ASSURED GUARANTY (EUROPE) PLC

SOLVENCY AND
FINANCIAL CONDITION REPORT
2019

CONTENTS

GLOSSARY OF ABBREVIATIONS AND DEFINITIONS

Term	Definition
AGC	Assured Guaranty Corp.
AGC Reinsurance Agreement	Reinsurance agreement between AGE and AGC dated 7 November 2018
AGE	Assured Guaranty (Europe) plc
AGE SA	Assured Guaranty (Europe) SA
AGL	Assured Guaranty Ltd.
AGL Group	AGL and its subsidiaries
AGLN	Assured Guaranty (London) plc
AGM	Assured Guaranty Municipal Corp.
AGM Net Worth Maintenance Agreement	Net Worth Maintenance Agreement dated 7 November 2018 between AGM and AGE
AGM Reinsurance Agreement	Quota share and excess of loss reinsurance agreement between AGE and AGM dated 7 November 2018
AGUK	Assured Guaranty (UK) plc
AG (UK) Services	Assured Guaranty (UK) Services Limited
AGUS Services	AG US Group Services Inc.
Approved Person	Someone who is approved to perform a SMF or CF
BIG	Below-investment-grade
Board	Board of Directors
Brexit	UK’s expected departure from the EU
CEO	Chief Executive Officer
CF	Controlled Functions
CFO	Chief Financial Officer
CIFGE	CIFG Europe S.A.
Company	Assured Guaranty (Europe) plc
Directive	Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), as amended from time to time
ECM	Economic Capital Model
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ERC	Executive Risk Committee
EU	European Union
FCA	The Financial Conduct Authority
Fitch	Fitch Ratings Inc.
GBP	Great Britain Pound
GPO	Gross par outstanding
Group Service Agreement	Third Amended and Restated Service Agreement among AGE, AGUS Services and other affiliates, effective 1 January 2020, as the same may be amended or restated from time to time
ICA	Individual Capital Assessment
IG	Investment Grade
ISCC	International Supervisory Credit Committee
IT	Information Technology
KBRA	Kroll Bond Rating Agency Inc.
Key Function	The Key Functions specified in the Directive
KFH	The holders of Key Functions
KRIs	Key risk indicators
LTIP	Long term incentive plan

Term	Definition
MCR	Minimum Capital Requirement
Merger	The Company's merger with its subsidiaries effected under Part VII of the Financial Services and Market Act 2000 and French insurance portfolio transfer procedures, pursuant to the Companies (Cross-Border Merger) Regulations 2007 and French Commercial Code
Moody’s	Moody’s Investors Service Inc.
NPO	Net par outstanding
NYDFS	The New York State Department of Financial Services
ORSA	Own Risk and Solvency Assessment
Par	Par value of the obligation
PF	Public finance
plc	Public limited company
PRA	The Prudential Regulation Authority
PVP	Gross upfront and instalment premiums received plus the present value of gross estimated future instalment premiums, on contracts written in the current year, discounted at 6% per year.
Rating Agencies	S&P, KBRA, and Moody’s
RMBS	Residential Mortgage-Backed Securities
S&P	S&P Global Ratings, a division of Standard & Poor's Financial Services LLC
SCR	Solvency Capital Requirement.
SCR Ratio	Ratio of Eligible Own Funds to SCR
SEC	US Securities and Exchange Commission
SF	Structured finance
SFCR	Solvency and Financial Condition Report
SMF	A Senior Manager Function specified in the SMCR
SMCR	The UK’s Senior Managers and Certification Regime, which applies to the insurance and reinsurance sectors as of 10 December 2018
Solvency II Regulation	Commission Delegated Regulation EU 2015/35 of 10 October 2014, as amended
SRL	Single Risk Limits
Standard Formula	Standard formula prescribed by EIOPA
UK	United Kingdom
UK Credit Committee	Credit Committee for AGE
UK GAAP	United Kingdom Generally Accepted Accounting Principles
US	United States of America
USD	US Dollars
USPs	Undertaking-specific parameters

INTRODUCTION

This Solvency and Financial Condition Report has been prepared in accordance with the Solvency II regulatory framework and sets out information on the business and performance of the Company, its system of governance, risk profile, valuation of assets and liabilities for solvency purposes and capital management as at 31 December 2019.

Solvency II regulations and guidelines prescribe the structure of the document and the information required to be reported in each section. In preparing this report we have referenced each reporting requirement, separately commenting on its relevance to the Company.

In 2018 the Company combined its operations with those of its subsidiaries, AGUK, AGLN and CIFGE. To effect the Merger, AGUK, AGLN and CIFGE simultaneously:

(i) transferred their insurance portfolios to AGE in accordance with Part VII of the Financial Services and Markets Act 2000 and French insurance portfolio transfer procedures; and
(ii) merged with and into AGE pursuant to the Companies (Cross Border Mergers) Regulations 2007 and the French Commercial code.

AGUK, AGLN and CIFGE were dissolved on the date of the Merger without going into liquidation. The effective accounting date of the Merger was 1 November 2018, with the transferring assets and liabilities of the subsidiaries recognised by the Company from that date.

As a result of the Merger, the comparative information presented within this report includes the operations of the former subsidiaries from 1 November 2018.

SUMMARY

Assured Guaranty (Europe) plc is a public limited company incorporated in England and Wales. The principal activity of the Company is providing financial guarantees for public finance (including infrastructure finance) and structured finance obligations. Financial guarantee insurance written by the Company generally guarantees scheduled payments of principal and interest on an issuer's obligations in the event, and to the extent of, a payment default by the obligor. If an obligor defaults on a scheduled payment due on an obligation that is guaranteed by the Company, including scheduled interest or principal payments, the Company is required under its unconditional and irrevocable financial guarantee to pay the amount of the shortfall to the holder of the obligation.

The Company is authorised by the PRA and regulated by both the PRA and the FCA and is authorised to effect and carry out three classes of general insurance, specifically: classes 14 (credit), 15 (suretyship) and 16 (miscellaneous financial loss). In 2019 the Company underwrote financial guarantees on public finance obligations only. 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 Company generally guarantees transactions under a co-insurance structure with its parent company, AGM, under which the Company directly insures 15% of new transactions and AGM directly guarantees the remaining 85% balance of the guaranteed obligations and also provides a second-to-pay guarantee for the Company's portion of the guaranteed obligations. Where a co-insurance structure is not permitted by local regulations, the Company directly provides the guarantee and subsequently reinsures a significant portion to AGM. 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. Transactions originally underwritten by AGUK and CIFGE and transferred to the Company under the Merger were reinsured 90% and 100% respectively to AGC. The Company entered into a new reinsurance agreement with AGC at the date of the Merger to preserve those reinsurance cessions.

AGE applies its credit underwriting judgement, risk management skills and capital markets experience to offer financial guarantee insurance for new transactions and to manage its existing portfolio of financial guarantees. AGE markets its financial guarantees directly to issuers of public finance and structured finance securities as well as to investors in such obligations. The Company continues to develop its pipeline of new business opportunities and is well positioned for continued growth within its key markets. In the UK the Company continues to build upon the demand for its financing solutions within the university accommodation, social housing and other essential infrastructure markets and the provision of public and infrastructure finance default protection for financial institutions, as well as seeking to develop its offering in the structured finance markets.

The obligations insured by the Company are generally awarded ratings on the basis of the financial strength ratings given to the Company by Rating Agencies. As at 1 May 2020, the Company has been assigned the insurance financial strength ratings set out below:

S&P: AA / Stable Outlook

Moody's: A2 / Stable Outlook

KBRA: AA+ / Stable Outlook

COVID-19

The outbreak of a new coronavirus, now known as COVID-19, has resulted in a pandemic causing significant disruption across the world. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

The Company has invoked its business continuity plans to help ensure the safety and well-being of its staff who have been working remotely for a number of weeks. During this period the Company has demonstrated that it can operate effectively under remote working with no significant impact on day-to-day operations. The Company's governance procedures and internal control processes have continued to operate as designed during the Company's transition to remote working. The Company will continue to take appropriate measures to ensure the well-being of its staff.

The Company is actively monitoring the potential impacts of the pandemic across all areas of its business. Uncertainty around the extent, duration and impact of the pandemic, including the duration of nationwide lockdowns and the longer-term impact to the global economy mean it is currently not possible to reliably estimate the financial impacts of COVID-19. The Company has utilised stress and scenario testing, including severe but plausible stress scenarios and reverse stress testing, to assess potential impacts on its financial position. After consideration of these stresses the Company believes that in such scenarios its regulatory solvency would remain in compliance with the Company's risk appetite and liquidity would remain significantly in excess of the Company's requirements.

The Prudential Regulation Authority issued a statement on 23 March 2020 confirming that COVID-19 should be treated as a "major development" as per Article 54 (1) of the Solvency II Directive, requiring disclosure of appropriate information on the nature and effects of the major development. These disclosures have been included within 'other information' in the respective sections of this report. An assessment of the potential impacts on the Company's key risks is included in Section C.7.

In accordance with the requirements of the Solvency II Directive, the valuations within this report and the associated QRTs included within Section F are based on information as at 31 December 2019 and therefore do not reflect the impacts of COVID-19.

BUSINESS AND PERFORMANCE

Underwriting performance

During the year the Company recorded a 159% increase in its key measure of new business, PVP, which increased to £29.9 million (2018: £11.6 million) and is the highest level of new business premium underwritten by the Company since 2008. The increase is attributable to a higher level of new business activity, including the underwriting of a large portfolio of public finance sub-sovereign risks and a Spanish solar energy refinancing, which was the Company's first financial guarantee policy in Spain since 2008. Gross premiums written from new business of £69.2 million were partially offset by £8.6 million of negative gross premiums following the restructuring of an existing transaction.

The overall underwriting result for the year was a profit of £1.4 million (2018: loss of £4.6 million). The improved underwriting result is due to a significant increase in net earned premiums to £11.4 million (2018: negative £7.6 million), partially offset by an increase in net operating expenses to £10.0 million (2018: £0.5 million). These increases resulted from the growth in the Company's insured portfolio and of its operating expense base due to the Merger.

As at 31 December 2019, the Company had issued guarantees on financial obligations with gross par outstanding of £23.8 billion (2018: £23.6 billion) and net par of £10.4 billion (2018: £10.0 billion).

The Company's insured portfolio of guarantees split by obligation type as at 31 December 2019 is summarised below:

Insured Portfolio by Sector

As at 31 December	2019		2018	
	GPO	NPO	GPO	NPO
Sector	(in thousands)			
Regulated Utilities	£ 10,402,512	£ 4,396,624	£ 10,233,689	£ 4,283,192
Infrastructure Finance	9,525,196	4,091,958	9,879,500	4,228,106
Sovereign and Sub-sovereign	3,431,635	1,880,839	3,025,242	1,346,743
RMBS	214,395	4,670	342,264	94,823
Renewable Energy	173,913	24,656	11,530	—
Insurance Securitisation	30,365	3,037	66,724	6,672
Total	£ 23,778,016	£ 10,401,784	£ 23,558,949	£ 9,959,536

The table above excludes £288.5 million of GPO and £28.9 million of NPO as at 31 December 2019, attributable to loss mitigation strategies.

Investment performance

The Company's investment portfolio consists primarily of high-quality fixed income securities. Total investment return for the year was a gain of £15.4 million (2018: loss of £0.1 million). The increase in investment income results from lower unrealised losses and increased interest income following a significant increase in the size of the investment portfolio due to the Merger. The Company's preferred measure of its investment return is yield to maturity; as at 31 December 2019 the yield on the Company's investment portfolio was 1.62% (2018: 2.05%).

SYSTEM OF GOVERNANCE

The Company's Board has overall responsibility for directing and controlling the activities of the Company which includes the establishment and oversight of its system of governance. The Board and management of the Company are committed to high standards of corporate governance and have placed significant focus on the establishment and maintenance of a comprehensive and effective governance framework. Integral to this framework are the structure of committees and functions established by the Board to oversee the day to day operations of the Company and to implement policies, procedures, guidelines and limits approved by the Board. Each of the committees operates under terms of reference which are reviewed and approved by the Board, at least annually.

The Company's risk management framework is organised around a three lines of defence model which ensures that all functions (both those that own risks, as well as the risk management and compliance functions) are responsible for managing risks. These functions are supplemented by an independent (outsourced) Internal Audit Function which provides assurance over the operation of the risk management framework, including the Company's internal control framework.

The Company implemented a number of changes to its governance and risk management frameworks during the year. These changes are described in *Sections B.1 and B.3*

RISK PROFILE

The most significant risk to which the Company is exposed remains underwriting risk, the key element of which, because of the nature of financial guarantee contracts written, is credit risk, i.e. the risk that obligors of insured obligations will fail to pay. The other material components of the Company's risk profile are market risk, counterparty default risk, liquidity risk and operational risk.

The Company's tolerance for risk is established within its Risk Appetite Statement. The Company's risk exposures are controlled and monitored under the Risk Management Framework, which ensures a continuous process of risk identification, measurement, monitoring, management and reporting.

Section C further describes the Company's material risk exposures, quantified measures of those risks and how the Company manages these risks.

VALUATION FOR SOLVENCY PURPOSES

The Company's Solvency II balance sheet is prepared in accordance with the Solvency II Directive and related guidelines. Under Solvency II rules all assets and liabilities are required to be valued on a basis that reflects their fair value. The excess of the Company's assets over liabilities within its Solvency II balance sheet as at 31 December 2019 was £679.1 million. Net assets as reported within the Company's UK GAAP financial statements were £781.1 million. The adjustments made to the Company's UK GAAP balance sheet in moving to the Solvency II basis of valuation are set out below.

Summary of adjustments to UK GAAP balance sheet

As at 31 December	2019	2018
	(in thousands)	
Shareholders' equity under UK GAAP	£ 781,057	£ 770,982
Disallowed items (Prepayments, Deferred Acquisition Costs & Fixed Assets)	(30,096)	(30,491)
Solvency II adjustment to net best estimate provision & discounting	153,568	146,762
Risk Margin	(246,309)	(210,974)
Deferred tax in Solvency II balance sheet	20,922	16,258
Solvency II excess of assets over liabilities	£ 679,142	£ 692,537

Section D provides further details of the Company's Assets, Technical Provisions and Other liabilities under the Solvency II basis of valuation.

CAPITAL MANAGEMENT

The primary objective of the Company's capital management policy is to ensure sufficient capital resources to meet both the Company's regulatory capital requirements as well as the Company's own economic capital assessment, the ICA.

The Company calculates its SCR using the Standard Formula. The ratios of the Company's Own Funds to its SCR and MCR are shown below.

Summary of SCR and MCR

As at 31 December	2019	2018
	(in thousands, except ratios)	
Solvency II Own Funds	£ 679,142	£ 692,537
SCR	300,301	301,332
SCR Ratio	226%	230%
MCR	75,075	75,333
MCR Ratio	876%	896%

The reduction in the SCR and MCR Ratios from the prior year end is due to the capital required to support the new business written during the year. The surplus of Own Funds over the SCR has decreased to £378.8 million from £391.2 million.

The Company's Own Funds structure, as defined under Solvency II rules, is principally comprised of Tier One Own Funds. The split of the Company's Own Funds by Solvency II Tiers is shown below.

Summary of Own Funds by Tier

As at 31 December	2019	2018
	(in thousands)	
Tier 1	£ 657,483	£ 675,161
Tier 2	—	—
Tier 3	21,659	17,376
Total	£ 679,142	£ 692,537

Section E provides details of the Company's policies and procedures for the management of capital, as well as further details on the components of the Company's SCR.

INDEPENDENT AUDITORS' REPORT

Report of the external independent auditors to the Directors of Assured Guaranty (Europe) plc ('the Company')

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

We have audited the following documents prepared by the Company as at 31 December 2019:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2019, ('**the Narrative Disclosures subject to audit**'); and
- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('**the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**relevant elements of the Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- The 'Introduction', 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02, S.05.02.01 and S.19.01.21;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Directors' Statement**').

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2019 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is not appropriate; or
- the directors have not disclosed in the Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Solvency and Financial Condition Report is authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

The Directors have elected to comply with the External Audit Part of the PRA Rulebook for Solvency II firms as if it applied to the Company, notwithstanding that the Company is a small firm for external audit purposes (as defined in the PRA Rulebook).

