Assured Guaranty (Europe) plc

Registered Number: 2510099

Annual report and financial statements

For the year ended 31 December 2018

Assured Guaranty (Europe) plc
Registered in England No. 2510099

Annual report and financial statements

For the year ended 31 December 2018

Contents

Company information

Directors
Robert Adam Bailenson
Charles Peter Barrington
Mark Batten (appointed 14 September 2018)
Dominic James Frederico
Simon William de Mussenden Leathes (Chairman)
Dominic James Brian Nathan
Nicholas James Proud

Company secretary
Sandali Harvey
Ruth Cove (appointed 7 June 2018)

Registered office
6 Bevis Marks
London
EC3A 7BA

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

Strategic report for the year ended 31 December 2018

The directors present their strategic report for the year ended 31 December 2018.

Principal activities

The principal activity of Assured Guaranty (Europe) plc (the "Company" or "AGE") is providing financial guarantees for public finance, 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.

The Company is authorised by the Prudential Regulation Authority ("PRA") and regulated by both the PRA and the Financial Conduct Authority ("FCA"). The Company is authorised to effect and carry out three classes of general insurance, specifically: classes 14 (credit), 15 (suretyship) and 16 (miscellaneous financial loss). In 2018, the Company underwrote financial guarantees on public and infrastructure 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 is a wholly owned subsidiary of Assured Guaranty Municipal Corp. ("AGM"). AGM is an insurance company domiciled in the State of New York, United States of America ("US"). AGM currently provides financial guarantee insurance on debt obligations issued in the US public finance and global public finance and infrastructure markets.

On 7 November 2018 the Company successfully combined its operations with those of its subsidiaries, Assured Guaranty (UK) plc ("AGUK"), Assured Guaranty (London) plc ("AGLN") and CIFG Europe SA ("CIFGE") ("the Merger"). Under the Merger, the subsidiaries transferred their insurance portfolios and merged with and into the Company. The subsidiaries were immediately 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 of the Merger was 1 November 2018, with the transferring assets and liabilities of the subsidiaries recognised by the Company from that date. The result of the Company includes the operations of the former subsidiaries from 1 November 2018. Further information on the Merger is provided in note 5 to the financial statements.

The Company generally guarantees transactions under a co-guarantee structure with its parent company, AGM. AGM directly guarantees the remaining balance of the guaranteed obligations and also provides a second-to-pay guarantee for the Company's portion of the guaranteed obligations. For transactions closed prior to 2011, the Company typically guaranteed obligations directly and reinsured to AGM approximately 92% of the Company's retention, after cessions to other reinsurers, under the quota share cover of the AGM Reinsurance Agreement (as defined under Parental and Affiliate Support Agreements below). Transactions originally underwritten by AGUK and CIFGE and transferred to the Company under the Merger were reinsured 90% and 100% respectively to Assured Guaranty Corp. ("AGC"). The Company entered into a new reinsurance agreement during the year with AGC to preserve those reinsurance cessions.

Review of business

Financial position and performance of the Company

The results of the Company for the year, as set out on page 14 of the financial statements, show a loss on ordinary activities after tax of £3.1m (2017: profit of £25.4m). The loss is principally driven from the recognition of negative net earned premiums, the principal drivers for which are described further below. Among other measures, the Board monitors the performance and position of the Company by reference to the following KPI's:

	2018	2017
Number of new transactions	**8**	18
	£'000	£'000
PVP[1]	**11,567**	5,993
Net earned premiums	**(7,595)**	(13,552)
Claims incurred, net of reinsurance	**903**	6
Change in other technical provisions, net of reinsurance	**2,772**	(34)
Investment return	**(77)**	1,220
Regulatory capital surplus	**391,205**	516,609
Net insured par value of obligations ("par") outstanding	**9,959,000**	465,000

[1] PVP, which is a non UK GAAP (Generally Accepted Accounting Principles) financial measure, is defined as 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.

Strategic report for the year ended 31 December 2018 (continued)

The Company successfully closed eight transactions during the year, generating PVP of £11.6m, an increase of 93% on the prior year. Gross premiums written from new business of £13.4m were partially offset by £7.6 million of negative gross premiums written following the restructuring of an existing transaction.

Negative net earned premiums are the result of commutations with third party reinsurers for which gains achieved on termination of the reinsurance agreement are recognised immediately but the subsequent reinsurance cessions under the quota share cover of the AGM Reinsurance Agreement, made at the re-rated pricing of the risks, are earned over the life of the reinsured policies.

The Company experienced an increase in net claims incurred during the year primarily due to below investment grade ("BIG") transactions assumed by the Company as part of the Merger. The reduction in other technical provisions, net of reinsurance of £2.8m was driven from favourable developments in the performance of BIG transactions, including those assumed by the Company under the Merger.

The Company's investment portfolio generated a net investment loss of £0.1m (2017: gain of £1.2m), principally due to unrealised losses on the Company's holdings in government and corporate bonds as a result of widening corporate credit spreads and the continued upward trend in yields.

Primarily as a result of the Merger, the Company's shareholders' funds increased significantly during the year to £771.0m (2017: £553.8m). The financial position of the Company is set out on page 15 of the financial statements.

Regulatory capital surplus represents the excess of the Company's capital resources over its Solvency Capital Requirement ("SCR"), as required by Solvency II. The Merger has resulted in the Company's surplus reducing to £391.2m, from £516.6m at the prior year end. The Company remains in a very strong financial position with a regulatory solvency cover ratio of 230% at 31 December 2018.

The Merger also resulted in a substantial increase in the size of the insured portfolio. As at 31 December 2018, the Company had issued guarantees on financial obligations with gross outstanding par of £23.6 billion (2017: £14.0 billion) and net par after reinsurance of £10.0 billion (2017: £0.5 billion). The significant increase in net par outstanding is principally due to the policies transferred to the Company from AGLN which have limited reinsurance.

Ratings

Obligations insured by the Company are generally awarded ratings on the basis of the financial strength ratings given to the Company by major securities rating agencies. In December 2018 the Company obtained a rating for the first time from Kroll Bond Rating Agency, Inc. ("KBRA"). As at 11 April 2019, the Company and AGM have been assigned the following insurance financial strength ratings set out below, by S&P Global Ratings, a business unit of Standard & Poor's Financial Services ("S&P"), Moody's Investors Service, Inc. ("Moody's") and KBRA:

S&P: AA / Stable Outlook

Moody's: A2 / Stable Outlook

KBRA: AA+ / Stable Outlook

These ratings are subject to continuous review. In the last several years, S&P and Moody's have affirmed or taken other actions in relation to the financial strength ratings of AGM and the Company. Most recently, on 26 June 2018, S&P issued a credit rating report in which it affirmed AGM's and the Company's financial strength rating of "AA" (stable outlook). On 7 May 2018, Moody's affirmed its existing insurance financial strength rating of "A2" (stable outlook) on AGM and the Company. On 21 December 2018, KBRA affirmed its financial strength rating of AA+ (stable outlook) to AGM and assigned a rating of AA+ (stable outlook) for the Company. The Company can give no assurance as to any further rating action that may be taken on AGM's or the Company's ratings.

Parental and Affiliate Support Agreements

AGM currently provides support to the Company, through a quota share and excess of loss reinsurance agreement (the "AGM Reinsurance Agreement") and a net worth maintenance agreement (the "NWM Agreement"). The versions of such agreements currently in force became effective on 7 November 2018 upon completion of the Merger.

These new agreements clarified the application of the prior agreements to the Company upon the Merger. They also incorporated changes to certain terms, including a change to the amount of collateral that AGM is obligated to post to secure its reinsurance of the Company. Except for such changes, the new agreements do not materially alter the terms or coverage of the prior agreements.

