ASSURED GUARANTY (LONDON) PLC
(FORMERLY MBIA UK INSURANCE LIMITED)

2016
GROUP SOLVENCY AND
FINANCIAL CONDITION REPORT
ON BEHALF OF ITSELF AND
MBIA (UK) HOLDINGS INC.

ASSURED GUARANTY (LONDON) PLC
(FORMERLY MBIA UK INSURANCE LIMITED)

2016 SOLVENCY AND FINANCIAL CONDITION REPORT

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ASSURED GUARANTY (LONDON) PLC
(FORMERLY MBIA UK INSURANCE LIMITED)

2016 SOLVENCY AND FINANCIAL CONDITION REPORT

SUMMARY

Business Overview

MBIA UK Insurance Limited ("MBIA UK" or "the Company"), is a United Kingdom ("U.K.") domiciled insurance undertaking, and as of December 31, 2016, was an indirect, wholly-owned subsidiary of MBIA UK (Holdings) Limited ("UK Holdings"), a private limited company registered under the laws of England and Wales. As of December 31, 2016, UK Holdings was a wholly owned subsidiary of MBIA Insurance Corporation ("MBIA Corp."), a United States of America ("U.S.") domiciled insurance undertaking. The Company, together with UK Holdings, is referred to as the "MBIA Group."

On 10 January 2017, MBIA UK was sold by its direct parent, UK Holdings to Assured Guaranty Corp. ("AGC") and was renamed Assured Guaranty (London) Ltd. ("AGLN") on 11 January 2017. AGC is an indirect, wholly-owned subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda based holding company. AGL, together with its subsidiaries is referred to as the "Assured Guaranty Group." In preparation for the transfer of its insurance business, described further in *Section A.5 Any other information,* the Company was re-registered as a public limited company ("plc") on 1 June 2017 and was sold by AGC to Assured Guaranty Municipal Corp. ("AGM") on 26 June 2017.

This report is presented on an MBIA Group basis in accordance with waivers received from the Prudential Regulation Authority ("PRA") (see Regulatory Status below).

Principal line of business

The principal line of business of AGLN is the guarantee of both structured finance and public finance debt obligations in selected international markets. The Company gave up its permission to underwrite new policies of insurance on 1 November 2013. As the Company is now in run-off, the Company's principal business activity is portfolio risk management on behalf of its shareholder and policyholders in respect of the Company's existing portfolio of insured obligations.

Public finance obligations guaranteed by the Company include bonds or bank loans backed by publicly or privately owned public-purpose infrastructure projects and utilities as well as bonds issued by sub-sovereign and municipal entities. Structured finance obligations comprise residential mortgage-backed security ("RMBS") covered bonds.

The financial guarantees issued by the Company generally provide unconditional and irrevocable guarantees of the payment of the principal of, and interest on, insured obligations when due. The obligations under the financial guarantee policies are generally not subject to acceleration, unless the Company consents to the acceleration. In the event of a default, however, the Company may have the right, at its discretion, to accelerate insured obligations upon default or otherwise, thereby mitigating liquidity risk.

Regulatory status

UK Holdings is not regulated. The Company is authorised by the PRA and regulated by the Financial Conduct Authority ("FCA") and the PRA in the U.K. It was authorised to carry out insurance business in the U.K. and in the European Economic Area ("EEA") on a cross border services (commonly referred to as passporting) basis in accordance with Section 37 of the Financial Services and Markets Act 2000 ("FSMA") and Part III of Schedule 3 to the FSMA. The Company operated in France through a French branch in accordance with specific provisions of the European Commission ("EC") third non-life insurance directive (No. 92/49/EEC). The branch was closed on 1 April 2015.

The Company is in run-off and the regulated activity of "effecting contracts of insurance" has been removed from its permissions. In July 2013, after discussion with the Company, the PRA, in consultation with the FCA, issued a written notice requiring the Company to pre-clear certain actions with its regulators. These actions, among other things, include (a) issuing any new or amending any existing financial guarantee policy; (b) transferring any of the Company's assets to, or for the benefit of, any MBIA Inc. group company; (c) entering into any new or amending any existing agreement with any MBIA Inc. group company apart from in the ordinary course of business and (d) entering into or amending any existing contract of insurance or reinsurance with any MBIA Inc. group company.

The MBIA Group implemented the EU Solvency II Directive 2009/138/EC ("Directive") which became effective on 1 January 2016. The MBIA Group obtained approval from the PRA on 5 December 2015 to use a full internal model to calculate its Solvency Capital Requirement ("SCR") on both a solo basis and for the MBIA Group (the "Internal Model"). The Company also received waivers from the PRA related to (i) group supervision at the MBIA Inc. level, (ii) Solvency II solo and MBIA Group reporting and (iii) production of a single Own Risk and Solvency Assessment ("ORSA") and single Solvency and Financial Condition report for the MBIA Group. Since the acquisition of the Company by AGC (the "Acquisition"), the Company has sought and received regulatory approval to no longer use its Internal Model to calculate the SCR and, beginning in 2017, to instead calculate the SCR using the standard formula prescribed by European Insurance and Occupational Pensions Authority ("EIOPA") ("Standard Formula"). Details of these waivers and approvals are available on the PRA Register.

Insured portfolio exposure

The following table sets out a summary of the Company's gross, ceded and net par exposure.

Portfolio Summary
As of 31 December 2016

	Gross Par Outstanding ("GPO")	Ceded to: AGC (1)	Ceded to: Assured Guaranty Re Ltd. ("AG Re") (1)	Net Par Outstanding ("NPO")
		(in thousands)		
Public finance	£ 9,652,388	£ 109,250	£ 25,204	£ 9,517,934
Structured finance	91,079	2,043	892	88,144
Total	£ 9,743,467	£ 111,293	£ 26,096	£ 9,606,078
Investment grade ("IG")	£ 8,933,140	£ 103,601	£ 26,096	£ 8,803,443
Below-investment grade ("BIG")	£ 810,327	£ 7,692	£ —	£ 802,635

(1) As of 10 January, 2017 these reinsurers became affiliated companies within the Assured Guaranty Group.

The MBIA Group outsourced certain operational activities to affiliated companies in the U.K. and U.S. where outsourcing provided access to more efficient and cost-effective processes and technical expertise than could be achieved on a standalone basis. Following the Acquisition, the Company outsourced certain operational activities to certain of its new affiliates in the U.K. and U.S. See *Section B.7 Outsourcing*.

Credit Ratings

The standalone financial strength ratings of the Company as of 26 June 2017 were BB from S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P") and Baa2/Stable outlook from Moody's Investors Service Inc. ("Moody's"). In response to the Acquisition, on 12 January 2017, S&P improved the outlook on its BB rating from "Stable" to "Positive" and, on 13 January 2017, Moody's upgraded the Company to Baa2/Stable outlook from Ba2/Stable outlook. On 27 June 2017, Moody's upgraded the Company to Baa1, with the rating on review for further upgrade.

UK Holdings did not have external standalone financial strength ratings.

2016 Results

Summary Profit and Loss Account

	Year Ended 31 December, 2016 (in thousands)		Year Ended 31 December, 2015 (in thousands)	
Total technical income	£	20,336	£	15,756
Total technical charges		(19,587)		(7,810)
Balance on the technical account for general business		749		7,946
Non-technical account balances		19,048		(895)
Profit on ordinary activities before tax		19,797		7,051
Tax on profit on ordinary activities		(1,459)		(3,427)
Profit for the financial year	£	18,338	£	3,624

The results of the Company, as set out on the profit and loss account, show a profit for the financial year of £18.3 million (2015: profit of £3.6 million). The primary factors driving profits during the twelve months ending 31 December 2016 were £8.8 million of investment income (net of investment expense) and £10.3 million of foreign exchange ("FX") gains arising from the retranslation of the Company's non-sterling denominated investments.

Own Funds

The MBIA Group has Own Funds (capital under Solvency II) of £342.4 million in the form of Tier 1 capital (capital under Solvency II).

The MBIA Group's Own Funds increased by £86.5 million during 2016 as set out in the table below, predominantly from a significant change in the assumptions used to calculate the future operating expense provision due to decreased staffing and office expense projections after the Acquisition of the Company.

Solvency II Own Funds
For Year Ended 31 December 2016

	(in thousands)	
Own funds as of 1 January 2016	£	255,907
Solvency II surplus for the financial year		86,515
Own funds as of 31 December 2016	£	342,422

Solvency Capital Requirement

The SCR as of 31 December 2016 was £218.5 million, with a ratio of Own Funds to SCR as of 31 December 2016 of 1.57:1 compared to a ratio of 1.15:1 at the end of 2015.

There were no material changes to the methodology for calculating the MBIA Group's SCR during the reporting period except for the assumptions used for losses in the technical provisions.

The following table presents the MBIA Group's SCR amounts.

SCR

	As of 31 December,	
	2016	**2015**
	(in thousands, except ratios)	
SCR	£ 218,514	£ 222,639
Tier 1 Capital to SCR Ratio	1.57:1	1.15:1

The significant change in the assumptions used to calculate the future operating expense provision noted above was the primary reason for the increase in the SCR ratio.

Other Material Changes

There have been no material changes that have occurred in the insurer's system of governance or risk profile over the reporting period.

Solvency II. During the reporting period, the Company fully implemented the framework required by Solvency II, which came into force in two stages (1 January 2016 and full implementation on 7 March 2016). Pillar I includes prescribed methods for calculating valuation of assets and liabilities and risk-based capital requirements. Pillar II includes enhanced governance requirements in areas such as risk management, internal controls, internal audit and outsourcing. Pillar III requires increased transparency through increased public disclosure and private regulatory reporting. In addition, while there were no material changes in the system of governance during 2016, the Company implemented the framework required by the Regime. *See Section B.1 General Governance Information - Material changes in the system of governance over the reporting period.*

Potential Transfer of Insurance Business. As noted in *Section A.5 Any Other Information*, the Company is actively working to combine the Company's operations with those of its affiliates, Assured Guaranty (Europe) plc ("AGE"), Assured Guaranty (UK) plc ("AGUK") and CIFG Europe S.A. ("CIFGE"). The combination is subject to regulatory and court approvals.

INDEPENDENT AUDITORS' REPORT

Report of the external independent auditors to the Directors of Assured Guaranty (London) Plc. (Formerly, MBIA UK Insurance Limited (‘the Company’) pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2016:

- The ‘Valuation for solvency purposes’ and ‘Capital Management’ sections of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 31 December 2016, (‘**the Narrative Disclosures subject to audit**’); and

- Group templates S.02.01.02, S.23.01.22 and S.32.01.22 (‘**the Group Templates subject to audit’**).

- Company templates S.02.01.02, S.17.01.02, S.23.01.01 and S.28.01.01 in respect of MBIA UK Insurance Limited (‘the group members’) (‘**the Company Templates subject to audit’**).
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The Narrative Disclosures subject to audit, the Group Templates subject to audit and the Company Templates subject to audit are collectively referred to as the ‘**relevant elements of the Single Group-Wide Solvency and Financial Condition Report’**.

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

- Information contained within the relevant elements of the Single Group-Wide Solvency and Financial Condition Report set out above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;

- The ‘Summary’, ‘Business and performance’, ‘System of governance’ and ‘Risk profile’ elements of the Single Group-Wide Solvency and Financial Condition Report;

- Group templates S.05.01.02, S.05.02.01 and S.25.03.22;

- Company templates S.05.01.02, S.05.02.01 and S.19.01.21 and S.25.03.21;

- The written acknowledgement by management of their responsibilities, including for the preparation of the Single Group-Wide Solvency and Financial Condition Report (‘**the Responsibility Statement**’);

To the extent the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report of the Company as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & I)), International Standard on Auditing (UK) 800 and International Standard on Auditing (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report* section of our report.

Emphasis of Matter - Basis of Accounting

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

Responsibilities of Directors for the Single Group-Wide Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Single Group-Wide Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations, which have been modified by the modifications, and supplemented by the approvals made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed below:

Modifications

- Permission to publish a Single Group-Wide Solvency and Financial Condition Report

Approvals

- Approval to use a full internal model

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

Auditors' Responsibilities for the Audit of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report

It is our responsibility to form an independent opinion, in accordance with applicable law, ISAs (UK & I) and ISAs (UK) 800 and 805 as to whether the information subject to audit in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based. ISAs (UK & I) require us to comply with the Auditing Practices Board's Ethical Standard for Auditors.

An audit involves obtaining evidence about the amounts and disclosures in the relevant elements of the Single Group-Wide Solvency and Financial Condition Report sufficient to give reasonable assurance that the relevant elements of the Single Group-Wide Solvency and Financial Condition Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the relevant elements of the Single Group-Wide Solvency and Financial Condition Report. In addition, we read all the financial and non-financial information in the Single Group-Wide Solvency and Financial Condition Report to identify material inconsistencies with the audited relevant elements of the Single Group-Wide Solvency and Financial Condition Report. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

Other Matters

The Company has authority to calculate its Group Solvency Capital Requirement using an internal model ('the Group Model') approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. The group members have authority to calculate their Solvency Capital Requirements using internal models ('the Solo Models') approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Group Model and the Solo Models, or whether the Group Model and the Solo Models are being applied in accordance with the Company's and the group members' application or approval order.

Report on Other Legal and Regulatory Requirements.

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are required to read the Other Information and consider whether it is materially inconsistent with the relevant elements of the Single Group-Wide Solvency and Financial Condition Report and our knowledge obtained in the audits of the Single Group-Wide Solvency and Financial Condition Report and of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

London

29th June 2017

- The maintenance and integrity of the MBIA UK (Holdings) Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Single Group-Wide Solvency and Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

A. BUSINESS AND PERFORMANCE

A.1 BUSINESS

a. Name and legal form

In 2016, both UK Holdings and MBIA UK were private limited companies registered in England and Wales (registration numbers 04808006 and 04401508, respectively).

On 10 January 2017, MBIA UK was sold by its direct parent, UK Holdings, to AGC. The Company was renamed Assured Guaranty (London) Ltd. on 11 January 2017. On 1 June 2017, the Company was re-registered as a public limited company.

As of 31 December 2016 the address of the registered office was:
6th Floor (North), 99 Bishopsgate
London
EC2M 3XD.

On 12 January 2017, following the Acquisition, the registered office address was changed to:
11th Floor, 6 Bevis Marks
London
EC3A 7BA

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

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

c. Name and contact details of the MBIA Group's external auditor

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

d. Holders of qualifying holdings in the MBIA Group

Throughout 2016 the Company was a wholly-owned subsidiary of UK Holdings. UK Holdings is a wholly-owned subsidiary of MBIA Corp, which in turn is a wholly-owned subsidiary of MBIA Inc., a publicly traded company on the New York Stock Exchange ("NYSE") regulated by the United States Securities and Exchange Commission ("U.S. SEC").

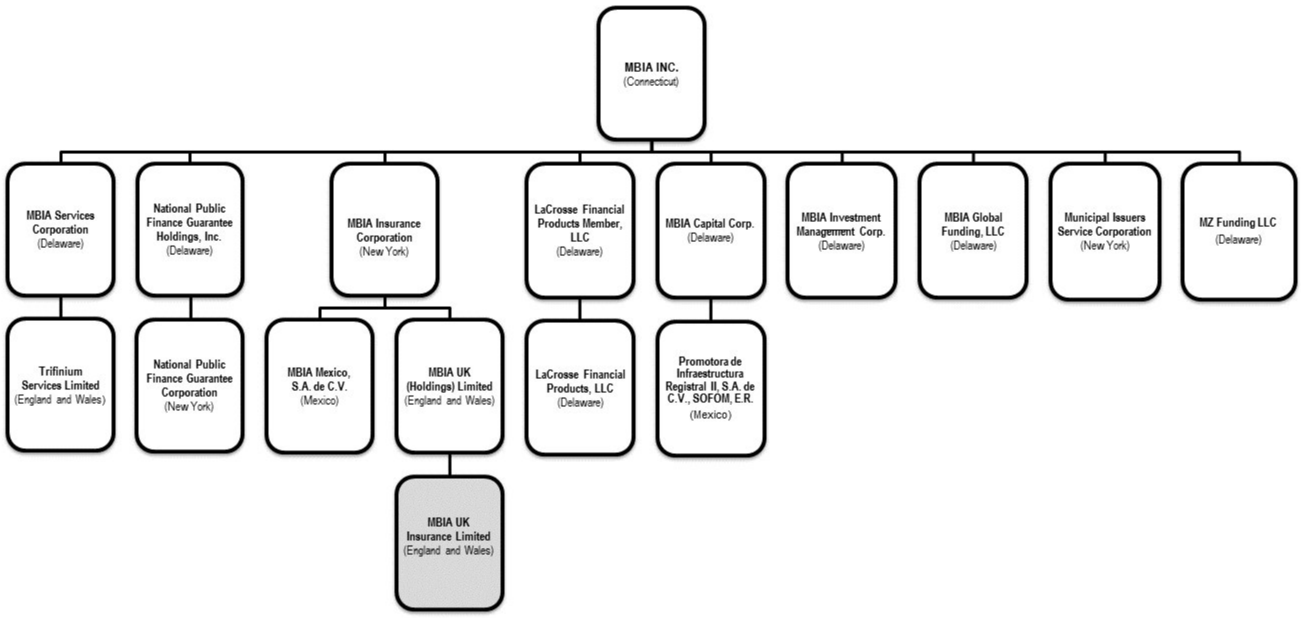
After the Acquisition, the immediate parent undertaking of the Company was AGC, an insurance company organised under the laws of the State of Maryland, United States of America ("USA"). On 26 June 2017, AGC sold the Company to AGM, which contributed the Company to its wholly-owned subsidiary, AGE. The ultimate parent undertaking and controlling party of the Company is AGL.

AGL is a Bermuda-based holding company, which was organised in 2003. AGL is publicly traded on the NYSE regulated by the U.S. SEC.

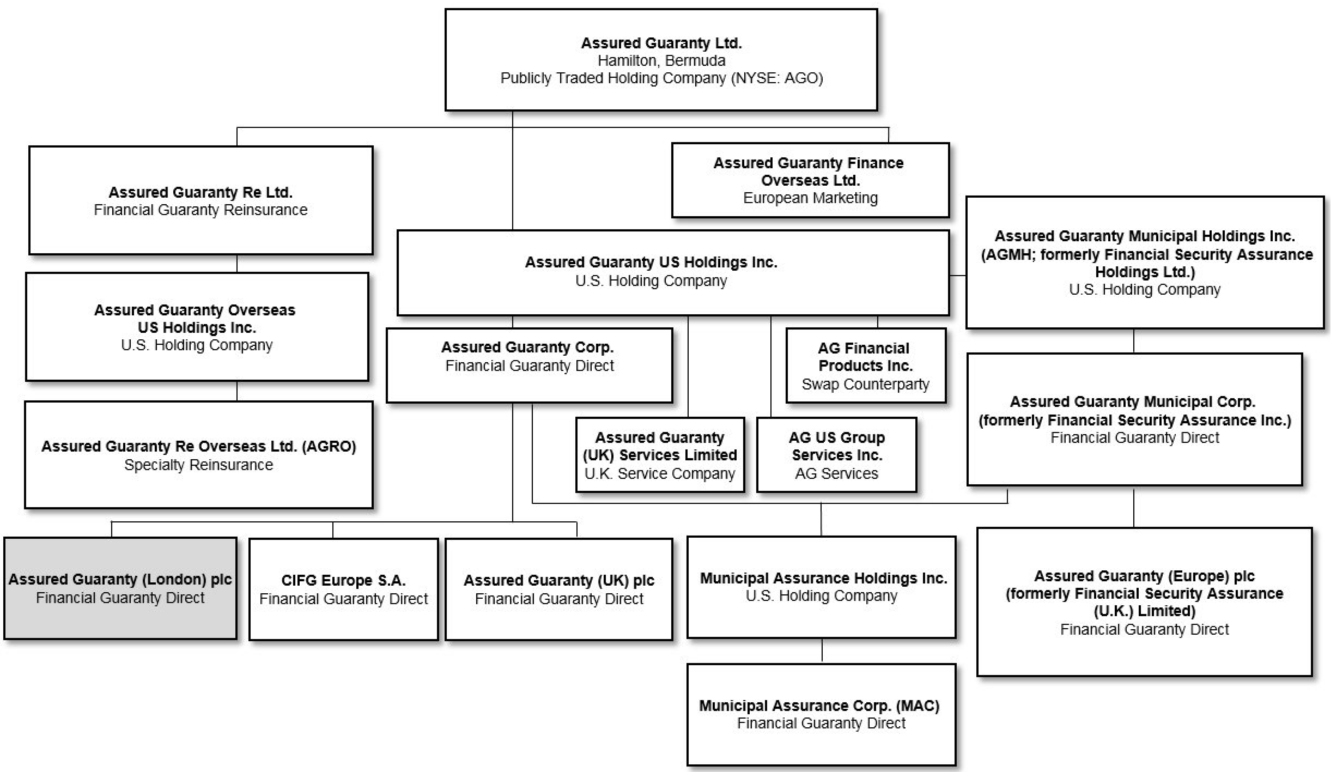
e. Details of the undertaking's position within the legal structure of the MBIA Group

The first chart below sets forth how MBIA UK and UK Holdings fit into the MBIA Inc. group as of 31 December 2016. The second and third charts below set forth the position of the Company within the Assured Guaranty Group as of 10 January and 26 June 2017, respectively

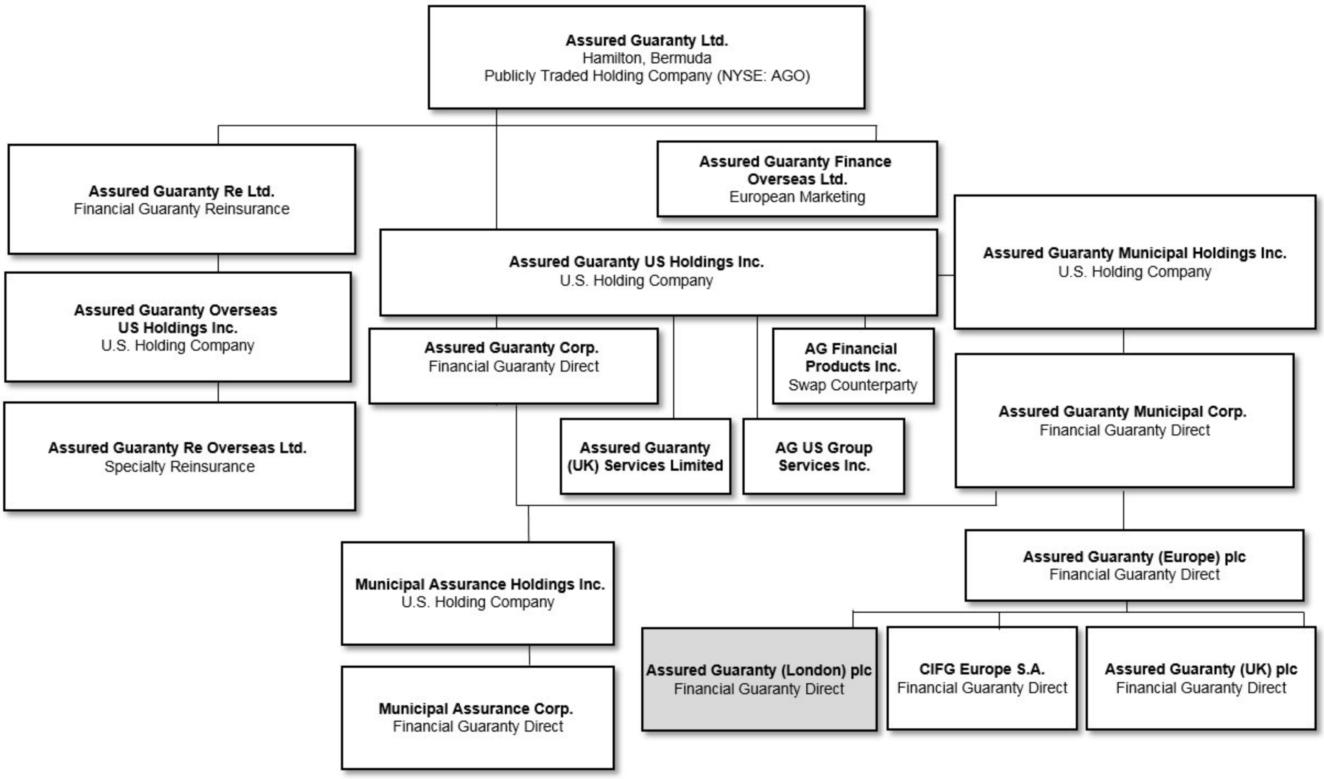
As of 31 December, 2016



Assured Guaranty Corporate Structure as of 10 January 2017



Assured Guaranty Corporate Structure as of 26 June 2017



Potential Transfer of Insurance Business. As noted in *Section A.5 Any Other Information*, the Company is actively working to combine the Company's operations with those of its affiliates, Assured Guaranty (Europe) plc (“AGE”), Assured Guaranty (UK) plc (“AGUK”) and CIFG Europe S.A. (“CIFGE”). The combination is subject to regulatory and court approvals.