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

A further description of our responsibilities for the audit is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with our letter of engagement dated 29 April 2020 and External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook as if it applied to the Company, and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Report on Other Matters

The Directors have requested that we consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements as if the Company was subject to the External Audit Part of the PRA Rulebook for Solvency II firms. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

7 More London Riverside

London

5 May 2020

A. BUSINESS AND PERFORMANCE

This section of the SFCR provides information about the Company's business, its structure and financial performance.

In 2018 the Company combined its operations with those of its subsidiaries, AGUK, AGLN and CIFGE. Under the Merger, the subsidiaries transferred their insurance portfolios and merged with and into the Company. The subsidiaries were dissolved on the date of the Merger without going into liquidation. The transaction was effected under Part VII of the Financial Services and Markets Act 2000 and French insurance portfolio transfer procedures, pursuant to the Companies (Cross Border Merger) Regulations 2007 and the French Commercial Code.

The effective accounting date for the Merger was 1 November 2018, with the transferring assets and liabilities of the subsidiaries recognised by the Company from that date. The comparative information on financial performance reported in this section includes the operations of the former subsidiaries from that date.

The Company prepares its financial statements in accordance with UK GAAP. The information on financial performance provided in this section is therefore presented on a UK GAAP basis, unless otherwise stated.

A.1 BUSINESS

a. Name and legal form

AGE is a public limited company registered in England and Wales (registration number 2510099).

The registered office of the Company is:

11th Floor, 6 Bevis Marks
London
EC3A 7BA
United Kingdom

The Company is authorised by the PRA and regulated by both the PRA and the FCA.

b. Name and contact details of the supervisory authority responsible for financial supervision

Prudential Regulation Authority
General Insurance Division
Bank of England
20 Moorgate
London
EC2R 6DA

c. Name and contact details of the external auditor

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

d. Holders of qualifying holdings in the Company

The Company is a wholly-owned subsidiary of AGM. AGM is an insurance company, which was organised under the laws of the State of New York, United States of America in 1984. AGM commenced operations in 1985 and has its principal place of business in New York. AGM provides financial guarantee insurance and reinsurance on debt obligations issued in the US and, together with AGE, in the international public finance and infrastructure finance markets. AGM is regulated by the NYDFS. The NYDFS has agreed to serve as the group regulator for the insurance companies in the AGL Group.

AGM is an indirect wholly-owned subsidiary of AGL. AGL (through a wholly owned holding company) acquired AGM (then named Financial Security Assurance Inc.), together with its holding company Financial Security Assurance Holdings Ltd. (renamed Assured Guaranty Municipal Holdings Inc.) on 1 July 2009.

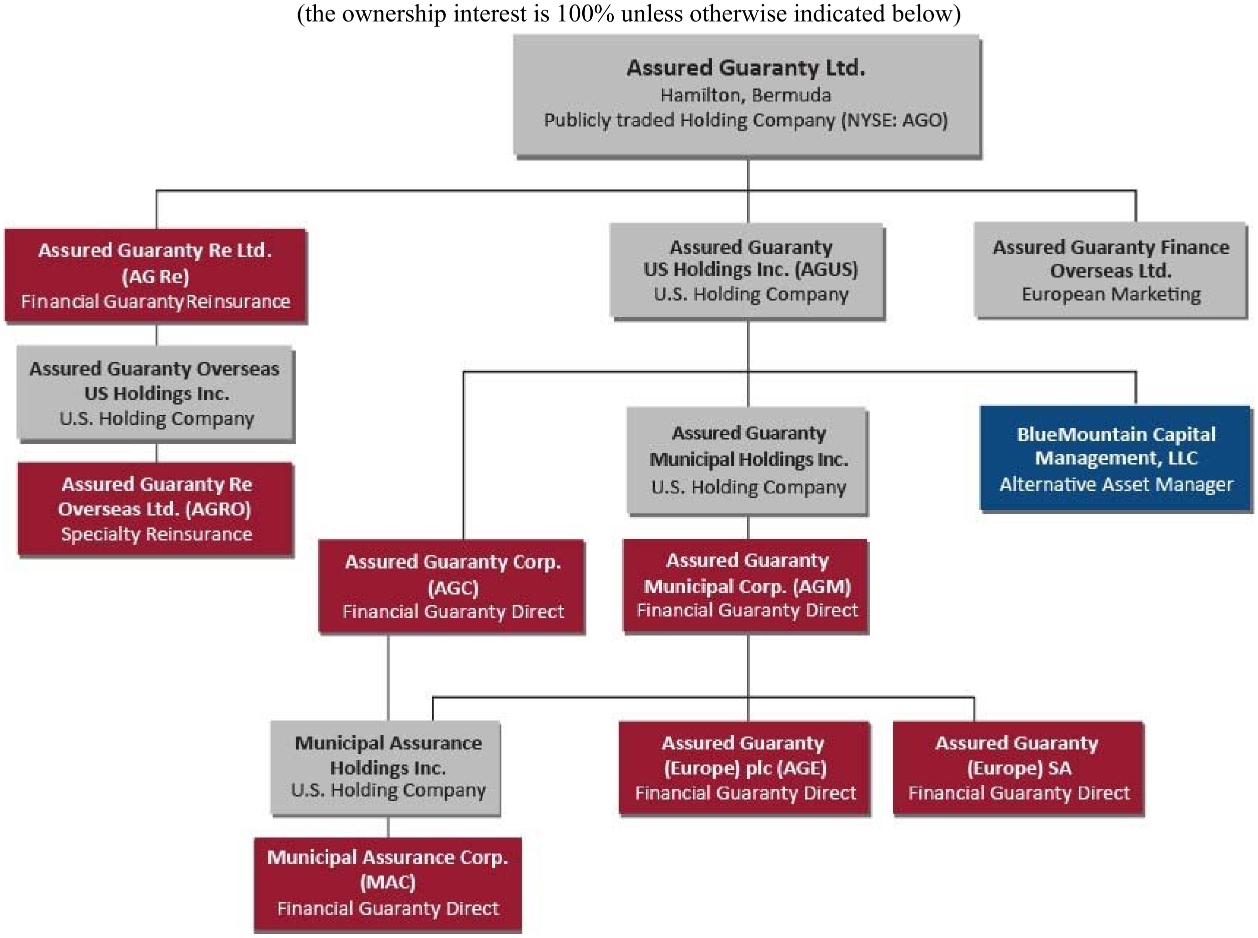
AGL is a Bermuda-based holding company, which was formed in 2003, and as a public company, is subject to certain requirements of the SEC.

e. Details of the undertaking's position within the legal structure of the AGL Group

The abbreviated organisational chart below shows the position of the Company as an indirect wholly owned subsidiary of AGL.

Assured Guaranty Ltd. Corporate Structure

(the ownership interest is 100% unless otherwise indicated below)



f. Material lines of business and material geographical areas where business is underwritten

The principal activity of the Company is providing financial guarantees. AGE provides financial guarantees in the UK and certain countries within the EEA, specifically to the public finance (including infrastructure finance) and structured finance markets. As described more fully in *Section A.1.g* below, following the establishment by AGM of its wholly owned French insurance subsidiary, AGE SA, from 2 January 2020, it is planned that all new EEA business (policies issued to EEA policyholders) will be underwritten by AGE SA.

In 2019, the Company provided new financial guarantees on public finance obligations only. The Company's insured portfolio as at 31 December 2019 and 2018 by location of risk, split between public and structured finance is given in the table below.

Par insured by location of risk

As at 31 December	**2019**		**2018**	
	Gross Par Outstanding	**Net Par Outstanding**	**Gross Par Outstanding**	**Net Par Outstanding**
Country	**(in thousands)**			
Public finance:				
United Kingdom	£ 18,936,767	£ 8,972,808	£ 18,348,732	£ 8,338,133
France	2,322,027	1,011,875	2,466,560	1,083,338
Italy	789,220	20,920	875,903	23,127
Spain	485,894	30,651	349,951	6,575
Japan	294,685	10,307	312,910	10,959
Other	704,663	347,517	795,905	395,909
Total public finance	23,533,256	10,394,078	23,149,961	9,858,041
Structured finance:				
Italy	146,073	3,742	173,167	4,435
United Kingdom	63,012	733	69,456	796
United States of America	30,365	3,037	66,724	6,672
Germany	5,310	195	7,344	269
Hungary	—	—	92,297	89,323
Total structured finance	244,760	7,707	408,988	101,495
Total	£ 23,778,016	£ 10,401,785	£ 23,558,949	£ 9,959,536

g. Significant business or other events that have occurred over the reporting period that have had a material impact on the undertaking and its subsidiaries

Brexit

The UK’s withdrawal from the European Union continues to be an area of uncertainty for the Company. However, significant progress has been made during the year to mitigate the potential impact of Brexit upon the Company’s operations.

The UK parliament approved a withdrawal agreement with the EU and the UK left the EU on 31 January 2020, entering into a transition period which is currently set to end on 31 December 2020. The terms of any future trading relationship between the UK and EU are likely to restrict the Company’s ability to underwrite new business and service existing policies within the EEA after the end of the transitional period on 31 December 2020. In order to ensure that existing EEA based policies can continue to be serviced and new EEA transactions can be entered into, the Company's parent, AGM, has established a new French insurance subsidiary, AGE SA, from which these activities will be conducted. AGE SA was authorised to conduct insurance business in France and certain other EEA countries in January 2020 and issued its first financial guarantee policy in February 2020 in respect of a Spanish solar energy refinancing. The Company is in the process of transferring existing EEA polices to AGE SA utilising an insurance transfer under Part VII of the Financial Services and Markets Act 2000. Significant progress has been made in respect of the transfer with the Court Order for Directions received in September 2019. The transfer is expected to be complete later this year.

The Company has also taken steps to mitigate any potential impact of Brexit upon staffing by ensuring that all employees working in AGE's London office are either UK citizens or have UK resident status. In addition, as the terms of the UK's future trading relationship with EU become known, especially in the event that terms are not agreed by the end of the transition period, this could have a significant impact on currency exchange rates. The Company's exposure to currency risk is disclosed further in *Section C.2*.

A.2 UNDERWRITING PERFORMANCE

New business

The Company measures new business production in terms of PVP. The Company believes PVP is a useful measure for management and other users of the financial statements because it enables the evaluation of new business production by taking into account the impact of the time value of money on estimated future instalment premiums.

New business written by the Company in 2019 and 2018 is shown in the table below**.** Gross par written refers to the value of debt principal insured at inception.

New Business Written

Year Ended 31 December	2019			2018		
	PVP	Gross Par Written	Number of Transactions	PVP	Gross Par Written	Number of Transactions
Sector	(in thousands, except number of transactions)					
Sovereign and Sub-Sovereign	£ 14,289	£ 614,279	2	£ —	£ —	—
Regulated Utilities	7,229	53,171	4	601	—	3
Renewable Energy	5,387	212,703	1	—	—	—
Other Infrastructure	3,027	50,162	3	10,966	25,047	5
Total	£ 29,932	£ 930,315	10	£ 11,567	£ 25,047	8

The Company continued to underwrite business across a number of public finance sectors during the year, including student accommodation, regulated utilities and social housing, generating PVP of £29.9 million (2018: £11.6 million) and Gross Par Written of £930.3 million (2018: £25.0 million). This represents an increase in PVP of 159% on the prior year and is the highest level of new business premium generated by the Company since 2008.

The increase is attributable to a higher level of new business activity, including the underwriting of a large portfolio of public finance sub-sovereign risks and a Spanish solar energy refinancing, which was the Company's first financial guarantee policy in Spain since 2008. Gross premiums written from new business of £69.2 million were partially offset by £8.6 million of negative gross premiums following the restructuring of an existing transaction.

Underwriting result

The underwriting result of the Company for the year, as presented within the Company's financial statements, is summarised below.

Technical Account for General Business

Year Ended 31 December		2019		2018
		(in thousands)		
Earned premiums, net of reinsurance	£	11,412	£	(7,595)
Other technical income		619		1,595
Total technical income (charge)		12,031		(6,000)
Net claims incurred		11		903
Net changes in other technical provisions		597		(2,772)
Net operating expenses		9,998		499
Total technical charges (income)		10,606		(1,370)
Balance on the technical account for general business	£	1,425	£	(4,630)

The overall underwriting result for the year was a profit of £1.4 million (2018: loss of £4.6 million). The improved underwriting result is due to a significant increase in net earned premiums to £11.4 million (2018: negative £7.6 million), partially offset by an increase in net operating expenses to £10.0 million (2018: £0.5 million). These increases result from the growth in the size of the Company's insured portfolio and of its operations due to the Merger.

During the year the Company restructured one of its BIG transactions which resulted in the Company recovering on its previously paid claims and loss adjustment expenses of £2.7 million. The restructuring also reduced the Company's gross insured exposure from $500 million to $40.4m and resulted in an increase in net outstanding claims reserves of £0.3 million. The increase in other technical provisions, net of reinsurance, of £0.6 million was driven from adverse developments in the performance of BIG transactions, which have not defaulted, but for which the Company had previously established an unexpired risk provision.

The components of net operating expenses are shown in the table below.

Net Operating Expense

Year Ended 31 December		2019		2018
		(in thousands)		
Acquisition costs deferred	£	1,164	£	525
Change in deferred acquisition costs		(2,416)		(2,355)
Administration expenses		(19,454)		(11,546)
Reinsurance commissions		10,708		12,877
Net operating expense	£	(9,998)	£	(499)

The Company incurred net operating expenses of £10.0 million (2018: £0.5 million). Administration expenses were £7.9 million higher in 2019 due to the Merger which increased employee and general overhead expenses.

A.3 INVESTMENT PERFORMANCE

Investment Portfolio

The portfolio of the Company consists primarily of high-quality fixed income securities. The table below presents the Company's investment return for the year. All financial investments are held at fair value, with changes in valuation recognised within the income statement.

a. Income and Expenses

Investment Return

Year Ended 31 December	2019	2018
	(in thousands)	
Interest income:		
UK Government bonds	£ 5,174	£ 4,004
Corporate bonds	5,452	2,332
Supra-National bonds	2,523	385
Non UK Government bonds	1,763	1,004
UK Government Agency bonds	1,458	158
Covered bonds	905	493
Other	438	19
Total interest income	17,713	8,395
Net unrealised loss on investments	(3,616)	(8,197)
Net realised gain on investments	2,200	41
Investment expenses and charges	(912)	(316)
Total investment return	£ 15,385	£ (77)

The Company's interest income, predominantly derived from government and highly rated corporate bonds, increased by 111% due to increased investment holdings following the Merger. The investment yield (yield-to-maturity) of the portfolio as at 31 December 2019 was 1.62% (2018: 2.05%). The Company incurred net unrealised losses during 2019 due to the restructuring of an existing insured transaction for which the Company held a portion of the insured bonds for loss mitigation purposes. These unrealised losses were partially offset by unrealised gains on the wider investment portfolio due to the reduction in yields during 2019.

b. Gains and Losses on Investments Recognised Directly in Equity

All investments gains and losses are recognised within the income statement.

c. Investments in Securitisation

The Company held securitised assets as at 31 December 2019 of £28.7 million (2018: £49.7 million) representing 3.8% (2018: 6.4%) of the investment portfolio. The securitised assets are primarily securities that are guaranteed by the Company and were purchased for loss mitigation purposes. The remainder of the securitised assets representing less than 1% of the investment portfolio (2018: <1%) are US Agency mortgage-backed securities rated AA+ and an asset backed security rated AAA.

A.4 PERFORMANCE OF OTHER ACTIVITIES

The Company also recorded a foreign exchange loss of £6.1 million during the year (2018: income of £0.5 million) due to losses on the Company's US Dollar and Euro denominated net assets following the strengthening of Pound Sterling.

A.5 ANY OTHER INFORMATION

In accordance with the requirements of the Solvency II Directive, the valuations within this report are based on information as at 31 December 2019 and therefore do not reflect the impacts of COVID-19.

AGE is actively monitoring the potential impacts of the pandemic across all areas of its business. The impact of COVID-19 on the Company's new business opportunities will be dependent upon the extent and duration of economic disruption and cannot be determined at this time. Although it is clear there has and will continue to be a slowdown or delay in new market issuances, the Company has been continuing its underwriting activities within both the primary and secondary markets and has continued to underwrite new policies while operating remotely. The Company believes that the value offered by its guarantees is evident in the current volatile markets in helping investors gain greater confidence in unprecedented times and to limit the cost of widening credit spreads.

