduates who applied for full time higher education courses in the UK (this excludes part time students), a decrease of 5% compared to the same point last year. There are several emerging trends from the most recent data available.

There has been a drop in EU Applicants

There was a decrease of 3,150 applications amongst EU students (-7%). However the number of non EU students has remained stable at around 52,600. Even with a drop of 7% there were still a total of 94,700 international students who applied to date. In aggregate this is 3% less international students than the previous point in the cycle for 2016.

International Undergraduate Full time Student Applicants

UCAS – January deadlines

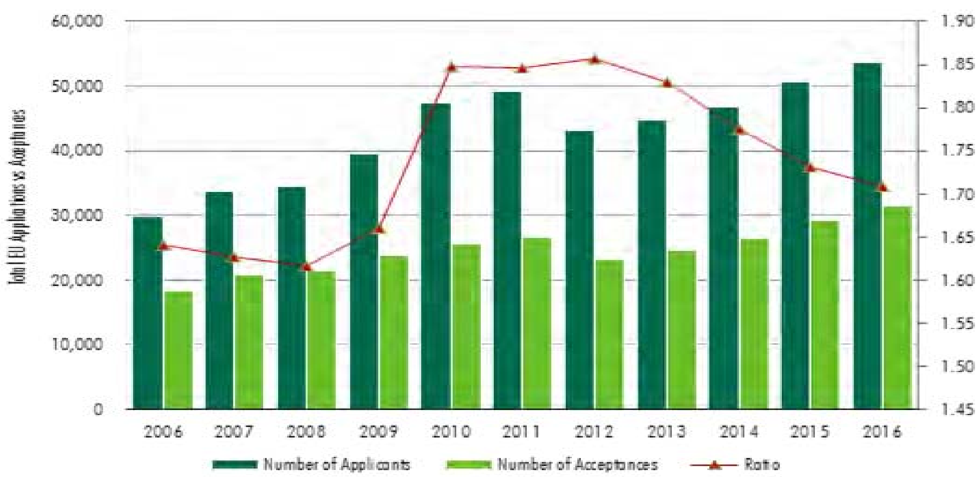


Source: UCAS 15th Jan Point in the Cycle

However, it is worth noting that despite a drop of 3,150 EU applicants, there is likely to be headroom between those applying and those who are accepted. As set out below the number of EU acceptances last year was 31,350, which equated to a ratio of 1.7 EU students per place. Based on the initial data from UCAS, if acceptances stayed the same, and there were no further end of cycle applicants entering the system, there would still be over 10,000 EU students who applied but were unable to secure a place.

EU Applicants and Acceptances

UCAS – End of Cycle Data (Full Time and Part Time Students)



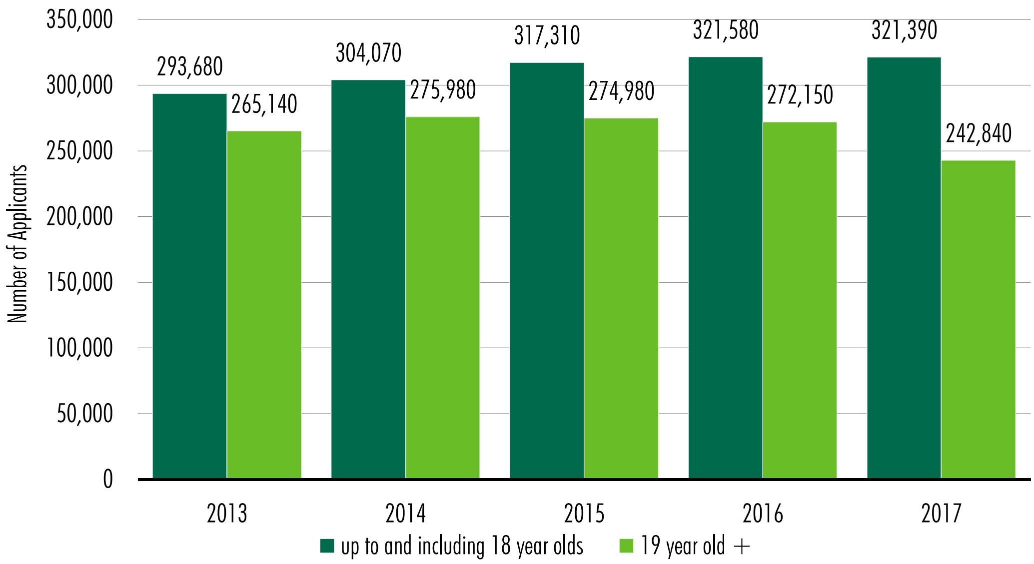
Source: UCAS End of Cycle Data

There has been a drop in Applications from older UK students

UK applicants dropped by 5% to a total of 469,490.The number of older applicants (those being over the age of 18) has declined by 11%. This is the first time since 2013 that the number of applications for older students has been below 260,000 applicants. However despite the overall decrease the demand of first time 18 year old applicants has remained stable and high. It only dropped 0.06% amongst UK students making up a total of 321,390.

Undergraduate Full Time Student Applicants by Age Group

UCAS – January deadlines



Source: UCAS 15th Jan Point in the Cycle

As with EU applications, UK applications are also over subscribed. In 2016 there were 1.27 applicants per acceptance. Consequently, despite a drop of 5% of UK applicants, it is likely that the system will be over subcribed at a national level at least.

UK Applicants and Acceptances

UCAS – End of Cycle Data (Full Time and Part Time Students)

Source: UCAS End of Cycle Data

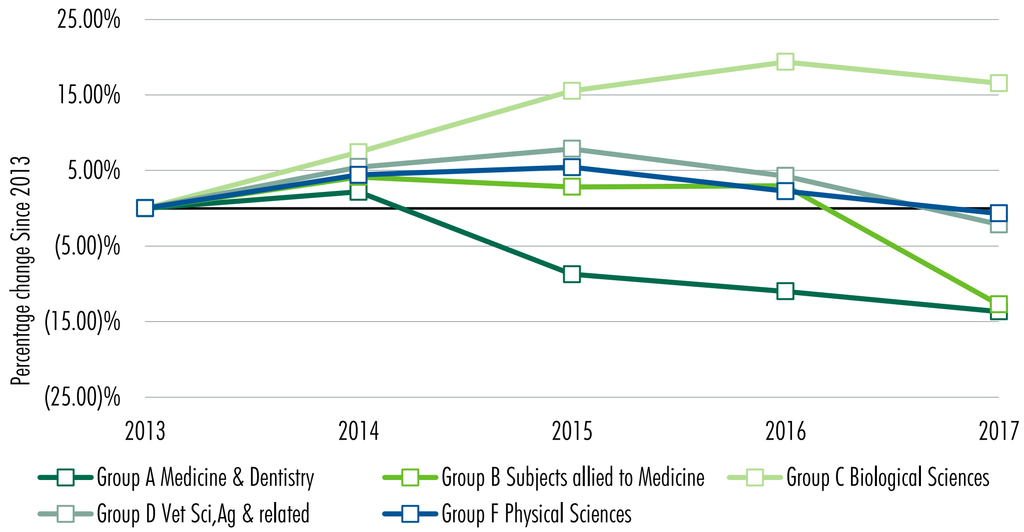
Drop in Students applying to study 'Subjects Allied to Medicine'

Out of the top 5 subjects applied for (those with over 100,000 applications each year) the only subject area to see a drastic drop was one of the largest 'Subjects Allied to Medicine'. With over 1,045,700 applications in 2016 at this point in the cycle, this has reduced to 886,010 for 2017, the first time it has dropped below one million applications.

One of the reasons for this is that Nursing, which is part of the UCAS category 'Subjects Allied to Medicine', fell by 23%. This is largely being attributed to the government ending bursaries for student nurses and midwives in England. Bursaries will be replaced by loans in England to cover tuition fees and maintenance costs[7].

Applications by 5 most popular Subject Groups

UCAS – (Full Time and Part Time Students)



Source: UCAS 15th Jan Point in the Cycle

As set out earlier, only 2% of student enrolled at the University of Sussex study 'Subjects Allied to Medicine' and consequently the exposure to this expected drop is likely to be low.

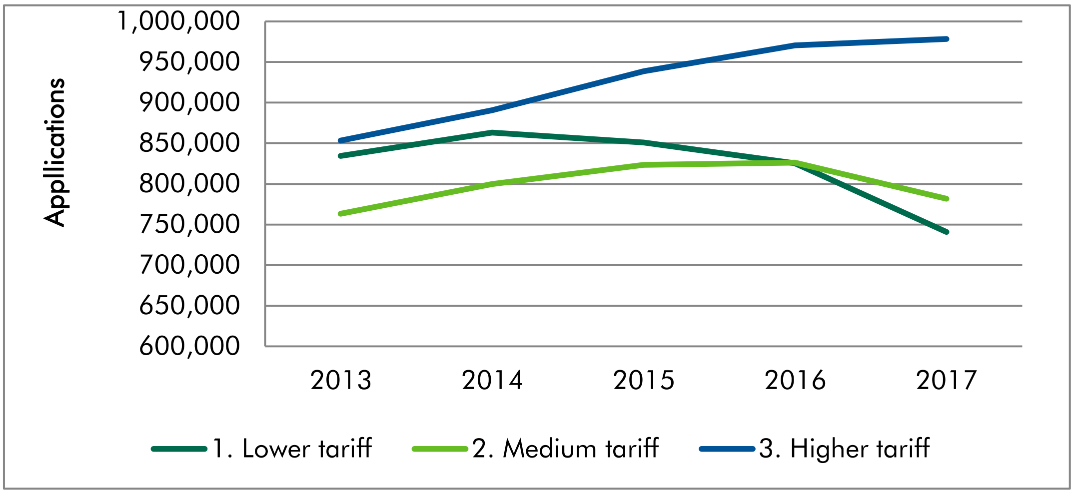
Lower Tariff University Applications Drop

Lower Tariff applications have seen a significant drop of 11% since 2013. However the number of higher tariff applications has increased by 15% nearly reaching 1,000,000 applications. The highest it has been since 2013 as set out on the next page.

[7]https://www.gov.uk/government/publications/nhs-bursary-reform/nhs-bursary-reform [Website accessed 21/02/2017]

Applications by University Tariff

UCAS – (Full Time and Part Time Students)



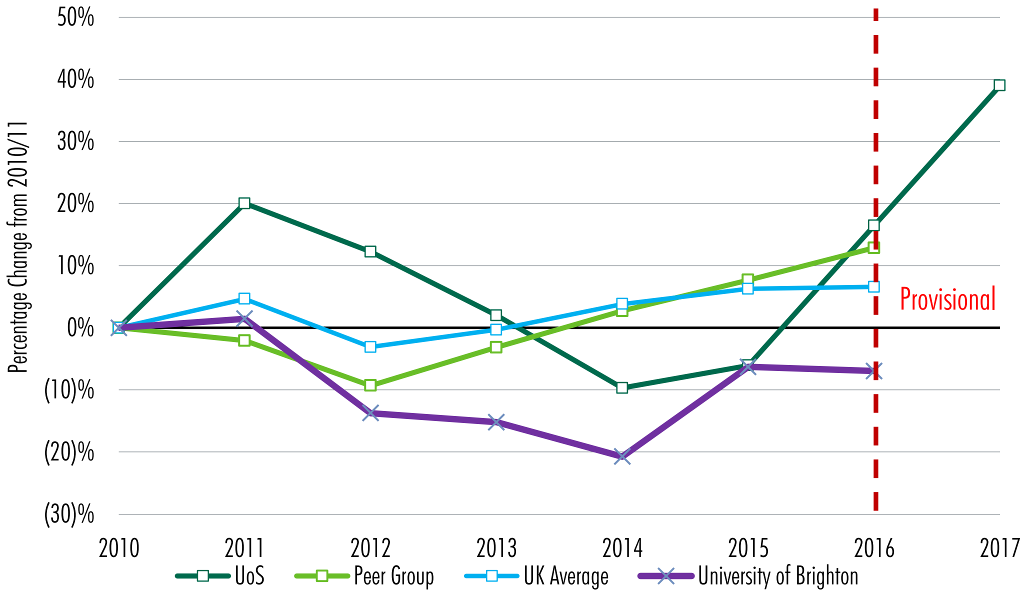
Source: UCAS 15th Jan Point in the Cycle

University of Sussex Undergraduate Applications and Acceptances

The University of Sussex saw growth in undergraduate applications in 2011/2012, the year prior to the introduction of £9,000 undergraduate fees, above both the UK average growth rate, and that of its Peer Group. It was also one of the few universities to attract more students upon the fees introduction in 2012/2013.

Whilst there has been a decline year on year for the last three years, this was after a record year in 2011/2012. However, initial results from the University suggest a large increase in applications for 2017/2018. This is on top of a large increase in 2016. The result suggests a 39% increase over 24,000 applications. Please note at the time of this report approximately 80% of undergraduate applications have been received by this point. There are no acceptance numbers at this point in time.

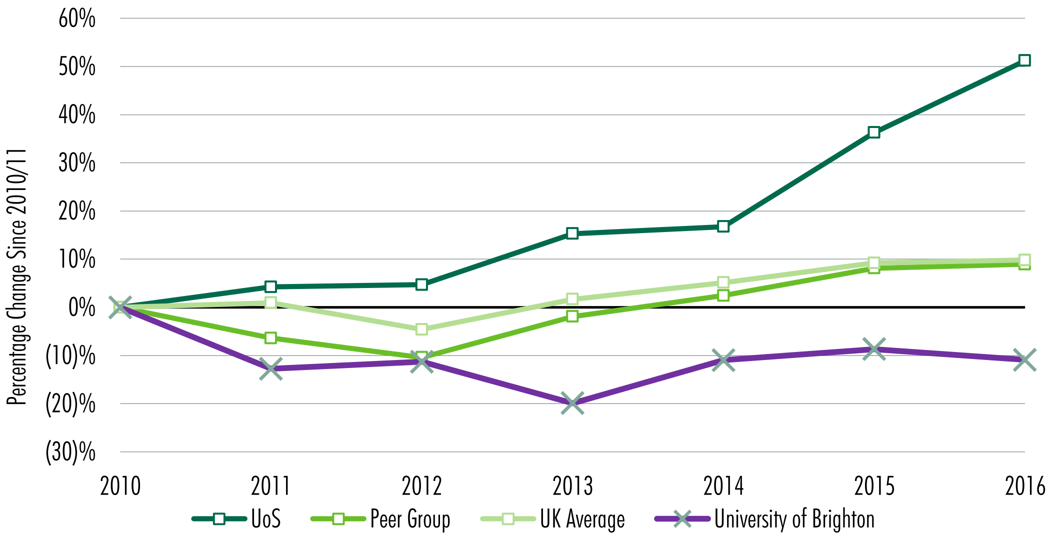
University of Sussex Applications Versus Peer Group and UK
Undergraduate Applications for 2010/2011 – 2017/2018



Source: UCAS/ University of Sussex

Over a five year period despite three years of decreases, acceptances grew at the university in overall terms, increasing by 51% since 2010/2011. This growth is considerably higher than both the UK, Peer Group averages and the University of Brighton.

Growth in University of Sussex, Peer Group and UK Acceptances
Undergraduate Acceptances for 2010/2011 – 2016/2017

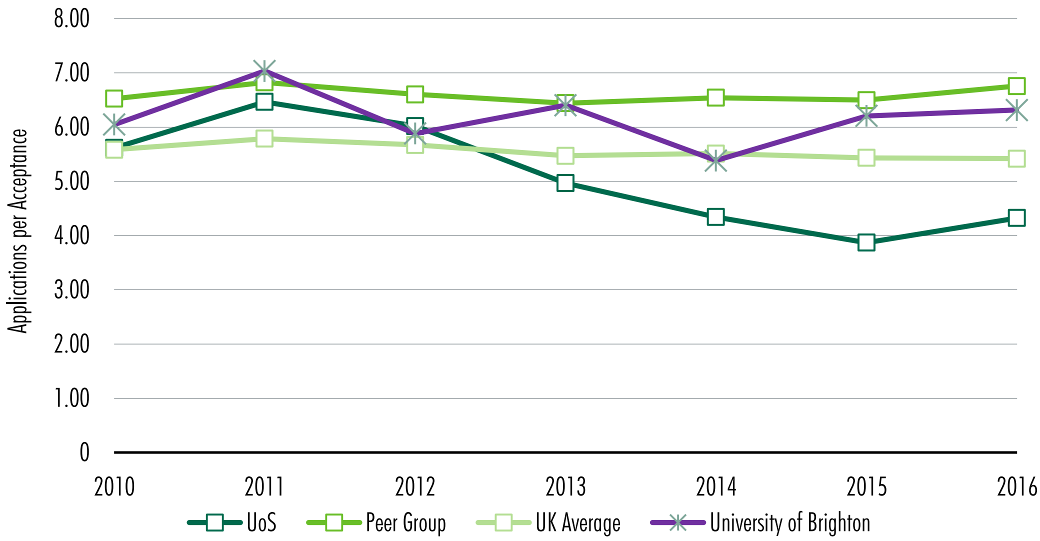


Source: UCAS

In 2016/2017 there were 20,105 applications and 4,650 acceptances, equating to a ratio of 4.32 applications per place. This is fewer students per place than the UK and Peer Group average; however, this should not be surprising as the University have dramatically

increased the number of places for students in recent years as evidenced by the increased number of acceptances.

Ratio of Applications to Acceptances: University of Sussex, Peer Group, UK
Undergraduates 2010/2011 to 2016/2017



Source: UCAS

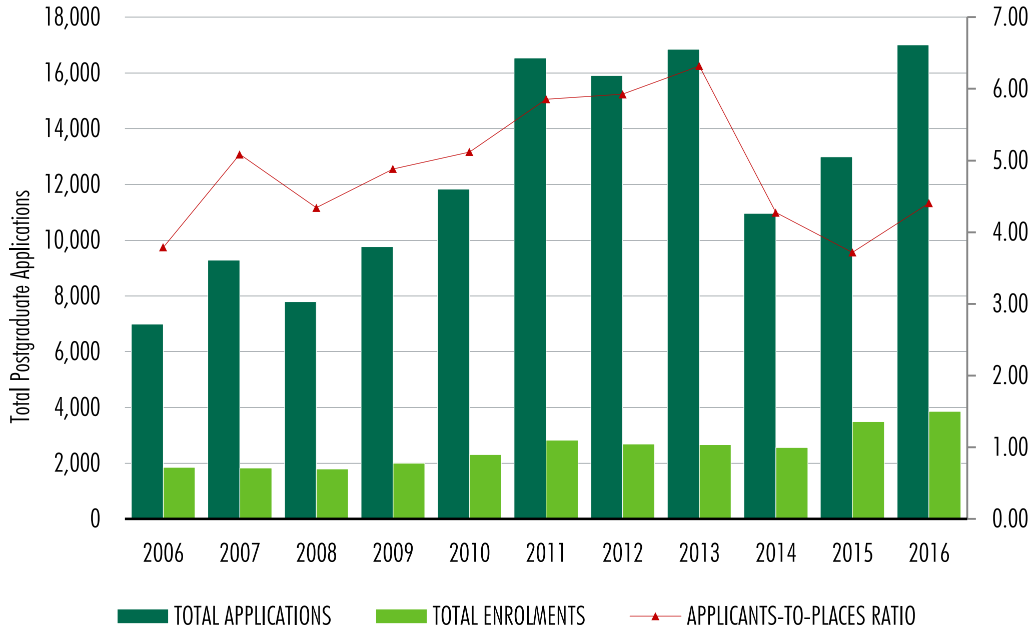
Postgraduate Applications

There is no publically available data for postgraduate applications. We have been provided with application and enrolment data from the University. Over the last ten years the number of applications has more than doubled from 6,988 to a record level in 2016 of 17,000. The ratio of students per place has fluctuated between 3.72 per place and 6.32. Based on the latest data from the University, the number of applications for 2016 is significantly higher than 2015/2016. According to the University postgraduate taught applications for the 2017 cycle are up 24%.

Please note that data for postgraduate student applications and acceptances is not available on either a national or university level, and consequently we are unable to benchmark against the UK, Peer Group or The University of Brighton. Note that Postgraduate are not yet halfway through the cycle.

POSTGRADUATE ENROLMENTS	TOTAL APPLICATIONS	TOTAL ENROLMENTS	APPLICANTS-TO-PLACES RATIO
2016	17,000*	3,944*	4.41
2015	12,991	3,493	3.72
2014	10,691	2,565	4.17
2013	16,844	2,665	6.32
2012	15,909	2,685	5.93
2011	16,359	2,825	5.79
2010	11,826	2,310	5.12
2009	9,766	2,000	4.88
2008	7,792	1,795	4.34
2007	9,283	1,825	5.09
2006	6,988	1,845	3.79

*Source: University of Sussex *based on forecast from University of Sussex As of Feb 2017*



Source: University of Sussex

Key Points

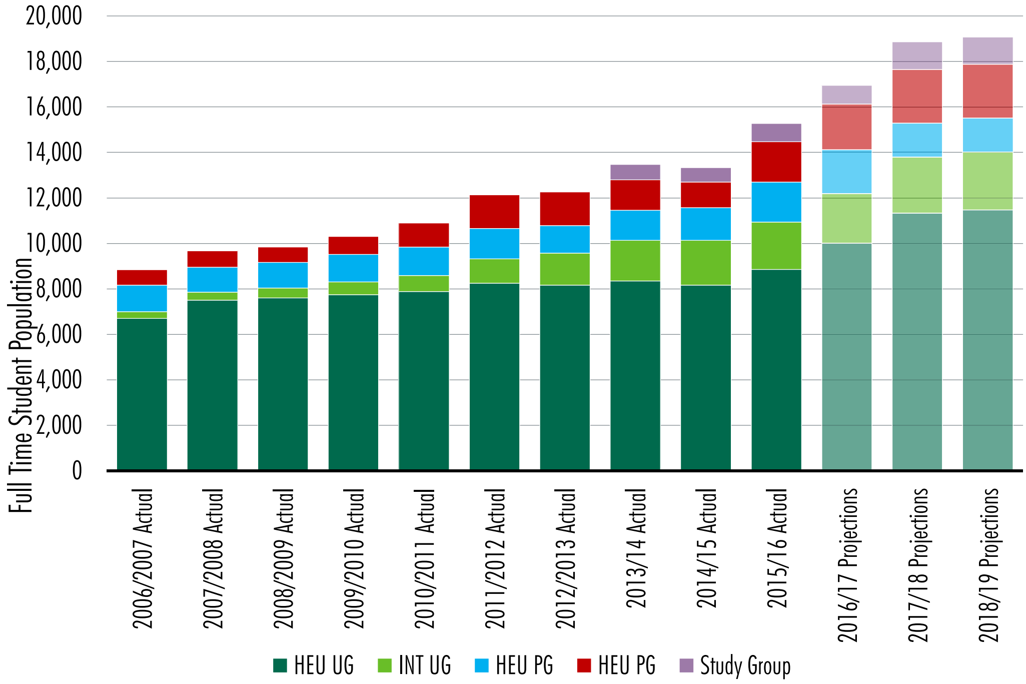
- Nationally, the UK Higher Education system is heavily oversubscribed with 674,725 undergraduate applicants and 535,160 acceptances for 2016/2017 year (Full time students)
- The University of Sussex was one of the few universities to attract more students in 2012/2013 when the cap on fees was increased, and has continued to increase numbers.
- Postgraduate courses at the University seem to be popular with consistently over 3.7 applications per place.
- Applications for postgraduate courses have more than doubled in the last ten years.
- Despite significantly increasing its undergraduate student numbers the University still has a good ratio of 4.3 applications per place.
- Undergraduate applications for University of Sussex have increased, 25% up on the previous year.
- The University of Sussex has outgrown the Peer Group, UK and University of Brighton each year for past six years.

UNIVERSITY OF SUSSEX STUDENT PROJECTIONS

We have been provided with the University's forecast for the next five years which is detailed below:

University of Sussex Actual & Forecast Student Numbers

Full Time Students including Study Group Students



Source: University of Sussex, Feb 2017

The University intends to achieve significant growth in student numbers by continuing to grow undergraduate recruitment, particularly of students from overseas. They will be facilitated by amongst other things growing the number of students enrolled at Study Group which will act as major source of new undergraduates.

It is important to note that the University Strategic Plan does not go beyond 2018 and therefore no official projections for student numbers are available at this stage. The University Campus Masterplan does not envisage growing student numbers beyond 18,000 full time University of Sussex students and therefore this level is expected to remain static (although the breakdown of first year and continuing students will change during this period).

Whilst we understand the university vice chancellor is working on a new strategic plan to take the university through to 2025, they are yet to be released. It is widely envisaged that they will continue to build on recent success, utilising the strategies already in place to facilitate further growth. Further growth on the campus may however be subject to planning approvals from the local council.

University of Sussex Student Growth (Actual and Forecast)

Full Time Students including Pre-Sessional Study Group Students

	YEAR	HOME EU UG	% CHANGE	NON EU UG	% CHANGE	HOME EU PG	% CHANGE	NON EU PG	% CHANGE	STUDY GROUP PRE-SESSIONAL	% CHANGE	TOTAL FT STUDENTS	% CHANGE
ACTUALS	2006/2007	6,700		300		1,165		680				8845	
	2007/2008	7,505	12%	345	15%	1,100	-6%	725	7%			9675	9%
	2008/2009	7,605	1%	440	28%	1,125	2%	670	-8%			9840	2%
	2009/2010	7,745	2%	560	27%	1,210	8%	790	18%			10305	5%
	2010/2011	7,880	2%	710	27%	1,255	4%	1,055	34%	294		11,194	9%
	2011/2012	8,255	5%	1,060	49%	1,335	6%	1,490	41%	569	94%	12,709	14%
	2012/2013	8,160	-1%	1,410	33%	1,215	-9%	1,470	-1%	709	25%	12,964	2%
	2013/2014	8,350	2%	1,780	26%	1,330	9%	1,335	-9%	677	-5%	13,472	4%
	2014/2015	8,160	-2%	1,975	11%	1,430	8%	1,135	-15%	637	-6%	13,337	-1%
	2015/2016	8,856	9%	2,081	5%	1,757	23%	1,771	56%	809	27%	15,274	15%
PROVISIONAL	2016/2017	10,015	13%	2,171	4%	1,938	10%	2,006	13%	816	1%	16,946	11%
PROJECTIONS	2017/2018	11,329	13%	2,468	14%	1,496	-23%	2,362	18%	1,200	47%	18,855	11%
	2018/2019	11,468	1%	2,549	3%	1,496	0%	2,362	0%	1,200	0%	19,075	1%
	2019/2020	11,491	0%	2,566	1%	1,496	0%	2,362	0%	1,200	0%	19,115	0%
	2020/2021	11,491	0%	2,566	0%	1,496	0%	2,362	0%	1,200	0%	19,115	0%

Source: University of Sussex Feb 2017

Achieving Growth

The University created a Campus Masterplan in 2004 to provide a planning framework to support their building and regeneration programme. Much of this initial planned work, including the redevelopment academic buildings, construction of halls of residence, and upgrades to the Library and IT facilities, has now been delivered in support of the 2009 strategic plan.