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

The principal line of business of the Company is the guarantee of both public finance and structured finance debt obligations in selected international markets. The Company gave up its permission to underwrite new policies of insurance on 1 November 2013. As the Company is now in run-off, the Company’s principal business activity is portfolio risk management on behalf of its shareholder and policyholders in respect of the Company’s existing portfolio of insured obligations.

Exposure by Geographical Area
As of 31 December 2016

Country	GPO (in thousands)
Public finance:	
United Kingdom	£ 8,179,588
France	997,973
Malaysia	283,252
Ireland	149,942
Canada	41,633
Total public finance	9,652,388
Structured finance:	
Hungary	91,079
Total structured finance	91,079
Total	£ 9,743,467

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

Brexit. On 23 June 2016, in a referendum held in the U.K., a majority voted to exit the European Union ("EU"), known as "Brexit". Please refer to *Section C.6 Other Material Risks* for additional details on the impact of Brexit on the Company.

A.2 UNDERWRITING PERFORMANCE

Underwriting Gain / Loss

Underwriting gain/loss recognised in the profit and loss account of the Company represents earnings on the entire insured book of business. Premium earnings are recognised over the lives of the insured transactions (which are generally long duration) and losses may emerge and develop over the course of many years.

Components of the Technical Account for General Business
Recognised in the Financial Statements

	Year Ended 31 December, 2016	Year Ended 31 December, 2015
	(in thousands)	
Earned premiums, net of reinsurance	£ 17,523	£ 15,305
Other technical income	2,813	451
Total technical income	20,336	15,756
Net claims incurred	(1,251)	(249)
Net changes in other technical provisions	(9,038)	1,315
Net operating expenses	(9,298)	(8,876)
Total technical charges	(19,587)	(7,810)
Balance on the technical account for general business	£ 749	£ 7,946

Net earned premiums were £17.5 million for fiscal year 2016 ("FY 2016"). Net earned premiums increased in FY 2016 due to an overall reduction in risk-free-rates used to discount future premiums. Additionally, the Company cancelled its excess of loss agreement with MBIA Corp. in 2015 which reduced the ceded premium expense during the year.

Net changes in other technical provisions were £9.0 million for FY 2016. The unexpired risk provisions included in the United Kingdom Generally Accepted Accounting Principals ("U.K. GAAP") financial statements as at 31 December 2016 were calculated using the Assured Guaranty assumptions. Unexpired risk provisions were established for three policies at year-end 2016 under the Assured Guaranty assumptions. The unexpired risk provisions were the only financial statement line item for which the Assured Guaranty assumptions were applied before the Acquisition. All accounting policies were conformed to Assured Guaranty policies as at the Acquisition date.

The following table presents components of net operating expenses.

Net Operating Expenses

	Year Ended 31 December, 2016	Year Ended 31 December, 2015
	(in thousands)	
Administration expenses	£ 9,269	£ 9,432
Other technical expense	29	(556)
Total	£ 9,298	£ 8,876

Net operating expenses were £9.3 million for FY 2016 and consisted primarily of service charges from MBIA UK affiliate companies for support services.

A.3 INVESTMENT PERFORMANCE

The investment portfolio mainly comprises high-quality fixed maturity securities and selected short-term investments. As of 31 December 2016, the Company had unencumbered cash and investments (including accrued interest) of £439.2 million (2015: £403.2 million), all securities for both 2016 and 2015 were carried at fair value. Cash and cash equivalents and short-term investments i.e. those investments maturing within 12 months, equalled £147 million (2015: £105 million).

Investment income from the Company's fixed maturity and short term investment portfolio increased to £9.5 million during the year due to increases in the market value of the investment portfolio throughout the year. Investment expenses were £0.7 million (2015: £0.6 million).

Fixed Maturity Securities
by Asset Class

	As of 31 December 2016		As of 31 December 2015	
Asset Class	**Estimated Fair Value**	**Weighted Average Credit Rating**	**Estimated Fair Value**	**Weighted Average Credit Rating**
	(in thousands)			
Corporate bonds	£ 146,889	AA-	£ 136,397	AA-
Government bonds	209,251	AA+	204,685	AAA
Collateralised bonds	20,806	AAA	18,852	AAA
Total	£ 376,946	AA	£ 359,934	AA+

Distribution of Fixed Maturity Securities
by Contractual Maturity
As of 31 December 2016

	Estimated Fair Value
	(in thousands)
Due within one year	£ 87,933
Year two	69,749
Year three	80,420
Year four	40,139
Year five	50,147
Due after five years through 10 years	36,387
Due after 10 years	12,171
Total	£ 376,946

a. Income and Expenses

Investment Return

	Year Ended 31 December, 2016		Year Ended 31 December, 2015	
	(in thousands)			
Investment income:				
Fixed maturity:				
Corporate bonds	£	3,680	£	3,059
Collateralised bonds		300		260
Government bonds		5,428		5,331
Investment income		9,408		8,650
Net realised gain / (loss) on investments		(1,611)		213
Net unrealised gain / (loss) on investments		1,677		(7,435)
Investment expenses and charges		(684)		(635)
Total investment return	£	8,790	£	793

b. Gains and Losses Recognised in Equity

During the reporting period, the Company did not recognize any gains or losses in equity.

c. Investments in Securitisations

There were no investments in securitisations.

A.4 PERFORMANCE OF OTHER ACTIVITIES

The Company recorded other income totalling £10.3 million during the reporting period versus other charges totalling £1.7 million during 2015. The gains in 2016 resulted from movements in exchange rates on the Company's euro and U.S. dollars ("USD") denominated assets.

A.5 ANY OTHER INFORMATION

The Company is actively working to combine its operations with those of its affiliates, AGE, AGUK and CIFGE through a multi-step transaction, which ultimately is expected to result in the Company transferring its insurance portfolio to and merging with and into AGE pursuant to EC Regulation 2157/2001 (the "SE Regulation"). In order to use the SE Regulation and a simplified merger process, the Company, and its affiliates AGE and AGUK, were re-registered as plc's on 1 June 2017. Further, the Company, AGUK and CIFGE were sold by AGC to AGM and then contributed by AGM to AGE on 26 June 2017. While the Company and its affiliates have received certain regulatory approvals, the combination is subject to further regulatory and court approvals. As a result, the Company cannot predict whether, or when, such combination will be completed.

B. SYSTEM OF GOVERNANCE

B.1 GENERAL GOVERNANCE INFORMATION

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

Throughout 2016, UK Holdings owned 100% of MBIA UK. During its period of ownership, UK Holdings engaged in no other activity other than that of a holding company, had minimal assets (other than ownership of the Company) and virtually no liabilities. At the beginning of the reporting period, UK Holdings had five directors all of whom were also on the Board of Directors (the "Board") of the Company. Three (reduced to two in March 2016) were senior executives of MBIA Inc. and the other two were the co-Chief Executive Officers ("CEO") of the Company. The co-CEOs resigned as board directors of UK Holdings in September 2016. Apart from one non-executive director, the remaining members of the Company's board resigned in January 2017 following the Acquisition. Immediately following the Acquisition, the Company appointed seven additional members to its Board, two additional non-executive directors and five executive directors, each of whom is a member of the Board of Directors of the Company's affiliates, AGE and AGUK. Thus, since the Acquisition, the Company's Board is comprised of eight individuals: three non-executive directors, one of whom was a director of the Company prior to the Acquisition, and five executive directors, two of whom are senior executives of the Company and its U.K. affiliates, AGE and AGUK, and three of whom are senior executives of AGL, AGM, AGC and other companies in Assured Guaranty Group.

All aspects of the governance structure were implemented at the level of the regulated entity i.e. the Company. The Company's approach to corporate governance in 2016 was based upon the five guiding principles set out below:

1. Risk had to be appropriately identified, measured, monitored, managed and reported;
2. There had to be transparent disclosure of the facts and rationale for decision making;
3. An effective decision making structure utilized checks and balances to ensure that decisions achieve appropriate scrutiny;
4. The Board, executive management and operational personnel all played key roles:
    - The Board provided oversight. Material changes to the Company's core principles, risk governance framework or risk strategy required Board approval.
    - Executive management was responsible for the implementation and management of an enterprise-wide risk framework that set forth the Company's core principles, risk governance framework and risk strategy and made key, centralized decisions.
    - Operational personnel were responsible for the execution of the risk strategy, which was generally done in the decentralized committees; and
5. The Company maintained clear, concise records of its decisions.

Following the Acquisition, the Company implemented the same governance framework that is in place at its affiliates AGE and AGUK as summarised below in this section under *b. Material changes in the system of governance over the reporting period.*

Board of Directors

The Board of the Company is the primary governing and decision making body for the Company. The Board has overall responsibility for the management of the business and affairs of the Company and for the establishment of the Company's strategic direction and key financial objectives. The Board oversees the Company's operations; ensuring competent and prudent management, sound planning, proper procedures for the maintenance of adequate accounting and other records and systems of internal control, and for compliance with statutory and regulatory obligations.

In addition to the above, in 2016, the principal activities of the Board were as follows:

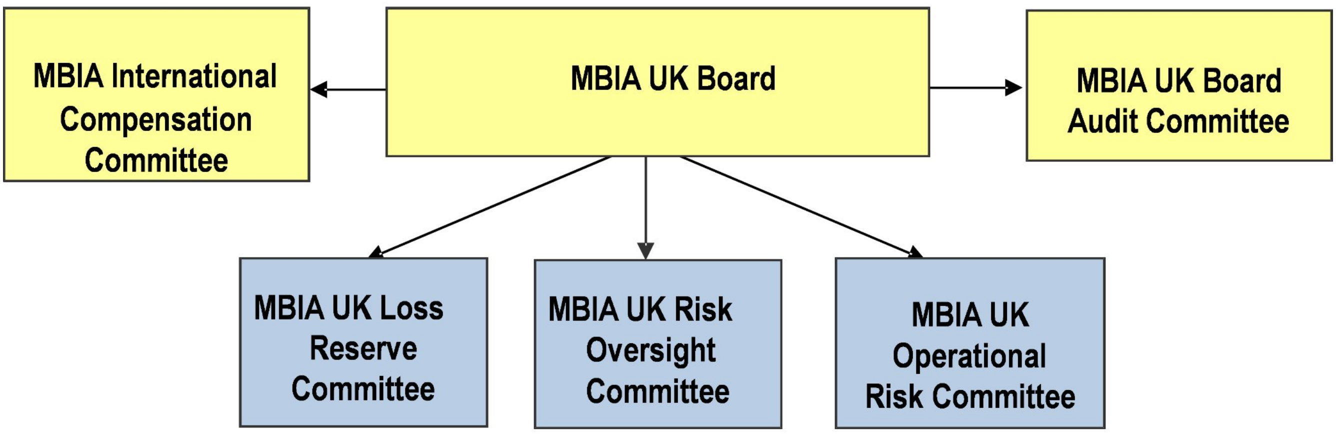
- Overseeing the affairs of the Company in such a way as it considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole and complying with other codified duties prescribed by the Companies Act 2006.
- Establishing procedures for complying with ethical, legal and regulatory requirements.
- Establishing a sustainable business model and setting a strategy consistent with that model and the agreed risk appetite of the Company.
- Setting and maintaining a culture of risk awareness and ethical behavior for the Company to follow in conducting its business activities and which supported the prudent management of the Company.
- Setting the risk appetite of the Company and overseeing the risk management framework which was set out and preserved within the MBIA Group's ORSA. Monitoring, implementation and compliance with policies, strategic,

business and other plans and budgets approved by the Board through reporting by management and appropriate committees of the Board.
- On an annual basis, to review and approve a business plan for the Company, which sets forth the Company's strategy.

The Board was required to have at least two independent non-executive directors and was comprised of two independent non-executive directors and five executive directors, reducing to four in March 2016 with the resignation of one of the executive directors. The Board was required to meet at least four times a year and otherwise as was necessary to deal with urgent matters. During 2016, it met on six occasions for scheduled and special board meetings.

In line with the system of governance requirements of the Directive, the Board established the committees and functions shown in the diagram below to oversee and carry out standards, controls, limits, risk management, audit, finance, capital and other policies and procedures. Each of the committees and functions operated under committee charters, which were reviewed and updated at least annually. The Company was in run-off and not writing new business, hence, risk management and governance related to underwriting was not relevant. The diagram below shows the governance structure of the Company before its Acquisition.

MBIA UK Governance Structure



The roles of each committee can be summarized as follows:

- **The Audit Committee** assisted the Board in the oversight of (i) the financial statements and regulatory reports issued by the Company, (ii) the Company's compliance with the legal and regulatory requirements applicable to financial reporting and (iii) the qualifications of and performance by both the internal and external auditors. In the course of performing its functions, the Audit Committee made regular reports to the Board.

- **The Compensation Committee** was responsible for reviewing executive management compensation, succession planning and performance; for establishing policies for the management of staff compensation; and making recommendations to the full Board in relation to such matters.

- **The Risk Oversight Committee** ("ROC") was responsible for enterprise wide risk management, the Internal Model, including the associated capital models, and other quantitative tools including the cash flow model, which was a long-term financial forecasting and planning tool. This included:

  - Application of the Company's Core Principles;
  - Recommending to the Board:
    - business and risk strategy, including the annual business plan of the Company (the "Annual Business Plan");
    - risk tolerance;
    - risk governance framework, and
    - Accounting and Disclosure Materials (including the annual financial statements, as defined in the ROC Charter);
  - Monitoring compliance with the risk strategy, risk appetite and tolerance and risk governance framework, including the execution of the capital management strategy and the investment portfolio risk strategy;
  - Managing, monitoring and mitigating the risk profile of the Company;
  - Reviewing for approval or rejection new transactions and increases to or restructurings of existing transactions that are beyond the scope of the insured portfolio management ("IPM") (as more fully described below), which included approving inward reinsurance and deciding upon the amount of outward risk syndication (including reinsurance) for approved transactions;

- Ensuring the Board was appropriately informed of the Company's risk, financial and business profile, including the regular Quarterly Meeting Materials and such other ad hoc reporting as appropriate;
- Reviewing the Company's Accounting Policy and Disclosure practices and Accounting and Disclosure Materials prior to submission to the Board;
- Monitoring ongoing developments in risk management, e.g., regulatory developments and market best practices, and ensuring that the Company developed plans and implemented actions to address such developments; and
- Oversight of capital models and reviewing for approval changes to the Internal Model.

- **The Loss Reserve Committee ("LRC")** reviewed classified and caution list credits within the Company's insured portfolio to determine the establishment and modification of any case reserve (including loss adjustment expenses) in accordance with the Company's Loss Reserve Policy. The LRC also reviewed the Company's reserving methodology and any changes thereto (except where such changes resulted from changes in accounting practices, or other regulatory or legal requirements, which were approved by the ROC).

- **The Operational Risk Committee ("ORC")** was responsible for ensuring that the operational risk was managed in accordance with the Company's policy and procedure manual and ORC charter. Its responsibilities included working with the operational risk owners (i.e. those responsible for the identification and measurement of individual operational risks) and others in the MBIA Group to identify, record and mitigate operational risk events, the annual review (or more frequently, if needed) of the operational risk and the supervision of the preparation of operational risk reports which were sent to the ROC and Board.

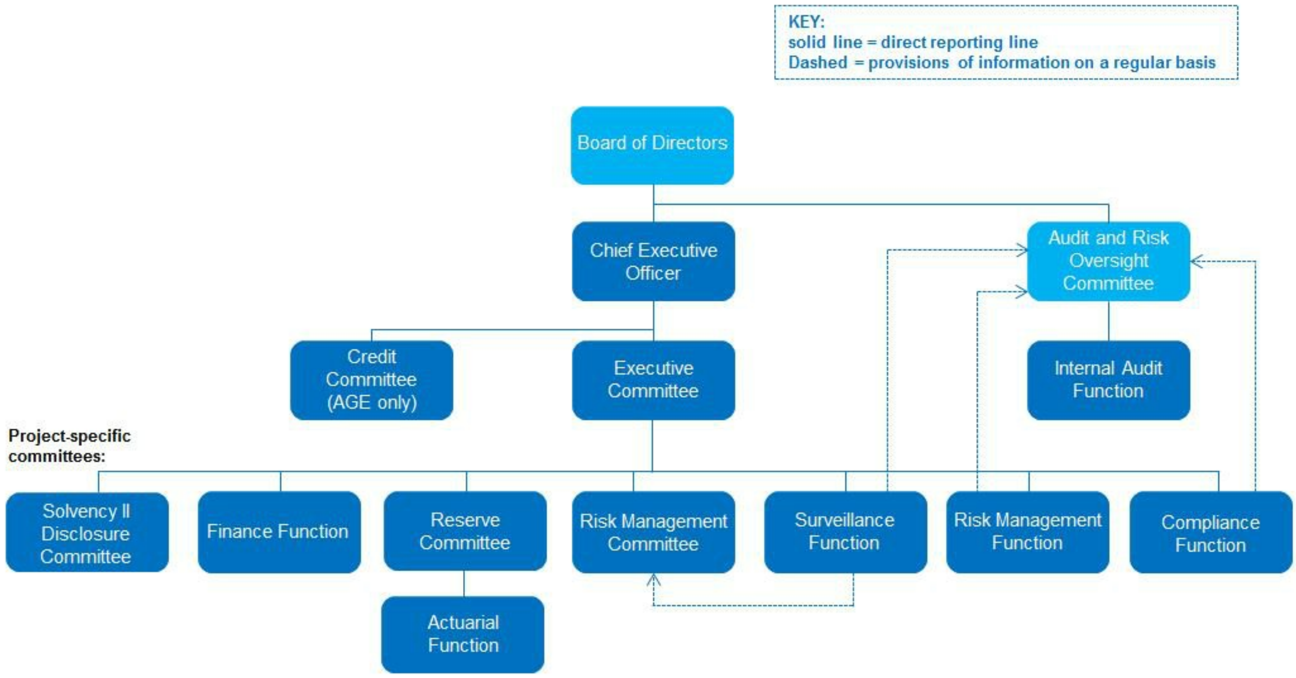
Underwriting standards

Prior to the decision to go into run-off, the creditworthiness of each guaranteed issue was evaluated before the issuance of a financial guarantee, and each guaranteed issue had to comply with the Company's underwriting policies and credit standards.

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

While there were no material changes in the system of governance over the reporting period, the Company implemented the framework required by the PRA's Senior Insurance Managers' Regime ("the Regime"), which came into force in two stages (1 January 2016 and full implementation on 7 March 2016). In doing so, the Company identified to the PRA the individuals who held Senior Insurance Manager Functions ("SIMFs") and Key Functions under the Regime. All of those individuals were either grandfathered to their roles or were approved by the PRA in 2016 to hold those roles under the Regime.

Following the Acquisition, the Company appointed the members of the Board as discussed in *Section B.1 General Governance Information, Structure of the undertaking's administrative, management or supervisory body, main roles and responsibilities, segregation of responsibilities, committees, description of the main roles and responsibilities of key functions*, adopted the same committee and function structure as its affiliate, AGUK, and appointed the same Senior Insurance Managers. The Company's post-Acquisition framework was designed to meet the requirements of the Directive and of the PRA and is shown in the diagram below. The Committee and functions oversee and carry out standards, controls, limits, underwriting guidelines, risk management, audit, finance, capital and other policies and procedures approved by the Board. Each of the committees and functions operates under Terms of Reference, which are updated, and reviewed and approved by the Board, at least annually. The diagram below shows the governance structure of the Company following the Acquisition.



c. **Remuneration policy and practices**

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

In 2016, the International Division Compensation Committee was responsible for the remuneration policy that applied to staff who worked for the MBIA Group. The International Division Compensation Committee reviewed annually the performance and commensurate compensation of executive management.

The employee compensation program was based on pay for performance, with individual and corporate performance rewarded on both a short-term and long-term basis with appropriate emphasis on effective risk management. This way, the Company ensured that its compensation program was aligned with stakeholders' interests.

This alignment of interest was achieved through a combination of the following:

- The Total Compensation Policy was developed in conjunction with MBIA Inc.'s Human Resources ("HR") department. The goals of the compensation program were:
    - to attract, retain and motivate a highly skilled team of employees whose performance would build long-term shareholder value on a cost effective basis,
    - to align executives' interests with shareholders, and
    - to avoid any incentives to take any unreasonable risks and to ensure that we retain those employees with the necessary skills, experience and knowledge to deal with the business needs of the MBIA Group.
- Developing a "balanced" scorecard as part of the Annual Business Plan. This scorecard included measureable objectives related to:
    - Financial performance including investment portfolio and operational loss mitigation,
    - Capital management including target capital cushion ratios,
    - HR/staffing management,
    - Portfolio management including exposure management and insured loss mitigation,
    - New initiatives or restructurings.
- The scorecard was reviewed in conjunction with the overall Annual Plan by the ROC and Board and was also reviewed for consistency with the overall MBIA Group corporate objectives. Actual performance against the scorecard was tracked and reported to the ROC and Board on a quarterly basis.

- Alignment of business planning with employee performance management: The Annual plan and scorecard were shared with all employees. At the beginning of the year, each employee and his/her manager developed his/her goals and objectives for the year particular to their area of responsibility by reference to these corporate goals. These were intended to be specific and measurable and were likely to include training. Progress against goals and objectives were reviewed twice: at mid-year, and year end.

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

MBIA Inc. (and therefore the Company) had a total compensation structure maintained by the HR department that included base salary and one or both of the following elements as determined by an employee's job level: annual cash performance bonus and a long-term incentive ("LTI") award. Employee compensation was defined and managed under an individualised approach (i.e., total compensation was established on an individual basis). Total compensation was reviewed annually on an individual level and adjusted as appropriate based on company, external and individual considerations.

