Assured Guaranty UK Limited

Solvency and Financial Condition Report

2023

Contents

Glossary of Abbreviations and Definitions

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

Term	Definition
Part VII Transfer	During 2020 the Company transferred its existing EEA policies to AGE, utilising an insurance transfer under Part VII of the United Kingdom Financial Services and Market Act 2000 and French insurance portfolio transfer procedures
PF	Public finance
plc	Public limited company
PRA	The Prudential Regulation Authority
PVP	A non-GAAP (Generally Accepted Accounting Principles) financial measure used by the Assured Guaranty Group which is defined as gross upfront and instalment premiums received plus the present value of gross estimated future instalment premiums, on contracts written in the current year, discounted at the approximate average pre-tax book yield of fixed-maturity securities purchased across the Assured Guaranty Group during the prior calendar year, excluding loss mitigation securities.
Rating Agencies	S&P, KBRA, and Moody’s
RMBS	Residential Mortgage-Backed Securities
S&P	S&P Global Ratings, a division of Standard & Poor's Financial Services LLC
SCR	Solvency Capital Requirement
SCR Ratio	Ratio of eligible own funds to SCR
SF	Structured finance
SFCR	Solvency and Financial Condition Report
SMF	A Senior Manager Function specified in the SMCR
SMCR	The UK’s Senior Managers and Certification Regime, which applies to the insurance and reinsurance sectors as of 10 December 2018
Solvency II Regulation	Commission Delegated Regulation EU 2015/35 of 10 October 2014, as amended
Standard Formula	Standard formula as prescribed by EIOPA
UK	United Kingdom of Great Britain and Northern Ireland
UK GAAP	United Kingdom Generally Accepted Accounting Principles
US	United States of America
USD	US Dollars
USPs	Undertaking-specific parameters

Executive Summary

This Solvency and Financial Condition Report has been prepared in accordance with the Solvency II regulatory framework and sets out information on the business and financial performance of the Company, its system of governance, risk profile, valuation of assets and liabilities for solvency purposes and capital management as at 31 December 2023.

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

Principal Activities

The principal activity of the Company is providing financial guarantees for public finance (including infrastructure finance) and structured finance obligations. Financial guarantee insurance written by the Company generally guarantees scheduled payments of principal and interest on an issuer's obligations in the event, and to the extent of, a payment default.

The Company is authorised by the PRA, and regulated by both the PRA and the FCA, and is authorised to affect and carry out three classes of general insurance, specifically: classes 14 (credit), 15 (surety-ship) and 16 (miscellaneous financial loss). The Company also has permission to advise on, to arrange and to assist in the administration and performance of its financial guarantee insurance contracts.

The Company generally issues its guarantees under a coinsurance structure. The coinsurer for public finance (including infrastructure finance) transactions is AGM, and for structured finance transactions it is AGC. Under the coinsurance structures the Company directly insures 15% of new transactions and AGM or AGC directly guarantees the remaining 85% balance of the guaranteed obligations and also provide a second-to-pay guarantee for the Company's portion of the guaranteed obligations. For transactions closed prior to 2011, the Company typically guaranteed obligations directly and reinsured to AGM approximately 92% of the Company's retention, after cessions to other reinsurers, under the quota share cover of the AGM Reinsurance Agreement. Transactions originally underwritten by the Company's former subsidiaries, Assured Guaranty (UK) plc and CIFG Europe SA, and transferred to the Company under a cross-border merger completed in 2018, are reinsured 90% and 100% respectively to AGC. Transactions originally underwritten by AGLN and transferred to the Company under the cross-border merger have only limited levels of reinsurance, typically less than 5% to AGC and AGRE.

Ratings

The obligations insured by the Company are generally awarded ratings on the basis of the financial strength ratings given to the Company by major securities rating agencies. As at 28 March 2024 AGM and the Company have been assigned the insurance financial strength ratings set out below:

S&P: AA / Stable Outlook

Moody's: A1 / Stable Outlook

KBRA: AA+ / Stable Outlook

Business and Performance

Underwriting performance

During 2023 the Company underwrote business in several public finance and structured finance sectors, including university accommodation, social housing, regulated utilities, transportation and subscription lines, generating PVP and gross written premiums from new business of £17.8 million (2022: £6.5 million) and £22.3 million (2022: £7.9 million) respectively.

The overall underwriting result for the year was a loss of £9.3 million compared to a profit of £4.9 million in 2022. A large proportion of this reduction was attributable to a decrease in net earned premiums to £8.1 million (2022: £15.4 million) following the completion of a series of policy novations to reduce the Company's retention in respect of certain single name risks, as described further below. Additionally, the underwriting result was impacted by adverse development of £3.4 million net on the unexpired risks provision in respect of the Company's below investment grade ("BIG") risks and higher net operating expenses.

As at 31 December 2023, the Company had issued guarantees on financial obligations with gross par outstanding of £13.4 billion (2022: £16.0 billion) and net par outstanding of £4.0 billion (2022: £6.9 billion). The overall credit quality of the insured portfolio has not significantly changed during the year. The proportion of BIG risks remained stable at 4.8% (2022: 4.8%).

The Company's in-force portfolio of guarantees by sector as at 31 December 2023 is shown in the table below.

Insured portfolio by sector

As at 31 December	**2023**		**2022**	
£ '000	**GPO**	**NPO**	**GPO**	**NPO**
Sector				
Public Infrastructure	6,215,160	2,417,716	6,555,994	2,856,076
Regulated Utilities	5,680,339	742,413	7,149,160	2,438,338
Sovereign and Sub-sovereign	1,393,165	829,582	2,211,186	1,596,260
Insurance Securitisation	31,344	3,134	13,289	13,290
RMBS	14,613	—	33,025	3,302
Pooled Corporate Obligations	13,006	13,008	19,817	—
Subscription Finance	5,892	5,892	—	—
Renewable Energy	—	—	4,851	—
Total	**13,353,519**	**4,011,745**	15,987,322	6,907,266

Investment performance

Due to the significant decreases in investment yields during the year the Company experienced unrealised gains on its investment portfolio, resulting in a total investment return of £32.7 million for the year (2022: negative £50.3 million). However, given that investments are typically held to maturity, the Company's preferred measure of investment return is yield-to-maturity, which was 1.87% (2022: 1.71%), including securities held for loss mitigation purposes.

System of Governance

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

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

The Company's governance and risk management framework is described in more detail in *Sections B1. and B3*.

Risk Profile

The most significant risk to which the Company is exposed remains underwriting risk, the key element of which, due to the nature of financial guarantee contracts, is credit risk, i.e. the risk that obligors of insured obligations will fail to pay. The other material components of the Company's risk profile are market risk, counterparty default risk, liquidity risk and operational risk. The Company's tolerance for risk is established within its Risk Appetite Statement. Risk exposures are controlled and monitored under the Risk Management Framework, which ensures a continuous process of risk identification, measurement, monitoring, management and reporting.

Given the limited level of reinsurance on the transactions originally underwritten by AGLN, commencing in 2022 the Company undertook a programme of policy novations to reduce its net retention for certain single name risks by transferring an 85% share of certain policies originally underwritten by AGLN to AGM. During 2023 the Company transferred 85% of the insured par originally underwritten by AGLN for the four largest net risks to AGM (£3,022.4 million net par transferred). This follows the transfer of an 85% share of a UK regulated utility risk to AGM in December 2022. The total net par transferred to AGM during 2022 and 2023 of £3,489.2 million represents a 48% reduction in the Company's net insured par over that period.

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

Valuation for Solvency Purposes

Under Solvency II rules all assets and liabilities are required to be valued on a basis that reflects their fair value. The excess of the Company's assets over liabilities within its Solvency II balance sheet as at 31 December 2023 was £532.2 million. Net assets as reported within the Company's UK GAAP financial statements were £589.3 million. The adjustments made to UK GAAP shareholder's equity to derive Solvency II own funds are set out below.

Summary of adjustments to UK GAAP balance sheet

As at 31 December	**2023**	**2022**
£ '000		
Shareholder's equity under UK GAAP	589,310	676,937
Disallowed items (prepayments, deferred acquisition costs & fixed assets)	(17,411)	(21,223)
Solvency II adjustment to net best estimate provision & discounting	(8,005)	56,381
Risk Margin	(46,297)	(151,134)
Deferred tax in Solvency II balance sheet	14,651	28,871
Solvency II excess of assets over liabilities	532,248	589,832

Section D provides further details of the Company's assets, technical provisions and other liabilities under the Solvency II basis of valuation.

Capital Management

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

The Company’s regulatory solvency position has strengthened considerably during the year with the regulatory solvency coverage ratio increasing to 418% (2022: 213%) due to the reduction in certain single name risks and the reduction in total net insured par following the policy novations to AGM. During the year the Company took measures to address the current excess capital position with the payment of a £100m dividend to its parent company, AGM. The SCR and MCR solvency coverage ratios are shown below. The MCR is at the floor of 25% of the SCR.

Summary of SCR and MCR

As at 31 December	**2023**	**2022**
£ '000		
Solvency II own funds	532,248	589,832
Eligible own funds to meet the SCR	531,575	589,832
SCR	127,223	277,193
SCR Ratio	418 %	213 %
Eligible own funds to meet the MCR	512,492	551,698
MCR	31,806	69,298
MCR Ratio	1,611 %	796 %

The Company's own funds are principally comprised of tier one own funds, with the tier 3 own funds relating to a deferred tax asset.

As at 31 December	**2023**	**2022**
£ '000		
Tier 1	512,492	551,698
Tier 2	—	—
Tier 3	19,756	38,134
Total	532,248	589,832

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

Directors' Statement

Year ended 31 December 2023

We acknowledge our responsibility for preparing this Solvency and Financial Condition Report in all material respects in accordance with the PRA Rules and the Solvency II Regulations as applicable to the Company. We are satisfied that:

(a) throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations applicable to the Company; and

(b) it is reasonable to believe that, at the date of the publication of this Solvency and Financial Condition Report, the Company has complied and will continue to comply in the future.

For and on behalf of the Board of Assured Guaranty UK Limited.

R Nicholas

Richard Nicholas

Chief Financial Officer

28 March 2024

REPORT OF THE EXTERNAL INDEPENDENT AUDITOR TO THE DIRECTORS OF ASSURED GUARANTY UK LIMITED ('THE COMPANY') PURSUANT TO RULE 4.1 (2) OF THE EXTERNAL AUDIT CHAPTER OF THE PRA RULEBOOK APPLICABLE TO SOLVENCY II FIRMS

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report ("SFCR")

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2023:

- the 'Valuation for Solvency Purposes' and 'Capital Management' sections of the SFCR of the Company as at 31 December 2023, ('the Narrative Disclosures subject to audit'); and

- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21, and S.28.01.01 ('the Templates subject to audit').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the SFCR'.

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

- The 'Executive Summary', 'Business and Performance', 'System of Governance' and 'Risk Profile' elements of the SFCR.

- Company templates S.05.01.02, S.05.02.01, S.19.01.21.

- The written acknowledgement by management of their responsibilities, including for the preparation of the SFCR ('the Responsibility Statement').

In our opinion, the information subject to audit in the relevant elements of the SFCR of the Company as at 31 December 2023 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) (ISAs (UK), including ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the SFCR in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to the 'Valuation for Solvency Purposes' and 'Capital Management' sections of the SFCR, which describe the basis of accounting. The SFCR 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 SFCR is required to be published, and intended users include but are not limited to the PRA. As a result, the SFCR may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Conclusions relating to going concern

In auditing the SFCR, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the SFCR is appropriate.

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- evaluating future profit forecasts, management's method in producing these, and the consistency with current year results;
- obtaining and inspecting correspondence between the company and its regulators, the Prudential Regulation Authority ('PRA'), to identify any items of interest which could potentially indicate either non-compliance with legislation or potential litigation or regulatory action held against the company; and
- evaluating management's capital and solvency stress testing and assessed the reasonableness of management's assumptions, including those related to the recoverability of reinsurance assets and any support arrangements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the SFCR is authorised for issue.

Other Information

The Directors are responsible for the Other Information.

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

Our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the SFCR, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the SFCR themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the SFCR 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 and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

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

Auditor’s Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

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

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC’s website at: https://www.frc.org.uk/auditorsresponsibilities. The same responsibilities apply to the audit of the SFCR.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We considered the nature of the Company’s industry and its control environment and reviewed the company’s documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the Company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the SFCR. These included Solvency II as implemented in the UK and tax legislation; and
- do not have a direct effect on the SFCR but compliance with which may be fundamental to the Company’s ability to operate or to avoid a material penalty. These included Companies Act 2006 and related Company Law, and the Company’s operating licence environmental regulations.

We discussed among the audit engagement team including relevant internal specialists such as credit, actuarial and industry specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the SFCR.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- Completeness of Best Estimate Liability ('BEL'):

  The best estimate component of technical provisions represents the present value of future cash outflows less the present value of future cash inflows. The cash inflows and outflows include the following:

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

  The estimates, assumptions and judgements may change materially over a year and therefore the Company's estimates of the expected loss may change materially over that period. In assessing potential non-payment on premiums due to future defaults of guaranteed transactions, management uses its Economic Capital Model ("ECM") which uses assumptions for cumulative probability of default, loss given default and correlation to calculate the gross expected cash outflows that the Company will be required to pay over the lifetime of the insured exposures.

  Due to the possibility of manipulation of models in the estimation process, we identify a potential fraud risk associated with the completeness of BEL.

  We have responded to this risk by:

  - obtaining an understanding of the end-to-end surveillance and technical provision setting processes including the relevant controls over the data, assumptions and models (internal credit rating and valuation) used in the setting of the BEL;
  - performing a comparison of the rating of each exposure in the current portfolio to the rating assigned to the exposure in the prior year and for the exposures that were downgraded during the year, understanding the reasoning behind this and establishing whether any further deterioration to the ratings would be required, in light of sector and economic outlook;
  - for exposures to sectors which have been subject to adverse press articles and financial stress during the year, particularly water companies and local authorities, validating the company's exposure to these sectors and challenging management's assessment of the exposures by reference to external data including regulatory communications; and
  - involving our in-house actuarial and credit modelling specialists in assessing the appropriateness of management's ECM, internal ratings model, scorecard methodology and significant assumptions (probability of default, loss given default and severities) by evaluating judgments applied, benchmarking with industry data and obtaining and assessing management's inflationary stress tests and impact analysis for reasonableness, by benchmarking with economic data.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- Reviewing the SFCR disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements.
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.
- Enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations.
- Reading minutes of meetings of those charged with governance, reviewing correspondence with the PRA and FCA, reviewing internal audit reports and reviewing correspondence with HMRC.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Assured Guaranty UK Limited'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 relation to this matter.