In order to support the next phase of the University's development, as envisioned in the "Making the Future" strategy 2013-18, the Masterplan has been extensively revised to ensure that the campus can accommodate the University's growing activity as it aims to expand to 18,000 students and beyond. The next Masterplan provides for a phased development of the campus, so that at each stage the buildings are a coherent and useable mix, avoiding significant disruption to the University experience.

However, it is intended that growth in student numbers may, in practice, be achieved independently of the delivery of the second stage of the Masterplan, as the completed redevelopment and upgrading works have equipped the University with the facilities it requires to offer an increased student body and excellent University experience. The second stage of works will be completed in a flexible manner regarding the exact timings of delivery, as these are largely upgrades and remodelling works.

The University plan to achieve projected growth in student numbers through the following additional initiatives which account for 25% of the forecast student population in 2018/19:

- Study Group Pre-Sessional Students & Students Converting to University of Sussex Courses – this is hugely popular and the University have informed us that the 1,200 student forecast is dictated by the capacity of Study Group's academic facilities.
- New Pharmacy Department
- Marketing Agency
- International Partnerships
- Recruitment through Agents
- Country Officers

Brexit

University responses to Brexit

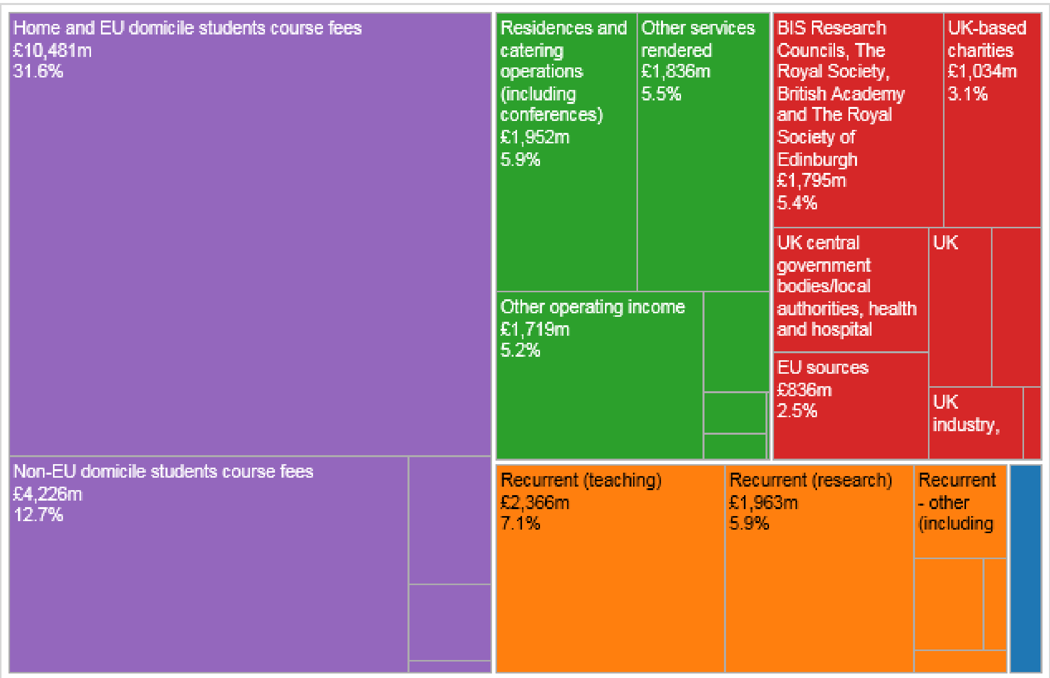
Prior to the outcome of the referendum vote in June 2016, 103 Vice Chancellors of UK Universities signed an open letter to government ministers. It said:

'While no-one is suggesting that UK universities could not survive outside the EU, leaving would mean cutting ourselves off from unique support and established networks and would undermine the UK's position as a global leader in science, arts and innovation.'

Universities potentially foresee negative consequences of Brexit for Higher Education. This is seemingly more to do with loss of research collaborations, which could weaken their reputation for research, than it is to do with direct loss of funding from EU sources or tuition fees from EU students. According to HESA 2014/2015, only 2.5% of UK University funding apart from tuition fees comes directly from EU sources.

Some 31.6% of university funding comes from course fees from UK and EU students (£10,481m), although EU students represent only 7.62% of this total (£800m) out of the total university revenues of £33,167m.

UK University Income Sources



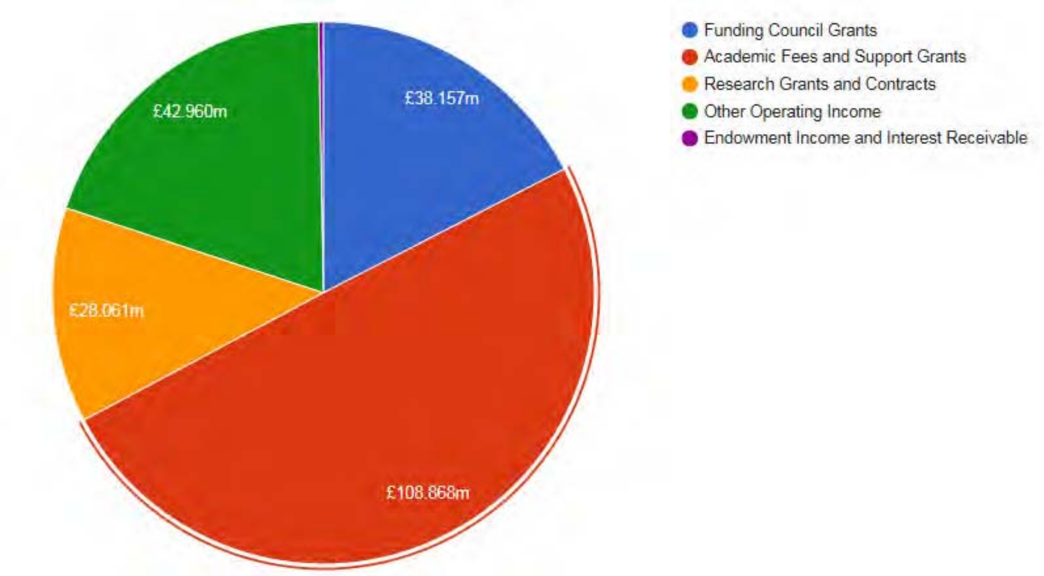
Source: HESA publication 'HE Finance Plus 2014/15'

The University of Sussex have published a summary of their sources of income for 2014/2015 (most recent data available), a summary of which is set out below. Over 50 per cent of Sussex's income is generated by academic fees (£108 million). Funding Council grants, research grants and contracts also make up a large part of the University's income – about £66 million (25 per cent).

Of this proportion of funding, approximately £6.2m is receivable from the European Commission, which equates to less than 3% of the total sources of income for the University, in line with the UK average.

The remaining income comes from student housing, catering, gifts and donations, business consultancy and a variety of partnering and collaborative initiatives.

University of Sussex Main Sources of Income 2014/2015



Source: http://www.sussex.ac.uk/about/strategy-and-funding/finance-information-for-students [Website accessed 21/02/2017]

How will student visas and recruitment be affected?

EU, EEA and Swiss nationals do not currently need to apply for permission to live, work or study in the UK. Brexit may mean stricter visa requirements for EU students, and their ability to work here after university.

If they are treated like Non EU students, they would need to seek immigration permission to come to the UK. UK universities could also lawfully charge them higher tuition fees.

EU students currently pay the same rates as students from the relevant country. This means £9,000 per year in England, zero in Scotland, and in Wales benefitting from a non-repayable tuition fee grant of £5,810 towards fees of £9,000 per year. If they were treated like Non EU students, they could expect to pay fees of between £12k-£36k/year as set out earlier.

By comparison, undergraduate tuition fees in most EU countries are very low, ranging between zero and €2,000 per year[8].

Accommodation is typically much cheaper in continental Europe as well. So higher fees would further polarise continental Europe and the UK and choke off some demand on grounds of cost.

[8] https://www.studyineurope.eu/tuition-fees [Website accessed 21/02/2017]

However, EU students represent only 6% of all full-time students in the UK. This low proportion is potentially due to the significantly higher fees and accommodation expenses here compared to most European countries. More stringent visa requirements and higher fees could reduce demand from EU students, but our university system is still heavily oversubscribed. According to UCAS, in 2015, for every place accepted by an EU student and a Non EU student there were 7.3 and 7.9 applications from overseas students respectively.

Based on anecdotal evidence, it would appear that cost is not the only consideration for international students – the high quality research environment, ability to be taught in English, cultural factors and educational reputation are all powerful attractions.

Currency devaluation, a likely consequence of Brexit, could also make the UK, and especially London, seem like better value.

Although Brexit would mean a reduction in the recruitment of EU students, our higher education system's overall dependence on them is low. Strong demand from other categories of students outside of the EU means the system is likely to be quite resilient to such a change.

Which Towns Could Be Affected?

Whilst there are several other factors to consider, it is speculated that the favourable tuition fee treatment in Scotland, has resulted in some of the highest populations of EU students are in Scottish university towns. These towns predominantly have higher than the national average of 6%, examples being Glasgow (10%), Edinburgh (12%) and Aberdeen (16%).

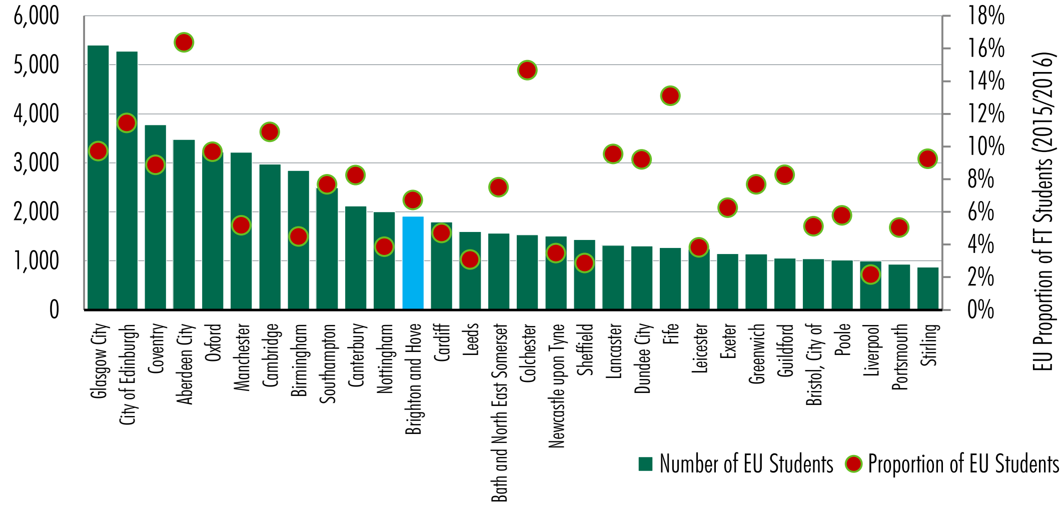
Brexit could mean that these rental markets are most likely to be affected, especially 100% studio schemes geared primarily to overseas students. However these towns also attract above average concentrations of Non EU students, and may be able to make up any shortfall that way. Greater London also has above average exposure to EU students, at 10.2%, and its purpose built student accommodation tends to be even more heavily geared towards overseas students than this.

Higher ranked universities tend to attract more overseas students but they are also best placed to backfill any reduction with other students. Lower ranked universities may therefore be more vulnerable to a reduction.

Number and Proportion of EU Students by Town

Full Time Student Population 2015/2016

Largest EU Populations by Local Authority (Excluding Greater London)



Source: HESA

In 2015/2016 there were 1,910 full time EU students in Brighton and Hove. Of these 1,065 were enrolled at the University of Sussex and 845 were attending the University of Brighton's main campus. The two cohorts accounted for 7% and 8% of each universities total population respectively.

Other Factors

Currency

Other factors which affect the pattern of students include currency changes. Due to the deflation of the pound the UK could become a more affordable option than studying in a student's home country. Currency volatility will therefore play an important part in student's decisions on where to study.

Global Competition

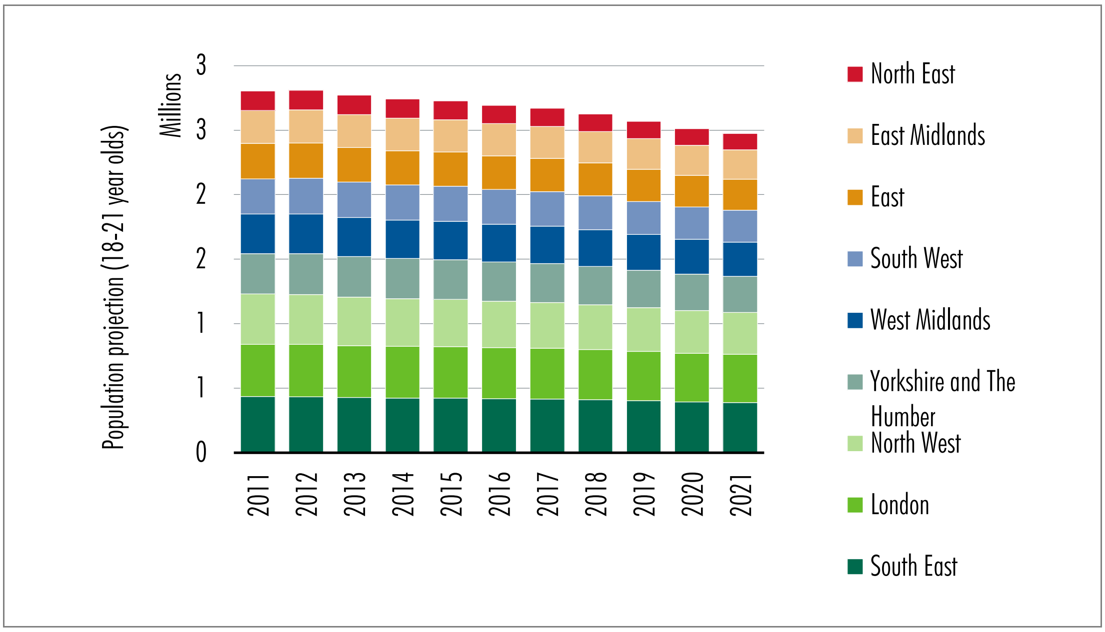
There is also increasing competition from universities around the world to recruit students. China and India have both started to build a number of universities with a view to retain students who typically study overseas.

With increased access to the web across the globe online learning could have an impact on numbers attending university. However, given that for many students the driver for enrolling at university is centred on the experience it is unlikely that the take up will be severely affected. Furthermore for many courses online learning is not an option as students are required to undertake practical or lab based work.

UK Demographics

Population changes will also have an effect on future numbers. In the UK there is a decrease in the number of UK residents aged between 18 and 21 which will reduce the number of domestic students entering the system. However with the cap system being removed, the number of students entering the system is set to increase over the coming years.

Demographic Trends 18-21 year olds By region
England



Source: Office of National Statistics

Key Points

- The University of Sussex are targeting to enrol over18,000 students by the 2018 academic year was set in 2013. Until any subsequent plans are released the university will not release any further official student projections.
- The growth to 18,000 students is set to be achieved by initiatives including continued international recruitment via international partnerships, and new marketing agency work.
- Future growth plans are unlikely to be released until planning permission is secured to permit enrolment of extra students.
- The Study Group partnership is also set to expand to 1,200 students over the same period which will increase the number of students on campus and also be a key source of international students converting to undergraduate courses capped by planning
- The majority of the initiatives are simple 'soft' exercises as the University's core facilities have already been upgraded to facilitate the additional students as provisioned in the Masterplan.
- The University's funding is not reliant upon EU grants which account for less than 3% of the University's total income.
- EU students account for a small proportion of the university population at 7% in 2015/2016.

UNIVERSITY OF SUSSEX RESIDENTIAL ESTATE

The university has advised that it provides a total of 5,024 bedspaces for 2016/2017 arranged across 20 schemes.

4,221 on campus bedspaces are provided across 12 schemes. The remaining bedspaces are provided off campus and are located closer to the City Centre.

Based on the University information provided, 2016/2017 showed a provisional full time population of 16,946 students, this equates to a total accommodation provision of 30%, or 3.37 students per bedspace.

University of Sussex Residential Estate

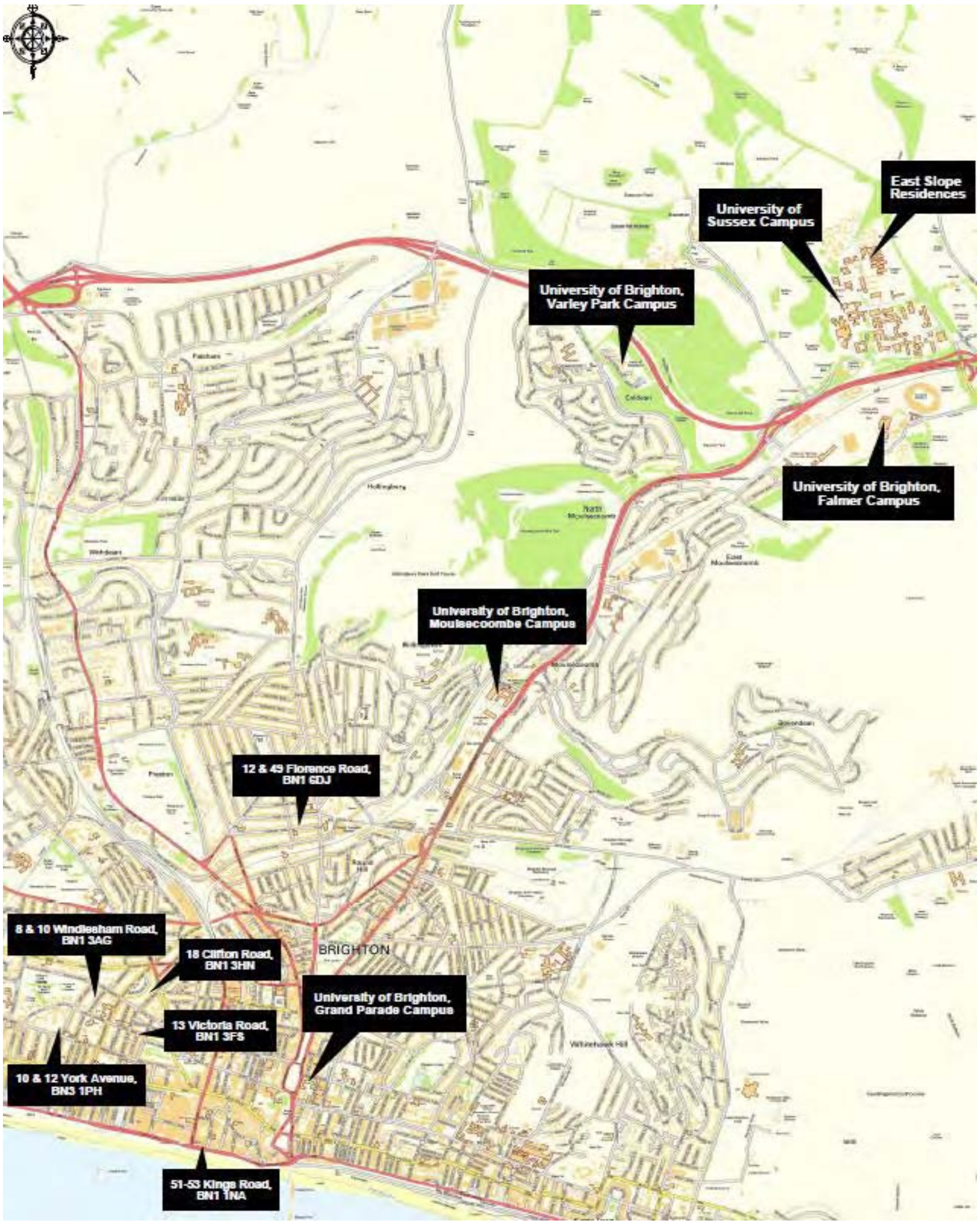
In operation for 2016/17

Property Name	Number of Bedspaces	% Portfolio (rounded)
On Campus		
Northfield	1,100	22%
East Slope	592	12%
Park Village	530	11%
Lewes Court 1 & 2	503	10%
Stanmer Court	475	9%
Brighthelm	300	6%
Swanborough	249	5%
Lancaster House	129	3%
York House	127	3%
Norwich House	119	2%
Kent House	92	2%
Kulukundis House	5	0%
Total On Campus	**4,221**	**84%**
Off Campus		
Headleased properties	303	6%
Kings Road	124	2%
Windlesham Road	21	0%
Florence Road	20	0%
York Avenue	17	0%
13 Victoria Road	11	0%
18 Clifton Road	7	0%
Total Off Campus	**503**	**10%**
Nomination Agreement		
Abacus House – off campus	300	6%
TOTAL	**5,024**	

Source: University of Sussex February 2016

Map of University of Sussex Accommodation

2016/2017 (excludes Headleased and Nomination Agreement Properties)



Source: University of Sussex Website {website accessed 16/02/2017]

The majority of the accommodation provision of the University of Sussex is within halls of residence situated on campus. In 2016/2017, 84% of university provided accommodation was location on campus, with the remaining 16% situated in the City of Brighton & Hove within town houses, and smaller Head-leased properties.

Breakdown by Ownership

All bedspaces are owned by the University with the exception of:

- Headleased Properties. There were 303 Headleased Properties as at November 2016 they are typically small off campus houses, with three to seven bed-spaces, located in residential areas of Brighton convenient for public transport to the University. We have been informed by the University that these properties are subject to an annual agreement and there is no obligation to renew each year.

- **Stanmer Court.** This comprises 479 purpose built bedspaces located to the south of the campus. The University do not own the property and have taken a FRI lease for 20 years with approximately 13 years unexpired.
- **Abacus House.** The university has agreed a Nomination Agreement for 300 en-suite cluster bedrooms at 'Abacus' at London Road, which is owned by Vero Group. The agreement in place is for a flexible 5-year term from 2014/2015, with the University guaranteeing 97% of the rooms in year one but with complete flexibility thereafter, with the University nominating the number of rooms required (no minimum) by 1st March each year. In addition to the 300 beds there are a further 51 studios which are operated on a direct let basis.

Accommodation by Unit Type

The majority of the university's accommodation comprises either single bedspaces with shared bathrooms or single en-suite bedspaces arranged within cluster flats.

University of Sussex Residential Accommodation 2016/2017

PROPERTY NAME	EN-SUITE	NON EN-SUITE	STUDIO	TOTAL BEDSPACES
On Campus				
Northfield	1,067	12	21	1,100
East Slope	0	577	15	592
Park Village	0	506	24	530
Lewes Court 1 & 2	219	245	39	503
Stanmer Court	460	0	15	475
Brighthelm	0	300	0	300
Swanborough	249	0	0	249
Lancaster House	0	129	0	129
York House	6	121	0	127
Norwich House	0	119	0	119
Kent House	0	92	0	92
Kulukundis House	0	5	0	5
On Campus Total	**2,001**	**2,106**	**114**	**4,221**
Off Campus				0
Headleased properties	0	303	0	303
Kings Road	0	124	0	124
Windlesham Road	0	21	0	21
Florence Road	0	20	0	20
York Avenue	0	17	0	17
13 Victoria Road	0	11	0	11
18 Clifton Road	0	7	0	7
Off Campus Total	**0**	**503**	**0**	**503**
Nomination Agreement				0
Abacus House – off campus	300	0	0	300
Total	**2,301**	**2,609**	**114**	**5,024**
% of Portfolio	46%	52%	2%	

Source: University of Sussex November 2016

In the 2016/17 academic year, 53% of the accommodation provision was non en-suite. There were approximately 114 studio rooms available, comprising 2% of the accommodation offer.

Accommodation by Age

We have been provided with a breakdown of the accommodation by age as detailed below. Less than 50% of the university residential estate was constructed within the last 20 years.

University of Sussex Accommodation by Age

Residence	Date of Construction
Park Village	1960s
Park Houses	Kent House was last to be completed, in 1968
East Slope	Completed 1976
Lewes Court	Final phase completed 2001
Brighthelm	1990s
Swanborough	Completed 2007
Stanmer Court	Completed 2007
Northfield	Final phase completed 2013

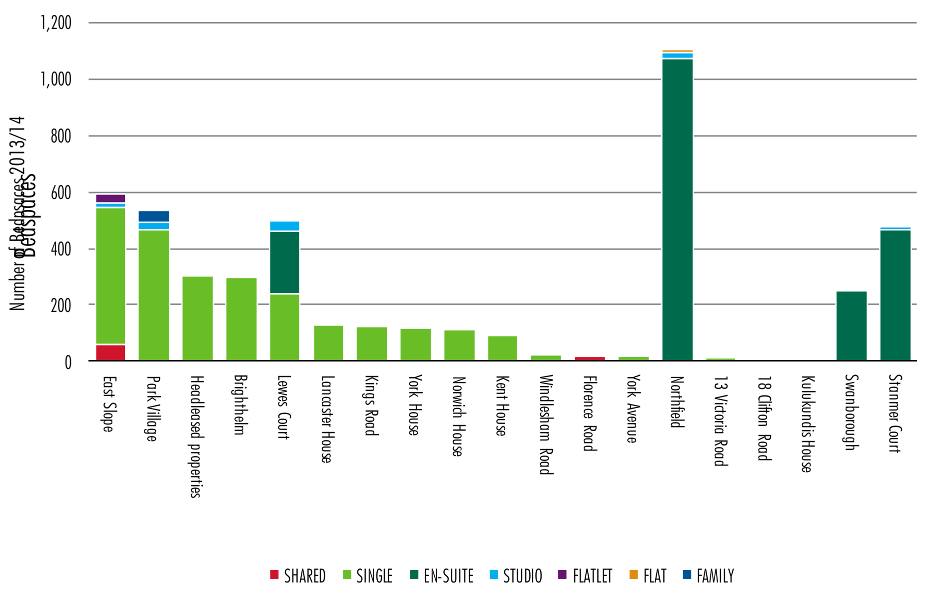
Source: University of Sussex Additional information to Assist with Demand Analysis, September 2014

En-suite rooms are typically provided within the more modern accommodation, with over two thirds (66%) of en-suite bedspaces being built in the last ten years, with the completion of Swanborough in 2007, and Northfields in 2011.

Prior to the construction of these schemes, the majority of bedspaces provided both on and off-campus was non en-suite.

Accommodation Provision by Scheme 2016/2017

Number of Bedspaces by Type



Source: University of Sussex Nov 2016

In recent research by the NUS and Unipol, The Accommodation Cost Survey 2015, June 2015, it was stated that in 2006 the level of en-suite provision for universities stood at 38%. The equivalent figure for 2015/2016 (most recent available) has increased to 54%. Over this period the proportion of rooms in halls with shared bathrooms has fallen from 46% to 39%. In 2006-07 just 1% of accommodation was studio flats; in 2016 this has risen to 2%.

Since they established themselves in the sector in the 1990s, private providers have offered a product range that is overwhelmingly en-suite. At the time of the same NUS 2006 Accommodation Costs Survey, 81% of the private provision was self-catered en-suite bedspaces, 15% non-en-suite and one per cent studio. In 2015-16, self-catered en-suite is still the dominant unit type, but at a significantly lower level (63%), as studio provision has put on major growth and currently represents 20% of privately provided bedspaces.