Under the quota share cover of the AGM Reinsurance Agreement, AGM reinsures between approximately 95% - 99% of the Company's retention of each financial guaranty insurance 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 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 paid losses and loss adjustment expenses, in both cases net of all other performing reinsurance, including the reinsurance provided to the Company under the quota share cover of the AGM Reinsurance Agreement, exceeds (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 quota share and excess of loss covers each exclude transactions guaranteed by the Company on or after 1 July 2009 that are not municipal, utility, project finance or infrastructure risks or similar types of risks.

The AGM Reinsurance Agreement requires AGM to pledge collateral to support its reinsurance obligations to the Company. The terms of the collateral requirement were changed during the year on entry into the revised AGM Reinsurance Agreement. Under the revised agreement, AGM's collateral requirement at the end of each calendar quarter is calculated as the sum of: (a) AGE's unearned premium reserve (net of AGE's reinsurance premium payable to AGM); (b) AGE's provisions for unpaid losses and allocated loss adjustment expenses (net of any salvage recoverable), and (c) any unexpired risk provisions of AGE, in each case as calculated in accordance with UK GAAP. As a result of this new collateral measure, AGM's total collateral pledged to AGE increased by approximately £40 million at the date of entry into the agreement.

Under the terms of the NWM 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 NWM Agreement.

At the date of the Merger, the Company also entered into a quota share reinsurance agreement with Assured Guaranty Corp. ("AGC"), (the "AGC Reinsurance Agreement"). This new 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 imposes a new collateral requirement on AGC consistent with that for the AGM Reinsurance Agreement, as described above, except that AGC continues also to post as collateral its share of two 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.

Strategy and future outlook

The Company continues to develop its pipeline of new business opportunities and is well positioned for 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, as well as seeking to develop its offering in the structured finance markets. Furthermore, a number of governments across Europe have announced plans to develop and renew infrastructure, providing new opportunities for the Company in respect of its forward pipeline of European infrastructure transactions.

The Company's ability to underwrite business within the European Economic Area ("EEA) will likely be impacted by the UK's expected departure from the EU ("Brexit"), the impact of which is outlined within 'principal risks and uncertainties' below.

Strategic report for the year ended 31 December 2018 (continued)

Principal risks and uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All of these policies are subject to Board approval and ongoing review by management, risk management and internal audit. Compliance with regulation, legal and ethical standards is a high priority for the Company. The compliance function and the finance function take on an important oversight role in this regard.

The Risk Oversight Committee is responsible for satisfying itself that a proper internal control framework exists to manage financial risks and that the controls operate effectively.

The Company has developed a framework for identifying the risks that each business function is exposed to and their impact on economic capital. These risks are inventoried in the Company's Risk Register. The Company has a Risk Appetite Statement that describes the Company's willingness to take, or not to take, certain types of risks and sets limits on how much of each risk the Company will take. The Company measures its level of risk relative to limits in its Own Risk and Solvency Assessment, which is risk based and uses Individual Capital Assessment ("ICA") principles to manage the Company's capital requirements and to ensure that the Company has the financial strength and capital adequacy to support the growth of the business and to meet the requirements of policyholders, regulators and rating agencies.

The principal risks from the Company's financial guarantee business arise from (i) uncertainty as to the timing, frequency and severity of any payment default by an obligor and (ii) the adequacy of reinsurance protections and recoverability of amounts which may ultimately become due from reinsurers. These risks and the Company's approach to managing insurance risk are described further within note 21 to the financial statements.

A principal uncertainty for the Company arising from the UK's planned exit from the EU is whether it will continue to be able to utilise passporting rights to conduct insurance activities within EEA countries after Brexit. In order to ensure that existing EEA based insurance policies can continue to be serviced and new EEA transactions can be entered into, in the event that passporting rights are not retained, the Company, along with AGM, is in the process of establishing a new company in France from which these activities will be conducted. If the Company's ability to service existing policies is not preserved, these policies will be transferred to the new company. In the case that the transfer of policies is not completed prior to the UK's departure, including where the UK leaves the EU without agreement on the terms of its exit (a "no deal Brexit"), it is management's belief that the risks posed to the Company will be significantly mitigated by measures recently announced by a number of EU countries which provide transitional arrangements for the servicing of existing policies.

The Company is exposed to the financial risks arising from the investments that it holds. The Company's exposure to Financial Risk is disclosed in note 21 to the financial statements.

Approved by the Board of Directors on 11 April 2019 and signed on its behalf by:

Nicholas James Proud
Director
12 April 2019

Directors' report for the year ended 31 December 2018

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2018.

Future Developments

Likely future developments for the Company are discussed within the strategic report.

Dividends

The directors do not recommend the payment of a dividend (2017: nil).

Financial Instruments

Information on the use of financial instruments by the Company and its management of financial risk, including the Company's management of its exposure to market risk is disclosed in note 21 to the financial statements.

Directors

The directors of the Company who were in office during the year or up to the date of the signing of the financial statements were:

Robert Adam Bailenson
Charles Peter Barrington
Mark Batten (appointed 14 September 2018)
Dominic James Frederico
Simon William de Mussenden Leathes (Chairman)
Dominic James Brian Nathan
Nicholas James Proud

Qualifying Third Party Indemnity Provisions

The Company's articles of association include a qualifying third party indemnity provision for the benefit of the members of the Board of Directors.

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements and;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Directors' report for the year ended 31 December 2018 (continued)

Statement of directors' responsibilities (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure of information to auditors

Each of the persons who is a director at the date of this report confirms that:

1) so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2018 of which the auditors are unaware; and
2) they have taken all steps that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. A resolution concerning their reappointment was approved at the meeting of the Company's Board of Directors on 11 February 2019.

Approved by the Board of Directors on 11 April 2019 and signed for on its behalf by:

Nicholas James Proud
Director
12 April 2019

Independent auditors' report to the members of Assured Guaranty (Europe) plc

Report on the audit of the financial statements

Opinion

In our opinion, Assured Guaranty (Europe) plc's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the profit and loss account and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

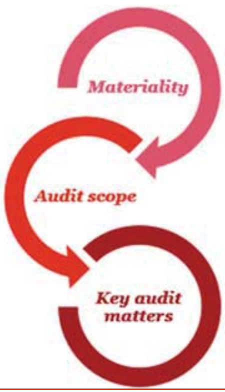
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

Other than those disclosed in note 8 to the financial statements, we have provided no non-audit services to the Company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview



- Overall materiality: £7.5m (2017: £2m), based on 1% of net assets.

- We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.
- Our scope focused on where the directors made subjective judgements, for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- We performed audit procedures over material balances and transactions.

- Valuation of Case Reserves and Unexpired Risk Provisions.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Independent auditors' report to the members of Assured Guaranty (Europe) plc (continued)

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those established by the Prudential Regulation Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate balance sheet amounts and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, including considerations of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with the Prudential Regulation Authority in relation to compliance with relevant regulations;
- Reviewing relevant meeting minutes including those of the Risk Oversight Committee;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management; and
- Procedures relating to appropriateness of methodologies and assumptions applied in the valuation of case reserves and unexpired risk provision described in the related key audit matter.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgment, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Valuation of Case Reserves and Unexpired Risk Provisions The economic environment may impact on the ability of certain guaranteed financial instruments to continue to make interest or other payments as they fall due. Management's surveillance team closely monitor and assess the future performance of the UK portfolio, and consider whether remedial actions or specific provisions are necessary. Additionally, an unexpired risks provision ('URP') is recognised when the estimated value of claims and expenses likely to arise after the end of the financial year exceed the provision for unearned premiums, after deduction of any deferred acquisition costs and premiums receivable under those contracts. Management's policy is to review below investment grade ('BIG') credits and recognise a URP, if required, for those credits to which management perceives an expected loss is likely to occur. It is inherently difficult to predict the total liability that may arise from these losses. This therefore gives rise to a risk of a material misstatement occurring due to the incorrect estimation for these, and any other claims that may arise.	We have performed the following procedures over case reserves and unexpired risk provisions: - Understood, evaluated and tested management's process and controls in identifying BIG credits, as well as the reserving considerations for these credits; - Considered the methodology and assumptions used by management in determining the case reserves and the calculation of unexpired risk provisions; - Evaluated the reasonableness of management's significant assumptions including a comparison to available market information when applicable; - Evaluated the reasonableness of loss scenarios, including scenarios over representation and warranty recoveries; and - Evaluated the reasonableness of recorded reserves by testing the Company's models and key assumptions, if applicable, based upon publicly available information, status of negotiations with the counterparty, and review of evidence provided by management. Based on the work performed we consider the case reserves and unexpired risk provisions to be reasonable estimates in line with UK GAAP.