Use of our Report

This report is made solely to the Directors of Assured Guaranty UK Limited in accordance with Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook for Solvency II firms. We acknowledge that our report will be provided to the PRA for the use of the PRA solely for the purposes set down by statute and the PRA's rules. Our audit work has been undertaken so that we might state to the Company's Directors those matters we are required to state to them in an auditor's report on the relevant elements of the SFCR and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the PRA, for our audit work, for this report or for the opinions we have formed.

Claire Clough.

Claire Clough (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

28 March 2024

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

Solo standard formula

The relevant elements of the SFCR that are not subject to audit comprise:

- *The following elements of template S.12.01.02*
  - *Rows R0110 to R0130 – Amount of transitional measure on technical provisions*
- *The following elements of template S.17.01.02*
  - *Rows R0290 to R0310 – Amount of transitional measure on technical provisions*
- *The following elements of template S.22.01.21*
  - *Column C0030 – Impact of transitional measure on technical provisions*
- *Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.*

A. Business and Performance

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

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

A.1 Business

a. Name and legal form

The Company is registered in England and Wales (registration number 2510099).

The registered office of the Company is:

11th Floor
6 Bevis Marks
London
England
EC3A 7BA

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

The Company is authorised by the PRA, and regulated by both the PRA and the FCA, and is authorised to effect and carry out three classes of general insurance, specifically: classes 14 (credit), 15 (suretyship) and 16 (miscellaneous financial loss).

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

c. Name and contact details of the external auditor

Deloitte LLP
2 New Street Square
London
England
EC4A 3BZ

d. Holders of qualifying holdings in the Company

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

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

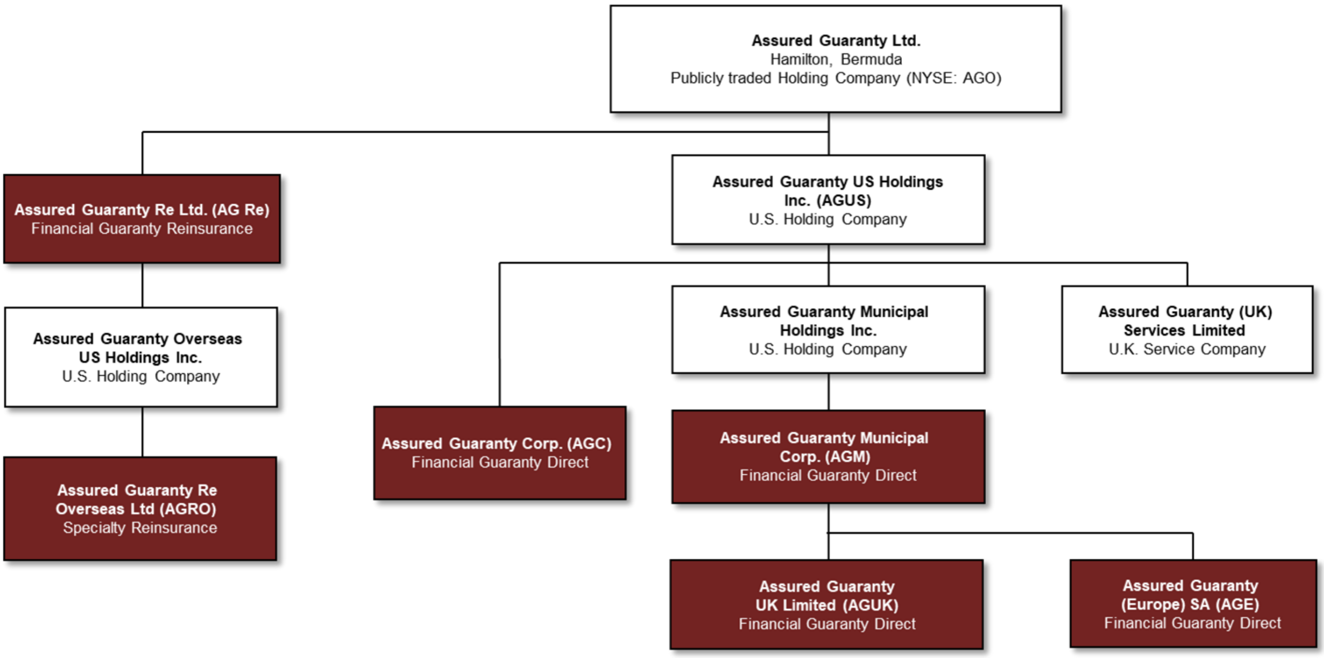
AGL is a Bermuda-based holding company, which was formed in 2003, and as a public company, is subject to certain requirements of the US Securities and Exchange Commission.

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

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

Assured Guaranty Ltd. Corporate Structure

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



*AGM holds 99.999894% of the share capital of the AGE. The remaining 0.000106% is owned by Assured Guaranty Municipal Holdings Inc, which is also an indirect wholly-owned subsidiary of AGL.

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

The principal activity of the Company is providing financial guarantees in the UK, specifically to the public finance (including infrastructure finance) and structured finance markets. On 1 October 2020, in response to the impacts of Brexit upon the Assured Guaranty Group's ability to continue underwriting new business and service existing EEA policies, AGUK transferred certain of its existing EEA policies to AGE under Part VII of the United Kingdom Financial Services and Markets Act 2000 and French insurance portfolio transfer procedures (“the Portfolio Transfer”). AGE was authorised to conduct insurance business in France and certain other EEA countries from 2 January 2020, and from that date the Company ceased underwriting new business in the EEA.

The Company's insured portfolio by risk location, split between Public and Structured finance is given in the table below.

Par insured by location of risk

As at 31 December	2023		2022	
£ '000	Gross Par Outstanding	Net Par Outstanding	Gross Par Outstanding	Net Par Outstanding
Country				
Public finance				
United Kingdom	12,023,331	3,742,884	14,564,698	6,601,459
Italy	538,218	14,268	580,011	16,339
France	441,680	17,989	425,101	17,454
Ireland	115,845	115,845	122,437	122,437
Malaysia	82,476	82,476	115,865	115,865
Mexico	39,274	1,213	41,380	1,278
Hungary	33,473	670	52,048	1,042
Other	14,367	14,367	19,651	14,800
Total public finance	**13,288,664**	**3,989,712**	**15,921,191**	**6,890,674**
Structured finance				
United States of America	34,391	6,181	34,320	4,598
United Kingdom	16,647	2,035	21,845	2,028
Netherlands	2,950	2,950	2,272	2,272
France	2,582	2,582	1,963	1,963
Luxembourg	2,004	2,004	1,713	1,713
Germany	1,479	1,479	1,560	1,560
Italy	1,161	1,161	470	470
Other	3,641	3,641	1,988	1,988
Total structured finance	**64,855**	**22,033**	**66,131**	**16,592**
Total	**13,353,519**	**4,011,745**	**15,987,322**	**6,907,266**

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

Policy novations to AGM

During 2023 the Company completed a series of policy novations to transfer 85% of the insured par originally underwritten by AGLN in respect of its four largest net risks to AGM. The 85% share of the policies were novated at their fair value and cash was paid by AGM to AGUK for the difference between the fair value of the exposure transferred and 85% of the future premiums to be paid by the policyholder, resulting in AGM paying AGUK £4.5 million (2022: £1.3 million). A total of £3,022.4 million of net insured par was transferred (2022: £466.8 million).
The policy novations were treated as policy cancellations for accounting purposes and the Company derecognised the carrying value of the related insurance and reinsurance balances as of the effective date with the difference of £5.5 million between the amounts derecognised and the cash received from AGM representing a gain on transfer and reported within other technical income. The reduction in future premiums of £87.3 million was recorded as negative gross written premiums (negative £86.2 million net) within the income statement.

The total net par transferred to AGM during 2022 and 2023 of £3,489.2 million represents a 48% reduction in the Company's net insured par over that period.

Economic environment

The Bank of England steadily raised the Bank Rate five times during the year, increasing to 5.25% by December 2023 (December 2022: 3.5%) to address inflation. Although rates of inflation have reduced significantly from the March 2023 high of 10.3% and central banks, including the Bank of England, are expected to begin cutting interest rates in 2024 it is currently unclear the extent to which inflation will return to the historically low levels of the pre-pandemic era. Additionally, the current economic environment saw the UK fall into technical recession during 2023 and forecasts of UK economic growth in the coming years continue to be low.

A higher interest rate environment is generally regarded as favourable for the Company. Although inflation and higher interest rates could impact certain of AGUK's insured transactions, the majority have business models under which cost inflation can be passed to customers or for which revenues are contractually inflation-linked, largely mitigating the financial impacts of a higher interest rate environment. More favourably, higher interest rates are often accompanied by wider credit spreads which generally make the Company's financial guarantees more attractive, increase the level of premiums which can be charged and increase the competitiveness of the Company's guarantee in a range of sectors. A deteriorating economy can create a more challenging environment for certain of the Company's insured transactions. Such an environment generally also increases investor sensitivity to credit risk, potentially increasing demand for the Company's guarantee. The Company's approach to liquidity risk management is further described in Section *C4, Liquidity Risk.*

Consumer price inflation increases the Company's insured par for contracts where the insured obligations are inflation-linked. However, such increases are accompanied by corresponding increases in future instalment premiums the Company receives in respect of these exposures.

Equally, the impact of interest rate changes is mitigated by the Company's book yield investment strategy, under which it seeks to hold investments to maturity and by managing the Company's overall net duration exposure. In the longer term, higher interest rates will increase the amount the Company can earn on its investment portfolio as fixed-rate securities mature and the proceeds are reinvested in higher yielding securities. During the year the Company benefited from unrealised gains of £22.5 million (2022: unrealised losses of £62.8 million) on the investment portfolio due to a reduction in investment yields.

In addition, fluctuations in currency exchange rates as a result of the global economic environment can potentially impact the Company's financial performance. The Company's reporting currency is pounds sterling but it is exposed to liabilities and maintains a portion of its assets in currencies other than pounds sterling. Currency risk is further described in *Section C2, Market Risk.*

The financial impacts of the economic environmental are further described within the performance review below.

A.2 Underwriting performance

New business
New business comprises new policies issued and amendments to existing policies in respect of transactions that were restructured or modified during the year which generated additional PVP but no additional insured exposure. The Company measures new business production in terms of PVP. The Company believes PVP is a useful measure for management and other users of the financial statements because it enables the evaluation of new business production by taking into account the impact of the time value of money on estimated future instalment premiums.

The new business written by the Company is shown in the table below**.** Gross par written refers to the value of debt principal insured at inception.

New Business Written

Year Ended 31 December	**2023**				**2022**			
	PVP	**GWP**	**Par Written**	**Number of Transactions**	**PVP**	**GWP**	**Par Written**	**Number of Transactions**
Sector	**£ '000**	**£ '000**	**£ '000**	**#**	**£ '000**	**£ '000**	**£ '000**	**#**
Infrastructure	4,500	6,889	73,701	5	2,815	3,743	63,170	2
Regulated utilities	11,475	12,865	64,800	10	3,676	4,168	—	3
Sovereign and sub-sovereign	1,757	2,493	31,498	1	—	—	—	—
Structured Finance	43	53	10,453	2	—	—	—	—
	17,775	**22,300**	**180,452**	**18**	**6,491**	**7,911**	**63,170**	**5**

PVP and gross written premiums from new business were £17.8 million (2022: £6.5 million) and £22.3 million (2022: £7.9 million) respectively. The Company underwrote business in several public and structured finance sectors during the year, including university accommodation, social housing, regulated utilities, transportation and subscription lines. This included a series of liquidity guarantees for UK regulated utilities, guarantee of a new public bond issue for Heathrow Airport and guarantee of index-linked bonds for the construction of new student accommodation. The largest insured transaction was the restructuring of an existing UK water transaction, generating PVP of £6.3m.

Total gross written premium is negative £63.0 million (2022: £3.3 million) due to the policy novations completed in the year as outlined above. Excluding the impact of policy novations, gross written premium was £24.3 million (2022: £24.5 million).

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

Technical Account for General Business

Year Ended 31 December £ '000	2023	2022
Earned premiums, net of reinsurance	8,106	15,463
Other technical income / (expense)	5,783	2,475
Total technical income	**13,889**	**17,938**
Net claims benefits / (expenses)	143	336
Net changes in other technical provisions expenses	3,426	1,092
Net operating expenses	19,613	11,640
Total technical charges	**23,182**	**13,068**
Gain / (loss) on the technical account for general business	**(9,293)**	**4,870**

The overall underwriting result for the year was a loss of £9.3 million compared to a profit of £4.9 million in 2022. A large proportion of this reduction was attributable to a decrease in net earned premiums to £8.1 million (2022: £15.4 million) as a result of the policy novations. Additionally, the underwriting result was impacted by adverse development of net £3.4 million on the unexpired risks provision in respect of the Company's below investment grade ("BIG") risks and higher net operating expenses.

The increase in net operating expenses to £19.6 million from £11.6 million in 2023 was primarily due to a one-off additional irrecoverable VAT charge of £4.0m attributable to prior years and higher acquisition costs due to the required accelerated recognition of £3.2m of deferred acquisition costs in respect of the 85% share of policies transferred to AGM.

The overall credit quality of the insured portfolio has not significantly changed during the year. The proportion of BIG risks remained stable at 4.8% (2022: 4.8%) of gross par outstanding ("GPO"). There were no new claims incurred during the year, although the Company experienced favourable net development of £0.05 million (2022: adverse £0.2 million) on existing claims and, as noted above, £3.4 million deterioration in respect of the unexpired risks provision.

