ASSURED GUARANTY (UK) LTD.

2016 SOLVENCY AND FINANCIAL CONDITION REPORT

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DEFINITIONS

Term	Definition
AGC	Assured Guaranty Corp.
AGE	Assured Guaranty (Europe) Ltd.
AGL	Assured Guaranty Ltd.
AGLN	Assured Guaranty (London) Ltd.
AGUK or the Company	Assured Guaranty (UK) Ltd.
AG Services	AG US Group Services Inc.
Approved Person	Someone who is approved to perform a controlled function
AROC	Audit and Risk Oversight Committee
Best Estimate Technical Provisions	Gross best estimate portion of the technical provisions value
BIG	Below-investment-grade
Board	Board of Directors
BSCR	Basic Solvency Capital Requirement
CEO	Chief Executive Officer
CF	Controlled Functions
CFO	Chief Financial Officer
CIFGE	CIFG Europe S.A.
Current premiums	Insurance premiums that are due to have been received at the balance sheet date
Current reinsurance commissions	Reinsurance commissions that are due to have been received at the balance sheet date
Current reinsurance premiums	Reinsurance premiums that are due to have been paid at the balance sheet date
Directive	Solvency II Directive 2009/138/EC
ECM	Economic Capital Model
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
EU	European Union
Expense Load	Present value of projected future operating expenses
FCA	The Financial Conduct Authority
Fitch	Fitch Ratings
Future premiums	Insurance premiums that are due to be received after the balance sheet date
Future reinsurance commissions	Reinsurance commissions that are due to be received after the balance sheet date
Future reinsurance premiums	Reinsurance premiums that are due to be paid after the balance sheet date
GPO	Gross par outstanding
GPP	Group Personal Pension Plan
Group	AGL and its operating subsidiaries
Group Service Agreement	Amended and Restated Service Agreement, effective as 1 April 2015
ICA	Individual Capital Assessment
IG	Investment Grade
IT	Information Technology
JPMIM	J.P. Morgan Investment Management Inc.
KFH	Holders of the key functions specified in the Directive and the Regime
KRIs	Key risk indicators

DEFINITIONS
(continued)

Term	Definition
LTIP	Long term incentive plan
MBIA UK	MBIA UK Insurance Limited
MCR	Minimum Capital Requirement
Moody's	Moody's Investors Service Inc.
Net Worth Agreement	Further Amended and Restated Net Worth Maintenance Agreement dated 8 July 2016
NPO	Net par outstanding
NYSE	The New York Stock Exchange
Orkney	Orkney Re II plc
ORSA	Own Risk and Solvency Assessment
PRA	The Prudential Regulation Authority
Rating Agencies	S&P, Kroll Bond Rating Agency Inc., and Moody's
Reduction	Present value of all future premiums expected to be received by the Company after consideration of potential non–payment on premiums due to future defaults of guaranteed transactions
Reinsurance Agreements	The Further Amended and Restated Quota Share Reinsurance Agreement and the Further Amended and Restated Excess of Loss Reinsurance Agreement, both dated 8 July 2016 between AGC and the Company
Regime	The PRA's Senior Insurance Managers Regime
RMC	Risk Management Committee
S&P	S&P Global Ratings, a division of Standard & Poor's Financial Services LLC
SCR	Solvency Capital Requirement
SIMF	A Senior Insurance Manager Function specified in the Regime
Solvency II Regulations	Regulation European Union No 1094/2010 of the European Parliament and of the Council
SRL	Single Risk Limits
Standard Formula	Standard formula prescribed by EIOPA
U.K.	United Kingdom
U.K. GAAP	United Kingdom Generally Accepted Accounting Principles
U.K. Service Company	Assured Guaranty (UK) Services Limited
U.S.	United States of America
U.S. SEC	United States Securities and Exchange Commission
USD	U.S. Dollars
USPs	Undertaking-specific parameters

SUMMARY

Business Overview

The Company is a private limited company organised under the laws of England and Wales and a wholly owned subsidiary of AGC, a U.S domiciled insurance undertaking. AGC is an indirect, wholly owned subsidiary of AGL, a Bermuda based holding company. In September 2010, AGC elected to place the Company into run-off, and on 29 March 2011 the Financial Services Authority (now the PRA) removed the Company's permission to effect new contracts of insurance. The Company currently is authorised by the PRA to carry out the following classes of insurance: 14 (credit), 15 (suretyship) and 16 (miscellaneous financial loss) and permitted on a passport basis to carry out insurance business in certain member countries of the EEA from its home office in the U.K. The Company is regulated by both the PRA and the FCA.

The principal activity of the Company is managing its existing portfolio of financial guarantees, which protect holders of debt instruments and other monetary obligations from defaults in scheduled payments. The Company applies its credit underwriting judgement, risk management skills and capital markets experience to offer financial guarantee insurance that protects holders of debt instruments and other monetary obligations from defaults in scheduled payments. If an obligor defaults on a scheduled payment due on an obligation, including a scheduled principal or interest payment, the Company is required under its unconditional and irrevocable financial guarantee to pay the amount of the shortfall to the holder of the obligation. Since going into run-off in September 2010, the Company has worked to conduct an orderly management and wind down of the remaining portfolio. The Company continues to have financial guarantees outstanding, and currently expects that the final maturities will extend to 2047. The principal activity of the Company remained unchanged over the reporting period.

The Company has the following types of obligations in its portfolio:

Infrastructure Finance Obligations are obligations issued by a variety of entities engaged in the financing of international infrastructure projects, such as roads, airports, ports, social infrastructure, and other physical assets delivering essential services supported either by long-term concession arrangements with a public sector entity or a regulatory regime.

Regulated Utilities Obligations are issued by government-regulated providers of essential services and commodities, including electric, water and gas utilities.

Insurance Securitization Obligations are obligations secured by the future earnings from pools of various types of insurance/reinsurance policies and income produced by invested assets.

Pooled Corporate Obligations are securities primarily backed by trust preferred securities. These securities are often issued in ‘‘tranches,’’ with subordinated tranches providing credit support to the more senior tranches. The Company’s financial guarantee exposures are to the more senior tranches of these issues.

Credit support for the obligations guaranteed by the Company may come from a variety of sources, including some combination of subordinated tranches, excess spread, over-collateralisation or cash reserves. Additional support also may be provided by transaction provisions intended to benefit noteholders or credit enhancers.

The Company utilised quota share reinsurance as an integral part of its operations in order to mitigate risk. That quota share reinsurance was provided by AGC. The Company's net retention percentage under its quota share reinsurance arrangement with AGC was 10%.

Portfolio Summary
As of 31 December 2016

	GPO	Ceded to AGC	NPO
		(in thousands)	
Public finance	£ 592,612	£ 533,351	£ 59,261
Structured finance	773,705	696,334	77,371
Total	£ 1,366,317	£ 1,229,685	£ 136,632
IG	£ 618,513	£ 556,662	£ 61,851
BIG	£ 747,804	£ 673,023	£ 74,781

The Company outsources certain operational activities to affiliated companies in the U.K. and U.S. where outsourcing provides access to more efficient and cost-effective processes and technical expertise than could be achieved on a standalone basis. See *Section B.7 Outsourcing*.

2016 Results

Profit and Loss Account
For Year Ended 31 December 2016 and 31 December 2015

	Year Ended 31 December,	
	2016	2015
	(in thousands)	
Total technical income	£ 112	£ 181
Total technical charges	(2,682)	(3,982)
Balance on the technical account for general business	(2,570)	(3,801)
Non-technical account balances	6,783	554
Profit on ordinary activities before tax	4,213	(3,247)
Tax on profit on ordinary activities	(425)	1,310
Profit/(loss) for the financial year	£ 3,788	£ (1,937)

The Company's profit for the year ended 31 December 2016 was £3.8 million (2015: losses of £1.9 million). The primary factors driving profit during 2016 were investment income of £3.5 million (2015: £3.6 million) and unrealised gains on investments of £3.8 million (2015: losses of £2.3 million), which were offset in part by administrative expenses of £3.7 million (2015: £2.4 million). Further details on underwriting performance can be found in *Section A.2 Underwriting Performance* and details on investment returns can be found in *Section A.3 Investment Performance*.

Own Funds

The Company has three sources of Own Funds (capital under Solvency II):

- Tier 1 capital is the excess of assets over liabilities. Tier 1 capital increased over the reporting period to £84.6 million as of 31 December 2016 from £72.8 million as of 31 December 2015. The increase in Tier 1 capital was driven by a decrease in net technical provisions and the risk margin. The Tier 1 capital is described further in *Section E.1 Own Funds*.

- Tier 2 capital comprises an ancillary contingent capital agreement with AGC in the form of a Net Worth Agreement as described in *Section E.1 Own Funds.* The Company assigns a value of nil to it.

- Tier 3 capital of £1.2 million as of 31 December 2016 and £2.1 million as of 31 December 2015 in the form of deferred tax assets.

The 2015 Solvency II numbers were not audited.

Solvency Capital Requirement

The Company uses the Standard Formula to calculate its SCR. The SCR as of 31 December 2016 was £25.6 million versus £18.1 million as of 31 December 2015, with the ratio of Tier 1 capital to SCR as of 31 December 2016 at 3.35:1, down from 4.14:1 as of 31 December 2015. The increase in the SCR was driven by an increase in Market Risk to £21.2 million from £4.0 million. The SCR is described further in *Section E.2 SCR and MCR*.

The 2015 Solvency II numbers were not audited.

Other Material Changes

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

Acquisition of AGLN. On 10 January 2017, AGC completed its acquisition of MBIA UK (since renamed AGLN), in accordance with an agreement announced on 29 September 2016. Following that acquisition, the individuals effectively managing the Company and the other senior management and personnel providing services to the Company also began to manage AGLN's portfolio of guaranteed transactions. AGLN is in run-off.

Ratings. The Company is rated “AA” (stable outlook) by S&P. The Company's S&P rating is linked to that of its parent company, AGC. On 27 July 2016, S&P issued a credit rating report in which it affirmed AGC’s and the Company's financial strength rating of “AA” (stable outlook). While Moody's also rates AGC and the Company, on 13 January 2017, AGC announced that it has requested that Moody’s withdraw AGC’s financial strength rating. Moody’s declined that initial request, but AGC is renewing its request as to AGC and the Company. The Company can give no assurance as to any further rating actions that S&P or Moody's may take.

Potential Transfer of Insurance Business. As noted in *Section A.5 Any Other Information*, the Company is actively working to combine its operations with those of its affiliates, AGE, AGLN and CIFGE. Any such combination is subject to regulatory and court approvals.

INDEPENDENT AUDITORS' REPORT

Report of the external independent auditors to the Directors of Assured Guaranty (UK) Ltd ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

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

Opinion

We have audited the following documents prepared by the Company as at 31 December 2016:

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

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

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

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

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;

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

- Elements of the Narrative Disclosures subject to audit identified as 'unaudited';

- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

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

Basis for opinion

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

Emphasis of Matter - Basis of Accounting

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

Responsibilities of Directors for the Solvency and Financial Condition Report

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

7 More London, Riverside, London SE1 2RT

17 May 2017

The maintenance and integrity of the Assured Guaranty (UK) Ltd website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

A. BUSINESS AND PERFORMANCE

A.1 BUSINESS

a. Name and legal form

Assured Guaranty (UK) Ltd. is a private limited company registered in England and Wales (registration number 04743059). The registered office of the Company is:

11th Floor, 6 Bevis Marks
London
EC3A 7BA

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

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

c. Name and contact details of the external auditor

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

d. Holders of qualifying holdings in the Company

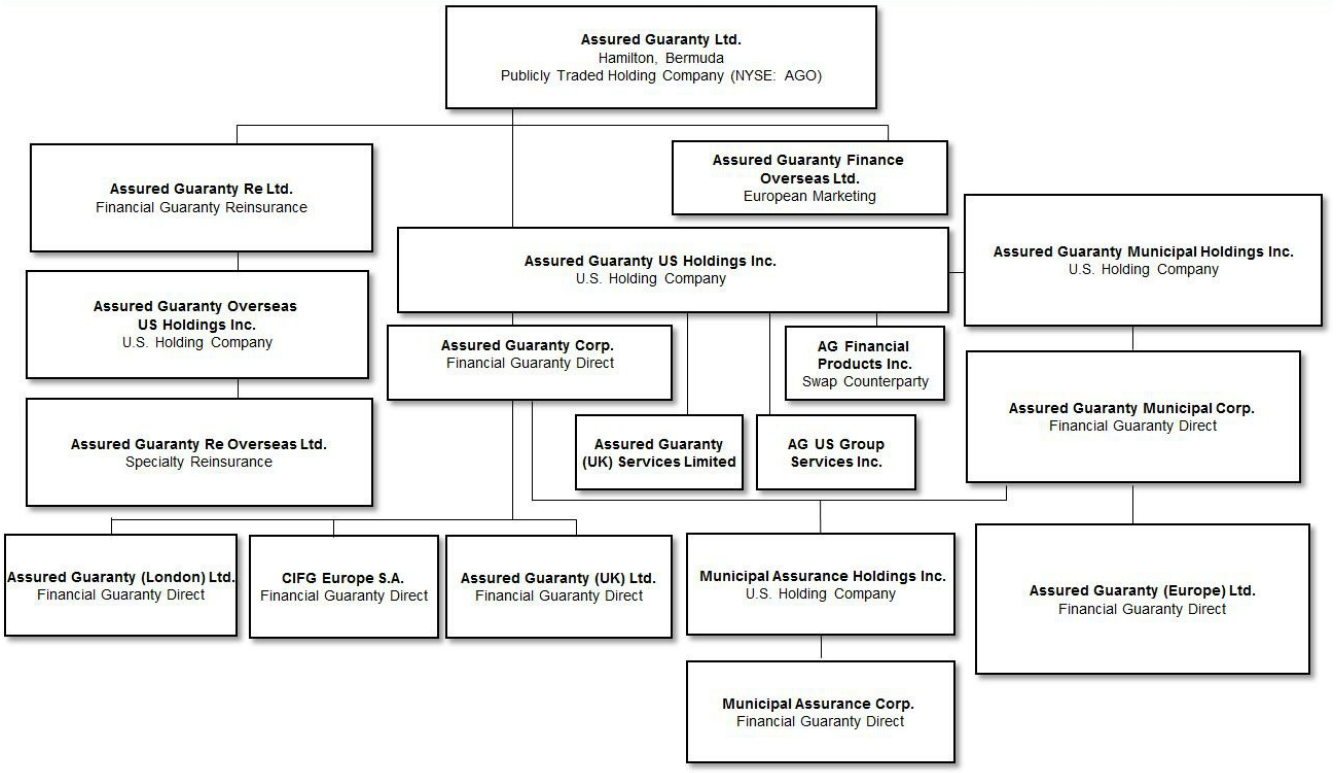
The Company is a wholly-owned subsidiary of AGC. AGC is an insurance company, which was organised under the laws of the State of Maryland, USA in 1985. AGC commenced operations in January 1988 and has its principal place of business in New York. AGC provides financial guarantee insurance on debt obligations issued in the U.S. public finance markets and in the U.S. and global structured finance markets. AGC is regulated by the Maryland Insurance Administration.