Independent auditors' report to the members of Assured Guaranty (Europe) plc (continued)

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

The principal activity of the Company is providing financial guarantees for public finance, infrastructure finance and structured finance obligations.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements have been made; for example, in respect of significant accounting estimates that involve making assumptions and considering events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of controls, including, among other matters, consideration of whether there was evidence of bias in key judgements that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£7.5m (2017: £2m).
How we determined it	1% of net assets.
Rationale for benchmark applied	The long-term nature of the business, significant co-insurance and reinsurance agreements and the fact that the subsidiary entities were in run-off pre-merger, leads us to conclude that the net assets value is the focus of the key users of the financial statements. This benchmark is different from the profit-based benchmark used in the prior year, which was considered appropriate due to the commutation of reinsurance agreements during 2017. These commutations generated large revenues and expenses through profit and loss that are not present in the current year.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £375,000 (2017: £100,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements 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 financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements 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 based on these responsibilities.

Independent auditors' report to the members of Assured Guaranty (Europe) plc (continued)

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not 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 economic decisions of users taken on the basis of these financial statements.

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

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Assured Guaranty (Europe) plc (continued)

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 1 January 1994 to audit the financial statements for the year ended 31 December 1994 and subsequent financial periods. The period of total uninterrupted engagement is 25 years, covering the years ended 31 December 1994 to 31 December 2018.

James Pearson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
12 April 2019

Profit and loss account for the year ended 31 December 2018

	Note	**2018 £'000**	2017 £'000
Technical Account – General Business			
Earned premiums, net of reinsurance			
Gross premiums written	*6*	**5,823**	(1,867)
Outward reinsurance premiums		**(8,593)**	(65,256)
Net premiums written		**(2,770)**	(67,123)
Change in the gross provision for unearned premiums		**30,188**	28,870
Change in the provision for unearned premiums, reinsurer's share		**(35,013)**	24,701
Net change in unearned premiums		**(4,825)**	53,571
Earned premiums, net of reinsurance		**(7,595)**	(13,552)
Net operating income	*7*	**-**	767
Other technical income	*26*	**1,595**	65,269
Total Technical (loss) / income		**(6,000)**	52,484
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		**544**	219
Reinsurer's share		**(520)**	(213)
		24	6
Changes in the provision for claims			
Gross amount		**8,805**	-
Reinsurer's share		**(7,926)**	-
		879	-
Claims incurred, net of reinsurance		**903**	6
Changes in other technical provisions, net of reinsurance		**(2,772)**	(34)
Net operating expense	*7*	**499**	-
Total technical charges / (income)		**(1,370)**	**(28)**
Balance on the technical account for general business		**(4,630)**	**52,512**
Non-Technical Account			
Balance on the general business technical account		**(4,630)**	52,512
Investment income	*11*	**8,436**	6,222
Unrealised gains on investments	*11*	**1,363**	245
Investment expenses and charges	*11*	**(316)**	(173)
Unrealised losses on investments	*11*	**(9,560)**	(5,074)
Other income / (charges)	*25*	**495**	(12,963)
(Loss) / profit on ordinary activities before tax	*12*	**(4,212)**	40,769
Tax on (loss) / profit on ordinary activities	*13*	**1,094**	(15,332)
(Loss) / profit for the financial year		**(3,118)**	25,437

The notes on pages 17 to 33 form part of the financial statements.

All results derive from continuing activities.

The Company has no material recognised gains and losses other than the profit / (loss) for the financial year above and therefore no separate statement of comprehensive income is presented.

Balance sheet as at 31 December 2018

	Note	2018 £'000	2017 £'000
Assets			
Investments			
Financial investments	*17*	**759,597**	188,273
Investments in group undertakings	*5,17*	**-**	322,880
Reinsurer's share of technical provisions			
Provision for unearned premiums	*23*	**433,178**	439,346
Claims outstanding	*23*	**24,607**	-
Other technical provisions	*23*	**12,711**	15,996
Debtors			
Debtors arising out of direct insurance operations	*16*	**484,790**	227,886
Other debtors	*16*	**75,011**	63,033
Other Assets			
Tangible assets	*15*	**707**	832
Cash at bank and on hand		**48,387**	32,101
Deferred Tax	*14*	**1,118**	10
Prepayments and accrued income			
Accrued interest		**7,552**	2,714
Deferred acquisition costs	*24*	**29,784**	25,382
Other prepayments and accrued Income		**33**	7
Total assets		**1,877,475**	1,318,460
Liabilities and shareholder's funds			
Capital and reserves			
Called up share capital	*22*	**55,000**	55,000
Capital contribution	*27*	**385,865**	385,865
Other reserves	*5*	**220,265**	-
Profit and loss account		**109,853**	112,971
Total shareholder's funds		**770,983**	553,836
Technical provisions			
Provision for unearned premiums	*23*	**665,701**	395,683
Claims outstanding	*23*	**27,341**	-
Other technical provisions	*23*	**16,285**	16,241
Creditors			
Creditors arising out of reinsurance operations	*18*	**254,200**	213,252
Other creditors	*18*	**11,883**	9,310
Accruals and deferred income	*19*	**131,082**	130,138
Total liabilities and shareholder's funds		**1,877,475**	1,318,460

The notes on pages 17 to 33 form part of the financial statements.

The financial statements on pages 14 to 33 were approved by the Board of Directors on 11 April 2019 and were signed on its behalf by:

Nicholas James Proud
Director

Statement of changes in equity for the year ended 31 December 2018

	Called up share capital £'000	**Capital contribution reserve £'000**	**Other reserves £'000**	**Profit and loss account £'000**	**Total shareholder's funds** £'000
Balance as at 1 January 2017	55,000	62,985	-	87,534	205,519
Capital contribution during year	-	322,880	-	-	322,880
Profit for the financial year	-	-	-	25,437	25,437
Balance as at 31 December 2017	55,000	385,865	-	112,971	553,836
Merger with subsidiaries	-	-	220,265	-	220,265
Loss for the financial year	-	-	-	(3,118)	(3,118)
Balance as at 31 December 2018	**55,000**	**385,865**	**220,265**	**109,853**	**770,983**

Notes to the financial statements for the year ended 31 December 2018

1. General information

The principal activity of Assured Guaranty (Europe) plc ("AGE" or the "Company") is providing financial guarantees for public finance, infrastructure finance and structured finance obligations. Financial guarantee insurance written by the Company generally guarantees scheduled payments on an issuer's obligation in the event, and to the extent of, a payment default by the obligor.

The Company is a public company limited by shares and is incorporated and domiciled in England. Its registered office is 6 Bevis Marks, London, EC3A 7BA.