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

Net Operating Expense

Year Ended 31 December £ '000	2023	2022
Acquisition costs in the year	1,673	844
Change in deferred acquisition costs	3,536	1,712
Administrative expenses	21,084	16,172
Reinsurance commissions receivable	(6,681)	(7,088)
Net operating expenses	**19,612**	**11,640**

A.3 Investment performance

Investment Portfolio

The table below presents the Company's investment return for the year. All financial investments are held at fair value, with changes in valuation recognised within the income statement.

a. Income and Expenses

Investment return

Year Ended 31 December **£ '000**	**2023**	**2022**
Interest income		
UK Government bonds	1,318	1,333
Corporate bonds	7,745	7,650
Supranational bonds	2,298	2,299
Non-UK Government bonds	52	187
UK Government Agency bonds	880	1,171
Covered bonds	654	574
Other	784	313
Total interest income	**13,731**	**13,527**
Net unrealised gain / (loss) on investments	22,486	(62,839)
Net realised (loss) on investments	(2,973)	(435)
Investment expenses and charges	(560)	(559)
Total investment return	**32,684**	**(50,306)**

The Company's investment strategy focuses on establishing highly liquid, diversified investment portfolios of high credit quality managed by an external investment manager. Due to the significant decreases in investment yields during the year, the Company benefited from unrealised gains on its investment portfolio, resulting in a total investment return of £32.7 million for the year (2022: negative £50.3 million). Investments are typically held to maturity, therefore, the Company's preferred measure of investment return is yield-to-maturity, which was 1.87% (2022: 1.71%), including securities held for loss mitigation purposes.

The overall duration of the investment portfolio at 31 December 2023 was 2.36 years (2022: 2.78 years) and the average credit quality was AA- (2022: AA-), excluding short term deposits and securities held for loss mitigation purposes. The market value of the investment portfolio at 31 December 2023 was £607.4 million (2022: £685.6 million).

b. Gains and Losses on Investments Recognised Directly in Equity

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

c. Investments in Securitisation

The Company held securitised assets as at 31 December 2023 of £25.2 million (31 December 2022: £27.1 million) representing 4.0% (2022: 4.0%) of the investment portfolio. The securitised assets are primarily securities that are guaranteed by the Company and were purchased for loss mitigation purposes. The remainder of the securitised assets, representing less than 0.2% of the investment portfolio (2022: <1%), are US government agency mortgage-backed securities rated AA+.

A.4 Performance of other activities

The Company recorded a foreign exchange gain of £6.9 million during the year (2022: loss of £13.9 million) due to losses on the Company's US Dollar denominated assets following the weakening of the US Dollar against Pound Sterling during the year.

A.5 Any other information

Lease Payments

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

Future minimum lease payments

Year Ended 31 December £ '000	2023	2022
Not later than one year	529	529
Later than one year and not later than five years	2,118	2,118
Later than five years	393	923
Total	**3,040**	**3,570**

B. System of Governance

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

B.1 General information on the system of governance

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

Board of Directors

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

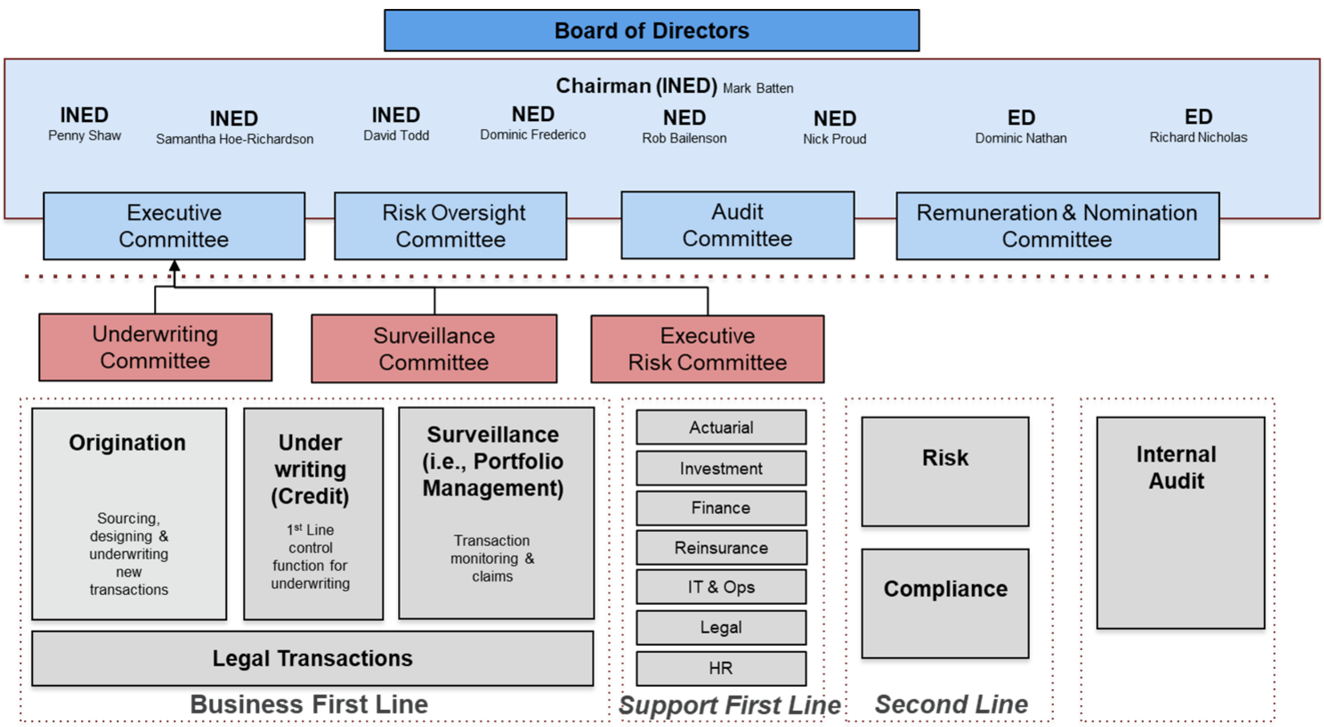
The Board has delegated, pursuant to written terms of reference, responsibility for a number of matters to four sub-committees of the Board:

- Audit Committee,
- Risk Oversight Committee;
- Remuneration and Nomination Committee; and
- Executive Committee

Each Committee's terms of reference are reviewed at least annually to ensure that they remain appropriate and to reflect any changes in good practice. Each of the Committees is comprised of independent non-executive directors, with the exception of the Executive Committee which comprises members of the Company's Executive team.

The Board has delegated the day-to-day management of the Company to the Chief Executive Officer. The CEO is supported by the key functions and the Executive Committee, which in turn delegates authority to three management committees: an Executive Risk Committee, a Surveillance Committee and an Underwriting Committee.

The Company's overall governance structure is summarised below.



Audit Committee

The Audit Committee members are comprised solely of independent non-executive directors with the Chairman of the Board not a member. The Audit Committee is responsible for assisting the Board in its oversight of the integrity of the Company's financial statements, the effectiveness of the systems of internal controls over financial reporting, including fraud prevention and detection, and monitoring the effectiveness, performance, objectivity and independence of the external and internal auditors. It is also responsible for oversight of the Company's whistleblowing processes. The Committee receives regular reporting from the Finance, Internal Audit and Actuarial functions.

Risk Oversight Committee

The Risk Oversight Committee members are comprised solely of independent non-executive directors with the Chairman of the Board not a member. The Risk Oversight Committee is responsible for assisting the Board in the identification and assessment of the Company's key risks and the effectiveness of internal control matters relating to the Company's business operations including compliance with laws and regulations. The Committee's responsibilities include oversight of the Company's risk appetite and monitoring the effectiveness of the Company's risk management framework. The Risk Oversight Committee reviews the Company's risk profile against risk appetite, oversees the management of current and emerging risk exposures and risk issues, oversees the ORSA process and reviews its results and reviews the Company's scenario and stress testing and the use of the Company's ECM.

The Committee receives regular reporting under the Company's ORSA process, which includes a quarterly risk dashboard and reporting from the Chief Risk Officer. It is also responsible for overseeing and challenging the activities of the Risk Management and Compliance functions.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee assists the Board with its oversight of the Company's remuneration and related personnel policies and for overseeing compliance with those policies. This includes ensuring that the remuneration arrangements support the strategic aims of the business and enable the recruitment and retention of senior executives while complying with regulatory and governance requirements. The Committee is responsible for overseeing the performance and appointment of executive directors, non-executive directors, the Board Chair and senior managers.

Executive Committee

The purpose of the Executive Committee is to manage the operational activities of the Company. The Committee is responsible for assisting in the development of the Company's strategy (for example via the development of the business and capital plans) and, once approved by the Board, overseeing the implementation of those strategies, including key initiatives and projects. The Committee oversees operational performance, including outsourcing arrangements and the performance and financial position of the business and ensuring the business is managed in line with regulatory and legal requirements. The Committee is chaired by the CEO.

Executive Risk Committee

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

Surveillance Committee

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

Underwriting Committee

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

Roles and responsibilities of Key Functions

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

Risk Management function

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

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

Compliance function

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

Internal Audit function

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

The Company outsources the Internal Audit function to an international public accounting firm, which is objective and independent from the Company's business and operational functions. The Internal Audit function reports directly to the Audit Committee and Board on the results of its internal audit activities and any other internal audit matters. The Internal Audit function also attends meetings of the Risk Oversight Committee. *Section B.5* provides further detail on the activities of the Internal Audit function, including its purpose, independence, authority, and roles and responsibilities.

Actuarial function

The Chief Actuary carries out the responsibilities of the Actuarial function, which includes overseeing the modelling of expected losses and coordinating the Company's UK GAAP and Solvency II technical provisions calculations. The Actuarial function is also responsible for reviewing and expressing an opinion on the Company’s underwriting policy, the adequacy of its reinsurance arrangements, reviewing the Company's ECM and contributing to the Company's risk management system. *Section B.6* provides further detail on the activities of the Actuarial function.

Other functions

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

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

To ensure it is well equipped to oversee, challenge and support the business as it continues to grow, the Company continued to implement and embed further incremental changes to its governance and risk management frameworks during 2023.

Following the end of the reporting period there was a change in the governance structure of the Company. The former Chief Executive Office of the Company resigned from his position to take up the role of Global Head of Origination for the Assured Guaranty Group. Following PRA approval, the former Head of Origination for the Company was appointed as the new Chief Executive Officer on 19 January 2024.

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

The Company ensures that it has appropriate fixed and variable remuneration arrangements through the adoption of a remuneration policy which is annually reviewed.

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

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

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

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

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

Remuneration consists of the following principal elements: base salary, variable cash incentive remuneration and, potentially, variable long-term incentive compensation. The Company's remuneration principles are structured with upside potential for high performers, but also the possibility of reduced variable remuneration if individuals under-perform (e.g. they are unable to successfully execute group strategies or meet their business or regulatory obligations).

The Company’s remuneration principles include a risk adjustment process. This provides for an ex-ante downward adjustment of the Company’s overall bonus pool as a result of its current risk profile and position compared with risk appetite. The risk adjustment process also provides for an ex-post risk adjustment relating to a downward adjustment to the Company’s overall bonus pool or variable remuneration for certain individual members of staff as a result of one or more risk events which materialised during a performance year.

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

The Company also applies an Executive Recoupment Policy applying to its Solvency II Identified Staff, with the exception of its independent non-executive directors ("Covered Persons"). The Executive Recoupment Policy sets out the circumstances in which incentive compensation (including cash bonuses or other cash incentives (including any deferred element thereof)) and vested and unvested equity awards, including options, restricted stock and restricted stock units, performance stock unit awards and performance stock awards from the Company, AGL or a subsidiary of AGL to a Covered Person with a Grant Date of 1 January 2023 onwards may be recouped and/or forfeited.

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

In addition to base pay, certain members of senior management may be eligible for a cash incentive award. This award is discretionary and the amount of the cash incentive is based on the extent to which certain specified financial performance goals are achieved (where applicable) and other non-financial objectives. Cash incentive awards, if awarded, are paid the year following the performance year on which they are based. The remuneration paid to the CRO, the Head of Compliance and the Head of Underwriting Oversight does not include incentives related to writing additional insurance business.

AGL also maintains a long term incentive plan ("LTIP"), which was designed to enable the employees of its subsidiaries to participate in the long-term growth of the Assured Guaranty Group. An LTIP award may be made in the form of non-qualified and incentive stock options, stock appreciation rights, full value awards, which include awards such as restricted shares, restricted stock units or performance share units, and cash incentive awards. Awards are made at the discretion of AGL’s Compensation Committee, in consultation with, the Company's Board. For certain senior management of the Company, LTIP awards granted in recent years have been in the form of (i) performance restricted share units ("PSUs") that represent a contingent right to receive a varying number of AGL common shares, depending on the extent to which specified performance hurdles are achieved and (ii) restricted share units ("RSUs") that represent the right to receive AGL common shares at the end of a three-year vesting period if the holder of the restricted share unit remains employed at that time.

The equity granted to certain senior management of the Company in 2024 for 2023 performance consists of:

- PSUs representing the right to receive up to two AGL common shares at the end of a three-year performance period, depending on the growth in core adjusted book value per share over the three-year performance period (at the target growth rate, one AGL common share for each PSU; at 80% of the target growth rate, one-half share for each PSU; for growth rates below 80%, no shares; and at 120% of the target growth rate or above, two shares for each PSU)
- PSUs representing the right to receive up to 2.5 AGL common shares at the end of a three-year performance period, depending on the performance of AGL's total shareholder return ("TSR") over that three-year period relative to the TSR of the Russell Midcap Financial Services Index (at the target AGL TSR at the 55th percentile of the index, one AGL common share for each PSU; at the 25th percentile of the index, one-half share for each PSU; below the 25th percentile, no shares; and at the 95th percentile of the index or above, 2.5 shares for each PSU)
- RSUs representing the right to receive one AGL common share on the three-year anniversary of the grant date, if the holder remains employed at such time.

For other personnel who are granted awards, the awards are made in the form of performance retention awards that are deferred cash awards that vest over a three year period and pay out based on certain performance measures and/or in the form of RSUs that generally vest over a four year period. The form of LTIP awards may change at any time.

Variable remuneration is subject to a downwards risk adjustment process overseen by the Company's Risk Management function. The measurement of performance as a basis for variable remuneration must include appropriate consideration of the Company's risk position compared with risk appetite and limits, capital adequacy, changes to the risk profile and other relevant risk metrics as set out in the Remuneration Policy.

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

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

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

The Company did not undertake any transactions during the year with members of its Board or management, other than in respect of emoluments paid to independent non-executive directors under contracts of service with the Company.