In 2016/2017 47% of the University of Sussex provided accommodation is en-suite. This is 7% lower than the UK average university portfolio figure; however, it is significantly lower than the private provision. With studios representing just 2% of the unit types, this is dramatically lower than the private providers offering.

University Accommodation Allocation

Current Guarantee

Students who come within the scope of the University's accommodation guarantee are able to express preferences on residence.

The University guarantee of accommodation is currently restricted to the following students:

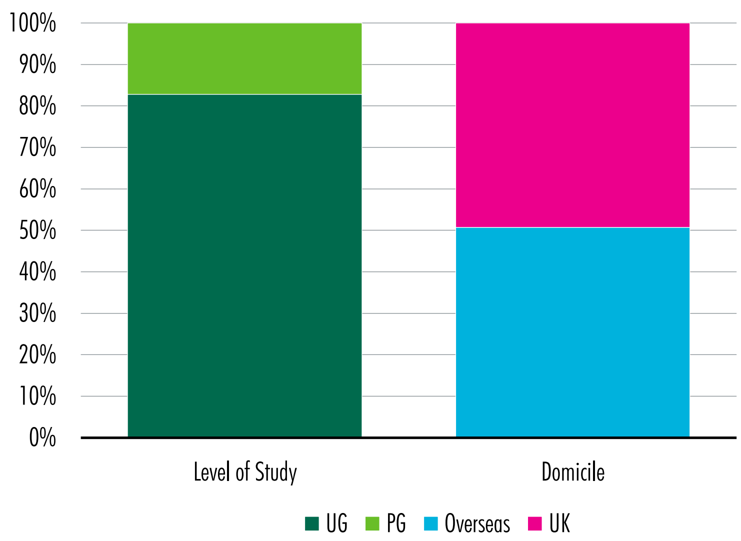
- **New full-time undergraduates** who firmly accept an academic offer through UCAS, and who return a completed housing application to the University by 1 August
- **Visiting and exchange students** coming to Sussex for a full academic year who return a completed housing application to the University by 1 August
- **New full-time postgraduates** on research degrees (ie PhD/MPhil) who firmly accept an academic offer, and who return a completed housing application and £250 pre-payment to the University by 1 August;
- **New full-time non-EU postgraduates** on taught courses (ie MA/MSc/LLM) who firmly accept an academic offer, and who return a completed housing application and £250 pre-payment to the University by 1 August

Subject to the following exceptions:

- students who begin their course after the start of the autumn term
- students only studying at Sussex for part of the academic year
- students bringing dependants

The graph below provides a breakdown of the occupants for the 15/16 academic year (most recent available) as a percentage of the total bedspaces provided.

University of Sussex Accommodation Occupiers
Number of Bedspaces 2016/2017



Source: University of Sussex May 2016

In the 2015/16 academic year, 83% of occupants were undergraduate students, and 17% postgraduate students in accommodation provided by the University of Sussex.

In the same year, half of the students occupying bedrooms in university residences were from overseas, and half were from the UK.

Please note that this graph does not demonstrate the demand for accommodation, but more the makeup of the 2015/2016 accommodation guarantee allocation for all new entrants.

Future Guarantee

The University set a target of accommodating 40% of its students on campus at a time when it was well behind this rate, over ten years ago.

The University was targeting expansion of student numbers and the 40% target for accommodation was the minimum number of bedspaces required to be able to continue to offer guarantees to new entrants. This was acknowledged to be at a minimum level compared to competitor institutions and certainly below the known demand for student accommodation even at that time.

The 40% was adopted in the strategic plan for 2013-18 mainly as to what could be feasibly fitted by the masterplan onto the Sussex campus (18,000 students). However there is more capacity to provide more accommodation on campus.

It has long been the ambition of the University to able to expand the offer to students to who have never had the benefit of residential offers, including international returners and HEU PGT students. There is also further demand from Study Group to accommodate higher numbers of their international students for their studies before they become University of Sussex students.

Demand for returning students is explored in the next section.

Applications per Property

We have been provided with students 'first choice of accommodation' data from the University.

It is important to note that applications are only accepted from students who meet the criteria set out above, returning students are therefore not allowed to apply for accommodation.

In addition, whilst this table sets out first choices of accommodation we have been informed by the University that all schemes have been fully let with occupancy rates of 98%, 99% and 99% for 2014/15, 2015/16 and 2016/17 respectively.

Furthermore the table shows how the university have only just enough accommodation to meet demand for the guarantee.

First Preferences of Applicants for University Accommodation

2015/2016

SCHEME	MAIN UNIT TYPE	UG	PG	TOTAL APPLICATIONS	SURPLUS APPLICATIONS	APPLICATIONS PER BED
Swanborough	En-suite	597	0	597	347	2.39
Brighthelm	5-bed, 2-bath houses	400	237	637	337	2.12
Lewes Court en suite	En-suite	519	0	519	270	2.08
Stanmer Court	En-suite	254	211	465	-14	0.97
Northfield	En-suite	847	358	1,205	100	1.09
East Slope	6/12-bed flat	379	119	498	-94	0.84
Off-campus						
Lewes Court non en suite	5/6 bed flats	101	23	124	-132	0.48
Park Houses	12-bed flats	328	0	328	-145	0.69
Park Village	12-bed houses	249	116	365	-168	0.68
Abacus House	En-suite	108	175	283	-17	0.94
Total / Average		**3,782**	**1,239**	**5,021**	**48.4**	**1.228**

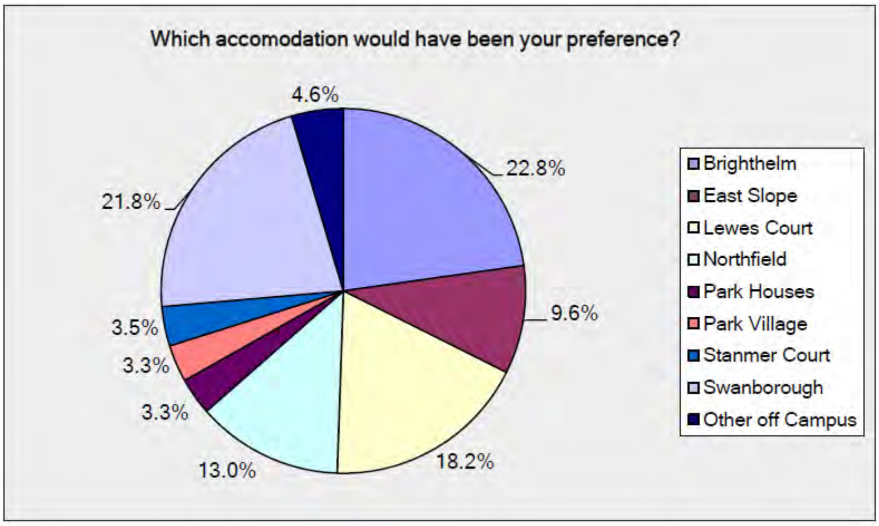
Source: University of Sussex, May 2016

Swanborough, Brighthelm, Lewes Court en-suites and Stanmer Court were oversubscribed in the academic year 2015/16. Swanborough, the most oversubscribed hall of residence, at 2.39 applications per bedspace available, is the best located scheme for the academic buildings on campus. It is also the second most modern scheme on campus, having been completed in 2007. It may also be noted that all but one of the four oversubscribed schemes provided en-suite accommodation.

Within the University's accommodation survey students were asked which accommodation they would have preferred, the results of which are detailed below:

Preferred Student Choice for Students

Student Consultation February 2014



Source: University of Sussex, May 2014

It is interesting that although the majority had in the main received their first choice of housing, when asked what would have been their preferred housing location, a sizeable proportion stated a preference for Brighthelm (23%) closely followed by Swanborough (22%) Lewes Court (18%) and Northfield (13%) all post 1989 housing. Of the older accommodation stock East Slope was rated the highest with 9.4% of students rating these residences as their preferred choice of housing.

It is worth noting that when taking all respondents together, i.e. students currently in residence and those who had previously lived in University managed housing only 12.8% were residing, or had resided in Brighthelm.

The Brighthelm residences has consistently outperformed all other residences as a preferred choice of accommodation in exit surveys over the past 10 years and suggest that these "house-style" accommodation with their private external spaces; generous shared bathroom ratios (2.5:1) and good size communal space with washers and dryers are particularly attractive to students.

Occupants by Domicile and Level of Study

The majority of bedspaces in Park Houses, East Slope, Lewes Court, Swanborough were occupied by undergraduate students. Brighthelm, Northfield and Stanmer Court attracted a greater number of postgraduate residents. Off-campus and Headleased properties were the most popular type of residence amongst postgraduates; comprising 47.8% of occupants. Northfield, Off-campus and Headleased properties, and Stanmer Court were most popular with international students. UK students lived in Northfields, East Slope, Park Houses, and Lewes Court; showing a less strong preference for en-suite accommodation than overseas students.

Occupants analysed by Level of Study and Domicile

As at March 2016

SCHEME	UNIT TYPE	UNDERGRADUATE	POSTGRADUATE	TOTAL IN-ROOM	OVERSEAS	UK
Brighthelm	5-bed, 2-bath houses	215	85	300	165	135
East Slope	6/12-bed flat	476	54	530	160	370

Lewes Court I & II	Single/En-suite	498	5	503	190	313
Northfield	En-suite	922	178	1,100	580	520
Park Houses	12-bed flat	472	0	472	135	337
Park Village	12-bed flat	474	56	530	208	322
Stanmer Court	En-suite	370	105	475	305	170
Swanborough	En-suite	249	0	249	160	89
Off-campus, Headleased properties & Kings Road.	Single	410	65	475	308	167
Abacus House	En-suite	0	300	300	291	9
Total		**4,086**	**848**	**4,934**	**2,502**	**2,432**
% of Total		**83%**	**17%**	**100%**	**51%**	**49%**

Source: University of Sussex, May 2016

Occupancy Levels

We have been provided with occupancy statistics from the University for each scheme for the previous two years. With the exception of several rooms which were being refurbished in 2012/2013, the occupancy across the on campus estate was high, and equated to a weighted average of:

- 97.7% in 2012/2013;
- 97.8% in 2013/2014;
- 98% in 2014/2015;
- 99% in 2015/2016; and
- 99% in 2016/2017.

This is in line with our expectations as it is extremely rare for a scheme to achieve 100% occupancy as typically a small proportion of beds may fall vacant due to students dropping out, not turning up and other unforeseen events. This is usually within the region of 3%. For example Unite who operate over 26,000 bedspaces reported an occupancy rate of 98% for 2015/16 and iQ who operate over 23,000 bedspaces reported an occupancy rate of 97% for the 2015/16. These are two of the largest student operators in the UK.

Returning Students

Returning students are classified as non-first years and whilst these will comprise a mix of postgraduates and undergraduates, the overwhelming majority are undergraduates.

Figures from the NUS Accommodation Costs Survey date suggest that in 57% of the institutional bedspaces, not more than 25% are occupied by returning students. The 9.9% of institution's reserving more than 50% for returners are all Oxbridge colleges or smaller institutions. The same figure for private providers is 38%. 17.6% of institutions reserve 25% to 50% to returners. There is consequently evidence to suggest that a greater proportion of returning students would potentially take up purpose built stock if it were available.

Proportion of Accommodation Taken up by Returning Students

NUS/Unipol Accommodation Costs Survey 2014/2016

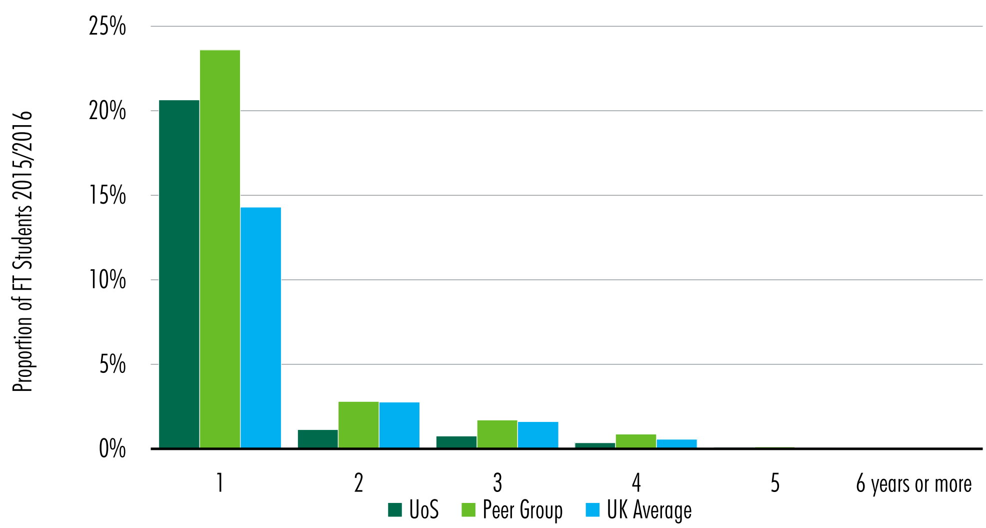
	Institutions %	Private sector %
1 < 5	18.7%	2.7%
5 <10	16.5%	2.7%
10 < 15	8.8%	2.7%
15 < 25	13.2%	29.7%
25 < 30	3.3%	5.4%
30 < 35	7.7%	10.8%
35 < 40	3.3%	5.4%
40< 45	2.2%	0.0%
45 < 50	1.1%	0.0%
50 +	9.9%	21.6%
None	9.9%	13.5%
Don't know	2.2%	5.4%

Source: NUS/Unipol Accommodation Costs Survey 2014/2016: http://www.nusconnect.org.uk/resources/nus-unipol-accommodation-costs-survey-2015 [Website Accessed 16/02/2017]

Further evidence from HESA would suggest that compared to the Peer Group and the UK the University accommodate a low proportion of returning students, accommodating just 360 non first years in 2015/2016, equating to 3% of all returning students.

Proportion of Students Living in University Accommodation

Full Time Students HESA 2015/2016



Source: HESA

There are a number of universities who provide accommodation to returning students. On average across the UK 6% of non-first year students were living in university provided accommodation for 2015/2016. However, this is of the total full time population. The percentage of returning student living in university accommodation as a proportion of

students who require accommodation (i.e excluding those living at home or in their own home) is 15%.

The University estimate that the potential take up from returners at Sussex to be higher. Each year it carries out an exit survey of all students in University managed housing. The University have informed us that the 2015/16 Annual Residents Exit Survey achieved 1,276 responses. The survey found:

- 83.6% of respondents would recommend living in University residences to their friends. The strongest recommendation came from students living in the newest en-suite residence (Northfield) at 90.5%.
- 55.7% of all respondents would like to live in University residences again given the chance.

Using the 2016/17 forecasted student numbers, the University estimate the additional unfulfilled demand from undergraduate students as follows

Potential Demand from Returners

	2016/17 Student Numbers
1st Year FT undergraduate students (HEU & Intl)	5,042
Less: 20% not requiring accommodation	1,008
Total Potential 'returning' UG students	4,034
Potential Demand based on 55.7%	**2,247**

Source: University of Sussex Nov 2016

In addition there is potential demand from other returning students that are housed by the University Housing Policy such as PGR Students on courses that are over one year in duration. The 2016/17 forecasts show 321 1st year PGR Students (HEU and International) would fall into this category.

The University believe that demand from returning international students (EU and Non EU) included in table above, is expected to increase due to the requirements for guarantees or stricter payment terms for these students from landlords in the private sector. The University housing office has seen increasing enquires and demand from these returning students. According to the Residents Arrivals Survey 2016, 70.9% of responders would like to live in University Accommodation again if they were given the chance. This is up from 55.7% in the previous year exit survey.

Waiting List

The University holds a small waiting list of students for University managed accommodation however the Housing Office actively helps and encourages students that do not meet the guarantee criteria to seek alternative accommodation in the private sector rather than rely on a waiting list place. For the 2016/17 academic year, the waiting list was not opened until after the start of the academic year in order that students sought alternative accommodation prior to the start of term.

Study Group International

For the 2016/17 academic year the University has allocated Study Group International 400 beds. The contract with Study Group states that the University 'uses its reasonable endeavours to ensure an agreed number of Students for an applicable Academic Year are provided with appropriate accommodation during their studies at the Centre'

The University is currently unable to offer Study Group a higher allocation of rooms whilst still meeting its own housing guarantee. Study Group International houses the remaining students on an annual basis in off-site accommodation within the City.

Based on the current academic year, there is a shortfall of on-campus rooms available against student numbers available of approximately 50%. This is forecast to increase to 800 beds by 2018/19 based on projected student numbers.

Study Group Shortfall

Year	Student Numbers	Bed Shortfall
2013/14	677	**277**
2014/15	637	**237**
2015/16*	780	**380**
2016/17*	790	**390**
2017/18*	1,200	**800**
2018/19*	1,200	**800**

**based on internal targets and projections from Study Group International*

Source: University of Sussex

The progression rate of these students for 2016/17 is forecast to be 90%.

As all the students enrol at Study Group are international the University have informed us that they would expect the take up rate for accommodation would be 100% if it were available to all students.

University Accommodation Projects in the Pipeline

In order to meet demand pending the availability of rooms under the East Slope development, the University is exploring entering into short term nomination agreements (on one year basis) with off campus sites. These include a nominations agreement with Ovingdean Hall of Residence to provide an additional 190 bedspaces but this is yet to be confirmed.

The University supported, through an annual nominations agreement, a planning application by City College Brighton & Hove in April 2014 for student residencies at the Pelham Street site. However this proposed development is now unlikely to happen.

The University is also in discussions with a developer for a proposed 600 bed development on the 'Retained Land' site in Falmer. This is at a very early stage and no planning application has been submitted. Any support for this development would be through an annual nominations agreement.

The largest scheme the University are looking to bring forward is West Slopes. This would see a net gain of 1,008 beds. It is envisaged this would be ready in 2022/2023.

University Accommodation Pipeline

New Student Bedspaces

SCHEME	LOCATION	NUMBER OF BEDSPACES
Ovingdean Hall of Residence	Ovingdean	190
Retained Land	Falmer Campus	600

Source: University of Sussex November 2016

Key Points

- Total provision of bedspaces as a proportion of the total population 30% of the full time population, or a ratio of 3.37 students per bedspace available.
- The University provided 5,024 bedspaces for 2016/2017.
- Over half the stock is over 20 years old and does not provide en-suite accommodation.
- The results of the Accommodation Survey and accommodation applications suggest students prefer en-suite accommodation in a good location. In addition the town house format of Brighthelm is the one of the most popular choices.
- East Slope despite being very old and unfit for purpose is still a popular choice for students.
- Despite restricting the accommodation offer the University were only just able to accommodate students but they required additional beds from head lease properties and 300 rooms at Abacus House.
- There would be more demand for accommodation if the offer is opened up to returning students. The university estimate this to be 70% of returners (excluding those not requiring accommodation).
- All students qualifying for the accommodation guarantee took it up.
- There is evidence from elsewhere in the UK that returning students would live in University PBSA.

WHERE UNIVERSITY OF SUSSEX STUDENTS LIVE

Location

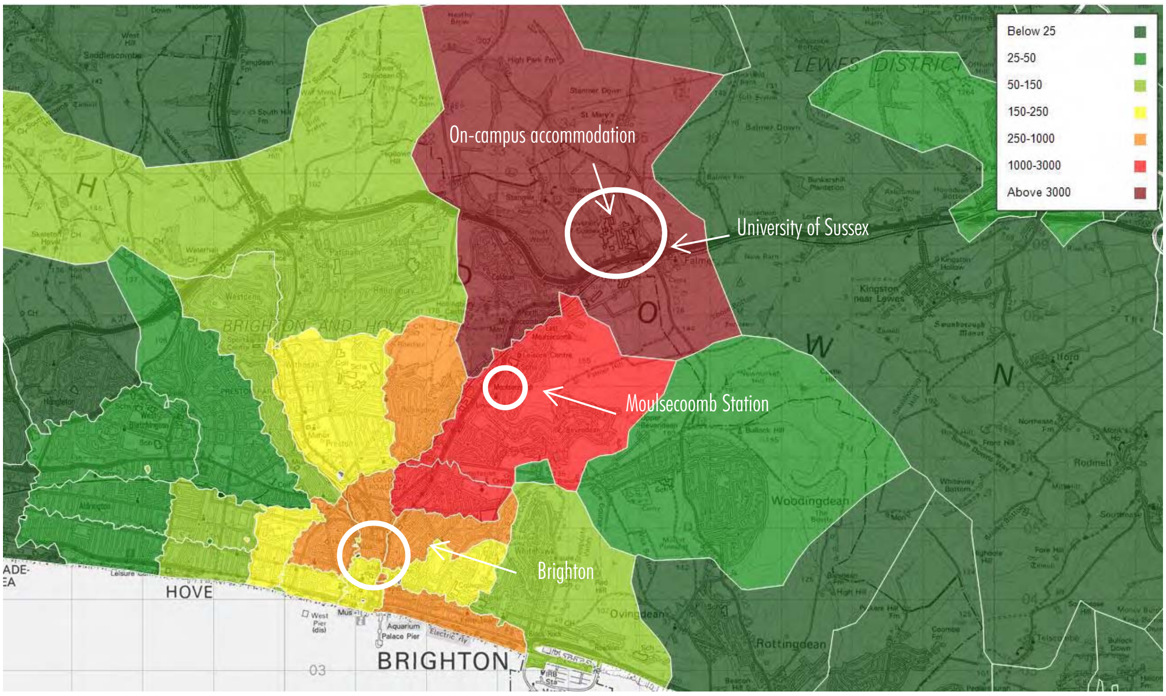
The map below shows the number of students attending the University of Sussex during the 2015/2016 academic year by postcode sector.

It is not surprising that the postcode sector with the most students is BN1 9, as this is home to the university campus. There were a reported total of 4,040 students who are recorded as living in this area according to HESA in 2015/2016.

Other popular areas include BN2 3, BN2 4, BN1 4, and BN2 9. In total there were over 10,000 students living in the City Centre for 2015/2016.

Where Students Enrolled at University of Sussex live

Full Time Students living in all accommodation types 2015/2016



Source: *HESA*

Accommodation Types

HESA split student term-time accommodation into the following 8 categories:

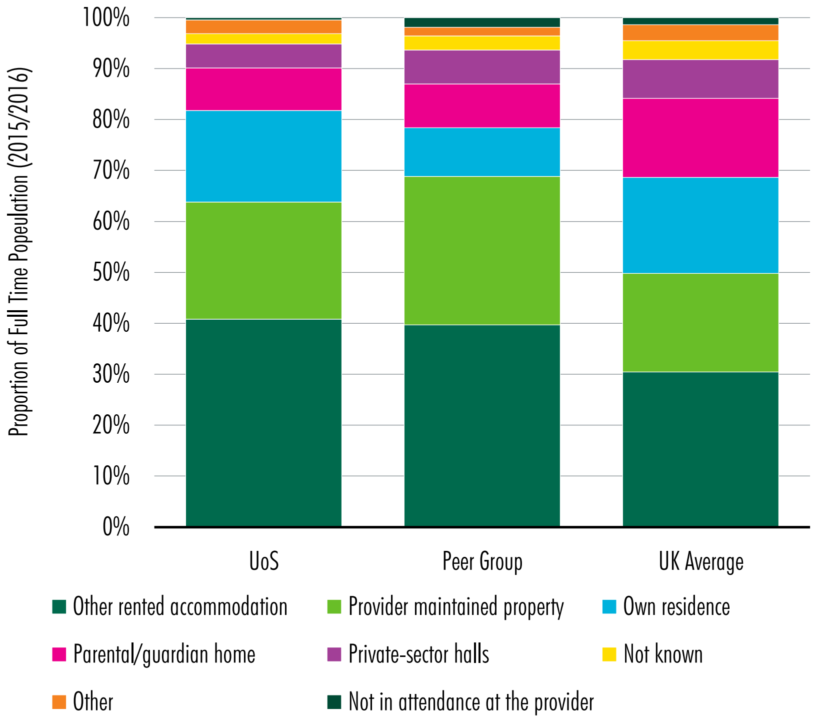
1. *Provider maintained property which includes housing owned by the institution and sub-let to students.*
2. *Parental/guardian home.*
3. *Not in attendance at the institution (full-time and sandwich students not currently in attendance at the institution for reasons such as industrial placement or language year abroad).*
4. *Own residence. This is a student's permanent residence, which may be either owned or rented by them. Ideally 'own home' would be split out between students who own and those who rent as those who rent are a key part of the target market for purpose built student accommodation providers, however this breakdown is not available.*

5. *Other rented accommodation refers to a more temporary arrangement e.g. where a number of students each rent a room in the same house on a yearly basis within Houses in Multiple Occupancy (HMOs).*
6. *Private-sector halls.*
7. *Other.*
8. *Not known.*

The graph below illustrates the type of accommodation students lived in during the 2012/2013 academic year broken down by University of Sussex, the UK and Peer Group.

Where Students Enrolled at University of Sussex, Peer Group & UK live

Full Time Students 2015/2016



Source: HESA

41% of students at the University of Sussex lived in the HMO accommodation, compared to 30% of UK students, and 40% of Peer Group students.

The University of Sussex provides comparatively more institutional accommodation than the UK average, but this is to be expected as the university is campus-based. However, it is worth noting that a higher than average proportion of students are still reliant on the private rented sector.

Only 8% of Sussex students lived in a parental/guardian home, considerably below the UK average 19% or Peer Group average of 9%. This suggests that the University has a smaller than average local population.

There are 683 students recorded as living in accommodation provided by the private-sector, however our research has not found evidence of any private schemes in 2015/2016. 336 of these bedspace are located within the postcode sector BN1 9, in which the Falmer

campus is located. These students are therefore believed to be University students living in Stanmer Court.

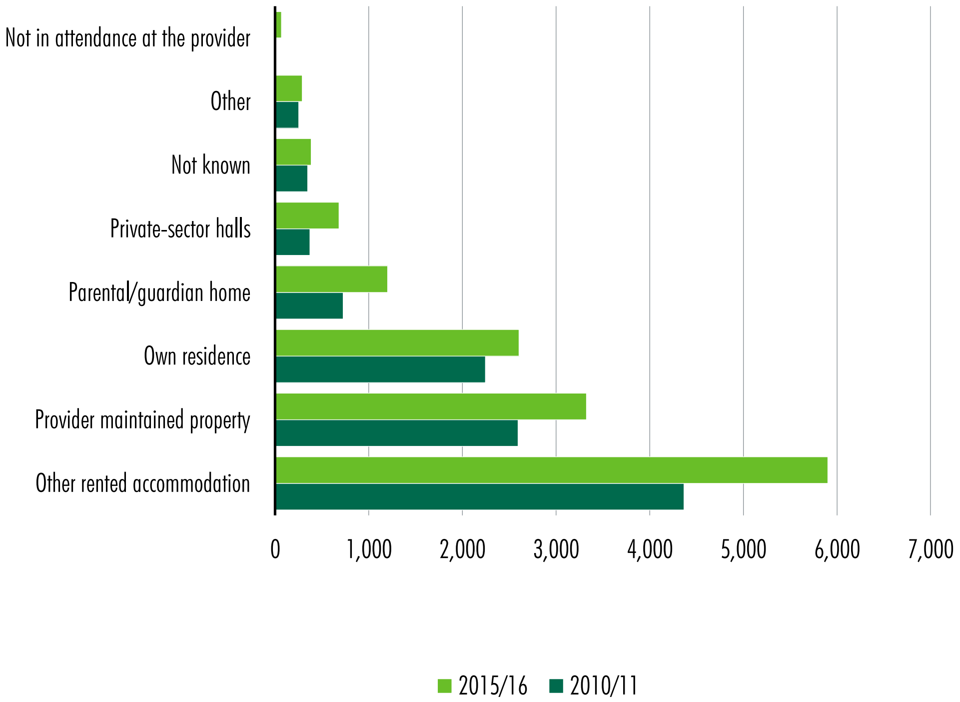
Accommodation Trends 2010/2011 to 2015/2016

As student numbers have grown at the University the increased demand for accommodation has been absorbed by a small increase of university maintained stock. However, the largest increase was in students living in their own residences and in other rented accommodation, up 356 and 1,537 respectively.