2. Statement of compliance

The individual financial statements of Assured Guaranty (Europe) plc have been prepared in compliance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, United Kingdom Accounting Standards, including Financial Reporting Standard 102 and Financial Reporting Standard 103, the Financial Reporting Standards applicable in the United Kingdom and Republic of Ireland ("FRS 102" and "FRS103") and the Companies Act 2006.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Those areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4, Critical accounting judgments and estimation uncertainties.

(b) Premiums written

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums not yet due.

(i) Where the premium on a policy is received up front, the premium is recognised as written on the date of inception, and earned in the technical account over the period of the policy having regard to the incidence of risk.

(ii) Where a premium is received in instalments and the underlying bonds are callable, management considers the nature of the call provision(s) and the likelihood of exercise of those provisions, and determines whether it is reasonably certain that the contract will run its full term. The full expected premium is recorded when it is received or when it is reasonably certain that it will be received. When the contract is not expected to run its full term, the premium that is recognised as written is either the premium amount to the first call point under the contract or guaranteed minimum premium (where such a clause exists in the policy documents) or where the contract is callable without any notice period, the Company records the instalments as they fall due. Written premiums are recognised as earned income over the period of the policy having regard to the incidence of risk.

When instalment premiums to be received under the policy are linked to an outstanding debt that could be paid down faster than anticipated, or where a premium is linked to an index, the Company recognises premiums written based upon an analysis of the premium it is reasonably certain to receive. Any anticipated change in the expected premium receivable is recognised as an adjustment to premium; in the case of decreases in premium, as soon as it is foreseen and in the case of increases, when such an adjustment is assessed as reasonably certain.

(c) Provision for Unearned premiums

Unearned premiums represent the proportion of premiums written in the current or prior years that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.

Notes to the financial statements for the year ended 31 December 2018 (continued)

3. Summary of significant accounting policies (continued)

(d) Claims and claim expenses incurred
Claims incurred comprise claims and related claims expenses paid in the year and the change in provision for claims outstanding. A provision for claims outstanding is recorded when there is significant deterioration on a specific insured obligation and the obligation is in default at the balance sheet date. When appropriate, provisions for claims outstanding are discounted to their present value using a discount rate which represents the rate of return achieved on the Company's investment portfolio. Claims outstanding are calculated gross of any reinsurance recoveries which are calculated separately (see reinsurance below).

A substantial measure of experience and judgment is involved in assessing claims outstanding, the ultimate cost of which may not be known with certainty at the balance sheet date. Provision for claims outstanding and related reinsurance recoveries are determined on the basis of information available at the balance sheet date; however, it is inherent in the nature of business written that the ultimate liabilities may vary as a result of subsequent developments.

(e) Subrogation and salvage
Recoveries arising out of subrogation or salvage are estimated on a prudent basis and included within other debtors.

(f) Reinsurance
Contracts entered into by the Company with reinsurers, under which the Company is compensated for losses on insurance policies issued by the Company and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts.

Reinsurance premiums earned are accounted for with regard to the incidence of risk for the direct business to which they relate.

The amounts recoverable from reinsurers are estimated based upon the gross claims outstanding, having due regard to collectability. The recoverability of reinsurance recoveries (shown in reinsurer's share of Claims outstanding, reinsurer's share of Other technical provisions and Other debtors) are assessed having regards to market data on the financial strength of each of the reinsurance companies and any collateral provided to the Company. The reinsurers' share of claims incurred, in the profit and loss account, reflects the change in amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as "Outward reinsurance premiums".

(g) Acquisition costs and ceding commission income
Acquisition costs are those operating costs which relate to the production of new business. Management uses its judgment in determining what types of costs, as well as what percentage of these costs should be deferred.

The Company conducts an annual study to determine how much of the operating costs qualify for deferral. Costs incurred for soliciting potential customers, market research, training, administration, unsuccessful acquisition efforts, and product development as well as all overhead type costs are expensed as incurred and not deferred. When an insured obligation is retired early, the remaining related deferred acquisition cost is expensed.

Reinsurance ceding commission income is deferred, subject to recoverability, and amortised over the period in which the related reinsurance premiums are earned.

(h) Investments
Financial Investments
The Company's policy is to measure all financial investments at fair value through profit or loss. The basis on which the Company determines the fair value of its investments in set-out in note 17. Gains or losses arising from changes in the fair value of financial investments are presented in the profit and loss non-technical account in the period in which they arise.

Investment in group undertakings
The Company's policy is to measure investments in group undertakings at fair value.

Notes to the financial statements for the year ended 31 December 2018 (continued)

3. Summary of significant accounting policies (continued)

(i) Taxation

Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation

A deferred tax asset or liability is recognised if transactions have occurred at the balance sheet date that give rise to an obligation to pay more tax in the future, or a right to pay less tax in the future. 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. Deferred tax assets and liabilities are not discounted.

(j) Operating lease

Leases of assets where a significant portion of the risk and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease. Any operating lease incentives, including rent free periods, are spread over the period of the lease.

(k) Tangible fixed assets

Tangible fixed assets comprising leasehold improvements, office furniture and IT hardware are recorded at cost less depreciation.

The costs of tangible fixed assets comprise their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated on the straight line method to recognise the asset's cost over its estimated useful life as follows:

Tangible Assets	**Useful Life**
Leasehold improvements	13 years
Furniture	5 years
Hardware	3 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of tangible fixed assets are determined by reference to their carrying amount and are taken into account in determining net operating income / (expense).

(l) Unexpired risk provision

Provision has been made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses, after taking into account future investment return. The expected claims are calculated based on information available at the balance sheet date. The unexpired risks provision is included in Other technical provisions gross of reinsurance as a liability, whilst the reinsurer's share is included in Other technical provisions as an asset on the balance sheet, and within the profit and loss account balances are shown net of reinsurance.

(m) Foreign currency

The Company's financial statements are presented in pounds sterling. The Company's functional currency is pounds sterling. Transactions in foreign currencies are translated to sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into sterling at the rates of exchange ruling at that date. Differences arising on exchange are reflected in the non-technical account. All insurance balances are treated as monetary and foreign currency insurance balances are translated to sterling as described above.

Notes to the financial statements for the year ended 31 December 2018 (continued)

3. Summary of significant accounting policies (continued)

(n) Exemption for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain exemptions. The Company has taken advantage of the following exemptions:

(i) from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate parent company includes the Company's cash flows in its own consolidated financial statements;

(ii) from disclosing related party transactions on the basis the transactions are with related parties which are wholly owned within the same group.

4. Critical accounting judgments and estimation uncertainties

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following are applicable critical accounting judgments and estimation uncertainties:

(i) Premiums written

The amount of premiums written at contract inception is determined as follows:

For premiums received upfront on financial guaranty insurance contracts, premium written is equal to the amount of cash received. For premiums received in instalments on financial guarantee insurance contracts, premium written is equal to the value of the expected premiums to be collected over the life of the contract, where premium payments must be contractually payable, the amount of premium payable must be probable, and the amount of premium payments must be reasonably estimated. Instalment premiums on certain insurance contracts are dependent upon the rate of inflation. The Company assumes a stable rate of inflation for future periods. However if future inflation rates differ to that of the Company's projection then the estimated premium due to the Company will differ. When the Company adjusts premium payment assumptions or expected premium collections, an adjustment is recorded to the premium written, with corresponding adjustment to the premium receivable.

(ii) Claims reserves and unexpired risk provisions

Determining the ultimate cost of the Company's insurance obligations is an inherently subjective process involving numerous estimates, assumptions and judgments by management, using both internal and external data sources with regard to frequency, severity of loss, economic projections, governmental actions, negotiations and other factors that affect credit performance. These estimates, assumptions and judgments, and the factors on which they are based, may change materially over a year, and as a result the Company's loss estimates may change materially over that same period.