AGC is an indirect wholly-owned subsidiary of AGL. AGL is a Bermuda-based holding company, which was organised in 2003. AGL is publicly traded on the NYSE and is regulated by the U.S. SEC.

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

The abbreviated organisational chart below shows the position of the Company within the Group.

Assured Guaranty Ltd. Corporate Structure*



*Assured Guaranty (London) Ltd. (formerly MBIA UK Insurance Limited) became part of the Group on 10 January 2017.

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

The principal activity of the Company was to provide financial guarantees to entities in the U.K. and certain countries within the EEA.

Exposure by Geographical Area
As of 31 December 2016

Country	GPO	NPO
	(in thousands)	
Public finance:		
United Kingdom	£ 559,962	£ 55,996
Germany	32,650	3,265
Total public finance	592,612	59,261
Structured finance:		
United States of America	717,265	71,727
Germany	14,014	1,401
United Kingdom	8,800	880
Bermuda	7,559	756
France	5,799	580
Other	20,268	2,027
Total structured finance	773,705	77,371
Total	£ 1,366,317	£ 136,632

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

On 23 June 2016, in a referendum held in the U.K., a majority voted to exit the EU, known as “Brexit”. Please refer to *Section C.6 Other Material Risks* for additional details on the impact.

A.2 UNDERWRITING PERFORMANCE

Underwriting Gain / Loss

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

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

	Year Ended 31 December,	
	2016	2015
	(in thousands)	
Earned premiums, net of reinsurance	£ 112	£ 181
Other technical income	—	—
Total technical income	112	181
Net claims incurred	(410)	2,462
Net changes in other technical provisions	(20)	7
Net operating expenses	3,112	1,513
Total technical charges	2,682	3,982
Balance on the technical account for general business	£ (2,570)	£ (3,801)

During 2016, the Company's net earned premium decreased due to transactions being terminated in the prior year, which reduced earning capabilities in 2016. The improvement to net claims outstanding in 2016 was primarily due to a purchase of an insured obligation to mitigate loss during the year.

The following table presents components of net operating expenses.

Net Operating Expenses

	Year Ended 31 December,	
	2016	2015
	(in thousands)	
Movement in deferred acquisition costs	£ 5	£ 17
Administration expenses	3,711	2,350
Reinsurance commissions	(604)	(854)
Total	£ 3,112	£ 1,513

The movement in deferred acquisition costs and reinsurance commission earnings were lower during 2016 compared to 2015. This was primarily due to an insured transaction being terminated at end of 2015. The termination accelerated both acquisition cost amortisation and reinsurance commission earnings associated with the policy. The Company did not benefit from any termination during 2016. Administrative expenses were higher for 2016 due to increased recharges of costs from affiliated companies this year compared with prior year .

A.3 INVESTMENT PERFORMANCE

The portfolio consists entirely of fixed income securities. The weighted-average duration of the investment portfolio as of 31 December 2016 was 4.8 years, compared with the weighted-average duration of 4.3 years as of 31 December 2015. The following tables present the investment portfolio by asset class and contract maturity.

Investment Portfolio
by Asset Class

Asset Class	As of 31 December 2016		As of 31 December 2015	
	Estimated Fair Value	Weighted Average Credit Rating(1)	Estimated Fair Value	Weighted Average Credit Rating(1)
	(in thousands)			
U.K. Government bonds	£ 63,066	"AA"	£ 68,602	"AA+"
Corporate bonds	21,411	"A+"	17,638	"A+"
Asset backed	16,273	"CC"	8,718	"CC"
Covered bonds	5,715	"AAA"	5,563	"AAA"
Government guaranteed	5,149	"AA+"	5,138	"AAA"
Total investment portfolio	£ 111,614	"A"	£ 105,659	"AA-"

(1) Ratings in the tables above represent the lower of the Moody's and S&P classifications. The Company's portfolio consists primarily of high-quality, liquid instruments.

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

	Estimated Fair Value
	(in thousands)
Due within one year	£ 2,763
Year two	9,973
Year three	18,110
Year four	18,912
Year five	19,226
Due after five years through 10 years	26,357
Due after 10 years	16,273
Total	£ 111,614

a. Income and Expenses

Investment Return

	Year Ended 31 December,	
	2016	**2015**
	(in thousands)	
Investment income:		
U.K. Government bonds	£ 2,356	£ 2,488
Corporate bonds	709	709
Government guaranteed	230	229
Covered bonds	218	205
Other	8	9
Investment income	3,521	3,640
Unrealised gain / (loss) on investments	3,803	(2,281)
Net realised gain / (loss) on investments	(246)	(487)
Investment expenses and charges	(118)	(177)
Total investment return	£ 6,960	£ 695

The investment return increased in 2016 primarily due to higher unrealised gains as a result of interest rate changes.

b. Gains and Losses Recognised Directly in Equity

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

c. Investments in Securitisations

The Company held one securitised asset as of 31 December 2016, which is an asset backed security. The security has credit support from the Company and was repurchased into the investment portfolio for loss mitigation purposes. This security had a value of £16.3 million and £8.7 million as of 31 December 2016 and 2015, respectively, representing 15% of the total investment portfolio at year-end 2016, up from 8% at year-end 2015.

A.4 PERFORMANCE OF OTHER ACTIVITIES

The Company recorded other charges totalling £0.2 million during the reporting period versus other charges totalling £0.1 million during 2015 which related to foreign exchange losses. The charges in 2016 and 2015 resulted primarily from movements in exchange rates on the Company's USD denominated liabilities.

A.5 ANY OTHER INFORMATION

The Company is actively working to combine its operations with those of its affiliates, AGE, AGLN and CIFGE. Any such combination is subject to regulatory and court approvals. As a result, the Company cannot predict when, or if, such combination will be completed.

B. SYSTEM OF GOVERNANCE

B.1 GENERAL GOVERNANCE INFORMATION

The Company has been classified by the PRA as a Category 3 insurer and by the FCA as a Category 4 company.

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

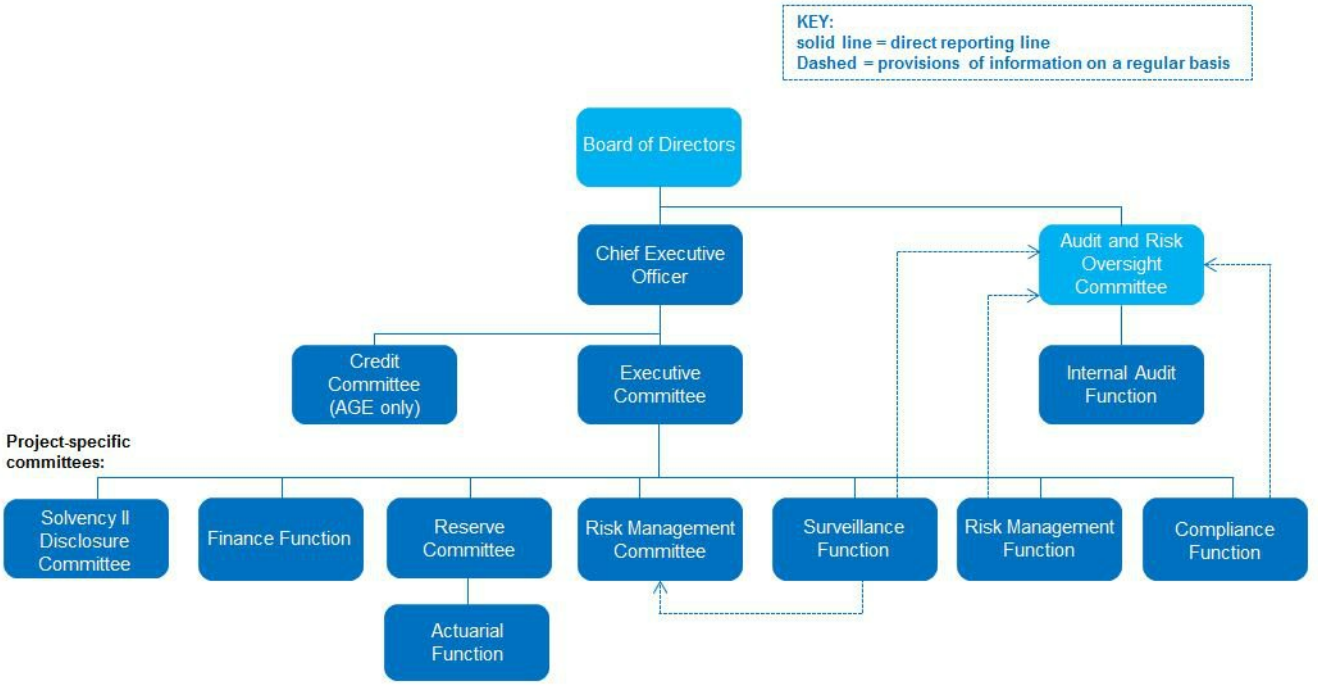
The Board is the primary governing and decision making body for the Company. The Board has overall responsibility for the management of the business and affairs of the Company and for the establishment of the Company's strategic direction and key financial objectives. The Board oversees the Company's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

In addition to the above, the principal activities of the Board are as follows:

- To articulate and maintain a culture which supports prudent management of the Company and reflects risk awareness and ethical behaviour for the Company as a whole.
- To establish and annually review the Company's overall governance framework.
- To oversee, review and manage (including challenging where necessary) risk by ensuring the Company's risk exposure is within its risk appetite, which is set out in its Risk Appetite Statement and preserved within the Company's ORSA.
- To review and approve key capital model results, including risk management reports on performance of the Company's capital model, and to review and approve major capital model changes.
- To review validation and model change reports, committee and function reports, regulatory consultation papers and briefings, internal and external audit reports, and all other supporting documentation necessary for the Board to consider or make decisions.
- On an annual basis, to review and approve a business plan for the Company.

The Board is required to have two non-executive directors and is comprised of two non-executive directors and five executive directors. The Board convenes quarterly in London and on an ad hoc basis as required.

In line with the system of governance requirements of the Directive, the Board has established the committees and functions shown in the diagram below to oversee and carry out standards, controls, limits, underwriting guidelines, risk management, audit, finance, capital and other policies and procedures approved by the Board. Each of the committees and functions operates under Terms of Reference, which are updated, and reviewed and approved by the Board, at least annually.



Audit and Risk Oversight Committee

The AROC is comprised of the non-executive directors of the Board. The AROC assists the Board with, among other things, the responsibilities listed below.

- Maintaining financial oversight of the Company through review of financial statements, internal controls and performance of the compliance, internal audit and external audit functions and processes (in particular, the internal audit function as an outsourced function).
- Monitoring the financial reporting process and submitting recommendations or proposals to ensure its integrity.
- Monitoring and overseeing the internal and external audit processes.
- Overseeing management's establishment and implementation of standards, controls, limits, guidelines and policies relating to risk assessment and risk management.
- Ensuring that all material risks are effectively identified, monitored and managed in line with the overall business strategy of the Company.
- Overseeing the risk management framework of the Company including: (i) the linkage between risk, capital and business decisions, (ii) the Company's capital model, key capital model assumptions and results, major changes to the capital model, validation reports and capital model uses, (iii) the capital model governance policy and validation policy, (iv) stress and scenario tests, and (v) the Company's ORSA.

The AROC reports to the Board on its own activities and findings at each of the regular quarterly meetings of the Board. Each of the internal audit function, the surveillance function, the risk management function and the compliance function provide reports to the AROC, which in turn reports to the Board on the activities of those functions.

Executive Committee

The Board has delegated day to day management of the Company to its Executive Committee in line with the strategy approved by the Board. The Executive Committee is charged with ensuring that all appropriate matters are reported to the AROC and the Board. The Executive Committee reviews, and, if applicable, recommends for approval, all matters that are presented to the AROC and the Board. Among other things, the Executive Committee establishes the Company's SRLs and annual budget, approves the Company's financial statements and ORSA and reviews the Company's capital adequacy and reserves. The Executive Committee also reviews the Company's other enterprise risk management activities and the surveillance of the individual risks in the Company's portfolio as well as the Company's governance framework. In addition, the Executive Committee reviews the Company's compliance activities and evaluates, at least annually, the Company's outsourcing arrangements.

The Company's Executive Committee is comprised of its CEO, Head of Infrastructure Finance, Chief Surveillance Officer, Financial Controller and General Counsel/Chief Compliance Officer. The Executive Committee generally meets monthly and more frequently if required. Each of the finance function, the Reserve Committee (including a report from the

actuarial function), the RMC, the surveillance function, the risk management function and the compliance function report to the Executive Committee. The CEO reports to the Board on the activity and findings of the Executive Committee at each of the Board's quarterly meetings. The CEO's report includes the activities and findings of each of the other Committees and functions.

Key Functions

As noted above, the Company has established a system of governance, which 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 Functions:

The overall responsibilities of the risk management function are carried out by two separate functions within the Company - the risk management function and the surveillance function. The Company has accordingly notified the PRA that the heads of both the risk function and the surveillance function are sharing responsibility for Senior Insurance Manager Function 4 - Chief Risk.

The overall remit of the risk function includes the requirements of Article 44 of the Directive. The risk management function has responsibility for ensuring that the Company has in place an effective risk management system comprising strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report on risks on a continuous basis at both the individual and aggregate levels to which the Company is or could be exposed, and their interdependencies. The responsibilities of the risk management function include, among others, the following, with the information presented to the Executive Committee and then to the AROC and the Board:

- Conducting the Company's ORSA at least annually.
- Designing, implementing, testing and validating the capital model for so long as it is used by the Company.
- Calculating the Company's capital adequacy.
- Reporting on the Company's performance.
- Identifying and reporting on any material or emerging risk issues, with prompt escalation to the Executive Committee or the AROC, if appropriate.
- Updating the Company's Risk Appetite Statement at least annually.