Information on the impacts of COVID-19 on the market value of the Company's investments and its regulatory solvency position is included in Sections D.5 and E.6 respectively.

Lease Payments

The Company leases and occupies office space in London and had the following future minimum lease payments under a non-cancellable operating lease agreement for each of the following periods:

Future minimum lease payments

Year Ended 31 December	**2019**	**2018**
	(in thousands)	
Not later than one year	£ 529	£ 529
Later than one year and not later than five years	2,118	2,118
Later than five years	2,511	3,040
Total	£ 5,158	£ 5,687

B. SYSTEM OF GOVERNANCE

This section of the SFCR describes the principal components of the Company's management and governance structure, including its risk management processes.

B.1 GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

a. Structure of the undertaking's administrative, management or supervisory body, main roles and responsibilities, segregation of responsibilities, committees, description of the main roles and responsibilities of key functions

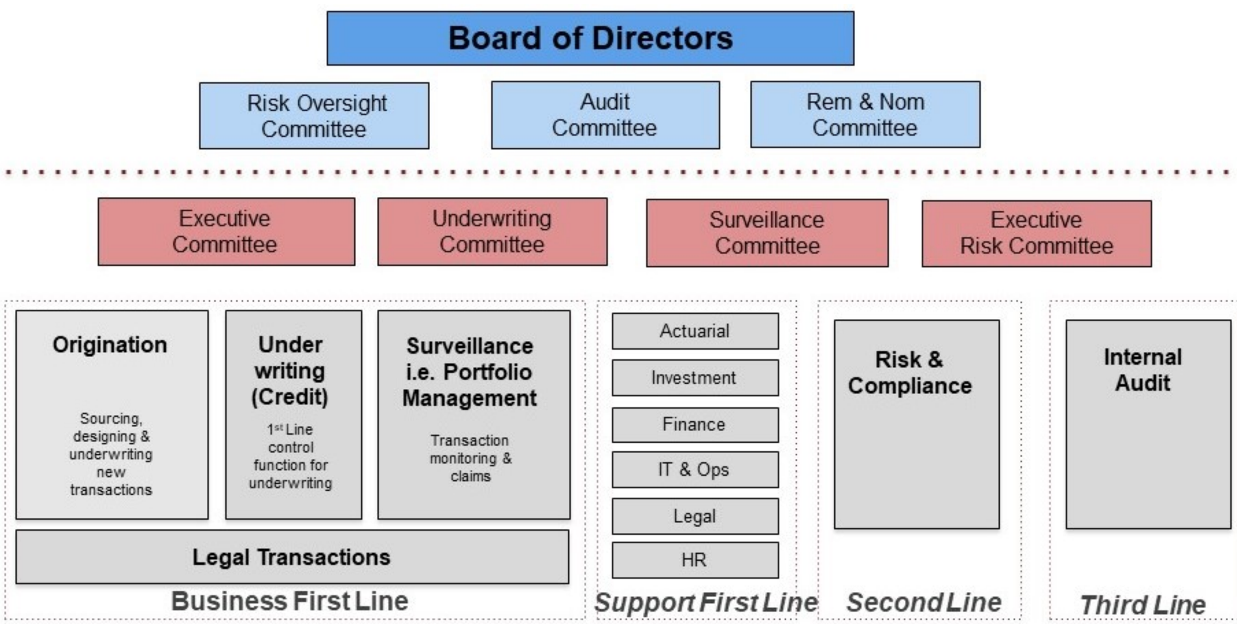
Board of Directors

The Company's Board has overall responsibility for the Company's system of governance, management of its business and affairs and establishment of its key strategic direction and key financial objectives both directly and through its Committees. The Board is comprised of six non-executive directors (four of whom are independent non-executive directors) and two executive directors.

The Board has delegated, pursuant to written terms of reference, responsibility for a number of matters to three sub-committees of the Board; an Audit Committee, a Risk Oversight Committee and a Remuneration and Nomination Committee. Each Committee's terms of reference are reviewed at least annually to ensure that they remain appropriate and to reflect any changes in good practice. Each of the committees is comprised of the independent non-executive directors of the Company.

The Board has delegated the day to day management of the Company to the Chief Executive Officer. The Chief Executive Officer is supported by a number of management committees; an Executive Committee, an Executive Risk Committee, a Surveillance Committee and an Underwriting Committee, and by the key functions.

The Company's overall governance structure is summarised below.



Audit Committee

The Audit Committee is responsible for assisting the Board in its oversight of the integrity of the Company's financial statements, the effectiveness of the systems of internal controls and monitoring the effectiveness, performance, objectivity and independence of the External and Internal Auditors. It is also responsible for oversight of the Company's whistleblowing processes. The Committee receives regular reporting from the Finance, Internal Audit and Actuarial Functions. The Committee is chaired by an independent non-executive director.

Risk Oversight Committee

The Risk Oversight Committee is responsible for assisting the Board in the identification and assessment of the Company's key risks. This includes oversight of the Company's risk appetite and monitoring the effectiveness of the Company's risk management framework. The Risk Oversight Committee reviews AGE's risk profile against risk appetite, oversees the management of current and emerging risk exposures and risk issues, oversees the ORSA process and reviews its results and reviews the Company's scenario and stress testing and the use of AGE's ECM.

The Committee receives regular reporting under the Company's ORSA process, which includes a quarterly risk dashboard and reporting from the Chief Risk Officer. It is also responsible for overseeing and challenging the activities of the Risk Management and Compliance Functions. The Committee is chaired by an independent non-executive director.

Remuneration and Nomination Committee

In 2019, the Company established a Remuneration and Nomination Committee comprised of the independent non-executive directors of its Board. The Remuneration and Nomination Committee assists the Board with, among other things:

- overseeing the Company's remuneration and related personnel policies, and overseeing compliance with those policies, and;
- monitoring and evaluating the performance and composition of the Board as a whole and proposing changes to the Board's composition.

The Committee is chaired by an independent non-executive director.

Executive Committee

The purpose of the Executive Committee is to support the Chief Executive Officer of the Company who is responsible for the day-to-day management of the Company. The Committee's primary role includes:

- assessing the performance and position of the business;
- overseeing operational performance, including outsourcing arrangements;
- assisting in the development of Company's strategy and business plan;
- overseeing the implementation of the strategies set by the Board, including key initiatives and projects; and
- reviewing key internal control, regulatory, legal and compliance matters

The Committee is chaired by the Chief Executive Officer.

Executive Risk Committee

The Executive Risk Committee is responsible for assisting the Risk Oversight Committee and Board in the management of risk and oversight of the Company's Risk Management Framework and processes. This includes monitoring the Company's compliance with risk strategy, risk appetite, risk limits, as well as overseeing and challenging the Risk Management and Compliance Functions. The Committee is also responsible for assisting the Audit Committee in assessing the appropriateness of the Company's UK GAAP and Solvency II Technical Provisions. The Committee is chaired by the Chief Risk Officer.

Surveillance Committee

The Surveillance Committee's main purpose is to review and monitor AGE's insured portfolio and analyse the impact of external or other events on the underlying credit risk of existing transactions and take appropriate management action. The Surveillance Committee is required to approve all changes in the internal ratings of the Company's insured transactions. The Committee is chaired by the Chief Surveillance Officer.

Underwriting Committee

The Underwriting Committee's main purpose is to review proposed transactions that are within AGE's risk appetite and either approve or reject these transactions. It is also responsible for assessing and approving the initial internal rating assigned to new transactions. The Committee is chaired by the Head of Underwriting Oversight.

Roles and Responsibilities of Key Functions

The system of governance for the Company includes the four Key Functions (risk management, compliance, internal audit and actuarial) specified in the Directive. Below is a brief description of the main roles and responsibilities of those Key Functions.

Risk Management Function

The Risk Management Function is responsible for the development and implementation of the Risk Management Framework. As such, it is responsible for ensuring that the Company has in place an effective risk management system comprising risk strategies, risk policies and the processes necessary to identify, measure, monitor, manage and report on risks on a continuous basis. The responsibilities of the Risk Management Function are further detailed in Section B.3.

The Risk Management Function is independent of any business or operational unit.

Internal Audit Function

The Internal Audit Function is responsible for providing the Company with independent, objective assurance and advisory services. The primary responsibility of the Internal Audit Function is to provide independent assurance over the adequacy and effectiveness of the internal control system within the Company and other elements of the Company's system of governance.

The Company outsources the Internal Audit Function to an international public accounting firm, which is objective and independent from the Company's operational functions. The Internal Audit Function reports directly to the Audit Committee and Board on the results of its internal audit activities and any other internal audit matters.

Compliance Function

The Compliance Function assists the organisation in ensuring its compliance with applicable laws and regulations, makes an assessment of the possible impact of any changes in the legal environment on the operations of the Company, and identifies and assesses compliance risk. The Compliance Function is also independent from any business or operational unit. *Section B.4.b* provides further detail on the activities of the Compliance Function.

Actuarial Function

The responsibilities of the Actuarial Function include the calculation of the Company's UK GAAP and Solvency II Technical Provisions, ensuring that the methodologies and models underlying the technical provisions are appropriate and assessing uncertainties underlying the estimates. The Actuarial Function is also responsible for assessing the appropriateness of the Company's underwriting policy and the adequacy of its reinsurance programme. *Section B.6* provides further detail on the activities of the Actuarial Function.

Other Functions

As well as the functions specified in the Directive, the Board and Chief Executive Officer are supported by the Finance, Human Resources and IT functions which are also of key importance to the operation and management of the Company.

b. Material changes in the system of governance over the reporting period

During 2019 the Company undertook a review of its governance and risk management frameworks to ensure it is well equipped to oversee, challenge and support the business as it continues to grow. This included consideration of the Company's arrangements in respect of its outsourcing to affiliate companies and its remuneration policy. As a result of the governance and risk review, during the year the Company (i) amended the respective terms of reference for the Board and its Committees to incorporate developments in good practice and governance (ii) established a Remuneration and Nomination Committee and (iii) established a new management committee, the Executive Risk Committee, which, among other things, assumed the role of the Reserve Committee, which was eliminated.

During the year the Board also added a fourth independent non-executive director to its Board and Board Committees, who also became Chair of the Risk Oversight Committee.

b. Remuneration policy and practices

i. Principles of the remuneration policy, with an explanation of the relative importance of the fixed and variable components of remuneration

The Company's remuneration policy is grounded in the concept of attracting and retaining talented and experienced business leaders who can drive financial and strategic growth in accordance with agreed objectives intended to protect policyholders, to build long-term value and to avoid any incentives to take any unreasonable or inappropriate risks. The guiding principles are:

- pay for performance by providing an incentive for exceptional performance and the possibility of reduced compensation for underperformance,
- accountability for short and long-term performance,
- alignment with shareholder interests, and
- retention of highly qualified and successful employees.

The Company's remuneration principles are designed to assess performance, using pre-established measures of success that are tied to the key business strategies. The principles encourage balanced performance, measured relative to financial and non-financial goals, and discourage excessive risk taking or undue leverage by avoiding too much emphasis on any one metric or on short-term performance.

The Company's remuneration principles have been designed to reward performance by providing more variable and performance-based remuneration to senior management of the Company. The principles employ a mix of variable incentive compensation with various pay-out forms paid over staggered time horizons to provide an incentive for annual and sustained performance over the longer term. The majority of the remuneration of the most senior personnel consists of variable incentive compensation, in the form of an annual cash incentive as well as long-term equity incentives.

When the remuneration principles were developed, they were evaluated for any areas of risk or potential for unintended consequences and also evaluated relative to enterprise risks. The Company's remuneration principles are designed and administered with the appropriate balance of risk and reward in relation to the overall business strategy and do not encourage executives to take unnecessary or excessive risks that could have a material adverse impact on the Company.

Remuneration typically consists of three principal elements: base salary, variable cash incentive remuneration and variable long-term incentive compensation. The Company's remuneration principles are structured with upside potential for high performers, but also the possibility of reduced remuneration if individuals under-perform (e.g. they are unable to successfully execute group strategies or meet their business or regulatory obligations). As part of the AGL Group, the Company maintains the ability to recoup (claw back) a portion of the remuneration of certain members of senior management of the Company if there were a material misstatement of the financial statements of the AGL Group and such misstatement resulted in higher bonus being paid than what would have been paid based on the corrected financial statement, or an overstatement of the AGL Group's performance with respect to objective, quantifiable performance goals, and such overstatement resulted in a higher payment or distribution being made than what would have otherwise been made had such performance been correctly calculated.

The independent non-executive directors of the Company's Board receive a fixed fee.

ii. Criteria on which any entitlement to share options, shares or variable components of remuneration is based

In addition to base pay, certain members of senior management may be eligible for a cash incentive award. This award is discretionary and, in the case of executives, the amount of the cash incentive is determined using a formulaic approach and is based on the extent to which an executive achieves five financial performance goals and other non-financial objectives. Cash incentive awards, if awarded, are paid the year following the performance year on which they are based.

AGL also maintains a LTIP, which was designed to enable its subsidiaries, including the Company, to attract and retain employees who contribute to the Company's success by their ability, ingenuity and industry, and to enable those employees to participate in the long-term growth of the AGL Group. A LTIP award may be made in the form of non-qualified and incentive stock options, stock appreciation rights, full value awards, which include awards such as restricted shares, restricted stock units or performance share units, and cash incentive awards. Awards are made at the discretion of AGL's Compensation Committee, in consultation with, the Company's Board. For certain senior management of the Company, LTIP awards can be made in the form of performance share units, which represent a contingent right to receive up to 2.5 of AGL's common shares. For performance share units granted in 2019, the number of common shares an individual can earn is based on growth in core adjusted book value per share relative to total shareholder return relative to the Russell Midcap Financial Services Index. For performance share units granted through 2018, the number of common shares an individual can earn is based on whether the highest average stock price achieved during a 40 consecutive trading day sequence occurring during the last 18 months of a 3 year performance period exceeds certain share price hurdles. LTIP for certain senior management also can be awarded in the form of restricted stock units, which represent the right to receive certain amount of AGL's common shares at the end of a three-year vesting period. The form of LTIP awards may change at any time. For other personnel who are granted awards, the awards are made in the form of restricted stock, which vest over a three or four year period.

iii. Supplementary pension or early retirement schemes for the members of the administrative, management or supervisory body and other key function holders

AG (UK) Services and AGUS Services provide employees the opportunity to participate in a defined contribution pension scheme, which is designed to help their respective employees prepare for retirement by allowing them to contribute a percentage of their remuneration to the scheme and by matching an employee's contribution up to a certain amount. Employees of AG (UK) Services or AGUS Services who serve as executive directors of the Company, who hold SMFs or who hold key functions are also permitted to participate in the scheme. The Company does not provide any supplementary pension or retirement schemes for independent non-executive members of the Board.

c. Material transactions during the reporting period with shareholders, persons who exercise a significant influence on the undertaking, and members of the administrative, management or supervisory body

The Company did not have any material transactions during the reporting period with members of its Board or management.

Reinsurance and Support Agreements

The Company is party, with its parent company AGM, to the AGM Net Worth Maintenance Agreement and the AGM Reinsurance Agreement. It also is a party to other reinsurance agreements with affiliated AGL Group companies. Please refer to *Section E.1* for additional information on these agreements.

Management, Service Contracts or Cost Sharing Arrangements

Service Agreement with AG (UK) Services

The Company is party to a services agreement with AG (UK) Services pursuant to which AG (UK) Services provides professional insurance executives and administrative and clerical personnel who are experienced in the management of insurance operations similar to the Company's operations. Under such agreement, the Company pays a fee equal to the costs incurred by AG (UK) Services in providing the services of those individuals plus a mark-up.

Service Agreement with AGUS Services

In addition, the Company also is a party to the Group Service Agreement. Under the Group Service Agreement, the Company's US affiliates make services available to the Company, including actuarial, marketing, underwriting, claims handling, surveillance, legal, compliance, corporate secretarial, information technology, human resources, accounting, tax and investment planning services. Expenses under the Group Service Agreement are allocated directly where appropriate and, where not appropriate, based upon an allocation of employee time and corresponding office overhead.