The Company does not use traditional actuarial approaches to determine its estimates of expected losses. Actual losses will ultimately depend on future events or transaction performance and may be influenced by many interrelated factors that are difficult to predict. As a result, the Company's current projections of probable and estimated losses may be subject to considerable volatility and may not reflect the Company's ultimate claims obligations.

5. Cross border merger with subsidiaries

During the year, the Company combined its operations with those of its subsidiaries, Assured Guaranty (UK) plc ("AGUK"), Assured Guaranty (London) plc ("AGLN") and CIFG Europe SA ("CIFGE") in a transaction that was completed on 7 November 2018 ("the Merger"). 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.

The transaction meets the definition of a group reconstruction under FRS102, and has been accounted for using the merger accounting method, with an effective accounting date of 1 November 2018. Under the merger accounting method, the assets and liabilities of the subsidiaries are recognised by the Company only from the effective accounting date. As such, comparatives presented within the financial statements do not include the impact of the Merger. The profit and loss account of the Company includes the operations of the former subsidiaries from the effective accounting date.

Notes to the financial statements for the year ended 31 December 2018 (continued)

5. Group reconstruction (continued)

The assets and liabilities transferred to AGE have been recognised at their carrying values, adjusted to conform to the accounting policies of the Company. The conforming adjustments increased the value of net assets transferred by £0.15 million.

The difference between the Company's investment in group undertakings and the net assets transferred, including conforming adjustments, was recorded within equity under "other reserves". The assets and liabilities transferred to AGE and the amounts recorded within other reserves are shown in the table below.

	1 November 2018 £'000
Assets and liabilities acquired	
Financial investments	**575,737**
Reinsurance assets	**43,431**
Debtors, including insurance receivables	**280,972**
Cash at bank	**23,560**
Deferred tax assets	**1,125**
Prepayments and accrued income	**11,467**
Insurance liabilities	**(323,601)**
Creditors, including reinsurance payables	**(59,535)**
Accruals and deferred income	**(10,011)**
Net assets recognised	**543,145**
Derecognition of investments in group undertakings	**(322,880)**
Other reserves recognised in equity	**220,265**

6. Segmental analysis

The Company has only one business segment, which is financial guarantee insurance. The net assets and the business written by the Company are predominantly based in the United Kingdom, with business underwriting decisions made in the United Kingdom.

(a) Gross premiums written by location of risk

	2018 £'000	2017 £'000
- UK	**1,253**	(2,829)
- Europe, excluding UK	**4,336**	966
- Other	**234**	(4)
Total gross premiums written	**5,823**	(1,867)

Total gross premiums written include new business written in the year and changes to in-force business written in prior years. Negative premiums have arisen where estimated total premiums have been either adjusted for inflation, refunded or cancelled. The Company does not measure profit and loss on geographical segments.

(b) Gross claims incurred by location of risk

	2018 £'000	2017 £'000
- UK	**-**	-
- Europe, excluding UK	**430**	219
- Other	**8,919**	-
Total gross claims incurred	**9,349**	219

Notes to the financial statements for the year ended 31 December 2018 (continued)

7. Net operating (expense) / income

	2018 £'000	2017 £'000
Acquisition costs deferred	**525**	67
Change in deferred acquisition costs	**(2,355)**	(2,129)
Administration expenses	**(11,546)**	(9,083)
Reinsurance commissions	**12,877**	11,912
Net operating (expense) / income	**(499)**	767

8. Auditors' remuneration

	2018 £'000	2017 £'000
Fees payable to the Company's auditors for the audit of the Company's financial statements	**396**	209
Fees payable to the Company's auditors for other services:		
Audit related assurance services, including the audit of regulatory returns	**50**	70
Tax compliance services	**-**	4
Other non-audit services	**3**	2
Total auditors' remuneration	**449**	285

Auditors' remuneration is included within administrative expenses.

9. Directors' emoluments

Apart from the non-executive directors, the directors did not receive any emoluments in respect of their services to the Company during the year (2017: nil).

The total emoluments received by the non-executive directors during 2018 were £70k (2017: £45k). The highest paid non-executive director received total remuneration of £31k (2017: £22k).

The Company did not make any contributions during the year to the defined contribution pension scheme in respect of the non-executive directors. The non-executive directors do not have any share options and as such no share options were exercised during the year.

During the year four executive directors (2017: five) participated in the long term incentive plan of the ultimate parent company, Assured Guaranty Ltd ("AGL"). No retirement benefits were accruing to the directors during the year (2017: nil) as the Company does not operate a pension scheme.

10. Employees

The Company did not have any employees during the year (2017: nil).

All salaries and benefits were paid by the Company's affiliates, Assured Guaranty (UK) Services Limited ("AGUKS"), and Assured Guaranty US Group Services, Inc ("AGSRV"). In consideration for this service, management service fees were levied on the Company. The total amount levied during the year was £7.7 million (2017: £5.7 million). It is not feasible to ascertain separately the element of the service fee that relates to staff costs and hence no disclosure of staff costs is provided.

Notes to the financial statements for the year ended 31 December 2018 (continued)

11. Investment return

	2018	2017
	£'000	£'000
Investment Income		
Interest income from investments	**8,395**	6,214
Net realised gains on investments	**41**	8
	8,436	6,222
Investment expense and charges		
Investment management expenses	**(316)**	(173)
Net unrealised losses on investments	**(8,197)**	(4,829)
Total investment return	**(77)**	1,220

12. (Loss) / profit on ordinary activities before tax

	2018	2017
	£'000	£'000
(Loss) / profit on ordinary activities before tax is stated after (charging) / crediting:		
Operating lease charges	**(183)**	(147)
Depreciation on tangible fixed assets	**(125)**	(205)
Foreign exchange (loss) / gain	**495**	(12,963)

13. Tax on (loss) / profit on ordinary activities

The Company made an election with the US Internal Revenue Service ("IRS") pursuant to Section 953(d) ("§953(d)") of the Internal Revenue Code. Section 953(d) allows certain foreign insurance companies to elect to be treated as a US corporation for federal income tax purposes. In January 2017, the Company filed a request with the IRS to revoke Section 953(d) election, which was granted in May 2017. As such, the Company is no longer liable to pay future US taxes as at 1 January 2017. The current UK corporation tax rate is 19.0%.

	2018	2017
	£'000	£'000
UK corporation tax (charge) / credit		
- Current year tax	**1,027**	(5,643)
- Prior year adjustment	**105**	151
- Deferred tax	**(38)**	(3)
- Write off on revocation of §953(d) election	**-**	(9,837)
Tax (expense) / income on profit on ordinary activities	**1,094**	(15,332)

The tax assessed for the year is higher (2017: higher) than the standard rate of corporation tax in the UK. The reconciliation between the current tax provision and that expected from the standard UK tax rate of 19.0% (2017: 19.25%) is as follows:

	2018	2017
	£'000	£'000
(Loss) / profit on ordinary activities before tax	**(4,212)**	40,769
(Loss) / profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.0 % (2017: 19.25%)	**800**	(7,847)
Expenses not deductible for tax purposes	**(24)**	-
Adjustments to tax charge in prior year	**105**	151
Group relief benefit	**213**	2,201
Write off on revocation of §953(d) election	-	(9,837)
Tax credit / (charge) for the year	**1,094**	(15,332)

Factors affecting current and future tax changes
The Finance Act 2015 introduced a reduction to the UK corporation tax rate from 20% to 19% from 1 April 2017 and to 18% from 1 April 2019. The Finance Act 2016 further reduced the corporation tax rate to 17% from 1 April 2020.