The increased supply of University accommodation has come in the form of Swanborough and Northfield, which have been constructed in the last five years, together with an increase in the number of headleased properties.

Where Students Live at the University of Sussex

2010/2011 versus 2015/2016



Source: HESA

Direct Let Halls in Brighton

From 2016/2017 there will be two direct let schemes in operation in the Brighton area as set out below:

Address	Photo	Beds	Comments
Sawmills 4 - 6 Newmarket Road Brighton BN2 3QF		45	Sawmills is a newly established student accommodation scheme, offering both cluster bedrooms and studios. All rooms are single beds. 15 studios. 30 en-suites. It is operated by CRM and built by Mclaren.
Britannia Study Hotel 150 Western Road Brighton BN1 2DA		122	The residence is located in the centre of Brighton. It is near the Brighton Lanes, and a short walk from the beach. All rooms are en-suite. It is operated by Britannia Student Services.
TOTAL		167	

Source: Studentsource.co.uk [Website accessed 16/02/2017]

University of Brighton Accommodation

The University of Brighton offers 1,500 places in halls of residence in Brighton, as well as 300 rooms in Unihomes and a number of rooms in Homestays. The University have also put in a planning application (15th February 2017) for a site known as Preston Barracks. If planning is granted it will provide 750 beds for the University of Brighton.

Purpose Built Accommodation in the Pipeline

As at the date of this report we are aware of the following schemes which have either recently been submitted for planning approval or have been granted planning permission.

Planning Pipeline (Schemes with Permission Excluding East Slope)

February 2017

Scheme Address	Description	No of Rooms	Planning Reference	Parties / Operator	Comments
CIRCUS STREET DEVELOPMENT Former Wholesale Market (including 7 Morley Street) University of Brighton Annexe Building and The Wood Store Circus Street together with Kingswood Street Car Park Brighton BN2 9QF	Partnership between University of Brighton, Brighton and Hove Council and Cathedral Group. Will form part of a mixed use Innovation Quarter	450	BH2013/03461	Cathedral	Granted: 19/03/2015 Understood to be on track for 2017 delivery. To be leased to Kaplan
CITY COLLEGE Pelham Street Brighton East Sussex BN1 4FA	Outline planning application comprising an eight storey college building, a 10 storey building of 442 student residential units and 125 residential units	442	BH2013/01600	City College of Brighton & Hove	Granted: 11/04/2014 Potential Direct Let Property
106 Lewes Road Brighton BN2 3QA	Erection of a new student accommodation building, comprising 44 rooms, entrance lobby, common room, plant room, servicing core, cycle parking and refuse facilities, along with landscaping and other associated works.	44	BH2015/01783	McLaren	Granted: 20/01/2016 Potential Direct Let Property
54 Hollingdean Road Brighton BN2 4AA	Demolition of all buildings at 54 Hollingdean Road and erection of a part 3, 4, 5 and 6 storey building (plus basement) to form 205 student rooms (181 cluster bedrooms, 19 studios and 5 accessible rooms) with kitchen and common room facilities, cycle storage and refuse facilities.	205	BH2014/01637	Hollingdean Road (No 1) LLP	Granted: 6/11/2015 Potential Direct Let Property
27-33 Ditchling Road Brighton	Demolition of existing building and erection of new four storey building (plus basement) comprising new College facility and Halls of Residence (58 students rooms, 1 wheelchair accessible room, 1 warden's	58	BH2014/01431	Zise Ltd	Granted: 22/04/2015 Potential Direct Let Property

	room and 2 rooms for supervisors), catering facilities, cycle parking and refuse and recycling facilities.				
TOTAL		1,199			

Source: EGI Planning Database as at February 2017

In total there are 1,199 purpose built student bedspaces in the pipeline, all of which have planning permission. It is known that Kaplan have taken a 21 year lease at Circus Street.

Kaplan provides higher education programs, professional training courses, test preparation materials and other services for various levels of education. It is a wholly owned subsidiary of Graham Holdings Company, formerly known as The Washington Post Company. These units are therefore unlikely to be operated on a direct let basis. This reduces to the potential pipeline of direct let properties to 749 bedspaces.

Planning Policy in Brighton (June 2015)

Brighton and Hove's *Housing Strategy 2015* identifies the following key aims with regard to student accommodation in the City.

- To support and enhance the quality and management of housing and residential environments within HMO-dominated studentified neighbourhoods, in conjunction with the recognition of the need to support private sector landlords to supply high quality student accommodation.
- To reduce the over-concentration of HMO in some neighbourhoods by promoting and enabling the appropriate development of purpose-built student accommodation at suitable locations within the city, that will appeal to the locational and residential preferences of students.
- To ensure that new developments of student accommodation are well-managed and do not impact negatively on existing residential communities.
- To monitor the changing geographic patterns of student housing in the city and identify the signs of 'destudentification'.

Therefore, in conjunction with the Universities and City College, the council has agreed to honour its commitment to facilitating the development of further student beds by allocating several sites for purpose-built student accommodation.

Summary of Purpose Built Student Accommodation in Brighton

Based on the information set out above we estimate there are a total of 8,691bedspaces including the two universities, direct let providers and schemes in the pipeline.

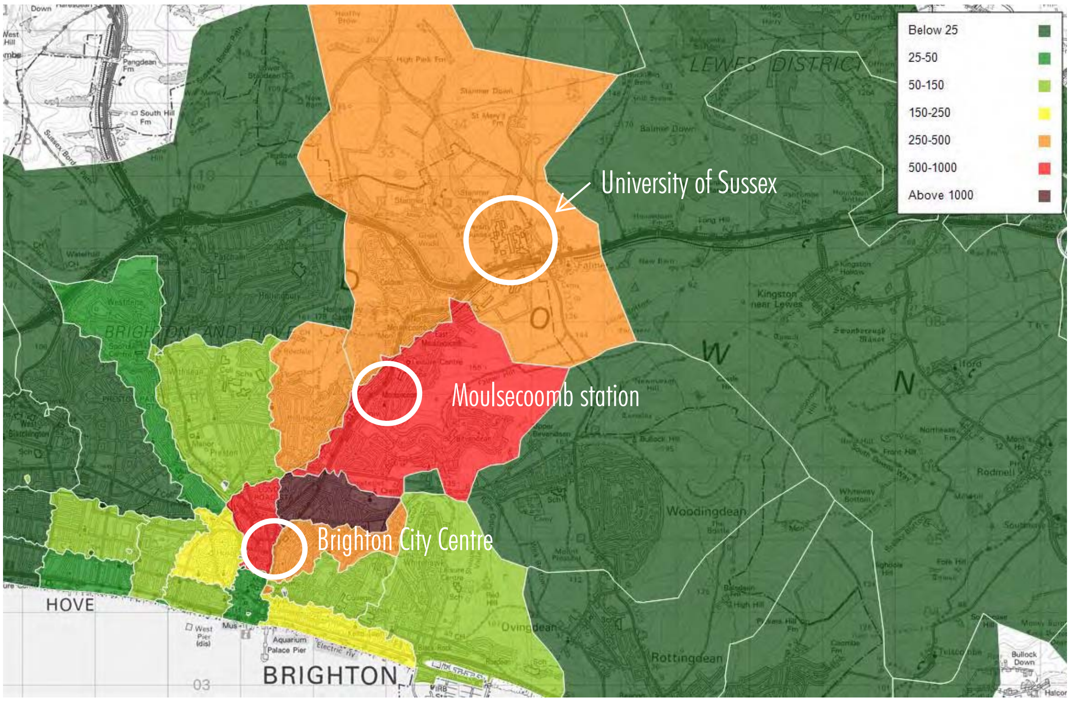
Provider	Bedspaces
University of Brighton	2,250
University of Sussex	5,024
Direct Let bedspaces	218
Pipeline	1,199
Total	**8,691**

Private Rented Sector Accommodation (HMO Market)

In 2015/2016 there were 5,904 full time students living in other rented accommodation attending the University of Sussex. These were generally concentrated in the key areas of Moulsecoomb and Bevendean, Hanover and Elm Grove, Hollingdean and Stanmer, and St Peter's and North Laine.

Location of University of Sussex Students Living in 'Other Rented' Accommodation

2015/2016



Source: HESA

In addition there were a further 6,630 University of Brighton Students who were reliant on the private residential sector. This suggests a total of 12,534 full time students in Brighton were in private residential accommodation for 2015/2016.

Regulation

From 5 November 2012, additional licensing (beyond that of the 2004 Housing Act (UK) which requires landlords of HMOs to apply for basic licences) has applied in the following five wards in Brighton & Hove:

- Hanover and Elm Grove
- Moulsecoomb and Bevendean
- St Peter's and North Laine
- Hollingdean and Stanmer
- Queen's Park

The additional licensing scheme in operation in Brighton is intended to specifically target and regulate student housing, and applies to smaller houses in multiple occupation, consisting of two or more storeys, with three or more occupiers from two or more households sharing facilities.

The regulation is not intended to reduce the numbers of HMOs in this area, rather to regulate living standard within those already in existence. It may have the effect of slightly depressing or containing the number of HMOs formed in these areas in the future, possibly forcing students to look for other accommodation options. Another possible effect is that of pushing up prices, as it is likely that landlords will pass on any additional licensing costs to tenants, rather than absorbing them themselves. Alternatively, landlords may decide to dedicate properties to the HMO rather than licencing them as HMOs, decreasing supply for students.

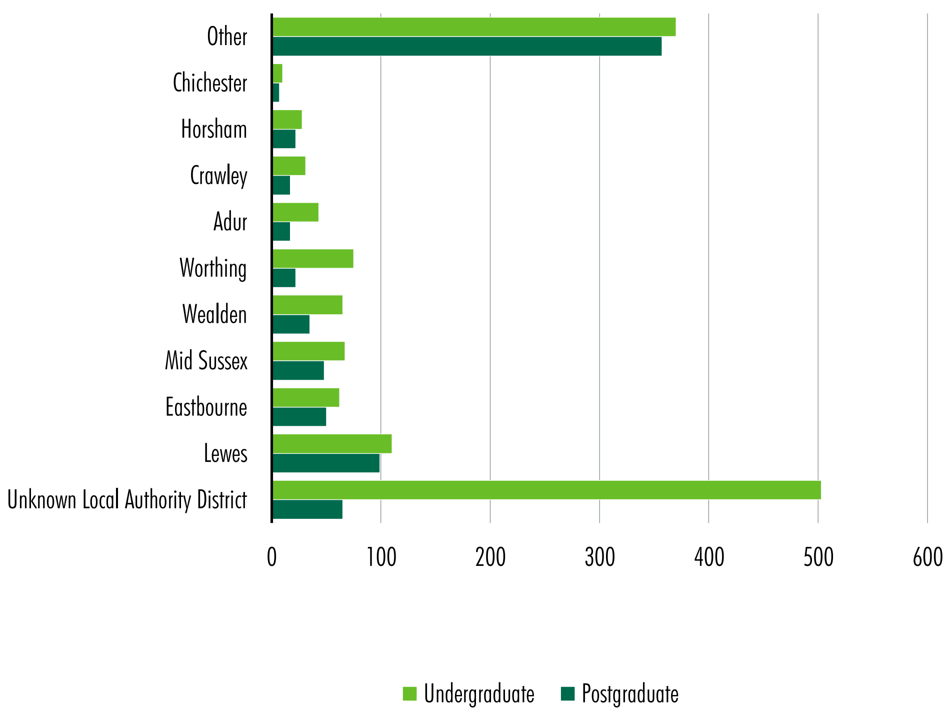
A further consideration is that some of the HMO supply may be owned by buy to let landlords. With recent changes to tax legislation these landlords will be unable to claim as much mortgage interest tax relief over the coming years. The net result of this will be an increased tax bill to the landlord; therefore some landlords may seek to pass this cost onto tenants by increasing the rent.

Parental/ Guardian Homes

Of the full time students attending the University of Sussex, 86% are recorded as living in the City of Brighton & Hove. The remaining 13% lived in neighbouring areas including Lewes and West Sussex as illustrated below.

Term Time Address of University of Sussex Students

Local Authority Districts Excluding Brighton & Hove 2015/2016



Source: HESA

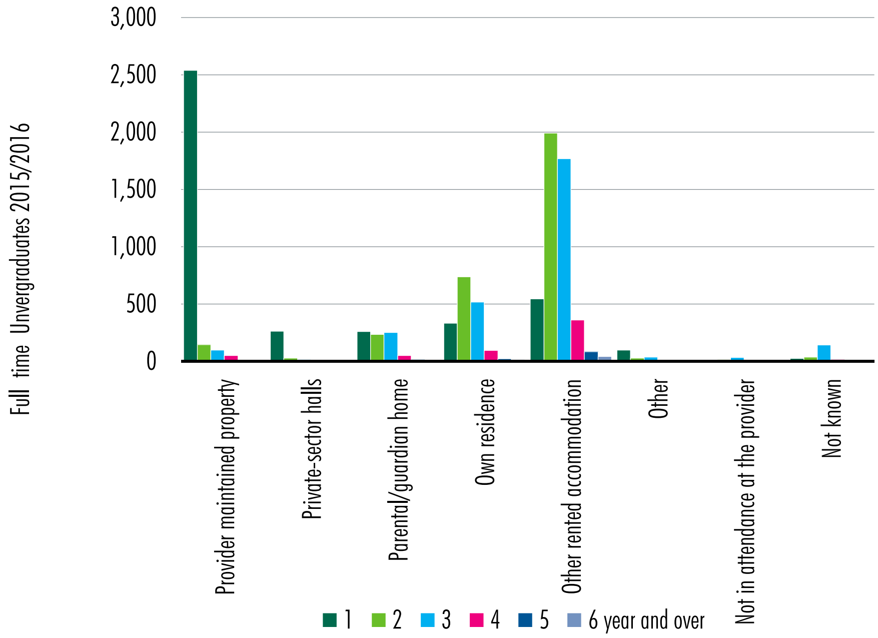
Some of these students living away from the City Centre tend to live in parental/guardian homes and commute to lectures.

Approximately 4% of the undergraduate population and 6% of the postgraduate full time population were recorded as living at home for the 2015/16 academic year

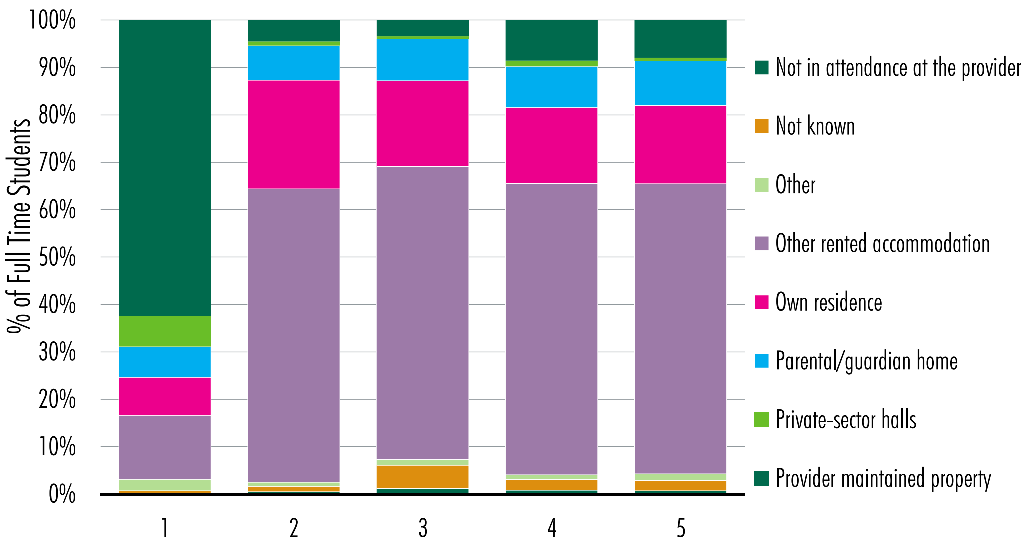
Student Trends by Year of Study

Undergraduates

Where University of Sussex Students Live by Year of Study
Full Time Undergraduate Students 2015/2016



Source: HESA



Source: HESA

62% of undergraduate students in their 1st year lived in provider maintained property in 2015/2016. Returners in their 2nd year and beyond largely moved into the other rented Sector, with an average of 62% of undergraduate students living in this sector during years 2-5 of study.

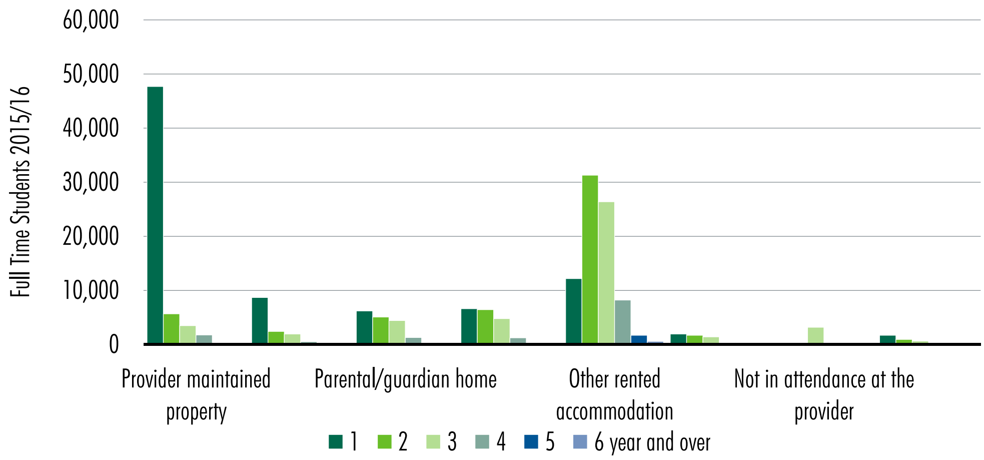
Peer Group Undergraduates

71% of undergraduate students in their 1st year lived in institution maintained property in 2015/2016. This was a considerably higher proportion than students at the University of Sussex. Returners in their 2nd year and beyond largely moved into the Other Rented Sector, with an average of 60% of undergraduate students living in this sector during years 2-5 of study.

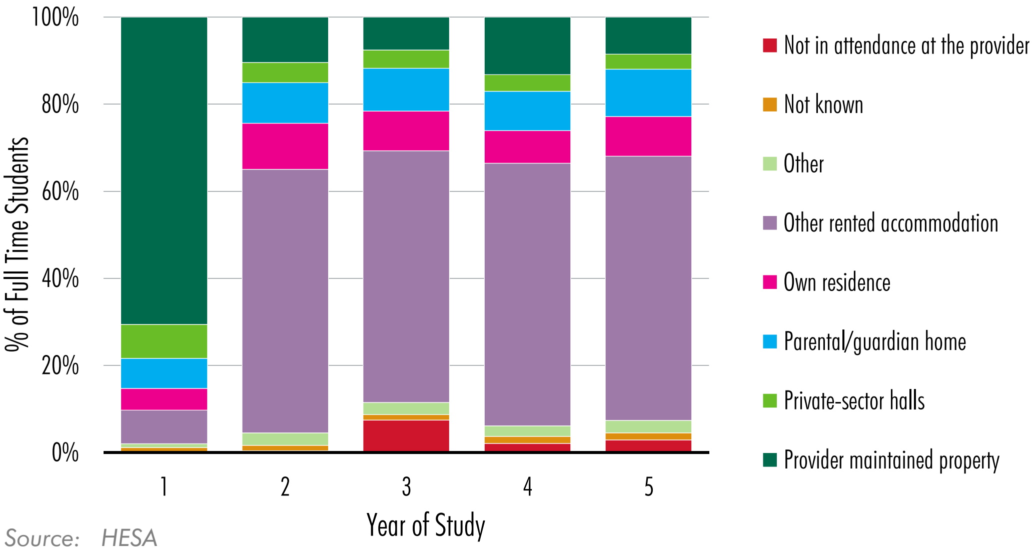
Interestingly there were a higher proportion of students in the Peer Group students who returned to live in university residences during their 2nd-5th years than at the University of Sussex.

Where Peer Group Students Live by Year of Study

Full Time Undergraduates 2015/2016



Source: HESA

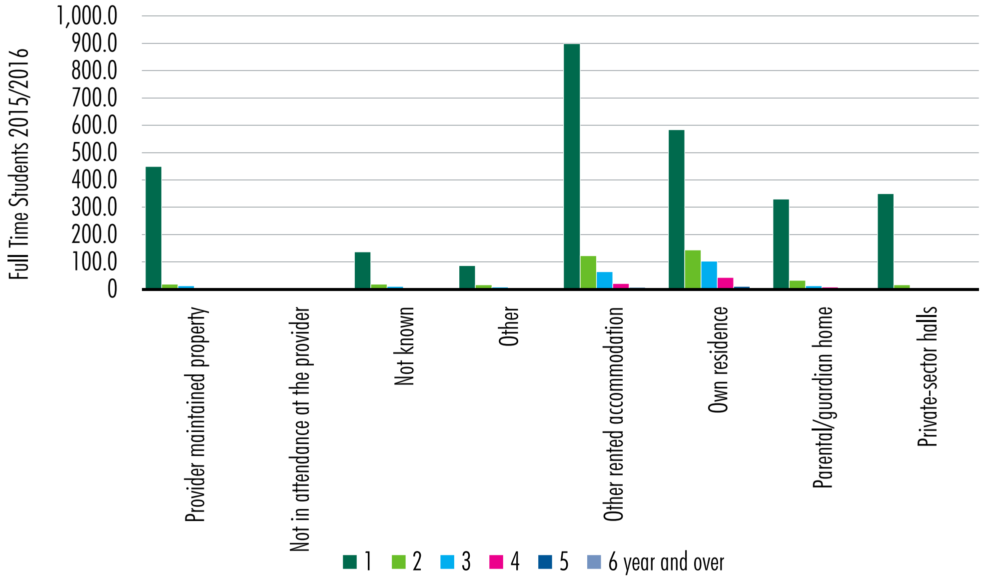


Source: HESA

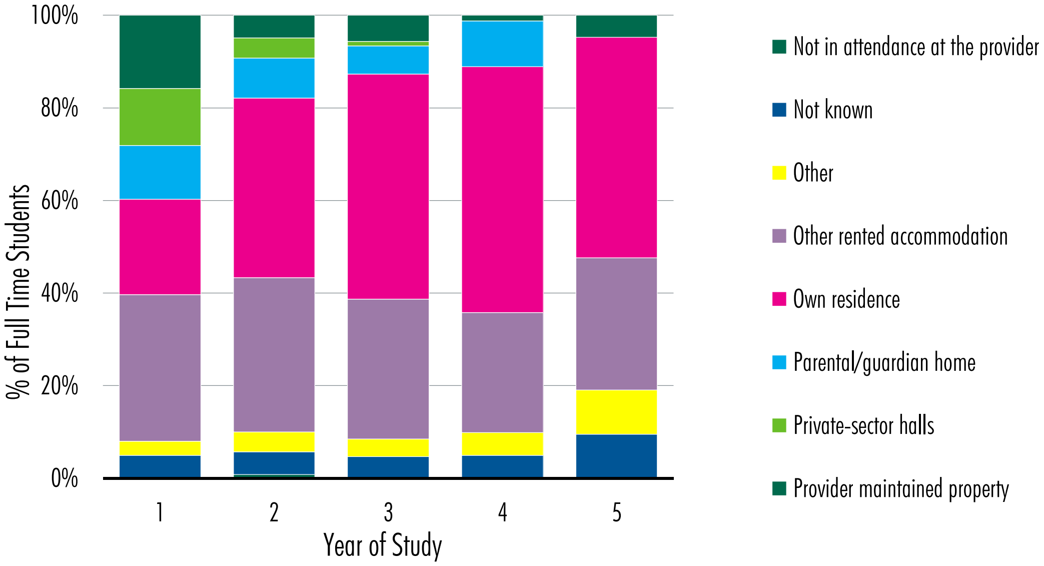
Postgraduates

In 2015/2016 16% of 1st year postgraduate students at the University of Sussex lived in institutionally maintained property. In the same year 21% of 1st year postgraduates lived in their own residence, and 32% lived in the Private Rented Sector.

Where University of Sussex Students Live by Year of Study
Full Time Postgraduates 2015/2016



Source: HESA

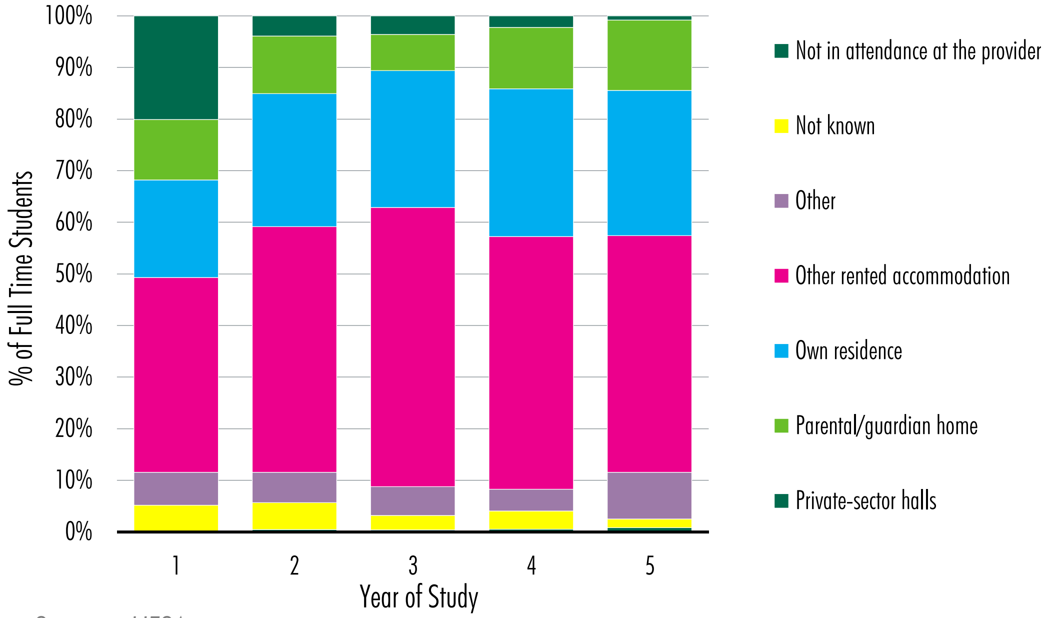


Source: HESA

Peer Group Postgraduates

In 2015/2016 only 29% of 1st year postgraduate students at Universities in the Peer Group lived in institutionally maintained property. In the same year 13% of 1st year postgraduates lived in their own residence, and 27% lived in the Private Rented Sector. The majority of postgraduate students throughout all years tend to live in the PRS. Trends relating to where postgraduate students live at the University of Sussex and its Peer Group tended to mirror each other further than within the undergraduate cohort.