B.2 FIT AND PROPER REQUIREMENTS

a. Requirements concerning skills, knowledge and expertise applicable to the persons who effectively run the undertaking or have other key functions

The Company ensures that all persons who effectively run or oversee the Company, or who hold a SMF for the Company or a Key Function, are able to provide competent and prudent management through the assessment process described below. Each person is assessed at the time they enter into a non-executive role or are first hired by AG (UK) Services or AGUS Services.

b. Process for assessing the fitness and the propriety of the persons who effectively run the undertaking or have other key functions

Non-executives who are considered for appointment to the Company's Board go through a rigorous internal vetting process including interviews with senior management and members of the Board of AGL. Employees of AG (UK) Services or AGUS Services who are considered for SMF roles or as KFHs are subject to additional scrutiny prior to commencement of that role. In addition, the Company obtains the background checks and references required by its internal policies and regulation.

The Company's assessment of whether an individual is fit to perform a particular role includes an assessment of the person's professional qualifications, knowledge and experience for the position and the person's:

- understanding of financial guarantee insurance;
- honesty, integrity, and reputation;
- judgement, competence and capability, and;
- financial soundness.

Consideration is also given to the individual's competence and capability to undertake the role, and (i) whether the individual has demonstrated, by experience and training, that they are suitable to perform the role and possess the necessary skills, knowledge, expertise, diligence and soundness of judgement to undertake and fulfil the duties and responsibilities of the role;

(ii) whether the individual has demonstrated the appropriate competence, honesty, and integrity in fulfilling professional responsibilities previously or in their current role; and (iii) where the individual has any potential conflicts of interest

Members of the Company's Board and individuals who hold SMFs or Key Functions are required to complete training at the inception of their role and thereafter training on an ongoing basis which is appropriate to their regulatory roles and responsibilities and to the professional competencies required for their position.

The Company's assessment of whether an individual is proper includes consideration of criminal and regulatory offences.

B.3 RISK MANAGEMENT SYSTEM

Risk Management Framework

The Company has established a Risk Management Framework which seeks to ensure that risk is managed within the overall risk appetite and associated limits established by the Company’s Board. The Risk Management Framework seeks to identify, measure, monitor, manage and report on the risks to which the Company is or could be exposed. Under this framework risks are categorised into five areas: underwriting risk, counterparty default risk, market risk, liquidity risk and operational risk.

The RMF provides the basis for implementing and integrating the risk management systems into the organisation’s structure and decision making process.

Risk Identification, Measurement, Monitoring, Managing and Reporting

The Risk Management Function works with business unit leaders to ensure that all known risks are identified and to work cooperatively on determining the importance of these risks and the most effective ways to measure, monitor and manage them. The results of the risk identification process are documented in the Company's Risk Register along with the internal control and other actions designed to mitigate these risks to a level consistent with that set out within the Company’s Risk Appetite Framework. The Risk Management Function monitors known and emerging risks, compares risk exposures to risk appetite as well as confirming that risk mitigation strategies remain effective. The results of their ongoing review are reported to the Executive Risk Committee at least quarterly in order to inform business decisions and are subject to review and challenge by the Risk Oversight Committee.

Risk Appetite Framework

The Company's Risk Appetite Framework describes the Company’s overall risk appetite statement along with its risk preferences across the areas of underwriting credit risk, counterparty default risk, market risk, liquidity risk and operational risk. It also sets risk tolerances, prohibits the execution of certain kinds of transactions, sets single risk, sector and country exposure limits and establishes capital allocations for each key risk area. The Company's compliance with risk appetite is monitored via the use of key risk indicators. The Risk Appetite Framework is reviewed by the Board at least annually and more frequently if required.

Risk Governance

The Company has adopted the three lines of defence model to ensure the effective implementation of the Risk Management Framework.

- The first line of defence comprises the business functions who have the primary responsibility for risk identification, measurement, monitoring, management and reporting.
- The second line of defence are the Risk Management and Compliance functions. These functions provide support for management and independent challenge on the completeness and accuracy of risk identification, measurement, monitoring, management and reporting.
- The third line of defence is provided by the Internal Audit Function which provides independent assurance of both first and second line activities.

Each line of defence does its part to ensure that risk management is considered in all of their day-to-day operations and that business activities are aligned with the Company's risk strategy and appetite. This approach is designed to guard the Company against the materialisation of unwanted risks that are not in line with its risk appetite.

The Board is responsible for setting the Company's risk appetite and monitoring the establishment of effective internal controls to assess and manage the risks associated with all the Company's activities. The Board has delegated significant elements of risk monitoring and oversight to the Risk Oversight Committee and Audit Committee. The roles of the Risk Oversight Committee and Audit Committee with respect to risk governance are described in *Section B.1* above.

Risk oversight is also provided by the Chief Risk Officer, his team and the newly established Executive Risk Committee. The Executive Risk Committee was set up in 2019 to support executive management in the execution and conduct of their risk management duties. It is chaired by the Chief Risk Officer and consists of relevant senior managers. The scope of the Executive Risk Committee is enterprise wide and covers all of the Company's risks including underwriting risk, counterparty default risk, other financial risks and operational risks.

The Risk Management Function provides support for management and independent challenge on the completeness and accuracy of risk identification, measurement, monitoring, management and reporting. This requires the second line to review proposals and partner and advise management on key business decisions before they are taken. The second line functions set and monitor policies, define work practices and oversee the first line's compliance with these policies.

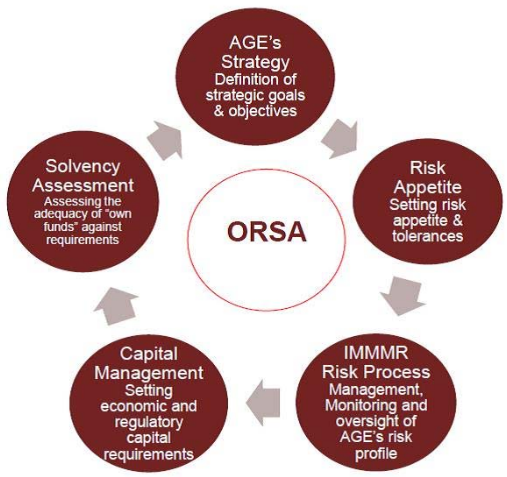
The Risk Management Function is responsible for the operational aspects of risk management for the Company, including:

- implementing the Risk Management Framework
- assessing the risk profile
- maintaining the Risk Register
- updating the Risk Appetite Framework
- developing and preparing the ORSA
- maintaining the ECM used to calculate the Company's ICA
- performing scenario and stress testing on the Company's capital ratios
- analysing the impact of potential emerging issues
- identifying and reporting on any material risk issues to the Executive Risk Committee and presenting quarterly management information to the Risk Oversight Committee,
- determining the impact of proposed transactions on SCR and ICA, including acquisitions and changes in reinsurance arrangements, and
- assisting the Chief Financial Officer in development of the Capital Risk Appetite

ORSA Process

The ORSA process assists the Company in understanding the risk management implications of its strategy and business planning. The business strategy, which sets out AGE's business objectives, is at the heart of the ORSA process. In turn, business strategy drives the risks that AGE takes, and the ability of AGE to withstand adverse events should they occur. The ORSA processes help AGE and the Risk Function understand how the business plan impacts the forward looking risks that AGE may face and their potential impact on the future capital requirements for the business. When interlinked with the management of risk and assessment of future risks and capital solvency positions under different scenarios, it provides a solid, transparent framework for making key decisions and effectively and efficiently running the business.

The model below summarises each element of the ORSA process.



To calculate what it believes to be its true economic risk for its respective ORSA, the Company uses its own economic capital assessment, the ICA. The ICA employs an internally developed model, the ECM, to measure the Company's key risks, i.e., credit underwriting risk and reinsurance counterparty credit risk. The Company uses the Standard Formula for the calculation of the less material risk components of its ICA.

ORSA Report

The ORSA report projects capital requirements for the next three years based on both expected business volumes and market conditions and results from the Company's stress and scenario testing framework. It considers the suitability of the Pillar 1 capital calculation (SCR) against those capital requirements derived from the Company's own view of risks (Pillar 2) based on its own internal capital methodology (ICA). It has been assessed that the standard formula is materially appropriate for the Company's risks.

The Company produces its ORSA annually, and will produce it more frequently if there is a material change in its risk profile or other events that warrant an off-cycle review. The results of the ORSA are presented to the Executive Risk Committee, and the ORSA Report is subject to review and challenge by the Risk Oversight Committee before being recommended to the Board for approval.

B.4 INTERNAL CONTROL SYSTEM

a. A description of the undertaking's internal control system

The Company has put in place an effective internal control system, the policies and procedures in respect of which are documented within the Company's Internal Control Policy. The Company's control framework is based upon four key components:

- *Control environment* - the overall control culture is established by the Company's management and its key governance functions. The Company's Code of Conduct sets forth standards by which the Company's directors, and all personnel acting as officers or otherwise providing services to the Company, must abide and sets the tone for how personnel supporting the Company should conduct themselves. The Code of Conduct is available at www.assuredguaranty.com/governance. The Code of Conduct is designed to discourage personnel from engaging in activities that could jeopardise the Company's business and reputation;
- *Control activities* - the Company's key controls have been identified and are designed to provide reasonable assurance that material errors will be prevented or detected on a timely basis;
- *Information and communication* - the design of information and reporting provided to both control operators and reviewers is assessed as part of control design. The appropriateness of information provided is assessed as part of control monitoring;
- *Monitoring* - the Company is part of the AGL Group which as a public company is subject to the requirements of Sarbanes-Oxley. As such, the Company's controls are subject to annual testing, with a management testing plan developed for relevant key controls. The Internal Audit Function is also responsible for assessing the effectiveness of the Company's internal controls.

b. Description of how the Compliance Function is implemented

The Compliance Function is responsible for advising the Company's management, the Risk Oversight Committee and the Board on compliance with applicable laws and regulations, and on the impact of changes to the legal and regulatory environment. The Compliance Function is a second line of defence function which is independent of any business unit.

The principal activities of the Compliance Function are:

- Advising on compliance with applicable laws and regulations and assessing the possible impact of new laws and regulations.
- Ensuring that new regulatory rules and internal guidelines are communicated to the affected business areas and providing guidance to those business areas in respect of such requirements.
- Ensuring that all relevant personnel complete training on their regulatory roles and responsibilities, and on compliance with applicable laws and regulations, on a regular basis (including anti-money laundering and anti-bribery/corruption training).
- Assessing, together with the Internal Audit Function, the adequacy and effectiveness of compliance controls.

The Compliance Function works with the Internal Audit Function to develop an internal audit plan that addresses, as appropriate, compliance by the Company with internal policies and procedures.

B.5 INTERNAL AUDIT FUNCTION

a. How the undertaking's Internal Audit Function is implemented

The Internal Audit Function is responsible for providing the Company with independent, objective assurance and advisory services. The Internal Audit Function performs activities including: evaluation of risk management, internal control and governance processes. The Internal Audit Function is independent of any other function and has access to any member of staff and to any information it considers necessary to carry out its duties. Independence is maintained by segregation from other functions where possible and by safeguards and review where this is not possible. On a quarterly basis, or when required, the Internal Audit Function reports its findings directly to the Company's Audit Committee and informs the Chief Executive Officer of any material issues.

The Company has concluded that, at this time, the Internal Audit Function is most effective being outsourced to an external firm of certified internal audit professionals. The Company maintains responsibility for management of the Internal Audit Function.

Internal audit resources are focused on testing the key controls that mitigate business risk. If requested, the Internal Audit Function may also provide the Company with advice, support and assistance. The internal audit plan is developed with the input of and review from the Audit Committee.

The Internal Audit Function evaluates the design and operating effectiveness of the Company's risk management, internal control and governance processes, as designed and represented by management, to validate that:

- risks are appropriately identified and managed,
- interaction with the various governance groups occurs as needed,
- significant financial, managerial, and operating information is accurate, reliable, and timely,
- employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations,
- quality and continuous improvements are fostered in the control processes,
- significant legislative or regulatory issues impacting the organisation are recognised and addressed appropriately,
- processes established to operate and comply with policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports are designed and operating appropriately,
- that key risks are addressed and to ensure that audit duplication with external auditors is avoided whenever possible, and
- controls are implemented to reduce the risk of fraud and misappropriation of assets.

a. How the Internal Audit Function maintains its independence and objectivity from the activities it reviews

The Internal Audit Function remains independent of and objective from other functions of the Company primarily through outsourcing the Internal Audit Function to an external party who is not involved in the operations that are subject to internal audit activities. To provide an appropriate level of organisational independence, the Internal Audit Function reports directly to the chairman of the Audit Committee.

B.6 ACTUARIAL FUNCTION

The Actuarial Function's responsibilities include:

- proposing loss reserves to the Executive Risk Committee,
- coordinating the calculation of Technical Provisions,
- reviewing the Company's ICA model,
- reviewing assumptions, methods, and data used in modelling,
- contributing to risk modelling,
- monitoring differences in Technical Provisions in different years,
- drawing conclusions and comparing actual results to expected values,
- reporting to the Board on the adequacy of the calculation of Technical Provisions,
- opining on underwriting policy and adequacy of reinsurance, and
- making any recommendations on how any shortcomings can be remedied.

The Chief Actuary is a qualified actuary in good standing with the Casualty Actuarial Society, and is also a Fellow in the Casualty Actuarial Society. In addition, the Chief Actuary is a member of the American Academy of Actuaries in good standing.

B.7 OUTSOURCING

Given the relatively small size of the Company's operations and the desire to ensure the efficiency and effectiveness of its operations, the Company has determined that certain functions should be outsourced to one or more affiliates, or third parties. The Company remains fully responsible for discharging its legal and regulatory obligations notwithstanding such outsourcing arrangements.

Outsourcing to Companies within the AGL Group

The Company outsources certain functions to its affiliates pursuant to service agreements with AG (UK) Services (domiciled in the UK) and AGUS Services (domiciled in the US). These arrangements are described in S*ection B.1.d*.

Employees of AG (UK) Services and AGUS Services who are performing outsourced functions are not empowered to make underwriting decisions on behalf of the Company or to bind the Company.

Outsourcing to Third Parties

Investment Management

The Company's investments are managed by a third party investment manager and governed through an investment management agreement and guidelines. The investment guidelines are established by the Company with the key objective of preserving the highest possible ratings for the Company and to maintain sufficient liquidity to cover unexpected stresses in the insurance portfolio. The guidelines include specific restrictions which limit risk arising from credit, duration, currency, liquidity and counterparty risks. The investment manager is required to regularly confirm its compliance with the established limits.

Internal Audit

The Company outsources its Internal Audit Function to an international public accounting firm. The role and responsibilities of the Internal Audit Function are described in further detail in *Sections B.1.a* and *B.5*.

B.8 ANY OTHER INFORMATION

a. Assessment of the Company's system of governance relative to the nature, scale and complexity of the risks inherent in its business

The Board of the Company formally assesses the adequacy of its system of governance on an annual basis. The Board may also recommend changes outside of this annual review as a result of observations or regulatory changes.

As noted in *Section B.1,* during 2019 the Company undertook a review of its governance and risk management frameworks to ensure it is well equipped to oversee, challenge and support the business as it continues to grow. The review started in 2019 and its recommendations will by fully implemented during 2020.

The Board of the Company has reviewed the governance system as described in this report and concluded that it provides for sound and prudent management of the business which is proportionate to the nature, scale and complexity of the operations.

b. Any other material information regarding system of governance

The Company's governance procedures and processes have continued to operate as described during the Company's transition to remote working. The Company has applied its risk management framework in its ongoing assessment of the impacts of COVID-19. Executive management, in conjunction with the Risk Function, report regularly to the Risk Oversight Committee and Board in respect of the Company's ongoing monitoring and management of the impacts of the pandemic. The Company's 2019 year end ORSA report is currently being revised in order to consider these impacts.

C. RISK PROFILE

This section of the SFCR provides information on the material risks faced by the Company. The Company's Risk Management Framework categorises these risks into five areas: underwriting risk, counterparty default risk, market risk, liquidity risk and operational risk. The Company's initial assessment of the impacts of COVID-19 on these risks is outlined in Section C.7.

All key risks are captured within the Company's risk register along with the internal control and other actions designed to mitigate these risks to a level consistent with that set out within the Company's Risk Appetite Framework. Key risks are monitored via the use of key risk indicators against limits and capital allocations prescribed under the Risk Appetite Framework. The Company's Own Risk and Solvency Assessment ("ORSA"), which forms an integral part of the Risk Management Framework, is the process by which management determines an appropriate level of capital to hold against the identified risks.