The surveillance function monitors and reports on the credit risks of all transactions in the insured portfolio of the Company. The responsibilities of the surveillance function include, among others, the following:

- Monitoring trends and changes in transaction credit quality and detecting any deterioration in credit quality in the portfolio of risks of the Company.
- Recommending remedial actions and adjustments to internal ratings to reflect changes in transaction credit quality.
- Reviewing and administering claims.

The surveillance function works together with the RMC, which is also focused on the individual risks in the insured portfolio. The RMC is comprised of the CEO, the Chief Surveillance Officer of the Company and the Chief Surveillance Officer of the Company's parent company. The RMC is responsible for reviewing the trends and changes in credit quality in the insured portfolio and for evaluating and approving remedial actions and rating recommendations from the surveillance function.

The risk management function and the surveillance function, and thus the risk function overall, are independent from any business or operational unit.

Internal Audit Function:

The internal audit function is responsible for providing the Company with independent, objective assurance and advisory services to help management accomplish its business goals and objectives. The primary responsibility of the internal audit function is to provide independent assurance over the adequacy and effectiveness of the internal control system within the Company and other elements of the Company's system of governance.

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

Compliance Function:

As part of its risk management framework, the Company has a compliance function, which, in line with Article 46 of the Directive, advises the Board on compliance with applicable laws and regulations, including the Directive, makes an assessment of the possible impact of any changes in the legal environment on the operations of the Company, and identifies and assesses compliance risk. In carrying out those responsibilities, the compliance function maintains an open relationship with the PRA and the FCA and implements internal compliance procedures in line with the guidelines and recommendations of the PRA and the FCA. The compliance function is independent from any business or operational unit and carries out its functions on its own initiative. See *Section B.4 (b) Internal Control System, Description of how the compliance function is implemented.*

Actuarial Function:

The Company has outsourced the actuarial function to the Chief Actuary of the Group, who carries out the responsibilities of that function, including those set out in Article 48 of the Directive. The Chief Actuary of the Group has a broad range of actuarial experience including extensive experience evaluating the losses for financial guarantees and other structured products; developing and using capital models, pricing esoteric lines of business; and evaluating loss mitigation strategies. See *Section B.6 Actuarial Function*.

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

While there have been no material changes in the system of governance over the reporting period, the Company has implemented the framework required by the Regime, which came into force in two stages (1 January 2016 and full implementation on 7 March 2016). In doing so, the Company identified to the PRA the individuals who hold SIMF and key functions under the Regime. SIMFs are senior persons who are effectively running the firm or who have responsibility for other key functions for the Company. SIMFs may be persons who hold positions at the Group level, rather than solely for the Company. These are the individuals who would be held responsible and accountable for ensuring the safety and soundness of the Company and the appropriate protection of policyholders. The Company must ensure that these individuals are fit and proper to perform their roles with the Company. All of the individuals that the Company identified to the PRA were either grandfathered to their roles or were approved by the PRA in 2016 to hold those roles under the Regime.

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 description of the remuneration policy contained herein applies to employees of the U.K. Service Company, including those who serve as directors of the Board and to other individuals who hold SIMFs or key functions or who perform key functions. The non-executive directors of the Board receive a fixed fee.

The Company does not directly employ any personnel. Instead, the Company contracts with an affiliate, the U.K. Service Company, to provide personnel to manage the Company's affairs. The personnel providing services to the Company are compensated according to the Company's remuneration policy, which is consistent with AGL's remuneration philosophy. The Company reserves the right to change or terminate any or all of the elements of its remuneration policy. Those executive members of the Board, holders of CFs, SIMFs and key functions and persons performing key functions, who are not employees of the U.K. Service Company, also are compensated in accordance with AGL's remuneration philosophy.

AGL's remuneration philosophy is grounded in the concept of attracting and retaining talented and experienced business leaders who can drive financial and strategic growth objectives intended to protect policyholders and build long-term shareholder value. AGL's remuneration philosophy is reflected in the Company's remuneration policy. The Company's remuneration policy is designed with the guiding principles of:

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

The Company's remuneration policy has been designed to reward performance by providing more variable and performance-based remuneration to the senior management of the Company. The policy employs 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. Most of the remuneration of the U.K. Service Company's most senior personnel and of other individuals holding SIMFs, consists of variable incentive compensation, in the form of an annual cash incentive as well as long-term equity incentives.

In developing its remuneration philosophy, AGL worked to identify any areas of risk or potential for unintended consequences that could exist in the design of the philosophy and evaluated the incentive plans relative to enterprise risks. AGL concluded that its remuneration philosophy is designed and administered with the appropriate balance of risk and reward in relation to the overall business strategy and does not encourage executives to take unnecessary or excessive risks that could have a material adverse impact on AGL and its subsidiaries, including the Company.

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

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

In addition to base pay, the U.K. Service Company's employees and holders of CFs, SIMFs and key functions and individuals performing key functions, may be eligible for a cash incentive award. For the CEO of AGL and those individuals who report directly to him, including the CEO of the Company and certain other individuals who hold SIMFs and key functions, the amount of the cash incentive is determined using a formulaic approach and is based on the extent to which an executive achieves five financial performance goals and other non-financial objectives. To be eligible for a cash incentive award under this programme, a person must be employed and not be under notice, both at the end of the year to which the cash incentive award relates and on the date the cash incentive compensation is paid. Cash incentive awards, if awarded, are paid the year following the performance year on which they are based.

AGL also maintains a LTIP, which was designed to enable its subsidiaries, including the U.K. Service Company, to attract and retain employees who contribute to the Company's success by their ability, ingenuity and industry, and to enable those employees to participate in the long-term growth of the Company and the Group. Awards are made at the discretion of AGL's compensation committee, in consultation with the Company's Board. For the CEO of AGL and those individuals who report directly to him, including the CEO of the Company and certain holders of SIMFs, LTIP is awarded in the form of performance share units, which represent a contingent right to receive up to two of AGL's common shares -- the number of common shares an individual can earn is based on whether the highest average stock price achieved during a 40 consecutive trading day sequence occurring during the last 18 months of a 3 year performance period exceeds certain share price hurdles, and, restricted stock units, which represent the right to receive one of AGL's common shares at the end of a three-year vesting period. The form of LTIP awards may change at any time. For other holders of SIMFs and key functions and persons performing key functions, who are granted awards, the awards are made in the form of restricted stock which vests over a three or four year period.

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

The U.K. Service Company maintains a retirement plan, which is designed to help employees prepare for retirement by allowing them to contribute a percentage of their remuneration to the retirement plan. Employees of the U.K. Service Company who serve as directors of the Company or who hold SIMFs or key functions, or who perform key functions, are entitled to participate in the retirement plan. Referred to as the GPP, the GPP is available to eligible full-time employees upon hire. The U.K. Service Company matches an employee's contribution up to 6% of the employee's annual remuneration. The U.K. Service Company contributes an additional 6% "core contribution" regardless of whether the employee contributes to the plan. All contributions are subject to Her Majesty's Revenue & Customs Limits. The GPP retirement age is 65 but employees may opt for early retirement when they reach 55.

AGC (effective 1 January 2017 AG Services) also maintains a retirement plan for the same reason. Employees of AGC (effective 1 January 2017 AG Services) who serve as directors of the Company or who hold SIMFs or key functions or who perform key functions, are entitled to participate in AGC's (effective 1 January 2017 AG Services') retirement plan.

Like the U.K. Service Company's GPP, AGC (effective 1 January 2017 AG Services) matches an employee's contribution up to 6% of the employee's annual remuneration. AGC (effective 1 January 2017 AG Services) contributes an additional 6% "core contribution" regardless of whether the employee contributes to the plan.

The Company does not provide any supplementary pension or retirement schemes for 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

Reinsurance and Support Agreements

The Company is a party to a Reinsurance Agreement and a Net Worth Maintenance Agreement with its parent company, AGC. Please refer to *Section E.1 Own Funds* for additional information on those agreements. There were no material transactions during the reporting period with the Company's parent company and no material transactions during the reporting period with members of the Company's Board of Directors or any other persons holding Senior Insurance Manager Functions.

Management, Service Contracts or Cost Sharing Arrangements

The Company is a party to an Amended and Restated Service Agreement, dated as of 24 March 2010, pursuant to which the Company's affiliate, the U.K. Service Company, provides services to the Company and certain of its affiliates, as needed and requested by the Company and such affiliates. Under such agreement, the Company pays to the U.K. Service Company a fee equal to the costs incurred by the U.K. Service Company in providing the services including, but not limited to, the cost of any cash and non-cash compensation (e.g., insurance, retirement and other employee benefits) to U.K. Service Company employees, multiplied by 105%.

In addition, until 31 December 2016, the Company and various of its affiliates were parties to the Group Service Agreement. Under the Group Service Agreement, the Company's parent, AGC, was the payroll company for, and employer of, the U.S. employees of the Group. AGC's employees made available to its Bermuda, U.S. and U.K. affiliates, as applicable, equipment, insurance, reinsurance and such other services, including actuarial, marketing, underwriting, claims handling, surveillance, legal, corporate secretarial, information technology, human resources, accounting, tax, financial reporting and investment planning services. Expenses under the Group Service Agreement were allocated directly where appropriate and, where not appropriate, based upon an allocation of employee time and corresponding office overhead. The agreement provided for quarterly settlements and an express right of offset with regard to amounts owing between parties under the Group Service Agreement and other agreements between such parties.

In the first quarter of 2017, the Company's indirect parent, Assured Guaranty US Holdings Inc., established AG Services, a Delaware corporation, as a direct, wholly owned subsidiary to act as the payroll company and employer for all U.S. personnel and the central, dedicated service provider within the Group in place of AGC. This structure is consistent with the way in which numerous other insurance holding companies provide inter-company staff and services. Accordingly, effective 1 January 2017, (i) AGC transferred the employees and the employee benefit, retirement and health plans relating to such employees to AG Services; and (ii) the Group Service Agreement was amended and restated to replace AGC with AG Services as the payroll company and service provider under the agreement. Such amended and restated agreement is substantially identical to the Group Service Agreement except for a few changes primarily related to operational matters, including pre-funding by affiliates who are the largest consumers of group services and inter-company allocation of expenses.

e. Adequacy and appropriateness of the system of governance

The governance structure has been designed to ensure that management is able to provide appropriate oversight and enable it to respond to business and regulatory needs. The various committees have clearly defined roles and responsibilities which have been delegated or approved by the Board. The committees are supported by relevant functions whose members have specific experience and expertise.

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 the Company or have other key functions possess the characteristics set out below, and therefore are able to provide competent and prudent management through their professional qualifications, knowledge, experience and integrity.

- relevant qualifications and experience for each position,
- sound judgement,
- understanding of the financial guarantee business,
- honesty and integrity,
- a good reputation,
- competency and capacity to perform key functions, and
- financial soundness.

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

The Company requires each non-executive who is identified as a candidate to become a member of the Board to go through a rigorous internal vetting process including interviews with senior management and members of the Board of AGL. In addition, the Company obtains comprehensive background checks for each non-executive to confirm their professional qualifications, knowledge and experience.

The executives who take on CFs, SIMF or key functions are all vetted at the time that they are recruited by the Company or one of its affiliates. The Company must receive a satisfactory background check before personnel are hired. In addition, when the Company initially applies for an individual to take on a CF, SIMF or KFH (and become an Approved Person), the Company requires comprehensive background checks, including prior experience, education, and legal matters for each individual.

The Company also requires the Board and individuals who take on CFs, SIMFs or key functions to complete training, arranged by the Company at the inception of their role, on his or her regulatory roles and responsibilities, and, to complete training periodically both on regulatory matters that apply to all persons effectively running the Company or holding key functions and, on a targeted basis, on regulatory matters or professional competencies that apply to an individual's specific role.

In addition, all members of the Board, persons holding CFs, SIMFs or key functions and persons performing key functions, are required to complete a fitness and propriety questionnaire each year.

B.3 RISK MANAGEMENT SYSTEM

a. Enterprise Risk Management

The Board and AROC play a critical role in enterprise risk management. The reporting chart and discussion in *Section B.1 (a) General Governance Information, Structure of the undertaking's administrative, management or supervisory body, main roles and responsibilities, segregation of responsibilities, committees, description of the main roles and responsibilities of key functions,* depict and describe how the various aspects of the risk management function are integrated into enterprise-level decision-making, corporate oversight, management and daily operations of the Company.

The AROC is responsible for addressing the linkage between risk, capital planning and business decisions and approves the ORSA. The AROC oversees the creation and maintenance of the Risk Register, Risk Appetite Statement and ORSA, development of the ICA model and the design of stress and sensitivity testing. Regular ORSA reporting keeps management and its governing body continually aware of the information needed to develop informed business and capital management plans, as well as to refine the Company's risk appetite to reflect actual or potential capital constraints.