Where Peer Group Students Live by Year of Study
Full Time Postgraduates 2015/2016



Source: HESA

Key Points

- In 2015/16 the majority of first year University of Sussex students lived on the University campus PBSA. Other popular areas included PRS accommodation around Moulsecombe and in the centre of Brighton.
- Generally first year undergraduates lived in university halls then a major shift occurs towards the HMO market (other rented) in second and third years. There was a lower than average proportion of students living in halls in their second year compared to The Peer Group.
- 40% of students at the University of Sussex lived in the HMO market (other rented), which was higher than the UK average of 31% of students. The most popular area was Elm Grove, followed by Moulsecoomb, Bevendean, Hanover, Hollingdean and Stanmer, and St Peter's and North Laine.
- In 2015/16 7% of Sussex students lived in a parental/guardian home, which is a lower proportion than the average for the UK.
- There are only three private direct let schemes in operation in the Brighton, of which the University of Sussex currently has a nomination agreement with one.
- There are 1,199 purpose built student bedspaces to with planning permission, (largely located in the centre of Brighton, and in Moulsecombe). We estimate that 749 of these could be provided as direct let.

DEMAND FOR ACCOMMODATION

Students per Bedspace Ratios

According to HESA in 2015/2016 of the 14,465 full time Higher Education students enrolled at The University, 4,008 lived in PBSA. This equates to a ratio of 3.61 students per bedspace. This is a higher ratio than the average for the Peer Group average of 2.79 students per PBSA over the same period as detailed below; however, it is lower than the UK average of 3.71 students per bedspace.

Whilst this is a simple approach it suggests that the University has a lower proportion of PBSA than its Peer Group, but more than the UK average.

Ratio of Purpose Built Accommodation per Student from HESA Data

UoS versus Peer Group and UK Average

Full Time Students 2015/2016

University / Group	TOTAL POPULATION	UNIVERSITY ACCOMMODATION	PRIVATE SECTOR HALLS	TOTAL PBSA	STUDENTS PER BEDSPACE RATIO
The University of Warwick	19,196	8,642	282	8924	2.15
The University of Surrey	12,802	5,191	0	5191	2.47
The University of Manchester	36,008	6,958	7,689	14,647	2.46
The University of Essex	10,455	3,809	199	4008	2.61
The University of York	15,209	5,742	0	5742	2.65
The University of Exeter	18,383	5,245	1,507	6,752	2.72
PEER GROUP AVERAGE	**202,143**	**58,809**	**13,565**	**72,374**	**2.79**
The University of Southampton	23,179	7,309	479	7788	2.98
Royal Holloway & Bedford New College	8,883	2,913	0	2913	3.05
The University of Kent	15,436	3,661	1,367	5,028	3.07
The University of Leeds	28,608	7,272	2020	9292	3.08
The University of Sussex	**14,465**	**3,325**	**683**	**4,008**	**3.61**
UK AVERAGE	**1,740,543**	**336,044**	**132,722**	**468,766**	**3.71**
The University of Brighton	13,984	2,067	22	2089	6.69

Source: HESA

- The University of Brighton had the highest ratio of students per bedspaces, at over six students per bedspace, whilst the University of Warwick was the most supplied with student accommodation with a bedspace ratio of 2.15.
- Over 48% of University of Brighton are reliant upon the HMO sector for accommodation. This will clearly put pressure on both University of Sussex and Brighton students looking for accommodation.
- When compared to its Peer Group, the university was undersupplied with student accommodation, especially when compared to other campus universities such as York, Warwick, and Exeter.

Source: HESA

Headroom Calculation

To estimate the likely headroom of students who potentially require but who are unable to access student accommodation we have looked at the total full time student population from 2015/2016 and deducted from this students not requiring accommodation, such as

those living with a parent or guardian, not in attendance or who live in their own residence. We have also deducted from this students who are already living in PBSA. Based on this simple approach, the University in 2015/2016 had a headroom of 6,586 full time students who potentially required but who were unable to access PBSA. However it is important to note that some students prefer to live in HMOS, off-campus accommodation etc.

Student Headroom

Full Time Students unable to access but who potentially require PBSA

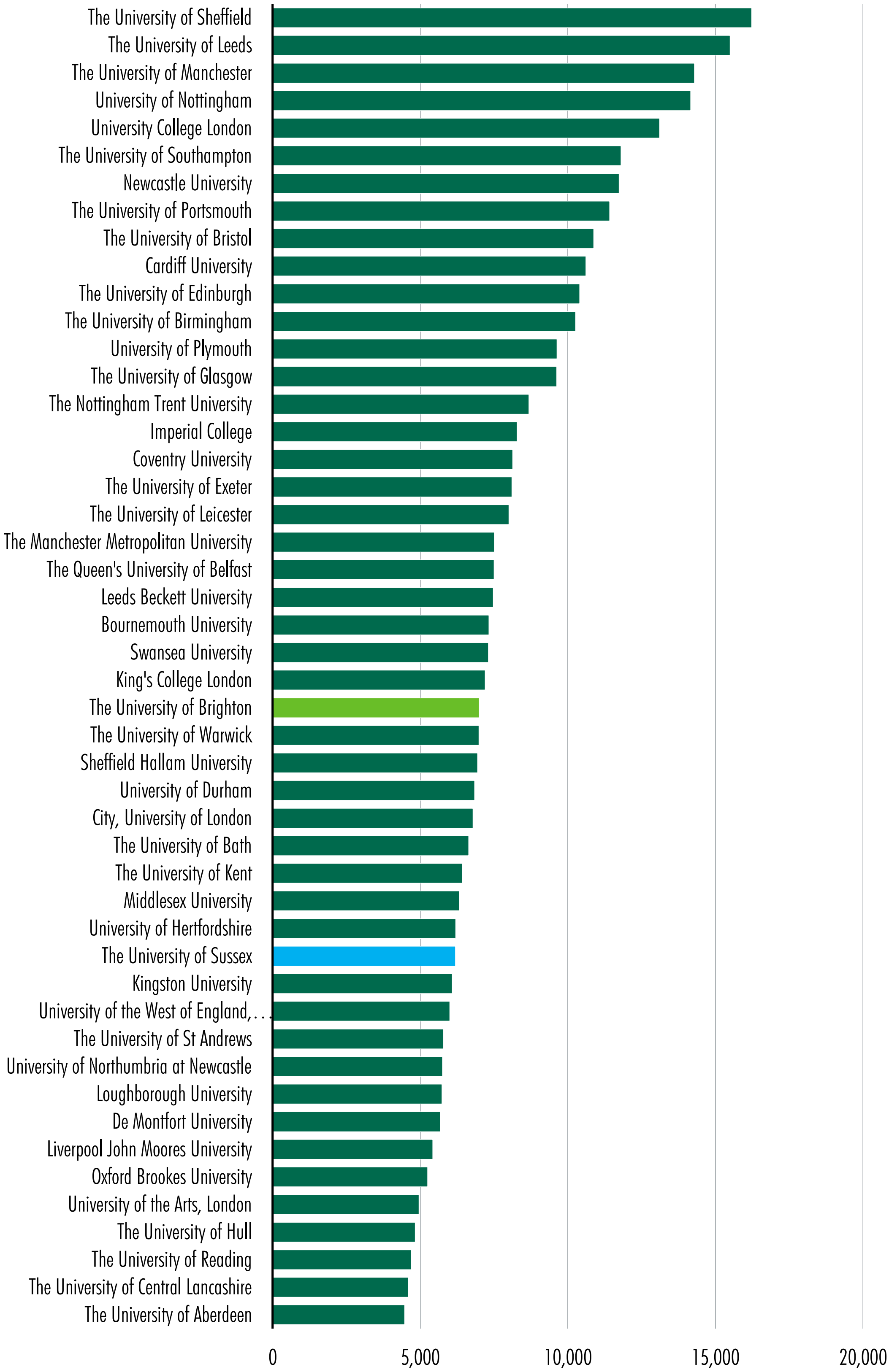
HESA Full Time Students 2015/2016

	TOTAL	HEADROOM*	HEADROOM AS A % OF FT TOTAL
The University of Surrey	12,802	3,688	29%
Royal Holloway and Bedford New College	8,883	3,790	43%
The University of Essex	12185	5,865	48%
The University of York	15,209	4,458	29%
The University of Sussex	**14,465**	**6,586**	**46%**
The University of Warwick	19,196	7,641	40%
The University of Kent	15,436	6,629	43%
The University of Brighton	13,984	7,625	55%
The University of Exeter	18,383	8,107	44%
The University of Southampton	23,179	12,315	53%
The University of Manchester	36,008	15,019	42%
The University of Leeds	28,608	15,845	55%
Peer Group Average	**202,143**	**89,252**	**44%**
UK AVERAGE	**1,740,543**	**649,514**	**37%**

Source: HESA

**Headroom equals total full time population less all students staying in PBSA, living in own residence or stay in parental/guardian home.*

50 Largest Headrooms by University out of 163 Universities
Full Time Students 2015/2016



Source: HESA

Key Points

- Using HESA data as a snap shot for 2015/2016, there was a ratio of 3.61 University of Sussex full time students per purpose built bedspace. This is higher than the Peer Group average of 2.79 students per bedspace. It is lower than UK average of 3.71, but as a remote campus based university this is to be expected.
- According to HESA 2015/2016 data, there was an estimated 6,193 full time students (excluding Study Group) who required but were unable to access student accommodation. This is one of the larger headrooms in the UK.

UNIVERSITY OF SUSSEX STUDENT PROJECTONS AND ACCOMMODATION PIPELINE

To gain a more accurate estimate of supply and demand we have combined all the statistics set out in this report into the table below.

Within the table we have included future pipeline schemes from the University, namely West Slope, which if completed is likely to comprise a net gain of 1,008 new bedspaces and is estimated to be delivered for the 2022/23 academic year.

There is also a decrease in existing accommodation supply as the current East Slope (592 bedspaces) is demolished and the nomination agreement at Abacus House expires (300 bedspaces).[9]

			2016/17 (Provisional)	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total FT Undergraduates			12,186	13,797	14,017	14,057	14,057	14,057	14,057
Total FT Postgraduates			3,944	3,858	3,858	3,858	3,858	3,858	3,858
Study Group Students			816	1,200	1,200	1,200	1,200	1,200	1,200
TOTAL FULL TIME STUDENTS			**16,946**	**18,855**	**19,075**	**19,115**	**19,115**	**19,115**	**19,115**
				11.3%	1.2%	0.2%	0.0%	0.0%	0.0%
CORE DEMAND - FIRST YEAR UNDERGRADUATES, POSTGRADUATES, & STUDY GROUP									
Under Grad	Home and EU		4,269	3,849	3,849	3,849	3,849	3,849	3,849
	Non EU		670	806	806	806	806	806	806
	Total		4,939	4,655	4,655	4,655	4,655	4,655	4,655
	Proportion not req accommodation*	13%	642	605	605	605	605	605	605
	Potential UG New Entrant Demand		4,297	4,050	4,050	4,050	4,050	4,050	4,050
Postgraduate	Home and EU		1,384	1,122	1,122	1,122	1,122	1,122	1,122
	Non EU		1,944	2,174	2,174	2,174	2,174	2,174	2,174
	Total		3,328	3,296	3,296	3,296	3,296	3,296	3,296
	Proportion not req accommodation*	34%	1,132	1,121	1,121	1,121	1,121	1,121	1,121
	Potential PG New Entrant Demand		2,196	2,175	2,175	2,175	2,175	2,175	2,175
Study Group			816	1,200	1,200	1,200	1,200	1,200	1,200
Total Core Demand Pool			7,309	7,425	7,425	7,425	7,425	7,425	7,425
Core Demand - Typical Accommodation Take Up		100%	7,309	7,425	7,425	7,425	7,425	7,425	7,425
as a ratio of total FT population			2.32	2.54	2.57	2.57	2.57	2.57	2.57
as a % of total FT population			43%	39%	39%	39%	39%	39%	39%

[9] University of Sussex February 2017

DEMAND FROM RETURNING PG AND UG STUDENTS										
Under Grad	Home and EU		5,524	7,480	7,619	7,642	7,642	7,642	7,642
	Non EU		1,723	1,662	1,743	1,760	1,760	1,760	1,760
	Total		7,247	9,142	9,362	9,402	9,402	9,402	9,402
	Proportion not req accommodation*	31%	2,247	2,834	2,902	2,915	2,915	2,915	2,915
	Potential Returner UG Demand		**5,000**	**6,308**	**6,460**	**6,487**	**6,487**	**6,487**	**6,487**
Postgraduate	Home and EU		416	374	374	374	374	374	374
	Non EU		200	188	188	188	188	188	188
	Total		616	562	562	562	562	562	562
	Proportion not req accommodation*	49%	302	275	275	275	275	275	275
	Potential Returner PG Demand		**314**	**287**	**287**	**287**	**287**	**287**	**287**
Returners Demand Pool			5,315	6,595	6,746	6,774	6,774	6,774	6,774
Returners Demand Pool - Typical Take Up @		55%	2,923	3,627	3,711	3,726	3,726	3,726	3,726
as a % of total FT population			17%	19%	19%	19%	19%	19%	19%
Total Estimated Demand			**10,232**	**11,052**	**11,136**	**11,151**	**11,151**	**11,151**	**11,151**
as a % of total FT population			60%	59%	58%	58%	58%	58%	58%
as a ratio of total FT population			1.66	1.71	1.71	1.71	1.71	1.71	1.71
ACCOMMODATION (from UoS)									
Total Existing On Site Rooms			4,221	4,221	3,629	3,629	3,629	3,629	3,629
Total Existing Off Site Rooms			803	803	803	503	503	503	503
West Slope Commitment			0	0	0	0	0	0	1,008
East Slope Development			0	0	1,036	1,036	2,117	2,117	2,117
TOTAL Bedspaces			5,024	5,024	5,468	5,168	6,249	6,249	7,257
Beds as % of FT Pop			30%	27%	29%	27%	33%	33%	38%
Beds as % of Core demand			69%	68%	74%	70%	84%	84%	98%
Beds as % of Total Estimated Demand			49%	45%	49%	46%	56%	56%	65%
Total FT Students per Bedspace			3.37	3.75	3.49	3.70	3.06	3.06	2.63
Total Students in Core Demand per Bedspace			1.45	1.48	1.36	1.44	1.19	1.19	1.02
Core demand less beds			2,285	2,401	1,957	2,257	1,176	1,176	168
Total Estimated Demand less Beds			5,208	6,028	5,668	5,983	4,902	4,902	3,894

Source: HESA/ University of Sussex

**Students living in own home, parental or guardian, or not in attendance at university. Proportion based on 5 year HESA average for UoS - 2011/2012 to 2015/2016*

There are several things to consider:

- In accordance with data published by the University, the table assumes that **there will be no growth in students from 2018/2019 onwards**. This has been implemented as the University are yet to release a Strategic Plan for 2018 onwards.
- We have split the demand into two parts, the Core Demand and Demand from returners. The Core Demand comprises the current accommodation guarantee and is therefore limited to first year undergraduates, international post graduates and Study Group students.
- We have estimated the take up of accommodation for the first years Core Demand based on 5 year HESA trends for those not requiring accommodation.

- The take up for Study Group at 100% and returners at 55% has been based on the University estimates.
- Using the projections set out above, it is estimated that with both East Slope and West Slope (1,008 extra bedspaces) completed in 2022/2023 there would be 2.63 bedspaces per full time student.
- This still would not cover the core demand and there would be an undersupply of 168 bedspaces.
- This estimated shortfall increases to 3,894 bedspaces if demand from returning students is included and the take up rates are as per the University's 55% take up prediction (equating to 19% of the total full time population).If this is increased to 77% as the recent survey by the University suggests, the shortfall increases to over 5,000 bedspaces.
- Taking into account bedspaces at current and pipeline direct let schemes, there are a further 2,000 bedspaces available to students. Whilst there is likely to be demand from University of Brighton students for these bedspaces, based on the estimates set out there would still be a shortfall of bedspaces.

Restrictive Covenant

To ensure that there remains sufficient demand for the proposed accommodation it has been proposed that the University should be restricted from committing to accommodation projects unless it can demonstrate that a student per bedspace ratio of no lower than 2.5 is maintained.

The table below shows how this will restrict the number of bedspaces and how this will compare to demand.

Demand based on a 2.5 Students per Bedspace Ratio

	2016/17*	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Full Time Students	16,946	18,855	19,075	19,115	19,115	19,115	19,115
Beds for a 2.5 ratio	6,778	7,542	7,630	7,646	7,646	7,646	7,646
Core Demand	7,309	7,425	7,425	7,425	7,425	7,425	7,425
Demand from returners	2,923	3,627	3,711	3,726	3,726	3,726	3,726
Total Demand	10,232	11,052	11,136	11,151	11,151	11,151	11,151
Demand less bedspaces	3,454	3,510	3,506	3,505	3,505	3,505	3,505

*Source: University of Sussex *Provisional*

As the table shows, with the bedspaces restricted to a ratio of 2.5, in 2019/2020 despite providing 7,646 bedspaces there is estimated to be 3,505 students unable to access but potentially requiring accommodation based on the University estimated 55% take up rate for returner students.

Furthermore, the Core Demand pool of 7,425 students will absorb most of this demand, with only 221 bedspaces being available for returners.

Consequently, even if the take up rate for returning students is dropped to say 15% (which equates to 5% of the total full time population) there is still an estimated undersupply of 800 bedspaces.

However, as stated earlier in the report, the University have a desire to offer accommodation to returning students and consequently would like to secure more bedspaces. This would clearly reduce the ratio to less than 2.5 students per bedspace.

As the University currently do not offer accommodation to returners, or have a waiting list, it is currently difficult for the demand to be clearly demonstrated. It has therefore been proposed in the Project Agreement that prior to any change to the 2.5 ratio, the University must demonstrate that for three consecutive years there has been a ratio of greater than 1.5 accommodation applications (one application per student) per university bedspace provided, provided that the total student per bedspace ratio does not fall below 2.0 students per bedspace. The emphasis will therefore be on the University to open up the accommodation offer to returners in order to test and then demonstrate sustained demand, before they are permitted to commit to additional bedspaces.

Set out below is a revised table to illustrate the maximum permitted bedspaces under the 2.0 ratio. As the table highlights with a reduced ratio from 2019/2020 onwards there could be a maximum of 9,588 bedspaces based on the University population forecast. There would still be an estimated shortfall of bedspaces, albeit this is reduced to 1,593 students. Whilst this is a lower headroom than under the 2.5 ratio, it is important to note that the University will only be able to commit to these bedspaces if it can demonstrate that there have been three consecutive years of actual accommodation applications, which effectively proves that there would be demand before the ratio is allowed to be lowered. It is also worth noting that this this is based on an estimated 55% take up rate from returners. The University are predicting a higher rate than this based on a recent student engagement survey as set out earlier in this report. If an increased number of returners take up accommodation then clearly this headroom will grow further.

Demand based on a 2.0 Students per Bedspace Ratio

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Full Time Students	16,946	18,855	19,075	19,115	19,115	19,115	19,115
Beds for a 2.0 ratio	8,473	9,428	9,538	9,558	9,558	9,558	9,558
Core Demand	7,309	7,425	7,425	7,425	7,425	7,425	7,425
Demand from returners	2,923	3,627	3,711	3,726	3,726	3,726	3,726
Total Demand	10,232	11,052	11,136	11,151	11,151	11,151	11,151
Demand less bedspaces	1,759	1,625	1,598	1,593	1,593	1,593	1,593

*Source: University of Sussex *Provisional*

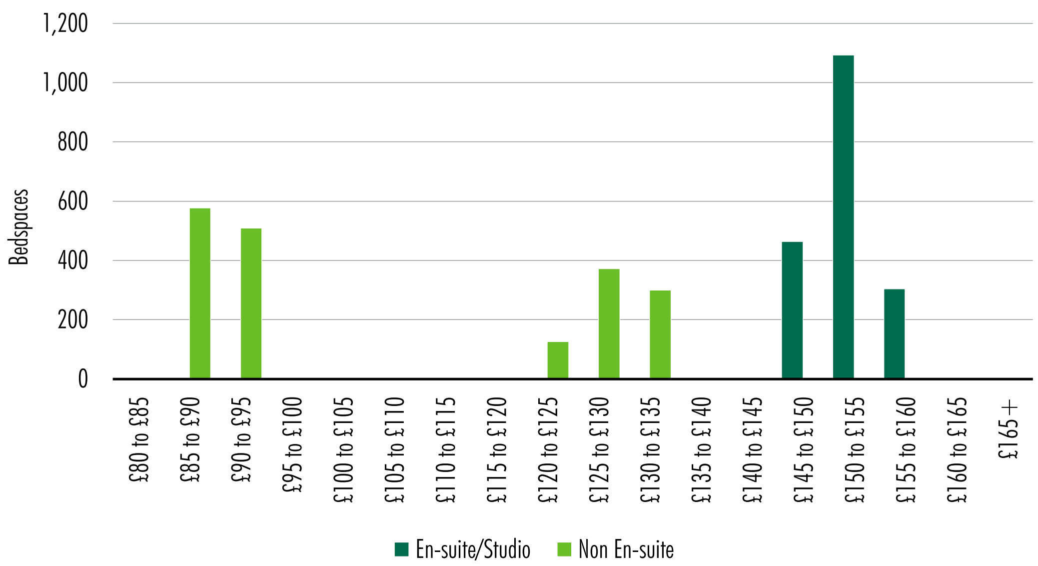
UNIVERSITY OF SUSSEX RENTAL LEVELS

University Stock

The University of Sussex's stock is largely composed of self-catered cluster bedrooms. There is a large spectrum of rents for these units; dependent on size, location, and whether an en-suite is included or not. The majority of rents for non en-suite bedrooms are between £86 - £135 per week for campus-based single rooms, or £126 for off-campus head-leased single rooms. The majority of rents for en-suite rooms are between £146 to £152 for an on-campus standard en-suite room. Studios range from £153 to £163 per week. The greater part of this type of stock is provided in Northfield – the university's recently completed 1,105 bed en-suite scheme. Undergraduate accommodation is let on 39 week contracts, and postgraduate accommodation is let on 50 week contracts.

University of Sussex Self Catered Rental Range

2016/17 Advertised Rents



Source: University of Sussex Website

We have compared rents to the Peer Group. As at the date of this report not all 2017/2018 rents are out yet, so 2016/2017 rents were analysed.

Peer Group Residential Estate Pricing

Academic Year 2016/17

2016/17 WEEKLY RENT £	SINGLE BEDROOM	EN-SUITE BEDROOM	FAMILY FLATS
Surrey	£69.00.00-£99.50	£135.50-£160.00	
Essex	£73.01 - £131.39	£122.64 - £140.98	no info
Warwick	£77.00-£118.00	£136.00-£171.00	£560pcm
Exeter	£81.00-£105.00	£129.00-£142.00	no info
Leeds	£83.00 -£ 117.00	£107.00 - £142.00	no info
Sussex	**£88.56-£128.74**	**£147.82-£151.86**	**£207-£216**
Southampton	£92.33-£147.07	£122.92-£178.15	£900 pcm
Manchester	£95.00-£145.00	£125.00-£180.00	£91.00
York	£106.00. - £125.00	£135.00	££148.54-£184.38
Kent	£108.64-£136.36	£127.27-£162.05	no family flats
Royal Holloway	£117.04 -£128.50	£140.49 - £172.94	£129.62-£253.27
Brighton	£121.00-£157.00	£142.00-£157	no info

Source: University Websites Nov 2016

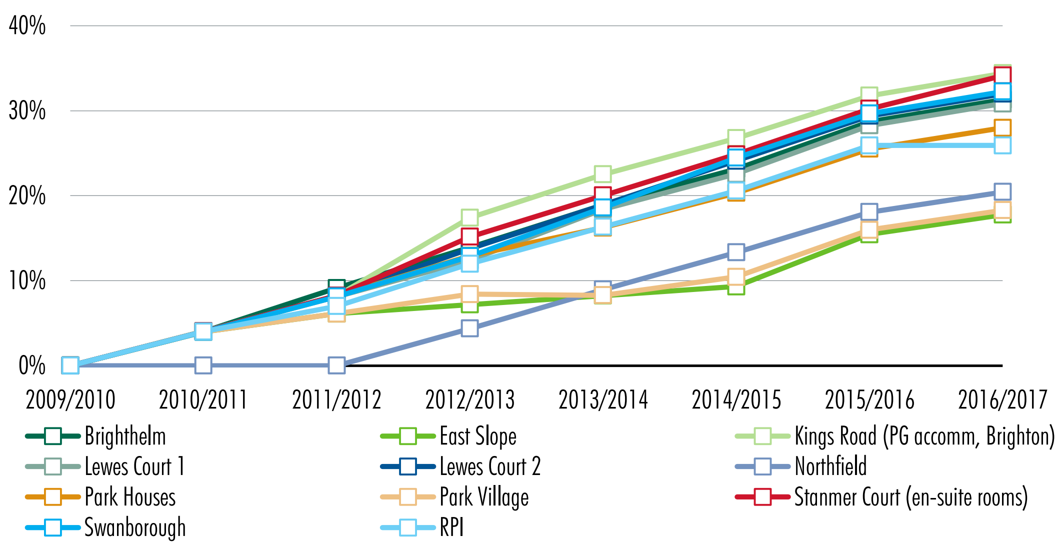
- Offering single rooms from between £86 - £131 per week, the University of Sussex's rents are within range of those within its Peer Group.
- Rents for en-suite rooms, at between £142 to £151 for an on-campus standard en-suite, are average for the Peer Group range.

Historic University Rental Growth

The University takes a variety of factors into consideration in setting rents, but in particular, increases in their costs in providing that accommodation. The University is also mindful any market supply-demand dynamics, peer group positioning etc; aiming to offer a competitive range of accommodation options which appeal to prospective and existing students.

University of Sussex Accommodation Rental Increase per Annum

2010 to 2017



Source: University of Sussex

Rents at popular schemes such as Kings Road, Stanmer Court (en-suites), and Swanborough have increased at a greater rate than others. Rents on less popular schemes are understandably cheaper and in some instances have increase at a rate below RPI.