C.1 UNDERWRITING RISK

Financial guarantee insurance protects holders of debt instruments and other monetary obligations from defaults in scheduled payments. As a result, the Company's key underwriting risk is credit risk, i.e., the risk that obligors of insured debt obligations will fail to pay. The policies issued by the Company are generally non-cancellable, with the premiums paid up front, in instalments, or a combination of both. The obligation to make claim payments generally cannot be accelerated, although the Company generally retains the right to accelerate payment on defaulted obligations. The Company actively seeks underwriting risk; taking insurance credit risk for an appropriate financial return is the Company's primary corporate objective.

Risk Measurement & Mitigation

The Company's main metrics for measuring underwriting risk (in addition to the methods used under the ORSA processes, as described in *Section B.3)* are par outstanding, by sector and internal rating. The Company also considers geographic concentrations. At the closing of each transaction, the Underwriting Committee assigns the transaction to a sector (i.e., a group of transactions with similar risk characteristics) for purposes of evaluating risk and potential correlations. The Underwriting Committee also assigns an internal credit rating reflecting the credit quality of the transaction, with such rating subject to change over time. The Surveillance Function is responsible for monitoring the performance of all insured transactions and recommending internal rating changes as appropriate. All rating changes must be approved by the Surveillance Committee**.**

The Company's insured portfolio split by sector, as measured by GPO and NPO, as at 31 December 2019 and 2018, is set out below.

Insured Portfolio by Sector

As at 31 December	**2019**			**2018**		
	Number of Risks	**GPO**	**NPO**	**Number of Risks**	**GPO**	**NPO**
Sector	**(in thousands, except number of risks)**					
Regulated utilities	52	£ 10,402,512	£ 4,396,624	51	£ 10,233,689	£ 4,283,192
Public infrastructure	64	9,525,196	4,091,958	64	9,879,500	4,228,106
Sovereign & sub-sovereign	175	3,431,635	1,880,839	19	3,025,242	1,346,743
Renewable Energy	2	173,913	24,656	1	11,530	—
Total public finance	293	23,533,256	10,394,077	135	23,149,961	9,858,041
RMBS	7	214,395	4,670	9	342,264	94,823
Insurance securitisation	2	30,365	3,037	2	66,724	6,672
Total structured finance	9	244,760	7,707	11	408,988	101,495
Total portfolio	302	£ 23,778,016	£ 10,401,784	146	£ 23,558,949	£ 9,959,536

The table above excludes £288.5 million of GPO and £28.9 million of NPO as at 31 December 2019, attributable to loss mitigation strategies.

The breakdown of the Company's insured portfolio by internal ratings as at 31 December 2019 and 2018, is set out below. The ratings given are the Company's internal rating classifications which may or may not differ from those of the Rating Agencies.

Portfolio Breakdown by Internal Credit Rating

As at 31 December	2019		2018	
	GPO	NPO	GPO	NPO
Internal Credit Rating	(in thousands)			
AAA	£ 45,345	£ 82	£ 50,375	£ 93
AA	449,935	404,715	67,316	20,466
A	8,280,360	5,226,314	8,082,145	4,976,259
BBB	14,367,976	4,617,856	14,536,060	4,756,481
BIG	634,400	152,817	823,053	206,237
Total	£ 23,778,016	£ 10,401,784	£ 23,558,949	£ 9,959,536

The table above excludes £288.5 million of GPO and £28.9 million of NPO as at 31 December 2019, attributable to loss mitigation strategies.

The table below sets out the Company's BIG transactions, by GPO and NPO, split between Public Finance and Structured Finance. The Company has a total of eight BIG risks as at 31 December 2019 compared to a total of nine BIG risks as at 31 December 2018.

BIG Exposure by Sector

As at 31 December	2019			2018		
	PF	SF	Total	PF	SF	Total
	(in thousands, except number of risks)					
Number of risks	6	2	8	6	3	9
GPO	£ 604,035	£ 30,365	£ 634,400	£ 720,970	£ 102,083	£ 823,053
NPO	149,781	3,037	152,818	164,206	42,031	206,237

As at 31 December 2019, the Company had established loss reserves or unexpired risk provisions for the BIG transactions on which it expects to incur a loss, and had paid claims on three of the BIG transactions during the year.

Risk Concentration

The table below shows the geographic concentrations of insured obligations, by GPO and NPO, as at 31 December 2019.

Geographic Distribution of Gross and Net Par Outstanding

As at 31 December	2019		2018	
	GPO	NPO	GPO	NPO
Country	(in thousands)			
United Kingdom	£ 18,999,779	£ 8,973,541	£ 18,418,188	£ 8,338,929
Europe, excluding UK	4,226,956	1,225,219	4,498,517	1,378,357
Other	551,281	203,024	642,244	242,250
Total	£ 23,778,016	£ 10,401,784	£ 23,558,949	£ 9,959,536

The table above excludes £288.5 million of GPO and £28.9 million of NPO as at 31 December 2019, attributable to loss mitigation strategies.

Approach to Underwriting New Business

The Company's underwriting risk appetite and associated risk limits have been established by the Board, and are set out within the Risk Appetite Framework. The adherence to risk appetite and limits is overseen by the Underwriting Committee. The Risk Appetite Framework and associated limits establish minimum underwriting criteria and credit characteristics, as well as single risk, sector, and country limits across the insured portfolio. The Company seeks to limit its exposure to losses by underwriting obligations that it deems to be IG at inception. The Company diversifies its insured portfolio across asset classes and, in the structured finance portfolio, requires rigorous subordination or collateralisation requirements.

The Company can only enter into new risks or significantly vary the terms of existing risks on the approval of the Underwriting Committee. Each transaction must be approved by the Underwriting Committee, which is composed of the Chief Executive Officer of the Company, the Head of Underwriting Oversight of the Company and the Chief Financial Officer of the Company.

Because of the strong relationship of the Company to its parent, including the co-insurance arrangement, the AGM Net Worth Maintenance Agreement and the excess of loss cover of the AGM Reinsurance Agreement, all risks entered into by the Company are also subject to review and approval by the ISCC. The ISCC is composed of senior officers of the AGL Group with credit expertise relevant to the type of transaction under consideration. Both committees must approve each transaction.

Approach to Insured Portfolio Monitoring

To manage the insurance risk associated with the insured portfolio, the Company's surveillance personnel are responsible for monitoring and reporting on all risks. 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. In general, the review process includes the collection and analysis of information from various sources, including trustee and servicer reports, financial statements, general industry or sector news and analyses, and rating agency reports. For public finance and structured finance risks, the surveillance process includes monitoring general economic trends, developments with respect to the financial situation of the issuers, performance data and cash flows, compliance with transaction terms and conditions, and evaluation of servicer or collateral manager performance and financial condition.

All risks 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. 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 segregates its insured portfolio into IG 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 monitors its IG 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 identified as under the most stress or with the most potential volatility are reviewed every quarter.

The Surveillance Function provides comprehensive reporting to senior management through the Surveillance Committee. Generally, transactions are reviewed and presented to the Surveillance Committee in sector reports, which group together transactions that share common risk characteristics. Reviewing credits by sector facilitates comparison of performance, risk ranking and early identification of underperforming transactions. In addition, each quarter, the Surveillance Function prepares and presents a quarterly review to the Risk Oversight Committee and Board.

Workout Activities

Surveillance officers are responsible for managing workout and risk mitigation strategies. They work in conjunction with surveillance officers from the AGL Group to develop and implement strategies on transactions that are experiencing losses or could possibly experience losses. They develop strategies designed to enhance the ability of the Company to enforce its contractual rights and remedies and mitigate potential losses. Surveillance personnel also engage in negotiation discussions with transaction participants (along with workout personnel) and, when necessary, manage (along with legal personnel) any potential litigation proceedings. The Company may also make open market or negotiated purchases of securities that it has insured, or negotiate or otherwise implement consensual terminations of insurance coverage prior to contractual maturity. While each situation is unique, various approaches may be used, including:

- Exercise of transaction rights and remedies, including enforcement
- Negotiation of amendments, waivers and consents
- Employment of advisors, consultants or internal auditors
- Restructuring or refinancing
- Repurchase of affected securities at a discount
- Litigation

Reinsurance

The Company benefits from significant levels of reinsurance protections with AGL Group affiliated reinsurers, including its parent company AGM. Details of reinsurance contracts with affiliated reinsurers are provided in *Section E.1.a.*

Historically, the Company entered into reinsurance contracts with both affiliated and unaffiliated reinsurers in order to support its capital position and reduce the net potential loss from large risks. By virtue of several commutations completed by the Company since the 2008 financial crisis, as well as acquisitions of formerly unaffiliated reinsurers by AGL, the Company, as at 31 December 2019, had outstanding reinsurance with only one unaffiliated reinsurer.

The table below sets out the mitigation of the Company's gross par exposures provided by reinsurance.

Ceded Par Outstanding to Reinsurers

As at 31 December	**2019**	**2018**
Reinsurer	**(in thousands)**	
Affiliated reinsurers	£ 13,359,902	£ 13,582,921
Unaffiliated reinsurers	16,330	16,492
Total reinsurance	£ 13,376,232	£ 13,599,413

The Company remains liable for all risks it underwrites directly and is required to pay all gross claims. The Company then seeks reimbursement from each reinsurer for its proportionate share of claims. Therefore, the use of reinsurance creates counterparty default risk related to the reinsurers. The Company monitors the financial condition of each of its reinsurers on an ongoing basis, with a formal review of their creditworthiness presented to the Risk Oversight Committee and Board quarterly. Internally assigned credit ratings are reviewed at least annually, and more often as dictated by the occurrence of outside events. The Company utilises detailed information received on a quarterly basis to monitor the financial condition, claims paying resources, solvency position and other events impacting the level of credit risk associated with these reinsurance relationships.

Furthermore, all reinsurers, including affiliated reinsurers, are required to post collateral to support their payment obligations. With the benefit of that collateral, the Company is able to substantially reduce its exposure to reinsurer counterparty risk, and to increase the effectiveness of its reinsurance arrangements as a loss mitigation tool. The Company has not experienced defaults by any of its reinsurers.

The Company is able to monitor the effectiveness of its reinsurance arrangements as a risk mitigation tool on an ongoing basis because reinsurance is incorporated directly into its ECM. Each risk is modelled with its associated reinsurance benefits, and is subject to losses only if there is a default of both the underlying risk and of the related reinsurer(s).

Risk Sensitivity

At least annually, the Company runs a series of stress tests to determine the sensitivity of its ICA solvency to various material risks, such as increases in the key variables used to calculate lifetime losses (probability of default, loss given default and correlation), and to credit events, such as the potential downgrade of AGM or AGC, the Company's largest reinsurance exposures.

The Company also performs stress tests on its SCR solvency by varying several of the parameters that are used to calculate non-life underwriting risk and counterparty credit risk and considering the impact of large and correlated loss events upon its Own Funds position. No benefit was assumed for future management actions which could potentially mitigate future losses.

As at 31 December 2019, a 100% increase in the loss severity used to calculate the loss associated with the default of the largest two exposures under the large credit default requirement of the SCR (from 10% to 20%), would increase the non-life underwriting risk by £236.7 million to £513.7 million. The SCR would increase by £234.2 million to £534.5 million. This would cause the SCR Ratio to decline by 99 percentage points to 127%.

C.2 MARKET RISK

Market risk includes the Company's exposure to spread risk, interest rate risk, market risk concentrations and foreign exchange risk. The Company's exposure to market risk is predominantly in respect of the Company's investment portfolio. The Company does not hold any equity investments and is not exposed to equity price risk.

The investment portfolio is managed by a third party investment manager, with the exception of the portion invested in bonds held for loss mitigation purposes. Investment guidelines, which include minimum credit rating standards, single counterparty, asset class and duration limits to mitigate market risk, are agreed with the investment managers and approved by the Board. These guidelines also implement the Company's approach to compliance with the ‘prudent person principle’ set out in the Solvency II Regulation. The investment manager is required to regularly confirm their compliance with limits.

Risk Measurement & Mitigation

Spread Risk

The Company manages its exposure to spread risk by establishing minimum credit rating standards for the investment portfolio, for both individual securities and the overall portfolio. These minimum credit rating standards support one of the Company's primary objectives in managing the investment portfolio, which is to maintain the highest possible credit rating for the Company. The overall portfolio credit quality (excluding the loss mitigation bonds in the internally managed portfolio) on an ongoing basis must be rated a minimum of "AA-"/"Aa3"/"AA-" as measured by S&P, Moody’s and Fitch. A minimum of 70% of the portfolio must be invested in securities rated at least in the “AA” category by two of S&P, Moody’s and Fitch. All securities purchased by external managers must be rated by one of S&P, Moody’s or Fitch and at least 95% of the portfolio must be rated by two of S&P, Moody’s and Fitch.

In the event of any downgrade of any investment below the Company's requirements, the portfolio manager must contact the Chief Financial Officer or Treasurer to discuss the course of action and may hold the position only if approved by the Chief Financial Officer or Treasurer, and the Chief Executive Officer. The Company has the ability to mitigate interest rate risk by changing its investment mix.

The following table shows the Company's investment portfolio (excluding cash) by external credit rating as at 31 December 2019 and 2018.

Investment Portfolio (Excluding Cash)

As at 31 December	2019	2018
	(in thousands)	
AAA	£ 343,153	£ 252,094
AA	259,441	341,701
A	81,477	76,407
BBB	50,824	43,320
Lower than BBB or not rated	23,809	46,075
Total	**£ 758,704**	**£ 759,597**

Interest Rate Risk

The Company is exposed to interest rate risk in respect of both assets and liabilities. The Company receives cash inflows in the form of investment income, instalment premiums, reinsurance commissions and salvage on previously paid claims. The Company pays cash outflows in the form of expenses, claims, loss adjustment expenses and reinsurance premiums. Due primarily to the Company's large investment portfolio and the generally strong ratings of the Company's financial guarantees, cash inflows are expected to materially exceed the cash outflows and the Company's interest rate exposure therefore arises primarily from its investments in fixed interest securities.

The Company regularly reviews the duration of assets and liabilities, this includes monitoring the mean duration of the investment portfolio. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates.

Currency Risk

The Company is primarily exposed to currency risk in respect of its investment portfolio and assets and liabilities under financial guarantee policies denominated in currencies other than pounds sterling. The currencies to which the Company has the most exposure are the US Dollar and Euro. The Company has established defined tolerances for the level of currency risk it is willing to accept and compliance with these prescribed limits is monitored under the Risk Management Framework. The Company generally manages its exposure to non-sterling insurance liabilities by maintaining monetary assets denominated in those currencies.

The following table shows the Company's Assets and Liabilities by currency on a Solvency II basis as at 31 December 2019

Solvency II balance sheet by currency
As at 31 December 2019

	GBP	EUR	USD	Other	Total
			(in thousands)		
Assets					
Investments	£ 643,356	£ —	£ 132,332	£ —	£ 775,688
Cash and cash equivalents	44,823	7,528	3,180	101	55,632
Reinsurance recoverables	(53,211)	11,654	(27,042)	8,461	(60,138)
Deposits to cedants and insurance and reinsurance receivables	127	82	8,884	—	9,093
Other assets	21,659	—	—	—	21,659
Total assets	£ 656,754	£ 19,264	£ 117,354	£ 8,562	£ 801,934
Liabilities					
Technical provisions	£ 37,849	£ (15,383)	£ 72,059	£ 8,633	£ 103,158
Deposits from reinsurers and insurance, intermediaries and reinsurance payables	—	—	5,779	—	5,779
Any other liabilities	6,193	2	7,661	—	13,856
Total liabilities	£ 44,042	£ (15,381)	£ 85,499	£ 8,633	£ 122,793

Risk Concentration

As at 31 December 2019, the Company's investment portfolio had an average credit quality rating of "AA". Issuer constraints as well as sector limitations are also followed in managing the investment portfolio. The table below sets outs the portfolio concentrations by instrument type.

Composition of Investment Portfolio by Security Type

As at 31 December	**2019**	**2018**
UK government bonds	24%	29%
Corporate bonds	23%	22%
Supra-national bonds	19%	17%
Non UK government bonds	12%	7%
UK government agency bonds	12%	14%
Covered bonds	5%	4%
Asset and mortgage backed	4%	6%
Collective Investment Undertakings	1%	1%
Total	100%	100%

The Company’s exposure to any non-government or non-supranational issuer did not exceed 1% of the investment portfolio (excluding loss mitigation bonds) as at 31 December 2019.