Notes to the financial statements for the year ended 31 December 2018 (continued)

14. Deferred tax assets

	2018 **£'000**	2017 £'000
Double taxation relief	**169**	-
Capital Allowances	**35**	19
Other temporary timing differences	**914**	(9)
Net deferred tax asset	**1,118**	10

The movement in the net deferred tax asset is as follows:

	UK Corporation Deferred Taxes		Overseas Corporation Deferred Taxes		Total Deferred Taxes	
	2018 **£'000**	2017 £'000	**2018** **£'000**	2017 £'000	**2018** **£'000**	2017 £'000
At 1 January	**10**	(12)	**-**	12,114	**10**	12,102
Group reconstruction	**1,125**	-	**-**	-	**1,125**	-
Other temporary timing differences	**(17)**	22	**-**	-	**(17)**	22
Write off on revocation of §953 (d) election	**-**	-	**-**	(12,114)	**-**	(12,114)
At 31 December	**1,118**	10	**-**	-	**1,118**	10

15. Tangible assets

	Leasehold improvements £'000	**Furniture £'000**	**Hardware £'000**	**Total £'000**
Cost				
At 1 January 2018	751	273	86	1,110
Additions	-	-	-	-
Cost at 31 December 2018	751	273	86	1,110
Accumulated Depreciation				
At 1 January 2018	127	101	50	278
Charge for year	53	49	23	125
Accumulated depreciation as 31 December 2018	180	150	73	403
Net book value at 31 December 2018	**571**	**123**	**13**	**707**
Net book value at 31 December 2017	624	172	36	832

16. Debtors

	2018 **£'000**	2017 £'000
Arising out of direct insurance operations	**484,790**	227,886
Arising out of reinsurance operations	**71,481**	63,033
Other debtors including taxation and social security	**3,530**	-
Total debtors	**559,801**	290,919

Notes to the financial statements for the year ended 31 December 2018 (continued)

17. Investments

(i) Financial investments

All financial investments are held at fair value. 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.

Classification within the fair value hierarchy is determined based on whether the inputs to valuation techniques used to measure fair value are observable or unobservable.

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (that is, developed using market data) for the asset or liability, either directly or indirectly,

Level 3: Inputs that are unobservable (that is, for which market data is unavailable) for the asset.

The Company's Level 3 assets were priced with the assistance of an independent third-party. The pricing is based on a discounted cash flow approach using the third-party's proprietary pricing models. The models use inputs such as projected prepayment speeds; severity assumptions; recovery lag assumptions; 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); home price appreciation/depreciation rates based on macroeconomic forecasts and recent trading activity. The yield used to discount the projected cash flows is determined by reviewing various attributes of the security including collateral type, weighted average life, sensitivity to losses, vintage, and convexity, in conjunction with market data on comparable securities. Significant changes to any of these inputs could have materially changed the expected timing of cash flows within these securities which is a significant factor in determining the fair value of the securities.

The table below presents the Company's financial investments measured at fair value at 31 December 2018 and at 31 December 2017, including classification of the fair value in accordance with the fair value hierarchy.

		2018		2017	
		Carrying Value £'000	**Purchase Cost £'000**	Carrying Value £'000	Purchase Cost £'000
Level	**Financial investments**				
2	UK government bonds	**260,674**	**270,786**	118,563	123,197
2	Non UK government bonds	**15,845**	**15,991**	-	-
2	Government agency bonds	**104,398**	**109,578**	-	-
2	Supranational bonds	**129,712**	**132,168**	-	-
2	Corporate bonds	**199,303**	**203,872**	69,710	69,718
2	Asset-Backed securities	**3,590**	**3,638**	-	-
3	Asset-Backed securities	**46,075**	**28,570**	-	-
Total financial investments		**759,597**	**764,603**	**188,273**	**192,915**

The value of listed investments during 2018 is £740.4 million (2017: £188.3 million).

Notes to the financial statements for the year ended 31 December 2018 (continued)

17. Investments (continued)

(ii) Investment in group undertakings

	2018	2017
	£'000	£'000
At 1 January	**322,880**	-
Additions	**-**	322,880
Group reconstruction	**(322,880)**	-
At 31 December	**-**	322,880

Set out below are the details of the Company's subsidiaries, all of which undertook general insurance business, as at 31 December 2017. The Company merged its operations with those of its subsidiaries during 2018. On completion of the Merger the subsidiaries were immediately dissolved without going into liquidation (see note 5 for further details).

Subsidiary undertakings	Country of domicile	Class of shares held	Percentage of nominal value and voting rights held by the Company
Assured Guaranty (London) plc	England	Ordinary	100
Assured Guaranty (UK) plc	England	Ordinary	100
CIFG Europe SA	France	Ordinary	100

The registered office of AGUK and AGLN was 6 Bevis Marks London, EC3A 7BA, United Kingdom. The registered office of CIFGE was 61 Quai de Paludate, 33800 Bordeaux France.

During the year the Company did not receive any dividends from the subsidiary undertakings.

18. Creditors

	2018	2017
	£'000	£'000
Arising out of reinsurance operations (including amounts owed to group undertakings)	**254,200**	213,252
Other amounts owed to group undertakings	**11,883**	3,623
Other creditors including taxation and social security	**-**	5,687
Total creditors	**266,083**	222,562

Other amounts owed to group undertakings are unsecured, interest free and payable on demand.

19. Accrual and deferred income

	2018	2017
	£'000	£'000
Accrued expense	**1,027**	178
Reinsurance commission deferred	**130,055**	129,960
Total accruals and deferred income	**131,082**	130,138

20. Other financial commitments and guarantees

The Company has guaranteed the obligations of its affiliate, Assured Guaranty Credit Protection Limited ("AGCPL") for which the Company receives insurance premiums. AGCPL sells credit protection to counterparties through credit default swaps and may incur a loss in the event of payment default by an obligor. The Company is not aware of any actual or potential liabilities in relation to these guarantees. The Company does not expect AGCPL to issue credit default swaps in the future.

Notes to the financial statements for the year ended 31 December 2018 (continued)

20. Other financial commitments and guarantees (continued)

At the balance sheet date, the Company had the following future minimum lease payments under non-cancellable lease rentals:

	2018	2017
	£'000	£'000
Payments due:		
Not later than one year	**529**	271
Later than one year and not later than five years	**2,118**	2,118
Later than five years	**3,040**	3,570
Total payments due	**5,687**	5,959

21. Risk management

The Board of Directors has established the following committees and functions to provide oversight of the Company's risk management policies and procedures: Audit Committee, Risk Oversight Committee, Actuarial Function, Internal Audit Function, Compliance Function, Credit Committee, Executive Committee, Finance Function, Reserve Committee, Risk Management Committee, Risk Management Function and Surveillance Function. The Company's Chief Executive Officer also is a member of the Portfolio Risk Management Committee for AGL, which sets risk policies and limits for AGL and its subsidiaries. Within the limits established by the Portfolio Risk Management Committee, the Company sets its own specific risk policies and limits.

(a) Capital management

The Company's capital management framework requires the Company to determine its capital requirements on both regulatory and economic capital bases. The Company uses the Solvency II Standard Formula to determine its regulatory capital requirement.

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, and through the use of scenario and stress testing under extreme stresses. The Company has a limited number of discrete credit risks, making it possible to review and model the risk related to each individual exposure using its risk rating, type and size of risk, projected maturity and reinsurance in force, generating capital requirements by calculating the individual contribution to required capital for each transaction. The model has the ability to rank the transactions by risk, aggregate risk by sector and quantify the impact of the Company's risk mitigation activities (e.g., reinsurance).

The Company's regulatory capital requirement as at 31 December 2018 is £301.3 million (2017: £112.6 million). The Company's total available own funds to meet its regulatory capital requirement are £692.5 million (2017: £629.2 million). The Company complied with its regulatory capital requirements throughout the year.