During the year, transactions were entered into with parent Company, AGM, and other Assured Guaranty Group affiliate companies under the following arrangements:

i. Reinsurance and support agreements

The Company is party, with its parent company AGM, to the AGM Net Worth Maintenance Agreement and the AGM Reinsurance Agreement. It also is a party to other reinsurance agreements with affiliated Assured Guaranty Group companies. Additional information on these agreements is provided in *Section E.1.*

ii. Management, service contracts or cost sharing arrangements

Service Agreement with AG (UK) Services

The Company is party to a services agreement with AG (UK) Services under which AG (UK) Services provides the Company with professional insurance executives and staff, as well as administrative and clerical personnel. Under the agreement, the Company pays a fee equal to the costs incurred by AG (UK) Services in providing the services of those individuals plus a mark-up.

Service Agreement with AGUS Services

In addition, the Company is also a party to the Group Services Agreement. Under the Group Services Agreement, the Company's US affiliates make services available to the Company, including actuarial, marketing, underwriting, claims handling, surveillance, legal, compliance, corporate secretarial, information technology, human resources, accounting, tax and investment planning services. The costs charged to the Company for the provision of these services are determined based upon an allocation of employee time and corresponding office overhead. Intra-group outsourcing is further described in S*ection B.7.*

iii. Payment of dividend

During the year the Company took measures to address the current excess capital position with the payment of a £100m dividend to parent company, AGM. (2022: nil).

B.2 Fit and proper requirements

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

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

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

Executives and non-executives who are considered for appointment to the Company's Board go through a rigorous internal vetting process including interviews with senior management and members of the Board. Employees of AG (UK) Services or AGUS Services who are considered for SMF roles or as KFHs are subject to additional scrutiny prior to commencement of that role. In addition, the Company obtains the background checks and references required by its internal policies and regulation. Certain checks such as criminal checks are conducted on an annual basis. The Company also requires members of the Company's Board, SMFs and KFHs to sign a declaration about their ongoing fitness and propriety.

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

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

Consideration is also given to the individual's competence and capability to undertake the role, and (i) whether the individual has demonstrated, by experience and training, that they are suitable to perform the role and possess the necessary skills, knowledge, expertise, diligence and soundness of judgement to undertake and fulfil the duties and responsibilities of the role; (ii) whether the individual has demonstrated the appropriate competence, honesty, and integrity in fulfilling professional responsibilities previously or in their current role; and (iii) where the individual has any potential conflicts of interest.

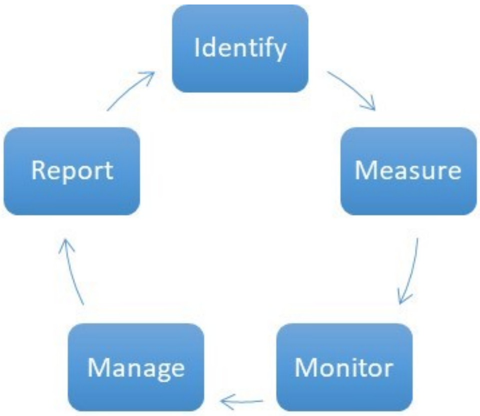
Members of the Company's Board and individuals who are SMFs or KFHs are required to complete training at the inception of their role and thereafter training on an ongoing basis which is appropriate to their regulatory roles and responsibilities and to the professional competencies required for their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

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

B.3 Risk management system

Risk Management Framework

The Company has established a Risk Management Framework, which sets out the approach taken to risk management. The Risk Management Framework seeks to identify, measure, monitor, manage and report on the risks to which the Company is, or could be exposed. Under this framework risks are categorised into five areas: underwriting risk, counterparty default risk, market risk, liquidity risk and operational risk.



The Risk Management Framework provides the basis for implementing and integrating the risk management systems into the organisation's structure and decision making process.

Risk identification, measurement, monitoring, managing and reporting

The Risk Management function works with the business function leaders to identify and prioritise risks and to establish the most effective ways to measure, monitor and manage them. The results of the risk identification process are documented in the Company's Risk Universe and Risk Registers along with the internal controls and other actions designed to mitigate these risks consistent with risk appetite. The Risk Management function monitors both current and emerging risks, compares risk exposures to risk appetite as well as confirming that risk mitigation strategies remain effective. The results of their ongoing review are reported to the Executive Risk Committee at least quarterly in order to inform business decisions and are subject to review and challenge by the Risk Oversight Committee.

Risk Appetite Framework

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

Risk governance

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

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

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

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

Risk oversight is also provided by the Chief Risk Officer, the Company's Risk Management Function and the Executive Risk Committee. The Executive Risk Committee is chaired by the Chief Risk Officer and consists of relevant senior managers. It supports the executive management in the execution and conduct of their risk management duties. The scope of the Executive Risk Committee is enterprise wide and covers all of the Company's risks including underwriting risk, counterparty default risk, other financial risks and operational risks.

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

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

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

The Risk Management function delegates, oversees and approves certain activities performed by the Assured Guaranty Group Risk Management function, including the operation of the ECM and the calculation of the SCR and ICA capital requirements.

ORSA process

The ORSA process assists the Company in understanding the risk management and solvency implications of its strategy and business planning. The business strategy, which sets out the Company's 3-year forward business projection, and the capital requirements needed to support that plan are at the heart of the ORSA process. The ORSA process helps the Company and the Risk Management function understand how the business plan impacts the forward looking risks that the Company may face, their potential impact on the future capital requirements for the business and the ability of the Company to withstand adverse events should they occur. The ORSA process includes stress and scenario testing, including reverse stress testing, to ensure the Company can maintain adequate capital in line with its Capital Management Policy even after unexpected remote events.

When interlinked with the management of risk and assessment of future risks and solvency positions under different scenarios, the ORSA process provides a framework for making key decisions and effectively running the business. While managing risk and capital is an ongoing process, the results of the solvency assessment are required to be reported at least annually in the ORSA Report.

To calculate its regulatory required capital, the Company uses the Solvency II Standard Formula approach. For its own assessment of required capital, the Company uses an internally developed model, the ECM, to measure credit underwriting risk (including reinsurance counterparty credit risk), a bespoke calculation for operational risk and the Standard Formula for market risk.

ORSA report

The ORSA report projects capital requirements for the next three years based on both expected business volumes and market conditions and results from the Company's stress and scenario testing framework. It considers the suitability of the Standard Formula capital calculation SCR, against those capital requirements derived from the Company's own view of risks, based on its own assessment using the ECM. It has been concluded that the Standard Formula is an appropriate measure for the Company's risks over a one-year time horizon.

The Company produces its ORSA annually, and will produce it more frequently if there is a material change in its risk profile or other events that warrant an off-cycle review. The results of the ORSA are presented to the Executive Risk

Committee, and the ORSA Report is subject to review and challenge by the Risk Oversight Committee before being recommended to the Board for approval.

Governance of the ORSA process

The Board approves the ORSA Policy and the conclusions from the ORSA process that are documented in ORSA Reports. The ROC oversees the implementation of the ORSA Policy and related processes, challenges the results and how they are incorporated into the ORSA Report, and recommends the final ORSA report to the Board.

The ORSA reports are prepared by the Chief Risk Officer and the Risk Management function with input from Finance and other core first line management functions. The Chief Risk Officer is responsible for ensuring that there is appropriate visibility of the conclusions from the ORSA Report in decision making committees. The Chief Risk Officer also provides second line oversight and support to the processes relied upon for each ORSA.

B.4 Internal control system

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

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

- *Control environment* - the overall culture is established by the Company's management and its key governance functions. The Assured Guaranty Group's Code of Ethics establishes standards by which the Company's directors, management and all personnel providing services to the Company, must abide and sets the tone for how personnel supporting the Company should conduct themselves. The Code of Ethics is available at www.assuredguaranty.com/about-us/governance. The Code of Ethics is designed to discourage personnel from engaging in activities that could jeopardise the Company's business and reputation. The Company and the Assured Guaranty Group have established a suite of entity level control processes to contribute to the establishment of an appropriate control environment;

- *Risk assessment* - each function completes a risk assessment exercise to identify the key risks relevant to their business objectives and related processes. This risk assessment is required to be reviewed annually;

- *Control activities* - control activities are the actions that individuals are required to undertake to implement and operate the Company's internal controls to appropriately mitigate the identified risks. The effectiveness of the design and operation of internal controls is the responsibility of the first line risk and control owners and is assessed at least annually;

- *Information and communicati*on - information on risk and risk assessments is routinely shared within the business by both the first and second lines of defence. Management utilises information from both internal and external sources and assessments to support the functioning of the system of internal control, which includes the results of control effectiveness assessments; and

- *Monitoring* - the monitoring of risks and controls is primarily the responsibility of the first line risk and control owners. On an annual basis key risks and controls are assessed and confirmed as appropriate by the risk owners as part of the Risk and Control Self Assessment review. The Risk Management function oversees a programme of regular control assessments as established by the Risk Management Framework and Operational Risk Policy, with regular reporting provided to the Risk Oversight Committee. The Internal Audit function is also responsible for assessing the effectiveness of the Company's internal controls and reporting to the Audit Committee on the effectiveness of the internal control environment.

b. Description of how the Compliance function is implemented

The Compliance function is a second line of defence function responsible for assessing the Company's compliance with applicable law and regulations. The principal activities of the Compliance function are:

- Advising on compliance with applicable laws and regulations and assessing the possible impact of new laws and regulations;

- Assessing, monitoring and reporting on compliance risk;

- Ensuring that all relevant personnel complete training on their regulatory roles and responsibilities, and in compliance with applicable laws and regulations, on a regular basis (including anti-money laundering, anti-bribery/ corruption and other regulatory and compliance training); and

- Assessing, together with the Risk and Internal Audit functions, the adequacy and effectiveness of compliance related procedures and controls.

The Compliance function works with the Internal Audit function to develop an internal audit plan that addresses, as appropriate, compliance by the Company with internal policies and procedures. The Internal Audit function is responsible for monitoring compliance with internal strategies, processes and reporting procedures. *Section B.5* describes the Internal Audit function in more detail. The Compliance function reports to the Executive Committee, the Risk Oversight Committee and the Board of the Company.

B.5 Internal Audit function

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

The purpose, independence, authority, and roles and responsibilities of the Internal Audit function are set out below. The company maintains an Internal Audit policy in which the matters described below are set out. There were no changes made to the Internal Audit policy during the year.

Purpose

The Internal Audit function provides the Company with independent, objective assurance on the adequacy and effectiveness of the risk management, governance and internal control frameworks. The Internal Audit function achieves this by planning and executing internal audits to verify that the Company's systems of governance, risk management and internal controls are sufficient to ensure all significant risks are identified and appropriately managed in accordance with the Board's stated risk appetite.

The Company has concluded that, at this time, the Internal Audit function is most effective being outsourced to an international professional services firm. The Chair of the Audit Committee maintains responsibility for oversight of the Internal Audit function.

Independence

The Internal Audit function is independent of any other business function, has no direct responsibility or authority over any operating activities of the Company and is specifically prohibited from performing management functions. Internal Audit have an independent reporting line to both the Chair of the Audit Committee and the Audit Committee. The Audit Committee is also responsible for appointing and/or removing the outsourced Internal Audit function. In the case that a conflict of interest is identified, it needs to be reported to the Audit Committee as soon as possible and remedial action must be taken.

Authority

In order to fulfil its objectives, the Internal Audit function is authorised to:

- carry out its responsibilities objectively, impartially, and free from bias or interference;
- have full, free and unrestricted rights of access to any member of staff and to all property, documentation, records, data and information of the Company;
- have full and free access to the Audit Committee and Risk Oversight Committee;
- obtain the necessary assistance of personnel within the Company when they perform audits, and;
- consult with the Company General Counsel to maintain attorney-client and work product privileges.

The Internal Audit function also has access to resources from the Assured Guaranty Group pursuant to an outsourcing services agreement between the Company and the Assured Guaranty Group.

Roles and Responsibilities

As noted above, the primary responsibility of the Internal Audit function is to provide independent assurance over the governance, risk and internal control framework of the Company. In discharging this responsibility their activities are focused upon testing the key controls that mitigate the material risks to the Company.

The Internal Audit function will determine whether the Company's systems of governance, risk management and internal controls are appropriately designed and operating in a manner to validate that:

- risks are appropriately identified and managed;
- the first and second lines of defence are effective in discharging their respective responsibilities for internal control and risk management, including their compliance with the requirements of risk management policies;

- significant financial, management, and operating information is accurate, reliable, and timely;
- employees have the appropriate knowledge and expertise to carry out their responsibilities;
- employees’ actions are in compliance with policies, standards, procedures and applicable laws and regulations;
- quality and continuous improvements are fostered in the control processes;
- significant legislative or regulatory issues impacting the organisation are recognized and addressed appropriately, and;
- additional controls are considered that appropriately address the risk of fraud and misappropriation of assets.

On an annual basis, the Internal Audit function will submit to the Audit Committee a risk-based internal audit plan for review and approval, incorporating input from senior management, including the Chief Risk Officer, the external auditors and the Audit Committee. Because the Company outsources certain activities and processes to the Assured Guaranty Group, the Company's internal audit plan will include internal audits on the operations of other Assured Guaranty Group companies, in addition to Company level processes.

On a monthly basis, the Internal Audit function will outline to the Chief Financial Officer the progress of internal audits against the approved internal audit plan and escalate any internal audit matters of concern that have been identified.

On a quarterly basis, or when required, the Internal Audit function reports its findings directly to the Company's Audit Committee and informs the CEO of any material issues.

b. How the Internal Audit function maintains its independence and objectivity from the activities it reviews

As noted above, the independence of the Company's Internal Audit function is primarily achieved by outsourcing the function to an independent third-party professional services firm which is not involved in the operations that are subject to internal audit activities. To provide an appropriate level of operational independence, the Internal Audit function reports directly to the Chair of the Audit Committee.

B.6 Actuarial function

The Actuarial function is responsible for overseeing the modelling of expected losses and coordinating the calculation of technical provisions. This includes:

- ensuring the appropriateness of the methodologies and underlying models used, as well as assumptions made in the calculation of technical provisions;
- assessing the sufficiency and quality of data used in the calculation of technical provisions;
- Informing the Executive Risk Committee and Board on the reliability and adequacy of the calculation of the technical provisions; and
- monitoring differences between actual experience and that estimated by actuarial models.

The Actuarial function is also responsible for:

- expressing an opinion to the Board on the overall underwriting policy and adequacy of reinsurance arrangements;
- reviewing the Company's ECM, including reviewing assumptions, methods, and data used in modelling; and
- contributing to the effective operation of risk management and internal control processes.