Risk Sensitivity

The most material risk to the Company's investment portfolio is interest rate risk on fixed income investments. Each year, the Company's external investment manager provides stress testing results on the portfolio's exposure to interest rate risk. The scenario below assumes a 200% parallel upwards shift in the yield curve across all maturities. No benefit is assumed for future management actions which could potentially mitigate losses.

Sensitivity analysis

As at 31 December	Upward Shift in Yield Curve		Increase/ (Decrease) in Value of Investment Portfolio		Interest Rate Risk included in Standard Formula Calculation of the SCR		Increase of the SCR in this Scenario	Decrease of SCR Ratio
					(in thousands)			(in percentage points)
2019	200 bps	£	(40,783)	£	33,381	£	2,998	16
2018	200 bps	£	(44,622)	£	32,939	£	4,288	18

An increase in the yield curve by 200 bps would cause a 16 percentage point reduction in the Company's SCR ratio at 31 December 2019, reducing it to 210%.

The Company has a net foreign currency position for both Euros and US Dollars and is exposed to the devaluation of either currency against pound sterling. A 25% shock downward shock to both the Euro and the US Dollar would result in a loss of £16.6 million.

C.3 CREDIT RISK

The Company's most significant credit risk exposure is in respect of the reinsurers that assume a substantial portion of the Company's insured risk. Refer to *Section C.1.* above for information on these exposures. The only other counterparty credit risk the Company is exposed to is in respect of cash on deposit with banks.

The following table shows cash and cash equivalents in the Solvency II balance sheet as at 31 December 2019 and 2018. The credit risk arising from these deposits is not material to the Company. The table excludes money market funds.

Cash and cash equivalents (Solvency II balance sheet)

As at December		2019		2018
		(in thousands)		
Total	£	55,632	£	37,781

C.4 LIQUIDITY RISK

Risk Measurement & Mitigation

Liquidity risk is the risk that cash may not be available at a reasonable cost to pay obligations as they fall due. The Company manages its liquidity risk by maintaining a liquid, high quality investment portfolio, with a duration that is shorter than the duration of its insurance liabilities. The Company is only required to pay principal and interest claims as they come due according to the original bond payment schedule, and the payments cannot be accelerated without the Company's consent.

In the event of claims arising under the AGM Reinsurance Agreement, AGM is required to pay the Company within the earlier of five business days of receipt of a claim or the day on which AGE is required to make a claim payment to a policyholder. Similarly, in the event of a funding requirement under the AGM Net Worth Maintenance Agreement; the Company’s parent company is required to contribute the required funding within three business days of receipt of notice.

The table below sets out the financial assets and liabilities, as measured under UK GAAP, by maturity date.

UK GAAP Assets and liabilities by maturity date

As at 31 December 2019	< 1 year or no contracted	1 to 4 years	5 to 10 years	10 + years	Total
			(in thousands)		
Assets					
Investments	£ 183,312	£ 385,818	£ 159,942	£ 29,632	£ 758,704
Cash at bank	66,263	—	—	—	£ 66,263
Debtors arising out of direct insurance operations	78,542	127,501	128,453	166,531	£ 501,027
Debtors arising out of reinsurance operations	10,373	16,258	15,991	21,841	£ 64,463
	£ 338,490	£ 529,577	£ 304,386	£ 218,004	£ 1,390,457
Liabilities					
Creditors arising out of reinsurance operations	£ 52,254	£ 53,980	£ 53,291	£ 72,763	£ 232,288
As at 31 December 2018					
Assets					
Investments	£ 196,228	£ 360,197	£ 151,010	£ 52,162	£ 759,597
Cash at bank	48,387	—	—	—	48,387
Debtors arising out of direct insurance operations	69,470	137,703	129,965	147,652	484,790
Debtors arising out of reinsurance operations	11,517	17,536	17,442	24,986	71,481
	£ 325,602	£ 515,436	£ 298,417	£ 224,800	£ 1,364,255
Liabilities					
Creditors arising out of reinsurance operations	£ 56,941	£ 57,475	£ 57,424	£ 82,360	£ 254,200

Expected future profit included in future premiums

In respect of premiums receivable, the Company estimates that it has £221.9 million of expected future profits which are not immediately available to meet liquidity needs since they have not yet been paid to the Company.

Risk Concentration

The Company does not expect to have large cash outflows relative to the size of its investment portfolio or its annual investment income. Each quarter, the Company projects its upcoming liquidity requirements under a base case and a stress case. The Company maintains a significant liquidity buffer over both scenarios.

Risk Sensitivity

Each year, as part of its ORSA, the Company performs liquidity stress testing to ensure that it has sufficient liquid assets to cover all of its liabilities that could arise in a stress scenario. When the Company performs the stress test, it considers only government bonds, money markets and cash to be liquid assets.

C.5 OPERATIONAL RISK

Operational risk is defined as the risk of loss or other adverse consequences on business outcomes resulting from inadequate or failed internal processes, personnel or systems, or from external events. Operational risk is seen as a business-wide risk that could arise from either underwriting, investing, risk mitigation or any other activity the Company undertakes. Consequently, operational risk is inherent in all of the Company's processes, interactions with third parties and other activities. The Company faces a variety of operational risks including those related to information technology, accounting, legal and regulatory matters, as well as risks related to performance by affiliated companies pursuant to a services agreement and third party service providers. The Company has limited appetite for operational risk and expects that the Company’s business functions work actively to avoid operational risk to the extent it is commercially appropriate.

As at 31 December 2019, the Company had only 302 risks in its insured portfolio and generally adds only a small number of new transactions each year, limiting potential operational errors. The relatively small number of risks allows careful review of the transaction documents and quality control of the data points captured in the Company's systems by knowledgeable employees. During 2019, the Company added significantly more underwriting risks than usual due mostly to a large portfolio of public finance sub-sovereign risks that the Company guaranteed, however the Company believes that the incremental operational risk from these exposures is low.

First line management have overall responsibility for identifying, measuring or assessing, monitoring and managing operational risk, including new and emerging risks, which are incorporated into the Company's risk register. The Risk Function works closely with first line management to co-ordinate the Company's approach to operational risk management and to develop common standards for managing and reporting operational risk. Operational risks are identified and assessed against implemented controls. Risk which remains outside the established risk appetite or limits are subject to management action plans.

Key risk indicators and other risks metrics effectively 'convert' the Board's risk preference and the Solvency II operational risk capital allocation into practical monitoring tools to assist business functions in monitoring operational risk. Operational risk reporting is provided to the Company's Risk Oversight Committee on a quarterly basis.

With regard to legal risk, as at 31 December 2019 the Company was not involved in any ongoing litigation.

C.6 OTHER MATERIAL RISKS

Brexit

The UK's withdrawal from the European Union continues to be an area of uncertainty for the Company. However, significant progress has been made during the year in mitigating the potential impact of Brexit upon the Company's operations.

The UK parliament approved a withdrawal agreement with the EU and the UK left the EU on 31 January, 2020, entering into a transition period which is currently set to end on 31 December 2020. The terms of any future trading relationship between the UK and EU are likely to restrict the Company's ability to underwrite new business and service existing policies within the EEA after the end of the transitional period on 31 December 2020. In order to ensure that existing EEA based policies can continue to be serviced and new EEA transactions can be entered into, the Company's parent, AGM, has established a new French insurance subsidiary, AGE SA, from which these activities will be conducted. AGE SA was authorised to conduct insurance business in France and certain other EEA countries in January 2020 and issued its first financial guarantee policy in February 2020 in respect of a Spanish solar energy refinancing. The Company is in the process of transferring existing EEA polices to AGE SA utilising an insurance transfer under Part VII of the Financial Services and Markets Act 2000. Significant progress has been made in respect of the transfer with the Court Order for Directions received in September 2019. The transfer is expected to complete later this year.

The Company has also taken steps to mitigate any potential impact of Brexit upon staffing by ensuring that all employees working in AGE's London office are either UK citizens or have UK resident status. In addition, as the terms of the UK's future trading relationship with EU become known, especially in the event that terms are not agreed by the end of the transition period, this could have a significant impact on currency exchange rates. The Company's exposure to currency risk is disclosed further in *Section C.2*.

Climate Change

The Intergovernmental Panel on Climate Change concluded that increased greenhouse gas emissions as a result of human activity are extremely likely to have been the dominant cause of the observed global warming since the mid-20th century. There is also a clear consensus within the scientific community that emission of greenhouse gasses will cause further warming and have wide ranging impacts on weather patterns, people and ecosystems. Insurers have and will continue to be impacted by the physical, transitional, and liability risks arising from climate change.

AGE utilises its risk management framework to identify and manage the financial risks arising from climate change. While the current impacts of climate change do not have a material impact to AGE's balance sheet, the Company recognises climate change as a potential material longer-term risk.

Monitoring of the potential impacts of climate change on the Company's insured portfolio has been incorporated into surveillance processes. The susceptibility of insured transactions to climate change is assessed when initially assigning and subsequently reassessing internal ratings. This assessment includes the vulnerability of the operations or assets of the insured transaction to long-term physical and transitional impacts of climate change and also the immediate exposure to extreme whether hazards or increasing volatility. The small number of risks in the insured portfolio (302 as at 31 December 2019) means that consideration can be given to the impact of climate on individual insured risks.

The financial impacts of climate change have also been incorporated into the underwriting processes - and are required to be assessed within the underwriting analysis.

These assessments are subject to review and challenge by the Risk Management Function and will continue to be assessed and challenged through the ORSA process. The Company continues to work to enhance the sophistication of its stress testing of transactions under differing climate change scenarios.

The Company's investment portfolio predominantly comprises fixed-income securities; therefore the potential impacts of climate change are primarily credit-related and significantly mitigated by the relatively short average duration of the portfolio (2.75 years as at 31 December 2019). Nonetheless, the physical, transitional and litigation risks arising from climate change are relevant in the evaluation by AGE and its investment managers of the creditworthiness of specific issuers and industries.

C.7 ANY OTHER INFORMATION

The COVID-19 pandemic could significantly impact the Company's key risks. The extent of these impacts will depend upon the depth and duration of the pandemic and the longer-term impacts to the global economy and therefore it is not currently possible to reliably estimate the impacts. The Company has utilised extensive stress and scenario testing to assess the potential financial impacts, including potential impacts on regulatory solvency and liquidity. The potential impacts to the Company's key risks and how the Company is working to assess and monitor these impacts are described in further detail below.

Underwriting Risk
The high credit quality of the Company's insured risks mean it is generally well positioned to manage the short and longer-term impacts of the pandemic. However, in some scenarios, the Company could experience claims, particularly in the case of insured risks subject to demand or construction risk. The impact of any defaults will be significantly mitigated by the fact that the Company is only obligated to pay the shortfall in principal and interest due on scheduled payment dates; payments insured under policies generally cannot be accelerated without the Company's consent and the Company has the right to seek subsequent reimbursement from the issuer for any paid claims. The Company is also generally afforded a level of protection from insured claims in the shorter-term due to the liquidity available at transaction level, which includes available credit lines and debt service reserve accounts.

Counterparty Credit Risk
The Company's reinsurers are subject to potential claims on their respective insured portfolios due to the impacts of COVID-19, as well as potential impacts to market, liquidity, credit and operational risks. The Company believes that the affiliated reinsurers' significant levels of excess capital and liquidity means they are well positioned to manage the impacts of the pandemic. The Company continues to actively monitor its counterparty credit exposure to its reinsurers.

Market Risk
The recent volatility and significant weakening in financial markets is being monitored closely and the Company has undertaken more frequent valuations of its portfolio to monitor the impact of this volatility on the Company's balance sheet. The Company's conservative investment philosophy has meant that the market value of its investments, which principally comprise government or government supported securities and investment grade corporate bonds, have not been significantly impacted by the recent market weakening. Positive investment performance in early 2020, prior to the significant effects of the pandemic on financial markets, and the partial recovery of financial markets following government stimulus and other interventions has resulted in the fair value of the Company's investment holdings (including cash on deposit with the investment custodian) increasing from £797.8 million as at 31 December 2019 to £800.7 million as at 31 March 2020.

The Company's sensitivity to interest rate and currency risk is detailed in Section C.2 above.

The Company is also exposed to the potential for credit downgrades or defaults on its corporate bond investments. Corporate default risk is actively monitored by the Company and its investment manager and the Company has been working with its investment manager to reassess this risk in the current environment. The high credit quality of the investment portfolio should also mitigate significant impacts arising from downgrades or defaults.

Liquidity Risk

The Company possesses significant liquidity with £340.1 million in cash and government securities as at 31 December 2019. Under the Company's severe COVID-19 stress scenarios liquidity is expected to remain significantly in excess of the Company's requirements.

Operational Risk

The Company has invoked its business continuity plans to help ensure the safety and well-being of its staff who have been working remotely for a number of weeks. During this period the Company has demonstrated that it can operate effectively under remote working with no significant impact on day-to-day operations. While operational risk could increase as a result of remote working, the Company is satisfied that this can be appropriately mitigated by the Company's internal control and governance processes which have continued to operate effectively during the pandemic.

D. VALUATION FOR SOLVENCY PURPOSES

This section sets out the valuation of assets, Technical Provisions and other liabilities of the Company under Solvency II, as well as details of the valuation methodology and the differences to valuation under UK GAAP, as reported within the Company's financial statements.

D.1 ASSETS

The table below sets out the valuation of assets as reported in the Company's UK GAAP financial statements and the Solvency II balance sheet as at 31 December 2019.

Assets
As at 31 December 2019

	Financial Statement Balance Sheet	Solvency II Balance Sheet
	(in thousands)	
Deferred acquisition costs	£ 28,533	£ —
Deferred tax assets	737	21,659
Investments	758,704	775,688
Property, plant & equipment held for own use	636	—
Reinsurance recoverables:		
Reinsurer's share of provision for unearned premiums	394,710	—
Reinsurer's share of claims outstanding	27,472	—
Reinsurer's share of other technical provisions (unexpected risk provisions)	5,227	—
Reinsurer's share of technical provisions (premium provision and claims provision)	—	(60,138)
Total reinsurance recoverables	427,409	(60,138)
Insurance and intermediaries receivables:		
Current premiums receivable	6,781	6,781
Future premiums receivable	494,246	—
Total insurance and intermediaries receivables	501,027	6,781
Reinsurance receivables:		
Current reinsurance commissions receivable	2,313	2,313
Future reinsurance commissions receivable	62,032	—
Reinsurer's share of paid claims	118	—
Total reinsurance receivables	64,463	2,313
Receivables (trade, not insurance)	80	—
Cash and cash equivalents	66,263	55,632
Other assets	7,280	—
Total assets	£ 1,855,132	£ 801,935

Set out below is a summary of the valuation methodology used to arrive at the value of each category of assets shown on the balance sheet for Solvency II purposes and the differences to UK GAAP.

Deferred Acquisition Costs

Under UK GAAP, acquisition costs incurred, which represent a portion of expenses related to the production of business, are deferred and amortised over the period in which the related premiums are earned. However, under Solvency II intangible assets are ascribed a value only when they can be sold separately and it can be demonstrated that there are quoted prices in an active market for such an asset. The Company's deferred acquisition costs do not meet these criteria and as such are valued at nil in the Solvency II balance sheet.

Deferred Tax Assets

The method for recognition and valuation of deferred tax assets is the same under Solvency II and UK GAAP. Within the Solvency II balance sheet deferred tax assets are established for the temporary differences arising from the valuation adjustments to move from UK GAAP to Solvency II. Deferred tax is measured using tax rates that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference. Deferred 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.

Investments

Investments are measured on a fair value basis under both UK GAAP and Solvency II. 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 third party proprietary pricing models.

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 take into account: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, industry and economic events and sector groupings. The Company considers markets to be active where transactions take place with sufficient frequency and volume for pricing information to be available on an ongoing basis.

Where the Company has concluded that markets are not active (i.e. investment assets cannot be priced using quoted market prices or using observable market-based prices or other inputs, assets are valued under a discounted cash flow approach using an independent third-party's proprietary pricing models. The models use inputs such as projected prepayment speeds; severity assumptions; recovery lag assumptions; life insurance cash flow projections; estimated default rates (determined on the basis of an analysis of collateral attributes, historical collateral performance; collateral reinvestment assumptions; borrower profiles and other features relevant to the evaluation of collateral credit quality); and recent trading activity. The yield used to discount the projected cash flows is determined by reviewing various attributes of the security including collateral type, weighted average life, sensitivity to losses, vintage, and convexity, in conjunction with market data on comparable securities. Significant changes to any of these inputs could have materially changed the expected timing of cash flows within these securities which is a significant factor in determining the fair value of the securities. As at 31 December 2019 these assets comprised 3.1% of the investment portfolio.