Northfield Year on Year Rental Increases per Annum
2012 to 2016

YEAR	NORTHFIELD
2012/2013	4.36%
2013/2014	4.41%
2014/2015	4.00%
2015/16	4.18%
2016/2017	2.00%

Source: University of Sussex

Rental increases at Northfield have been regularly above RPI, as this is a popular, modern scheme which consistently attracts a good level of subscriptions.

Tenancy Lengths at University of Sussex

The university offer tenancy lengths of 39, 50 and 52 weeks. Typically, undergraduate accommodation is let on 39 week tenancies, postgraduate accommodation on 50 week tenancies, and family accommodation on a 52 week contract basis. The university allocates undergraduates and postgraduates to specific schemes and rooms types dependent on availability, and undergraduate numbers.

Direct Let Rental Evidence

In September 2014 Abacus House, the first private scheme opened, albeit it is let to the University of Sussex on nomination agreement for the first year which is detailed below:

ABACUS, 94-101 London Road, Brighton, BN1 4LB (Student Housing Company)

Abacus is a purpose built scheme comprising 351 en-suite rooms in 3, 4 and 5-bed apartments and studios, completed for the 2014/2015 academic year. The scheme is situated on London Road, in Brighton City Centre, 3.7 miles south west of the campus-based East Slope development site.

The rooms have been completed to a high specification, with ¾ beds, deluxe en-suite shower rooms, and larger study space. Communal features include a large common room, internal courtyard, laundry room and bicycle storage. All utilities, contents insurance, broadband and WIFI connection are included in the price.

In comparison to the East Slope residences development, this scheme offers students best in class accommodation in a City Centre location. However, given the situation of the Falmer campus, students would have to undertake a commute which may not appeal.

The East Slope development will offer accommodation with a less ‘boutique’ feel, however it benefits significantly from a central campus location which will clearly be desirable to University of Sussex students.

Pricing for 2017/18 is set out below:

Rental Levels 2017/2018

Type of Room	Weekly Rent (2017/18)	Contract length (Weeks)
3/4/5 Bedroom Cluster En-suite	University of Sussex £156	50
Studio	£230 to £250	51

Source: Operators Website: http://www.iqstudentaccommodation.com/student-accommodation/brighton/abacus-house [Website accessed 16/02/2017]

Saw Mills, 2-4 Newmarket Road, Brighton BN2 3QF (CRM STUDENTS)

This small scheme opened in for 2017/18 and is reported to be sold out. It is situated to the north east of the Brighton, in-between London Road and Moulscoomb stations. Rents for 2017/18 are set out below:

Room Types (as advertised)	Rent (17/18)	Contract
5 Bed En-suite	£195	51
3 Bed Courtyard En-suite	£205	51
Studio	£218	51
Studio (Accessible)	£218	51
Studio Balcony	£230	51

Source: Operators Website: http://www.crm-students.com/crm-accommodation/brighton/sawmills/ [Website accessed 16/02/2017]

HMO Rental Levels

Based on our research and conversations with local estate agents via telephone between 15th February 2017 and 16th February 2017, the rents outside the City Centre are typically £140 per week for non en-suite accommodation within a shared house or flat, and from £160 for studios. Both are normally offered on a 52 week contracts. After making an allowance for bills this increases to £160 and £185 per week respectively.

In the City Centre rents are higher, typically in the region of £175 per week and £220 per week 'all in' for non en-suite and studios respectively. Again, both are typically offered on 52 week contracts.

Analysis of Most Comparable Schemes to East Slope

The proposed East Slope development will provide the University with the next phase of modern, en-suite accommodation, and is intended to raise the general quality of the university's residential campus offer. The development will be of an equal, if not better quality product to the recently completed residences of Northfield, benefitting from an excellent campus location, closer to the amenities and lecture locations.

The best comparable evidence for rental levels at East Slope is therefore at Northfield and Swanborough, completed in 2013 and 2007 respectively.

Northfields, the last phase of which was completed in 2013, has been finished to a good specification currently charges £151.86 for en-suite accommodation, which is the same price as the university's proposed rent for East Slope and a discount rent for the townhouses at £144.27.

Swanborough, which was completed in 2007, offers high quality en-suite accommodation in cluster flat formats. It occupies the best location on campus for student accommodation, being the furthest south of all the current residences offered. It currently charges £153.01 for a standard en-suite room, a higher level than that proposed at East Slope.

The University of Brighton's rents are generally in line with the University of Sussex, with standard rooms ranging between £121.00-£167.00 on variable contract length options. However, there is an example of £150 per week for 39 week contracts which is for newly constructed well specified accommodation on the nearby Varley Park campus. The premium rooms are 14.2 sqm, have double beds and are located above the main campus hub which may justify some of the premium.

Rental Levels at Comparable Schemes

Northfield & Swanborough 2017/18 Rents

UNI	LOCATION	SCHEME	ROOM TYPE	BATHROOMS	WEEKLY PRICE	CONTRACT
UOS	Campus	**Northfield**	En-suite	En-suite	£151.86	39/50
			Studio	En-suite	£163.00	39/50
			Family	En-suite	£207.00	52
UOS	Campus	**Swanborough**	En-suite Standard	En-suite	£153.01	39
			En-suite (7-bed Cluster)	En-suite	£153.01	39
UOB	Varley Park	**The Hub**	Standard Room	En-suite	£142.00	50
			Premium Room	En-suite	£157.00	39
UOB	Falmer	**Great Wilkins**	Self-catered	En-suite	£141.00	50

Source: CRM/iQ

Key Points

- The majority of rents for non en-suite bedrooms fall between £86 - £131 per week for campus-based shared or single rooms, or £124 for off-campus head-leased single rooms.
- The majority of rents for en-suite rooms are between £142 to £151 for an on-campus standard en-suite room. The greater part of this type of stock is provided in Northfield – the university's recently completed 1,105 bed en-suite scheme.
- Northfield, the last phase of which was completed in 2013, has been finished to a good specification currently charges £151.86 for en-suite accommodation, which is equivalent to the university's proposed rent for East Slope
- Undergraduate accommodation is typically let on 39 week contracts, and postgraduate accommodation is let on 50 week contracts.
- The average of the most recent 5 year period shows rents increasing at an annual average of 3.88% against an RPI average of 2.83%.
- Rents at popular schemes such as Kings Road, Stanmer Court (en-suites), and Swanborough have increased at a greater rate than others.
- The University takes a variety of factors into consideration in setting rents, but in particular, increases in the costs of accommodation provision.
- Abacus, a privately operated student residence in the centre of Brighton is advertised by the University at £156 per week for en-suite rooms, and studio rooms are £230-£250 for 51 week contracts (direct let).

- The University of Brighton's rents are generally in line with the University of Sussex, with standard rooms ranging between £121 to £157 on variable contract length options. However, £157 per week charged for premium en-suites on a 39 week contracts basis at the newly constructed well specified accommodation on their Varley Park campus.
- Rents in HMOs outside the City Centre are typically £140 per week for non en-suite accommodation within a shared house or flat, and from £160 for studios, on a 52 week contract. After making an allowance for bills this increases to £160 and £185 per week respectively.
- In the City Centre rents are between £170 per week and £200 per week 'all in' for non en-suite and studios respectively. Both are typically offered on 52 week contracts.

ADDITIONAL DEMAND

With most term time contracts being 39 weeks there is an opportunity for summer lettings.

We envisage there would be a strong demand for accommodation at East Slope various sources including:

Students Staying On

- University of Sussex summer graduations which take place in July
- Students working in Brighton over the summer
- International students who cannot store their possessions over the summer period
- Students retaking exams
- The university usually offer two pre-sessional English Languages courses: a 10-week course and a five-week course.

ISS

The University of Sussex's International Summer School (ISS) is part of the School of Business, Management and Economics. In 2013 the ISS attracted students from over 30 countries. Students may study from the end of June to mid-August for either four or eight weeks and choose from more than 60 modules across all Schools to gain credit towards their degree or experiment with something new.

Summer School students live on campus, housed in single rooms in the new Northfield accommodation and in Lewes Court.

We understand that some of the current accommodation demand emanating from various University of Sussex is placed in the Jury's Inn due to its convenient location next to Brighton Station.

Language Schools

- There are approximately 25 language schools in Brighton. Notable ones include: English Language School Brighton (ELC), St Giles International, Brighton Language Centre, Embassy English Brighton, Castle School of English, Olivet English Language School, Stafford House School of English and Ardmore Language School.
- Language schools and foundation course providers
- Study Group Summer Courses

Conference Trade

- Brighton University has 1,660 beds on its Falmer Campus, of which they normally reserve 350 single en-suite rooms for conference delegates during 12 weeks between July and September. From discussions with the university we understand that the majority of conferences hosted at the campus are organised by local companies.

AMEX Stadium

The football stadium, located 0.9 miles south of East Slope, hosts conferences and events such as football, concerts, AMEX Event Day and The Jehovah's Witness Festival. It provides 10 conference rooms, 14 executive boxes and 5 exhibition spaces, totalling 5,616 square metres.

The months of June and July see a large number of major events, resulting in attendee numbers in excess of 25,000.

Football

- The stadium hosts approximately 25 Brighton & Hove Albion football matches annually. Whilst the majority of these are played on weekends, approximately 40% of matches are played on weekdays. During these days the stadium records on average 26,000 spectators, of which guest team supports usually account for between 1,000-3,000 fans per match.
- We understand from our research into the market, that accommodation demand is generated on match days from supporters of guest teams, especially those located further than 200 miles from the stadium.

Jehovah's Witness Festival and American Express event day and Annual Events

- The Convention of Jehovah's Witnesses (3-day event), and the American Express event day both result in a full stadium (27,500 capacity). Further important annually held events include a wedding fair, tool show, and careers fair.
- On non-match days, the stadium's conference facilities are well used, with approximately 1,800 events held throughout the year.

Major Brighton Events

- **The Great Escape Festival** is a major three day music festival held in the city of Brighton and Hove every year in May. Approximately 16,000 visitors are attracted to this event over its duration.
- The world's largest free charity beach festival "**Paddle Round the Pier**" is held in Brighton every July, attracting up to 20,000 visitors over the weekend.
- **Brighton Pride Festival** has become one of the biggest and best Pride Festivals in UK. It is a one-day event, also featuring a parade and a concert, usually held in August. The festival regularly attracts over 25,000 attendees.
- **Brighton Fashion Week** has recently been named 'Europe's number one Fashion Week for breakthrough designers' and become the leading fashion event in the south. The festival lasts 5 days throughout October.

We understand that the major events listed above put a large amount of pressure on hotels in Brighton and we expect that these will be the busiest periods for short term summer lettings.

Tourism

Brighton receives over eight million visitors per year. The 2005 Observer Travel Awards named Brighton as one of the top ten favourite cities in the UK, and the 2005 International Passenger survey lists Brighton as one of the top 10 UK destinations for overseas visitors. The award winning pebble beach in Brighton has been voted one of the top 10 beach destinations in the world.

A number of visitors stay in Brighton and the surrounding area in order to enjoy the Sussex countryside, castles, country houses, parks, forts and gardens just outside the city. The South Downs are an established attraction for ramblers and walkers, and we are informed that East Slope accommodates many of these during the summer months.

University Comments on Additional Demand

The University have informed us that bookings for summer 2016 totalled approximately 69,200 bed nights. This is made up of 54,270 for Housing Services and 14,930 Conferences.

Housing Services is the office responsible for managing all student and University department bookings (e.g. summer schools) as well as some commercial. In addition approximately 850 rooms are let on 50 week tenancies.

The Conferences office manage external commercial and can provide meals and teaching space.

Students, members of the public and external commercial groups can apply for summer rooms via either Housing Services or the Conference office, who offer a different range of prices depending on services offered. Services include meals, bedding, cleaning, and teaching space.

The majority of demand is from University of Sussex departmental bookings (e.g. Sussex summer schools), external summer schools that last for a few weeks, and conferences that last for a few days. Student and public bookings make up the rest of the demand.

High end accommodation such as Northfield, Brighthelm and Swanborough is in high demand and therefore reported to be at between 90% and 99% booked with only low specification schemes such as the current East Slope having some rooms vacant.

	% of rooms let in Summer 2015 (including any 52 term time tenancy)	% of rooms let in Summer 2016 (including any 52 term time tenancy)
Brighthelm	98	98
East Slope	30	30
Lewes Court	95	95
Northfield	90	90
Park Houses	30	50
Park Village	50	50
Stanmer Court	95	65
Swanborough	95	95

*Source: University of Sussex November 2016. *includes holiday lets, summer rents and 52 week lets*

The University report to have excess demand for high end rooms from external commercial interest, which the new East Slope is envisaged to help to satisfy.

We understand from the University that the average rent achieved from the bookings in 2016 equated to the average per week achieved during 2015/2016 term time.

The University have anecdotally informed us that they have not actively sought to maximise the income during the summer period. Whilst further due diligence is required to verify this, it would appear that there may be scope to improve income during this period with active marketing to more lucrative commercial conference trade, especially given the high occupancy rates and excess demand reported.

Key Points

- The university has a number of well-established summer demand sources, including the University of Sussex's International Summer School, pre-sessional courses, students staying on working, and international students who wish to retain a room.
- There are a number of smaller Language Schools in Brighton.
- There is demonstrable summer demand in Brighton, thanks to a large number of events and festivals which are held during the summer months.
- The City attracts tourism in several formats: ramblers, stadium visitors and conference trade.
- Whilst the University suggest they do not maximise the potential lettings during the summer period, they report to be practically fully occupied over both the 2015 and the 2016 summer periods.

APPENDIX A

1

SCOPE OF WORKS

University of Sussex, Demand Survey, Scope of Works

Balfour Beatty Investments

Topic	**Comment on:**
Scheme Overview	Objective of the scheme
	Planning status
	Location of the scheme
	Description of the scheme (Unit types / sizes / communal kitchens etc)
	What makes the scheme unique (self contained campus, high quality spec)
University of Sussex	Brief History (University Group / Rankings / Structure)
	Types of courses offered
	Comments from Strategic Plan
Falmer / Brighton as a University Town Overview	Universities in Brighton area
	University residences locations relative to the main campus site
	Student Numbers comparison for each university (PG + UG)
University of Sussex Student Population	5 year review of student growth compared to the UK for:
	UG - FT/PT
	PG - FT/PT
	UG - UK / Other EU / Non EU
	PG - UK / Other EU / Non EU
	Comments on growth pattern over the past five years
	UG - student domicile for last 5 years (country/region)
	PG - student domicile for last 5 years (country/region)
	For UG and PG - how many are local students - we can either use data from the university or comment on the proportion of students recorded by HESA as living with parents - 5 year trend
	For all of the above compare to the UK average
	Impact of Tuition Fees on applications based on emerging UCAS data
University of Sussex Residential Estate Current Provision	Uni Schemes – Prepare a schedule and map of uni schemes
	Total No Beds & Schemes
	Breakdown by ownership
	Type of accommodation – proportions of shared bathroom/ en-suite / studio etc
	Quantify no bedspaces by age
	Quality / condition of Stock
	Split of PG / UG Accommodation
	Ratios of University UG/PG student per bed
Student Trends	Students trends - UG 1st years in halls, 2nd and 3rd years in HMO?
	Length of Post grad courses - demand for accommodation
	Type of accommodation required by students (what university accommodation fills up first - is there a difference in requirements between UG and PG)
	Source of PG's - conversion of UG students to PG (from the university)
University of Sussex Estate Strategy	Academic estate projects/commitments in the pipeline
	Accommodation projects/commitments in the pipeline
Student Accommodation Supply Falmer / Brighton	Total Students living in area (all universities) versus whole University of Sussex population
	Location of where University students live - heat map of number of students by postcode sector
	Types of student accommodation (definition of HESA categories - other rented, own residence etc)
	General accommodation trends in Area over last 5 years (where students live – PRS/Uni Halls/Private Halls) - Split by UG and PG +and compared to UK trend - FT students only
	Direct Let halls in area
	Type of accommodation on offer in DL market (ens/studio etc)
	HMO Market - average prices, quality of the supply, any sector regulation - size of the sector
	Any local pressure to house students in halls rather than HMO's - consult local planning policy
	Heat Map of PRS + commentary
	Students not requiring accommodation (own residence / parent / part time)
Pipeline	Pipeline – include where known if schemes are to be direct let and expected markets / distance to campuses / any nomination agreements if known
Demand for Accommodation	Ratios: Students in PBSA / total no of students for UG / PG / UK
	Effect of Pipeline on potential demand (Headroom Analysis) try to split PG if possible
	Demand from Language Schools

Uni of Sussex Rental Levels	Refer to Direct Let & Uni Schedules (state what rent includes - utilities / catering / internet etc)
	Historic Rental Growth from the university stock and compared to RPI over the same period
	University historic occupancy and bad debts
	University rental strategy
	Uni rent versus direct let rent - graph of rental ranges by number of units across all accommodation
	Tenancy lengths at UoS
	Highlight most comparable schemes to East Slope
	Likely headline rents per week if on a direct let basis and rationale
Forecast Student Numbers & Factors Affecting Growth	University projections for UG and PG
	Government Policies on student recruitment
	Factors affecting international growth:

2

TERMS OF ENGAGEMENT

CBRE LIMITED - STANDARD TERMS OF BUSINESS

1. PRELIMINARY

1.1 In these Conditions CBRE Limited is referred to as "we", "us" or "our" and the client with whom we contract to supply services is referred to as "you" and "your".

1.2 Our responsibility is solely to you and we will perform our services with all reasonable care and skill and will act in good faith at all times.

1.3 Your contract is with CBRE Limited. No CBRE Limited officer, director, employee, member or consultant contracts with you directly or assumes legal responsibility to you personally in respect of work performed on behalf of CBRE Limited. All correspondence and other outputs sent to you in the course of our appointment with you shall for all purposes be treated as having been sent on behalf of CBRE Limited.

1.4 Our services and fees are as stated in our letter dated 22nd February 2017

1.5 The terms of our appointment are binding between you and us and may only be varied if mutually agreed in writing with you and accepted in writing by your authorised signatory and one of our Directors or the Associate Director who has signed our letter of appointment.

2. CHARGES AND EXPENSES

2.1 If there is a material change in the scope of our instructions, we will agree with you, in writing, an additional or alternative fee arrangement.

2.2 Unless expressly stated in our letter of appointment, in addition to our fees, you will (subject to condition 2.3 below) be responsible for all reasonably incurred out-of-pocket expenses including, without limitation, advertising, photocopying, printing and reproduction costs, signboards, mailshots, photography, receptions, plan printing charges, courier charges, travelling costs, overnight accommodation etc., and marketing material of any kind.

2.3 If we are responsible for arranging marketing material then we will obtain estimates for the costs of marketing materials and agree them with you before incurring the cost.

2.4 All fees quoted in our letter of appointment are exclusive of VAT, which will be charged at the applicable rate. VAT shall also be payable by you on disbursements and other amounts due, where applicable.

2.5 In the event of our appointment being terminated for whatever cause, we reserve the right to charge for the work carried out (even if incomplete) in accordance with the fee basis agreed for the appointment or any subsequent agreed variations to the terms of our appointment.

3. PAYMENT

3.1 Our invoices are due for payment upon receipt by you.

3.2 We reserve the right to charge interest calculated on a daily basis from the 31st day following the date of the invoice at the statutory rate of interest determined in accordance with the Late Payment of Commercial Debts (Interest) Act 1998 (as amended) and to charge any reasonable debt collection costs incurred by us in the recovery of any outstanding payments that are properly due by you to us.

4. QUALITY CONTROL AND COMPLAINTS PROCEDURE

4.1 We have documented Quality Management Systems (QMS) which have been developed to meet the requirements of ISO 9001:2008. Enhancing client satisfaction and continual improvement are key requirements of our systems and we are dedicated to providing you with a first class personal service.

4.2 In the event that you feel that we are falling short of the high standards that we set ourselves in the services we provide, please do let us know. Our Complaints Procedure involves a full investigation of any complaints that we receive and has been designed to comply with the Royal Institution of Chartered Surveyors ("RICS") Rules of Conduct. A written copy of our Complaints Procedure will be made available upon request.

5. LIABILITY

5.1 All information that has been or will be supplied to us by you or your representatives has been or will be accepted as being correct unless otherwise stated.

5.2 Nothing in this appointment shall exclude or limit a party's liability for death or personal injury caused by that party's negligence, or for fraudulent misrepresentation.

5.3 Neither party to the appointment shall be liable to the other party for any indirect, special or consequential loss or damage howsoever caused, whether in contract, tort, negligence or otherwise.

5.4 A party shall not be liable to the other party for any failure or delay in performance of its obligations under this appointment where such failure or delay is due to reasons outside its reasonable control.

5.5 Subject to condition 5.6 below, our maximum liability (in contract, tort, negligence or otherwise) to you howsoever arising in relation to any property to which the appointment relates, shall in no circumstances exceed 25% of the value (on the basis identified in the appointment or if no basis is expressed Market Value as defined by the RICS) on the date of this instruction of that property.

5.6 Our maximum aggregate liability to you arising from, or in relation to, this appointment (in contract, tort, negligence or otherwise) howsoever arising shall not in any circumstances exceed £20 million.

5.7 You agree that you will not bring any claim relating to this appointment (in contract, tort, negligence or otherwise) personally against any CBRE Limited officer, director, employee, member or consultant.

6. DOCUMENTS

6.1 Unless expressly stated in our letter of appointment, all intellectual property rights in all reports, drawings, accounts and other documentation created, prepared or produced by us in relation to our appointment (including without limitation spreadsheets, databases, electronic mail or any other electronically produced or stored documents) belongs to us.

7. TERMINATION

7.1 Our services under the terms of our appointment will terminate when any one of the following events occurs:

7.1.1 The job is finished; or

7.1.2 If you and we consider that it is not in the mutual best interest of the two parties for us to continue to act on your behalf; or

7.1.3 If you do not pay our invoices as they fall due, or we reasonably anticipate that that will be the case; or

7.1.4 If either you or us becomes insolvent, or has a receiver, liquidator, administrator or administrative receiver appointed; or

7.1.5 If either you or us ceases or threatens to cease trading.

8. SUPPLEMENTARY TERMS

8.1 Valuation appointments only - Where we are acting for you on the valuation of a property or a property portfolio, please refer to the attached Supplementary Terms for Valuation Appointments.

9. MONEY LAUNDERING REGULATIONS

9.1 Legislation has imposed on us obligations for mandatory reporting, record-keeping and client identification procedures. We will attempt to verify your details electronically which will include, where applicable, identifying your parent companies, major shareholders, beneficial owners and directors. On occasions we may need to ask you for certain identification documents to ensure we comply with the Regulations. Where such information is requested, you will provide such information promptly to enable us to proceed to provide our services. We shall not be liable to you or any other parties for any delay in the performance or any failure to perform the services which may be caused by our duty to comply with such requirements.

10. GENERAL

10.1 We do not give legal advice. You should seek legal advice as appropriate from your lawyers. We have no responsibility for the content of any legal advice that is obtained.

10.2 We maintain professional indemnity insurance (details available on request).

10.3 We comply with the Data Protection Act 1998 (as amended) in relation to your personal data.

10.4 The parties to the appointment shall provide all necessary cooperation to ensure that each party complies with the obligations of the Bribery Act 2010.

10.5 All discussions we have with you, advice we give to you and documentation provided by you to us will be kept confidential, unless we agree with you otherwise.

10.6 We support the Code of Practice for Commercial Property Leases.

10.7 For the purposes of the Contract (Rights of Third Parties) Act 1999, you and we agree that it is not intended for any term of the appointment to be enforceable by any third party who, but for the Act, would not have been entitled to enforce such terms.

10.8 If at any time any part of the appointment is held to be or becomes void or otherwise unenforceable for any reason, then that part will be deemed omitted from the appointment. The validity or enforceability of the remaining parts of the appointment shall not in any way be affected or impaired as a result of that omission.

10.9 The appointment, and any issues or disputes arising out of or in connection with it (whether such disputes are contractual or non-contractual in nature, such as claims in tort, for breach of statute or regulation, or otherwise) shall be governed by and construed in accordance with English Law and the exclusive jurisdiction of the English Courts.

APPENDIX 6

TECHNICAL ADVISOR REPORT

Balfour Beatty

Student Accommodation

UNIVERSITY OF SUSSEX

East Slope – Student Accommodation

Lender's Technical Adviser – Report Summary for Investors
5th March 2017

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US
University of Sussex

CONTENTS

1.0 INTRODUCTION

1.1 Main Parties

The main parties involved in the project are:

Role	Party
The Authority	The University of Sussex
The Contractor (the Residential Development Partner 'RDP')	East Slope Residencies Student Accommodation LLP
Independent Tester	Artelia Projects UK Ltd
D&B Contractor	Balfour Beatty Regional Construction Limited
Consultants Employed by the D&B Contractor:	
• Architect	TP Bennett
• Structural and Services Engineers	Arup
FM Provider	East Slope Residencies Facilities Management Limited (Project FM Co set up by Balfour Beatty Investments)

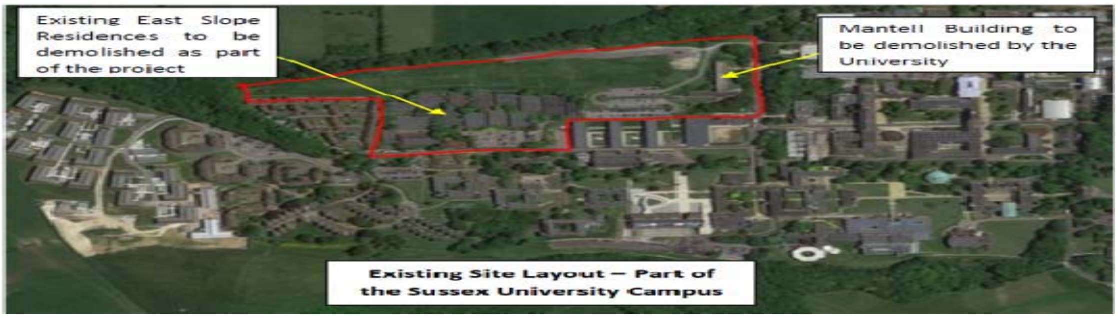
1.2 Key Risks

Risk	Risk Owner
Construction	D&B Contractor - subject to liability caps.
Hard FM	East Slope Residencies Facilities Management Limited (Project FM Co set up by Balfour Beatty Investments) - subject to liability caps.
University Delivered FM Services	The University – subject to liability caps.
Building Life Cycle Expenditure	Sufficiency of the fund is at the risk of the RDP.