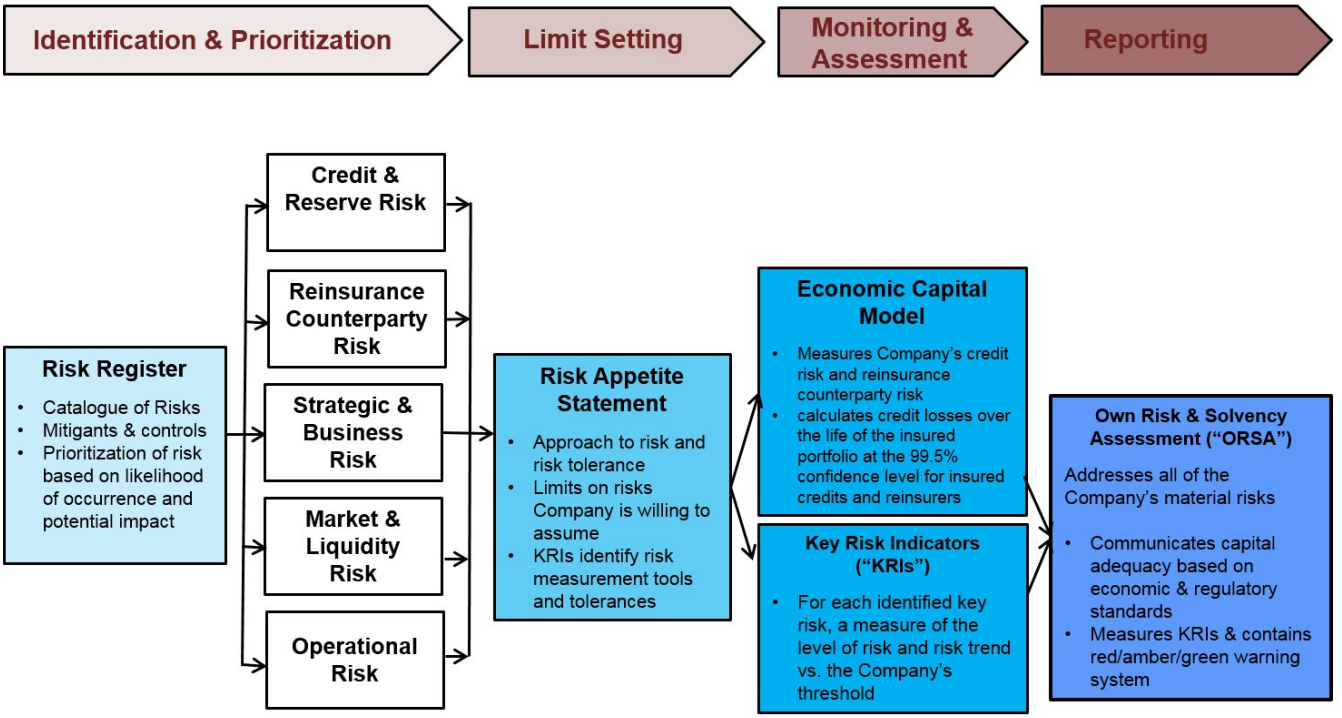
The risk management function is responsible for the operational aspects of risk management including:

- implementing the Risk Management Framework
- assessing the risk profile
- maintaining the Risk Register
- updating the Risk Appetite Statement

- developing and preparing the ORSA
- maintaining the ECM
- performing scenario and stress testing on the Company's capital ratios
- analysing the impact of potential emerging issues
- identifying and reporting on any material risk issues to the Executive Committee
- determining the impact on the ECM of proposed acquisitions and changes in reinsurance arrangements

1. Risk Management Framework

The Company's risk management framework is set out in the flowchart below and each major component of the framework is summarised below the flowchart.



2. Risk Register

The Company's ORSA process begins with a complete assessment of the Company's universe of risks. The risk management function works with business unit leaders throughout the Company to ensure that all known risks are identified and to work cooperatively on determining the importance of these risks and the most effective ways to measure them. The business units maintain ownership, accountability and responsibility for the risks arising in their respective areas. The results of the risk identification process are documented in the Company's Risk Register which provides, for each risk, the risk indicators or drivers; the likelihood of the risk occurring and its impact, both as an inherent risk and a residual risk, i.e., after consideration of controls and risk mitigants in place at the Company to minimise the risk; and the area responsible for the risk. The Risk Register is updated by the risk management function together with the Executive Committee annually. The Risk Register is subject to review and challenge by the AROC and is approved by the AROC and the Board.

3. Risk Appetite Statement

The Company's Risk Appetite Statement describes the types of risks the Company is willing to accept and sets forth risk tolerances as appropriate. The Risk Appetite Statement prohibits the execution of certain kinds of transactions and sets certain portfolio concentration limits. The Executive Committee works with risk management function to update the Risk Appetite Statement annually, and it is subject to review and challenge by the AROC and approved by the Board.

4. Key Risk Indicators

The ORSA process includes a series of KRIs, which are measured annually, that were developed in consultation with the business unit managers throughout the Company to ensure that they both properly capture the Company's material risks as set forth in the Risk Register and use effective techniques for risk measurement. The KRIs are prioritised by the likelihood of the risk occurring over the Company's business planning horizon or beyond, and the potential severity of the impact that each risk would have on the Company if it were to occur. In addition, the KRIs address trends in the Company's business, e.g., financial, economic and credit, that would be leading indicators, positive or negative, of possible changes in

solvency over time. The Company reviews and updates its KRIs at least annually to ensure that they continue to provide a relevant, appropriate and comprehensive assessment of risk and assigns a rating of green (comfortably within the Company's risk tolerance), amber (within the Company's risk tolerance but warrants attention) or red (outside the Company's risk tolerance). Management actions are identified to address any amber or red KRIs.

5. Standard Formula, Individual Capital Assessment & Economic Capital Model

The Company uses the standard formula to measure its capital adequacy for the PRA under the SCR. To calculate what it believes to be its true economic risk for its ORSA, the Company uses its own ICA. The ICA employs a model created by the Company, its ECM, to measure its key risks, i.e., credit/underwriting risk and reinsurance counterparty risk. It uses the standard formula for calculation of its less material risks: strategic & business risk, market & liquidity risks and operational risks.

The Company believes that the ICA model provides a more realistic assessment of the Company's capital needs and resources because:

- The ICA views the Company's risks over the lifetime of its transactions, rather than the one-year time horizon prescribed by Solvency II. The Company believes that a lifetime approach to capital resources and requirements is a more appropriate measure of the Company's solvency because the Company's policies tend to be very long dated and non-cancellable. Further, they cannot be re-priced over their terms.

- The ICA measures the Company's credit and counterparty risks together. This is critical in assessing the Company's key risks because the Company is not exposed to claim payments on its ceded risk unless the obligor in a given transaction defaults, the related reinsurer fails to pay and any collateral posted by the reinsurer to support its obligation has been exhausted.

- The ICA uses Company's expert judgement, developed based on its own experience and published studies, to establish sector-specific assumptions for probability of default, loss given default and correlation that allow for more robust loss modelling than the standard formula provide.

The Company's ECM was designed to measure the Company's credit risk and reinsurance counterparty risk, by calculating projected stress losses across the portfolio in a 1-in-200 lifetime loss scenario (the 99.5% lifetime value-at-risk, or VaR), instead of the 1-in-200 one year loss scenario required under the Standard Formula, and through the use of scenario and stress testing at even more stressful levels. The Company has a limited number of discrete risks, making it possible to review and model the risk related to each individual exposure using its risk rating, type and size of risk, projected maturity and reinsurance in force, generating capital requirements by calculating the individual contribution to required capital for each transaction. The model has the ability to rank the transactions by risk, aggregate risk by sector and quantify the impact of the Company's risk mitigation activities (i.e., reinsurance). Stress testing of the ECM results is completed at least annually to help management understand the Company's vulnerability to various material potential capital events.

The risk management function is responsible for the design, testing, validation and implementation of the Company's ICA, including its ECM. In designing parameters and assumptions for the ECM, Risk Management consulted with senior managers throughout the Company. At the time of initial design, and from time to time and after material methodology changes, the ECM has been validated by an outside consulting firm, finding that the core methodology appeared sound and broadly in line with industry practices for credit economic capital modelling. Risk Management regularly works with senior managers in the Company to re-evaluate and update the ICA and ECM to ensure that they continue to satisfactorily address the Company's key risks.

Changes to the ECM are governed by the Company's Model Validation Policy which requires that model changes are subject to validation, and that the scope of the validation process and reporting should be appropriate to the nature, extent and complexity of the changes. Changes that are not material are approved by the Executive Committee and require notification to the AROC and the Board. Material changes are reviewed by the Executive Committee and AROC and approved by the Board.

6. ORSA Report

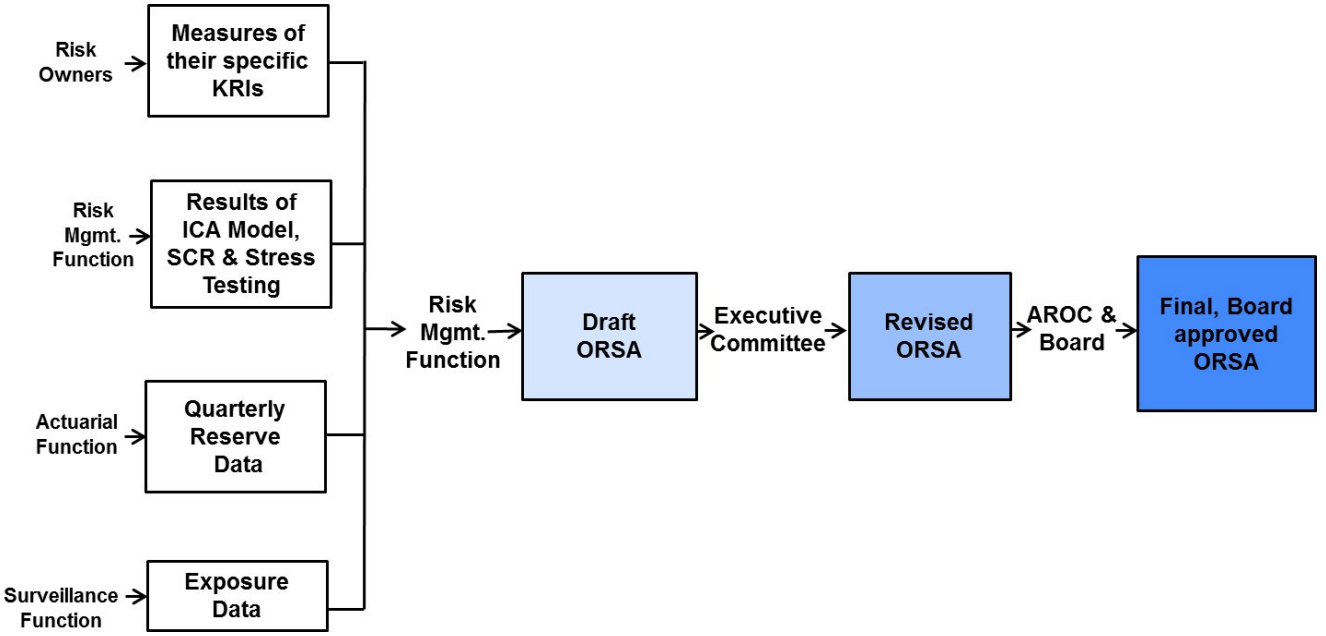
As part of its risk management framework and system, the Company documents the results of the risk management activities described above in its ORSA report, the main vehicle the Company uses to inform management and the Board about all reasonably foreseeable and relevant material risks to the Company, both quantitative and qualitative. The ORSA is intended to provide a complete picture of the Company's risk profile and capital adequacy relative to these risks, present the overall solvency needs and solvency condition of the Company taking into account its risk profile, risk appetite and business

strategy and demonstrate compliance, on a continuing basis, with internal and regulatory capital requirements. Each of the Company's European affiliates performs its own ORSA; there is no consolidated ORSA for the European affiliates.

The ORSA is an integral part of the business strategy and is taken into account on an ongoing basis in the strategic decisions of the Company. Accordingly, the results of the ORSA are presented to the Executive Committee, the AROC and the Board on a annual basis, or more frequently if the Company and the risk management function deem that there has been a material change in the Company's risk profile that warrants a special run of the model and preparation of a special ORSA.

The business units have ownership, accountability and responsibility for the risks arising in their respective areas that form the basis for the ORSA. The risk management function has responsibility for monitoring, measuring and reporting on these risks. The ORSA is subject to challenge by the Executive Committee and then the AROC, before being presented to the Board for approval.

The ORSA Process



The ORSA report includes the following information:

- Calculation of available capital resources
- Results of the ICA model (including the ECM)
- SCR and MCR
- Compliance with regulatory capital requirements
- Exposure to reinsurers
- Risk attribution - major contributors to VaR, by sector, credit and reinsurer
- Performance against KRIs, which are ranked by importance and likelihood of occurrence
- Results of KRI measurements
- Assessment of non-quantitative risks
- Forward-looking assessment of capital and liquidity requirements
- Results of stress scenario tests or sensitivity analyses conducted during the reporting period

The features of the ORSA make it a valuable tool for business planning and assessing capital needs of the Company over time, related to both potential changes in the composition of the insured portfolio and for proposed business undertakings over the course of the business planning horizon, such as:

- Material or extreme events
- Proposed regulatory changes
- Proposed reinsurance cessions, recapture of reinsured risks, commutations

It also highlights for management and the Board actual and potential areas of concern across the Company, and includes potential management actions where appropriate.

The risk management function is responsible for the design, development, maintenance and conduct of the ORSA. The risk management function examines the ORSA framework and related components at least annually to ensure that they continue to properly identify and assess the Company's risks.

b. Transaction Level Risk Management

The Company monitors the performance of each transaction level risk in its portfolio and tracks aggregation of risk. The review cycle and scope for transactions varies based upon transaction type and credit quality. 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. Additionally, the Company uses various quantitative tools and models to assess transaction performance and identify situations where there may have been a change in credit quality. For all transactions, surveillance activities may include discussions with or site visits to issuers, servicers or other parties to a transaction.

All transactions in the insured portfolio are assigned internal credit ratings, which are updated based on changes in transaction credit quality. The Company's internal credit ratings are based on internal assessments of the likelihood of default and loss severity in the event of default. Internal credit ratings are expressed on a ratings scale similar to that used by the Rating Agencies and are generally reflective of an approach similar to that employed by the Rating Agencies, except that the Company's internal credit ratings focus on future performance rather than lifetime performance.

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

Credits identified as BIG are subjected to further review to determine the probability of a loss. Surveillance personnel assign each BIG transaction to the appropriate BIG surveillance category based upon whether a future loss is expected and whether a claim has been paid. The three BIG categories are:

BIG Category 1: Below-investment-grade transactions showing sufficient deterioration to make future losses possible, but for which none are currently expected.

BIG Category 2: Below-investment-grade transactions for which future losses are expected but for which no claims (other than liquidity claims, which is a claim that the Company expects to be reimbursed within one year) have yet been paid.

BIG Category 3: Below-investment-grade transactions for which future losses are expected and on which claims (other than liquidity claims) have been paid.

The surveillance officer maintains data related to the transaction in the parent company's database, where information is stored and accessed for reporting purposes and for use in the ECM. The surveillance officer analyses all available information related to the financial health of the transaction with the goal of identifying early warning signs of deteriorating performance.

The surveillance function provides comprehensive reporting to senior management through the U.K. and U.S. RMCs. Generally, transactions are reviewed and presented to the RMC 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, Surveillance prepares and presents a quarterly risk management review to the AROC and the Board.