The following is a description of the three elements of the total compensation structure:

Base Salary - Salary levels for all employees were generally based on the job content of each position and on competitive salaries for comparable positions.

Annual Cash Performance Bonus - The annual cash performance bonus component of total compensation was designed to compensate employees for the MBIA Inc. group's overall performance relative to the financial and other objectives established for the year and their own individual performance in the year. An individual bonus opportunity, prior to any company and individual performance adjustments, was defined as a target bonus. Bonuses were generally not guaranteed and a guaranteed bonus would not have been awarded unless it was exceptional.

LTI Award - As employees assumed greater responsibility, their compensation included more long-term incentives that encouraged performance that built long-term value for the MBIA Inc. group and its shareholders. Payment of each of these long-term awards was generally conditioned upon the employee's continuous employment with the relevant MBIA entity through the end of the vesting period subject to accelerated vesting upon the occurrence of certain events. LTI awards were granted under the MBIA Inc. 2005 Omnibus Incentive Plan ("Omnibus Plan"), which was a shareholder approved long-term compensation plan and applied throughout the MBIA Inc. group. Any type of long-term incentive award that included stock options, restricted shares, restricted stock units, performance shares, performance units and other types of awards could be granted under the Omnibus plan.

Clawback Policy

In February 2013, MBIA Inc. adopted a Clawback Policy in order to further continue and promote ethical behavior and accountability with respect to the accuracy of financial reporting. Under the Clawback Policy, the MBIA Inc. Compensation Committee had the discretion to claw back certain incentive compensation from Covered Executives (as defined by the policy) in the event of a restatement of MBIA Inc.'s U.S. GAAP financial statements (a "Restatement"). The Clawback Policy applied to any Named Executive Officer (as disclosed in the MBIA Inc. Annual Proxy Statement) and all other executives with the title of Managing Director or above ("Covered Executives") who had the title of Managing Director or above at the time of any Restatement or at any time during the three-year period preceding the Restatement, whether or not employed at the time of the Restatement.

Under the Clawback Policy, the Compensation Committee, in its sole discretion, could require that any Covered Executive repaid or forfeited in part or in full any bonus paid and other long-term incentives granted to such Covered Executive, whether in the form of cash or in the form of an equity award, on or after 1 January 2010 if (i) MBIA Inc. issued a Restatement and (ii) the Compensation Committee determined that the amount of compensation paid to any such Covered Executive would have been lower under the restated financial statements. The amount of incentive compensation to be repaid or forfeited by any Covered Executive would be determined by the Compensation Committee, in its sole discretion, to reflect the difference between the amount of cash or equity grant (whether then held or not by the Covered Executive) that was paid or granted to the Covered Executive and the amount of cash or equity grants that would have been paid or granted to such executive under the restated financial statements. The Compensation Committee could consider all factors it deemed relevant in determining any compensation amounts to be repaid or forfeited. MBIA Inc. reviewed and, if necessary, revised the existing policy to comply with any final regulations adopted under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 relating to clawbacks of executive compensation. In addition, MBIA Inc. reviewed the policy from time to time with the Compensation Committee and recommended changes to reflect best practices or other factors that MBIA Inc. or the Compensation Committee deemed appropriate. The policy covered all compensation paid or awarded after 1 January 2010.

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

The MBIA Group had arrangements with two affiliate entities, Trifinium Services Limited ("Trifinium Services") and MBIA Services Corporation ("MBIA Services") whereby salaries, benefits and certain operating expenses were incurred by those entities in respect of staff who are involved in the MBIA Group's business. In consideration for this service, service fees were levied on the MBIA Group which could include a mark up. It was not feasible to ascertain separately the element of the service fees that related to staff costs.

Apart from the two non-executive directors of the Company, the directors did not receive any emoluments directly attributable to their services to UK Holdings or the Company during 2016.

During 2016, the five executive directors of UK Holdings and the Company participated in long term incentive plans in the MBIA Group. No retirement benefits were accruing to directors during the year as neither UK Holdings nor the Company operated a pension scheme.

Following the Acquisition, the individuals providing management and other services to the Company are compensated according to the remuneration philosophy of the Assured Guaranty Group. The Company does not directly employ any personnel. Instead, the Company contracts with an affiliate, the U.K. Service Company, to provide personnel to manage the Company's affairs. Those executive members of the Board, holders of Controlled Functions ("CFs"), SIMFs and key functions and persons performing key functions, who are not employees of the U.K. Service Company, also are compensated in accordance with AGL's remuneration philosophy. The non-executive directors of the Board receive an annual fee.

Remuneration consists of three principal elements: base salary, cash incentive remuneration and long-term incentive compensation. The Company's remuneration policy is structured with upside potential for superior achievements, but also the possibility of reduced remuneration if individuals are unable to successfully execute group strategies or meet their business or regulatory obligations. The remuneration policy includes a recoupment (claw back) policy pursuant to which certain of the remuneration of the CEO of AGL (a SIMF 7) and those individuals who report directly to him, including the CEO of the Company and certain other individuals who hold SIMFs and key functions, may be rescinded or recouped if such person engages in misconduct related to a restatement of AGL's financial results or of objectively quantifiable performance goals, and the achievement of those goals is later determined to have been overstated. The Company reserves the right to change or terminate any or all of the elements of its remuneration policy.

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

Other than in the ordinary course of business, UK Holdings and the Company did not identify any material transactions during the reporting period with:

- the shareholders of MBIA Inc., which is a publicly listed company;
- persons who exercise significant influence; or
- members of the administrative, management or supervisory bodies.

Related party relationships and transactions were appropriately accounted for and disclosed in accordance with the requirements of the Companies Act 2006.

Following the Acquisition, the Company entered into outsourcing agreements with certain affiliated companies as described further in *Section B.7 Outsourcing.*

B.2 FIT AND PROPER REQUIREMENTS

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

The Company adopted a fit and proper policy, which applied to all SIMFs and Key Function Holders ("KFH"). In accordance with this policy the most important considerations for SIMFs or other Key Function Holders were:

- honesty, integrity and reputation,
- competence and capability; and
- financial soundness.

Following the Acquisition, the Company adopted the policies and procedures of its affiliates, AGE and AGUK, with respect to the fitness and propriety of all persons who effectively run the Company or have other key functions. As was the case prior to the Acquisition, the Company ensures that all such persons possess the characteristics listed above. In addition, the Company ensures that all such persons have the relevant qualifications and experience and an understanding of the financial guarantee industry, and therefore are able to provide competent and prudent management through their professional qualifications, knowledge, experience and integrity.

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

Before hiring a new employee, MBIA's HR procedures required a review to be undertaken to ensure an employee was fit and proper. Upon commencement of employment and on an annual basis each employee of MBIA Inc. and its subsidiaries were required to participate in an on-line training module to ensure that they fully understood the Standard of Conduct and attested that they agreed to comply with it. Employee performance was reviewed and discussed with employees twice a year. All employees were the subject of an annual Management Organization Review which identified strengths and developmental needs.

The Board was assessed annually on its effectiveness. The Board Effectiveness Assessment included a review of the Directors' skills, experience and responsibilities. SIMFs, Key Function Holders and other people performing a key function were required to sign an Annual Declaration of Fitness and Propriety.

Following the Acquisition, the Company adopted the policies and procedures of its affiliates, AGE and AGUK, with respect to the assessment of the fitness and propriety of all persons who effectively run the Company, or who otherwise take on controlled functions or who perform key functions. The Company vets each non-executive who is identified as a candidate to become a member of the Board and executives or other personnel who take on CFs, SIMF or key functions. The Company requires satisfactory background checks for both non-executive directors and for personnel who take on a SIMF, KFH or CF. All members of the Board, persons holding CFs, SIMFs or key functions and persons performing key functions, are required to complete a fitness and propriety questionnaire each year. Further, the Board completes an annual board effectiveness evaluation and periodically will commission an external board effectiveness review.

B.3 RISK MANAGEMENT SYSTEM

Enterprise Risk Management

Risk Management Policies and Procedures

During 2016, the process of governance and risk management was addressed through a framework of policies, procedures and internal controls. In general, risk management policies were developed by the Company, taking into account policies of MBIA Inc. (parent company of MBIA Corp.) and local needs. Compliance with regulation, legal and ethical standards was a high priority for the Company and the legal and compliance team and finance department (the "Finance Department") took an important oversight role in this regard. The Audit Committee was responsible for satisfying itself that a proper internal control framework existed within the Company to manage financial risks and that adequate controls were in place and operated effectively.

During 2016, the Company developed a framework for identifying the risks to which the Company as a whole was exposed, together with the potential impact of such risks on business operations and economic and regulatory capital. This framework used the Solvency II regime to manage the Company's capital requirements and to best ensure that it had the financial strength and capital adequacy to meet obligations to policyholders and other financial obligations.

During 2016, the Company identified those risks which it considered to have the greatest potential to lead to a material negative impact on its business. These principal risks included fluctuations in the timing, frequency and severity of financial guarantee claims compared with the Company's expectations, losses from the investment portfolio, failure to assess and manage operational risk (including inadequate controls and procedures over outsourced functions) and reliance on other group companies in terms of systems and support including failure to retain key personnel by affiliate companies, Trifinium Services and MBIA Services, which provided services to the MBIA Group.

Risk Management Function

During 2016, the primary purpose of the risk management function ("RM function") was to protect the Company from economic losses that would impact its SCR and operational risk events that could damage its reputation and relationships with key stakeholders. Although the Board had ultimate responsibility for oversight of risk management, it delegated to the ROC the oversight of enterprise-wide risk management, while the RM function was responsible for the implementation and management of the risk governance framework.

Responsibilities of the RM function included ensuring that:

- policies such as the risk management policy were put in place which identified, measured, monitored, managed and reported risks;
- the set of three capital models developed by MBIA UK (the "Capital Models") that comprise the Internal Model were integrated into the risk governance framework;
- quantifiable risks were captured in the Internal Model. See *Section E.2 SCR and MCR* for information about the Internal Model;
- the results of the Capital Models, capital requirements and capital adequacy were reviewed and monitored, and
- emerging and potential risks were reviewed on an ongoing basis.

The RM function also played a role in the design and implementation, testing and validation, maintenance, and ongoing evaluation and updating of the MBIA Group's Capital Models. It was the RM function's responsibility to ensure that the results of the Capital Models were properly reflected in the calculation of the Internal Model and that this was properly reported to the ROC and Board.

The Internal Model includes:

- the calibration of the Capital Models and the methods by which the outputs of these Capital Models were combined;
- the technical specifications of the Capital Models, including the process for deriving assumptions and updating inputs, and
- the process by which raw external data was brought into the Internal Model.

Testing of the Internal Model was largely done through the annual validation exercise and stress and scenario testing and reverse stress testing (which both formed part of the ORSA process). This was supplemented by the annual update of operational risk maps and the quarterly review of the validation performance indicators and data quality. Results of the annual validation exercise and the quarterly review of the validation performance indicators and data quality were reported to the ROC and Board.

Insured Portfolio Risk

This is the risk associated with the issuance of financial guarantees. Responsibility rested with the ROC, the Risk Management unit and the IPM.

Prior to the Company being placed in run-off, the ROC reviewed all new transactions for approval or disapproval and the terms and conditions associated with any such approval. Additionally, the ROC's approval was required for any changes to reinsurance of existing transactions, and significant remediations of and material amendments to existing transactions. The ROC was also responsible for reviewing the insured portfolio report prior to submission to the Board.

The RM function was concerned principally with the management of the credit approval process for new financial guarantee transactions, which was not relevant during the reporting period.

IPM had primary responsibility for the identification, measurement, monitoring, management and reporting of risks associated with transactions in the insured portfolio of financial guarantees, including emerging or potential risks. Additionally, IPM reported portfolio information to the ROC and Board on a quarterly basis or more frequently, if appropriate.

Financial Risk

The primary responsibility lay with the ROC, the Finance Department and the LRC.

- The ROC was responsible for the management of the Company's capital resources, including capital and liquidity models. Additionally, it was responsible for reviewing and approving various financial reports, as defined in the ROC Charter, that were presented to the Board.
- The Finance Department was responsible for establishing adequate financial systems and controls including the accurate and timely recording of transactions in the ledger, the accurate and timely reporting of financial resources and solvency requirements and the reporting of variances in business performance against the plan.

- The LRC was responsible for establishing the Company's reserves. It did this by reviewing recommendations put forth by IPM and the Finance Department.

Operational Risk

The primary responsibility lay with the ORC and the ROC.

- The ORC was responsible for working with the operational risk owners and others in the MBIA Group and MBIA Inc. group to identify and mitigate operational risks. It was also responsible for the annual review of the operational risk maps and the preparation of operational risk reports that were distributed to the Board and copied to the ROC.

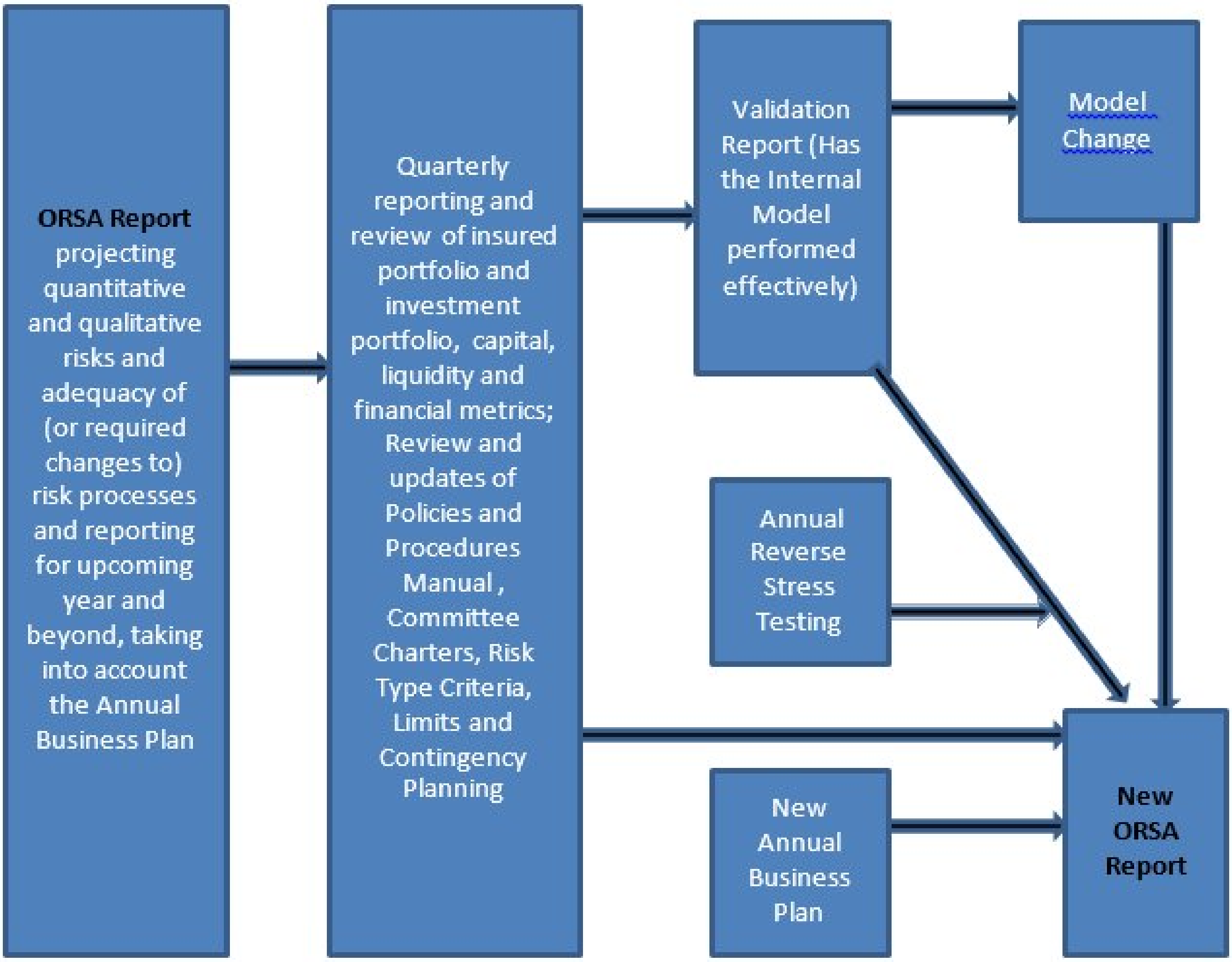
The RM function benefited from multiple lines of defence, including testing by Internal Audit. It also benefited from oversight by and reporting to the Board. As part of its oversight responsibilities, the Board oversaw the Company's (i) risk governance framework, (ii) management of capital and liquidity risk, including those pertaining to the investment portfolio and (iii) management of operational risk. It also reviewed for approval the Company's Risk Appetite and Strategy as set forth in the Annual Business Plan and portfolio limits.

The Audit Committee oversaw risks associated with financial and other reporting, auditing, legal and regulatory compliance, and risks that may otherwise have resulted from the Company's operations. The Audit Committee oversaw these risks by monitoring (i) the integrity of the financial statements of the Company, (ii) the qualifications and independence of the Company's independent auditor, (iii) the performance of the Company's internal audit function and independent auditor, (iv) the Company's compliance policies and procedures and its compliance with legal and regulatory requirements and (v) the performance of the Company's operational RM function. The Audit Committee met prior to the scheduled Board meetings, and the chairperson of the Audit Committee reported to the Board regarding the activities of the committee.

ORSA Report

As part of its implementation of Solvency II, the MBIA Group adopted an ORSA policy which governed the ORSA process. The ORSA formed a component of the Annual Business Plan. However, the ORSA process, as diagrammed below, was a year-round process that was also linked to the Internal Model validation process as follows:

ORSA Process



The ORSA process occurred throughout the year, with the ORSA Report produced annually along with the Annual Business Plan. Executive management was responsible for deriving the ORSA Report and conducting the ongoing assessment. The report included an assessment of risk, capital adequacy and liquidity (current and projected) and highlighted the techniques and reports the MBIA Group used to assess risk and inform the Board. Ultimate approval of the ORSA Report and the adequacy of the ongoing assessment conducted by executive management was the responsibility of the Board.

Transaction Level Risk Management

See *Section C.1 Underwriting risk* which sets out details of the Company's objectives, policies and processes for managing risks arising from the insurance policies it issued and the methods used to manage those risks during the 2016 financial year.

Claims reserving

Technical provisions were established by the Company's LRC, which met quarterly to assess the need for any such provisions. Technical provisions (whether in the form of provision for claims outstanding or unexpired risks provision) were established in accordance with accounting policy.

Technical provisions required the use of judgement and estimates with respect to the occurrence, timing and amount of claims payments and, if applicable, any salvage recoveries on insured obligations. Technical provisions were, where appropriate, based on a probability-weighted average of multiple scenarios. The assumptions used in each scenario required considerable judgement by the Company and were subject to change. The projected future loss severities included in these scenarios could vary considerably, from no loss to moderate and/or substantial losses. In the event of a material deviation in actual performance from projected performance, the Company may have needed to increase or decrease the technical provisions accordingly. The Company believed that there was a range of possible outcomes on the transactions it had guaranteed and that a material increase in future losses could have a material adverse effect on the Company's financial condition, reported profit after tax and/or shareholder's funds.

Workout Activities

During 2016, the Company had remediation plans in place to mitigate the potential volatility that could arise, including the commutation of exposures where it could be achieved on terms that the Company deemed economic. During the reporting period the Company terminated, at its option, its last remaining credit default swap transaction. The Company's ability to execute its remediation plans were not fully within the Company's control as such plans were dependent upon negotiations with counterparties.

Credit Risk Management

Credit risk is the risk that an obligor or counterparty will be unable to pay amounts in full when due. Four areas where the MBIA Group is exposed to credit risk are:

- Insured portfolio - risks embedded in the insured portfolio of public finance and structured finance transactions which the Company guarantees;
- Investment portfolio - investments in the MBIA Group's portfolio of financial assets;
- Third party reinsurance - third party reinsurers' share of insurance liabilities; and
- Deferred guarantee fees due from obligors, i.e. future premiums.

Credit Policy

The Company has been in run off since 2013 and hence wrote no new business during the reporting period. Prior to the decision to go into run-off, the creditworthiness of each guaranteed issue was evaluated before the issuance of a financial guarantee, and each guaranteed issue had to comply with the Company's underwriting policies and credit standards.

Transactions were underwritten to best ensure they were consistent with the Company's core principles and risk appetite and tolerance. Previously the Company sought to provide guarantees on transactions with predictable revenue streams over time that could be demonstrated through stress testing and scenario analysis to have an extremely low probability of default and low severity in default. Risks within the Company's insured transactions (mainly credit risk, where embedded market risk was transferred to eligible counterparties or otherwise appropriately mitigated) were required to be identified, structured and actively managed to yield no economic loss and no undue liquidity stress, based on reasonable worst case assumptions at the time a policy was issued.

B.4 INTERNAL CONTROL SYSTEM

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

Code of Conduct

The MBIA Group adhered to MBIA Inc.'s Internal Controls Policy, which was part of the MBIA Inc. Standard of Conduct, which also addressed topics such as compliance, operational risk, technology use and record retention.

Per MBIA Inc.'s Internal Controls Policy the purpose of internal controls was to establish procedures to safeguard assets, use resources efficiently and ensure reliability of financial reporting and compliance with applicable laws and regulations. The intent of this policy was to ensure there was a comprehensive approach to internal controls and to provide reasonable assurance that the internal controls used for management decisions, business processes and reporting purposes were appropriate and working as expected.

Further components of the policy were as follows:

- Data and information published either internally or externally were accurate, reliable, and timely.
- The actions of directors, officers, and employees were in compliance with the organization's policies, standards, plans and procedures, and all relevant laws and regulations.

- The organization's resources (including its people, systems, data/information bases, and customer goodwill) were adequately protected.
- Resources were acquired economically and employed profitably; quality business processes and continuous improvement were emphasized.

MBIA's Internal Control environment encompassed the following that impacted the MBIA Group's Internal Model:

- Risk Assessment: The identification and analysis of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed;
- Control Activities: including preventive controls such as:
    - Approvals, Authorizations and Verifications, and
    - Policies, Training and Reporting Requirements;
- Internal Controls over financial reporting;
- Model Governance Policy: The policy assessed and mitigated model risk on an enterprise-wide basis. Model data appropriateness and control were addressed as part of this policy;
- Data Governance Policy and Guidelines: These helped to ensure data quality, being the accuracy, completeness and appropriateness of data.

Responsibility for Internal Controls was shared by a number of groups, including:

- Management, who were responsible for operational effectiveness and internal controls within the business functions;
- Internal audit, which was responsible for periodic testing of controls and reporting on the adequacy and effectiveness of the organization's internal control and, as appropriate, making recommendations to improve the systems;
- Legal and compliance and Operational Risk

Following the Acquisition, the Company adopted the Code of Conduct of its affiliates, AGE and AGUK, which sets forth standards by which all of the Company's directors, officers and employees must abide and sets the tone for how personnel working for the Company should conduct themselves. The Company has adopted the Code of Conduct that is applicable to AGL and all of its subsidiaries. The Code of Conduct is available at www.assuredguaranty.com/governance.