The Actuarial function comprises the Assured Guaranty Group Chief Actuary, who is also the Chief Actuary for the Company. The Chief Actuary is supported by various members of the Assured Guaranty Group actuarial team under outsourced services provided to the Company by the Assured Guaranty Group. The Actuarial function reports annually to the Audit Committee when presenting its actuarial report and to the Board.

B.7 Outsourcing

Given the relatively small size of its operations and the desire to ensure the efficiency and effectiveness of its operations, the Company has determined that certain functions and processes should be outsourced to an affiliate company or third parties.

Outsourcing of all critical or important functions is carried out in accordance with the Company's outsourcing policy. The objectives of the policy are to ensure that outsourcing does not adversely impact the Company's system of governance or unduly increase operational risk. The Company remains fully responsible for discharging its legal and regulatory obligations in respect of the outsourced functions or processes.

The policy identifies those members of management responsible for the oversight of each outsourced process or function, and their respective responsibilities in assessing, monitoring and reporting on outsourcing arrangements, both prior to entering into an arrangement and ongoing performance. The requirements of the policy differ depending on whether the outsourcing arrangement is assessed as material. The requirements for material outsourcing arrangements include:

- completion of a risk assessment considering the impact upon overall risk profile, operational risk and risk concentration, including consideration of material sub-outsourcing and specifically, cloud service providers;
- completion of appropriate due diligence, including in respect of service provider's financial position, ownership structure, scale, capabilities, expertise, reputation, people and technology resources;
- ongoing assessment of the service providers' performance, performed by the relevant SMF;
- each outsourcing arrangement must have a documented and tested business continuity plan and documented exit strategy; and
- Board approval of all material outsourcing.

The impact of outsourcing arrangements on operational risk is monitored by the relevant SMF, in conjunction with the Risk Management function. The Company's internal audit plan includes a comprehensive plan of work in respect of processes outsourced to the Assured Guaranty Group, with results reported directly to the Audit Committee.

Outsourcing to companies within the Assured Guaranty Group

The Company outsources certain functions and processes to its affiliate, AGUS Services, which is domiciled in the US.

Outsourcing to third parties

Investment management

The Company outsources the management of its investment portfolio to a third party investment manager.

Internal Audit

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

B.8 Any other information

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

The Board regularly assesses the adequacy of its system of governance. During 2023, the Board reviewed the governance system as described in this report, supported by its annual board effectiveness review and concluded that it provides for sound and prudent management of the business which is proportionate to the nature, scale and complexity of the operations.

b. Any other material information regarding system of governance

None.

C. Risk Profile

This section of the SFCR provides information on the material risks faced by the Company. The Company's Risk Management Framework categorises these risks into five areas: underwriting risk, counterparty default risk, market risk, liquidity risk and operational risk.

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

C.1 Underwriting risk

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

Given the limited level of reinsurance on the transactions originally underwritten by AGLN, commencing in 2022 the Company undertook a programme of policy novations to reduce its net retention for certain single name risks by transferring an 85% share of certain policies originally underwritten by AGLN to AGM. During 2023 the Company transferred 85% of the insured par originally underwritten by AGLN for the four largest net risks to AGM (£3,022.4 million net par transferred). This follows the transfer of an 85% share of a UK regulated utility risk to AGM in December 2022. The total net par transferred to AGM during 2022 and 2023 of £3,489.2 million represents a 48% reduction in the Company’s net insured par over that period. Following the policy novations, the policy structure for these risks is aligned with the coinsurance structure described above.

Risk measurement & mitigation

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

Insured Portfolio split by sector as measured by Gross Par Outstanding and Net Par Outstanding

As at 31 December	**2023**			**2022**		
	Number of Risks	**Gross Par Outstanding**	**Net Par Outstanding**	**Number of Risks**	**Gross Par Outstanding**	**Net Par Outstanding**
	#	**£ '000**	**£ '000**	**#**	**£ '000**	**£ '000**
Public Infrastructure	64	6,215,160	2,417,716	61	6,555,994	2,856,076
Regulated utilities	36	5,680,339	742,413	36	7,149,160	2,438,338
Sovereign & sub-sovereign	152	1,393,165	829,582	159	2,211,186	1,596,260
Renewable Energy	—	—	—	1	4,851	—
Total public finance	**252**	**13,288,664**	**3,989,711**	**257**	**15,921,191**	**6,890,674**
Insurance securitisation	2	31,344	3,134	3	13,289	13,290
RMBS	1	14,613	—	2	33,025	3,302
Pooled Corporate Obligations	3	13,006	13,008	1	19,817	—
Subscription Finance	1	5,892	5,892	—	—	—
Total structured finance	**7**	**64,855**	**22,034**	**6**	**66,131**	**16,592**
Total portfolio	**259**	**13,353,519**	**4,011,745**	**263**	**15,987,322**	**6,907,266**

The table above excludes £300.4 million of GPO (31 December 2022: £316.6 million) and £30.0 million (31 December 2022 £31.7 million) of NPO, attributable to loss mitigation strategies. The impact of the policy novations described above is reflected across all areas of public finance.

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

Portfolio breakdown by internal credit rating

As at 31 December	**2023**		**2022**	
£ '000	**Gross Par Outstanding**	**Net Par Outstanding**	**Gross Par Outstanding**	**Net Par Outstanding**
AAA	25,018	10,405	30,448	10,631
AA	266,105	244,635	291,003	265,296
A	1,705,751	862,456	3,043,643	2,404,682
BBB	10,713,799	2,288,893	11,857,078	3,594,979
BIG	642,846	605,356	765,150	631,678
Total	**13,353,519**	**4,011,745**	**15,987,322**	**6,907,266**

The table above excludes £300.4 million (31 December 2022: £316.6 million) of GPO and £30.0 million (31 December 2022: £31.7 million) of NPO, attributable to loss mitigation strategies. The proportion of BIG risks remained stable at 4.8% of gross par outstanding (2022: 4.8%).

BIG exposure by sector

As at 31 December	**2023**			**2022**		
£ '000	**Public Finance**	**Structured Finance**	**Total**	**Public Finance**	**Structured Finance**	**Total**
Number of risks (#)	3	2	5	6	2	8
GPO	611,502	31,344	642,846	732,125	33,025	765,150
NPO	602,222	3,134	605,356	628,376	3,302	631,678

As at 31 December 2023 and at 31 December 2022, the Company had established loss reserves or unexpired risks provision for the BIG transactions on which it expects to incur a loss, and had paid claims on three (2022: three) BIG transactions during the year.

Risk concentration

Geographic concentration of Gross Par Outstanding and Net Par Outstanding by location of risk

As at 31 December	**2023**		**2022**	
£ '000	**Gross Par Outstanding**	**Net Par Outstanding**	**Gross Par Outstanding**	**Net Par Outstanding**
United Kingdom	12,039,978	3,744,918	14,586,542	6,603,487
Europe, excluding UK	1,152,807	172,363	1,205,268	178,092
Other	160,734	94,464	195,512	125,687
Total	**13,353,519**	**4,011,745**	**15,987,322**	**6,907,266**

The table above excludes £300.4 million (31 December 2022: £316.6 million) of GPO and £30.0 million (31 December 2022: £31.7 million) of NPO, attributable to loss mitigation strategies.

Approach to underwriting new business

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

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

Because of the strong support for the Company's underwriting activities provided by its parent, including the coinsurance arrangement, the AGM Net Worth Maintenance Agreement and the excess of loss cover of the AGM Reinsurance Agreement, all risks entered into by the Company are also subject to review and approval by the ISCC. The ISCC is composed of senior officers of the Assured Guaranty Group with credit expertise relevant to the type of transaction under consideration. Both the Underwriting Committee and the ISCC must approve each transaction.

Approach to insured portfolio monitoring

To manage the insurance risk associated with the insured portfolio, the Company's surveillance personnel are responsible for monitoring and reporting on all risks. The primary objective of the surveillance process is to monitor trends and changes in transaction credit quality, detect any deterioration in credit quality, and recommend to management such remedial actions as may be necessary or appropriate. In general, the review process includes the collection and analysis of information from various sources, including trustee and servicer reports, financial statements, general industry or sector news and analyses, and rating agency reports. For public finance and structured finance risks, the surveillance process includes monitoring general economic trends, developments with respect to the financial situation of the issuers, performance data and cash flows, compliance with transaction terms and conditions, and evaluation of servicer or collateral manager performance and financial condition.

All risks in the insured portfolio are assigned internal credit ratings, and surveillance personnel are responsible for recommending adjustments to those ratings to reflect changes in transaction credit quality. Internal credit ratings are expressed on a ratings scale similar to that used by the Rating Agencies and are generally reflective of an approach similar to that employed by the Rating Agencies, except that the Company's internal credit ratings focus on future performance rather than lifetime performance.

The Company segregates its insured portfolio into IG and BIG surveillance categories to facilitate the appropriate allocation of resources to monitoring and loss mitigation efforts and to aid in establishing the appropriate cycle for periodic review for each exposure. BIG exposures include all exposures with internal credit ratings below BBB-. The Company monitors its IG credits to determine whether there are any that need to be internally downgraded to BIG and refreshes its internal credit ratings on individual credits in quarterly, semi-annual or annual cycles based on the Company's view of the credit's quality, loss potential, volatility and sector. Ratings on credits identified as under the most stress or with the most potential volatility are reviewed every quarter.

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

Workout activities

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

- Exercise of transaction rights and remedies, including enforcement;
- Negotiation of amendments, waivers and consents;

- Employment of advisors or consultants;
- Restructuring or refinancing;
- Repurchase of affected securities at a discount; and
- Litigation.

Reinsurance

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

Historically, the Company entered into reinsurance contracts with both affiliated and unaffiliated reinsurers in order to support its capital position and reduce the net potential loss from large risks. By virtue of several commutations completed by the Company since the 2008 financial crisis, as well as acquisitions of formerly unaffiliated reinsurers by AGL, the Company, had outstanding reinsurance with one unaffiliated reinsurer as at 31 December 2023. (31 December 2022: one).

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

Ceded par outstanding to reinsurers

As at 31 December	**2023**	**2022**
£ '000		
Affiliated reinsurers	9,324,218	9,063,164
Unaffiliated reinsurers	17,557	16,892
Total reinsurance	**9,341,775**	**9,080,056**

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

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

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

Risk sensitivity

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

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

As at 31 December 2023, a 10 percentage point increase in the LGD assumptions used to calculate the expected loss component of the best estimate technical provisions would result in a £5.2 million reduction in own funds (2022: £15.0 million reduction).

C.2 Market risk

Market risk includes the Company's exposure to spread risk, interest rate risk, market risk concentrations and foreign exchange risk. The Company is exposed to market risk via its investment portfolio and future cash flows from the insured portfolio.

The Company has a cautious appetite for market risk and adopts a conservative investment strategy which seeks an appropriate investment return for market risk while prioritising liquidity management and preservation of the Company's external ratings. Investment limits have been established which prescribe permitted asset allocations, duration limits, minimum credit ratings, counterparty limits and a maximum solvency capital allocation to ensure market risk remains within risk appetite. These limits also implement the Company's approach to compliance with the 'prudent person principle' set out in the Solvency II Regulation. The Company's current asset allocation does not include equity or real estate investments and as such the Company is not exposed to equity or property price risk.

The investment portfolio is managed by a third party investment manager, with the exception of the portion invested in bonds held for loss mitigation purposes. The established investment limits are included within the Board approved investment guidelines issued to the investment manager. The investment manager is required to regularly confirm their compliance with limits.

In addition to methods described below, the Company monitors its exposure to market risk by calculating the market risk component of the SCR Standard Formula on a quarterly basis, monitoring against the permitted solvency capital allocation.

Risk measurement & mitigation

Spread risk

The Company manages its exposure to spread risk by establishing minimum credit rating standards for the investment portfolio, for both individual securities and the overall portfolio. These minimum credit rating standards support one of the Company's primary objectives in managing the investment portfolio, which is to maintain the highest possible credit rating for the Company. The overall portfolio credit quality (excluding the loss mitigation bonds in the internally managed portfolio), on an ongoing basis must be rated a minimum of "A+"/"A1"/"A+" as measured by S&P, Moody's and Fitch. All securities purchased by external managers must be rated by one of S&P, Moody's or Fitch and at least 95% of the portfolio must be rated by two of S&P, Moody's and Fitch.

In the event of a downgrade of any investment below the Company's requirements, the portfolio manager must contact the CFO or Treasurer to discuss the course of action and may hold the position only if approved by the CFO or the CEO.

Investment Portfolio by external credit rating on a Solvency II basis

As at 31 December £ '000	2023	2022
AAA	238,561	276,548
AA	104,106	139,729
A	135,047	111,530
BBB	111,213	137,956
Lower than BBB or not rated[1]	23,868	25,550
Total	**612,795**	**691,313**

[1] investments rated below BBB comprise securities held for loss mitigation purposes

Interest rate risk

The Company is exposed to interest rate risk in respect of both assets and liabilities. The Company receives cash inflows in the form of investment income, premiums, reinsurance commissions and salvage on previously paid claims. The Company pays cash outflows in the form of expenses, claims, loss adjustment expenses and reinsurance premiums. As at 31 December 2023, on a Solvency II balance sheet basis, the Company has total assets of £577.2 million (2022: £650.4 million) and total liabilities of £67.0 million (2022: £115.2 million) with exposure to interest rate risk.

The Company's exposure to interest rate risk is managed by restricting the overall duration of the investment portfolio to within a prescribed range of a selected benchmark portfolio. Given the Company's cautious approach to market risk and the primary objectives of the Company's investment strategy, the overall duration is generally short and the investments are generally held to maturity.

Due primarily to the high credit quality of the Company's insured portfolio, cash inflows are expected to materially exceed cash outflows and the Company, therefore, does not seek to mitigate interest rate risk by matching the duration of the Company's invested assets with liabilities arising from the insured portfolio. However, the Company regularly reviews the duration of assets and liabilities, this includes monitoring the mean duration of the investment portfolio to determine any changes to the duration limits established in the investment guidelines in order to manage overall net interest rate risk. The Company performs interest rate stress testing on its net interest rate exposure to ensure the overall duration gap is appropriately managed.