Workout Activities

The Company's surveillance personnel are responsible for managing workout and risk reduction situations. They work together with AGC's workout personnel 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. The Company's 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 the Company 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
- Negotiation of amendments, waivers and consents
- Employment of consultants or internal auditors
- Restructuring or refinancing
- Repurchase of affected securities at a discount
- Litigation

B.4 INTERNAL CONTROL SYSTEM

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

Code of Conduct

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

The Code of Conduct is designed to discourage personnel from engaging in activities that could jeopardise the Company's business and reputation. The Code of Conduct addresses, among other things:

- Full adherence to applicable law, rules and regulations (including, but not limited to, anti-money laundering, anti-bribery and sanctions compliance as well as all applicable financial reporting and accounting regulations)
- Avoidance of conflicts of interest
- Maintenance of the secrecy of confidential information
- Restrictions on trading in AGL's and counterparties' securities
- Restrictions on political contributions and activity
- Restrictions on business entertainment and gifts
- Protection and proper use of company assets
- General principles of fair dealing and treatment of others with respect
- Reporting of illegal or unethical behaviour
- Protection and proper handling of non-public personally identifiable information

Financial Reporting Internal Controls

- The Company's annual financial statements are produced by the finance team. The production process incorporates review for completeness and accuracy by the senior management within the finance function. The financial statements are subsequently reviewed by the Executive Committee prior to being presented to the Company's AROC and Board of Directors for final approval.
- Specific to the Company's 2016 Solvency and Financial Condition Report, management designed and documented internal controls over the preparation of information contained in this Report. A Solvency II Pillar 3 Disclosure Committee reviews the Company's Solvency and Financial Condition Report prior to filing.
- The persons responsible for these controls attest to executive management that they have properly executed these controls each reporting period.
- The Group has a vendor management policy that ranks vendors in terms of level of risk, and requires, for higher risk vendors, an annual review of internal control reports from those vendors.
- All of the Company's outsourcing arrangements are reviewed on an annual basis by the Executive Committee and more frequently if required. Any new Group or third party outsourcing arrangements, or changes to existing Group or third party outsourcing arrangements, are reviewed and approved by the Executive Committee.
- Members of the Group's management independently review the execution of the aforementioned internal controls and report to executive management on the results of their testing.

IT Controls

The Company received IT services from its affiliate, AGC, via an outsourcing arrangement and as a result utilises the Group infrastructure, applications, data and services. The IT policies and procedures for the Company follow the Group policies and procedures as described in the IT Systems Governance Policy. IT system controls cover areas including:

- Roles and responsibilities

- Physical security
- Network security
- Access control
- Data centre operations
- Employee use
- Testing
- Project management

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

Business Continuity Plan

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

Contingency plans are in place to respond to various disaster scenarios including loss of office locations or IT systems. Key personnel are equipped with remote access capabilities to continue critical business functions. IT systems are hosted at geographically dispersed data centres provided by an external vendor and critical IT systems have the ability to be restored at the secondary location. Critical data is backed up on a daily basis and copies are maintained at the secondary location as well as secure offsite storage provided by an external vendor.

Compliance Function

The compliance function is described in *Section B.1(a) General Governance Information, Structure of the undertaking's administrative, management or supervisory body, main roles and responsibilities, segregation of responsibilities, committees, description of the main roles and responsibilities of key functions* above and *Section B.4(b) Internal Control System, Description of how the compliance function is implemented* below.

b. Description of how the compliance function is implemented

Due to the relatively small size of the Company, and based upon principles of proportionality advanced by the PRA, the Company does not have a separate compliance department whose sole remit is monitoring compliance-related activities. The compliance function is carried out by a compliance professional dedicated to the Company and the General Counsel and Chief Compliance Officer of the Company.

The compliance function is independent from any business or operational unit. The compliance function is responsible for reporting to the Executive Committee and the AROC any breaches, or non-compliance with applicable law and regulation, and with internal company policies. The compliance function reports to the Executive Committee at its monthly meetings and to the AROC at each of its quarterly meetings.

The principal activities of the compliance function are as follows:

- Advising the AROC and the Board on compliance with applicable laws and regulations and assessing the possible impact of new laws and regulations on the Company.
- Ensuring that new regulatory rules and internal guidelines are communicated to the affected business areas and providing guidance to those business areas in respect of such requirements.
- Maintaining an open dialogue with the PRA and the FCA, and other applicable regulators, and submitting the appropriate information to those regulators, including notice of matters that are of concern to the regulators.
- Ensuring that all relevant personnel complete training on their regulatory roles and responsibilities, and on compliance with applicable laws and regulations, on a regular basis (including anti-money laundering and anti-bribery/corruption training).
- Assessing, together with the internal audit function, the adequacy and effectiveness of the Company's compliance controls.

The compliance function works with the internal audit function to develop an internal audit plan that addresses, as appropriate, compliance by the Company with internal policies and procedures. The internal audit function is responsible for monitoring compliance with internal strategies, processes and reporting procedures. *Section B.5 Internal Audit Function* describes the internal audit function in more detail. The Company's compliance program also is integrated with the Group's compliance program, which includes providing the Group compliance officer with an inventory of all filings due by the Company throughout the year and reporting compliance violations or significant issues raised during the year. The

compliance inventory is reviewed and significant issues are discussed on a quarterly basis at Group compliance meetings. The compliance process is established on a project-by-project basis or topic-by-topic basis using U.K. Service Company personnel with applicable experience and outside advisors, as appropriate.

Risk Management Function

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

Internal Company Policies

Compliance Manuals

The compliance function updates the Compliance Manual of the Company on a periodic basis in conjunction with external counsel. The Compliance Manual highlights the most important aspects of the U.K. legal and regulatory regime as it affects the Company's business. Following each update, the compliance function requires the directors of the Company, all other holders of Senior Insurance Manager Functions and Key Functions, persons performing Key Functions and each U.K. Service Company employee to review and acknowledge the manual.

Training

The directors of the Company, all other holders of Senior Insurance Manager Functions and Key Functions, persons performing Key Functions and each U.K. Service Company employee are required to complete Code of Conduct training each year, which also includes training on the Company's anti-bribery policies, and to review and acknowledge these policies on an annual basis.

B.5 INTERNAL AUDIT FUNCTION

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

The internal audit function is responsible for providing the Company with independent, objective assurance and advisory services to assist management in accomplishing its business goals and objectives. Internal Audit performs activities including: evaluation of risk management and control, and governance processes. The internal audit function is an independent function within the Company and has access to any member of staff and to any information it considers necessary to carry out its duties. Independence is maintained by segregation from other functions where possible and by safeguards and review where this is not possible. On a quarterly basis, or when required, the internal audit function reports its findings directly to the AROC and informs the CEO of any material issues. The CEO and members of senior management, as applicable, receive copies of all internal audit reports.

The CEO and the AROC have concluded that, at this time, the internal audit function is most effective being outsourced to a firm of certified internal audit professionals not employed by the Company. Therefore, the internal audit function has been outsourced to an external party. The Company maintains responsibility for management of the function.

Internal audit resources are focused on testing the key controls that mitigate business risk. As requested, the internal audit function also:

- supports management's testing of existing and remediated controls associated with management's support for their quarterly and annual compliance attestations,
- provides management with assistance and advice during investigations of any type, and
- assists the AROC as requested by the Chairman of the AROC.

In addition to the primary objective discussed above, the internal audit function evaluates the design and operating effectiveness of the organisation's network of risk management, control and governance processes, as designed and represented by management, to validate that:

- risks are appropriately identified and managed,
- interaction with the various governance groups occurs as needed,
- significant financial, managerial, and operating information is accurate, reliable, and timely,
- employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations,
- quality and continuous improvements are fostered in the control processes,

- significant legislative or regulatory issues impacting the organisation are recognised and addressed appropriately,
- systems established to operate and comply with policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports are designed and operating appropriately,
- that key risks are addressed and to ensure that audit duplication with external auditors is avoided whenever possible, and
- controls are implemented to reduce the risk of fraud and misappropriation of assets.

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

The internal audit function remains independent of and objective from other functions of the Company primarily through outsourcing the internal audit function to an external party who is not involved in the operations that are subject to internal audit activities. To provide an appropriate level of organisational independence, the internal audit function reports functionally to the chairman of the AROC and administratively to the Group Chief Financial Officer in 2016 (beginning in 2017 the internal audit function reports to the Group Chief Risk Officer).

B.6 ACTUARIAL FUNCTION

See *Section B.1 General Governance Information* for a diagram of how the actuarial function is integrated into the Company's risk management framework. The Chief Actuary's duties include:

- proposing loss reserves to the Reserve Committee,
- co-ordination of the calculation of technical provisions,
- review of the Company's ICA model,
- review of assumptions, methods, and data used in modelling,
- contribution to risk modelling,
- monitoring of differences in technical provisions in different years,
- drawing conclusions comparing actual to expected,
- reporting to the Company's Board on the adequacy of the calculation of technical provisions,
- opining on underwriting policy and adequacy of reinsurance, and
- making any recommendations on how any shortcomings can be remedied.

The Chief Actuary for the Group is a credentialed actuary in good standing with the Casualty Actuarial Society, who is also a Fellow in the Casualty Actuarial Society. In addition, the Chief Actuary is a member of the American Academy of Actuaries in good standing. The Chief Actuary was appointed by the Company, and approved by the PRA, to hold the SIMF for the actuarial function. See *Section B.1 General Governance Information - Material changes in the system of governance over the reporting period.*

B.7 OUTSOURCING

Given the relatively small size of the Company and the Company's desire to focus on its core business, the Company has determined that certain of its functions should be outsourced to one or more affiliates, or third parties, to improve the efficiency and effectiveness of the Company's operations.

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

Group Outsourcing Arrangements

As described in *Section B.1(c)(i) General Governance Information, Remuneration policy and practices, Principles of the remuneration policy, with an explanation of the relative importance of the fixed and variable components of remuneration* above, the Company does not directly employ any personnel. Instead, the Company contracts with the U.K. Service Company to provide personnel to manage the Company's affairs. In addition, as noted above, the Company outsources certain functions to its affiliates. In 2016, the Company was a party to a service agreement with AGC pursuant to which AGC made available to the Company certain services, including actuarial, surveillance, marketing, claims handling, legal, information technologies, human resources, accounting, tax, financial reporting and investment planning services. Employees of AGC that are performing outsourced functions were not empowered to make underwriting decisions on behalf of the Company or to bind the Company in any way. Expenses are allocated directly where appropriate and, where not appropriate, based upon an allocation of employee time and corresponding office overhead. Effective 1 January 2017, the company providing services under the intercompany agreement is AG Services. The scope of the services provided under the agreement and the personnel providing the services have not changed.

Third-Parties Outsourcing Arrangements

Investment Management

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

Internal Audit

The Company outsources the internal audit function to an international public accounting firm. The role and responsibilities of the internal audit function is described in further detail in *Sections B.1 General Governance Information,* and *B.5 Internal Audit Function* above.

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

b. Any other material information regarding system of governance

None.

C. RISK PROFILE

C.1 UNDERWRITING RISK

As a financial guarantee insurance company, which protects holders of debt instruments from defaults in scheduled payments, the Company's key underwriting risk is credit risk, i.e., the risk that obligors of insured debt obligations will fail to pay. The Company no longer writes new business. The policies previously issued by the Company generally are non-cancellable, with the premiums paid up front, in instalments or both. The obligation of the Company to make claim payments cannot be accelerated, although the Company generally maintains the right to accelerate payment on defaulted obligations. The Company has no life or health underwriting risk or any other general insurance underwriting risk.

Measurement

The Company's main metrics for measuring its portfolio credit risk (in addition to its Risk Management and ORSA process, discussed in *Section B.3 Risk Management System*) are par outstanding, by sector and internal rating. The Company also considers geographic concentrations. At the closing of each transaction, the Credit Committee assigned the transaction to a sector (i.e., a group of transactions with similar risk characteristics) for purposes of evaluating risk and potential correlations. The Credit Committee also assigned an internal credit rating reflecting the credit quality of the transaction, with such rating subject to change over time. Surveillance is responsible for monitoring the performance of all insured transactions throughout their terms and recommending internal rating changes as appropriate. All rating changes must be approved by the RMC**.**

The sector composition of the insured portfolio and the breakdown of internal ratings, measured by GPO and NPO as of 31 December 2016 and 2015, are set forth below.

Sector Breakdown of the Insured Portfolio

	31 December 2016			31 December 2015		
Sector	Number of Risks	GPO	NPO	Number of Risks	GPO	NPO
		(in thousands, except number of risks)				
Regulated utilities	4	£ 336,964	£ 33,696	4	£ 331,411	£ 33,141
Public infrastructure	3	255,648	25,565	3	261,445	26,145
Total public finance	7	592,612	59,261	7	592,856	59,286
Triple-X life insurance transactions	2	715,154	71,515	2	598,873	59,887
Trust preferred securities	2	58,551	5,856	2	107,346	10,735
Total structured finance	4	773,705	77,371	4	706,219	70,622
Total portfolio	11	£ 1,366,317	£ 136,632	11	£ 1,299,075	£ 129,908

Risk Concentration

The Company's top ten credit exposures measured by GPO represent 98.9% of GPO as of 31 December 2016, compared with 97.4% of GPO as of 31 December 2015. There were no material changes in composition of top ten credit exposures during 2016.

As the table below setting forth portfolio concentrations by internal credit rating illustrates, the portfolio continues to be concentrated in the BIG range, with the percentage of GPO increasing to 54.7%, up from 48.7% mainly due to an increase in the USD/pound sterling exchange rate over the reporting period.

Portfolio Breakdown by Internal Credit Rating (1)

Internal Credit Rating	As of 31 December 2016 GPO	As of 31 December 2016 NPO	As of 31 December 2015 GPO	As of 31 December 2015 NPO
	(in thousands)			
"AAA"	£ 15,108	£ 1,511	£ 34,378	£ 3,438
"AA"	200,574	20,058	232,041	23,204
"A"	—	—	—	—
"BBB"	402,831	40,283	400,421	40,042
BIG	747,804	74,780	632,235	63,224
Total	£ 1,366,317	£ 136,632	£ 1,299,075	£ 129,908

(1) Ratings are the Company's internal rating classifications which may or may not differ from those of the Rating Agencies.

The table below sets forth the Company's BIG transactions as of 31 December 2016. One BIG transaction listed below is rated in BIG Category 1 and two BIG transactions listed below are rated in BIG Category 3. No transactions were added to the list during the reporting period, and no transactions were removed.

BIG Exposure by Sector
As of 31 December 2016

Sector	Number of Risks	GPO	NPO
	(in thousands, except number of risks)		
Triple-X life insurance transactions	2	£ 715,154	£ 71,515
Public infrastructure	1	32,650	3,265
Total BIG	3	£ 747,804	£ 74,780

As of 31 December 2016, the Company had established unexpired risk provisions for one of the BIG transactions, but had paid claims on two of its BIG transactions.

The table below shows the geographic distribution of the Company's insured obligations as of 31 December 2016 and 31 December 2015, both gross and net of reinsurance.