Financial Reporting Internal Controls

The Company seeks to comply with all legal, regulatory and accounting guidance as it relates to disclosure to key constituents including, but not limited to transparency to all stakeholders, including its shareholders, policy holders, regulators, rating agencies and other relevant parties.

Core to the successful implementation of this policy is the objective of providing accurate, complete and timely information. In this regard, the Company's stated risk tolerance is that there should be no material errors or misleading information in any internal or external reporting.

Following the Acquisition, the Company's financial statements will be reviewed for completeness and accuracy by senior management within the finance function as well as by the Executive Committee prior to being presented to the Company's Audit and Risk Oversight Committee ("AROC") and Board of Directors for final approval. The persons responsible for controls over the preparation of information in Solvency and Financial Condition Reports within the Assured Guaranty Group are required to attest to executive management that they have properly executed controls over preparation of the Reports each reporting period.

Accounting Policy and Disclosure Governance Framework

The Accounting Policy and Disclosure Governance Framework governed the oversight and the approval of the policies and procedures used to implement the Accounting Policy and Disclosure Core Principles and Strategy.

Governance on this topic was the responsibility of the Board. In order to identify, monitor and assess accounting policy and disclosure risk, the Board delegated responsibility to the following committees and functions:

- ROC: Responsible for the Accounting Policy and Disclosure Core Principles and Governance Framework, and for reviewing and recommending various financial reports that were presented to the Board.
- Finance Department; responsible for establishing adequate financial systems and controls over financial reporting including accurate recording of transactions in the ledger, appropriate application of U.K. GAAP and consideration of disclosable matters.

- IPM: following transaction closing, responsibility for a transaction switched over to IPM. IPM also monitored transaction performance and reported negative performance to executive management (via the ROC and, if relevant, the LRC) and the Board (at least quarterly).

Development and approval of accounting policy

During 2016, the MBIA Group had established a comprehensive accounting policy handbook which outlined the accounting policies that the MBIA Group had decided to adopt. The ROC was responsible for the review of and changes to the accounting policy handbook. In addition the ROC was responsible for reviewing and approving any tax policy matters.

External Disclosure

As subsidiaries of MBIA Inc., the MBIA Group adhered to certain group-level policies. MBIA Inc.'s policy was that all Public Reports (including MBIA Inc.'s and its subsidiaries' public disclosures) were complete, accurate and timely and made in accordance with applicable laws and regulations and the procedures set forth in the MBIA Inc. Disclosure Policy. Certain activities / actions at the MBIA Group may have constituted material disclosure for MBIA Inc.

It was MBIA Inc.'s (and its subsidiaries') policy to disclose material non-public information only through broad public disclosure such as press releases and conference calls that could be accessed by all investors and the media.

As subsidiaries of MBIA Inc., the MBIA Group was committed to providing investors with all relevant material disclosure such that informed investment decisions could be made. Furthermore, the MBIA Group was committed to promoting transparency regarding guaranteed credits such that investors could assess on an ongoing basis their relative reliance on the Company's guarantee.

In addition to investor reporting, the MBIA Group provided all requisite disclosures to regulators and rating agencies.

Forward-Looking Statements

From time to time, MBIA Inc. provided forward-looking information to enable the investment community to better evaluate the MBIA Group and its prospects. MBIA Inc. made public statements and responded publicly to inquiries with respect to significant new product/market developments, market issuance, revenue projections, and core earnings projections, among other things. All statements were accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the statement.

Disclosure Approval

In 2016, external reporting was approved by the ROC. This committee approved publicly released Company financial information and financial statement filings and information sent to the rating agencies, investors and other parties and any other Company specific information which was issued publicly.

Information Technology ("IT") Controls

During 2016, the MBIA Group received IT services from MBIA Services. MBIA Services sought to utilize industry best practices in systematic areas of security and governance, including:

- User authentication and authorization controls for access to network drives and sites via Security Access Manager ("SAM");
- Secure reporting framework;
- Network / perimeter and Cyber security framework;
- Database Security;
- Functional change management policies and protocols, and
- Model governance controls.

All security policies and protocols were overseen by a full-time Chief Security Officer and the security administration function was centrally performed by the MBIA Services IT Solutions Center.

Additionally, MBIA Services had an established Enterprise Security Counsel with representation from IT, Internal Audit, Operational Risk and Compliance. The role of the Security Counsel was to vet all major security decisions. Effective security was based upon a multi-faceted approach:

- Management philosophy and discipline that supported overall security program;
- Multi-layered Enterprise Security Architecture;
- Policies and procedures that helped assure the adoption and enforcement of security practices over the use of technology, and
- Corporate culture that promoted security awareness and education.

MBIA Inc. adopted a number of IT polices and procedures that served to protect the firm from improper use of technology, models or data and business interruption. Some of the key ones were the following:

Following the Acquisition, the Company has received IT services from its affiliates via an outsourcing arrangement and as a result utilises the Group infrastructure, applications, data and services. The IT policies and procedures for the Company follow the Group policies and procedures as described in the IT Systems Governance Policy, which covers areas including roles and responsibilities, physical security, network security, access control, data centre operations, employee use, testing, and project management.

A combination of preventive and detective controls are used to ensure the integrity, availability and confidentiality of IT systems.

IT Technology Use Policy

This policy set forth a basic set of standards for the use and protection of Information Assets. Inappropriate use exposed MBIA Inc. to risks including mishandling of corporate data, violations of data privacy requirements, internal and/or external, compromising of network systems and services, and other legal issues.

Change Control Procedures

These procedures, for both applications and infrastructure, governed all aspects of change introduced into the production environment. They included separation of duties and approval protocols to safeguard against conflicts of interest.

Data Management - Tape Backup/Restore Design

This set out the procedures used by the MBIA Inc. to ensure that MBIA's data was reliably backed-up, stored, and was recoverable if necessary. Class A data (which included data that fed the credit risk capital model ("CRCM")) was backed-up and sent to off-site storage daily.

The MBIA Inc. IT Recovery Playbook

This contained responsibilities, contacts and high-level steps required to ensure continuous service in the event that the main systems become unavailable.

Business Continuity Plan

Prior to the Acquisition, the MBIA Group was part of the MBIA Inc. Disaster Response & Business Continuity Plan which included business and technological procedures designed to support the essential operations of MBIA's business in the event MBIA Inc.'s facility/facilities sustained a "disruption" in its normal business operations that was expected to last for one or more business days. This plan included the following aspects:

- Corporate Continuity Plan - Created the general framework that all employees had to follow in the event of a disruption. It outlined communications, facilities, human resources & information technology responsibilities as they pertained to the identified disruption. It served as the cornerstone by which all other activation plans would evolve.
- Activation Plan - Described how the activation team (Disaster Response & Incident Management Team) would identify, communicate and determine which plans to activate based on the type of "disruption"
- Service & Support Recovery Plans - Described how Facilities, IT, Corp Communications & HR would respond and recover in the event of a disruption.
- Employee Emergency Procedures - Described how employees/contracted staff would function during and following a major disaster/disruption in normal business operations as per office location. It also defined the roles and responsibilities of our staff.
- Divisional Business Continuity Plans - Described the processes and procedures needed to be followed specific to each divisional unit that would ensure continued service to our customers and financial market participants.

The International Division Continuity Plan covered the MBIA Group's London Office. This Plan described the actions to be taken in case the normal operations of MBIA were unavailable. It identified the procedures to be followed, missions critical processes, key personnel, contact details and alternate work plans and could be invoked by either MBIA Inc. or London personnel, depending on where the incident had occurred.

Following the Acquisition, the Company's outsourcing arrangement with its affiliates includes disaster recovery services that provide for recovery of essential activities and services in the event of any incident that results in the inability to conduct business at the production sites. The business continuity plan was developed based on impact analyses of the most critical business functions. The Company reviews and tests its business continuity plan at least once each year.

Following the Acquisition, the Company adopted the internal control system of the Assured Guaranty Group, which covers controls over financial reporting, IT, and business continuity.

Compliance Function

During 2016, the Compliance Function's role in governance and control included:

- Managing and ensuring compliance by the MBIA Group with applicable laws and regulations, including the Company's compliance with applicable securities and insurance laws and the FCA and Prudential Regulation Authority rules and regulations;
- Developing, implementing and monitoring appropriate policies and procedures for the conduct and administration of the Company's business;
- Assessing the possible impact of any changes in the legal environment on the operations of the MBIA Group and the identification and assessment of compliance risk.
- Reporting to the Board and Audit Committee on compliance related issues.

b. Description of how the compliance function is implemented

The MBIA Group's compliance function was provided by a London based legal and compliance team.

Following the Acquisition, due to the Company's relatively small size, the Company's compliance function is carried out by a compliance professional and the General Counsel and Chief Compliance Officer of the Company. The compliance function is independent from any business or operational unit. The compliance function is responsible for reporting to the Company's executive committee (the "Executive Committee") and the AROC any breaches, or non-compliance with applicable law and regulation, and with internal company policies. The compliance function reports to the Executive Committee at its monthly meetings and to the AROC at each of its quarterly meetings.

Risk Management Function

The RM function was responsible for implementing the risk management framework. *Section B.3 Risk Management System* describes the RM function in more detail.

Following the Acquisition, the RM function is responsible for implementing the risk management framework set forth in the Risk Management Policy. The function identifies, assesses, monitors and reports on risks to the AROC. The RM function also maintains the Company's Risk Register and performs the ORSA. The function reports to the Company's CEO with an indirect reporting line to the AROC. *Section B.3 Risk Management System* describes the RM function in more detail.

Internal Audit Function

The internal audit function was responsible for independently evaluating the adequacy, effectiveness and efficiency of the systems of control within the MBIA Group and the quality of ongoing operations. *Section B.5 Internal Audit Function* describes the internal audit function in more detail. Following the Acquisition, the Assured Guaranty Group will provide internal audit services. Assured Guaranty outsources the internal audit function to an international public accounting firm.

Internal MBIA Group Policies

In addition to MBIA Inc.'s Standard of Conduct, the Company adopted a policy and procedure manual which set out the company-wide policies and procedures to be followed by each functional area. The Company also adopted a Compliance Procedures Manual and ancillary compliance policies applicable to the Company's business. Policies received prior Board approval. Thereafter they were reviewed and updated on an annual basis with material changes requiring Board approval.

Training

Employees were required to attend certain mandatory training involving legal, compliance and regulatory issues and requirements. Additionally, on an annual basis, employees were required to acknowledge the Standard of Conduct and the Company's Policies and Procedures Manual. Additionally, employees were encouraged to take other training programs that were appropriate based upon their responsibilities and job descriptions.

Following the Acquisition, the directors of the Company, all other holders of Senior Insurance Manager Functions and Key Functions, persons performing Key Functions and each U.K. Service Company employee are required to complete Code of Conduct training each year, which also includes training on the Company's anti-bribery policies, and to review and acknowledge these policies on an annual basis. Additionally, those individuals must review and agree to comply with a regulatory compliance manual each year.

Monitoring Compliance

The Company adopted a compliance monitoring plan and calendar to assist it in monitoring compliance with its regulatory requirements. The plan was prepared on an annual basis by the Legal Department and approved by the compliance officer. It was updated periodically as new reporting requirements and other action points were identified. As part of its compliance monitoring programme, the Legal Department carried out periodic testing to ensure the Company was meeting its regulatory responsibilities. If any compliance breaches were reported, they would be recorded in the appropriate breaches register and reported to the Board and Audit Committee. A compliance report was prepared quarterly and presented to the Audit Committee and the Board.

B.5 INTERNAL AUDIT FUNCTION

a. How the undertaking's internal audit function is implemented

The internal audit function was a key component of Internal Controls. This function was provided by MBIA Services through a combination of its own personnel and outsourcing to qualified third parties supervised by MBIA Services. The internal audit team's task was to independently evaluate the adequacy, effectiveness and efficiency of the systems of control within the MBIA Group and the quality of ongoing operations.

In performing this mission, the team assisted management by evaluating the adequacy of established MBIA Group policies, procedures and controls; and testing the quality and consistency of the MBIA Group's management and staff's compliance with such policies, procedures and controls with a goal of minimizing the occurrences of fraud, error and waste.

In order to perform this function there were continual reappraisals of:

- The requirements of all audits performed, with an emphasis on concentrating on areas or accounts having higher levels of potential or identified risks or exposures.
- The scope, direction and extent of audit techniques, programs and reports of audit, again measured against the related levels of potential or identified risks or exposures present in each area being subjected to audit.

b. How the internal audit function maintains its independence and objectivity from the activities it reviews

The Chief Audit Executive had dual reporting on a functional basis to the Company's Audit Committee and administratively to the MBIA Inc. Chief Legal Counsel. The Chief Legal Counsel was responsible for the Legal Division of MBIA Inc. and therefore some sub-processes within the MBIA Group fell under his regime. In order for the audit function not to impair its independence, audits conducted of these areas were generally outsourced.

The Audit Committee was responsible for evaluating the adequacy of the audit procedures performed and the findings resulting from the performance of those procedures. The Audit Committee reviewed the risk based internal audit plan, received communications from the Chief Audit Executive on the internal audit activity's performance relative to its plan and other matters, reviewed all audit reports, audit schedules and risk assessment methodologies for adequacy.

Audit Schedules were prepared annually and presented to the Audit Committee which has ultimate responsibility for the internal audit function and which approved the audit plan.

The audit schedule reflected those audits scheduled to be performed during the upcoming year. In order to prepare a schedule of all areas to be reviewed during the year, the audit team was required to have an overall understanding of the organization. This included an understanding for the overall business strategy, objectives and the key business processes involved. This was accomplished through discussions with the MBIA Group's management team. In addition, the internal audit team identified the audit universe in order to identify the target processes and risk.

Once the team obtained an understanding of the overall organization, the audit team identified the risks to the organization, assessed a level of significance and likelihood of occurrence and identified those significant business processes/functions attributable to the risks. Once the audit team performed these steps an audit schedule was developed.

Based upon the relative criticality of the systems (hardware, operating and applications) used by the various business units information system, audit coverage of these areas was also included in the audit plan.

The Audit Schedule was closely monitored by the audit team and the Audit Committee throughout the year. Of primary importance was the execution of the planned audits. The audit schedule was reviewed to determine the overall status and whether or not adjustments needed to be made.

The Audit Committee was informed of the audit team's progress as requested but not less frequently than quarterly.

Internal Audit coordinated audit planning with the independent external auditors, where applicable, to maximize the efficiency and effectiveness of both internal and external audit activities.

Independence

Objectivity was essential to the audit function, therefore the internal auditor did not develop and install procedures, prepare records or engage in any other activity which she would normally have reviewed and appraised and which could have been reasonably construed to compromise her independence.

Audits conducted for those areas which fell under the same reporting line as the Chief Audit Executive were outsourced.

Accordingly, the Audit team did not have any direct or indirect responsibilities or authority over any of the activities subjected to their review.

The Chief Audit Executive monitored all reporting relationships and reported to the Audit Committee any situation that impeded the independence and effective operations of the internal audit function.

Following the Acquisition, the internal audit function is outsourced to an international public accounting firm, providing independence from other functions of the Company primarily. To provide an appropriate level of organisational independence, the internal audit function reports functionally to the chairman of the AROC and administratively to the Assured Guaranty Group Chief Risk Officer.

B.6 ACTUARIAL FUNCTION

Prior to the Acquisition, responsibility for the actuarial function lay with the Chief Actuary with day-to-day responsibility delegated to members of the Finance team and other MBIA Group functional units with key responsibilities performed as follows:

- Calculation of Solvency II Technical Provisions: The MBIA Group's Finance Department and Risk Department oversaw the development of the CRCM used to calculate Technical Provisions. Model specialists from the parent's IT and Treasury groups developed and tested the CRCM. The SCR used a number that is equivalent to the mean probability distribution per the CRCM. This approach was approved by the Company's Finance Committee and ROC. The calculation was updated quarterly, reflecting changes in the insured portfolio, and up to 30 September 2016 was presented to the ROC and Board. Note that for the reporting as of 31 December 2016 the Solvency II Technical Provisions were calculated by the staff at the Company's affiliates and approved by the Company's new Reserve Committee.

- Appropriateness of the methodologies and assumptions used in the calculation of the technical provisions: Prior to the Acquisition by AGC, methodologies for the CRCM were developed and tested by MBIA Inc.'s Treasury and IT model experts under the guidance of the MBIA Group's Risk department. Assumptions were developed by the Company's IPM and Risk departments under the direction of the Chief Risk Officer. Detailed papers explaining the rationale and appropriateness of the assumptions and the underlying data and judgement were submitted to the ROC.

- Information technology systems used in the calculation of technical provisions: MBIA Inc.'s IT Department, based upon guidance and supervision provided by the MBIA Group, created and tested a robust user interface for the calculation of the Best Estimate of Future Claims component of Solvency II technical provisions.

- Comparison of Best Estimate of Future Claims against experience: the Company had limited experience of actual losses.

- Information submitted to the administrative, management or supervisory body on the calculation of the technical provisions: the Company's Risk and Finance Departments were responsible for ensuring that the ROC and Board were aware of the uncertainties of the CRCM outputs and the sensitivities of such outputs to changes in key inputs. The uncertainties were set forth in detailed papers sent to the Board, as well as in the ORSA. Sensitivity analysis showing the impact of changes to input assumptions was reported to the ROC and Board.

- Adequacy of Premiums and other Components of Own Funds: To measure adequacy of Own Funds, on a quarterly basis, the MBIA Group's Finance Department (under the supervision of the Chief Financial Officer ("CFO")) produced a report that compared Own Funds (inclusive of contractually committed future premium) with capital requirements and future expenses (taking into account inflation).In terms of adequacy of premium relative to risk being taken, the Company was not writing new business, so this was not relevant for pricing new transactions. To the extent existing transactions were restructured, the MBIA Group looked at the impact on Own Funds and capital requirements.

- Reinsurance arrangements: Reinsurance was not actively used, with only 1.4% of the portfolio subject to reinsurance.

- Reporting: Per the Solvency II Level 2 guidance, the Actuarial Function shall produce a report that documents all tasks that have been undertaken by the actuarial functions and their results, and shall clearly identify any deficiencies and give recommendations as to how such deficiencies should be remedied. Per processes which were in effect during 2016, actuarial tasks (e.g., annual update of CRCM assumptions, quarterly stress testing and solvency reports, etc.) were reported to the ROC as the tasks were completed. The existing year-end reports such as Validation Report and the ORSA would identify deficiencies and recommendations. Thus, a separate report would only have been produced to the extent information was not already covered in existing reports. Going forward, the reports will cover processes conforming to the Assured Guaranty Group.

Following the Acquisition, the Actuarial Function is outsourced to the Assured Guaranty Group Chief Actuary who is a credentialed actuary in good standing with the Casualty Actuarial Society, who is also a Fellow of the Casualty Actuarial Society. In addition, the Chief Actuary is a member of the American Academy of Actuaries in good standing. The Chief Actuary was appointed by the Company, and approved by the PRA, to hold the SIMF for the actuarial function.

B.7 OUTSOURCING

Outsourcing Policy

Prior to the Acquisition, the Company had adopted an outsourcing policy which set out its policies and procedures in relation to the engagement and management of third party service providers. As outlined in that policy, all contracts for the engagement of third party service providers required review and sign off by the International Legal and Finance Departments. Their approval was noted in a master contracts list. In addition, where the annual spend on any outsourced provider was in excess of £200,000 per annum, International Finance performed a review of that provider which may have included putting the contract out to bid, at a minimum once every three years. A master register of contracts with third party providers was maintained by the Legal department which outlined key terms of the contracts. Reviews were undertaken in accordance with the outsourcing policy.

The MBIA Group conducted minimal external outsourcing of its functions. Outsourced functions included payroll, out of hours IT support and investment management. Other key third party suppliers were clearing bank services. In addition, the MBIA Group entered into other third-party agreements for ad hoc or normal conduct of business requirements.

Following the Acquisition, the Company adopted the same outsourcing policy as its affiliates AGE and AGUK, which is designed to maximize the efficiency and effectiveness of the Company's operations. MBIA Services provided the Company with certain services and implementation assistance pursuant to a transitional services agreement between the Company and MBIA Services. That agreement ended, with respect to most services and assistance, on 31 May 2017.

All of the Company's outsourcing arrangements are reviewed on an annual basis by the Company's Executive Committee and more frequently if required. Any new or third party outsourcing arrangements, or changes to existing Assured Guaranty Group or third party outsourcing arrangements, are reviewed and approved by the Executive Committee. Any material changes to Assured Guaranty Group or third party outsourcing arrangements or any new Assured Guaranty Group and third party outsourcing arrangements for the Company are reviewed and approved by the Board. In line with Article 49 of the Directive, the Company also notifies the PRA of any subsequent material developments with respect to its outsourced functions and prior to outsourcing of critical or important functions.

Group Outsourcing Arrangements

Prior to the Acquisition, the MBIA Group received services from MBIA Services, a wholly-owned subsidiary of MBIA Inc. pursuant to an intra-group services agreement entered into between, among others, the Company, Trifinium, MBIA Services and UK Holdings.

The services and corporate support received from MBIA Services included human resources; London office facilities; treasury; internal audit, information technology; records management and systems, including model governance and data quality; and board and committee members.

Following the Acquisition, the Company outsourced certain functions to the Assured Guaranty (UK) Services Limited ("U.K. Service Company") and AG US Group Services ("AG Services"). The Company does not directly employ any personnel. Therefore, the Company contracts with the U.K. Service Company to provide personnel to manage the Company's affairs. The Company also is a party to a service agreement with AG Services pursuant to which AG Services makes available to the Company certain services, including actuarial, surveillance, marketing, claims handling, legal, information technologies, human resources, accounting, tax, financial reporting and investment planning services. Employees of AG Services that are performing outsourced functions are not empowered to make underwriting decisions on behalf of the Company or to bind the Company in any way. Expenses are allocated directly where appropriate and, where not appropriate, based upon an allocation of employee time and corresponding office overhead.

Third-Parties outsourcing arrangements

Investment Management

The Company outsources the management of its investment portfolio to a third party investment manager. pursuant to investment services agreements entered into between the Company and the investment manager. The mandate is designed to minimise credit risk and ensure ample liquidity to cover losses in a stress scenario. The investment manager manages the investment portfolios of the Company in accordance with the Company's investment guidelines.

Following the Acquisition, the Company's investment guidelines and its agreement with the investment manager were amended to bring the Company's investment guidelines in line with the guidelines of its affiliates, AGE and AGUK.

Internal Audit

Following the Acquisition, the Company also outsourced the internal audit function to an international public accounting firm. The role and responsibilities of the internal audit function is described in further detail in *Sections B.4 Internal Control System,* and *B.5 Internal Audit Function* above.

B.8 ANY OTHER INFORMATION

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

The Company's current Executive Committee and Board have assessed the current governance system as described in this report and concluded that it provides for sound and prudent management of the business which is proportionate to the nature, scale and complexity of the operations of the Company.

b. Any other material information regarding system of governance

None.

C. RISK PROFILE

C.1 UNDERWRITING RISK

Insurance Risk Management

This section sets out details of the Company's objectives, policies and processes for managing risks arising from the insurance policies it has issued and the methods used to manage those risks during the 2016 financial year.