(b) Insurance risk

As a financial guarantee insurance company, which protects holders of debt instruments and other monetary obligations from defaults in scheduled payments, 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 both. The obligation of the Company to make claim payments cannot be accelerated, although the Company generally maintains the right to accelerate payment on defaulted obligations. The Company has no life or health underwriting risk or any other general insurance underwriting risk.

(i) Insurance risk – Approach to internal credit ratings and surveillance categories

To manage the insurance risk associated with insured portfolio, the Company's surveillance personnel are responsible for monitoring and reporting on all transactions. The primary objective of the surveillance process is to monitor trends and changes in transaction credit quality, detect any deterioration in credit quality, and recommend to management such remedial actions as may be necessary or appropriate. All transactions in the insured portfolio are assigned internal credit ratings, and surveillance personnel are responsible for recommending adjustments to those ratings to reflect changes in transaction credit quality. Risk Management and Surveillance personnel also are responsible for managing work-out and loss situations when necessary. For transactions where a loss is considered

21. Risk management (continued)

probable, surveillance personnel and the Actuarial Function make recommendations on loss reserves to the Reserve Committee.

The Company segregates its insured portfolio into investment grade and below-investment-grade surveillance categories to facilitate the appropriate allocation of resources to monitoring and loss mitigation efforts and to aid in establishing the appropriate cycle for periodic review of each exposure. Below investment grade exposures include all exposures with internal credit ratings below BBB-. The Company's internal credit ratings are based on internal assessments of the likelihood of a default and loss severity in the event of a default. Internal credit ratings are expressed on a ratings scale similar to that used by the rating agencies and generally are reflective of an approach similar to that employed by the rating agencies, except that the Company's internal credit ratings focus on future performance, rather than lifetime performance.

The Company monitors its investment grade credits to determine whether any additional credits need to be internally downgraded to below investment grade. Quarterly procedures include qualitative and quantitative analysis on the Company's insured portfolio to identify potential new below investment grade credits. The Company refreshes its internal credit ratings on individual credits in cycles based on the Company's view of the credit quality, loss potential, volatility and sector. Ratings on credits and in sectors identified as under the most stress or with the most potential volatility are reviewed every quarter. Credits identified through this process as below investment grade are subjected to further review by surveillance personnel to determine the various probabilities of a loss. Surveillance personnel present analyses related to potential loss scenarios to the Reserve Committee. The Reserve Committee considers the information provided by surveillance personnel and by the Actuarial Function when setting reserves.

As noted above, the Company's approach to internal credit ratings is based on whether future losses are projected on a transaction (as opposed to whether lifetime losses are projected). Accordingly, the Company may rate a transaction investment grade if it (a) has turned generally cash-flow positive and (b) is projected to have net future reimbursements with sufficient cushion to warrant an investment grade rating - even if it is projected to have overall lifetime net insurance claim payments.

(ii) Insurance risk – Approach to credit underwriting

For all new transactions the Company's Credit Committee establishes credit standards, underwriting guidelines and processes and controls that govern transactions, and has the sole authority, to review and approve or reject all transactions. As part of the approval process, the Credit Committee enforces the single risk and credit concentration limits approved by the Company's Board of Directors. It also incorporates into the underwriting process critical feedback provided by the Risk Management Committee on the performance of, and any problems related to, transactions in the Company's insured portfolio.

Because of the strong relationship of the Company to its parent, including the co-guarantee arrangement for all transactions underwritten by the Company beginning in 2011, the AGE Net Worth Agreement and the excess of loss cover of the Assured Guaranty Municipal Corp. ("AGM") Reinsurance Agreement, all transactions executed by the Company are subject to two levels of review and approval by the Company's Credit Committee and by the International Supervisory Credit Committee of AGM.

(iii) Insurance risk – Claims estimation process

The Company estimates expected losses via the development of various scenarios with corresponding probabilities assigned to them. Depending upon the nature of the risk, the Company's view of the potential size of any loss and the information available to the Company, that analysis may be based upon individually developed cash flow models, internal credit rating assessments, sector-driven loss severity assumptions and/or judgmental assessments. The Company monitors the performance of its transactions with expected losses and each quarter the Company's loss reserve committee review and refresh their loss projection assumptions, scenarios and the probabilities they assign to those scenarios based on actual developments during the quarter and their view of future performance.

The financial guarantees issued by the Company underwrite the credit performance of the guaranteed obligations over an extended period of time, in some cases over 40 years, and in most circumstances the Company has no right to cancel such financial guarantees. As a result, the Company's estimate of ultimate losses on a policy is subject to significant uncertainty over the life of the insured transaction. Credit performance can be adversely affected by economic, fiscal and financial market variability over the life of most contracts.

Notes to the financial statements for the year ended 31 December 2018 (continued)

21. Risk management (continued)

The determination of expected losses is an inherently subjective process involving numerous estimates, assumptions and judgments by management, using both internal and external data sources with regard to frequency, severity of loss, economic projections, governmental actions, negotiations and other factors that affect credit performance. These estimates, assumptions and judgments, and the factors on which they are based, may change materially over a reporting period, and as a result the Company's loss estimates may change materially over that same period.

Changes over a reporting period in the Company's loss estimates for public finance transactions, generally will be influenced by factors impacting their revenue levels, such as changes in demand; changing demographics; and other economic factors, especially if the obligations do not benefit from financial support from governmental authorities.

(c) Financial risk

The Company is exposed to financial risk through its financial investments. The key financial risk is that the proceeds from its financial investments are not sufficient to fund the obligations arising from financial guarantees as they fall due.

(i) Market risk

Market risk is defined as the risk of loss or adverse change in the financial position arising from variations in the level and in the volatility of market prices of assets and financial instruments. Market risk comprises interest rate risk, currency rate risk and other price risk.

The Company manages its exposures to financial risks using a range of risk management techniques. The Company's investment policy is set with reference to preserving the highest possible ratings for the Company and to maintaining sufficient liquidity to cover unexpected stress in the insurance portfolio. The primary objective is to conserve and accumulate capital to cover future obligations and to support the Company's business objectives.

Interest risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk. The Company monitors interest rate risk on a monthly basis by calculating 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.

The sensitivity analysis for interest rate risk set out below illustrates how changes in the fair value of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. An increase or decrease of 100 basis points in interest yields would result in the following:

	100 Basis Point Increase		100 Basis Point Decrease	
£'000	**2018**	2017	**2018**	2017
Profit / (loss) before tax	**(23,009)**	(6,925)	**22,069**	5,591
Increase / (decrease) in equity	**(18,637)**	(5,592)	**17,876**	4,515

Currency risk

The Company is exposed to currency risk in respect of liabilities under financial guarantees denominated in currencies other than pounds sterling. The currencies to which the Company has most exposure are the US Dollar and Euro. The Company manages its exposure from time to time by maintaining monetary assets denominated in those currencies in which it is exposed in order to meet liabilities that may become due.

At 31 December 2018, if the pound had weakened/strengthened by 20% against the Euro and US Dollars with all other variables held constant, profit for the year would have been £35.1 million (2017: £12.2 million) higher/lower respectively. Equity for the year would have been £28.4million (2017: £9.9million) higher/lower respectively.

(ii) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The main areas where the Company is exposed to credit risk are:

- Premiums due from financial guarantee holders and / or bond issuers.
- Reinsurer's shares of insurance liabilities

Notes to the financial statements for the year ended 31 December 2018 (continued)

21. Risk management (continued)

- Proceeds due on maturity of financial investments held (i.e. bond investments)

To manage the risk of a reinsurer defaulting when it is called upon to pay its share of insurance liabilities, collateral is required by the Company from the reinsurer for the reinsurer's share of insurance liabilities.

To manage the risk of non-recoverability of premiums due from financial guarantee holders and / or bond issuers, the Company undertakes extensive due diligence prior to underwriting a contract with its counterparties.