Currency risk

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

Solvency II assets and liabilities by currency

As at 31 December 2023 £ '000	GBP	EUR	USD	Other	Total
Assets					
Investments	538,221	—	74,574	—	**612,795**
Cash and cash equivalents	7,325	1,360	116	145	**8,946**
Reinsurance recoverables	(31,877)	(400)	(3,281)	—	**(35,558)**
Deposits to cedants and insurance and reinsurance receivables	16	6	12,957	—	**12,979**
Other assets	19,735	—	—	—	**19,735**
Total assets	**533,420**	**966**	**84,366**	**145**	**618,897**
Liabilities					
Technical provisions	20,016	(6,590)	53,695	(102)	**67,019**
Deposits from reinsurers and insurance, intermediaries and reinsurance payables	—	—	8,464	—	**8,464**
Any other liabilities	9,937	282	743	138	**11,100**
Total liabilities	**29,953**	**(6,308)**	**62,902**	**36**	**86,583**

Risk concentration

As at 31 December 2023, the Company's investment portfolio had an average credit quality rating of AA- (2022: AA-), excluding short term deposits and securities held for loss mitigation purposes. Issuer constraints as well as sector limitations are also followed in managing the investment portfolio.

Investment portfolio composition concentrations by security type

As at 31 December	2023	2022
UK government bonds	12 %	10 %
Corporate bonds	44 %	40 %
Supranational bonds	29 %	27 %
Non UK government agency bonds	5 %	8 %
Non UK government bonds	<1 %	5 %
UK government agency bonds	2 %	2 %
Covered bonds	2 %	2 %
Asset and mortgage backed	4 %	4 %
Collective investment undertakings	2 %	2 %
Total	**100 %**	**100 %**

The Company’s exposure to any individual non-government or non-supranational issuer did not exceed 3% of the investment portfolio (excluding securities held for loss mitigation purposes) as at 31 December 2023.

Risk sensitivity

The most material market risks to which the Company is exposed are spread risk and interest rate risk on fixed income investments. The Company's investment manager provides stress testing results on the portfolio's exposure to interest rate risk. The scenario below assumes a 300% parallel upwards shift in the yield curve across all maturities. No benefit is assumed for future management actions which could potentially mitigate losses.

Interest rate risk

As at 31 December	Upward Shift in Yield Curve	Decrease in Value of Investment Portfolio	Decrease in Technical provisions liability	Decrease in Reinsurance recoverable liability	Interest Rate Risk included in Standard Formula Calculation of the SCR	Increase of the SCR in this Scenario	Decrease of SCR Ratio
	Basis points	£ '000	£ '000	£ '000	£ '000	£ '000	Percentage points
2023	300	(39,731)	19,294	5,984	47,554	2,942	20
2022	300	(52,538)	15,241	19,542	73,477	10,396	38

An increase in the yield curve by 300 basis points would result in a 20 percentage point reduction in the Company's SCR Ratio as at 31 December 2023 to 398%.

Spread risk

A 3 notch ratings downgrade of all investments in the investment portfolio would increase the SCR by £4.0 million to £131.2 million (2022: increase the SCR by £4.1 million to £281.3 million), causing the Company's SCR ratio as at 31 December 2023 to decrease by 12 percentage points to 406% (2022: decrease by 3 percentage points to 210%).

Currency risk

The Company has a net foreign currency position for Australian Dollar, Euros and US Dollars and is exposed to the devaluation of each currency against pound sterling. A 25% weakening of the Australian Dollar, the Euro and the US Dollar relative to sterling would result in a loss of £7.2 million (2022: £20.1 million). This would decrease the SCR ratio by 2 percentage points to 416% (2022: decrease by 7 percentage points to 206%).

C.3 Credit risk

The Company's most significant credit risk exposure is in respect of the reinsurers that assume a substantial portion of the insured risk. Refer to *Section C.1.* above for information on these exposures. The only other counterparty credit risk the Company is exposed to is in respect of cash on deposit with banks. The credit risk arising from these deposits is not material to the Company.

Cash and cash equivalents (excluding money market funds) in the Solvency II balance sheet

As at 31 December £ '000	2023	2022
Cash and cash equivalents	**8,952**	**8,517**

C.4 Liquidity Risk

Risk measurement & mitigation

Liquidity risk is the risk that cash may not be available at a reasonable cost to pay obligations as they fall due. The Company has established an overall liquidity risk appetite and liquidity risk management framework to appropriately manage its exposure to liquidity risk. The Company manages its liquidity risk by maintaining a liquid, high quality investment portfolio, with a duration that is shorter than the duration of its insurance liabilities, which can be liquidated within a timeframe sufficient to meet potential liquidity requirements under the Company’s identified, severe but plausible liquidity stress scenarios. The Company is only required to pay principal and interest claims as they come due according to the original bond payment schedule, and the payments cannot be accelerated without the Company's consent.

The Company’s exposure to liquidity risk is also significantly mitigated by the terms of its reinsurance contracts with Assured Guaranty Group companies. In the event of claims arising under the AGM Reinsurance Agreement, AGM is required to pay the Company within the earlier of five business days of receipt of a claim or the day on which the Company is required to make a claim payment to a policyholder. Similarly, in the event of a funding requirement under the AGM Net Worth Maintenance Agreement; AGM is required to contribute the required funding within three business days of receipt of notice.

Financial assets and liabilities, as measured under UK GAAP, by maturity date:

As at 31 December 2023

£ '000	< 1 year or no contracted maturity	1 to 4 years	5 to 10 years	10 + years	Total
Assets					
Investments	106,667	435,516	62,159	3,050	**607,392**
Cash at bank	8,952				**8,952**
Debtors arising out of direct insurance operations	55,415	67,616	63,396	86,220	**272,647**
Debtors arising out of reinsurance operations	7,972	12,287	12,292	10,345	**42,896**
	179,006	515,419	137,847	99,615	**931,887**
Liabilities					
Creditors arising out of reinsurance operations	**44,013**	**41,682**	**41,755**	**34,854**	**162,304**
As at 31 December 2022					
Assets					
Investments	96,490	487,252	73,109	28,724	**685,575**
Cash at bank	8,517	0	0	0	**8,517**
Debtors arising out of direct insurance operations	65,201	102,947	89,477	105,432	**363,057**
Debtors arising out of reinsurance operations	7,793	12,159	12,648	12,071	**44,671**
	178,001	602,358	175,234	146,227	**1,101,820**
Liabilities					
Creditors arising out of reinsurance operations	**44,919**	**41,015**	**42,787**	**40,638**	**169,359**

Expected future profit included in future premiums

In respect of premiums receivable, the Company estimates that it has £78.9 million (2022: £124.0 million) of expected future profits which are not immediately available to meet liquidity needs since they have not yet been paid to the Company.

Risk concentration

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

Risk sensitivity

The Company performs liquidity stress testing on a quarterly basis to ensure that it has sufficient liquid assets to cover all of its liabilities that could arise in a stress scenario. The Company has minimal short term liquidity requirements and does not believe that any plausible liquidity risk scenario that could occur over a 1-year time horizon would cause significant loss or impact on the SCR or the SCR solvency ratio.

C.5 Operational risk

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

The Company regularly assesses its ability to prevent, adapt, respond to, recover from, and learn from operational disruptions on the basis that from time to time, disruptions may occur which will prevent management and staff from operating as usual. This assessment is largely driven by the Business Continuity Plan (BCP) process and policy, which establishes maximum tolerable periods of disruption and data loss for each business area, including those identified as Important Business Services.

As at 31 December 2023, the Company had 259 (2022: 263) risks in its insured portfolio and generally adds only a small number of new transactions each year, limiting the potential for operational errors. The relatively small number of risks allows careful review of the transaction documents and quality control of the data points captured in the Company's systems by technically competent and experienced employees.

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

Key risk indicators and other bespoke risks metrics allow the Company to monitor operational risk and measure it against risk appetite on a quarterly basis. The findings and recommendations of the Risk and Control Self-Assessment exercise are reported to the Audit Committee on an annual basis and material findings from the incident reporting process reported to the ROC as appropriate.

Other than in the ordinary course of business, the Company was not involved in any ongoing litigation as at 31 December 2023.

Risk sensitivity

The Company does not believe that any plausible operational risk scenario that could occur over a 1-year time horizon would cause significant loss or impact to own funds or the SCR capital ratio.

In addition, due to the nature of the Company's business and low time criticality of external services, it is not plausible that a temporary operational disruption would pose a risk to either an external firm's safety and soundness, policyholder protection or the financial stability of the UK.

C.6 Other material risks

Climate change

We recognize the importance of a healthy environment to the global community, our business, and our employees. The challenges of protecting the environment and combating climate change, including the challenges of energy transition, have become a major issue. We are committed to understanding, managing and mitigating the risks to our business associated with the environment and to operating our business in a sustainable and environmentally responsible manner.

We believe the Company is most likely to be exposed to the financial risks of climate change from its underwriting and investing activities. As a financial guarantor of public finance (including infrastructure finance) and structured finance transactions, the Company does not take direct insurance exposure to climate change but does face the risk that its obligors' ability to pay debt service will be impaired by the impact of climate related events. AGUK provides insurance policies with durations of 30 years or longer, meaning in-force risks, as well as those currently being underwritten, are potentially exposed to climate change impacts many years into the future. AGUK also has a substantial investment portfolio backing its insurance liabilities and regulatory capital requirements. Equally, while we believe the direct impact of our operations on the environment is relatively small, we understand that we have a role and a responsibility to manage our operations in ways that reflect our respect for the environment.

AGUK's ultimate parent, AGL, has implemented policies and procedures on environmental responsibility which apply to AGUK's operations and employees. AGL's statements on Environmental Policy, Climate Change, and Environmental Stewardship can be found in the "Environmental and Social Responsibility" subsection of AGL's website (www.assuredguaranty.com/about-us/environmental-and-social-responsibility). The policy establishes key requirements for the Assured Guaranty Group, in managing climate impacts and the approach to mitigating the business impact on the environment, including risk management and strategic opportunities, investment opportunities, business operations and facilities management, and employee engagement. The policy applies to all personnel, across all offices and operations of Assured Guaranty, including AGUK.

Although the Company is not required to provide climate-related information in line with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"), given the growing importance of this area for many stakeholders, the climate-related disclosures below have been prepared with reference to TCFD recommendations, focusing on four key thematic areas; governance, strategy, risk management and metrics.

Governance

The Company's Board is committed to operating the Company in a sustainable and environmentally responsible manner.

To oversee, implement and further develop the objectives and initiatives of the Environmental Policy, AGL created the Environmental and Social Initiatives Task Force ("Task Force"), whose members include senior Assured Guaranty management. The Company's management, including members of the Board, work closely with members of the Task Force who are responsible for:

- Reporting on the progress of the Group's environmental efforts
- Examining the organization to identify ways to contribute to the sustainability of the environment
- Coordinating and supporting activities that reduce environmental impact
- Promoting environmental awareness among employees and encouraging employee engagement

The Company's Board is responsible for overseeing the implementation of environmental and sustainability initiatives at an AGUK level. The Company has also established an AGUK ESG management working group which is tasked with further developing the Company's ESG framework and appropriately embedding Assured Guaranty Group's environmental policies and procedures at a Company level.

The Board is also responsible for the oversight of climate risk. Assessment of the financial risks associated with climate change is now embedded in the Company's risk management framework and within regular cycles of risk reporting to the Board and Risk Oversight Committee of the Board, led by the Chief Risk Officer who is the Senior Manager with regulatory responsibility for managing the financial risks from climate change.

Strategy

The increasing focus on climate change action may give rise to a number of opportunities for the Company to support environmentally responsible business developments and other initiatives. We believe that AGUK's financing solutions have an important role to play in helping to finance the infrastructure improvements, renewable energy generation and new technologies required to prepare for the impacts of climate change related events, reduce greenhouse gas emissions and transition to a low-carbon economy. We continue to explore new business opportunities in these areas.

Risk Management

AGUK takes a holistic and long-term approach to managing the risks arising from climate change, utilising its risk management framework to identify and manage the related financial risks. We have integrated environmental considerations into underwriting, surveillance and risk management processes.

(i) Surveillance of Existing Exposures

The potential impacts of climate change on the Company's insured portfolio have been incorporated into our surveillance monitoring processes. The susceptibility of insured transactions to climate change is assessed when initially assigning and subsequently reassessing internal ratings. This assessment includes the vulnerability of the operations or assets of the insured transaction to long-term physical and transitional impacts of climate change and also the immediate exposure to extreme weather hazards or increasing volatility. The small number of risks in the insured portfolio, 259 (263 as at 31 December 2022), means that consideration can be given to the impact of climate on individual insured risks.

(ii) Underwriting Guidelines for New Exposures

The financial impacts of climate change have also been incorporated into the underwriting processes. Underwriting submissions are required to include environmental and/or transitional risk factors as part of the underwriting analysis, including vulnerability of obligors to future climate changes, extreme weather events, and other physical risks.

(iii) Own Risk and Solvency Assessment

The ORSA process is integral to the Company's risk management framework. Through the ORSA process, AGUK uses scenario analysis and stress testing to inform the risk identification process and understand the short- and long-term financial risks to the Company's business model from climate change.

(iv) Investments

The Company's investment portfolio predominantly comprises fixed-income securities; therefore, the potential impacts of climate change are primarily credit-related and significantly mitigated by the relatively short average duration of the portfolio (2.36 years as at 31 December 2023). Nonetheless, the risks arising from climate change are relevant in the evaluation by AGUK and its investment managers of the creditworthiness of specific issuers and industries. The Company's investment manager relies on their ESG corporate philosophy statements and uses ESG information, when conducting research and due diligence on new investments and in managing the portfolio. AGUK has prohibited its investment manager from making any new investments in thermal coal enterprises, specifically; (i) thermal coal enterprises that generate 30% or more of their revenue from either the ownership, exploration, mining, or refining of thermal coal, and (ii) corporate and municipally owned utilities that generate 30% or more of their electricity from thermal coal.

C.7 Any other information

None.