Geographic Distribution of Gross and Net Par Outstanding

Country	As of 31 December 2016 GPO	As of 31 December 2016 NPO	As of 31 December 2015 GPO	As of 31 December 2015 NPO
	(in thousands)			
United States of America	£ 717,265	£ 71,727	£ 602,420	£ 60,242
United Kingdom	568,763	56,876	576,797	57,680
Germany	46,664	4,666	59,600	5,960
Bermuda	7,559	756	13,569	1,357
France	5,799	580	10,315	1,031
Denmark	5,079	508	8,681	868
Switzerland	4,228	423	8,005	800
Netherlands	2,033	203	3,415	341
Slovenia	2,033	203	3,415	341
Malaysia	2,033	203	3,415	341
Other	4,861	487	9,443	947
Total	£ 1,366,317	£ 136,632	£ 1,299,075	£ 129,908

Risk Mitigation

The Company entered into a reinsurance arrangement with its parent company, AGC, in order to support its capital adequacy and reduce the net potential loss from large risks. Under the terms of the reinsurance treaty, the reinsurance remains in place for the term of the business unless it is commuted or cancelled by the Company.

The table below sets forth the Company's exposure to reinsurance counterparties as of 31 December 2016.

Ceded Par Outstanding to Reinsurers
As of 31 December 2016

Reinsurer	Ceded Par Outstanding (in thousands)
Affiliated reinsurer - AGC	£ 1,229,685
Unaffiliated reinsurers	—
Total reinsurance	£ 1,229,685

The Company remains primarily liable for all risks it directly underwrites and is required to pay all gross claims. It then seeks reimbursement from its reinsurer for its proportionate share of claims. Therefore, the Company's use of reinsurance creates credit risk to its reinsurer. The Company monitors the financial condition of its reinsurer, AGC, on an ongoing basis, and reviews its internal credit rating at least annually, and more often as dictated by the occurrence of outside events. Further, AGC posts collateral to support its payment obligations. The legal department manages the Company's reinsurance treaties and collateral postings. 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 a default by AGC.

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 benefit, and is subject to losses only if there is a default of both the underlying risk and the reinsurer. The Company's annual ORSA report includes its ICA, both gross and net of reinsurance. Because of the Company's extensive use of reinsurance prior to 2011, the impact of reinsurance is material to its ICA.

In an effort to mitigate losses, the Company also may pursue specifically tailored loss mitigation strategies for underperforming transactions. See *Section B.3 Risk Management System*, *Workout Activities* for a description of the various strategies.

Risk Sensitivity

At least annually, when the Company runs its ICA model, it runs a series of stress tests to determine the sensitivity of its ICA to various material risks, such as increases in the key variables used to calculate lifetime losses (probability of default, loss given default and correlation), and to credit events, such as the potential downgrade of AGC, its only reinsurance exposure.

The Company has also performed 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. As of 31 December 2016, a 10% increase in the loss severity used to calculate the loss associated with the default of the largest two exposures (from 10% to 20%), would increase the non-life underwriting risk by £1.5 million to £3.5 million. The SCR would increase by £0.5 million to £26.1 million.

The Company's only reinsurer, AGC, posts sufficient collateral to eliminate all of the associated reinsurance counterparty risk under the SCR.

C.2 MARKET RISK

The potential for market risk resides mainly in the Company's investment portfolio. As of 31 December 2016, the Company's investment portfolio had a market value of £111.6 million, up from £105.7 million as of 31 December 2015. Approximately 85% of the investment portfolio is externally managed and 15% is internally managed. The externally managed portfolio is a high quality, highly liquid portfolio. The internally managed portfolio consists of distressed credits insured by the Company that were acquired for loss mitigation purposes. For the externally managed portfolio, specific investment guidelines are agreed with the Company's outside investment manager and approved by the Company's Board,

consistent with the 'prudent person principle' set out in Solvency II Regulations, and setting forth credit rating standards, single risk and asset category limits and duration guidelines.

One of the primary objectives in managing the investment portfolio is to preserve the highest possible rating for the Company. The overall portfolio credit quality of the externally managed portfolio on an ongoing basis must be rated a minimum of "AA-"/"Aa3"/"AA-" as measured by S&P, Moody's and Fitch. A minimum of 70% of the portfolio must be invested in securities rated at least in the "AA" category by two of S&P, Moody's and Fitch. No purchase is permitted in a security rated lower than "A-"/"A3"/"A-", or in the case of corporate securities rated lower than "BBB"/"Baa2"/"BBB" by S&P, Moody's or Fitch, respectively. 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.

Currency Risk

The Company is exposed to currency risk in respect of liabilities under financial guarantees denominated in currencies other than pounds sterling. The most significant currency to which the Company is exposed is the USD. The Company manages its exposure from time to time by maintaining balances denominated in those currencies in which it is exposed in order to meet liabilities that may become due.

Measurement

The Company measures the results of its investment portfolio by its compliance with investment guidelines, and by the portfolio performance, particularly book yield as well as relative to a benchmark. The benchmark is a published index based on securities similar to those in the Company's investment portfolio, or an amalgam of such indices, against which the Company compares it portfolio return.

Risk Concentration

As of 31 December 2016, the Company's investment portfolio had an average credit quality rating of "A". Issuer constraints as well as sector limitations are also followed in managing the investment portfolio. The table below sets forth the sector concentrations across the portfolio as of 31 December 2016. The asset backed security type increased to 15% of the portfolio from 8% during the reporting period. See *Section A.3 Investment Performance*.

Composition of Investment Portfolio by Security Type
As of 31 December 2016

Security Type	% of Portfolio
U.K. Government bonds (excluding Short-Term)	56.5%
Covered bonds	19.2
Asset-backed	14.6
Government guaranteed	5.1
Corporate bonds	4.6
Total	100.0%

As of 31 December 2016, the only material concentration in the investment portfolio was to U.K. Government bonds, which comprised 56.5% of market value, as allowed by the investment guidelines. The next largest individual risk concentration in the portfolio, which represented 14.6% of market value as of 31 December 2016, was exposure to an asset backed security that is not rated by Moody's and rated CC by S&P with a 10.52 year duration. The security has credit support from the Company and was repurchased into the investment portfolio for loss mitigation purposes. This security had a value of £16.3 million and £8.7 million as of 31 December 2016 and 2015, respectively, representing 15% of the total investment portfolio at year-end 2016, up from 8% at year-end 2015.

Risk Mitigation

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

Risk Sensitivity

The main risk in the Company's investment portfolio is interest rate risk on its fixed rate investments. Each year, as part of its ORSA, the Company's outside investment manager provides the Company with the results of stress testing of the sensitivity of the investment portfolio to interest rate movements. As of 31 December 2016, a 200 basis point upward shift in the yield curve at each maturity would have decreased the value of the investment portfolio by £10.8 million. The Company views the probability associated with this scenario to be low (approximately 1.25% over one year).

C.3 CREDIT RISK

The Company's most significant credit risks are the risk of non-payment by the obligors on the transactions that it insures, and the counterparty risk to AGC, the Company's only reinsurer, that assumes a substantial portion of the Company's outstanding insured exposure. These credit risks were addressed above in *Section C.1 Underwriting Risk*. The only other counterparty credit risks the Company has relate to cash that the Company holds in its investment portfolio. As of 31 December 2016, the accounts had combined balances of less than £3.7 million.

C.4 LIQUIDITY RISK

The Company manages its liquidity risk by maintaining a liquid, high quality investment portfolio, comprised primarily of U.K. Government bonds, with a duration that is shorter than the duration of its insurance liabilities. Additionally, 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.

Measurement

The Company measures duration relative to its investment guideline range, discussed above, which is set in accordance with the Company's investment guidelines. As of 31 December 2016 the portfolio had duration of 4.8 years. The portfolio duration was within the investment guideline range at all times during the reporting period. For more information see *Section A.3 Investment Performance.*

Risk Sensitivity

Each year, as part of its ORSA, the Company performs liquidity stress testing to ensure that it has sufficient liquid assets over the next 12 month period to cover all of its liabilities that could arise in a stress scenario. When the Company performs the stress test, it considers only U.K. Government bonds and cash to be liquid assets.

Expected future profit included in future premiums

The total amount of net expected future profit included in future premiums as of 31 December 2016, as calculated in accordance with Solvency II Regulations, was £9.8 million.

C.5 OPERATIONAL RISK

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. As of 31 December 2016, the Company did not employ any staff, as all staff is placed at the Company pursuant to a services agreement with the U.K. Service Company; had 11 risks in its insured portfolio, with no new transactions written during the reporting period, limiting potential operational errors to a very small universe. Operational risks are further limited by the Company's risk management policies, such as the policies governing compliance, business continuity planning, and employee conduct. Additional mitigants to operational risk include that its service agreements are with stable affiliated companies, and the system of internal controls in place, which is described in *Section B.4 Internal Control System.*

With regard to legal risk, another aspect of operational risk, as of 31 December 2016, the Company was not involved in any other ongoing litigation, except for below.

In December 2008, the Company filed an action in the Supreme Court of the State of New York against JPMIM, the investment manager for a triple-X life insurance transaction, Orkney, involving securities guaranteed by the Company. The action alleged that JPMIM engaged in breaches of fiduciary duty, gross negligence and breaches of contract based upon its handling of the Orkney investments. The trial commenced on 13 March 2017. During a court ordered mediation session, on 25 March 2017, the parties agreed to settle the litigation and subsequently filed a stipulation of discontinuance of the court proceedings with prejudice. The parties have agreed to keep the terms of the settlement confidential.

C.6 OTHER MATERIAL RISKS

Brexit

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

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

- *Management of Existing Business Elsewhere in the EU*. As of 31 December 2016, approximately £6.6 million of the Company's insured net par is to risks located in EU and EEA countries other than the U.K. If the Company loses its passporting in other EU or EEA states once Brexit is implemented, the Company may lose the ability to manage transactions from London in non-U.K. EU and EEA countries without obtaining additional licenses, which may require a presence in another EU country. In particular, Brexit-related changes in laws and regulations may adversely affect the Company's surveillance and loss mitigation activities with respect to existing insured transactions in non-U.K. EU and EEA countries, especially to the extent Brexit inhibits the issuance of new guaranties in distressed situations. The Company is assessing a number of options in order to ensure that it can effectively mitigate the potential impact of Brexit on its ability to continue to manage its existing business in those EEA states.

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

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

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

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

Cyberrisk

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

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

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

C.7 ANY OTHER INFORMATION

None.

D. VALUATION FOR SOLVENCY PURPOSES

D.1 ASSETS

The following table presents asset accounts for Solvency II and financial statement purposes.

Assets
As of 31 December 2016

	Financial Statement Balance Sheet	Solvency II Balance Sheet
	(in thousands)	
Deferred acquisition costs	£ 85	£ —
Deferred tax assets	7	1,180
Investments	111,614	115,534
Reinsurance recoverables:		
Reinsurer's share of provision for unearned premiums	2,979	—
Reinsurer's share of claims outstanding	109,903	—
Reinsurer's share of other technical provisions (unexpected risk provisions)	1,345	—
Reinsurer's share of technical provisions (premium provision and claims provision)	—	104,755
Total reinsurance recoverables	114,227	104,755
Insurance and intermediaries receivables:		
Current premiums receivable	5,491	5,491
Future premiums receivable	728	—
Total insurance and intermediaries receivables	6,219	5,491
Reinsurance receivables:		
Current reinsurance commissions receivable	1,974	1,974
Future reinsurance commissions receivable	291	—
Total reinsurance receivables	2,265	1,974
Cash and cash equivalents	3,722	1,147
Other assets	1,345	—
Total assets	£ 239,484	£ 230,081

The following is a description of the valuation methodology used to arrive at the value of each category of assets shown on the balance sheet for Solvency II purposes and the differences to U.K. GAAP.

Deferred Acquisition Costs

Under U.K. GAAP acquisition costs incurred, which represent expenses related to the production of business are deferred and amortised over the period in which the related premiums are earned. Under Solvency II operating expenses are incorporated within technical provisions.

Deferred Tax Assets

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

- As of 31 December 2016, the Company had a deferred tax asset under U.K. GAAP of £7 thousand.
- The differences between U.K. GAAP and Solvency II balances (including the risk margin) resulted in a pre-tax adjustment of £19.1 million to the Company's balance sheet.

- Applying a 19% tax rate resulted in a deferred tax adjustment of £3.6 million.

- However, the Company does not expect to realise the tax benefit for the liability of £12.9 million on its risk margin. To account for this, £2.4 million of the deferred tax benefit associated with the risk margin is excluded in the calculation of the final deferred tax adjustment.

- The final deferred tax asset as of 31 December 2016 was the initial U.K. GAAP deferred tax asset of £7 thousand increased by the aggregate deferred asset adjustment of £3.6 million less the deferred tax benefit associated with the risk margin of £2.4 million, for a total of £1.2 million of deferred tax asset.

Based on its projections for continued future taxable income, the Company believes that its deferred tax assets are more likely than not to be realised.

A detailed reconciliation of deferred tax between the Solvency II balance sheet and the financial statements is shown below.

Deferred Tax Assets and Liabilities
As of 31 December 2016

	Solvency II Balance Sheet	Financial Statement Balance Sheet	Pre-Tax Adjustment	Tax Effect
		(in thousands)		
Assets				
Deferred acquisition costs	£ —	£ 85	£ (85)	£ 16
Reinsurance recoverable	104,755	114,227	(9,472)	1,800
Insurance and intermediaries receivables	5,491	6,219	(728)	138
Reinsurance receivables	1,974	2,265	(291)	55
Liabilities				
Gross technical provisions - non-life (excluding health)	(137,231)	(125,362)	(11,869)	2,255
Other technical provisions	—	(1,494)	1,494	(284)
Reinsurance payables	(4,869)	(5,595)	726	(138)
Any other liabilities, not elsewhere shown	(159)	(1,328)	1,169	(222)
Total deferred tax adjustments including risk margin	(30,039)	(10,983)	(19,056)	3,620
Less: Solvency II risk margin not tax effected				(2,447)
Total deferred tax adjustments				£ 1,173

Investments

The Company recognises the value of investments for Solvency II purposes on the same basis recognised in the financial statements under U.K. GAAP. Under U.K. GAAP the fair value of investments traded in active markets are based on quoted bid prices on the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The fair values of financial instruments that are not traded in active markets are established by the directors, using valuation techniques which seek to arrive at the prices at which orderly transactions would take between market participants, including broker prices and, if applicable, models.