The financial guarantees issued by the Company generally provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due. The obligations are generally not subject to acceleration, unless the Company consents to the acceleration. The Company may also have the right, at its discretion, to accelerate insured obligations upon default. The Company's financial guarantees are on credit risks principally located in the EEA but also in other select international markets. The Company recognises that there are particular risks related to each country and region and that credit risks in some countries and regions are correlated to varying degrees. These risks include legal, economic and political factors, varying levels of sophistication of the local capital markets and currency exchange risks. The Company has historically managed insurance risk in five ways: risk management framework (see *Section B.3 Risk Management System*), underwriting standards (see below), subsequent monitoring by IPM (see below), risk mitigation (see below), and claims reserving (see *B.3 Risk Management System*).

Underwriting standards

Prior to the time when the Company was put into run-off, the creditworthiness of each guaranteed issue was evaluated before the issuance of a financial guarantee, and each guaranteed issue had to comply with the Company's underwriting policies and credit standards.

Subsequent monitoring

During 2016, the Company used IPM staff employed by Trifinium Services to monitor the portfolio. During 2016, the directors of the Company, in turn, monitored IPM's performance. IPM's primary function was to detect any deterioration in credit quality or changes in the economic, regulatory or political environment which could adversely affect a guaranteed obligation, including interrupting the timely payment of debt service. If a problem was detected, IPM worked, as appropriate, with the relevant transaction parties in an attempt to alleviate or remedy the problem in order to avert or minimise potential losses. The level and frequency of the Company's monitoring of any guaranteed issue depended on the type, size, rating and performance of the guaranteed issue.

Following the issuance of a financial guarantee, the Company typically received periodic financial and asset related information from the issuer, servicer and/or trustee of deals the Company has insured to enable IPM to monitor the credit. Potential problems uncovered through this monitoring, such as poor financial results, covenant or trigger violations, trustee, servicer or operational problems, excessive litigation, amongst others could result in an evaluation of possible remedial actions.

During 2016, the IPM staff was solely responsible for monitoring the Company's insured portfolio. However, due to the importance of surveillance monitoring, AGC, as the prospective acquirer of the Company, determined to have its surveillance personnel co-monitor the Company's portfolio during the fourth quarter of 2016. As such, the surveillance of the Company's insured portfolio during the fourth quarter of 2016 adhered to both the Company's existing process and AGC's surveillance method.

The paragraphs below describe AGC's surveillance method, which is the method now in place following the acquisition of the Company by AGC. Using AGC's surveillance assumptions, technical provisions were established for the Company as at 31 December 2016. The Company would not have established those technical provisions in 2016 using the assumptions that were in place prior to the Company's acquisition by AGC. See *Section B.3 Risk Management System, Claims reserving*.

Similar to IPM's process, the primary objective of AGC's surveillance process is to monitor trends and changes in transaction credit quality, detect any deterioration in credit quality, and recommend to management such remedial actions as may be necessary or appropriate. All transactions in the insured portfolio are assigned internal credit ratings, and surveillance personnel are responsible for recommending adjustments to those ratings to reflect changes in transaction credit quality. Risk management and surveillance personnel also are responsible for managing work-out and loss situations when necessary. For transactions where a loss is considered probable, surveillance personnel and the actuarial function make recommendations on unexpired risk provisions and 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 new credits need to be internally downgraded to below investment grade. Quarterly procedures include qualitative and quantitative analysis on the Company's insured portfolio to identify potential new below investment grade credits. The Company refreshes its internal credits ratings on individual credits in cycles based on the Company's view of the credit's quality, loss potential, volatility and sector. Ratings on credits and in sectors identified as under the most stress or with the most potential volatility are reviewed every quarter. Credits identified through this process as below investment grade are subjected to further review by surveillance personnel to determine the various probabilities of a loss. Surveillance personnel present analyses related to potential loss scenarios to the reserve committee. The reserve committee considers the information provided by surveillance personnel and by the actuarial function when setting reserves.

Risk Concentration

As of year end 2016, the total portfolio was diversified across 6 countries/jurisdictions, as set out in the table in *Section A.1. f Material lines of business and material geographical areas where business is underwritten***.** The 10 largest exposures comprised 73% of gross par exposure (2015: 71%).

As of year end 2016, 84% of gross par exposure (2015: 84%) was denominated in pound sterling. Gross par exposures denominated in euro and USD represented 12% (2015: 11%) and 3% (2015: 3%) respectively.

Risk Mitigation

The Company had utilised reinsurance to further manage its exposure to its insurance portfolio. Reinsurance enabled the Company to cede exposure for purposes of increasing its capacity to write new business while complying with portfolio limit guidelines. Since 2008, the Company has commuted substantially all third party reinsurance and in 2015, it terminated the support agreements with MBIA Corp. See *Section C.3 Credit Risk, Third party reinsurance* for further details).

Risk Sensitivity

During 2016, internal credit ratings were the relevant risk variables that reflected the Company's insurance risk. Due to the nature of the Company's insurance exposure it is not directly exposed to market conditions; nor, is it possible to quantify how its profit or loss and equity would be affected by changes in these risk variables. As of 31 December 2016, a default of the two largest exposures with a 10% loss severity would cause a loss of £232 million.

C.2 MARKET RISK

A key financial management goal is to ensure that the proceeds from financial assets are sufficient to fund the claims on financial guarantees and other obligations as they fall due and to be able to make such payments without incurring losses on the investment portfolio. Thus, in the first instance, achieving this objective requires managing risk within the insurance portfolio (see *Section C.1 Insurance Risk Management*, above) as in addition to the principal on the insured obligations, the Company guarantees interest payments (both fixed and floating coupons), interest rate and index-linked swaps and, in certain cases, breakage cost on debt, which expose it to potential market risk.

Sources of payments include the investment portfolio, deferred financial guarantee fees and reinsurance recoveries. All of these are subject to credit risk (see below). In addition, the investment portfolio is subject to market risk, particularly interest rate risk and currency risk (see below). During 2016, the three primary goals of the Company's investment guidelines, which were the same as those of the MBIA Group, were the preservation of capital, the maintenance of reasonable liquidity and optimisation of after-tax investment income and long term total returns. After the Acquisition by AGC, the Company does not have any third party reinsurers.

Interest rate risk

Interest rate risk arises primarily from investments in fixed maturity securities. During 2016, in formulating the investment strategy for the Company's asset portfolio, the Company set a target band for the duration of the asset portfolio which required the Company's investment advisers to maintain the asset portfolio's interest rate sensitivity within acceptable risk limits. In years of rising and/or volatile interest rates and credit spreads, profitability could be adversely affected should the Company have to liquidate these securities. During 2016, the Company sought to minimise its exposure to interest rate risk through active portfolio management to ensure a proper mix of the types of securities held and by staggering the maturities of its fixed-income securities.

Currency risk

The Company is exposed to currency risk in respect of assets and liabilities under financial guarantees denominated in currencies other than pound sterling. The significant currency to which the Company is exposed is the euro. The Company seeks to mitigate the risk by matching the estimated foreign currency denominated capital requirements and liabilities with assets denominated in the same currency.

Measurement

The Company measured the results of its investment portfolio by its compliance with prescribed internal investment guidelines.

Risk Concentration

The composition of the Company's investment portfolio as of 31 December 2016 is set out in the table in *Section C.3 Credit Risk, Investment portfolio,* below. Portions of the euro and USD portfolios were sold in the fourth quarter of 2016 in anticipation of restructuring the portfolio in 2017 to comply AGC's new investment guidelines.

Risk Mitigation

In the event of any downgrade of any investment below the Company's constraints, the portfolio manager would have contacted the MBIA Group's senior management to discuss the course of action.

Risk Sensitivity

The main risks in the Company's investment portfolio are interest rate risk, foreign currency rate risk and credit risk (see *Section C.3 Credit Risk* below) on its investments. Interest rate sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in interest rates.

The Company has performed a sensitivity analysis of the impact that fluctuations in exchange rates would have on profit or loss before taxation and has estimated that a 10% increase in the value of the euro would increase its net assets by £5.9 million and a 10% decrease would reduce its net assets by the same amount. After the Acquisition, the Company sold all euro denominated investment assets.

C.3 CREDIT RISK

Credit risk is the risk that an obligor or counterparty will be unable to pay amounts in full when due. Four areas where the MBIA Group was exposed to credit risk are:

- Insured portfolio - risks embedded in the insured portfolio of public finance and structured finance transactions which the Company guarantees;
- Investment portfolio - investments in the MBIA Group's portfolio of financial assets;
- Third party reinsurance - third party reinsurers' share of insurance liabilities; and
- Deferred guarantee fees due from obligors, *i.e.* future premiums.

Insured portfolio

The Company is exposed to credit risks in its insured portfolio that may arise from deterioration in (i) the credit worthiness of an individual issuer and/or (ii) sovereign risk.

The Company has exposures in certain countries that have been impacted by the sovereign related credit concerns. See summary of the Company's gross par exposure by country/jurisdiction for the total portfolio in the table in *Section A.1. f Material lines of business and material geographical areas where business is underwritten.*

Investment portfolio

During 2016, the Company managed the investment portfolio in a conservative manner to maintain appropriate levels of cash and liquid securities. The Company valued its investments, unless otherwise stated, at fair value. See *Section D.1 Assets* for further details.

The following tables present the fair value of the MBIA Group's assets (including short-term investments but excluding accrued interest) measured and reported at fair value on a recurring basis as at 31 December 2016:

As of 31 December 2016

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Fixed maturity investments	£ 85,795	£ 291,151	£ —	£ 376,946
Total financial assets	£ 85,795	£ 291,151	£ —	£ 376,946
Maturing within one year	£ 20,017	£ 67,916	£ —	£ 87,933
Maturing in greater than one year	65,778	223,235	—	289,013
Total	£ 85,795	£ 291,151	£ —	£ 376,946

Investments maturing in greater than one year comprise investments maturing between 2018 and 2054, of which 88% will mature before 2021. The Company did not hold any derivatives during the year or as of 31 December 2016.

The fair value of unencumbered cash and investments as at 31 December 2016 was £439 million (including accrued interest) based on quoted market values. Approximately 45% of the Company's cash and investments (by market value) was either rated triple-A or was in cash and money market funds. Approximately 76% of the portfolio paid fixed coupons, 10% paid floating rate coupons, and 14% was in cash and money market funds.

An analysis of the investment portfolio as at 31 December 2016 is set out below:

Investment type	Rating	% of Portfolio
Corporate bonds	A- to AA	20.6%
Sovereign (Zone A) bonds	AA	19.7
Cash and money market funds	N/A	13.6
Covered bonds	AA to AAA	12.6
Sovereign (Zone A) guaranteed entity bonds	AA to AAA	12.2
Supra/Sovereign agency (non-guaranteed) bonds	AA+ to AAA	10.9
Sub-sovereign/regional government (Zone A) bonds	AA to AAA	5.6
Structured finance RMBS bonds	AAA	4.8
Total		100.0%

Zone A comprises all the EC Member States and all other countries which are full members of the Organisation for Economic Cooperation and Development ("OECD") and those countries which have concluded special lending arrangements with the International Monetary Fund. Ratings are as assigned by S&P. If S&P ratings are not available, Moody's ratings have been used.

Approximately 77% of the investment portfolio and cash is denominated in pound sterling, while 17% is in euro and 6% is in USD. Approximately 32% of the portfolio comprises sovereign or sovereign guaranteed bonds. The sovereign issuers are U.K. (72%), Germany (28%) and France (less than 1%). The Company does not have any exposure to other sovereign issuers in its investment portfolio. The portfolio has an effective duration of 2.1 years.

The Company reviewed the investment portfolio regularly in consultation with its investment manager (Cutwater Investor Services Corp, trading as Insight Investment). Given the nature and quality of the investment portfolio as at 31 December 2016, no impairments were deemed to be required.

Third party reinsurance

Since 2008 the Company has commuted substantially all third party reinsurance. The aggregate amount of insured par ceded by the Company to third party reinsurers under reinsurance agreements was £137 million at 31 December 2016 (2015: £139 million). There were no reinsurance receivables due from any of the third party reinsurers as at 31 December 2016. Future ceding commission receivable from and future reinsurance premium payable to third party reinsurers is recognised on the Solvency II balance sheet under "Reinsurance Recoverables".

As a primary insurer, the Company is required to honour its obligations to its policyholders whether or not reinsurers fulfil their obligations to the Company. The Company remains liable on a primary basis for all reinsured risk and, although the Company believes that its reinsurers remain capable of meeting their obligations, there can be no assurance of such in the future. During 2016, the financial position and financial strength of all the Company's third party reinsurers was monitored by the Company on a regular basis. The downgrade or default of one or more of the Company's third party reinsurers is not expected to have a material adverse impact on the Company's ratings, financial condition or results of operations. In addition to third party reinsurance, in a small number of transactions (par value of £88 million) there is an arrangement with another financial guarantee insurance company that functions similarly to reinsurance.

No credit is given within the SCR to the benefit of third party reinsurance and similarly there is no counterparty risk charge against third party reinsurers within the SCR.

The third party reinsurers are all part of the Assured Guaranty Group and therefore following the Acquisition the reinsurers are affiliated companies.

Deferred guarantee fees due from obligors

The premiums recognised by the Company represent fees due to it for issuing guarantees of insured obligations. These fees are either paid at issue of the guarantee or over the expected life of the guaranteed obligation or a combination of at issue and over the expected life. Generally, guarantee fees payable over time are the obligation of the issuer of guaranteed obligations. These guarantee fees are contractually committed, subject to certain limited rights that policy holders might have to terminate prior to maturity. The obligation of the issuers to pay these fees to the Company is not conditional on the future performance of the Company in respect of any contract. In many cases the fee obligations owed by these obligors rank as "super-senior" obligations of these obligors (i.e. senior to the payments of interest and principal by these obligors in respect of their senior debt, senior debt guaranteed by the Company and other pari-passu senior debt). The fees receivable are reflected in the Solvency II balance sheet under "Technical Provisions".

In the event of either a voluntary redemption of the guaranteed obligation by the obligor or an acceleration of the obligor's guaranteed obligations following an event of default (or in some cases automatically on the occurrence of the event of default regardless of whether there is a general acceleration of all of the obligor's senior debt) the Company is entitled to accelerated payment of deferred fee payments. The formula used to determine such accelerated payments is typically the present value of the future contractually committed fees, discounted at a specified discount rate, typically either the insured obligation's coupon rate for fixed or index-linked obligations or a specified discount rate for floating rate obligations.

The Company is exposed to the credit risk associated with the potential non-receipt of these guarantee fees due to the inability of the obligor to make these fee payments when due. As at 31 December 2016, the gross fees receivable are £232 million, on a discounted basis, with 79% due from six issuers. These six issuers are all rated investment grade by at least two external rating agencies. Approximately 84% of guarantee fees receivable is denominated in pound sterling, 12% in euro and 4% in USD. As at 31 December 2016 the Company had no assets that were significantly past due or impaired.

In a minority of cases (by value of future receivables), most typically with secondary markets transactions, the guaranteed debt instrument may be callable by the issuer or the guarantee may be terminable at the option of the beneficiary earlier than its expected life, in both cases with a consequential cessation of guarantee fee payments. Such an early termination event does not represent counterparty credit risk.

C.4 LIQUIDITY RISK

The Company and the MBIA Group were subject to, and carefully managed, their liquidity risk, i.e., the risk that the Company would not have sufficient resources to meet contractual payment obligations when due and to fund ongoing operations. Obligor defaults, whether due to credit impairments, adverse capital markets conditions or otherwise, can create payment requirements and hence liquidity risk as the Company irrevocably guaranteed payments of principal and interest, or other amounts owing on insured obligations, when due. Additionally, the Company encountered liquidity risk in its insurance operations associated with the payment of operating expenses. During 2016, the Company made loss and loss expense payments after reinsurance and salvage recovery totalling £1.3 million.

The Company's financial guarantee insurance business model is built upon the premise of "pay-as-you-go" cash flows. Its financial guarantee contracts generally cannot be accelerated by a third party (absent an insolvency or payment default of the Company) in the ordinary course of business, thereby mitigating liquidity risk.

During 2016, the Company's liquidity risk management framework monitored cash and liquid asset resources to best ensure that appropriate assets in terms of currency, liquidity and duration would be maintained to cover the technical provisions. During 2016, members of the MBIA Group's senior management undertook regular reviews, at least quarterly, which considered the financial position of the MBIA Group, the profile and liquidity of the insured portfolio and the investment portfolio, and potential contingency plans with the aim of anticipating the liquidity needs of the MBIA Group, including future claims payments. During 2016, it was an objective of the Company's investment guidelines to maintain reasonable liquidity in the Company's investment portfolio.

Measurement

During 2016, the MBIA Group did not explicitly measure liquidity risk.

Risk Sensitivity

Each year, as part of its ORSA, the MBIA Group performed liquidity stress testing to understand the liquidity stresses that could arise in a stress scenario. This analysis was last performed as of 31 December 2016.

Expected future profit included in future premiums

The total amount of net expected future profit included in future premiums as of 31 December 2016, as calculated in accordance with Solvency II Regulations, was £107.6 million.

C.5 OPERATIONAL RISK

The MBIA Group's stated risk appetite provided for risks to be evaluated both for the potential impact on the organisation prior to controls being in place and for the residual level of risk after considering appropriate mitigating controls. The MBIA Group's risk appetite required that there be no key risks which were assessed as needing improvement (after consideration of controls).

The MBIA Group's operational risk tolerance was that actual operational risk economic losses should not exceed 10% of the operational risk capital charge as calculated by the operational risk capital model ("ORCM") and the operational risk capital charge should not comprise more than 10% of the total capital requirements. If such an event happened, this would have been reported to the ROC, who would have decided upon the appropriate course of action.

Operational risk responsibilities were established such that risks inherent in each business were identified, owned and managed by the business unit and its employees. The process to initially identify and update annually the inventory of potential risks was the risk and control self-assessment process (the "RCSA"). This RCSA had been established as a standardised process which involved initially defining the key risks that reflected the MBIA Group businesses ("Key Risks"), and then annually updating them as necessary. The annual update was necessary to reflect the current market and business environment and any changes to the MBIA Group's organization or control processes.

The RCSA focused on the changes each division had undergone and the relevant new operational risks that the division faced. The risks identified were detailed on the risk maps. Annually or more frequently if requested, the operational risk owners, with the assistance of relevant employees, were responsible for:

- Reviewing the risk maps to ensure the inventory of risks was still relevant given current market conditions;

- Evaluating the database of prior year operational risk events and new Key Risks identified to include on the risk maps, if applicable;

- Reviewing past internal audit results and internal controls over financial reporting findings that may indicate a Key Risk to the organization; and

- Conducting risk maps review meetings, which took into account not only the MBIA Group's experience in completing its action plans during the previous twelve months, but also contemplated changes in the business, and known / envisaged changes within the regulatory and legal environment.

Risks from the risk maps were reviewed by the relevant responsible person for the function in question; any proposed changes were discussed in the ORC with recommendations for changes made to the ROC for approval. The revised risk maps were circulated to all relevant personnel in each functional area for review and approval.

C.6 OTHER MATERIAL RISKS

Brexit

The Company is evaluating the impact of Brexit on its business. On 29 March 2017, the U.K. served formal notice on the European Council of its wish to withdraw under Article 50 of the Treaty on EU. Negotiations have now commenced between the U.K. and EU to agree the terms of withdrawal and to settle the U.K.'s future relationship with the EU, including the terms of trade between the U.K. and the EU. Negotiations are expected to last for two years, or possibly longer. Brexit may impact laws, rules and regulations applicable to the Company and its operations.

The Company cannot predict the direction Brexit-related developments will take nor the impact of those developments on the economies of the markets the Company serves, which may materially adversely affect the Company's business, results of operations and financial condition. However, the Company has identified certain areas where Brexit may impact its business:

- *Management of Existing Business Elsewhere in the EU*. As of 31 December 2016, approximately £1.2 billion of the Company's insured net par is to risks located in EU and EEA countries other than the U.K. If the Company loses its passporting in other EU or EEA states once Brexit is implemented, the Company may lose the ability to manage transactions from London in non-U.K. EU and EEA countries without obtaining additional licenses, which may require a presence in another EU country. In particular, Brexit-related changes in laws and regulations may adversely affect the Company's surveillance and loss mitigation activities with respect to existing insured transactions in non-U.K. EU and EEA countries, especially to the extent Brexit inhibits the issuance of new guarantees in distressed situations. The Company is assessing a number of options in order to ensure that it can effectively mitigate the potential impact of Brexit on its ability to continue to manage its existing business in those EEA states.

- *Currency Impact*. The Company reports its accounts in pounds sterling, while some of its income, expenses, assets and liabilities are denominated in other currencies. Currency fluctuations as a result of Brexit will impact the results of the Company.

- *Overall Economic Impact*. Brexit may cause political, social and economic uncertainty. That uncertainty and any other changes arising from Brexit may have a negative impact on the economies of the U.K. as well as non-U.K. EU and EEA countries, which may increase the probability of losses on obligations insured by the Company that are exposed to risks in the U.K. and non-U.K. EU and EEA countries.

- *Overall Legal Impact.* Brexit could lead to legal uncertainty and politically divergent national laws and regulations as the U.K. determines which EU laws to replace or replicate. Changes in such law and regulation could adversely impact the Company (for example, changes to tax laws) and the Company continues to monitor developments in this regard as part of its Brexit contingency planning.

- *Employees*. While nearly one-third of the employees working for the U.K. Service Company are non-U.K. EU or EEA citizens, most of those employees currently qualify, and the Company expects the rest to qualify within the next two years, to become permanent residents under current U.K. law.

Cyberrisk

The Company relies upon information technology and systems, including technology and systems provided by or interfacing with those of third parties, to support a variety of its business processes and activities. While the Company does not believe that the financial guarantee industry is as inherently prone to cyber-attacks as industries relating to, for example, payment card processing, banking, critical infrastructure or defence contracting, the Company's data systems and those of third parties on which it relies are still vulnerable to security breaches due to cyber-attacks, viruses, malware, hackers and other external hazards, as well as inadvertent errors, equipment and system failures, and employee misconduct. Problems in or security breaches of these systems could, for example, result in reputational harm, the disclosure or misuse of confidential or proprietary information, incorrect reporting, inaccurate loss projections, legal costs and regulatory penalties.

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

The Company is subject to U.K. and EU laws and regulations regarding its information systems and data protection, including personally identifiable information. The Company's failure to comply with these requirements, even absent a security breach, could result in penalties, reputational harm or difficulty in obtaining desired consents from regulatory authorities.

C.7 ANY OTHER INFORMATION

None.

D. VALUATION FOR SOLVENCY PURPOSES

D.1 ASSETS

The following table presents material assets accounts for solvency and financial statement purposes with the exclusion of technical provisions that are covered in *Section D.2 Technical Provision*s. In addition to the Company assets listed below, the MBIA Group had additional assets of £0.5 million, which had the same value for financial statement and Solvency II purposes.