D. Valuation for Solvency Purposes

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

D.1 Assets

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

Assets

As at 31 December 2023

£ '000	**UK GAAP Balance Sheet**	**Solvency II Balance Sheet**	**Difference**
Deferred acquisition costs	16,551	—	16,551
Deferred tax assets	5,105	19,756	(14,651)
Investments	607,392	612,795	(5,403)
Property, plant & equipment held for own use	447	—	447
Reinsurance recoverables:			
Reinsurer's share of provision for unearned premiums	243,382	—	243,382
Reinsurer's share of claims outstanding	29,439	—	29,439
Reinsurer's share of other technical provisions (unexpected risk provisions)	95	—	95
Reinsurer's share of technical provisions (premium provision and claims provision)	—	(35,557)	35,557
Total reinsurance recoverables	**272,916**	**(35,557)**	**308,473**
Insurance and intermediaries receivables:			
Current premiums receivable	9,594	9,594	—
Future premiums receivable	263,053	—	263,053
Total insurance and intermediaries receivables	**272,647**	**9,594**	263,053
Reinsurance receivables:			
Current reinsurance commissions receivable	3,386	3,386	—
Future reinsurance commissions receivable	39,477	—	39,477
Reinsurer's share of paid claims	33	—	33
Total reinsurance receivables	**42,896**	**3,386**	**39,510**
Trade receivables	—	—	—
Cash and cash equivalents	8,952	8,952	—
Other assets	5,816	—	5,816
Total assets	**1,232,722**	**618,926**	**613,796**

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

Deferred acquisition costs

Under UK GAAP, acquisition costs incurred in respect of the successful production of new business are capitalised in the balance sheet and amortised over the period in which the related premiums are earned.

Under Solvency II, intangible assets are ascribed a value only when they can be sold separately and it can be demonstrated that there are quoted prices in an active market for such an asset. The Company's deferred acquisition costs do not meet these criteria and as such are valued at nil in the Solvency II balance sheet.

Deferred tax assets

The method for recognition and valuation of deferred tax assets is the same under Solvency II and UK GAAP.

Within the Solvency II balance sheet deferred tax assets are established for the temporary differences arising from the valuation adjustments to move from UK GAAP to Solvency II. Deferred tax is measured using tax rates that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Investments

Investments are measured on a fair value basis under both UK GAAP and Solvency II. Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on either internally developed models or third party proprietary pricing models that primarily use, as inputs, market-based or independently sourced market parameters, including but not limited to yield curves, interest rates and debt prices.

The fair value of bonds in the investment portfolio is generally based on prices received from third party pricing services or alternative pricing sources with reasonable levels of price transparency. The pricing services prepare estimates of fair value measurements using their pricing models, which take into account: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, industry and economic events and sector groupings. The Company considers markets to be active where transactions take place with sufficient frequency and volume for pricing information to be available on an ongoing basis.

Where the Company has concluded that markets are not active (i.e. investment assets cannot be priced using quoted market prices or using observable market-based prices or other inputs), assets are valued under a discounted cash flow approach using an independent third-party's proprietary pricing models. The models use inputs such as projected prepayment speeds; severity assumptions; recovery lag assumptions; life insurance cash flow projections; estimated default rates (determined on the basis of an analysis of collateral attributes, historical collateral performance; collateral reinvestment assumptions; borrower profiles and other features relevant to the evaluation of collateral credit quality); and recent trading activity. The yield used to discount the projected cash flows is determined by reviewing various attributes of the security including collateral type, weighted average life, sensitivity to losses, vintage, and convexity, in conjunction with market data on comparable securities. Significant changes to any of these inputs could materially change the expected timing of cash flows within these securities which is a significant factor in determining the fair value of the securities. As at 31 December 2023 the assets that cannot be priced using quoted market prices or using observable market-based prices or other inputs comprised 4.0% (2022: 3.8%) of the investment portfolio.

Reinsurance recoverables

Reinsurance recoverables recognised for Solvency II purposes represent the reinsurers' share of technical provisions. The reinsurers' share of technical provisions reported within the UK GAAP financial statements comprise reinsurers' share of provisions for unearned premiums, claims outstanding and other technical provisions (i.e., unexpired risks provision).

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

Insurance and intermediaries receivables

Insurance and intermediaries receivables reported under UK GAAP consist of all premiums that were receivable at the balance sheet date, including those past due, and future premiums receivable. Additionally, under UK GAAP, insurance receivables also include salvage receivable in respect of claims paid.

Insurance and intermediaries receivables recognised for Solvency II purposes consist of premiums that were past due at the balance sheet date. Expected cash flows from salvage are included within technical provisions.

Reinsurance receivables

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

Reinsurance receivables in the Solvency II balance sheet consist of reinsurance commissions that were past due at the balance sheet date.

Cash and cash equivalents

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

Any other assets

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

D.2 Technical provisions

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

Technical provisions

As at 31 December 2023

£ '000	Financial Statement Balance Sheet	Solvency II Balance Sheet	Difference
Best estimate	—	20,722	(20,722)
Risk margin	—	46,297	(46,297)
Provision for unearned premiums	358,734	—	358,734
Claims outstanding	32,710	—	32,710
Unexpired risks provision	6,687	—	6,687
	398,131	**67,019**	**331,112**

a. Valuation bases, methods and main assumptions

The best estimate component of technical provisions represents the present value of future cash outflows less the present value of future cash inflows. The cash inflows and outflows include the following:

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

The Company's expected lifetime losses under Solvency II are calculated using the Company's ECM which uses assumptions for cumulative probability of default, loss given default and correlation to calculate the gross expected cash outflows that the Company will be required to pay over the lifetime of the insured exposures. The Company considers both external and internal sources of data when setting assumptions for probability of default, loss given default and correlation, for each sector including any relevant experience by companies within the Assured Guaranty Group, the country and exposure characteristics. There are no material changes to these assumption from the prior period.

The boundary of each insurance contract is assumed to be the period of time for which principal remains outstanding on the debt underlying the financial guarantee. The Company utilises assumptions in respect of future inflation rates for debt obligations that are linked to an inflation index.

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

The percentage of premiums expected not to be received due to potential defaults was developed by applying expected default rates (as calculated using the ECM) to the future premiums.

The risk margin is an estimate of the amount that a third party would expect to receive in addition to the best estimate liability to assume the Company's insurance obligations. The risk margin is calculated as the present value of the cost of capital (i.e the cost of holding capital equal to SCR) in all future years as the insured exposure runs off. The Company estimates the SCR in all future years based on the reduction in insured GPO. The cost of capital to be used in the calculation is prescribed at 4% per annum (2022: 6%).

b. Uncertainty

While the Company believes that the assumptions and methods used to develop the technical provisions are reasonable and consistent and that they provide for a calculation of expected outcomes in an appropriate manner, it remains possible future experience may differ from expectation. The level of uncertainty in relation to the calculation of expected losses is high as the Company guarantees against low probability events with high value exposures. The uncertainty associated with assumptions related to probability of default and loss given default is also heightened by the limited level of historical loss data available to inform the Company's assumption setting.

The level of uncertainty in respect of future premiums, future ceding commission and projected operating expenses is expected to be low because in most cases cash inflows are contractually guaranteed and the annual operating expenses that would be required to manage the run-off of the portfolio can be reasonably estimated based on current staffing levels. The Company does not include any benefits related to future management actions or future policyholder behaviour.

c. Material differences between Solvency II and UK GAAP for valuation of technical provisions

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

- Future premiums receivable, and reinsurance premiums payable, less the expected amounts not to be received or paid due to defaults, are required to be discounted under Solvency II. These amounts are not discounted under UK GAAP;
- Expected future claims under Solvency II are significantly higher than under UK GAAP because an expected loss value is ascribed to every exposure guaranteed by the Company, as opposed to just those exposures where the likelihood of loss is probable, as required by UK GAAP;
- Furthermore, the discount rates ascribed by the Bank of England, which are based on risk-free market rates, are different than the discount rates used by the Company to discount claims liabilities under UK GAAP which are based on the expected yield to maturity of the investment portfolio;
- A deduction for expected losses on the reinsurer's share of future claims due to future reinsurance counterparty defaults is required under Solvency II, however UK GAAP only requires a provision to be established where the default of a reinsurance counterparty is probable;
- A provision for all future expenses to be incurred in servicing the insurance policies entered into at the balance sheet date is required under Solvency II, however no such provision is required under UK GAAP; and
- Solvency II technical provisions include a risk margin which is not required under UK GAAP.

Matching Adjustment

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

Volatility Adjustment

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

Transitional Risk Free Interest Rate Term Structure

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

Transitional deduction

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

Recoverables from reinsurance and special purpose vehicles

The Company reinsures 70% (2022: 57%) of its gross exposure to affiliated and non-affiliated reinsurers. Under Solvency II, reinsurance recoverables represent the contractually obligated payments, less a component for the expected losses in the event that reinsurers are unable to make their share of these payments in excess of the amount of collateral provided to the Company. This component is calculated based on the projected ceded expected losses to each reinsurer, the assumed cumulative default rate of each reinsurer and the amount of collateral posted by each reinsurer. Under UK GAAP the

Company does not include a provision for reinsurance counterparty default unless such a scenario, in which the reinsurer fails to pay, becomes probable.

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

D.3 Valuation of other liabilities

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

As at 31 December 2023

£ '000	**Financial Statement Balance Sheet**	**Solvency II Balance Sheet**	**Difference**
Reinsurance payables			
Current reinsurance premiums payable	8,464	8,464	—
Future reinsurance premiums payable	153,840	—	153,840
Total reinsurance payables	**162,304**	**8,464**	**153,840**
Trade payables	9,653	9,653	—
Other liabilities			
Reinsurance commissions deferred	71,784	—	71,784
Other liabilities including accrued expenses	1,540	1,540	—
Total other liabilities	**73,324**	**1,540**	**71,784**
Total liabilities excluding technical provisions	**245,281**	**19,657**	**225,624**
Provision for unearned premiums	358,734	—	358,734
Claims outstanding	32,710	—	32,710
Unexpired risks provision	6,687	—	6,687
Technical Provisions Best estimate	—	20,722	(20,722)
Risk margin	—	46,297	(46,297)
Technical provisions	**398,131**	**67,019**	**331,112**
Total liabilities	**643,412**	**86,676**	**556,736**

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

Reinsurance payables

Reinsurance premiums payable reported under UK GAAP consist of both reinsurance premiums that were payable at the balance sheet date and future reinsurance premiums payable on an undiscounted basis.

Reinsurance payables recognised for Solvency II purposes consist of reinsurance premiums that were payable on contracts past due at the balance sheet date. Future reinsurance premiums payable are included within technical provisions.

Trade payables

Trade payables represent amounts owed to other creditors, including amounts owed to affiliated companies. Payables are valued at the expected settlement amount, which given the short-term nature, is taken to approximate fair value under both Solvency II and UK GAAP.

Any other liabilities

Any other liabilities not shown include accrued expenses that have not been settled at the balance sheet date. Accrued expenses are valued at cost, based on the proportion of goods and services that have been consumed under both Solvency II and UK GAAP.

Under UK GAAP other liabilities also include deferred reinsurance commissions, which are incorporated within technical provisions under Solvency II.

D.4 Alternative methods of valuation

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

All the Company's investments are either:

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

D.5 Any other information

There is no other material information on valuation for Solvency II purposes.

E. Capital Management

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

E.1 Own funds

a. Objectives, policies and processes for managing own funds

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

i. Preserve the claims paying ability of the Company to ensure all policyholder claims can be met on a timely basis;

ii. Ensure that the Company is adequately capitalised and remains in compliance with its regulatory capital requirements;

iii. Maintain the Company’s external financial strength ratings; and

iv. Enable an appropriate return on capital for the Company’s shareholder.

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

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

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

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

AGM currently provides support to the Company through a quota share and excess of loss reinsurance agreement, the AGM Reinsurance Agreement and a net worth maintenance agreement, the AGM Net Worth Maintenance Agreement.

Under the quota share cover of the AGM Reinsurance Agreement, AGM reinsures between approximately 95% - 99% of the Company’s retention of each policy after cessions to other reinsurers, excluding the transactions which were originally underwritten by the Company’s former subsidiaries and transferred to the Company under a cross-border merger in 2018. The policies reinsured under the agreement are those issued prior to 2011 because, as noted above, since 2011 the Company has generally underwritten new business on a coinsurance basis.

Under the excess of loss cover of the AGM Reinsurance Agreement, AGM is required to pay the Company the amount by which (i) the sum of (a) the Company’s incurred losses calculated in accordance with UK GAAP and (b) the Company’s net paid losses and loss adjustment expenses, exceed (ii) an amount equal to (a) the Company’s capital resources under UK law minus (b) 110% of the amounts as may be required by the PRA as a condition for the Company to maintain its authorisation to carry on a financial guarantee business in the UK.

The AGM Reinsurance Agreement permits the Company to terminate the agreement upon the following events: a downgrade of AGM’s ratings by Moody’s below Aa3 or by S&P below AA- if AGM fails to restore its rating(s) to the required level within a prescribed period of time, AGM’s insolvency, or AGM's failure to maintain the minimum capital required by its home jurisdiction.

The AGM Reinsurance Agreement requires AGM to pledge collateral to support its reinsurance obligations to the Company. AGM’s collateral requirement at the end of each calendar quarter is calculated as the sum of AGM’s share of: (a) AGUK’s unearned premium reserve (net of AGUK’s reinsurance premium payable to AGM); (b) AGUK’s provisions for unpaid losses and allocated loss adjustment expenses (net of any salvage recoverable), and (c) any unexpired risks provision, in each case as calculated in accordance with UK GAAP.

Under the terms of the AGM Net Worth Maintenance Agreement, AGM is obligated to ensure the Company maintains capital resources equal to 110% of the amounts as may be required by the PRA as a condition of the Company maintaining its authorisation to carry on financial guarantee business in the UK provided that AGM's contributions: (a) do not exceed 35% of AGM's policyholders' surplus on an accumulated basis as determined by the laws of the State of New York; and (b) are in compliance with Section 1505 of the New York Insurance Law.

The Company has also entered into quota share reinsurance agreements with AGC and AGRE. The AGC Reinsurance Agreement provides 90% quota share reinsurance of the Company's legacy Assured Guaranty (UK) plc policies and 100% reinsurance of the legacy CIFG policies which were transferred to the Company under the 2018 cross-border merger. The AGRE Reinsurance Agreement provides quota share reinsurance for policies written by the Company prior to 2011, and also for policies originally underwritten by AGLN and transferred to the Company under the cross-border merger.

These agreements impose a collateral requirement on AGC and AGRE consistent with that for the AGM Reinsurance Agreement, as described above, except that AGC continues also to post as collateral its share of an AGUK-guaranteed triple-X insurance bond purchased by AGC for loss mitigation.

b. Structure, amount and quality of own funds

The capital structure of the Company consists of basic own funds only. As at 31 December 2023, basic own funds comprised £55.0 million (2022: £55.0 million) of allotted and fully paid ordinary shares and the reconciliation reserve of £457.5 million (2022: £496.7 million), both classified as Tier 1 capital. The Company does not have any restricted Tier 1 capital. Additionally the Company has Tier 3 capital of £19.8 million (2022: £38.1 million) which comprises deferred tax assets.