The table below summaries credit risk exposure for the Company's material assets. For financial investments, cash and reinsurance debtors, a Standard & Poor's ("S&P") rating is used and where an S&P rating was not available, a Moody's rating has been used. For other assets the Company's internal rating, as described above, is used. There were no assets that were past due or impaired.

2018	AAA £'000	AA £'000	A £'000	BBB £'000	> BBB or not rated £'000	Total £'000
Investments	**210,676**	**347,775**	**111,751**	**43,320**	**46,075**	**759,597**
Cash at bank	**-**	**47,996**	**391**	**-**	**-**	**48,387**
Debtors arising out of direct insurance operations	**95**	**3,761**	**180,421**	**252,738**	**47,775**	**484,790**
Debtors arising out of reinsurance operations	**-**	**71,481**	**-**	**-**	**-**	**71,481**
2017						
Investments	23,399	133,287	23,379	8,208	-	188,273
Cash at bank	-	18,501	13,600	-	-	32,101
Debtors arising out of direct insurance operations	10	39	38,748	185,162	3,927	227,886
Debtors arising out of reinsurance operations	-	61,821	-	-	1,212	63,033

(iii) Liquidity risk

Liquidity risk is the risk that cash may not be available at a reasonable cost to pay obligations as they fall due. The Company maintains holdings in short term deposits to ensure there are sufficient funds available to cover anticipated liabilities. Furthermore, the Company's investment managers are mandated to invest only in debt securities with the objective of maintaining a high degree of liquidity within the Company's investment portfolio. In the event of claims arising under the AGM Reinsurance Agreement, AGM is required to pay the Company within one business day of receipt of a claim. Similarly, in the event of a funding requirement under the Net Worth Maintenance Agreement; the Company's parent company is required to contribute the required funding within one business day of receipt of notice.

The following table analyses financial assets and liabilities by maturity date

2018	< 1 year or no contracted maturity	1 to 4 years	5 to 10years	10 + years	Total
Assets (£'000)					
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 (£'000)					
Creditors arising out of reinsurance operations	**56,941**	**57,475**	**57,424**	**82,360**	**254,200**
2017					
Assets (£'000)					
Investments	15,539	119,074	51,153	2,506	188,272
Cash at bank	32,101	-	-	-	32,101
Debtors arising out of direct insurance operations	19,799	55,672	56,993	95,422	227,886
Debtors arising out of reinsurance operations	5,614	15,628	15,896	25,895	63,033
	73,053	190,374	124,042	123,823	511,292
Liabilities (£'000)					
Creditors arising out of reinsurance operations	18,407	52,854	53,953	88,038	213,252

Notes to the financial statements for the year ended 31 December 2018 (continued)

22. Called up share capital

	2018 £'000	2017 £'000
Authorised		
500,000,000 (2017: 500,000,000) ordinary shares of £1 each	**500,000**	500,000
Allotted and fully paid		
55,000,003 (2017: 55,000,000) ordinary shares of £1 each	**55,000**	55,000

23. Technical provisions

(i) Unearned premiums and deferred reinsurance commissions

Reconciliations of the opening and closing unearned premium provision and deferred reinsurance commissions are set out below:

	Gross		**Reinsurers' share**	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Unearned premium provision				
At 1 January	**395,683**	422,271	**439,346**	434,172
Movement in provision	**(30,188)**	(28,870)	**(35,012)**	5,723
Impact of the Merger	**298,223**	-	**25,367**	-
Foreign exchange movements	**1,983**	2,282	**3,477**	(549)
At 31 December	**665,701**	395,683	**433,178**	439,346

	2018 £'000	2017 £'000
Deferred reinsurance commission		
At 1 January	**129,960**	126,917
Movement in provision	**(10,432)**	3,216
Impact of the Merger	**9,492**	-
Foreign exchange movements	**(1,035)**	(173)
At 31 December	**130,055**	129,960

(ii) Claims development tables

The Company has taken advantage of the exemption provided under FRS 103, paragraph 6.3, from preparing information about claims development that occurred earlier than five years before the end of the first financial year in which the FRS was first applied.

	2018 £'000	2017 £'000
Gross provision in respect of periods prior to 2011	**27,341**	-
Total gross provision included in the balance sheet	**27,341**	-
Net provision in respect of periods prior to 2011	**2,734**	-
Total net provision included in balance sheet	**2,734**	-

(iii) Claims outstanding

A reconciliation of the opening and closing provision for claims outstanding is set out below:

	Gross		**Reinsurers' share**	
	2018 £'000	**2017** £'000	**2018 £'000**	2017 £'000
Claims outstanding				
At 1 January	**-**	-	**-**	-
Movement in provision	**8,805**	-	**7,926**	-
Impact of the Combination	**18,361**	-	**16,525**	-
Foreign exchange movements	**175**	-	**156**	-
At 31 December	**27,341**	-	**24,607**	-

Notes to the financial statements for the year ended 31 December 2018 (continued)

23. Technical provisions (continued)

(iv) Discounted claims

Claims outstanding have been discounted at a rate of 1.99% (2017: nil) and the mean term of the liabilities is 11 years (2017: nil). These claims relate to a single class of business. The period that will elapse before claims are settled is determined by the contractual date. The claims provisions before discounting are as follows:

	2018	2017
	£'000	£'000
Claims outstanding before discounting	31,705	-
Reinsurer's share of claims outstanding before discounting	(28,534)	-
Claims outstanding before discounting net of reinsurance	**3,171**	-

(v) Unexpired risk provisions

A reconciliation of opening and closing unexpired risk provisions included in Other technical provisions is presented in the table below:

	Gross		Reinsurers' share	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Unexpired risk provision				
At 1 January	**16,241**	21,028	**15,996**	20,723
Movement in provision	**(7,146)**	(3,104)	**(4,373)**	(3,070)
Impact of the Merger	**7,017**	-	**1,539**	-
Foreign exchange movements	**173**	(1,683)	**(451)**	(1,657)
At 31 December	**16,285**	16,241	**12,711**	15,996

The future investment return assumed in calculating the unexpired risk provision is 1.99% (2017: 2.10%).

24. Deferred acquisition costs

A reconciliation of opening and closing deferred acquisition costs is presented in the table below:

	2018	2017
	£'000	£'000
At 1 January	**25,382**	27,445
Movement in provision	**(1,830)**	(2,063)
Impact of the Merger	**6,232**	-
At 31 December	**29,784**	25,382

25. Other income

	2018	2017
	£'000	£'000
Foreign exchange gain / (loss)	**495**	(12,963)

26. Other technical income

	2018	2017
	£'000	£'000
Other technical income	**1,595**	65,269

Other technical income for both 2018 and 2017 is primarily commutation payments received on the cancellation of reinsurance contracts with third party reinsurers.

Notes to the financial statements for the year ended 31 December 2018 (continued)

27. Capital contribution

During 2017 the Company received a capital contribution of £322.9 million, being AGM's contribution of three of its UK and EU subsidiaries (AGLN, AGUK and CIFGE) to the Company.

28. Ultimate and immediate parent company

The immediate parent undertaking of the Company is AGM, a stock insurance corporation organised under the laws of the State of New York, United States of America. The ultimate parent undertaking and controlling party of the Company is AGL, a Bermuda incorporated insurance holding company.

AGL is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2018. The consolidated financial statements of AGL can be obtained from 30 Woodbourne Avenue, Hamilton HM 08, Bermuda or on the ultimate parent's website www.assuredguaranty.com

AGM is the parent undertaking of the smallest group of undertakings to consolidate these financial statements. The consolidated financial statements of AGM can be obtained from 1633 Broadway, New York, NY 10019, United States of America or on the ultimate parent's website www.assuredguaranty.com