- All of the investment assets, which are liquid (government bonds, corporates, and collateralised securities) were valued using a third party pricing source that provides daily prices based upon a combination of active market quotes, quotes for similar instruments, market data, and internal pricing matrices.

- For assets that do not have market prices in actively traded markets, the Company used the assistance of an independent third party to price them. The pricing is based on a discounted cash flow approach using the third-party's proprietary pricing models. The models use inputs such as observed market trades or market colour on the referenced notes. The yield used to discount the projected cash flows is determined by reviewing various attributes of the bond including collateral type, weighted average life, sensitivity to losses, vintage, and convexity, in conjunction with market data on comparable securities. For assets related to life insurance securitisations, the projected cash flows are also effected by the market value of the collateral portfolio above the economic reserve

amount and forward London Interbank Offered Rate rates, in addition to the items previously mentioned. 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.

Additionally under Solvency II, the fair value of investments includes accrued interest at the balance sheet date. Under U.K. GAAP accrued interest is presented separately on the balance sheet. Accrued interest receivable in foreign currency has been translated into pound sterling at the rates of exchange ruling at the balance sheet date for both Solvency II and financial statement purposes.

Reinsurance Recoverables

Reinsurance recoverables recognised for Solvency II purposes consist of the reinsurer's share of technical provisions calculated, in part, using the Company's ICA model. However the reinsurance recoverables reported within the financial statements follow U.K. GAAP and consist of reinsurer's share of provisions for unearned premiums, claims outstanding and other technical provisions (i.e., unexpired risk provisions).

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

Insurance and Intermediaries Receivables

Insurance and intermediaries receivables recognised for Solvency II purposes consist of premiums that were receivable at the balance sheet date. Insurance and intermediaries receivables reported under U.K. GAAP consist of both premiums that were receivable at the balance sheet date and future premiums receivable on an undiscounted basis.

Insurance premiums receivable in foreign currency have been translated into pound sterling at the rates of exchange ruling at the balance sheet date for both Solvency II and financial statement purposes.

Reinsurance Receivables

Reinsurance receivables recognised for Solvency II purposes consist of reinsurance commissions that were receivable at the balance sheet date. Reinsurance commission receivables reported under U.K. GAAP consist of both reinsurance commissions that were receivable at the balance sheet date and future reinsurance commissions receivable on an undiscounted basis.

Reinsurance commissions receivable in foreign currency have been translated into pound sterling at the rates of exchange ruling at the balance sheet date for both Solvency II and financial statement purposes.

Cash and Cash Equivalents

Cash relates to deposits made at financial institutions (e.g., cash held at a bank). These are recognised at the face value of the currency amount (translated into pound sterling at the rates of exchange ruling at the balance sheet date where applicable) without any deductions.

Any Other Assets, not Elsewhere Shown

Under U.K. GAAP, other assets relate to accrued interest that were due at the balance sheet date. Accrued interest receivable in foreign currency has been translated into pound sterling at the rates of exchange ruling at the balance sheet date. Under Solvency II, accrued interest is included within the value of investments.

D.2 TECHNICAL PROVISIONS

Technical Provisions under Solvency II versus Financial Statements

Technical Provisions
As of 31 December 2016

	Financial Statement Balance Sheet	Solvency II Balance Sheet
	(in thousands)	
Best Estimate	£ —	£ 124,350
Risk margin	—	12,881
Provision for unearned premiums	3,247	—
Claims outstanding	122,115	—
Unexpired risk provisions	1,494	—
Total	£ 126,856	£ 137,231

The Company has only one line of business, insuring credit, suretyship and miscellaneous financial loss. Under Solvency II, as of 31 December 2016, the Best Estimate Technical Provisions for this line of business were £124.4 million and the risk margin was £12.9 million resulting in a total gross technical provision of £137.2 million. The gross and net best estimate technical provisions values are the present value of future cash outflows less the present value of future cash inflows. The present value of cash outflows includes the expected lifetime loss calculated using the Company's internally developed individual capital adequacy model plus an Expense Load. The present value of the cash inflows includes all future premiums and ceding commissions expected to be received by the Company after consideration of potential non–payment on premiums due to future defaults of guaranteed transactions.

Expected lifetime losses under Solvency II are calculated using the Company’s ICA model which uses expert judgements for cumulative probability of default, loss given default and correlation to calculate the expected cash outflows that the Company will be required to pay over the lifetime of the Company’s insured exposures for both its net retained and its reinsured exposures. The Company considers both external and internal sources of data when setting its assumptions for probability of default, loss given default and correlation, including any relevant experience by members of the Assured Guaranty group. The boundary of each insurance contract is assumed to be the period of time during which the principal on the debt underlying the financial guarantee contract is greater than £0. The Company uses its expert judgement to assess future inflation rates for guarantees that are linked to an inflation index.

For purposes of the Best Estimate Technical Provisions calculation, the Expense Load was projected based on the Company’s current operating costs with the assumption that the Company remains in runoff. The percentage used as the Reduction due to prospective defaults was developed by applying the Company’s expert judgement for default rates to the insured portfolio.

The risk margin was calculated as the present value of the Company’s future cost of capital in all future years as the Company’s insured exposure runs off. The risk margin captures the carrying cost of capital that a third party would be required to hold if the Company were to transfer its technical provisions to a third party.

For purposes of the risk margin calculation, the EIOPA specified risk free rates for pound sterling as of 31 December 2016 were used for discounting. The SCR was calculated for each future year until maturity of the Company's final policy and the cost of capital percentage was assumed to be equal to 6%, as mandated by the Solvency II Regulations. The SCR is projected to decline over time in proportion to the insured par outstanding.

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

The Company also believes that the assumptions and methods used to develop the risk margin value are reasonable and consistent and that they provide for a calculation of the appropriate economic capital cushion required by the Solvency II.

The Level 2 Guidance for implementing Solvency II requires that the Best Estimate Technical Provisions include the Company's expected future cash inflows and outflows, excluding investment income.

The following is a listing of the material differences between Solvency II and U.K. GAAP Technical Provisions. The Technical Provisions for Solvency II include the following discounted provisions (for Solvency II purposes, the EIOPA specified risk free rates are used):

- premiums scheduled to be received, less the expected amounts not to be paid due to defaults on underlying transactions, as required by the Solvency II Regulations, discounted (U.K. GAAP includes undiscounted premiums and does not have a provision for amounts not to be paid unless such a scenario is likely),

- ceded premiums scheduled to be paid, less the expected amounts not to be paid due to defaults on underlying transactions, as required by the Solvency II Regulations, discounted (U.K. GAAP includes undiscounted premiums and does not have a provision for amounts not to be paid unless such a scenario is likely),

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

- projected losses due to reinsurance counterparty (i.e., AGC) defaults (U.K. GAAP does not include a provision for amounts not to be paid unless such a scenario is likely), and

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

The projected losses under Solvency II are significantly higher than under U.K. GAAP because a loss value is ascribed to every exposure guaranteed by the Company instead of just exposures that are likely to have losses. The discount rates provided by EIOPA are typically lower than the ones used by the Company to discount its liabilities under U.K. GAAP. There was a methodology change since 1 January 2016 in the calculation of the Best Estimate Technical Provisions to account for cash flows related to repurchased insured bonds.

There have not been any other material changes to the assumptions or methods used in the calculations of Technical Provisions or risk margin from that used to calculate these balances on adoption of Solvency II Regulations as at 1 January 2016.

Matching Adjustment

The matching adjustment referred to in Article 77(b) of the Directive is not used in any of the Company's calculations.

Volatility Adjustment

The volatility adjustment referred to in Article 77(d) of the Directive is not used in any of the Company's calculations.

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 any of the Company's calculations.

Transitional Deduction

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

Recoverables From Reinsurance and Special Purpose Vehicles

The Company reinsures a significant amount of its exposure to its parent AGC. In calculating the Technical Provisions and risk margin net of this reinsurance, the Company assumes that AGC pays its contractually obligated

payments and likewise receives its share of any recoveries. Under Solvency II, the Company's reinsurance recoverables for these transactions represent the contractually obligated payments, less a component for any expected losses assuming the unlikely event that AGC is unable to make its share of these payments in excess of the amount of collateral available. This component is calculated based on the projected ceded expected losses to AGC, the assumed cumulative default rate of AGC and the amount of collateral posted by AGC. Under U.K. GAAP the Company does not include a provision for reinsurance counterparty default unless such a scenario, in which AGC fails to pay, becomes likely.

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

D.3 VALUATION OF LIABILITIES

The following table presents liabilities for Solvency II and financial statement purposes.

Liabilities
As of 31 December 2016

	Financial Statement Balance Sheet	Solvency II Balance Sheet
	(in thousands)	
Reinsurance payables:		
Current reinsurance premiums payable	£ 4,869	£ 4,869
Future reinsurance premiums payable	726	—
Total reinsurance payables	5,595	4,869
Payables (trade, not insurance)	2,081	2,081
Other liabilities:		
Reinsurance commissions deferred	1,169	—
Other liabilities (including accrued expenses)	159	159
Total other liabilities	1,328	159
Total liabilities excluding technical provisions	9,004	7,109
Technical provisions	126,856	137,231
Total liabilities	£ 135,860	£ 144,340

The following is a description of the valuation methodology used to arrive at the value of each category of liabilities shown on the balance sheet for Solvency II purposes and the differences to U.K. GAAP.

Reinsurance Payables

Reinsurance premiums payable in foreign currency have been translated into pound sterling at the rates of exchange ruling at the balance sheet date for both Solvency II and financial statement purposes.

Reinsurance payables recognised for Solvency II purposes consist of reinsurance premiums that were payable at the balance sheet date. Reinsurance premiums payable reported under U.K. GAAP consist of both reinsurance premiums that were payable at the balance sheet date and future reinsurance premiums payable on an undiscounted basis.

Payables (Trade, not Insurance)

Trade payables relate to amounts owed to other creditors, including amounts owed to affiliated companies. The balance has been valued at expected settlement amounts.

Any Other Liabilities, not Elsewhere Shown

Any other liabilities not shown elsewhere recognised for Solvency II purposes consist of accrued expenses that have not been settled at the balance sheet date. U.K. GAAP also includes deferred reinsurance commissions at the balance sheet date. Under Solvency II the reinsurance commissions are incorporated within technical provisions.Accrued expenses are valued at cost, on the proportion of goods and services that have been consumed.

D.4 ALTERNATIVE METHODS OF VALUATION

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

All of the Company's investments are categorised at level 2 - i.e. inputs other than quoted prices that are observable (that is, developed using market data) for the asset or liability, either directly or indirectly.

D.5 ANY OTHER INFORMATION

There have not been any material changes to the recognition or valuation of assets or liabilities over the reporting period. There is no other material information on valuation for Solvency II purposes.

E. CAPITAL MANAGEMENT

E.1 OWN FUNDS

a. Objectives, policies and processes of managing own funds

The Company prepares a capital plan and updates its run-off plan on an annual basis. The business planning process takes into account both regulatory and economic capital requirements.

The Company has a low tolerance for liquidity risk and manages to that level of risk by maintaining a liquid high quality investment portfolio with a duration that is shorter than the duration of its insurance liabilities. The Company sets a target using a benchmark for duration of its investment maturity to be 4.5 years and the guideline for the duration of its investment maturity to be between 3.5 to 5.5 years as of 31 December 2016. The Company also performs liquidity stress testing at least annually. Given the Company's low tolerance for liquidity risk and the contingent and generally long-tail nature of its insurance exposures, the Company is willing to assume a modest amount of market risk as part of its strategy of minimising liquidity risk. Specific investment guidelines are provided to the Company's outside investment manager, setting forth single risk and asset category limits, duration guidelines and rating standards. The outside investment manager may not purchase securities rated lower than "A–"/"A3"/"A–", or in the case of corporate securities rated lower than "BBB"/"Baa2"/"BBB" by S&P, Moody's or Fitch, respectively. Deviation from these investment guidelines may arise on an exception basis where the Company is managing its exposure to impaired insured transactions. Investment guidelines are discussed in more detail in *Section C.2 Market Risk.*

In order to preserve capital, the Company's parent, AGC, currently provides support to the Company through the Reinsurance Agreements and the Net Worth Agreement.

Pursuant to the Reinsurance Agreements, AGC indemnifies the Company for a 90% quota share portion of such outstanding AGUK transactions and, in addition, indemnifies the Company for 100% of losses (net of the quota share reinsurance) incurred by the Company in excess of an amount equal to (a) the Company's capital resources minus (b) 110% of the greatest of the amounts as may be required by the PRA as a condition for the Company maintaining its authorisation to carry on a financial guarantee business in the U.K. Pursuant to the Company Net Worth Agreement, if the Company's capital resources fall below 110% of the minimum level of capital required by the PRA, AGC must invest additional funds in order to bring the capital resources of the Company back into compliance with the required amount.

The Reinsurance Agreements also contemplate the establishment of collateral by AGC to support AGC's reinsurance obligations to the Company. In July 2016, to satisfy the PRA's collateral requirements, AGC and the Company entered into a trust agreement pursuant to which AGC established and deposited assets into a reinsurance trust account for the benefit of the Company.

As at 31 December 2016, there were no claims due under the Reinsurance Agreements and the value of the collateral provided by AGC to the Company was in excess of the required amount.

b. Structure, amount and quality of own funds

The capital structure of the Company consists of three forms of Own Funds. These consist of Basic Own Funds which are excess of assets over liabilities for Solvency II purposes and all qualify as either Tier 1 funds or Tier 3 funds. In addition, the Company has ancillary contingent capital in the form of the Net Worth Agreement provided by its parent company, AGC. There have not been any changes to the structure and quality of own fund items over the reporting period. The amount of own funds have changed over the reporting period due to the amount of the reconciliation reserve changing based on differences in assets and liabilities.

Basic own funds consists of share equity, reconciliation reserves and deferred tax assets.