1.0 INTRODUCTION (CONT'D)

1.3 Scope of the Project

The Project is for the design, build, finance and operation of 2,117 Beds of Student Accommodation in a combination of Cluster Flats and Town Houses on the Campus of the University of Sussex which is located on the South Downs on the edge of Brighton. There are also 3 Student Hubs and a Student Union building in Block 1 (fit out and maintenance of the internal space is a University obligation). There are 4 Retail Units in Block 1, these units will be leased back to the University. The University / tenant will be responsible for fit out and maintenance of the Units. The FM space is included in Block 2G (level 0) and the ESR Student Services Hub is provided in Block 4A (Level 0). Two Launderettes are also provided. The existing Site layout is shown on the graphic below:-



Construction will be carried out in phases. **It should be noted that the project documents reviewed in this report are being updated to reflect the programme dates below. We have been advised that the build periods for each of the blocks and the buffer / contingency periods within the each of the block build periods previously reviewed have been maintained in the revised phasing dated 3rd March 2017.**

	Finish (PC)	Blocks	Student Occupation	Beds	Total Beds
Advanced Works					
Karst Probing Phases 1 & 2	11/01/2017				
Financial Close	24/03/2017				
Main Works					
Mobilisation	10/02/2017				
Site Establishment	24/03/2017				
Phase 1	22/08/2018	3B, 4A, 4D, 4E, 5A	14/09/2018	328	328
Phase 1A	10/09/2018	4C, 5C	06/10/2018	163	491
Phase 1B	24/09/2018	4B, 5B	20/10/2018	92	583
Phase 2	09/10/2018	3D, 5E, 5F	11/01/2019	248	831
Phase 2A	19/02/2019	5G, 5H, 5J, 3E	14/09/2019	205	1,036
Phase 3 - Student Union (Shell & Core)	27/03/2020	1A, B, C & D			
Phase 4	13/08/2020	3C, 3A, 2G, 2H, 2E, & 2F	11/09/2020	512	1,548
Phase 5	14/12/2020	2C, 2D, 2A, 2B, & 1A, B, C,+D (above the SU)	08/01/2021	300	1,848
			11/09/2021	269	2,117

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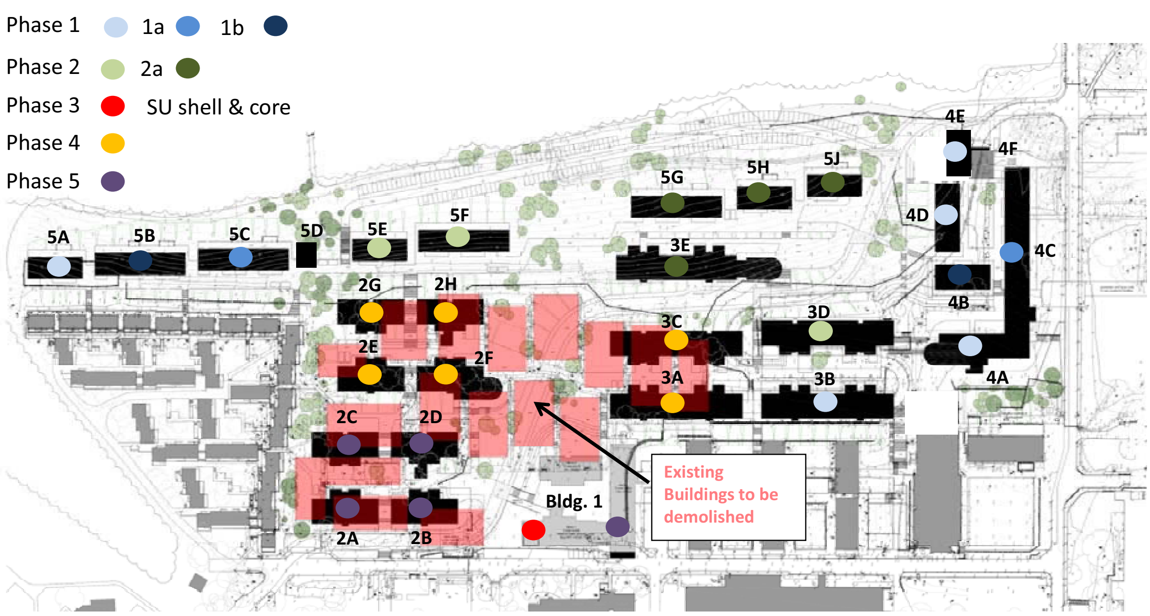
1.0 INTRODUCTION (CONT'D)

1.3 Scope of the Project (Cont'd)

Project Phasing



The Site at completion is shown on the graphic below:

The construction programme and phasing are reviewed in Section 6.

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1.0 INTRODUCTION (CONT'D)

1.3 Scope of the Project (Cont'd)

Heating to the residences is to be provided via the University's district heating system. Electricity, drainage and water connections will also be provided by the University to meet their programme.

At the completion of each construction phase and then for the remainder of the concession period the RDP stepped down to the FM Provider provide the following services:-

- Building and Fabric management and maintenance
- Laundry
- ICT (Internet / Data provision).

The RDP is responsible for the Life Cycle expenditure on the Student Residences and is retaining the risk of the sufficiency of the Life Cycle Fund.

The RDP will also be responsible for Utilities Management.

At the completion of each construction phase the University will be responsible for Marketing, Allocations and Rent Collection.

The University's FM Contractor, SEF (Sussex Estates & Facilities, the partnership which the University has established with Interserve to deliver FM to the entire campus), will carry out the University Soft Services which cover the following functions:

- Reception and Helpdesk
- Cleaning and Waste Management
- Security
- Mail
- Pest Control
- Grounds Maintenance

1.0 INTRODUCTION (CONT'D)

1.3 Scope of the Project (Cont'd)

The University will provide these services to the RDP pursuant to the under lease. The FM Contractor will manage the interface with SEF on behalf of the RDP. The FM Contractor will carry out the administration and reporting requirements of the Project Agreement on behalf of the RDP.

The University can terminate the University Soft Services on 6 months' notice at which point they will become the responsibility of RDP, who in turn will pass that function down to the FM Provider.

The cost provided by the University for carrying out the Soft Services represent the efficiencies of carrying services to the whole of the Campus for the Security and Helpdesk functions. Consequently if the RDP, stepped down to the RDP's FM Provider, are required to perform the Soft Services an uplift in the costs may be required. There is a Rent Adjustment Factor to cover this. There are also compensation provisions in the Under lease which covers a maximum of two years from the RDP taking over the Soft Services to allow the Rent Adjustment Factor to be applied.

There is to be no RDP event of default through the Payment Mechanism associated with poor delivery of the University Soft Services while the University performs the Soft Services. In the event that RDP terminates the University as Provider of the University Delivered Services for poor performance or otherwise then the:-

1. RDP becomes responsible for providing the University Delivered Services and RDP can suffer an event of default through the Payment Mechanism for poor delivery of the Services previously delivered by the University.
2. Service Default Notice triggers in the Payment Mechanism at PA level are to be increased to cater for the fact that RDP becomes responsible for Services previously delivered by the University.

Demand risk rests with the RDP. The University are to guarantee nominations up to a defined level (75%) during the construction period only. This area of due diligence does not form part of our scope of services / appointment and we give no opinion in respect of demand for the accommodation.

1.4 Basis of the Report

Gleeds Advisory Ltd (Gleeds) has been appointed to advise on the technical risks to which the Project is exposed, and how far Assured Guarantee's interests can reasonably and realistically be protected bearing in mind the commercial realities of the Project.

1.0 INTRODUCTION (CONT'D)

1.4 Basis of the Report (Cont'd)

In undertaking their services (which Gleeds has carried out with the reasonable skill, care and diligence to be expected of a properly qualified and competent consultant acting as a lender's technical adviser on a project of similar size, scope and complexity to the Project and receiving a fee similar to the one that Gleeds is receiving) Gleeds has reviewed information provided to it in order to satisfy itself that the work that is being reviewed is being performed in the manner and to the standard that it is required to be performed / in a reasonably appropriate manner and to reasonably appropriate standards. However Gleeds has not independently verified all of the Issuer's and his team's work and reports or other information provided to Gleeds.

In respect of any legal, insurance, financial modelling and property matters any comments or advice are solely in relation to Gleeds' experience of similar projects and are intended to assist Assured Guarantee in seeking advice from specialist consultants about the matters in question, therefore no reliance should be placed on the sufficiency or completeness of the documents or of any such comments or advice.

Gleeds has not carried out a design review and accepts no responsibility for any design matters.

This report is issued on the sole basis and strict understanding that Gleeds' liability and responsibility for the matters set out in it shall not in any circumstances (including but not limited to Gleeds' negligence, breach of contract or breach of statutory duty) exceed the extent (including but not limited to any limitations) of Gleeds' liability and responsibility which are contained in Gleeds' appointment pursuant to which this report was produced.

2.0 PROJECT STRUCTURE AND AGREEMENTS

2.1 Introduction

The Project Structure comprises a Project Agreement dealing with the Construction Phase and the Operational Phase.

The Project Agreement (PA) governs the relationship between the University and the Contractor / RDP (Residential Development Partner).

Responsibility for the Soft Services that will be provided by the University via SEF (Sussex Estates & Facilities, the partnership which the University has established with Interserve to deliver FM to the entire campus) are included in the Under-Lease documentation.

We have assumed, in accordance with normal practice Funders' solicitors have dealt with the legal (including land / property) and legal drafting issues, insurance issues will be dealt with by Funders' Insurance Advisors and financial issues are dealt with by the Funders' Model Auditor and / or the Contractor's Financial Advisor and we give no opinion on these issues.

2.0 PROJECT STRUCTURE AND AGREEMENTS (CONT'D)

2.2 Project Agreement

We have reviewed the Project Agreement - University of Sussex Project Agreement – draft – 15th February 2017.

Project Agreement	Comment
RDP's Due Diligence (Clause 4.8)	The provisions are typical of similar projects. The condition of the Premises will be the sole responsibility of the RDP subject to a number of exceptions. The project specific inclusions include:- 1. Karst Features (Clause 8E) – see below 2. Additional Asbestos (Clause 22A) 3. The University warranted in the Certificate of Title (paragraph 4.5 of Schedule 5 - Land Matters) – which is a Compensation Event 4. Fossils and Antiquities (paragraph 8 of Schedule 7 - Works Obligations) – see below – which is a Compensation Event 5. Shaft to the Southern Water Adit – which is a Compensation Event 6. Unforeseen Ground Conditions and / or Contamination under the "Dark Ground" (under the existing buildings to be demolished etc.) which is a Compensation Event.
Project Obligations / General Standards (Clause 6)	Provisions are generally in-line with other similar projects.

2.0 PROJECT STRUCTURE AND AGREEMENTS (CONT'D)

2.2 Project Agreement (Cont'd)

Project Agreement	Comment
Adapted Rooms (Clause 8c)	The cost of converting the Adapted Rooms for disabled use is paid by the University following completion of the conversion. The relevant RDP obligations appear to have been stepped down to the FM Provider and Payment days have been extended so that the RDP is paid by the University before it has to pay the FM Contractor.
Asbestos (Clause 8E)	There is asbestos within the existing East Slope Residences that are to be demolished as part of the Works. The costs and programme are effectively provisional with the University taking the risk. There is:- 1. A specified Cost Allowance; and 2. An Asbestos Works Period (defined as a period allowed in the Construction Programme) The RDP shall as part of the Works procure the carrying out of the Asbestos Survey by a suitably qualified asbestos surveyor during the Asbestos Survey Period June to August 2017. In the event that the Asbestos Survey identifies additional asbestos then there is provision for:- 1. The RDP to be reimbursed its additional costs, and / or 2. Adjusting the Asbestos Works Period and granting an extension of time as a deemed Compensation Event (time and money) In the event that final costs of the Asbestos Removal are less than the specified Cost Allowance there is provision for the University to be reimbursed. The provisions are stepped down to the Building Contractor.

2.0 PROJECT STRUCTURE AND AGREEMENTS (CONT'D)

2.2 Project Agreement (Cont'd)

Project Agreement	Comment
Early Occupation of Blocks (Clauses 8F & 8G)	Provisions have been included which allow specified Blocks or any of them to be handed over early. The process has to be initiated by the RDP and consented to by the University. Thus the original construction periods are protected. The RDP is in control of the process.
Principal Obligations (Clause 9)	Provisions are generally in line with similar projects and are to be stepped down to the FM Providers.
Obligations of the RDP (Clause 10)	Provisions are generally in-line with other similar projects.
Nomination Rights (Clause 11)	Provisions are generally in-line with other similar projects.
Rent for the Core Period (Clause 13)	Provisions are generally in-line with other similar projects.
Lease Obligations (Clause 14)	Provisions are generally in-line with other similar projects.
Maintenance Works (Clause 16)	Provisions are generally in-line with other similar projects.

2.0 PROJECT STRUCTURE AND AGREEMENTS (CONT'D)

2.2 Overview (Cont'd)

Project Agreement	Comment
Inspection, Rectification and Remedy (Clause 17)	Provisions are generally in-line with other similar projects
Suitable Alternative Equivalent Accommodation (Clause 21)	Provisions are generally in-line with other similar projects.
Student Union Compensation Event (Clause 21A)	There is a Compensation Event covering the operation of the Student Union by the University after it is handed over by the RDP.
Supervening Events (Clause 22)	Provisions are generally in-line with other similar projects.
Default and Service Default (Clauses 27 & 28).	Provisions are generally in-line with other similar projects. Service Default are governed by the Provisions of Schedule 27 (Service Default), this is reviewed in Section 3
University Step-In (Clause 29)	Provisions are generally in-line with other similar projects.
RDP Events of Default (Clause 30)	The Events of Default are generally in line with similar projects.
Termination for RDP Default (Clause 30)	The provisions are typical of similar projects.
Consequences of Termination (Clause 47)	Provisions are generally in-line with other similar projects

2.0 PROJECT STRUCTURE AND AGREEMENTS (CONT'D)

2.2 Project Agreement (Cont'd)

Project Agreement	Comment
TUPE and Employment Matters (Schedule 4)	There are no individuals presently employed by the University who will transfer under the TUPE arrangements. Provisions are included that will apply if it is subsequently agreed or determined that there are any staff than can transfer under the TUPE arrangements. The provisions in respect of TUPE are generally in-line with other similar projects
Works Specification (Schedule 6)	The Works Specification is reviewed in Section 4.
Works Obligations (Schedule 7)	The provisions are generally considered to be standard for this type of project. In addition there are reasonable provisions for Block by Block completion within a Phase which allows completed individual blocks in a phase to be handed over in the event that a whole phase cannot be completed on time. This adds to overall delivery of the construction phase. The construction programme is reviewed in Section 6.0
Method Statements (Schedule 10)	Method Statements are reviewed in Section 7.
Handback Procedure (Schedule 22)	The provisions are generally typical of similar projects.
Student Damage (Schedule 23)	The RDP is responsible for repairing Student Damage / Vandalism etc. The cost student rectification is recovered from the Students in accordance with the Student Damage Protocol. The RDP is to maintain a Student Experience Fund which is used at the end of each year to pay for the cost of repairing any damage that has not been recovered.

2.0 PROJECT STRUCTURE AND AGREEMENTS (CONT'D)

2.2 Project Agreement (Cont'd)

Project Agreement	Comment
Student Damage (Schedule 23) (Cont'd)	Any excess in the fund is returned to the University each year. Any shortfall has to be funded by the RDP.
Karst Features (Schedule 24)	There have found to be Karst Features beneath the site, see Section 9. The cost of the Karst Feature Remediation Works is recovered monthly by the RDP from the Karst Feature Reserve Account subject to the RDP submitting an invoice based upon an agreed Schedule of Rates which is subject to review by the Independent Tester. There is a deemed to be a Compensation Event where and to the extent that (i) the costs incurred by the RDP in undertaking remedial works; and /or (ii) the time required to undertake and complete the remedial works exceeding the applicable Karst Feature Programme Block Allowance. The relevant RDP obligations from the PA appear to have been stepped down to the Building Contractor with timescales (including payment) lengthened and shortened as relevant which is satisfactory.
University Obligations (Schedule 31)	A detailed set of University obligations is in the process of being finalised covering University Enabling Works comprising, Granting Vacant Possession of the Site, ICT Requirements, Necessary Consents and Planning Conditions, Student Union Fit Out, Provision of Utility connection points etc. and the ongoing provision of Utilities during the operation phase. In the event that the University fail to comply with their obligations there is a Compensation Event in favour of the RDP.

2.0 PROJECT STRUCTURE AND AGREEMENTS (CONT'D)

2.3 Building Contract

We have reviewed the Draft Building Contract – received 22nd February 2017.

Building Contract	Comment
Flow down of PA obligations	The Building Contractor is responsible for undertaking the RDP's construction related obligations in the PA. Compensation and Relief Events which are contained in the PA are stepped down on the basis of Equivalent Project Relief.
Building Contractors Due Diligence (Clause 4.10)	The relevant RDP obligations appear to have been stepped down to the Building Contractor.
General Standards (Clause 6.2)	The RDP's position is stepped down to the Building Contractor.
University Obligations (Clause 8B)	The RDP's position is stepped down to the Building Contractor.
Asbestos (Clause 8E)	The RDP's position is stepped down to the Building Contractor.
Early Occupation of Blocks (Clauses 8F and 8G)	The relevant RDP obligations appear to have been stepped down.
RDP to Receive Benefit of Manufacturers'/Suppliers' Product Guarantees (Clause 9)	The provisions are considered satisfactory.
Compliance with the Services Contract (Clause 10)	The provisions are considered satisfactory.
BC Availability Notice (Clause 11)	The relevant RDP obligations appear to have been stepped down.

2.0 PROJECT STRUCTURE AND AGREEMENTS (CONT'D)

2.3 Building Contract (Cont'd)

Building Contract	Comment
Delay Damages (Clause 12)	If the Building Contractor fails to complete any Phase by the Planned Phase Completion date the Building Contractor pays to the RDP Delay Damages on general damages basis.
Student Union Compensation Event (Clause 21)	The relevant RDP obligations from the PA appear to have been stepped down with timescales lengthened and shortened as relevant.
Supervening Events (Clause 22)	The relevant RDP obligations from the PA appear to have been stepped down with timescales lengthened and shortened as relevant.
Limits on Liability (Clause 23)	The total liability of the Building Contractor to the RDP (inclusive of all Delay Losses, BC Unavailability Damages and the costs of providing the Suitable Alternative Equivalent Accommodation actually paid or payable by the Building Contractor) are capped at an amount equivalent in aggregate to fifty per cent (50%) of the Contract Sum (the Liability Cap). The Liability Cap exclusions are considered to be fairly typical for this type of project. The Contractor's liability for Delay Damages (which includes the cost of providing alternative accommodation or shortfall in rental in rental income as a result of delayed completion) is capped at 15 % of the Contract Sum which is a separate sub-cap to the Aggregate Total Cap of 50% of the Contract Sum.

3.0 PROJECT STRUCTURE AND AGREEMENTS (CONT'D)

2.3 Building Contract (Cont'd)

Building Contract	Comment
Limits on Liability (Clause 23) (Cont'd)	We consider that with a 50% Liability Cap the Building Contractor is sufficiently incentivised to complete to programme and that the risk of non-completion by the Building Contractors Longstop Date is a low risk.
Defects Liability Periods	The Defects Liability Period will be 12 months from the Practical Completion Date for the relevant Phase. The Building Contractor will be liable for the cost of making good latent defects for 12 years from Completion. A 12 year period is standard.
Longstop Date	The Building Contract Longstop Date is to be 6 months from the Phase 5 Planned completion date. There are currently no Interim Longstops but there will be the following look forward test: • If at any point in time, if the TA is of the reasonable opinion that the ultimate longstop date won't be met, then the Building Contractor is required to come up with a remedial plan in order to complete the project by the ultimate longstop date. • If such remedial plan is not followed (or couldn't be agreed in the first place), then there will be an Event of Default.
Parent Company Guarantee	A parent company guarantee from the Balfour Beatty PLC is to be provided.

3.0 PROJECT STRUCTURE AND AGREEMENTS (CONT'D)

2.3 Building Contract (Cont'd)

Building Contract	Comment
Retention Bond	The Building Contractor will provide a 3 % retention bond. The bond will step-down to 1.5% of the value of each phase following completion of each phase and the final 1.5% in respect of each phase will be released following the issue of the Making Good of Defects for each phase.
Adjudication Performance Bond	A 15% Adjudication / Performance bond is to be provided by the Building Contractor which steps down on completion of each Phase.
Warranties	The Building Contractor will procure that its professional team and Key sub-contractors with a design responsibility grant collateral warranties in favour of the RDP and the University. Lenders will have the benefit of the RDP warranties in the event of step-in.
Payment (Clause 26)	Payment of the Contract will be made by instalments. The RDP's obligation to pay amounts is limited to the cumulative amount payable in the capped payment schedule (subject to any agreed Change Events). The capped payment schedule will be back to back with the Financial Model. The Building Contractor's application for payment is to be in sufficient detail to enable the verification of the application against the programme and the payment schedule. The provisions are generally in-line with similar projects.
Building Contractor Default Events	The events of default are generally in-line with similar projects.

3.0 PROJECT STRUCTURE AND AGREEMENTS (CONT'D)

2.3 Building Contract (Cont'd)

Building Contract	Comment
Interfaces with Third Parties (Clause 55)	There are provisions governing co-operation and access to the works for the RDP and the Service Provider.
Service Contract Specific Interfaces (Clause 56)	The provisions are generally in-line with other similar projects.
Building Contractors Entitlement (Clause 58)	These are the Equivalent Project Relief provisions. The provisions are generally in-line with other similar projects.
Un-programmed Maintenance Losses (Clause 60)	There are provisions for recovery of costs associated with making good defects in the event that the Building Contractor does not do so in accordance with a reasonable period and in accordance with reasonable instructions issued by the RDP. The provisions are generally in-line with other similar projects.
Unavailability Damages following Completion (Clause 60)	The Building Contractor will compensate the Provider for loss of rental income / cost of providing alternative accommodation due to Defects in the Works caused by the Building Contractor. In our experience the provisions are typical of those included in PPP Building Contracts and are therefore considered acceptable. The Building Contractor has capped his liability to 5% of the Contract Sum for the period up to and including the date of issue of the last Making Good Defects Certificate and there after an amount equivalent in aggregate to 5% of the Contract Sum.

3.0 PROJECT STRUCTURE AND AGREEMENTS (CONT'D)

2.3 Building Contract (Cont'd)

Building Contract	Comment
Schedule 6 (Works Specification)	The Works specification is to be stepped down from the PA.
Schedule 7 (Works Obligations)	The relevant RDP obligations from the PA appear to have been stepped down with timescales (including payment) lengthened and shortened as relevant.
Schedule 24 (Karst Features)	The relevant RDP obligations from the PA appear to have been stepped down with timescales (including payment) lengthened and shortened as relevant.

2.4 FM Contract

We have reviewed the UoS East Slope FM Agreement – ref ADI/1001657/29727909.16/LZS received 20th February 2017

FM Contract	Comment
Generally	The FM Contractor (East Slope Residencies Facilities Management Limited) will be responsible for undertaking the RDP's FM Services except those specifically excluded, see 1.3.
Parent Company Guarantee	The FM Contractor will provide a Parent Company Guarantee from Balfour Beatty Plc.
Equivalent Project Relief (EPR)	Entitlement of the FM Contractor under the FM Contract in respect of equivalent benefit, funds, relief, and / or compensation under the PA or the Building Contract will be limited to receipt by the RDP of that benefit, funds or compensation. The provisions are generally in-line with other similar projects.

2.0 PROJECT STRUCTURE AND AGREEMENTS (CONT'D)

2.4 FM Contract (Cont'd)

FM Contract	Comment
FM Contractors Due Diligence (Clause 4)	The relevant RDP obligations appear to have been stepped down from the PA.
Project Operations / General Standards (Clause 6)	The relevant RDP obligations appear to have been stepped down from the PA.
Adapted Rooms (Clause 8C)	The relevant RDP obligations appear to have been stepped down. Payment days have been extended so that the RDP is paid by the University before it has to pay the FM Contractor.
Early Occupation (Clause 8D)	The relevant RDP obligations appear to have been stepped down from the PA.
Principal Obligations (Clause 9)	The relevant RDP obligations appear to have been stepped down from the PA.
Maintenance Works (Clause 16)	Appropriate obligations have been included.
Inspection, Rectification and Remedy (Clause 17)	Appropriate obligations have been included.
Supervening Events (Clause 22)	The relevant RDP obligations appear to have been stepped down from the PA.
FM Contractor Default Events (Clause 30)	The events of default are generally in-line with similar other projects.

2.0 PROJECT STRUCTURE AND AGREEMENTS (CONT'D)

2.4 FM Contract (Cont'd)

FM Contract	Comment
Liability Caps	Specific Limits 1. The maximum aggregate liability of the FM Contractor for FM Services Payment Adjustments shall not exceed the amount of the Annual FM Services Payment for that Contract Year. 2. The maximum aggregate liability of the FM Contractor for Building Contract Liabilities shall not exceed an amount equal to fifty per cent (50%) of the Annual FM Services Payment which is payable to the FM Contractor in respect of the twelve (12) month period commencing on the final Phase Completion Date in respect of the Works. 3. In the event of termination of this Agreement for any FM Contractor Default or termination of the Project Agreement as a direct consequence of the acts or omission of the FM Contractor, the liabilities of the FM Contractor in connection with such termination (excluding any Building Contract Liabilities) shall not exceed the Termination Cap. The Termination Cap is defined as [the amount equal to the product of the Annual FM Services Payment for the Contract Year excluding any FM Services Payment Adjustment current on the Termination Date multiplied by two (2) (provided always that where termination of this Agreement occurs prior to the Service Commencement Date, the Annual FM Services Payment for the purposes of calculating the Termination Cap should be the modelled Annual FM Services Payment for the twelve (12) months following the Service Commencement Date).] The Caps are generally in line with other similar projects.

2.0 PROJECT STRUCTURE AND AGREEMENTS (CONT'D)

2.4 FM Contract (Cont'd)

FM Contract	Comment
Liability Caps (Cont'd)	Monies recovered do not erode the Caps The Limits / Caps above will be calculated net of any sums (excluding any sums payable in respect of insurances excesses) that the FM Contractor recovers in a number of specified circumstances. The provisions are generally in-line with other similar projects. Exclusions for the Cap The Cap exclusions are generally in line with other similar projects.
Schedule 4 (TUPE and Employment Matters)	The relevant provisions appear to have been stepped down from the PA.
Schedule 7 (Works Obligations)	The relevant provisions appear to have been stepped down.
Schedule 8 (Review Procedure)	The relevant provisions are in the process of being stepped down.
Schedule 10 (Method Statements)	The RDP Method Statements for the Services have been stepped down. The University Method Statements have been stepped down so that they apply to the FM Contractor after the Soft Services Trigger Date.
Schedule 13 (FM Payment Mechanics	The relevant RDP obligations are in the process of being stepped down from the PA.

2.0 PROJECT STRUCTURE AND AGREEMENTS (CONT'D)

2.4 FM Contract (Cont'd)

FM Contract	Comment
Schedule 22 (Handback Procedure)	The relevant RDP obligations appear to have been stepped down from the PA.
Schedule 23 (Student Damage Protocol)	The relevant RDP obligations are in the process of being stepped down from the PA.
Schedule 27 (Service Default)	Relevant RDP obligations are in the process of being stepped down from the PA. The various service point default thresholds are considered in Section 3.0

2.5 Under-lease and University Delivered Services

We have reviewed the Under-lease – 24/02/17 - Ref Pinsent Masons: 05.12.16

University Delivered Services (Under-lease)	Comment
University Delivered Services	We have reviewed the draft Sub-lease (Incorporating Soft FM) – Ref: Pinsent Masons: 17.11.16 in respect of the University Delivered Services The under-lease includes the University's obligations to provide the Soft Services, the termination of the University as provider of the Soft Services and the compensation that would be payable in the event of a termination.
	The framework is in-line with other similar projects.