The decrease in basic own funds during 2023 is primarily due to a dividend payment of £100 million to the parent company, AGM. Additionally, the net best estimate technical provision liability increased to £56.3 million (2022: asset of £8.7 million) due to a decrease in the present value of future instalment premiums following the policy novations in the year. These decreases were partly offset by a reduction in the risk margin due to the reduction in SCR and a reduction in the prescribed cost of capital used in the risk margin calculation from 6% to 4%. The reduction in SCR is described in Section E2. below.

c. Eligibility of own funds to cover SCR

The value of available own funds is shown below.

As at 31 December

£ '000	**2023**	**2022**
Tier 1	512,492	551,698
Tier 2	—	—
Tier 3	19,756	38,134
Total	**532,248**	**589,832**

The Tier 3 own funds relate to deferred tax assets. Tier 3 assets are eligible to meet the SCR requirement up to a limit of 15% of total SCR. For this reason there is a difference of £0.7 million (2022: nil) between available own funds and own funds which are eligible to meet the SCR requirements. Total eligible own funds to cover the SCR are £531.6 million (2022: £589.8 million).

d. Eligibility of own funds to cover MCR

The Company's Tier 3 own funds are not eligible to cover the MCR, as such total own funds available to cover the MCR as at 31 December 2023 were £512.5 million (2022: £551.7 million).

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

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

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

As at 31 December £ '000	2023	2022
Shareholders' equity under UK GAAP	589,310	676,937
Disallowed items (prepayments, deferred acquisition costs & fixed assets)	(17,411)	(21,223)
Solvency II adjustment to net best estimate provision & discounting	(8,005)	56,381
Risk margin	(46,297)	(151,134)
Deferred tax in Solvency II balance sheet	14,651	28,871
Excess of assets over liabilities for Solvency II purposes	**532,248**	**589,832**

f. Basic own funds subject to transitional arrangements

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

g. Ancillary own funds

There are no ancillary own funds.

h. Basic own funds deductions and significant restrictions

There are no items deducted from own funds and no significant restrictions affecting the availability of own funds.

E.2 SCR and MCR

a. SCR and MCR

The Company's SCR as at 31 December 2023 was £127.2 million (2022: £0.3 million). This is shown in *Section F S.25.01*. The Company's MCR as at 31 December 2023 was £31.8 million (2022: £0.1 million). This is shown in S*ection F S.28.01.*

b. Split of the SCR by risk module

The Company uses the Standard Formula to calculate its SCR.

The table below shows the Company's SCR split by risk module.

As at 31 December £ '000	2023	2022
Underwriting risk	103,714	248,197
Market risk	50,077	73,299
Counterparty risk	624	253
Diversification benefit	(28,154)	(45,809)
Operational risk	962	1,253
SCR	127,223	277,193
SCR Ratio	418 %	213 %
MCR	31,806	69,298
MCR Ratio	1,611 %	796 %

The significant decrease in the underwriting risk requirement is due to the policy novations completed in the year which reduced the Company's single name risk exposures and reduced total par insured by approximately 44%.

The decrease in the market risk requirement is driven by a decrease of £18.4 million in interest rate risk, attributed to a decrease in duration of the investment portfolio and a decrease in currency risk of £12.9 million due to a reduction in the US Dollar net asset position following the liquidation of US Dollar securities to fund the Dividend payment.

c. Use of simplified calculations

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

d. Use of USPs

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

e. Disclosure of USPs and capital add-on

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

f. Impact of USPs and capital add-on

Not applicable.

g. Information on the inputs into MCR calculation

The inputs into the MCR calculation were:

As at 31 December **£ '000**	**2023**	**2022**
Net best estimate technical provisions	56,279	(8,692)
Net best estimate technical provisions (floor 0)	—	—
Net written premiums over 12-month reporting period	13,792	16,367
Linear MCR	11,520	1,849
SCR	127,223	277,193
MCR Cap	57,250	124,737
MCR Floor	31,806	69,298
Absolute Floor of the MCR	3,495	3,445

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

There were no material changes to the SCR over the reporting period other than those described above.

E.3 Use of the duration-based equity risk sub-module

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

E.4 Differences between the Standard Formula and any Internal Models used

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

E.5 Non-compliance with MCR and significant non-compliance with SCR

The Company complied with the both the MCR and SCR both throughout the year and as at the reporting date.

E.6 Any other information

None.

F. Quantitative Reporting Templates

QRT reference	QRT Template name
S.02.01.02	Balance Sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.17.01.02	Non-Life technical provisions
S.19.01.21	Non-life insurance claims
S.23.01.01	Own Funds
S.25.01.21	Solvency Capital Requirement - For undertakings on Standard Formula
S.28.01.01	Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Balance Sheet
S.02.01.02
GBP £'000

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	19,756
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**	**612,795**
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	*R0100*	
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	*R0130*	600,843
Government Bonds	R0140	295,498
Corporate Bonds	R0150	280,176
Structured notes	R0160	
Collateralised securities	R0170	25,169
Collective Investments Undertakings	R0180	11,952
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**	**(35,557)**
Non-life and health similar to non-life	R0280	(35,557)
Non-life excluding health	R0290	(35,557)
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	9,594
Reinsurance receivables	R0370	3,386
Receivables (trade, not insurance)	R0380	
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	8,952
Any other assets, not elsewhere shown	R0420	
Total assets	**R0500**	**618,926**

Balance Sheet
S.02.01.02
GBP £'000

		Solvency II value
		C0010
Liabilities		
Technical provisions - non-life	**R0510**	**67,019**
Technical provisions - non-life (excluding health)	**R0520**	**67,019**
TP calculated as a whole	R0530	
Best estimate	R0540	20,722
Risk margin	R0550	46,297
Technical provisions - health (similar to non-life)	**R0560**	
TP calculated as a whole	R0570	
Best estimate	R0580	
Risk margin	R0590	
TP - life (excluding index-linked and unit-linked)	**R0600**	
Technical provisions - health (similar to life)	**R0610**	
TP calculated as a whole	R0620	
Best estimate	R0630	
Risk margin	R0640	
TP - life (excluding health and index-linked and unit-linked)	**R0650**	
TP calculated as a whole	R0660	
Best estimate	R0670	
Risk margin	R0680	
TP - index-linked and unit-linked	**R0690**	
TP calculated as a whole	R0700	
Best estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	
Reinsurance payables	R0830	8,464
Payables (trade, not insurance)	R0840	9,655
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	1,540
Total liabilities	**R0900**	**86,678**

Excess of assets over liabilities	**R1000**	**532,248**

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

		Credit and suretyship insurance	Total
		C0090	C0200
Premiums written			
Gross - Direct Business	R0110	(63,017)	**(63,017)**
Gross - Proportional reinsurance accepted	R0120		
Gross - Non-proportional reinsurance accepted	R0130		
Reinsurers' share	R0140	12,269	**12,269**
Net	**R0200**	**(75,286)**	**(75,286)**
Premiums earned			
Gross - Direct Business	R0210	32,077	**32,077**
Gross - Proportional reinsurance accepted	R0220		
Gross - Non-proportional reinsurance accepted	R0230		
Reinsurers' share	R0240	23,971	**23,971**
Net	**R0300**	**8,106**	**8,106**
Claims incurred			
Gross - Direct Business	R0310	1,193	**1,193**
Gross - Proportional reinsurance accepted	R0320		
Gross - Non-proportional reinsurance accepted	R0330		
Reinsurers' share	R0340	1,074	**1,074**
Net	**R0400**	**119**	**119**
Changes in other technical provisions			
Gross - Direct Business	R0410	(3,235)	**(3,235)**
Gross - Proportional reinsurance accepted	R0420		
Gross - Non-proportional reinsurance accepted	R0430		
Reinsurers' share	R0440	190	**190**
Net	**R0500**	**(3,425)**	**(3,425)**
Expenses incurred	**R0550**	**20,197**	**20,197**
Other expenses	R1200		
Total expenses	**R1300**		**20,197**

Premiums, claims and expenses by country

S.05.02.01		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	MX	HU	IE	NL	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Premium written								
Gross - Direct Business	R0110	(64,200)	943	201	29	9	7	(63,011)
Gross - Proportional reinsurance accepted	R0120							
Gross - Non-proportional reinsurance accepted	R0130							
Reinsurers' share	R0140	9,749	908	195	29	-	-	10,881
Net	**R0200**	**(73,949)**	**35**	**6**	**-**	**9**	**7**	**(73,892)**
Premium earned								
Gross - Direct Business	R0210	24,794	3,867	205	108	314	8	29,296
Gross - Proportional reinsurance accepted	R0220							
Gross - Non-proportional reinsurance accepted	R0230							
Reinsurers' share	R0240	14,775	3,710	199	106	34	-	18,824
Net	**R0300**	**10,019**	**157**	**6**	**2**	**280**	**8**	**10,472**
Claims incurred								
Gross - Direct Business	R0310					985		985
Gross - Proportional reinsurance accepted	R0320							
Gross - Non-proportional reinsurance accepted	R0330							
Reinsurers' share	R0340					886		886
Net	**R0400**					**99**		**99**
Changes in other technical provisions								
Gross - Direct Business	R0410	(3,500)			129			(3,371)
Gross - Proportional reinsurance accepted	R0420							
Gross - Non-proportional reinsurance accepted	R0430							
Reinsurers' share	R0440	(73)			127			54
Net	**R0500**	**(3,427)**						**(3,427)**
Expenses incurred	**R0550**	20,173				24		20,197
Other expenses	**R1200**							
Total expenses	**R1300**							**20,197**

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

		Direct business and accepted proportional reinsurance	Total Non-Life obligations
		Credit and suretyship insurance	
		C0100	C0180
Technical provisions calculated as a whole	**R0010**		
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050		
Technical Provisions calculated as a sum of BE and RM			
Best estimate			
Premium provisions			
Gross - Total	R0060	**10,717**	**10,717**
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	(44,200)	**(44,200)**
Net Best Estimate of Premium Provisions	**R0150**	**54,917**	**54,917**
Claims provisions			
Gross - Total	R0160	**10,005**	**10,005**
Gross - direct business	R0170	10,005	**10,005**
Gross - accepted proportional reinsurance business	**R0180**		
Gross - accepted non-proportional reinsurance business	R0190		
Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default	R0200	**8,643**	**8,643**
Recoverables from reinsurance (except SPV and Finite Reinsurance) before adjustment for expected losses	R0210	8,643	**8,643**
Recoverables from SPV before adjustment for expected losses	**R0220**		
Recoverables from Finite Reinsurance before adjustment for expected losses	**R0230**		
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	8,643	**8,643**
Net Best Estimate of Claims Provisions	R0250	**1,362**	**1,362**
Total Best estimate - gross	R0260	**20,722**	**20,722**
Total Best estimate - net	**R0270**	**56,279**	**56,279**
Risk margin	**R0280**	46,297	**46,297**
Amount of the transitional on Technical Provisions			
TP as a whole	**R0290**		
Best estimate	**R0300**		
Risk margin	**R0310**		
Technical provisions - total			
Technical provisions - total	R0320	**67,019**	**67,019**
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	**(35,557)**	**(35,557)**
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	R0340	**102,576**	**102,576**

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

Gross Claims Paid (non-cumulative)

		Development year (absolute amount)												In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +			
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110		C0170	C0180
Prior	R0100											1,768	R0100	1,768	309,528
2014	R0160	11,439											R0160		11,439
2015	R0170												R0170		
2016	R0180	1,251											R0180		1,251
2017	R0190	219											R0190		219
2018	R0200	430											R0200		430
2019	R0210	280											R0210		280
2020	R0220	438											R0220		438
2021	R0230	1,601											R0230		1,601
2022	R0240	844											R0240		844
2023	R0250												R0250		
												Total	R0260	**1,768**	**326,030**

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

		Development year (absolute amount)												Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +		

Gross undiscounted Best Estimate Claims Provisions

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		C0360
Prior	R0100											10,481	R0100	10,005
2014	R0160												R0160	
2015	R0170												R0170	
2016	R0180												R0180	
2017	R0190												R0190	
2018	R0200												R0200	
2019	R0210												R0210	
2020	R0220												R0220	
2021	R0230												R0230	
2022	R0240												R0240	
2023	R0250												R0250	
												Total	R0260	**10,005**

Own funds
S.23.01.01
GBP £'000

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	**55,000**	55,000			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	**457,492**	457,492			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160	**19,757**				19,757
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**	**532,248**	**512,492**			**19,757**
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					

Own funds
S.23.01.01
GBP £'000

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
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**					
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	**532,248**	**512,492**			**19,756**
Total available own funds to meet the MCR	**R0510**	**512,492**	**512,492**			
Total eligible own funds to meet the SCR	**R0540**	**531,575**	**512,492**			**19,083**
Total eligible own funds to meet the MCR	**R0550**	**512,492**	**512,492**			
SCR	**R0580**	**127,223**				
MCR	**R0600**	**31,806**				
Ratio of Eligible own funds to SCR	**R0620**	**418%**				
Ratio of Eligible own funds to MCR	**R0640**	**1611%**				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	**532,248**
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	**74,756**
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	**R0760**	**457,492**
Expected profits		
Expected profits included in future premiums (EPIFP) - Life Business	R0770	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	78,872
Total Expected profits included in future premiums (EPIFP)	**R0790**	**78,872**

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

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	50,077		
Counterparty default risk	R0020	624		
Life underwriting risk	R0030			
Health underwriting risk	R0040			
Non-life underwriting risk	R0050	103,714		
Diversification	R0060	(28,154)		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	**R0100**	**126,261**		

Calculation of Solvency Capital Requirement

		C0100
Adjustment due to RFF/MAP nSCR aggregation	R0120	
Operational risk	R0130	962
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	**R0200**	**127,223**
Capital add-on already set	R0210	
Solvency capital requirement	**R0220**	**127,223**
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

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

Linear formula component for non-life insurance and reinsurance obligations

MCR calculation Non Life		Non-life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Credit and suretyship insurance and proportional reinsurance	R0100	56,279	13,792

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	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	11,520	
MCRL Result	R0200		

Overall MCR calculation

		C0070
Linear MCR	R0300	11,520
SCR	R0310	127,223
MCR cap	R0320	57,250
MCR floor	R0330	31,806
Combined MCR	R0340	31,806
Absolute floor of the MCR	R0350	3,495

		C0070
Minimum Capital Requirement	**R0400**	**31,806**