As of 31 December 2016, the share equity consisted of £8.3 million of allotted and fully paid ordinary shares which are classified as Tier 1 capital. The Company's reconciliation reserve has a value of £76.3 million is also classified as Tier 1 capital. The Company does not have any restricted Tier 1 capital. Additionally the Company has Tier 3 capital of £1.2 million in the form of deferred tax assets.

c. Eligibility of own funds to cover SCR

The value of eligible own funds to cover SCR are a combination of Tier 1 or Tier 3 funds which equated to £85.7 million as of 31 December 2016. The quantitative limits on items eligible to cover the SCR regulations do not result in any deductions from own funds.

d. Eligibility of own funds to cover MCR

The value of eligible own funds to cover MCR is solely comprised of Tier 1 funds which equated to £84.6 million as of 31 December 2016.

e. Differences between shareholders equity and own funds

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

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

		(in thousands)
Shareholder's equity under U.K. GAAP	£	103,625
Reconciliation reserve:		
Adjustments to assets (see Section D.1)		(9,403)
Adjustments to liabilities (including technical provisions) (see Section D.3)		(8,480)
Excess of assets over liabilities for Solvency II purposes	£	85,742

f. Basic own funds subject to transitional arrangements

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

g. Ancillary own funds

AGC currently provides support to the Company through (i) the Reinsurance Agreements and (ii) the Net Worth Agreement, both described previously. While the PRA has not approved taking the Reinsurance Agreements or the Net Worth Agreement into account when determining Own Funds, the agreements are important pillars of the Company's financial strength and stability.

Both the excess of loss portion of the Reinsurance Agreements and the Net Worth Agreement meet the definition of ancillary own funds pursuant to Article 89(1) of the Directive as "any other legally binding commitments received by insurance and reinsurance undertakings" which can be called upon to absorb losses. AGC's willingness to pay is demonstrated by its ongoing legal obligation and by payments that AGC made in respect of its obligations in the past. AGC's ability to pay is demonstrated by its ratings, "AA" (stable outlook) by S&P, as of 31 December 2016. No value is ascribed to these agreements under Solvency II and PRA approval would be required to do so in the future.

h. Basic own funds deductions and significant restrictions

There are no items deducted from own funds and no significant restriction affecting the availability and transferability of own funds within the Company.

E.2 SCR and MCR

a. Amounts of SCR and MCR

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

SCR and MCR Amounts

	As of 31 December,	
	2016	2015
		(Unaudited)
	(in thousands, except ratios)	
Underwriting risk (1)	£ 2,022	£ 6,279
Market risk (1)	21,213	4,032
Counterparty risk	191	7,776
Diversification benefit	(1,563)	(4,183)
Operational risk	3,730	4,171
SCR	£ 25,593	£ 18,075
SCR Ratio to eligible own funds	3.35:1	4.14:1
MCR	6,398	4,632
MCR Ratio to eligible own funds	13.22:1	15.71:1

(1) Changes in Underwriting Risk and Market Risk were caused, in part, by a methodology change to account for repurchased insured bonds.

b. Choice of internal model vs. standard formula for each component of SCR

The Company uses the Standard Formula to calculate its SCR. The contribution of each of the relevant components to the SCR is as follows:

Underwriting Risk

Underwriting risk addresses the key risks related to the Company's only business unit and only line of business: financial guarantee. Therefore, the underwriting risk component of the SCR consists solely of the calculation of non-life underwriting risk. Non-life underwriting risk is calculated net of reinsurance and is subdivided into multiple components:

Premium and reserve risk

The premium and reserve risk calculation applies a standard deviation multiple to the amount of premiums and reserves held by the Company.

Lapse risk

The Company has no lapse risk because the Company's policies are not renewable and the Company's future premiums on existing policies are generally contractually guaranteed.

Non-life catastrophe risk

The non-life catastrophe risk calculation is subdivided into two components:

- The default of the Company's two largest exposures with a 10% loss rate
- A one-year recession scenario that yields a loss of earned premium on the entire portfolio

Market Risk

Market risk is subdivided into multiple components, four of which are applicable to the Company. They are:

Interest Rate Risk

The interest rate risk calculation applies prescribed shocks, upwards and downwards, to the interest rates of all of the Company's future assets and liabilities, by currency.

Currency Risk

The Company has non-sterling assets and liabilities in USD and euros. The currency risk calculation subjects these valuations to a 25% shock up and down against pounds sterling, as prescribed by the Standard Formula.

Spread Risk

The spread risk calculation applies a capital charge to the market value of each investment multiplied by its duration.

Concentration Risk

All of the Company's investments are in rating classes 1A ("AAA"), 1B ("AA"), 2 ("A") or 5 ("B" or lower). As prescribed, the concentration risk module applies a capital charge to the total exposure to each investment that exceeds 3% (or 1.5% for "B" or lower) of the total investment portfolio.

Diversification Benefit within Market Risk

The Company receives a diversification benefit among the four components of market risk listed above since they are not all expected to occur simultaneously, even in a 1-in-200 year stress scenario, which reduces the total capital requirement associated with these components.

Counterparty Credit Risk

Counterparty credit risk consists primarily of risk to AGC, the Company's only reinsurer, whose reinsurance the Company uses to implement risk mitigation strategies. See *Section C.1 Underwriting Risk* for a description of the Company's reinsurance arrangements. Counterparty risk also includes a small amount of cash that is in accounts at highly rated banks. The Company calculates counterparty risk for its reinsurance arrangements and its bank accounts in accordance with the Standard Formula. The formula is constructed as follows:

- For the Company's reinsurer, AGC, the following two items are added to calculate the total reinsurance exposure:
    - The expected recoveries from AGC, net of future reinsurance premiums payable and ceding commissions receivable, and
    - 50% of the amount that the non-life underwriting risk component is reduced due to the reinsurance arrangement.
- The collateral posted by AGC is haircut by 15% to account for potential deterioration in market value.
- The haircut collateral amount is subtracted from the total reinsurance exposure to calculate the reinsurance exposure net of collateral.
- A 50% loss severity is applied to calculate the loss if AGC defaults.
- Separately, a 100% loss severity is applied to the small amount of cash that is held at a bank.
- A one-year default rate matrix is applied based on the ratings of the Company's reinsurer, AGC, and banks to calculate the standard deviation of potential losses for all of the counterparty exposures.
- This standard deviation is multiplied by 3 to calculate the final counterparty credit risk charge.

Diversification Benefit across BSCR Components

The Company receives a diversification benefit between the non-life underwriting risk, market risk and counterparty credit risk listed above since they are not all expected to occur simultaneously, even in a 1-in-200 year stress scenario, which reduces the total capital requirement associated with these components.

Operational Risk

Operational risk is calculated, as prescribed by Solvency II Regulations, as the greater of: 3% of non-life technical provisions and 3% of earned non-life gross premiums (with an adjustment if non-life gross premiums exceed 120% of premiums in the prior year).

c. Use of simplified calculations

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

d. Use of USPs

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

e. Disclosure of USPs and capital add-on

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

f. Impact of USPs and capital add-on

Not applicable.

g. Information on the inputs into MCR calculation

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

- Net Technical Provisions of £19.6 million (see *Section D.2 Technical Provisions* for more details)
- Net written premiums over the 12-month reporting period of £0.1 million
- The SCR of £25.6 million

The MCR floor of 25% of the SCR applies.

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

The increase in the SCR was driven by an increase in Market Risk to £21.2 million from £4.0 million.

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

The Company does 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 SCR and MCR.*

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

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

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

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

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

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

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

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

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

E.6 ANY OTHER INFORMATION

None.

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

Financial period ended 31 December 2016

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

For and on behalf of Assured Guaranty (UK) Ltd.
Director
London
On 17 May 2017

S.02.01

Balance Sheet

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	1,180
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	115,534
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	R0100	
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	R0130	112,959
Government Bonds	R0140	71,190
Corporate Bonds	R0150	25,496
Structured notes	R0160	
Collateralised securities	R0170	16,273
Collective Investments Undertakings	R0180	2,575
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	104,755
Non-life and health similar to non-life	R0280	104,755
Non-life excluding health	R0290	104,755
Health similar to non-life	R0300	
linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	5,491
Reinsurance receivables	R0370	1,974
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	1,147
Any other assets, not elsewhere shown	R0420	
Total assets	R0500	230,081

Liabilities		
Technical provisions - non-life	R0510	137,231
Technical provisions - non-life (excluding health)	R0520	137,231
TP calculated as a whole	R0530	
Best estimate	R0540	124,350
Risk margin	R0550	12,881
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	4,869
Payables (trade, not insurance)	R0840	2,081
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	159
Total liabilities	R0900	144,339

Excess of assets over liabilities	R1000	85,742

S.05.01

Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)	Total
		Credit and suretyship insurance	
		C0090	C0200
Premiums written			
Gross - Direct Business	R0110	1,529	1,529
Gross - Proportional reinsurance accepted	R0120		0
Gross - Non-proportional reinsurance accepted	R0130		0
Reinsurers' share	R0140	1,432	1,432
Net	R0200	97	97
Premiums earned			
Gross - Direct Business	R0210	1,677	1,677
Gross - Proportional reinsurance accepted	R0220		0
Gross - Non-proportional reinsurance accepted	R0230		0
Reinsurers' share	R0240	1,566	1,566
Net	R0300	112	112
Claims incurred			
Gross - Direct Business	R0310	-4,102	-4,102
Gross - Proportional reinsurance accepted	R0320		0
Gross - Non-proportional reinsurance accepted	R0330		0
Reinsurers' share	R0340	-3,692	-3,692
Net	R0400	-410	-410
Changes in other technical provisions			
Gross - Direct Business	R0410	203	203
Gross - Proportional reinsurance accepted	R0420		0
Gross - Non-proportional reinsurance accepted	R0430		0
Reinsurers' share	R0440	183	183
Net	R0500	20	20
Expenses incurred	R0550	3,834	3,834
Other expenses	R1200		
Total expenses	R1300		3,834

S.05.02

Premiums, claims and expenses by country

		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations	Total Top 5 and home country
	R0010	C0080	US C0090	
Premium written				
Gross - Direct Business	R0110	476	1,053	1,529
Gross - Proportional reinsurance accepted	R0120			-
Gross - Non-proportional reinsurance accepted	R0130			-
Reinsurers' share	R0140	484	948	1,432
Net	R0200	-8	105	97
Premium earned				
Gross - Direct Business	R0210	623	1,054	1,677
Gross - Proportional reinsurance accepted	R0220			-
Gross - Non-proportional reinsurance accepted	R0230			-
Reinsurers' share	R0240	617	949	1,566
Net	R0300	6	105	112
Claims incurred				
Gross - Direct Business	R0310		-4,102	-4,102
Gross - Proportional reinsurance accepted	R0320			-
Gross - Non-proportional reinsurance accepted	R0330			-
Reinsurers' share	R0340		-3,692	-3,692
Net	R0400		-410	-410
Changes in other technical provisions				
Gross - Direct Business	R0410	203		203
Gross - Proportional reinsurance accepted	R0420			-
Gross - Non-proportional reinsurance accepted	R0430			-
Reinsurers' share	R0440	183		183
Net	R0500	20		20
Expenses incurred	R0550	2,323	1,511	3,834
Other expenses	R1200			
Total expenses	R1300			3,834

S.17.01

Non - life Technical Provisions

		Direct business and accepted proportional reinsurance Credit and suretyship insurance	Total Non-Life obligations
		C0100	C0180
Technical provisions calculated as a whole	R0010		0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050		0
Technical Provisions calculated as a sum of BE and RM			
Best estimate			
Premium provisions			
Gross - Total	R0060	-2,415	-2,415
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	-1,246	-1,246
Net Best Estimate of Premium Provisions	R0150	-1,169	-1,169
Claims provisions			
Gross - Total	R0160	126,765	126,765
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	106,001	106,001
Net Best Estimate of Claims Provisions	R0250	20,765	20,765
Total Best estimate - gross	R0260	124,350	124,350
Total Best estimate - net	R0270	19,596	19,596
Risk margin	R0280	12,881	12,881
Amount of the transitional on Technical Provisions			
TP as a whole	R0290		0
Best estimate	R0300		0
Risk margin	R0310		0
Technical provisions - total			
Technical provisions - total	R0320	137,231	137,231
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	104,755	104,755
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	R0340	32,476	32,476

S.19.01

Non-life Insurance Claims Information

Gross Claims Paid (non-cumulative)

		Development year (absolute amount)												
		0	1	2	3	4	5	6	7	8	9	10 & +	In Current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
Prior	R0100													
2007	R0160			2,638	1,913	1,705	2,201	1,768	1,549	1,753	4,077		4,077	17,604
2008	R0170	513	-513			3,592				-642			-642	2,950
2009	R0180													
2010	R0190													
2011	R0200													
2012	R0210													
2013	R0220													
2014	R0230													
2015	R0240													
2016	R0250													
Total	R0260												3,435	20,554

Gross undiscounted Best Estimate Claims Provisions

		Development year (absolute amount)											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
Prior	R0100												
2007	R0160												
2008	R0170												
2009	R0180												
2010	R0190												
2011	R0200												
2012	R0210												
2013	R0220												
2014	R0230												
2015	R0240												
2016	R0250	207,481											207,481
Total	R0260												207,481

S.23.01
Own funds

		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	8,300	8,300			
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	76,261	76,261			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160	1,180				1,180
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	85,742	84,561			1,180
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	85,742	84,561			1,180
Total available own funds to meet the MCR	R0510	84,561	84,561			
Total eligible own funds to meet the SCR	R0540	85,742	84,561			1,180
Total eligible own funds to meet the MCR	R0550	84,561	84,561			
SCR	R0580	25,593				
MCR	R0600	6,398				
Ratio of Eligible own funds to SCR	R0620	335.02%				
Ratio of Eligible own funds to MCR	R0640	1321.63%				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	85,742
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	9,480
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	76,261
Expected profits		
Expected profits included in future premiums (EPIFP) - Life Business	R0770	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	9,799
Total Expected profits included in future premiums (EPIFP)	R0790	9,799

S.25.01

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
Market risk	R0010	21,213		
Counterparty default risk	R0020	191		
Life underwriting risk	R0030			
Health underwriting risk	R0040			
Non-life underwriting risk	R0050	2,022		
Diversification	R0060	-1,563		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	R0100	21,862		

Calculation of Solvency Capital Requirement

		C0100
Operational risk	R0130	3,731
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	25,593
Capital add-on already set	R0210	
Solvency capital requirement	R0220	25,593
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	

S.28.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

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
Medical expense insurance and proportional reinsurance	R0020		
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050		
Other motor insurance and proportional reinsurance	R0060		
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080		
General liability insurance and proportional reinsurance	R0090		
Credit and suretyship insurance and proportional reinsurance	R0100	19,596	107
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

Linear formula component for life insurance and reinsurance obligations

MCR calculation Life		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	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	3,481	
MCRL Result	R0200		

Overall MCR calculation		C0070
Linear MCR	R0300	3,481
SCR	R0310	25,593
MCR cap	R0320	11,517
MCR floor	R0330	6,398
Combined MCR	R0340	6,398
Absolute floor of the MCR	R0350	3,332
		C0070
Minimum Capital Requirement	R0400	6,398