Reinsurance Recoverables

Reinsurance recoverables recognised for Solvency II purposes consist of the reinsurers' share of Technical Provisions. The reinsurance recoverables reported within the financial statements comprise reinsurers' share of provisions for unearned premiums, claims outstanding and other technical provisions (i.e., unexpired risk provisions).

The valuation methodologies for Technical Provisions under Solvency II and UK GAAP are discussed in *Section D.2*

Insurance and Intermediaries Receivables

Insurance and intermediaries receivables recognised for Solvency II purposes consist of premiums that were past due at the balance sheet date. Insurance and intermediaries receivables reported under UK GAAP consist of all premiums that were receivable at the balance sheet date, including those past due, and future premiums receivable. Additionally, under UK GAAP, insurance receivables also include salvage receivable in respect of claims paid. For Solvency II purposes expected cash flows from salvage are included within Technical Provisions.

Reinsurance Receivables

Reinsurance receivables in the Solvency II balance sheet consist of reinsurance commissions that were past due at the balance sheet date. Reinsurance commission receivables reported under UK GAAP consist of both reinsurance commissions that were receivable at the balance sheet date, including those past due, and future reinsurance commissions receivable on an undiscounted basis.

Receivables (Trade, not Insurance)

These relate to other debtors that were due at the balance sheet date. Given the short-term nature, the expected settlement amount is taken to approximate fair value.

Cash and Cash Equivalents

Cash relates to deposits held at financial institutions. These are recognised at face value without any deductions for both UK GAAP and Solvency II purposes. Under Solvency II, certain deposits are reported as collective investment undertakings and included within the value of financial investments. Under UK GAAP these deposits are included within cash and cash equivalent.

Any Other Assets, not Elsewhere Shown

Under UK GAAP, other assets include accrued interest due at the balance sheet date and prepaid expenses. Under Solvency II, accrued interest is included within the value of financial investments.

D.2 TECHNICAL PROVISIONS

The table below presents a comparison of UK GAAP gross insurance liabilities and Solvency II Technical Provisions.

Technical Provisions
As at 31 December 2019

	Financial Statement Balance Sheet	Solvency II Balance Sheet
	(in thousands)	
Best Estimate	£ —	(143,151)
Risk margin	—	246,309
Provision for unearned premiums	670,141	—
Claims outstanding	30,524	—
Unexpired risk provisions	9,394	—
Total	£ 710,059	£ 103,158

a. Valuation bases, methods and main assumptions

The best estimate component of Technical Provisions represent the present value of future cash outflows less the present value of future cash inflows. The cash inflows and outflows include the following:

- expected lifetime claims;
- a provision for all future expenses to be incurred in servicing and settling the insured obligations;
- all future premiums after consideration of potential non-payment on premiums due to future defaults of guaranteed transactions;
- all future reinsurance commissions and;
- salvage receivable related to historic paid claims expected to be recovered.

The Company's expected lifetime losses under Solvency II are calculated using the Company's ECM which uses assumptions for cumulative probability of default, loss given default and correlation to calculate the gross expected cash outflows that the Company will be required to pay over the lifetime of the insured exposures. The Company considers both external and internal sources of data when setting assumptions for probability of default, loss given default and correlation, including any relevant experience by companies within AGL Group.

The boundary of each insurance contract is assumed to be the period of time during which the principal on the debt underlying the financial guarantee contract is greater than £nil. The Company utilises assumptions in respect of future inflation rates for guarantees that are linked to an inflation index.

The provision for future expenses is a projection based on the Company's current operating costs taking into consideration activities required to service the existing insured portfolio.

The percentage of premiums expected not to be received due to potential defaults was developed by applying expected default rates to the future premiums.

The risk margin is an estimate of the amount that a third party would expect to receive in addition to the best estimate liability to assume the Company's insurance obligations. The risk margin is calculated as the present value of the cost of capital (i.e. the cost of holding capital equal to SCR) in all future years as the insured exposure runs off. The Company estimates the SCR in all future years based on the reduction in insured GPO. The cost of capital to be used in the calculation is prescribed by EIOPA at 6% per annum.

b. Uncertainty

While the Company believes that the assumptions and methods used to develop the Technical Provisions are reasonable and consistent and that they provide for a calculation of expected outcomes in an appropriate manner, it remains possible future experience may differ from expectation. The level of uncertainty in relation to the calculation of expected losses is high as the Company guarantees against low probability events with high value exposures. Some of this uncertainty is mitigated by the Company's reinsurance protections (56% of the Company's total gross par exposure is fully reinsured as at 31 December 2019). The level of uncertainty in respect of future premiums, future ceding commission and projected operating expenses is expected to be low because in most cases cash inflows are contractually guaranteed and the annual operating expenses that would be required to manage the runoff of the portfolio can be reasonably estimated based on current staffing levels. The Company does not include any benefits related to future management actions.

c. Material differences between Solvency II and UK GAAP for valuation of Technical Provisions

The following is a summary of the material differences between Solvency II and UK GAAP Technical Provisions:

- Future premiums receivable, and reinsurance premiums payable, less the expected amounts not to be paid due to defaults, are required to be discounted by the Solvency II Regulations. These amounts are not discounted under UK GAAP.
- Expected future claims under Solvency II are significantly higher than under UK GAAP because an expected loss value is ascribed to every exposure guaranteed by the Company instead of just exposures where the likelihood of

loss is probable. Furthermore, the discount rates ascribed by EIOPA, which are based on risk-free rates, are typically lower than the discount rates used by the Company to discount claims liabilities under UK GAAP which are based on the expected yield to maturity of the investment portfolio;

- A deduction for expected losses on the reinsurer's share of future claims due to future reinsurance counterparty defaults is required under Solvency II, however UK GAAP only requires a provision to be established where the default of a reinsurance counterparty is probable;
- A provision for all future expenses required to service the insured obligations is required under Solvency II and is not required under UK GAAP and;
- Solvency II Technical Provisions include a risk margin which is not required under UK GAAP.

Matching Adjustment

The matching adjustment referred to in Article 77(b) of the Directive is not used in the calculation of Technical Provisions.

Volatility Adjustment

The volatility adjustment referred to in Article 77(d) of the Directive is not used in the calculation of Technical Provisions.

Transitional Risk Free Interest Rate Term Structure

The transitional risk free interest rate term structure referred to in Article 308(c) of the Directive is not used in the calculation of Technical Provisions.

Transitional Deduction

The transitional deduction referred to in Article 308(d) of the Directive is not used in any calculations.

Recoverables From Reinsurance and Special Purpose Vehicles

The Company reinsures 56% of its gross exposure to affiliated and non-affiliated reinsurers. Under Solvency II, reinsurance recoverables represent the contractually obligated payments, less a component for the expected losses in the event that reinsurers are unable to make their share of these payments in excess of the amount of collateral provided by the Company. This component is calculated based on the projected ceded expected losses to each reinsurer, the assumed cumulative default rate of each reinsurer and the amount of collateral posted by each reinsurer. Under UK GAAP the Company does not include a provision for reinsurance counterparty default unless such a scenario, in which the reinsurer fails to pay, becomes probable.

There are no special purpose vehicle recoverables included in any of the calculations of Technical Provisions or risk margin.

D.3 VALUATION OF OTHER LIABILITIES

The table below presents a comparison of liabilities under UK GAAP and Solvency II.

Liabilities
As at 31 December 2019

	Financial Statement Balance Sheet	Solvency II Balance Sheet
	(in thousands)	
Reinsurance payables:		
Current reinsurance premiums payable	£ 5,779	£ 5,779
Future reinsurance premiums payable	226,509	—
Salvage payable		
Total reinsurance payables	232,288	5,779
Payables (trade, not insurance)	12,020	12,020
Other liabilities:		
Reinsurance commissions deferred	117,872	—
Other liabilities (including accrued expenses)	1,836	1,836
Total other liabilities	119,708	1,836
Total liabilities excluding technical provisions	364,016	19,635
Best estimate	—	(143,151)
Risk margin	—	246,309
Technical provisions	710,059	103,158
Total liabilities	£ 1,074,075	£ 122,793

The following is a description of the valuation methodology used to arrive at the value of each category of liability shown on the balance sheet for Solvency II purposes and the differences to UK GAAP. There were no changes made to the recognition and valuation bases used during the period.

Reinsurance Payables

Reinsurance payables recognised for Solvency II purposes consist of reinsurance premiums that were payable on contracts past due at the balance sheet date. Reinsurance premiums payable reported under UK GAAP consist of both reinsurance premiums that were payable at the balance sheet date and future reinsurance premiums payable on an undiscounted basis. For Solvency II purposes these amounts are included within Technical Provisions.

Payables (Trade, not Insurance)

Trade payables relate to amounts owed to other creditors, including amounts owed to affiliated companies. Payables are valued at the expected settlement amount, which given the short-term nature, is taken to approximate fair value.

Any Other Liabilities, not Elsewhere Shown

Any other liabilities not shown include accrued expenses that have not been settled at the balance sheet date. Under UK GAAP other liabilities additionally include deferred reinsurance commissions. Under Solvency II the reinsurance commissions are incorporated within Technical Provisions. Accrued expenses are valued at cost, based on the proportion of goods and services that have been consumed.

D.4 ALTERNATIVE METHODS OF VALUATION

Article 296 of the Solvency II Regulation lays out several requirements that must be disclosed publicly with regard to the valuation of assets and liabilities. These requirements are covered in *Section D.1*, *Section D.2 and Section D.3.*

All the Company's investments are either:

- cash equivalents that are categorised as level 1 (quoted market prices in active markets),
- other financial investments that are categorised as level 2 (quoted market prices in active markets for similar assets), or
- securities purchased for loss mitigation purposes that are categorised level 3 (alternative valuation methods).

D.5 ANY OTHER INFORMATION

In accordance with the requirements of the Solvency II Directive, the valuations within this section are based on information as at December 31, 2019 and therefore do not reflect the impacts of COVID-19.

The recent volatility and significant weakening in financial markets is being monitored closely and the Company has undertaken more frequent valuations of its portfolio to monitor the impact of this volatility on the Company's Solvency II balance sheet. The Company's conservative investment philosophy has meant that the market value of the Company's investments, which comprise government or government supported securities and investment grade corporate bonds, have not been significantly impacted by the recent market weakening. Positive investment performance in early 2020, prior to the significant effects of the pandemic on financial markets, and the partial recovery of financial markets following government stimulus and other interventions has resulted in the fair value of the Company's investment holdings (including cash on deposit with the investment custodian) increasing from £797.8 million as at 31 December 2019 to £800.7 million as at 31 March 2020.

Uncertainty around the extent, duration and impact of the pandemic, including the duration of nationwide lockdowns and the longer-term impact to the global economy, means it is currently not possible to reliably estimate the impact of COVID-19 on the Company's technical provisions.

E. CAPITAL MANAGEMENT

This section sets out how the Company manages its Own Funds, including policies and procedures for the management of capital. It also details the Company's calculation of SCR and MCR.

E.1 OWN FUNDS

a. Objectives, policies and processes for managing Own Funds

AGE seeks to maintain an efficient capital structure which is consistent with its risk profile and the future needs of its operations. The Company's key objectives in the management of capital are:

i. Preserve the claims paying ability of the Company to ensure all policyholder claims can be met on a timely basis;
ii. Ensure that the Company is adequately capitalised and remains in compliance with its regulatory capital requirements;
iii. Maintain the Company's external financial strength ratings; and
iv. Enable an appropriate return on capital for the Company's shareholder.

The Company assesses its capital position against both regulatory capital requirements and an internally developed economic capital requirement (the ICA). For its economic capital requirement, the Company utilises an in-house capital model. The model is designed to measure the Company's credit risk and reinsurance counterparty risk, by calculating projected stress losses across the portfolio in a 1-in-200 lifetime loss scenario (the 99.5% lifetime value-at-risk, or VaR), instead of the 1-in-200 one year loss scenario required under the Standard Formula.

The Company assesses its regulatory capital requirements in accordance with the Solvency II Standard Formula SCR and MCR. The Company maintained compliance with both the SCR and MCR throughout the year.

The Company's capital management policy establishes a target range for both regulatory and economic capital. The Company seeks to manage its current and forecasted levels of capital against this range in order to meet its capital management objectives, including retaining compliance with both its regulatory and internal economic capital requirements. The Company regularly assesses the appropriateness of its capital position under its ORSA, which incorporates regular use of stress and scenario testing.

The Company has affiliate reinsurance and other support agreements in place which are important to the management of capital and Own Funds. Details of these agreements are included below.

AGM currently provides support to the Company through the AGM Reinsurance Agreement and the AGM Net Worth Maintenance Agreement. Under the quota share cover of the AGM Reinsurance Agreement, AGM reinsures between approximately 95% - 99% of the Company's retention of each policy after cessions to other reinsurers, excluding the transactions transferred to the Company under the Merger. The policies reinsured under the agreement were those issued prior to 2011 because, as noted above, the Company generally underwrote new business on a coinsurance basis from 2011. The agreement also provides that to the extent AGE issues a future qualifying policy without utilising the coinsurance structure described above, AGM will reinsure a fixed 85% share of the Company's gross liabilities under such policy.

Under the excess of loss cover of the AGM 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 and (b) the Company's net paid losses and loss adjustment expenses, exceed (ii) an amount equal to (a) the Company's capital resources under UK law minus (b) 110% 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 UK. The AGM Reinsurance Agreement permits the Company to terminate the 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 or failure by AGM to maintain the minimum capital required by its home jurisdiction.

The AGM Reinsurance Agreement requires AGM to pledge collateral to support its reinsurance obligations to the Company. AGM's collateral requirement at the end of each calendar quarter is calculated as the sum of AGM's share of AGE's: (a)

Unearned premium reserve (net of AGE's reinsurance premium payable to AGM); (b) Provisions for unpaid losses and allocated loss adjustment expenses (net of any salvage recoverable), and (c) Unexpired risk provisions, in each case as calculated in accordance with UK GAAP.

Under the terms of the AGM Net Worth Maintenance Agreement, as noted above, AGM is obligated to ensure the Company maintains capital resources equal to 110% of the amounts as may be required by the PRA as a condition of the Company maintaining its authorisation to carry on financial guarantee business in the UK 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 AGM Net Worth Maintenance Agreement.

At the date of the Merger, the Company also entered into the AGC Reinsurance Agreement. This agreement preserves AGC's 90% quota share reinsurance of the legacy AGUK policies and 100% reinsurance of the legacy CIFG policies that are now part of the Company's portfolio, but it has no application to new business written by the Company. The AGC Reinsurance Agreement also imposed a collateral requirement on AGC consistent with that for the AGM Reinsurance Agreement, as described above, except that AGC also continues to post as collateral its share of AGE guaranteed (formerly, prior to the Merger, AGUK-guaranteed) triple-X insurance bonds that have been purchased by AGC for loss mitigation, as AGC had done under its prior reinsurance agreement with AGUK.

b. Structure, amount and quality of Own Funds

The capital structure of the Company consists of Basic Own Funds only. Basic Own Funds have decreased during the year due to increases in both the risk margin and the expense provision component of net technical provisions. These increases were due an increase in the weighted average life of the portfolio as a result of the new risks underwritten during the year, which included a large portfolio of contracts with a longer than average duration.

As at 31 December 2019, Basic Own Funds comprised £55.0 million of allotted and fully paid ordinary shares and the reconciliation reserve of £601.4 million, both classified as Tier 1 capital. The Company does not have any restricted Tier 1 capital. Additionally the Company has Tier 3 capital of £21.7 million in the form of deferred tax assets.

c. Eligibility of Own Funds to cover SCR

The value of eligible Own Funds to cover SCR is shown below:

As at 31 December	**2019**	**2018**
	(in thousands)	
Tier 1	£ 657,483	£ 675,161
Tier 2	—	—
Tier 3	21,659	17,376
Total	£ 679,142	£ 692,537

The quantitative limits on items eligible to cover the SCR do not result in any deductions from Own Funds.

d. Eligibility of Own Funds to cover MCR

The Company's Tier 3 Own Funds are not eligible to cover the MCR, as such total Own Funds available to cover the MCR as at 31 December 2019 were £657.5 million (2018: £675.2 million).

e. Differences between shareholders equity and excess of assets over liabilities

The difference between the net assets of the Company in the financial statements and the Solvency II valuation of the excess of the assets over liabilities is set out below. An explanation of the differences in the valuation of assets and liabilities is provided in *Section D.1* and *Section D.3*.