Assets
As of 31 December 2016

	Financial Statement Balance Sheet	Solvency II Balance Sheet
	(in thousands)	
Deferred acquisition costs	£ 9,319	£ —
Deferred tax assets	8,668	—
Investments (including accrued interest of £3,152 thousands)	376,946	380,098
Reinsurance recoverables:		
Reinsurer's share of provision for unearned premiums	8,734	—
Reinsurer's share of other technical provisions (unexpected risk provisions)	106	—
Reinsurer's share of technical provisions (premium provision and claims provision)	—	(3,149)
Total reinsurance recoverables	8,840	(3,149)
Insurance and intermediaries receivables:		
Current premiums receivable	5	5
Future premiums receivable	217,889	—
Total insurance and intermediaries receivables	217,894	5
Reinsurance receivables:		
Future reinsurance commissions receivable	1,592	—
Receivables (trade, not insurance)	133	133
Cash and cash equivalents	59,068	59,068
Other assets	3,199	47
Total assets	£ 685,659	£ 436,202

The following is a description of the valuation methodology used to arrive at the value of each category of assets shown on the balance sheet for Solvency II purposes. There have been no changes to the recognition and valuation bases used or to estimations during the period for Solvency II purposes. The estimation uncertainty for the Solvency II assets is low as they are primarily cash and liquid investments.

Deferred Acquisition Costs

There is no concept of deferred acquisition costs under Solvency II because technical provisions only take into account future cashflows, whereas under U.K. GAAP, the relevant accounting standard that the MBIA Group applied in the preparation of its financial statements, direct costs which are primarily related to the production of business are deferred over the years in which the related premiums are earned.

Therefore deferred acquisition costs in the MBIA Group's financial statements represented the proportion of acquisition costs incurred that corresponded to the proportion of premium written which was unearned at the balance sheet date.

The difference in valuation resulted in the deferred acquisition costs recognized in the MBIA Group's financial statements as of 31 December 2016 (£9.3 million) being fully disallowed when calculating the MBIA Group's available assets for Solvency II purposes.

Deferred Tax Assets

Deferred taxation was provided in full in the MBIA Group's 2016 financial statements in respect of timing differences between the treatment of certain items for taxation and accounting purposes. The Deferred Tax Asset ("DTA") was calculated on an undiscounted basis at the tax rates which were expected to apply in the years when the timing differences would reverse.

The DTA in the MBIA Group's financial statements at the end of 2016 was £8.7 million and arose due to tax losses carried forward.

Differences in the valuation and recognition of assets and liabilities between Solvency II and the financial reporting standards used in the preparation of the MBIA Group's financial statements as outlined throughout this section - more specifically differences in the methods and assumptions used in determining the MBIA Group's technical provisions - have resulted in the value of the deferred tax under Solvency II being £24.4 million lower than the DTA recognized in the financial statements. This has resulted in a deferred tax liability being recognised under Solvency II (see *Section D.3 Valuation of Liabilities*).

Investments

As of 31 December 2016 the MBIA Group valued its investments at fair value. There were no differences between the valuation of investments for Solvency II purposes and the valuation of investments included in the MBIA Group's financial statements, however for presentational purposes the accrued investment income was included in the market value of *Investments and cash* under Solvency II whereas it was disclosed under *Prepayments and accrued income* (*Other assets* in the table above) in its financial statements.

In valuing its investments the MBIA Group applied the provisions of both FRS102 Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*. Bonds and other redeemable fixed maturity securities were stated at fair value at the end of the period. Fair value was determined using the closing bid price for each investment on the last trading date before the balance sheet date.

The MBIA Group used a hierarchy for inputs used in measuring fair value that maximised the use of observable inputs and minimised the use of unobservable inputs by requiring that the most observable inputs be used when available and reliable. Observable inputs were those the MBIA Group believed that market participants would use in pricing an asset or liability based on available market data. Unobservable inputs were those that reflect the MBIA Group's beliefs about the assumptions market participants would use in pricing an asset or liability based on available information. The fair value hierarchy was categorized into three levels based on the observability and reliability of inputs, as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the MBIA Group can access. Valuations based on quoted prices that are readily and regularly available in an active market, with significant trading volumes.

- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Level 2 assets include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, securities which are priced using observable inputs and derivative contracts whose values are determined using a pricing model with inputs that are observable in the market or can be derived from or corroborated by observable market data.

- Level 3 - Valuations based on inputs that are unobservable and supported by little or no market activity and that are significant to the overall fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques where significant inputs are unobservable, as well as instruments for which the determination of fair value requires significant management judgement or estimation.

The following table presents the fair value of the MBIA Group's financial assets measured and reported at fair value based on the hierarchy above:

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Maturing within one year	£ 20,017	£ 67,916	£ —	£ 87,933
Maturing in greater than one year	65,778	223,235	—	289,013
Total financial assets	£ 85,795	£ 291,151	£ —	£ 376,946

Investments denominated in currencies other than pound sterling were translated into pound sterling at the rates of exchange ruling at the balance sheet date.

Reinsurance Recoverables

Reinsurance recoverables recognised for Solvency II purposes consist of the reinsurers' share of technical provisions calculated, in part, using the Company's Individual Capital Assessment ("ICA") model. However, the reinsurance recoverables reported within the financial statements follow U.K. GAAP and consist of reinsurers' share of provisions for unearned premiums, claims outstanding and other technical provisions (i.e., unexpired risk provisions). Please note that in the Solvency II balance sheet, £3.1 million representing future reinsurance premium payable and future reinsurance ceding commission receivable has been recognized as a negative asset within total assets.

The valuation methodologies for technical provisions under Solvency II and U.K. GAAP are discussed in *Section D.2 Technical Provisions.*

Insurance and Intermediaries Receivables and Reinsurance receivables

For the preparation of the MBIA Group's financial statements, *Future premiums receivable* represented fees due to the MBIA Group within the reporting period and beyond, for issuing guarantees of insured obligations. These fees are payable periodically by either the guaranteed obligor or the beneficiary of the guarantee (e.g. a guaranteed swap counterparty or a guaranteed debt holder). Some of the fees payable are indexed to an inflation index and the present value of these fees was estimated by the MBIA Group using future inflation assumptions.

When fees on a policy were received in instalments, an assessment was made of the anticipated total billing stream and this was measured based on the present value of the expected guarantee fees due over the policy contract period. The present value of each instalment policy was calculated using a risk-free interest rate and was based on either the contract period until the maturity of the insured obligation or an expected period based on an estimate of the time period until the insured obligation is prepaid. The expected period was determined based on probable and reasonably estimated amounts and the timing of prepayments on the insured obligation. After recognition and measurement at inception of an instalment contract that was required to use the expected period, the expected period was allowed to change in future reporting periods given changes in prepayment assumptions (if probable and reasonably estimated).

Future reinsurance commissions receivable were the commissions due to the MBIA Group's insurance undertaking on premium ceded under outgoing reinsurance contracts. Ceding commissions were calculated as a percentage of the premium ceded to the reinsurer and were receivable in conjunction with the receipt of regular premium under the insurance contracts and the payment of the corresponding ceded premium to the reinsurer.

Both *Future premiums receivable* and *Future reinsurance commissions receivable* were carried on the U.K. GAAP balance sheet on a discounted basis: the risk-free interest rate used in the present value calculation was the yield-to-maturity of a government obligation (e.g. U.S. Treasury, U.K. gilts) of approximately equivalent maturity date to the contract period or expected period as of the inception of the contract. Weighted average life was used to determine the approximately equivalent maturity date for either the contract period or expected period. The denomination of the currency in which the insured obligation had been issued, and premiums and insured payments and commissions were being paid determined which yield-to-maturity of a government obligation to use for the risk-free interest rate.

The valuation of *Future premiums receivable* and *Future reinsurance commissions receivable* on a Solvency II basis was consistent with the valuation performed for the preparation of the MBIA Group's financial statements, however these are included within the technical provisions for Solvency II purposes (see *Section D.2 Technical Provisions*).

Cash and Cash Equivalents

The balance in Cash and Cash Equivalents comprised deposits with credit institutions exchangeable for currency on demand at par. Foreign currency deposits were translated into sterling at the rates of exchange ruling at the balance sheet date.

There were no differences in the bases, methods or assumptions used in the valuation of *Cash and Cash Equivalents* for Solvency II purposes and those used for its valuation in the financial statements.

Any Other Assets, not Elsewhere Shown

Other Assets included prepayments. Expenses paid for that provide a benefit to future accounting periods were recorded as an asset within the MBIA Group's balance sheet.

The valuation for Solvency II purposes is consistent with the valuation for use in the financial statements and there were no differences between the two bases. As noted above, accrued investment income is presented in Other assets in the above table.

There are no other material classes of assets and there are no material differences with the valuation bases, methods and main assumptions used by the undertaking for the valuation for Solvency II purposes and those used for their valuation in financial statements.

D.2 TECHNICAL PROVISIONS

The MBIA Group has only one line of business, insuring credit, suretyship and miscellaneous financial loss. The Technical Provisions for the MBIA Group are identical to the Technical Provisions of the Company.

Technical provisions under Solvency II and U.K. GAAP for this line of business were as follows as at year end 2016:

Technical Provisions
As of 31 December 2016

	Financial Statement Balance Sheet	Solvency II Balance Sheet
	(in thousands)	
Best Estimate Technical Provisions	£ —	£ (55,999)
Risk margin	—	133,838
Provision for unearned premiums	431,892	—
Unexpired risk provisions	9,144	—
Total technical provision	£ 441,036	£ 77,839

While the measurement of technical provisions under Solvency II is based on the expected cash inflows and outflows receivable and payable throughout the life of the insured portfolio, the calculation under U.K. GAAP is based on the incidence of risk and, more specifically, on what proportion of written premium relates to periods of risk after the reporting date (the unearned premium) and whether the estimated value of claims and expenses likely to arise after the reporting period exceeds the provision for unearned premium and any premiums receivable.

Details of the methods and assumptions used to calculate each basis are outlined below.

Technical Provisions under Solvency II

Under Solvency II, as of 31 December 2016, the gross premium provisions for the MBIA Group's only line of business were an asset of £56.0 million and the risk margin was a liability £133.8 million resulting in a total gross technical provision (being a liability) of £77.8 million. The MBIA Group had no claims provisions as at 2016 year end. The gross best estimate portion of the technical provision value ("Best Estimate Technical Provisions") is negative because future instalment premiums on existing policies exceed the projected claim payments and the present value of projected future operating expenses ("Expense Load") required to runoff the Company.

The cash flow projections used in the calculation of the premium provisions included the present value of all of the following cash flows:

- *Future premium receipts and reinsurance payments* - when the premium on a policy is received in instalments, an assessment was made of the anticipated total billing stream including allowance for any impacts of inflation. Future reinsurance premiums payable for reinsurance contracts (net of reinsurance commission receivable) were accounted in the premiums provisions;
- *Future claims payments to policy holders and beneficiaries* - this was the expected probability of default in every year of the portfolio's life (starting at the beginning of year one) multiplied by the relevant loss given default ("LGD") factor as calculated by the MBIA Group's approved Internal Model; this was the mean of the distribution

of lifetime cash outflows. The amount was calculated gross of any reinsurance as no allowance was given for any third party reinsurance; and

- *Expense Load* - future expenses that would be incurred in managing the runoff of the Company until expiry were estimated based on a number of factors such as headcount, portfolio amortization, allocated overhead expenses and expense inflation.

To the extent that a policy's expected probability of default multiplied by the relevant LGD factor is lower than the unexpired risk provision established under U.K. GAAP (see *Unexpired Risk Provisions* in the *Technical provisions under U.K. GAAP* section), then the Internal Model's projected cash outflows have been replaced with the outflows used when modeling the U.K. GAAP unexpired risk provision.

Key assumptions and data used in the establishment of the Best Estimate Technical Provisions within premium provisions were default probability and the LGD factors. For more information on the methods and assumptions used in the calculation of the Future claims payments, see *Section E.2.b SCR and MCR, Underwriting Risk.*

The MBIA Group sourced the data from Moody's database, which included data on all defaults and rating movements for all its rated corporate issuers; the Internal Model then derived and idealised corporate default curves to which default rate multipliers were applied to match the probability of default for a given asset class as closely as possible to the historical performance of the asset class.

The LGD parameters were partially derived from Moody's data, however, due to insufficient historic data, it was necessary to supplement the observed data with expert judgement from the MBIA Group's own experience and supplemental research.

The Risk Margin was calculated as the present value of the MBIA Group's future cost of capital in all future years as the MBIA Group's insured exposure amortises. The Risk Margin captured the carrying cost of capital that a third party would be required to hold if the MBIA Group were to transfer its SCR to a third party. The future SCR relates to credit risk, premium default risk and operational risk and the respective SCR is assumed to decline in line with insured portfolio amortization.

For the purpose of this calculation, the yield curves published by EIOPA as of 31 December 2016 were used for discounting future cashflows based on their respective currencies, with the exception of the risk margin that was discounted using EIOPA's pound sterling curve only. The cost of capital percentage is 6%, as mandated by the Solvency II Regulations.

While the MBIA Group believes that the assumptions and methods used to develop the Technical Provisions are reasonable and consistent and that they provide for a calculation of future expectations in an appropriate manner, it remains possible that future experience in future premiums, future ceding commissions, projected operating expenses, default probabilities, severities, and correlations may not be in line with expectations. Since the Company guarantees against low probability events that have large nominal exposures despite the expectation that the severity of any loss would be low, the uncertainty within the Company's projected losses used in the calculation of the Technical Provisions is high. The level of uncertainty in respect of future premiums, future ceding commission and projected operating expenses is expected to be low.

Technical provisions under U.K. GAAP

The technical provisions under U.K. GAAP comprised gross unearned premium reserves of £431.9 million and unexpired risk provisions of £9.1 million.

Unearned premiums represented the proportion of premiums written that related to unexpired terms of policies in force at the balance sheet date, calculated on an outstanding risk basis as detailed below. Unearned premiums relating to policies underwritten in non-sterling currencies were revalued at each Balance Sheet date, in accordance with U.K. GAAP.

Both upfront and instalment premiums were earned in the technical account, having regard to the incidence of risk, on a basis proportionate to the remaining scheduled periodic maturity of principal and payment of interest to the original total principal and interest insured.

When an issue insured by the Company had been refunded or called, the remaining unrecognised premium was recognised at that time. If the Company changed its estimate of total expected written premium during a year, it recognised the change in the year it arose.

Unexpired risk provisions have been made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet the present value of expected claims and expenses. The expected claims are calculated based on information available at the balance sheet date. Technical provisions require the use of judgement and estimates with respect to the occurrence, timing and amount of claims payments and, if applicable, any salvage recoveries on insured obligations. Technical provisions are, where appropriate, based on a probability-weighted average of multiple scenarios. The assumptions used in each scenario require considerable judgement by the MBIA Group and are subject to change. The future loss severities projected by these scenarios can vary considerably, from no loss to moderate and/or substantial losses. The MBIA Group believes that there is a range of possible outcomes on the transactions it has guaranteed.

The following is a listing of the material differences between Solvency II and U.K. GAAP technical provisions.

The technical provisions for Solvency II include the following discounted provisions (for Solvency II purposes, the EIOPA specified rates were used):

- premiums scheduled to be received, net of reinsurance and commissions (future premiums under U.K. GAAP are not included in technical provisions and are discounted using risk-free rates rather than the EIOPA specified rates);

- future ceding commissions scheduled to be received (future ceding commissions under U.K. GAAP are not included in technical provisions and are discounted using risk-free rates rather than the EIOPA specified rates),

- projected losses for all credits within the Company's insurance portfolio discounted using the EIOPA specified risk free rate (U.K. GAAP is discounted using the expected return on the assets only for exposures that are likely to have losses),

- Projected Expense Load (U.K. GAAP does not include a projected Expense Load).

Matching and Volatility Adjustment

The matching and volatility adjustments referred to in Article 77(b) and 77(d) of the Directive are not applied by the MBIA Group.

Transitional Risk Free Interest Rate Term Structure and Transitional Deduction

The transitional risk free interest rate term structure and transitional deductions referred to in Article 308(c) of the Directive are not applied by the MBIA Group.

Recoverables From Reinsurance and Special Purpose Vehicles ("SPV")

Contracts entered into by MBIA UK with reinsurers, under which the Company is compensated for losses on one or more contracts issued by MBIA UK and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial instruments. MBIA UK does not have any contracts that do not meet the classification requirements for insurance contracts. Insurance contracts entered into by MBIA UK under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts, provided there is significant transfer of insurance risk.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectibility. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies.

Reinsurance recoverables of £0.1 million have been reflected in the unexpired risk provisions for U.K. GAAP; however, no allowance has been given to such recoverables within technical provisions for Solvency II.

There are no recoverables from SPVs.

Material changes in assumptions or methods used to calculate technical provisions

There have not been any other material changes to the assumptions or methods used in the calculations of technical provisions or Risk Margin from the opening financial statement apart from a significant change in the assumptions used to calculate the future operating expense provision. This arises primarily due to decreased staffing and office expenses after the Acquisition of the Company.

D.3 VALUATION OF LIABILITIES

The following table presents material liabilities accounts for Solvency II and financial statement purposes. The liabilities for the MBIA Group are identical to the liabilities of the Company.

Liabilities
As of 31 December 2016

	Financial Statement Balance Sheet	Solvency II Balance Sheet
	(in thousands)	
Deferred tax liabilities	£ —	£ 15,713
Reinsurance payables:		
Future reinsurance premiums payable	4,618	—
Total reinsurance payables	4,618	—
Other liabilities (including accrued expenses)	8,649	228
Total liabilities excluding technical provisions	13,267	15,941
Technical provisions	441,036	77,839
Total liabilities	£ 454,303	£ 93,780

The following is a description of the valuation methodology used to arrive at the value of each category of liabilities shown on the balance sheet for Solvency II purposes and the differences to U.K. GAAP. There have been no changes to the recognition and valuation bases used or to estimations during the period for Solvency II purposes. The estimation uncertainty for the Solvency II liabilities (other than technical provisions) is low.

Deferred Tax Liabilities

Deferred tax liabilities are established for the temporary differences between the financial statements carrying amounts and the tax bases and liabilities using enacted rates in effect for the year in which the differences are expected to reverse.

The table below outlines the adjustments that were required as a result of the different bases and methods used in the measurement of assets and liabilities under Solvency II and U.K. GAAP, and the impact that these adjustments had on the deferred tax balance, measured as 18% of each adjustment.

Deferred Tax Liabilities
As of 31 December 2016

	Solvency II Balance Sheet	Financial Statement Balance Sheet	Pre-Tax Adjustment	Tax Effect
		(in thousands)		
Assets				
Deferred acquisition costs	£ —	£ 9,319	£ (9,319)	£ 1,677
Reinsurance recoverable	(3,149)	8,840	(11,989)	2,158
Insurance and intermediaries receivables	5	217,889	(217,884)	39,219
Reinsurance receivables	133	1,725	(1,592)	287
Liabilities				
Gross technical provisions - non-life (excluding health)	(77,839)	(431,892)	354,053	(63,730)
Other technical provisions	—	(9,144)	9,144	(1,646)
Reinsurance payables	—	(4,618)	4,618	(831)
Any other liabilities, not elsewhere shown	(228)	(8,649)	8,421	(1,515)
Total deferred tax adjustments (liability)	£ (81,078)	£ (216,530)	£ 135,452	£ (24,381)
U.K. GAAP deferred tax (asset)				8,668
Solvency II deferred tax (liability)				£ (15,713)

The tax effect of the total adjustments was £24.4 million offset by the deferred tax asset of £8.7 million in the MBIA Group's financial statements resulted in a deferred tax liability of £15.7 million in the Solvency II balance sheet.

Reinsurance Payables

Reinsurance payables recognized in the financial statements consisted of future premium payable to reinsurers, discounted consistently with future premium receivable (see *Section D.1 Assets, Insurance and intermediaries' receivables and Reinsurance receivables*). Reinsurance premiums payable in foreign currency had been translated into pound sterling at the rates of exchange ruling at the balance sheet date.

Reinsurance payables under Solvency II had been included in the technical provisions recognized as of 31 December 2016 (see *Section D.2 Technical Provisions*).

Any Other Liabilities, not Elsewhere Shown

Any other liabilities not shown elsewhere recognized for Solvency II purposes and in the MBIA Group's financial statements consisted of accrued expenses that had not been settled at the balance sheet date.

The MBIA Group's financial statements also included £8.4 million of deferred reinsurance commissions at the balance sheet date. Deferred reinsurance commissions represented the portion of commissions received and receivable on premium ceded to reinsurers that had not been recognized as income at the balance sheet date. Commission income was deferred following the same basis as premiums unearned: see *Section D.2 Technical provisions, Technical provisions under U.K. GAAP* .

There were no other material classes of liabilities and there were no material differences with the valuation bases, methods and main assumptions used by the undertaking for the valuation for Solvency II purposes and for financial statements.

D.4 ALTERNATIVE METHODS OF VALUATION

Article 296 lays out several requirements that must be disclosed publicly with regard to the valuation of assets and liabilities. These requirements are covered in *D.1. Assets*, *D.2 Technical Provisions and D.3 Valuation of Liabilities.*

D.5 ANY OTHER INFORMATION

There is no other material information regarding the valuation of assets and liabilities for Solvency II purposes.

E. CAPITAL MANAGEMENT

E.1 OWN FUNDS

a. Objectives, policies and processes of managing own funds

The MBIA Group's capital management objectives included maintaining its capital position such that it remained in excess of that required per the SCR and any other regulatory capital measure mandated by the PRA (or other relevant regulatory body); achieving the MBIA Group's targeted solvency ratio and ensuring its capital position was sufficient to meet all claims payments when due, even under highly stressed scenarios. In addition to the Company own funds, the MBIA Group had additional own funds of £0.5 million, which had the same value for financial statement and Solvency II purposes.

Under the MBIA Group's capital management objectives, the capital maintained would not only meet all requirements identified above, but also provide a buffer to such minimum thresholds which the MBIA Group reviewed as part of the Annual Business Plan in order to ensure that the MBIA Group had sufficient capital to comply with these requirements in the event of unforeseen portfolio stress in the form of losses or downgrades.

Additionally, the MBIA Group sought to obtain an optimal return on capital whilst achieving an appropriate risk balance.

The MBIA Group typically prepared a capital and business plan using a planning horizon of 3-5 years. The business planning process took into account both regulatory and economic capital requirements.

The MBIA Group managed its capital resources to obtain an adequate return while also preserving capital and maintaining adequate liquidity. During 2016 the MBIA Group continued to focus on strengthening its capital position with near-term objectives that included de-risking the insured portfolio.

Basic Own Funds include share capital, share premium and other reserves as reported in the quantitative reporting template. The classification and eligibility of Own Funds is based on the features of the own funds items and the eligible amounts are subject to the quantitative limits set out in the Solvency II Regulations.

b. Structure, amount and quality of own funds

The capital structure of the MBIA Group consists of only one form of Own Funds: Basic Own Funds, which are the excess of assets over liabilities for Solvency II purposes and which all qualify as Tier 1 funds. Basic own funds consists of share equity and the reconciliation reserves.

The value of Tier 1 capital as of 31 December 2016 was £342.4 million (1 January 2016: £255.2 million (unaudited)). As of 1 January 2016 there was Tier 3 capital in the form of a net DTA of £0.7 million (unaudited) which had reduced to nil at 31 December 2016. The significant increase in Tier 1 capital relates to a) expected earnings arising over 2016 and b) a significant change in the assumptions and methods used to calculate the future operating expense provision within technical provisions. This arises primarily due to decreased staffing and office expense projections after the Acquisition of the Company. This change impacted the increase in the SCR ratio over the period.

c. Eligibility of own funds to cover SCR

The value of eligible own funds to cover SCR is solely comprised of Tier 1 funds which equated to £342.4 million as of 31 December 2016. The quantitative limits on items eligible to cover the SCR regulations do not result in any deductions from own funds.

d. Eligibility of own funds to cover Minimum Capital Requirement ("MCR")

The value of eligible own funds to cover MCR is solely comprised of Tier 1 funds which equated to £342.4 million as of 31 December 2016.

e. Differences between shareholders equity and own funds

The differences between shareholders' equity under U.K. GAAP and excess of assets over liabilities for Solvency II purposes are balances within the reconciliation reserve. A detailed explanation of the differences in asset and liability recognition is provided in *Sections D.1 Assets* and *D.3 Valuation of Other Liabilities*. The following is a summarised reconciliation between U.K. GAAP shareholder's equity and the excess of assets over liabilities for Solvency II purposes.