2.0 PROJECT STRUCTURE AND AGREEMENTS (CONT'D)

2.5 Under-lease and University Delivered Services (Cont'd)

University Delivered Services (Under-lease)	Comment
	Where the University has been terminated as Provider of the Soft Services due to Service Default Notices or where the University has, on service of not less than six (6) calendar months' written notice, elected to terminate its right and obligation to provide the Soft Services with effect from an Annual Start Date. Then the:- 1. RDP is required to provide the Soft Services 2. RDP's obligation to so provide is to be stepped down to the FM Provider. The Caps and exclusions are similar to those on similar projects The cost of the Soft Services are based on 100% occupancy. There are provisions for adjusting the costs in the event that there are materially different occupancy levels.

3.0 PAYMENT MECHANISM

We have reviewed the following documents:-

- Rents Calculation Methodology – Clause 26 & Schedule Part 13 of PA Ref: UoS East Slope Project Agreement - PREFERRED BIDDER date 16th December 2016
- Service Default – Schedule 27 of PA
- Service Level Agreement - 161117 Rev6 PA Sussex SLA Calibration and Sussex ESR Project - SLA Calibration

	Comment
Reserved Rent & Payment	Provisions are generally in accordance with other similar projects.
Performance Criteria and Rectification Periods	Performance criteria are in line with those used on other similar projects.
PA Service Default Notices etc. and step-down to FM Agreement.	The Service Level Agreement and the various Service Point Default Thresholds are in line with other similar projects as are the proposed step-down to the FM Provider.
Availability Criteria	Are not onerous and are in-line with other similar projects.
Unavailability and Poor Performance Deductions	There are no deductions for Poor Performance or Unavailability. There is a points based system which leads to Service Default Notices in the event that various Service Point Default Thresholds are exceeded.
	In the event of Unavailability there is a requirement to provide suitable alternative accommodation and potentially an element of compensation to affect students following consultation with the University.

3.0 PAYMENT MECHANISM (CONT'D)

	Comment
Lifecycle Surplus Sharing	The Lifecycle Surplus Amount on any Period Surplus Testing Date is shared 66% to the University and 34% to the RDP. On or prior to the Senior Creditors Release Date, such amount as the Controlling Creditor (as defined in the Master Definitions Schedule) may agree (in its absolute discretion) to be withdrawn from the Lifecycle Reserve Account and made available for distribution.

4.0 WORKS SPECIFICATION

	Comment
Introduction	On this project there will not be a set of University Requirements and a set of Contractors Proposals. Instead there will just be a Works Specification.
Works Specification	The contents of the Works Specification is considered appropriate subject to completion of the outstanding details.

5.0 CONSTRUCTION COSTS

We have been provided with the following elemental analysis of the construction costs for the project:

- Cost plan summary: 'Submission Proforma - 14.11.14'
- Summary cost schedule including inflation: 'Final Contract Summary - Construction Price 16 11 21'

	Comment
Cost Benchmarking	
Comparison with BCIS Database	Cost per m^2 (excl. abnormals) is above the upper quartile but well below the top of the data range.
Comparison with Gleeds Database	Cost per m^2 (incl. abnormals) is at the top of the data range, as expected due to the higher than average substructure and external works costs driven by the ground conditions. The cost per m^2 of the shell and core Student Union sits above the average but well below the top of the range. This is where we would expect the costs to sit considering the design, site conditions, programme and scale of the project.
More Detailed Review	
Net Construction Costs, Site Specifics, Preliminaries, Overheads & Profit Contingencies, Fees, Inflation, etc.	The pricing is considered to be in line with current market rates. There are suitable additional allowances in the preliminaries, margins, risk, inflation and other on costs (taken together) to cover for detail design development.

6.0 CONSTRUCTION PROGRAMME

The following documents have been used in this review:-

- Level 3 Contract Summary Programme - drawn by R Jagota – No Revision No or date – received 22 / 11 / 2016 – File ref L3 Contract Programme 181116 inc stats.pdf
- Project Management Plan – dated 13/10/2016 ref PLMC-TF-4001/3.5
- Revised phasing dated 3rd March 2017

It should be noted that the project documents reviewed in this report are being updated to reflect the programme dates below. We have been advised that the build periods for each of the blocks and the buffer / contingency periods within the each of the block build periods previously reviewed have been maintained in the revised phasing dated 3rd March 2017.

	Comment
Introduction	The construction methodology and the construction programmes are based upon a phased delivery. Achieving the programme is dependent upon the Building Contractor's ability to adequately resource and maintain resources throughout the project. Given the size and experience of Balfour Beatty we would expect the Contractor to be able to secure sufficient resources both internal (management, supervision etc.) and from his supply chain to deliver the programme. The RDP, subject to complying with some reasonable obligations, have the option to be able to hand-over blocks within a phase on a block by block basis. This gives additional programme protection. The programme is stepped down to the Building Contractor. In order to maintain the programme (mobilisation start 16th January 2017) the RDP have advised that a license and a further Advanced Works Agreement has been put in place with the University to cover the period up to Financial Close.
Phase 1	Handover – 22 August 2018 – Blocks 3B, 4A, 4D, 4E, 5A The Blocks complete on a rolling programme. The buffer / contingency for each block varies between 3 and 5 weeks. In addition there is a further buffer / contingency in relation to the completion of Phase 1 Completion of Date for three of the blocks.
Phase 1A	Handover –10 September 2018 – Blocks 4C, 5C The buffer / contingency for these Blocks is 3 and 4 weeks in relation to the Phase 1A Completion Date.

6.0 CONSTRUCTION PROGRAMME (CONT'D)

	Comment
Phase 1B	Handover –24 September 2018 – Blocks 4B, 5B. The buffer / contingency for these Blocks is 3 and 4 weeks.
Phase 2	Handover –9 October 2018 – Blocks; 3D, 5E, 5F The Blocks complete on a rolling programme. The buffer / contingency on each block is 4 weeks. In addition the buffer between phase handover date and occupation is 13 weeks.
Phase 2A	Handover –19 February 2019 – Blocks; 5G, 5H, 5J, 3E The Blocks complete on a rolling programme. The buffer / contingency on each block is between 4 and 6 weeks. In addition the buffer between phase handover date and occupation is 30 weeks.
Phase 3	Handover – 27th March 2020 - Student Union (Shell & Core) The buffer / contingency is 2 weeks. There are no LAD's or income loss in the event of late completion the only completion restraint is that Phase 3 has to be completed prior to the handover of any Block in Phase 5 (14th December 2020).
Phase 4	Handover - 13th August 2020 – Blocks 3C, 3A, 2G, 2H, 2E, & 2F The Blocks complete on a rolling programme. The buffer / contingency for each block is 4 or 5 weeks. As the Blocks are to be completed on a rolling programme there is a further buffer / contingency in relation to the completion of the Phase 4 Completion date for all of the blocks.
Phase 5	Handover – 14th December 2020 – Blocks 2C, 2D, 2A, 2B, & 1A, B, C + D (above the SU) The Blocks complete on a rolling programme. The buffer / contingency for each block is either 3 or 5 weeks which is considered satisfactory. As the Blocks are to be completed on a rolling programme there is a further buffer / contingency in relation to the completion of Phase 5 Completion Date for all of the blocks.

7.0 FM PROPOSALS AND COSTS

We have reviewed the following documents:-

- Service Level Agreement - 160819 University of Sussex - Student Housing FM SLAs Green version 3
- FM Proposals – 160824 Method Statements draft v7 - MASTERa_rec_29_11_16
- FM Costs - PF5 Reconciliation_051016(1) ISSUED TO TA 291116
- Mobilisation Plan – Annex 3 - Mobilisation Method Statement
- Financial Model - 2016-10-19a Sussex ESR model SUBMITTED – updated Model awaited

	Comment
Suitability of Proposals	The anticipated content of the Service Level Agreement is in line with the level of detail for this stage of the process. Development of method statements during the construction phase and prior to service commencement is in-line with other similar projects.
Hard FM Costs - Comparison to Benchmark Data	Close to the mid-point of our benchmark range, which is considered to be a reflection of the limited extent of services provided to the non-accommodation areas such as the laundry etc. priced within the RDP provided FM services, and is considered to be acceptable. The ramp-up of costs leading up to full service provision is considered to be appropriate in relation to the phased hand-over of the blocks.

7.0 FM PROPOSALS AND COSTS (CONT'D)

	Comment
Costs for University Delivered FM Services	The cost provided by the University for carrying out the Soft Services represent the efficiencies of carrying services to the whole of the Campus. Consequently if / when the RDP are required to perform the Soft Services an uplift in the costs (security and helpdesk) may be required. The Soft Services FM service price should provide sufficient scope for the RDP to deliver the Soft FM services in future, when the available mitigating factors are considered which includes a Rent Adjustment Factor for security and helpdesk in the event that the RDP are required to perform the University Soft Services.

8.0 LIFECYCLE COSTS

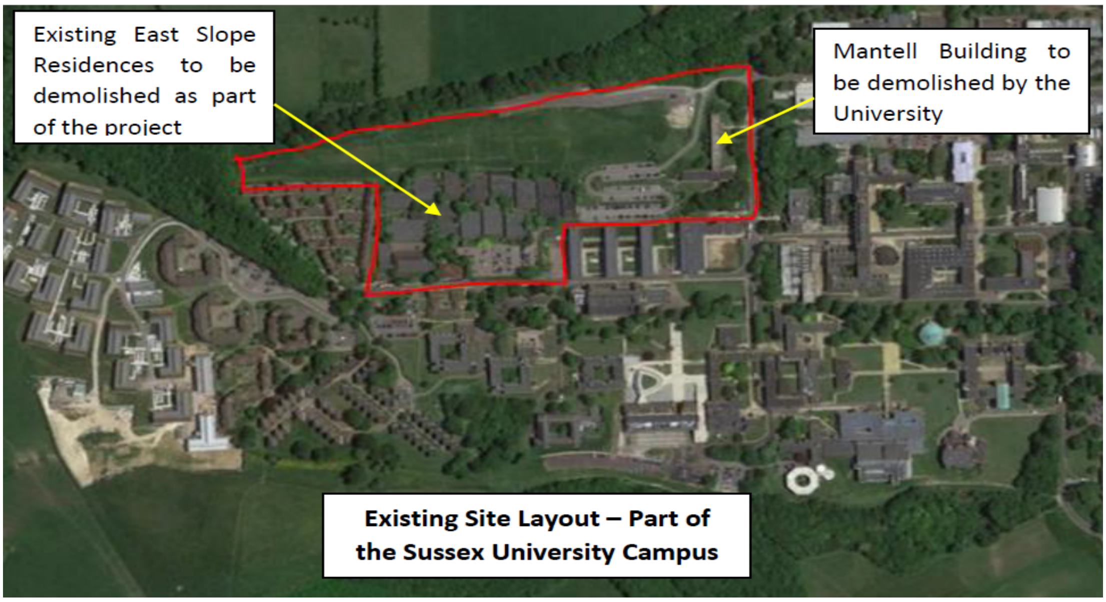
The Lifecycle Costs have been reviewed following receipt of the following information:

- Life Cycle Cost Forecast - Final Tender Proforma PF1 - PF7
- LCC Variations Summary - 161117 PF6 Reconciliation Lifecycle rev1
- LCC Financial Model Input - 161121 U of S Lifecycle v8 Input Sheet
- LCC Replacement Cycles Summary - 161124 Sussex TA

	Comment
Annual Expenditure Profile	Expenditure profile is in line with similar projects.
Comparison to Benchmark Data	Around the mid-point of our benchmark range, which is acceptable as this is considered to be a reflection of the more onerous lifecycle responsibility for the Laundry offset against the limited lifecycle requirement in the Student Union and Retail shell & core areas.
Elemental Breakdown of Costs	The distribution across the elements is in line with similar projects.
Reserving / Sinking Fund	The Financial Model incorporates a 3-year reserving mechanism for reserving of 100%, 66% and 33%. The reserving is in line with similar recent projects.
Lifecycle Fund Management Methodology	The lifecycle management strategy is in line with other similar projects.

9.0 SITE INVESTIGATIONS

The Site is shown on the graphic below:-



The East Slope site is located to the north of Boiler House Hill, and south and east of Brighthelm residences which consists of 568 student residences, car parking and associated landscaping including amenity grassland, trees and ornamental planting amongst existing built development and semi-improved grassland to the east of the residences.

A Geotechnical Interpretive Report (University of Sussex - East Slope ref ESR-ARP-00-XX-RP-C-0002 issued 28 June 2016) prepared for Balfour Beatty Construction Services UK by Arup.

Archaeology South-East prepared a Desk Top Archaeology Assessment, dated October 2013, in support of the Environmental Impact Assessment.

A "Detailed Unexploded Ordnance Threat Assessment" (desktop exercise) was completed by 1st Line Defence in April 2014. This gave an overall "Medium Risk" from UXO across the site, although the areas of post WWII buildings were considered to be "Low Risk".

A target Unexploded Ordnance investigation was carried out in September 2016 by 1st Line Defence Limited who subsequently prepared a report entitled "Report on Unexploded Ordnance (UXO) Target Investigation" for Balfour Beatty, dated 3rd November 2016.

Karst features exist in the chalk below the site. A Technical Note was produced by Arup entitled Engineering Principles Design Note 3 - Karst features. Rev02 and dated 27 June 2016.

9.0 SITE INVESTIGATIONS (CONT'D)

	Comment
Archaeology	There is the potential for the presence of buried archaeological deposits on the site there will be pre-start investigation trenches dug, in accordance with the planning permission, to establish the presence of any such deposits. The exact scope of archaeological mitigation works will be agreed with the East Sussex County Council Archaeological Officer. However under the Planning Condition Matrix it is a University responsibility to satisfy the conditions in relation to pre-start investigations. The RDP's obligations and risk in respect to Archaeology are stepped down to the Building Contractor.
Ground Investigations	<u>Contamination</u> In summary, the results of the dry weight soil analysis have indicated that the soils on site are not impacted by contamination. The RDP's risk, which is considered to be low, is to be stepped down to the Building Contractor
	<u>Controlled waters risk assessment, Ground gas risk assessment, Radon</u> The RDP's risk, which is considered to be low, is to be stepped down to the Building Contractor.
	<u>Existing Water Adit and possible shafts</u> A drainage adit is known to pass underneath the site. It is understood to be approximately 2m high by 1m wide. As the adit is well below the existing site levels (approximately 70-100m).

9.0 SITE INVESTIGATIONS (CONT'D)

	Comment
Ground Investigations (Cont'd)	<u>Existing Water Adit and possible shafts (cont'd)</u> However, it is believed that, a number of shafts were sunk down to the adit. The locations of these were not recorded, and they are believed to have been capped at a shallow level. The PA includes a Compensation Event in respect of the period prior to the Phase Completion Date for the relevant Phase, in the event that the access shaft to the Southern Water Adit is discovered.
	<u>Unexploded Ordnance (UXO)</u> The aim of the Target Investigation was to investigate a sample of targets identified. A total of 18 targets was investigated, none of the investigated pre-identified targets were identified as UXO. The RDP's risk, is to be stepped down to the Building Contractor.
Dissolution / Karst Features	Dissolution / Karst features were found in the chalk Karst features were identified within 11 out of a total of 51 exploratory holes. This equates to 22% of exploratory holes. Karst features were encountered throughout the site, there was no identified pattern to the location of these features. Karst features were typically recorded at depths of between 1.5m and 4.0m. A number of deeper karst features were encountered at depths of between 6.0m and 9.0m. One potential karst feature was identified at 24.5m below ground level.

9.0 SITE INVESTIGATIONS (CONT'D)

	Comment
Dissolution / Karst Features (Cont'd)	Karst features encountered within exploratory holes were typically between 0.3 and 0.6m in thickness. Karst features with a substantially greater thickness of between 2.4 and 2.7m were encountered within three of the exploratory holes. The cost of the Karst Feature Remediation Works is recovered monthly by the RDP from the Karst Feature Reserve Account subject to the RDP submitting an invoice based upon an agreed Schedule of Rates which is subject to review by the Independent Tester. There is a deemed to be a Compensation Event where and to the extent that (i) the costs incurred by the RDP in undertaking remedial works; and /or (ii) the time required to undertake and complete the remedial works exceeding the applicable Karst Feature Programme Block Allowance. The relevant RDP obligations from the PA appear to have been stepped down to the Building Contractor with timescales (including payment) lengthened and shortened as relevant.
Asbestos	There is asbestos within the existing residences that are to be demolished. The costs and programme are effectively provisional with the University taking the risk. The provisions are stepped down to the Building Contractor.

10.0 CONTRACTOR AND PRINCIPAL DESIGN CONSULTANT SUITABILITY

Construction will be carried out by Balfour Beatty Regional Construction Limited who are part of the Balfour Beatty Group.

The RDP delivered FM Services (Hard FM Services) will be carried out by East Slope Residencies Facilities Management Limited (Project FM Co set up by Balfour Beatty Investments).

The Facilities Management will be carried out by East Slope Residencies Facilities Management Limited, a new venture which is in the process of being rolled out on a number of projects by Balfour Beatty Communities (a subsidiary of Balfour Beatty Investments), including the 1,000 bed Student Accommodation PPP at the University of Aberystwyth.

Balfour Beatty Investments is the owner and asset manager, delivering FM services and lifecycle replacement at over 40 infrastructure concessions in the UK and is currently mobilising to directly deliver FM services on a large student accommodation project. Balfour Beatty Investments have extensive knowledge of FM and managing FM in the PPP sector and a number of processes and off-site / Head / Regional Office support services are required are already available through the Balfour Beatty Group.

The FM Services to be provided at Sussex are also of relatively simple content.

Balfour Beatty also have considerable experience of providing similar FM services in the United States.

Balfour Beatty Communities (a subsidiary of Balfour Beatty Investments) is a leading provider of military family housing in the U.S. with current responsibility for more than 44,000 military homes and 150,000 residents on 55 Army, Navy and Air Force installations across the country.

University Soft Services (Soft FM) will be undertaken by the University of Sussex (UoS) currently provide soft FM services to their existing estate and therefore have the relevant experience to carry out this services to the new facilities.

	Comment
D&B Contractor - Balfour Beatty Regional Construction Limited	They are part of the Balfour Beatty Group and have a good reputation in the market. Based upon our knowledge of them together with the information provided we consider that they have the necessary experience to be able to successfully complete the project to the standard required.

10.0 CONTRACTOR AND PRINCIPAL DESIGN CONSULTANT SUITABILITY (CONT'D)

	Comment
Architect – TP Bennett LLP	TP Bennett have significant student accommodation experience and based upon the information on their website and our knowledge of them we consider that they have the necessary experience to be able to successfully perform the roles for which they have been appointed. In addition it should be noted that their performance is at the risk of the D&B Contractor.
Structural and Services Engineers – Arup	Arup are a very large multidisciplinary organisation with an international reputation. Based upon the information on their website and our knowledge of them we consider that they have the necessary experience to be able to successfully perform the roles for which they have been appointed. In addition it should be noted that their performance is at the risk of the D&B Contractor.
FM Provider (Hard FM) - East Slope Residencies Facilities Management Limited (Project FM Co set up by Balfour Beatty Investments)	Based upon the information provided, by the time of Service Commencement, we consider that the FM Provider will be able to perform the FM Services to the required standard.

11.0 PLANNING AND STATUTORY CONSENTS

There are (4) planning consents that are relevant to the development.

1. Masterplan Outline Permission covering the whole university site (East Slope, West Slope etc.). The Judicial Review period has expired.
2. Approval of Reserved Matters in the Outline Permission (East Slope) - this consent covers the project excluding the Student Union which is covered by a separate consent.
3. Grant of Planning Permission – Student Union - This consent covers the Student Union (Application No: BH2016/01001). The Judicial Review period has expired.
4. Calcareous grass area on the west slope of the valley - This consent is required for the disposal of excess excavated chalk material from Phases 3 and 4. The Judicial Review period expires mid-February 2017.

The University and the Brighton & Hove City Council have entered into a Section 106 Agreement, dated 21st September 2016.

	Comment
Planning Generally	A Tracker has been produced which allocates responsibility for condition clearance between the University and the RDP. This is to be included within Schedule 31 of the PA.
Masterplan Outline Planning Permission covering the whole university site (East Slope, West Slope etc.)	The conditions are fairly typical for a Masterplan Outline Permission. Clearance of the pre-start conditions is ongoing. Generally the conditions are fairly standard.

11.0 PLANNING AND STATUTORY CONSENTS (CONT'D)

	Comment
Masterplan Outline Planning Permission covering the whole university site (East Slope, West Slope etc.) (Cont'd)	Condition 19 of the Outline Consent states that "the development on the Phase 1 Site shall not be occupied until a BREEAM Design Stage Certificate and a Building Research Establishment issued Post Construction Review Certificate confirming that the development built on the Phase 1 Site has achieved a BREEAM rating of 60% in energy and water sections of relevant BREEAM assessment within overall 'Excellent' has been submitted to, and approved in writing by, the local planning authority". This cannot be complied with as currently worded as construction needs to be complete before this can be achieved. The RDP / Building Contractor met with the Planners during the early part of January. The Planners understood that the nature of the conditions wording, given the complexity and phased nature of the project, presented difficulties of strict compliance in terms of timing. The RDP / Building Contractor subsequently submitted a detailed methodology demonstrating how they proposed working towards meeting the requirements of the condition so that the buildings can be occupied following their completion on a phased basis or in the event that a whole phase is not completed to programme any completed blocks within that phase can be occupied. The methodology includes:- • Providing the detailed design stage assessment as submitted to BRE illustrating that a BREEAM 2011 'Excellent' Design stage certification will be achieved.

11.0 PLANNING AND STATUTORY CONSENTS (CONT'D)

	Comment
Masterplan Outline Planning Permission covering the whole university site (East Slope, West Slope etc.) (Cont'd)	• Balfour Beatty will provide the Planners with regular reports to ensure confidence that the project is on course to achieve the final BREEAM Excellent certification and will also allow for occupation at each hand over phase. • Providing the post construction assessment to the BRE in December 2020 illustrating that a BREEAM Excellent certification will be achieved. There is a similar condition in respect of the Student Union Building which is covered by the methodology and is being dealt with in a similar way. "The Planners have confirmed by letter dated 28th February 2017 includes the following:- 1. "The proposed methodology provides a robust process and would adequately reassure the Local Planning Authority of progress towards the achievement of the targeted BREEAM standard. Should you wish to receive formal agreement 2. However, I am of the opinion that it would not be expedient for the Local Planning Authority to take enforcement action against this technical breach of the conditions, particularly given the level of comfort provided by your detailed methodology. In addition there is to be a CP to be satisfied prior to pricing that the Design Stage BREEAM Assessment prepared by Arup achieves an excellent score with an appropriate buffer / contingency. While in theory the planners could still issue an enforcement notice this, given the understanding reached with the planners, is considered a low risk.
Approval of Reserved Matters in the Outline Planning Permission (East Slope)	The conditions are fairly standard. There are no conditions which need to be cleared prior to a construction start.

11.0 PLANNING AND STATUTORY CONSENTS (CONT'D)

	Comment
Grant of Planning Permission – Student Union	Clearance of the pre-start conditions is ongoing. Works are not programmed to commence until June 2018.
Calcareous grass area	The consent contains 12 conditions which are fairly typical for this type of development. Works which are not programme to commence until circa June 2018.
Section 106 Agreement (S106)	Generally A Tracker (as part of the aforementioned Planning Tracker) has been produced which allocates the responsibilities within the S106 between the RDP (stepped down to the Building Contractor), the University and the Council. Pre-start Conditions Clearance of the pre-start conditions is ongoing.
Building Regulations	Building Regulations are the responsibility of the Building Contractor.

APPENDIX 7

FORM OF BONDHOLDER REPORT

OVERVIEW	
Report Issue Date	
Reporting Period	[From/To]
Project Company	[Name]
Bonds	[Details of bond series including ISIN or other identifier]
Current Outstanding Amount	
Project Phase	[i.e. Construction / Operations]

RATINGS	**S&P**
Wrapped rating	
Outlook	
Underlying rating	
Outlook	
Most recent rating report	[date]

COMPLIANCE CERTIFICATION
• There [is / is not]: o Event of Default or Potential Event of Default o Trigger Event [*Specify details, if applicable*] • All repeated representations & warranties are correct • ProjectCo, Issuer, BBI HoldCo and IntermediateCo are compliant with all covenants • Solvency • No material litigation • No disputes with the University

PROJECT COMPANY OWNERSHIP
• Any changes of ownership since last report

SUMMARY OF PROJECT PERFORMANCE
For the reporting period, provide commentary for relevant topics: • Key performance indicators

o Summary financial results o Number of Rooms nominated by the University. If this is less than 100% of Rooms, Occupancy / voids / rental rates • Penalties & deductions • Costs incurred to date on maintenance / lifecycle and relevant changes to maintenance schedule • Changes to service providers • Material new contracts • Material insurance claims • Variations effected • Details of each Applicable Test pursuant to schedule Part 27 (Restrictive Covenant) of the Project Agreement. • Any material actions taken / variations effected • Any other material topics as relevant to the project • Any Regulatory News Service (RNS) or other market announcements made during the reporting period [to be attached]

RESERVE ACCOUNTS	
Lifecycle Reserve Account	[Balance] [Fully funded or not]
Debt Service Reserve Account(s)	[as above]

FINANCIAL RATIOS					
Aug-Feb period	**Components of Ratio**	**Ratio**	**Forecast at Financial Close**	**Trigger level**	**Default level**
ADSCR – Historic	**[Operating Cash]** **[Debt Service]**				
ADSCR – Forward-looking	**[Operating Cash]** **[Debt Service]**				
BLCR	**[PV of Operating Cash]** **[DSRA cash balance]** **[Debt O/S]**				

FINANCIAL RATIOS					
Feb- Aug period	**Components of Ratio**	**Ratio**	**Forecast at Financial Close**	**Trigger level**	**Default level**

ADSCR – Historic	**[Operating Cash]** **[Debt Service]**				
ADSCR – Forward-looking	**[Operating Cash]** **[Debt Service]**				
BLCR	**[PV of Operating Cash]** **[Cash balances excl reserve accounts]** **[Debt O/S]**				

TRANSACTION PARTIES	
Issuer	
Building Contractor	
FM Services Contractor	
Bond Trustee	
Security Trustee	
Account Bank	
Principal Paying Agent	
Transaction Legal Advisers	

Signature: **[ISSUER AUTHORISED OFFICER]**

INDEX OF DEFINED TERMS

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THE ISSUER

East Slope Residencies PLC
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London NW1 3AX
United Kingdom

FINANCIAL GUARANTEE PROVIDERS

Assured Guaranty Municipal Corp.
1633 Broadway
New York 10019
USA

Assured Guaranty (Europe) Ltd.
11th Floor, 6 Bevis Marks
London EC3A 7BA
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BOND TRUSTEE

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