Reconciliation between Shareholder's Equity and excess of assets over liabilities

As at 31 December	2019	2018
	(in thousands)	
Shareholders' equity under UK GAAP	£ 781,057	£ 770,982
Disallowed items (Prepayments, Deferred Acquisition Costs & Fixed Assets)	(30,096)	(30,491)
Solvency II adjustment to net best estimate provision & discounting	153,568	146,762
Risk Margin	(246,309)	(210,974)
Deferred tax in Solvency II balance sheet	20,922	16,258
Excess of assets over liabilities for Solvency II purposes	£ 679,142	£ 692,537

f. Basic Own Funds subject to transitional arrangements

There are no basic own fund items subject to transitional arrangements.

g. Ancillary Own Funds

There are no ancillary Own Funds.

h. Basic own funds deductions and significant restrictions

There are no items deducted from Own Funds and no significant restrictions affecting the availability of Own Funds.

E.2 SCR and MCR

a. SCR and MCR

The Company's SCR as at 31 December 2019 was £300.3 million (2018: £301.3 million). This is shown in *Section F S.25.01*. The Company's MCR as at 31 December 2019 was £75.1 million (2018: £75.3 million). This is shown on the S*ection F S.28.01*.

b. Split of the SCR by risk module

The Company uses the Standard Formula to calculate its SCR.

The table below shows the Company's SCR split by risk module as at 31 December 2019 and 31 December 2018.

As at 31 December	2019	2018
	(in thousands, except ratios)	
Underwriting risk	£ 276,971	£ 265,342
Market risk	60,086	87,442
Counterparty risk	1,664	1,394
Diversification benefit	(40,128)	(54,035)
Operational risk	1,708	1,189
SCR	£ 300,301	£ 301,332
SCR Ratio	226%	230%
MCR	£ 75,075	£ 75,333
MCR Ratio	876%	896%

Although the 2019 and 2018 SCR are very similar, there were a number of changes in the differing components of the calculation which include increases of £11.6 million in underwriting risk, £0.5 million in operational risk, and £0.3 million in counterparty risk and a £13.9 million decrease in diversification benefit. These increases were offset by a £27.4 million reduction in market risk. The movements in underwriting risk and the diversification benefit were largely the result of the premiums written during 2019. The reduction in market risk largely results from a reduction in the Company's holdings of CC rated loss mitigation securities following the restructuring of an insured risk during the year.

c. Use of simplified calculations

The Company follows the guidance prescribed by the Solvency II Regulation for the calculation of the Standard Formula and does not use any simplified calculations.

d. Use of USPs

The Company does not use any USPs in its calculations of the Standard Formula.

e. Disclosure of USPs and capital add-on

As at the end of the reporting period, the Company was not required to use any USPs or a capital add-on in its calculation of the SCR.

f. Impact of USPs and capital add-on

Not applicable.

g. Information on the inputs into MCR calculation

The inputs into the MCR calculation for 31 December 2019 and 31 December 2018 were:

As at 31 December		**2019**		**2018**
Inputs		**(in thousands)**		
Net Technical Provisions	£	(83,013)	£	(75,256)
Net Technical Provisions (floor 0)		—		—
Net written premiums over 12-month reporting period		19,515		(5,287)
Net written premiums over 12-month reporting period (floor 0)		19,515		—
Linear MCR		2,205		—
SCR	£	300,301	£	301,332
MCR Cap		135,135		135,600
MCR Floor		75,075		75,333
Absolute Floor of the MCR		3,187		3,288

h. Material changes to the SCR and MCR over the reporting period

There were no material changes to the SCR over the reporting period.

E.3 USE OF THE DURATION-BASED EQUITY RISK SUB-MODULE

The Company does not apply the duration-based equity risk sub-module.

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODELS USED

In 2019, the Company does not use an internal model to calculate its SCR. For more information see *Section E.2*.

E.5 NON-COMPLIANCE WITH MCR AND SIGNIFICANT NON-COMPLIANCE WITH SCR

a. The period and maximum amount of each non-compliance with MCR during the reporting period; explanation of origin, consequences and remedial measures taken

The Company did not have any period of non-compliance with the MCR during the reporting period.

b. Amount of any ongoing non-compliance with the MCR as at the reporting date

The Company was in compliance with the MCR as at the reporting date.

c. The period and maximum amount of each non-compliance with SCR during the reporting period; explanation of origin, consequences and remedial measures taken

The Company did not have any period of non-compliance with the SCR during the reporting period, or as at the reporting date.

d. Amount of any significant non-compliance with the SCR at the reporting date

The Company was compliant with the SCR as at the reporting date.

E.6 ANY OTHER INFORMATION

The Company has utilised stress and scenario testing to assess the possible impacts of COVID-19 on the Company's regulatory solvency and liquidity positions. These scenarios have taken into consideration the impact on the insured portfolio from potential claims, the potential downgrade of insured risks, as well as the impact on the Company's investments. They include reverse stress scenarios and severe stress scenarios in which lockdowns and travel restrictions continue for 12 months and are followed by a prolonged period of reduced economic activity and recession. After consideration of these assessments the Company believes that in such scenarios its regulatory solvency would remain in compliance with the Company's risk appetite and liquidity would remain significantly in excess of the Company's requirements.

F. QUANTITATIVE REPORTING TEMPLATES

QRT reference	QRT Template name
S.02.01.02	Balance Sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.17.01.02	Non-Life Technical Provisions
S.19.01.21	Non-life insurance claims
S.23.01.01	Own Funds
S.25.01.21	Solvency Capital Requirement - For undertakings on Standard Formula
S.28.01.01	Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Balance Sheet
S.02.01.02
GBP £'000

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	21,659
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**775,688**
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	*R0100*	
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	*R0130*	765,058
Government Bonds	R0140	516,955
Corporate Bonds	R0150	219,363
Structured notes	R0160	
Collateralised securities	R0170	28,739
Collective Investments Undertakings	R0180	10,631
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	**R0230**	
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
Reinsurance recoverables from:	**R0270**	**(60,138)**
Non-life and health similar to non-life	R0280	(60,138)
Non-life excluding health	R0290	(60,138)
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	6,781
Reinsurance receivables	R0370	2,313
Receivables (trade, not insurance)	R0380	
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	55,632
Any other assets, not elsewhere shown	R0420	
Total assets	**R0500**	**801,935**

Balance Sheet
S.02.01.02
GBP £'000

		Solvency II value
		C0010
Liabilities		
Technical provisions - non-life	**R0510**	**103,158**
Technical provisions - non-life (excluding health)	**R0520**	**103,158**
TP calculated as a whole	R0530	
Best estimate	R0540	(143,151)
Risk margin	R0550	246,309
Technical provisions - health (similar to non-life)	**R0560**	
TP calculated as a whole	R0570	
Best estimate	R0580	
Risk margin	R0590	
TP - life (excluding index-linked and unit-linked)	**R0600**	
Technical provisions - health (similar to life)	**R0610**	
TP calculated as a whole	R0620	
Best estimate	R0630	
Risk margin	R0640	
TP - life (excluding health and index-linked and unit-linked)	**R0650**	
TP calculated as a whole	R0660	
Best estimate	R0670	
Risk margin	R0680	
TP - index-linked and unit-linked	**R0690**	
TP calculated as a whole	R0700	
Best estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	
Reinsurance payables	R0830	5,779
Payables (trade, not insurance)	R0840	12,020
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	1,836
Total liabilities	**R0900**	**122,793**
Excess of assets over liabilities	**R1000**	**679,142**

Premiums, claims and expenses by line of business
S.05.01.02
GBP £'000

		Credit and suretyship insurance	Total
		C0090	C0200
Premiums written			
Gross - Direct Business	R0110	60,593	**60,593**
Gross - Proportional reinsurance accepted	R0120		
Gross - Non-proportional reinsurance accepted	R0130		
Reinsurers' share	R0140	6,042	**6,042**
Net	**R0200**	**54,551**	**54,551**
Premiums earned			
Gross - Direct Business	R0210	50,067	**50,067**
Gross - Proportional reinsurance accepted	R0220		
Gross - Non-proportional reinsurance accepted	R0230		
Reinsurers' share	R0240	38,655	**38,655**
Net	**R0300**	**11,412**	**11,412**
Claims incurred			
Gross - Direct Business	R0310	192	**192**
Gross - Proportional reinsurance accepted	R0320		
Gross - Non-proportional reinsurance accepted	R0330		
Reinsurers' share	R0340	192	**192**
Net	**R0400**	**-**	**-**
Changes in other technical provisions			
Gross - Direct Business	R0410	6,474	**6,474**
Gross - Proportional reinsurance accepted	R0420		
Gross - Non-proportional reinsurance accepted	R0430		
Reinsurers' share	R0440	7,071	**7,071**
Net	**R0500**	**(597)**	**(597)**
Expenses incurred	**R0550**	**10,921**	**10,921**
Other expenses	R1200		
Total expenses	**R1300**		**10,921**

Non - life Technical Provisions
S.17.01.02
GBP £'000

		Direct business and accepted proportional reinsurance	Total Non-Life obligations
		Credit and suretyship insurance	
		C0100	C0180
Technical provisions calculated as a whole	**R0010**		
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050		
Technical Provisions calculated as a sum of BE and RM			
Best estimate			
Premium provisions			
Gross - Total	R0060	**(148,913)**	**(148,913)**
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	(66,047)	**(66,047)**
Net Best Estimate of Premium Provisions	**R0150**	**(82,866)**	**(82,866)**
Claims provisions			
Gross - Total	R0160	**5,762**	**5,762**
Gross - direct business	R0170	5,762	**5,762**
Gross - accepted proportional reinsurance business	**R0180**		
Gross - accepted non-proportional reinsurance business	R0190		
Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default	R0200	**5,909**	**5,909**
Recoverables from reinsurance (except SPV and Finite Reinsurance) before adjustment for expected losses	R0210	5,909	**5,909**
Recoverables from SPV before adjustment for expected losses	**R0220**		
Recoverables from Finite Reinsurance before adjustment for expected losses	**R0230**		
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	5,909	**5,909**
Net Best Estimate of Claims Provisions	R0250	**(147)**	**(147)**
Total Best estimate - gross	R0260	**(143,151)**	**(143,151)**
Total Best estimate - net	**R0270**	**(83,013)**	**(83,013)**
Risk margin	**R0280**	246,309	**246,309**
Amount of the transitional on Technical Provisions			
TP as a whole	**R0290**		
Best estimate	**R0300**		
Risk margin	**R0310**		
Technical provisions - total			
Technical provisions - total	R0320	**103,158**	**103,158**
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	**(60,138)**	**(60,138)**
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	R0340	**163,296**	**163,296**

Non-life Insurance Claims Information (by Accident Year)
S.19.01.21
GBP £'000

Gross Claims Paid (non-cumulative)

		Development year (absolute amount)														In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +	11	12			
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130		C0170	C0180
Prior	R0100														R0100		
2005	R0110														R0110		
2006	R0120														R0120		
2007	R0130	1,208	529	2,638	1,913	1,705	2,201	1,768	1,549	1,753	2,983	2,094			R0130		11,962
2008	R0140	178,513	(513)			3,592				(605)	(1,469)	(2,899)	(4,558)		R0140	(4,558)	181,592
2009	R0150	7,326													R0150		7,326
2010	R0160														R0160		
2011	R0170	1,024	195,405												R0170		196,430
2012	R0180	6,337													R0180		6,337
2013	R0190	97,668													R0190		97,668
2014	R0200	11,439													R0200		11,439
2015	R0210														R0210		
2016	R0220	1,251													R0220		1,251
2017	R0230	219													R0230		219
2018	R0240	430													R0240		430
2019	R0250	280													R0250	280	280
														Total	R0260	**(4,278)**	**514,933**

Non-life Insurance Claims Information (by Accident Year)
S.19.01.21
GBP £'000

Gross undiscounted Best Estimate Claims Provisions

		Development year (absolute amount)														
		0	1	2	3	4	5	6	7	8	9	10 & +	11	12		Year end (discounted data)
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0310	C0320		C0360
Prior	R0100														R0100	
2005	R0110														R0110	
2006	R0120														R0120	
2007	R0130										149,846	(21,382)	(20,913)	(25,336)	R0130	(24,563)
2008	R0140									51,784	26,359	35,268	30,720		R0140	30,325
2009	R0150														R0150	
2010	R0160														R0160	
2011	R0170														R0170	
2012	R0180														R0180	
2013	R0190														R0190	
2014	R0200														R0200	
2015	R0210														R0210	
2016	R0220														R0220	
2017	R0230														R0230	
2018	R0240														R0240	
2019	R0250														R0250	
														Total	R0260	**5,762**

Own funds
S.23.01.01
GBP £'000

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	**55,000**	55,000			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	**602,483**	602,483			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160	**21,659**				21,659
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	**R0290**	**679,142**	**657,483**			**21,659**

Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	**R0400**					

Own funds
S.23.01.01
GBP £'000

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	**679,142**	**657,483**			**21,659**
Total available own funds to meet the MCR	**R0510**	**657,483**	**657,483**			
Total eligible own funds to meet the SCR	**R0540**	**679,142**	**657,483**			**21,659**
Total eligible own funds to meet the MCR	**R0550**	**657,483**	**657,483**			
SCR	**R0580**	**300,301**				
MCR	**R0600**	**75,075**				
Ratio of Eligible own funds to SCR	**R0620**	**226.15%**				
Ratio of Eligible own funds to MCR	**R0640**	**875.76%**				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	**679,142**	
Own shares (held directly and indirectly)	R0710		
Foreseeable dividends, distributions and charges	R0720		
Other basic own fund items	R0730	**76,659**	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740		
Reconciliation reserve	**R0760**	**602,483**	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life Business	R0770		
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	221,943	
Total Expected profits included in future premiums (EPIFP)	**R0790**	**221,943**	

Solvency Capital Requirement - for undertakings on Standard Formula
S.25.01.21
GBP £'000

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	60,086		
Counterparty default risk	R0020	1,664		
Life underwriting risk	R0030			
Health underwriting risk	R0040			
Non-life underwriting risk	R0050	276,971		
Diversification	R0060	(40,128)		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	**R0100**	**298,593**		

Calculation of Solvency Capital Requirement

		C0100
Adjustment due to RFF/MAP nSCR aggregation	R0120	
Operational risk	R0130	1,708
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	**R0200**	**300,301**
Capital add-on already set	R0210	
Solvency capital requirement	**R0220**	**300,301**
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity S.28.01.01
GBP £'000

Linear formula component for non-life insurance and reinsurance obligations

MCR calculation Non Life		Non-life activities: Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Non-life activities: Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Credit and suretyship insurance and proportional reinsurance	R0100		19,515

Linear formula component for life insurance and reinsurance obligations

MCR calculation Life		Life activities: Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Life activities: Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210		
Obligations with profit participation - future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230		
Other life (re)insurance and health (re)insurance obligations	R0240		
Total capital at risk for all life (re)insurance obligations	R0250		

		Non-life activities	Life activities
		C0010	C0040
MCRNL Result	R0010	2,205	
MCRL Result	R0200		

Overall MCR calculation

		C0070
Linear MCR	R0300	2,205
SCR	R0310	300,301
MCR cap	R0320	135,136
MCR floor	R0330	75,075
Combined MCR	R0340	75,075
Absolute floor of the MCR	R0350	3,187

		C0070
Minimum Capital Requirement	**R0400**	**75,075**

Approval by the Board of Directors of the Solvency and Financial Condition Report

Year ended 31 December 2019

We acknowledge our responsibility for preparing this Solvency and Financial Condition Report in all material respects in accordance with the PRA Rules and the Solvency II Regulations as applicable to the Company. We are satisfied that (a) throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations applicable to the Company; and (b) it is reasonable to believe that, at the date of the publication of this Solvency and Financial Condition Report, the Company has continued so to comply subsequently and will continue so to comply in the future.

For and on behalf of Assured Guaranty (Europe) plc
Director
London
On 1 May 2020