Reconciliation between Shareholder's Equity
and Excess of Assets over Liabilities
As of 31 December 2016

		(in thousands)
Shareholder's equity under U.K. GAAP	£	231,356
Reconciliation reserve:		
Adjustments to assets (see Section D.1)		(249,457)
Adjustments to liabilities (including technical provisions) (See Section D.3)		360,523
Excess of assets over liabilities for Solvency II purposes	£	342,422

f. Basic own funds subject to transitional arrangements

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

g. Ancillary own funds

The MBIA Group does not have any ancillary own funds.

h. Basic own funds deductions and significant restrictions

There are no other items deducted from own funds and no significant restriction affecting the availability and transferability of own funds within the Company. Any distribution of funds from the Company to UK Holdings would have required prior approval by the PRA. Following the Acquisition, the Company is no longer a member of a European sub-group.

E.2 SCR and MCR

a. Amounts of SCR and MCR

The SCR and MCR for the MBIA Group is identical to the SCR and MCR of the Company.

The following table presents the MBIA Group's SCR and MCR amounts.

SCR and MCR Amounts

	As of 31 December,			
	2016		2015	
	(in thousands, except ratios)			
Underwriting risk	£	167,262	£	172,558
Market risk		70,649		62,935
Counterparty risk		7,638		6,950
Diversification benefit		(35,707)		(31,788)
Operational risk		14,872		11,984
Deferred tax benefit		(6,200)		—
SCR	£	218,514	£	222,639
SCR Ratio to eligible own funds		1.57:1		1.15:1
MCR	£	54,628	£	55,660
MCR Ratio to eligible own funds		6.27:1		4.58:1

The SCR and MCR are subject to supervisory assessment and could change based on a negative assessment from the PRA.

b. Split of SCR by Internal Model risk categories

The MBIA Group used an approved Internal Model to calculate the types of risks it is exposed to. The contribution of each of the relevant components of the SCR was as follows:

Underwriting Risk

The principal risk the MBIA Group faces is underwriting risk arising from the Company's insured portfolio, i.e. the risk of economic loss arising from the failure or potential failure of an obligor to perform on a financial obligation. Since the Company is in runoff, the only element of underwriting risk is the credit risk on its existing insured portfolio. Factors that can impact credit risk include, in addition to the financial strength of the obligor, legal risk (which can arise from the structure of the transaction, unclear or changing legislation, inability to enforce and/or other jurisdictional issues), country risk (economic, political and/or legal) or any other factor that could impact the ability or willingness of an obligor to make a payment when it was due. As the CRCM was used to measure this risk, it was deemed to be the most important capital model the MBIA Group used. The CRCM calculated both the Best Estimate of Future Claims (i.e., "expected losses") and the SCR of the insured portfolio at a 99.5% confidence level.

The four key drivers of how the CRCM computed the insured portfolio SCR and Best Estimate of Future Claims were:

1. Probability of default ("PD") of the obligors whose debt the Company guarantees;
2. Correlation of Default;
3. Annual Rating Transition Matrices; and
4. LGD

1 <u>Probability of Default</u>: As the Company has historically had limited actual losses in its insured portfolio, it was decided in the CRCM development process to use external data from Moody's (the Moody's Corporate Default Rate Service) to derive the assumptions that simulate PD in the CRCM. Standard & Poor's database was also considered, but Moody's was chosen because the way in which industries are represented in the Moody's database was deemed to be a good match for the MBIA Group's portfolio. Additionally, Moody's data was viewed as thorough, providing very good debt-issuer coverage and can be extracted in a user friendly format.

Default rates (or PD) for public finance transactions were linked to the Moody's corporate default and rating transition tables.

2 <u>Correlation of Default</u>: The model's dependency structure included a systematic shock factor based upon an obligor's Asset Class and Country. The correlation feature used a Gaussian copula which was viewed as consistent with how similar institutions, such as banks, model correlation for credit risk. The effect of the dependency feature was to increase volatility in the probability distribution and increased capital requirements in the tail of the distribution.

3 <u>Annual Rating Transition Matrices</u>: These were used in the model to define the probability over a one year period of an obligor in a given asset class migrating from its current credit rating to any other credit rating, including default, or staying at its current rating. These were derived from the Moody's data. Ratings transitions were simulated during Year One and the resulting ratings are then used to calculate the change in expected losses after Year One.

4 <u>Loss Given Default</u>: The LGD parameters were partially derived from Moody's data. However, due to insufficient historic LGD data, it was necessary to supplement the observed data with expert judgement from MBIA Group's own experience and supplemental research. Initial "base" LGDs were assigned to each Asset Class, with increased LGDs applied to obligors in lower rated countries. The LGDs were additionally subjected to a recovery distribution that had the effect of creating volatility around LGD assumptions and increasing the capital requirement in the tail of the probability distribution.

Sensitivity testing undertaken as part of the validation exercise show that, at the 99.5% confidence level, the model responds appropriately to changes in PD, LGD and Correlation (systematic risk weighting factor).

Losses within the insured portfolio were the biggest threat to the MBIA Group's capital (or solvency) position, with unexpected losses being the biggest threat to liquidity. The IPM had primary responsibility for the identification, measurement, monitoring, management and reporting of risk associated with transactions in the insured portfolio.

In the context of managing the MBIA Group's capital resources, IPM's mission was to:

- Closely monitor external events and the portfolio to identify early warnings of stress or potential loss and timing of potential payments;
- Prevent and mitigate loss through proactive remedial measures; and
- Proactively manage credits in accordance with the provisions in deal documentation

De-risking the insured portfolio, including remediation of the more volatile or underperforming credits, was a key component of the MBIA Group's Risk Strategy. Although the credit quality was projected to improve through natural amortization, the MBIA Group had been seeking a greater and faster improvement in credit quality through commutations, restructuring the underlying credit and/or early repayment of the larger and more volatile names.

The MBIA Group's objective was to implement specific remediation strategies for the largest BIG credits. Development and execution of such strategies was done by IPM.

Market Risk

Market risk represents the risk of an economic loss arising from changes in interest rates, asset spread levels, foreign exchange rates, asset values or income from assets or other market factors.

The primary source of market risk for the MBIA Group was the investment portfolio (particularly if investments have to be liquidated to pay claims). This was because, per the MBIA Group's financial guaranty liquidity and market risk policy, the MBIA Group sought to avoid market risk within the insured portfolio by hedging such risk with suitably rated counterparties. In this way, it sought to convert market risk within the insured portfolio into credit risk.

Market risk was modelled within the Market Risk Capital Model ("MRCM") by stressing interest rates, currency and bond spreads, based upon observed data from Bloomberg.

The MRCM was used to determine the market risk on the investment portfolio of the Company by looking at the impact of credit risk, interest rate risk, FX and equity (currently not used) risk on the portfolio.

The total market risk was the sum of interest rate, equity (not currently in use), credit and FX risks. The model calculated the change in market value of the investment portfolio caused by three standard deviation moves in interest rates, FX rates and credit spread. This was done by multiplying relevant portfolio balances by three standard deviation moves measured in percentages. The model was calibrated to a 99.87% confidence level (three standard deviations).

The MBIA Group had a conservative risk appetite and tolerance for its investment portfolio. The MBIA Group's general strategy was to hold investments to maturity, although there had been ad hoc dispositions prior to maturity. The MBIA Group had used its investment portfolio guidelines to manage market risk, by imposing a variety of credit quality requirements and concentration limits. Market risk and liquidity risk were principally due to potentially having to unexpectedly liquidate investments to pay claims or other expenses. Thus, the Guidelines required that it anticipate, on a risk adjusted basis, potential claims (based upon input from IPM) and other liquidity needs and that its investment portfolio matched the currency and timing of such needs. Collectively, the Guidelines served to reduce the probability of having to sell securities to satisfy a claim and the probability of incurring a material loss should there be such a sale.

Counterparty Risk

The premiums recognised by the MBIA Group represented future fees due to it for issuing guarantees of insured obligations. These fees were either paid at issue of the guarantee or over the expected life of the guaranteed obligation or a combination of at issue and over the expected life. Any fees not paid upfront were payable periodically by either the guaranteed obligor or the beneficiary of the guarantee (e.g. a guaranteed swap counterparty or a guaranteed debt holder).

The MBIA Group was exposed to the credit risk associated with the potential non-receipt of these guarantee fees due to the inability of the obligor to make these fee payments when due. As of 31 December 2016, the gross fees receivable were £232 million, on a discounted basis, with 79% due from six issuers. These six issuers were all rated investment grade by at least two external rating agencies.

Counterparty risk was therefore quantified according to the future expected premium (discounted) and the capital requirements as calculated by the MBIA Group's Internal Model.

Diversification Benefit

The MBIA Group received a diversification benefit among certain components of market risk (interest rate and foreign currency) since they were not all expected to occur simultaneously, even in a 1-in-200 year stress scenario, which reduced the total capital requirement associated with these components.

A diversification benefit was also taken between underwriting risk and components of market risk (interest rate and foreign currency. Note that spread risk within the investment portfolio was combined with underwriting credit risk when calculating the diversification benefit. The diversification matrix used the Standard Formula parameters.

Deferred Tax Asset Benefit

The MBIA Group recognised a DTA benefit within its SCR in accordance with the PRA's Supervisory Statement 2/14. Per SS2/14, a DTA can be recognized when computing the SCR to the extent that a company has sufficient earnings capacity to utilize the DTA.

The loss absorbing capacity of deferred tax within the SCR was limited to the extent that there was a net deferred tax liability reflected in the MBIA Group's balance sheet.

Details on the calculation of the deferred tax asset were included in *Section D. Valuation for Solvency Purposes*.

Operational Risk

Operational risk was calculated within the ORCM. The ORCM was in Excel format and consisted of a Monte Carlo Simulation that calculated the MBIA Group's operational risk capital charge for both a one year time horizon at a 99.5% confidence level.

The ORCM simulated a loss distribution of operational risk events based on two key input assumptions: Average Frequency Per Year, that was how often each event was likely to occur, and Economic Impact, that was the potential economic loss that each event might cause. The Model assumed that there was no correlation between individual operational risk items.

The model simulated a loss distribution of operational risk events utilizing a Poisson distribution to model the number of operational risk events over the period. The operational risk capital requirement was then determined by this loss distribution and a given confidence level.

c. Use of simplified calculations

The MBIA Group did not use any simplified calculations in its Internal Model.

d. Use of USPs

The MBIA Group did not use any undertaking-specific parameters ("USPs") in its calculations within its Internal Model.

e. Disclosure of USPs and capital add-on

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

f. Impact of USPs and capital add-on

Not applicable.

g. Information on the inputs into MCR calculation

The inputs into the MCR calculation for 31 December 2016 were:

- Net Technical Provisions were set at the floor of £0 for purposes of the MCR calculation because the value is negative £52.9 million (see *Section D.2 Technical Provisions* for more details)
- NWP over the 12-month reporting period of £19.3 million
- The SCR of £218.5 million

The MCR floor of 25% of the SCR applies.

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

During the reporting period the MBIA Group changed its approach to the recognition of deferred tax in the SCR. In accordance with Supervisory Statement 2/14 the MBIA Group chose to recognize a DTA when computing the SCR. The change was a minor Internal Change as classified by the MBIA Group's approved Model change Policy and therefore the change did not need to be approved by the PRA.

Further details on DTA are included in Deferred Tax Asset Benefit section above.

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

a. Indication of use of the duration-based equity risk sub-module

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

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

a. Purposes for which the MBIA Group uses the Internal Model

The Internal Model was widely used by the MBIA Group so as to play an important role in governance, risk management and decision making.

The quantitative components of the model were used for key decisions. As examples, the CRCM impacted decisions regarding reinsurance takebacks, portfolio transfers and insured portfolio limits (pre-runoff). The Capital Cushion (i.e. Capital in excess of the SCR) influenced portfolio limits and was a key factor in dividend guidelines.

Historical examples of how the Internal Model had been used are listed below:

- Basis for Strategic and Risk Reviews including (including Annual Business Plans, presentations to the PRA, Scheme of Operations submitted to the PRA in October 2013 and ORSA Reports);
- Decisions made to commute third party reinsurance;
- Preliminary pricing of a potential transaction;
- Pricing of policy terminations;
- Enhancements to FX and liquidity matching guidelines for investment portfolio;
- Decisions made about intra group transfer of policies;
- Impact of extending the horizon of the investment portfolio and altering its profile;
- Various ad hoc potential transactions and corporate initiatives; and
- Outputs from the CRCM and MRCM (interest rate, spread and FX risks) were used and reported as Key Risk Indicators ("KRIs") within monthly MBIA Group-wide risk management report used by senior management.

b. Scope of the Internal Model in terms of business units and risk categories

As outlined in *Section E.2. b SCR and MCR, Underwriting Risk* the Internal Model consisted of:

1. The three Capital Models, specifically:

   a) The CRCM;
   b) The MRCM; and
   c) The ORCM;

2. Calibration of the Capital Models and the methods by which the outputs of these Capital Models were combined;

3. The technical specifications of the Capital Models, including the process for deriving assumptions and updating inputs; and

4. The process by which raw external data was brought into the Internal Model.

The CRCM measured the present value of losses and/or Value at Risk predicted at various confidence levels based on simulations. It was run based on inputs at an individual policy level. The key parameters were the current amount outstanding, the amortization schedule of the policy, the internal MBIA rating of the credit and underlying currency. The risk type and rating were key inputs in determining default probability and loss severity, the loss severity being further affected by geography and security. There was a detailed correlation matrix which was overlaid to simulate the impact of correlated stress across asset classes and geographies. As used, in 2016 the model did not give credit to any reinsurers.

Market Risk is deemed to exist in the investment portfolio due to interest rate volatility, FX currency risk and spread/credit risk. The MBIA Group's Investment Guidelines have been prepared with a view to maintaining a portfolio of predominantly fixed maturity investments. The fixed income element of the portfolio will benefit from a target average credit quality (as specified in the guidelines) offering diversity (both within itself and relative to the insured portfolio), appropriate duration and maturities. No correlation between the various aspects of market risk (interest rate, FX risk, spread risk) was assumed within the MRCM.

The ORCM was a stochastic model which models operational risk. There was insufficient data on operational risk events within MBIA or in relevant publicly available sources to use to directly derive assumptions for future operational risk losses. Therefore, the ORCM used a significant amount of expert judgement to derive assumptions, which were indirectly derived from operational risk maps and operational risk event data that take into account the experience of the wider MBIA Group (see also *Section C.5 Operational Risk*).

c. Integration of the Internal Model into the standard formula

As the MBIA Group used a full Internal Model, there was no integration of a partial model into the standard formula.

d. Methods used in the Internal Model to calculate the probability distribution forecast and the SCR

The following table includes a detailed description of the capital models used to calculate the SCR and MCR including a summary of the techniques used:

Overview of Capital Models

Model	Description and Purpose	Summary of Techniques
CRCM	A stochastic model that measured capital to hold against the risk of default within the insured portfolio by simulating the present value of losses and rating transitions for a given time horizon and confidence level. Simulations were based on assumptions regarding i) PD, ii) LGD, iii) credit rating transition matrices, and iv) correlation among the credits in the portfolio.	PD was derived from MBIA UK's internal obligor credit rating and an "idealized" corporate default curve that had smoothed and extrapolated Moody's data to accommodate the long-term nature of MBIA UK's portfolio. LGD factors were then applied to simulated defaults. Asset class transition matrices were used to model credit rating migration over 1 year. Correlation by country and asset class was applied to the simulation. Simulation methodology inherently provided capital benefit for more diverse/ granular portfolios. 99.5% confidence level over 1 year based on 1 million iterations for SCR.
MRCM: Interest Rate, Currency and Spread Risk	Measured capital requirements based upon volatility of interest rates, currencies (non-sterling against pound sterling) and bond yield spreads (pound sterling denominated bonds against Gilts; euro bonds against German Bunds; USD bonds against U.S. Treasuries) within fixed maturity investment portfolio. Note that all government bonds apart from U.K. gilts, U.S. treasuries and German Bunds were subject to spread risk stress.	Deterministic model that calculated capital requirements at specified confidence levels. Used three standard deviations (which, assuming a normal distribution, equates to 99.87% confidence interval) of historical volatility over one-year. Diversification impact benefit was taken when combining interest rate risk and currency risk by assuming that extreme interest rate risk events and extreme currency risk events did not occur simultaneously.
MRCM: Equity Investments	Used Level 2 guidance for capital charge on unlisted equity investments.	Not being used at present as MBIA UK no longer owned equity investments.
ORCM	A stochastic model that measured capital to hold against the risk of operational risk events; simulated the present value of losses for a given time horizon and confidence level based on assumptions regarding frequency of occurrence and severity of specified operational risk events.	The model simulated a loss distribution of operational risk events. The model did not assume any correlation amongst operational risk items. The model was calibrated to the 99.5% confidence level over 1 year.

e. Main differences, by risk module, between the standard formula and the internal model

The key differences by risk module were:

1) Non-Life ("NL") premium risk
The Standard Formula linked a capital charge to net written premium ("NWP") and/or net earned premium ("NEP") whereas the MBIA Group's internal model was driven by the probability of default of the obligors whose debt MBIA guarantees as well as each policy's correlation of default, Annual Rating Transition Matrices and LGD (see *Section E.2.b SCR and MCR, Underwriting Risk* above). The capital requirement for this risk under the Standard Formula was £101.2 million versus £7.6 million under the Internal Model.

2) NL Credit Catastrophe risk
The Catastrophe risk module in the Standard Formula was solely based on a 10% charge on the par outstanding of the two largest exposures. This approach did not take account of the Credit Risk profile of the insured portfolio. The MBIA Group typically used multiple parameters to assess the Credit Risk of a particular exposure and the Standard Formula did not differentiate between probability of default and LGD (i.e. net loss after factoring in recoveries). As the Catastrophe risk module in the Standard Formula was solely based on a 10% charge on the par outstanding of the two largest exposures it was not sensitive to any changes in the Credit Risk profile of these two exposures or any changes to the remainder of MBIA's insured portfolio. The capital requirement for this risk under the Standard Formula was £237.5 million versus £167.3 million under the Internal Model.

3) Market Risk Capital Requirement

The MBIA Group's approach to Market Risk was to apply a stress for interest rates, currencies and spread equal to three standard deviations of observed volatility as opposed to the standard shocks set forth per the Standard Formula. Additionally, the Company applied stress for spread risk to all sovereign and sovereign related/guaranteed entities, except for German Bunds, U.K. Gilts and U.S. Treasuries (which were judged to be the risk free rates for the euro, pound sterling and USD). The capital requirement for this risk under the Standard Formula was £35.6 million versus £70.6 million under the Internal Model.

4) Operational Risk Capital Requirement
The MBIA Group's approach to operational risk was to simulate potential operational loss events which might occur over the next year based on probability of occurrence and potential loss amount. The capital requirement for this risk under the Standard Formula was £0.5 million versus £14.9 million under the Internal Model.

f. Risk measure and time period used in the Internal Model

The risk measure and time period used in the Internal Model is 99.5% over one year in accordance with Article 101 (3) of the Directive.

g. Nature and description of data used in the internal model

Data inputs

The data used in the internal model, by risk module, included the following:

CRCM: All portfolio data used by the CRCM was obtained from MBIA's policy database. For each obligor, this included par outstanding, internal credit rating, country and asset class. However, external data was used to derive assumptions.

Note that the internal credit ratings of each obligor were based on MBIA's internal ratings as of 31 December 2016. The internal rating was a primary driver of the Best Estimate of Future Claims within technical provisions, the risk margin and the SCR. MBIA's internal ratings may have differed from the internal ratings for each obligor as applied under AGC's ratings process.

Due to very limited actual losses in its insured portfolio since MBIA UK (and predecessors) first started writing business in Europe in 1993, MBIA UK could not rely solely upon internal data. A summary of the external data chosen was provided below.

- Default rates (or PD) and Ratings Transition Matrices were linked to the Moody's corporate default and rating transition tables. MBIA UK compared Moody's data with that of the other rating agencies (e.g., S&P and Fitch Ratings). MBIA UK found the data comparable across all three rating agencies and chose the Moody's data base as it was deemed suitable for purposes of the analytics the Company wished to do, which was to compare the performance of MBIA UK Asset Classes (or industries, e.g., Utilities) with corporate default and rating transitions.
- LGD factors were derived using relevant external data, such as the Moody's database, other rating agency reports and similar data, transaction performance reports (for MBIA UK's credits) and the experience of other companies within the MBIA Inc. group and then combining such data using analysis and judgement.
- The Correlation Matrix was provided by a London based advisory and capital modeling firm. This firm used the MSCI equity indices for countries, the Corporate Bond database and various structured finance indices for asset classes. The Company reviewed the Correlation Matrix and determined that it was appropriate to use for the Company's exposures.

MRCM principally used Bloomberg data, which was updated monthly. Bloomberg was a universally recognized source of financial markets data that the Company has a long history of using.

ORCM: the data that was used for the ORCM was judgemental given insufficient observable data either within the MBIA Group or externally. The data inputs were derived based on a review of the operational risk maps by the operational risk owners initially and their proposal for quantitative inputs of loss severity and frequency were reviewed and approved by the ORC. See also *Section E.2.b SCR and MCR, Operational Risk* above.

Data Governance

The purpose of the MBIA Group's Data Governance framework was to set standards for the collection, assessment, and use of data in the internal model.

Standards were defined in terms of accuracy, completeness and appropriateness of material data and of the process in which assumptions are made and applied in the collection, processing and usage of the data as well as the estimations made in the Internal Model.

Integral to the MBIA Group's data governance framework was its Data Governance Policy, which outlined the risk and impact assessment performed by MBIA on the material data used in the Model and described the mechanisms in place for monitoring the quality of the data.

a) *Data Quality*

Data quality referred to the standards outlined in Data Governance above. The meaning of "accuracy, completeness, and appropriateness," as applied to data in use by the MBIA Group, was demonstrated by the analysis in the MBIA UK's Data Directory. All business units played a vital role in ensuring data quality whether they owned the data, used the data, or were custodians of the data.

i. Accuracy: the Data Governance Policy set out MBIA UK's approach to ensure that data was free from material errors; it was used and recorded consistently and timely over different time periods.

ii. Completeness: data was deemed complete if sufficient historical information was available to assess the underlying risk and the data was available for all parameters in the Model. The CRCM used mainly data from the Moody's database; the use of this data had been deemed suitable in terms of completeness and accuracy of the data and regular data updates as documented in MBIA UK Data Governance Policy ensured that historical information was available. The data used in the MRCM came mainly from Bloomberg and trends, including portfolio quality and capital requirements, were monitored in the investment portfolio report produced monthly by the asset manager. The ORCM inputs were largely based upon expert judgement, as the MBIA Group did not have sufficient operational risk events to form a comprehensive, granular data set, however historical internal data was reviewed at least annually by the ORC to ensure the Model's assumptions were consistent with the risks faced by MBIA UK.

iii. Appropriateness: data quality was assessed in terms of appropriateness when it was consistent with the purpose for which it was used, with the assumptions applied to them and with the risks that are relevant to MBIA UK.

Regular data quality updates were provided to MBIA UK Board; the update provided an overview of all data issues that had occurred, and outlined the impact that these issues had on data accuracy and completeness.

b) *Data Usage*

The MBIA Group's Data Governance Policy required that data was used consistently over time in each model. A standard approach was taken in the way the inputs were used in each model to ensure that data was used consistently. Changes to the use of data within the capital models required review and approval by the Company's ROC. Additionally, as part of MBIA UK's Operational Risk framework, if a U.K. staff member became aware of a problem with internal or external data, it was to be logged as an Operational Risk event.

c) *Internal Controls*

A key purpose of Internal Controls was that data and information published either internally or externally was accurate, reliable, and timely.

The MBIA Group's Internal Control environment impacting data encompassed the following:

- Risk Identification: within MBIA UK, different groups had different responsibilities; whilst the identification of risks and the reporting of any instances where data did not meet the standards of quality expected fell on every employee, the main monitoring of data quality was done by the data owners, users and custodians as documented in the MBIA Group's Data Directory. The IPM was principally focused on identifying credit risks in the insured portfolio, which was deemed to be the greatest risk the Company faces. IPM also played a key role in ensuring the quality of insured portfolio data. The Finance Department had primary responsibility for identifying financial risks, including risks in the investment portfolio, principally based upon information provided by the asset manager.

- Controls to mitigate risks: a number of controls were in place to ensure that the data used in the Internal Model was accurate, complete and appropriate and these controls were documented in the Data Directory. In particular:

  (i) *Process Analysis Documents (PADs)* - Internal Controls Over Financial Reporting Controls: The purpose of the PADs process was to ensure all financially significant key controls had been reviewed. The PADs set out the controls in place for key processes that ensure the data entered in the data repository systems was accurate and complete. Every Business Process Owner was required to maintain and update his / her PAD on a quarterly basis to reflect changes in controls and any new spreadsheets, in order to comply with internal controls over financial reporting.
  (ii) *Information Technology Controls*: in aggregate, IT controls ensured that data was kept in a secure environment and was available to those who needed it in a timely and consistent manner. Data repository systems were subject to an annual recertification that ensured the users' level of access to each application was appropriate and security within these systems was maintained.
  (iii) *Finance Controls*: the data contained in the policy database was subject to further checks by the U.K. Finance team; these checks were performed at policy level and analysed the monthly and quarterly variances of key indicators (written premiums, reinsurance percentages and maturity factors) and would flag instances where data might be materially incomplete or inaccurate. Checks were also performed over the quality of the investment portfolio data; in particular the market value data used in the MRCM was reconciled to the accounting ledger at least annually. This reconciliation was last performed as of 31 December 2015.
  (iv) *IPM Controls*: key data contained in the policy database was also regularly validated; par, amortization/ repayment profile, asset class, rating, etc. were validated before a policy was issued by analysts; ratings (both internal and external) and exposures were validated post-closing at least on an annual basis by IPM.

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

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

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

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

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

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

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

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

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

E.6 ANY OTHER INFORMATION

None.

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

Financial period ended 31 December 2016

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

For and on behalf of Assured Guaranty (London) plc (formerly MBIA UK Insurance Limited)
on behalf of itself and MBIA (UK) Holdings Inc.
Director
London
On 29 June 2017

MBIA (UK) HOLDINGS INC.
S.02.01 - Balance Sheet
Amount in 000s

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	380,098
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	R0130	380,098
Government Bonds	R0140	210,757
Corporate Bonds	R0150	148,443
Structured notes	R0160	
Collateralised securities	R0170	20,898
Collective Investments Undertakings	R0180	
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	R0230	
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
Reinsurance recoverables from:	R0270	-3,149
Non-life and health similar to non-life	R0280	-3,149
Non-life excluding health	R0290	-3,149
Health similar to non-life	R0300	0
unit-linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	6
Reinsurance receivables	R0370	
Receivables (trade, not insurance)	R0380	133
Own shares (held directly)	R0390	
yet paid in	R0400	
Cash and cash equivalents	R0410	59,068
Any other assets, not elsewhere shown	R0420	47
Total assets	R0500	436,202
Liabilities		
Technical provisions - non-life	R0510	77,838
Technical provisions - non-life (excluding health)	R0520	77,838
TP calculated as a whole	R0530	
Best estimate	R0540	-55,999
Risk margin	R0550	133,838
Technical provisions - health (similar to non-life)	R0560	
TP calculated as a whole	R0570	
Best estimate	R0580	
Risk margin	R0590	
TP - life (excluding index-linked and unit-linked)	R0600	
Technical provisions - health (similar to life)	R0610	
TP calculated as a whole	R0620	
Best estimate	R0630	
Risk margin	R0640	
TP - life (excluding health and index-linked and unit-linked)	R0650	
TP calculated as a whole	R0660	
Best estimate	R0670	
Risk margin	R0680	
TP - index-linked and unit-linked	R0690	
TP calculated as a whole	R0700	
Best estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	15,713
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	
Reinsurance payables	R0830	0
Payables (trade, not insurance)	R0840	
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	229
Total liabilities	R0900	93,780
Excess of assets over liabilities	R1000	342,422

MBIA (UK) HOLDINGS INC.

S.05.1 - Premiums, claims and expenses by line of business

Amounts in 000s

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	Total
		Credit and suretyship insurance	
		C0090	C0200
Premiums written			
Gross - Direct Business	R0110	14,837	14,837
Gross - Proportional reinsurance accepted	R0120		0
Gross - Non-proportional reinsurance accepted	R0130		0
Reinsurers' share	R0140	343	343
Net	R0200	14,494	14,494
Premiums earned			
Gross - Direct Business	R0210	17,843	17,843
Gross - Proportional reinsurance accepted	R0220		0
Gross - Non-proportional reinsurance accepted	R0230		0
Reinsurers' share	R0240	321	321
Net	R0300	17,523	17,523
Claims incurred			
Gross - Direct Business	R0310	1,251	1,251
Gross - Proportional reinsurance accepted	R0320		0
Gross - Non-proportional reinsurance accepted	R0330		0
Reinsurers' share	R0340		0
Net	R0400	1,251	1,251
Changes in other technical provisions			
Gross - Direct Business	R0410	9,144	9,144
Gross - Proportional reinsurance accepted	R0420		0
Gross - Non-proportional reinsurance accepted	R0430		0
Reinsurers' share	R0440	106	106
Net	R0500	9,038	9,038
Expenses incurred	R0550	10,310	10,310
Other expenses	R1200		
Total expenses	R1300		10,310

MBIA (UK) HOLDINGS INC.

S.05.02 - Premiums, claims and expenses by country

Amounts in 000s

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010		FR	MY	IE	KR		
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Gross - Direct Business	R0110	12,277	2,340	144	49	26		14,837
Gross - Proportional reinsurance accepted	R0120							0
Gross - Non-proportional reinsurance accepted	R0130							0
Reinsurers' share	R0140	343	0					343
Net	R0200	11,934	2,341	144	49	26		14,494
Premium earned								
Gross - Direct Business	R0210	14,195	1,037	881	286	511		16,909
Gross - Proportional reinsurance accepted	R0220							0
Gross - Non-proportional reinsurance accepted	R0230							0
Reinsurers' share	R0240	298	3					301
Net	R0300	13,896	1,034	881	286	511		16,608
Claims incurred								
Gross - Direct Business	R0310	1,251						1,251
Gross - Proportional reinsurance accepted	R0320							0
Gross - Non-proportional reinsurance accepted	R0330							0
Reinsurers' share	R0340							0
Net	R0400	1,251						1,251
Changes in other technical provisions								
Gross - Direct Business	R0410	2,784						2,784
Gross - Proportional reinsurance accepted	R0420							0
Gross - Non-proportional reinsurance accepted	R0430							0
Reinsurers' share	R0440	20						20
Net	R0500	2,764						2,764
Expenses incurred	R0550	202	21	13	7	8		251
Other expenses	R1200							9,967
Total expenses	R1300							10,218

MBIA (UK) HOLDINGS INC.
S.23.01 - Own Funds Group
Amounts in 000s

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector						
Ordinary share capital (gross of own shares)	R0010	4,667	4,667			
Non-available called but not paid in ordinary share capital at group level	R0020					
Share premium account related to ordinary share capital	R0030	69,674	69,674			
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Non-available subordinated mutual member accounts at group level	R0060					
Surplus funds	R0070					
Non-available surplus funds at group level	R0080					
Preference shares	R0090					
Non-available preference shares at group level	R0100					
Share premium account related to preference shares	R0110					
Non-available share premium account related to preference shares at group level	R0120					
Reconciliation reserve	R0130	268,081	268,081			
Subordinated liabilities	R0140					
Non-available subordinated liabilities at group level	R0150					
An amount equal to the value of net deferred tax assets	R0160					
The amount equal to the value of net deferred tax assets not available at the group level	R0170					
Other items approved by supervisory authority as basic own funds not specified above	R0180					
Non available own funds related to other own funds items approved by supervisory authority	R0190					
Minority interests (if not reported as part of a specific own fund item)	R0200					
Non-available minority interests at group level	R0210					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	R0230					
whereof deducted according to art 228 of the Directive 2009/138/EC	R0240					
Deductions for participations where there is non-availability of information (Article 229)	R0250					
Deduction for participations included by using D&A when a combination of methods is used	R0260					
Total of non-available own fund items	R0270					
Total deductions	R0280					
Total basic own funds after deductions	R0290	342,422	342,422			

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Non available ancillary own funds at group level	R0380					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Own funds of other financial sectors						
Reconciliation reserve	R0410					
Institutions for occupational retirement provision	R0420					
Non regulated entities carrying out financial activities	R0430					
Total own funds of other financial sectors	R0440					
Own funds when using the D&A, exclusively or in combination of method 1						
Own funds aggregated when using the D&A and combination of method	R0450					
Own funds aggregated when using the D&A and a combination of method net of IGT	R0460					
Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0520	342,422	342,422			
Total available own funds to meet the minimum consolidated group SCR	R0530	342,422	342,422			
Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	R0560	342,422	342,422			
Total eligible own funds to meet the minimum consolidated group SCR	R0570	342,422	342,422			
Minimum consolidated Group SCR	R0610	54,628				
Ratio of Eligible own funds to Minimum Consolidated Group SCR	R0650	0				
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	R0660	342,422	342,422			
Group SCR	R0680	218,514				
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	R0690	0				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	342,422
Own shares (included as assets on the balance sheet)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	74,341
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Other non available own funds	R0750	
Reconciliation reserve before deduction for participations in other financial sector	R0760	268,081
Expected profits		
Expected profits included in future premiums (EPIFP) - Life Business	R0770	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	107,600

Total EPIFP	R0790	107,600

MBIA (UK) HOLDINGS INC.
S.25.03 - Solvency Capital Requirement - Full Internal Models (Annual Group)
Amounts in 000s

	Unique number of component	components description	Calculation of the Solvency Capital Requirement
	C0010	C0020	C0030
A	50100I	Net credit risk	327,106,105.00
B	50100A	Best estimate of future claims	-159,844,545.00
C	20200I	Premium default risk	7,638,000.00
D	10300I	Market risk - interest rates	20,684,778.00
E	10700I	Market risk - spread	21,821,454.00
F	10900I	Market risk - currency	28,142,995.00
G	19900I	Market risk - diversification	-9,956,784.00
H	70100I	Operational risk	14,871,622.00
I	80301I	Deferred tax asset benefit	-6,199,614.00
+			

Calculation of Solvency Capital Requirement		C0100
Total undiversified components	R0110	244,264
Diversification	R0060	-25,750
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	218,514
Capital add-ons already set	R0210	
Solvency Capital Requirement		218,514
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	
Amount/estimate of the overall loss-absorbing capacity of deferred taxes	R0310	-6,200
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))	R0420	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	
Minimum consolidated group solvency capital requirement	R0470	54,628
Information on other entities		
Capital requirement for other financial sectors (Non-insurance capital requirements)	R0500	
Capital requirement for other financial sectors (Non-insurance capital requirements) - Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	R0510	
Capital requirement for other financial sectors (Non-insurance capital requirements) - Institutions for occupational retirement provisions	R0520	
Capital requirement for other financial sectors (Non-insurance capital requirements) - Capital requirement for non- regulated entities carrying out financial activities	R0530	
Capital requirement for non-controlled participation requirements	R0540	
Capital requirement for residual undertakings	R0550	

MBIA (UK) HOLDINGS INC.

S.32.01 - Undertakings in the scope of the group

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	Yes/No	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
GB	213800TE65EXSOTGXY74	1 - LEI	MBIA UK (Holdings) Limited	5 - Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	company limited by shares	2 - Non-mutual	The Prudential Regulation Authority							1 - Included in the scope		1 - Method 1: Full consolidation
GB	2138009ZH1J2B1MR1D80	1 - LEI	MBIA UK Insurance Limited	2 - Non life insurance undertaking	company limited by shares	2 - Non-mutual	The Prudential Regulation Authority	100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation

ASSURED GUARANTY (LONDON) PLC
(FORMERLY MBIA UK INSURANCE LIMITED)
S.02.01 - Balance Sheet
Amounts in 000s

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	380,098
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	R0130	380,098
Government Bonds	R0140	210,757
Corporate Bonds	R0150	148,443
Structured notes	R0160	
Collateralised securities	R0170	20,898
Collective Investments Undertakings	R0180	
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	R0230	
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
Reinsurance recoverables from:	R0270	-3,149
Non-life and health similar to non-life	R0280	-3,149
Non-life excluding health	R0290	-3,149
Health similar to non-life	R0300	
linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	6
Reinsurance receivables	R0370	
Receivables (trade, not insurance)	R0380	133
Own shares (held directly)	R0390	
paid in	R0400	
Cash and cash equivalents	R0410	59,068
Any other assets, not elsewhere shown	R0420	47
Total assets	R0500	436,202
Liabilities		
Technical provisions - non-life	R0510	77,838
Technical provisions - non-life (excluding health)	R0520	77,838
TP calculated as a whole	R0530	
Best estimate	R0540	-55,999
Risk margin	R0550	133,838
Technical provisions - health (similar to non-life)	R0560	
TP calculated as a whole	R0570	
Best estimate	R0580	
Risk margin	R0590	
TP - life (excluding index-linked and unit-linked)	R0600	
Technical provisions - health (similar to life)	R0610	
TP calculated as a whole	R0620	
Best estimate	R0630	
Risk margin	R0640	
TP - life (excluding health and index-linked and unit-linked)	R0650	
TP calculated as a whole	R0660	
Best estimate	R0670	
Risk margin	R0680	
TP - index-linked and unit-linked	R0690	
TP calculated as a whole	R0700	
Best estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	15,713
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	
Reinsurance payables	R0830	0
Payables (trade, not insurance)	R0840	
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	229
Total liabilities	R0900	93,780
Excess of assets over liabilities	R1000	342,422

ASSURED GUARANTY (LONDON) PLC
(FORMERLY MBIA UK INSURANCE LIMITED)
S.05.01 - Premiums, claims and expenses by line of business
Amounts in 000s

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of Business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross - Direct Business	R0110									14,837								14,837
Gross - Proportional reinsurance accepted	R0120																	0
Gross - Non-proportional reinsurance accepted	R0130																	0
Reinsurers' share	R0140									343								343
Net	R0200									14,494								14,494
Premiums earned																		
Gross - Direct Business	R0210									17,843								17,843
Gross - Proportional reinsurance accepted	R0220																	0
Gross - Non-proportional reinsurance accepted	R0230																	0
Reinsurers' share	R0240									321								321
Net	R0300									17,523								17,523
Claims incurred																		
Gross - Direct Business	R0310									1,251								1,251
Gross - Proportional reinsurance accepted	R0320																	0
Gross - Non-proportional reinsurance accepted	R0330																	0
Reinsurers' share	R0340																	0
Net	R0400									1,251								1,251
Changes in other technical provisions																		
Gross - Direct Business	R0410									9,144								9,144
Gross - Proportional reinsurance accepted	R0420																	0
Gross - Non-proportional reinsurance accepted	R0430																	0
Reinsurers' share	R0440									106								106
Net	R0500									9,038								9,038
Expenses incurred	R0550									10,310								10,310
Other expenses	R1200																	
Total expenses	R1300																	10,310

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410									0
Reinsurers' share	R1420									0
Net	R1500									0
Premiums earned										
Gross	R1510									0
Reinsurers' share	R1520									0
Net	R1600									0
Claims incurred										
Gross	R1610									0
Reinsurers' share	R1620									0
Net	R1700									0
Changes in other technical provisions										
Gross	R1710									0
Reinsurers' share	R1720									0
Net	R1800									0
Expenses incurred	R1900									0
Other expenses	R2500									
Total expenses	R2600									

ASSURED GUARANTY (LONDON) PLC
(FORMERLY MBIA UK INSURANCE LIMITED)
S.05.02 - Premiums, claims and expenses by country
Amounts in 000s

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations					Total Top 5 and home country
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010		FR	MY	IE	KR		
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premium written								
Gross - Direct Business	R0110	12,277	2,340	144	49	26		14,837
Gross - Proportional reinsurance accepted	R0120							0
Gross - Non-proportional reinsurance accepted	R0130							0
Reinsurers' share	R0140	343	0					343
Net	R0200	11,934	2,341	144	49	26		14,494
Premium earned								
Gross - Direct Business	R0210	14,195	1,037	881	286	511		16,909
Gross - Proportional reinsurance accepted	R0220							0
Gross - Non-proportional reinsurance accepted	R0230							0
Reinsurers' share	R0240	298	3					301
Net	R0300	13,896	1,034	881	286	511		16,608
Claims incurred								
Gross - Direct Business	R0310	1,251						1,251
Gross - Proportional reinsurance accepted	R0320							0
Gross - Non-proportional reinsurance accepted	R0330							0
Reinsurers' share	R0340							0
Net	R0400	1,251						1,251
Changes in other technical provisions								
Gross - Direct Business	R0410	2,784						2,784
Gross - Proportional reinsurance accepted	R0420							0
Gross - Non-proportional reinsurance accepted	R0430							0
Reinsurers' share	R0440	20						20
Net	R0500	2,764						2,764
Expenses incurred	R0550	202	21	13	7	8		251
Other expenses	R1200							9,967
Total expenses	R1300							10,218

		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
	R01400							
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
Premium written								
Gross	R1410							0
Reinsurers' share	R1420							0
Net	R1500							0
Premium earned								
Gross	R1510							0
Reinsurers' share	R1520							0
Net	R1600							0
Claims paid								
Gross	R1610							0
Reinsurers' share	R1620							0
Net	R1700							0
Changes in other technical provisions								
Gross	R1710							0
Reinsurers' share	R1720							0
Net	R1800							0
Expenses incurred	R1900							0
Other expenses	R2500							
Total expenses	R2600							

ASSURED GUARANTY (LONDON) PLC
(FORMERLY MBIA UK INSURANCE LIMITED)
S.17.01 - Non - life Technical Provisions
Amounts in 000s

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance:				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligations
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010																	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050																	0
Technical Provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross - Total	R0060									-55,999								-55,999
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140									-3,149								-3,149
Net Best Estimate of Premium Provisions	R0150									-52,851								-52,851
Claims provisions																		
Gross - Total	R0160																	0
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240																	0
Net Best Estimate of Claims Provisions	R0250																	0
Total Best estimate - gross	R0260									-55,999								-55,999
Total Best estimate - net	R0270									-52,851								-52,851
Risk margin	R0280									133,838								133,838
Amount of the transitional on Technical Provisions																		
TP as a whole	R0290																	0
Best estimate	R0300																	0
Risk margin	R0310																	0
Technical provisions - total																		
Technical provisions - total	R0320									77,838								77,838
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330									-3,149								-3,149
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	R0340									80,987								80,987

ASSURED GUARANTY (LONDON) PLC
(FORMERLY MBIA UK INSURANCE LIMITED)
S.23.01 - Own funds
Amounts in 000s

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	69,000	69,000			
Share premium account related to ordinary share capital	R0030	17,038	17,038			
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	256,384	256,384			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160					
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	342,422	342,422			

		C0010	C0020	C0030	C0040	C0050
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					

		C0010	C0020	C0030	C0040	C0050
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	342,422	342,422			
Total available own funds to meet the MCR	R0510	342,422	342,422			
Total eligible own funds to meet the SCR	R0540	342,422	342,422			
Total eligible own funds to meet the MCR	R0550	342,422	342,422			
SCR	R0580	218,514				
MCR	R0600	54,628				
Ratio of Eligible own funds to SCR	R0620	156.71%				
Ratio of Eligible own funds to MCR	R0640	626.82%				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	342,422
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	86,038
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	256,384
Expected profits		
Expected profits included in future premiums (EPIFP) - Life Business	R0770	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	107,600
Total Expected profits included in future premiums (EPIFP)	R0790	107,600

ASSURED GUARANTY (LONDON) PLC
(FORMERLY MBIA UK INSURANCE LIMITED)
S.25.03 - Solvency Capital Requirement - for undertakings on Full Internal Models (Annual Solo)
Amounts in 000s

	Unique number of component	components description	Calculation of the Solvency Capital Requirement
	C0010	C0020	C0030
A	50100I	Net credit risk	327,106,105.00
B	50100A	Best estimate of future claims	-159,844,545.00
C	20200I	Premium default risk	7,638,000.00
D	10300I	Market risk - interest rates	20,684,778.00
E	10700I	Market risk - spread	21,821,454.00
F	10900I	Market risk - currency	28,142,995.00
G	19900I	Market risk - diversification	-9,956,784.00
H	70100I	Operational risk	14,871,622.00
I	80301I	Deferred tax asset benefit	-6,199,614.00
+			

Calculation of Solvency Capital Requirement		C0100
Total undiversified components	R0110	244,264
Diversification	R0060	-25,750
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	218,514
Capital add-ons already set	R0210	
Solvency capital requirement	R0220	218,514
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	
Amount/estimate of the overall loss-absorbing capacity of deferred taxes	R0310	-6,200
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))	R0420	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

ASSURED GUARANTY (LONDON) PLC
(FORMERLY MBIA UK INSURANCE LIMITED)
S.28.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity
Amounts in 000s

Linear formula component for non-life insurance and reinsurance obligations

MCR calculation Non Life		Non-life activities: Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Non-life activities: Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050		
Other motor insurance and proportional reinsurance	R0060		
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080		
General liability insurance and proportional reinsurance	R0090		
Credit and suretyship insurance and proportional reinsurance	R0100		19,294
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

Linear formula component for life insurance and reinsurance obligations

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

		Non-life activities	Life activities
		C0010	C0040
MCRNL Result	R0010	2,180	
MCRL Result	R0200		

Overall MCR calculation

		C0070
Linear MCR	R0300	2,180
SCR	R0310	218,514
MCR cap	R0320	98,331
MCR floor	R0330	54,628
Combined MCR	R0340	54,628
Absolute floor of the MCR	R0350	3,332

		C0070
Minimum Capital Requirement	R0400	54,628