

**Assured Guaranty Re Overseas Ltd.**

**(an indirect, wholly-owned subsidiary of Assured Guaranty Re Ltd.)**

**2022 Financial Condition Report**

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## Definitions

Term	Definition
AGC	Assured Guaranty Corp.
AGL	Assured Guaranty Ltd.
AGM	Assured Guaranty Municipal Corp.
AGOUS	Assured Guaranty Overseas US Holdings Inc.
AG Re	Assured Guaranty Re Ltd.
AGRO	Assured Guaranty Re Overseas Ltd.
AG Services	AG US Group Services Inc.
ASC	Accounting Standards Codification
Assured Affiliated Group	The Company and its direct parent, AGOUS
Assured Guaranty or the Group	AGL together with its subsidiaries
Best Estimate Technical Provisions	Gross best estimate portion of the technical provisions value
BIG	Below-investment-grade
BMA or the Authority	Bermuda Monetary Authority
the Board	Board of Directors
BSCR	Bermuda Solvency Capital Requirement
CISSA	Commercial Insurers' Solvency Self-Assessment
CMBS	Commercial mortgage-backed securities
Code of Conduct	Insurance Code of Conduct issued by the Bermuda Monetary Authority
Companies Act	Bermuda Companies Act 1981, as amended
The Company	AGRO and its subsidiary
debt service	principal and interest
ECM	Economic capital model
ECR	Enhanced capital requirement
Expense Load	Present value of projected future operating expenses
Fitch	Fitch Ratings Inc.
Future premiums	Insurance premiums that are due to be received after the balance sheet date
GPO	Gross par outstanding
the Group Service Agreement	Third Amended and Restated Service Agreement, effective as January 1, 2020 (as may be amended from time to time)
IG	Investment Grade
Insurance Act	Bermuda Insurance Act 1978, as amended, and related rules and regulations
IT	Information Technology
KRIs	Key risk indicators
Moody's	Moody's Investors Service Inc.
MSM	Minimum Margin of Solvency
NPO	Net par outstanding
Public finance transactions	Public infrastructure, regulated utilities, international public finance and sovereigns
PVP	Present Value of New Business Production
Rating Agencies	S&P, Moody's or Fitch
RMBS	Residential Mortgage-Backed Securities
RVI	Residual Value Insurance

**Definitions  
(continued)**

S&P	S&P Global Ratings, a division of Standard & Poor's Financial Services LLC
Solvency Regulations	BMA's Insurance (Prudential Standards) (Class 3A and Class C Solvency Requirement) Rules
Standard Formula	Standard formula to calculate the Bermuda Solvency Capital Requirement provided by the BMA
Structured finance transactions	RMBS and pooled corporate obligations
U.S.	United States of America
U.S. GAAP	Accounting Principles Generally Accepted in the United States of America
USD	U.S. Dollars

## **INTRODUCTION**

### **Business Overview**

AGRO is a direct, wholly owned subsidiary of AGOUS, a Delaware corporation, which is a direct, wholly owned subsidiary of AG Re, a Bermuda domiciled company. AG Re is a direct, wholly owned subsidiary of AGL, also a Bermuda domiciled company. AGL provides, through its operating subsidiaries, credit protection products to the U.S. and non-U.S. public finance (including infrastructure) and structured finance markets, as well as asset management services.

AGRO was incorporated with limited liability under the Companies Act and is licensed as a Class 3A Insurer and a Class C Long-Term Insurer under the Insurance Act. AGRO owns AG Intermediary Inc., a New York company. AGRO maintains certified reinsurer status by the Missouri Department of Insurance.

AGRO guarantees specialty business on various lines of structured finance business that have similar risk profiles to those of the structured finance financial guaranty transactions insured by its affiliates, as well as providing reinsurance on public finance financial guaranty transactions. AGRO currently provides insurance and reinsurance for life insurance transactions, commercial real estate transactions, aircraft RVI transactions and UK public utility transactions. Life insurance transactions provide U.S. life insurers and reinsurers capital relief from the excess statutory reserves they are required to hold by U.S. state regulators over what the respective life insurers and reinsurers believe are necessary. Commercial real estate transactions involve guaranteeing a minimum annual rental income stream on a portfolio of commercial real estate properties significantly below current or expected future rental income. RVI policies guarantee that a specific, properly maintained asset will have a specified value at a specified future date.

AGRO has a portfolio of financial guaranty reinsurance under quota share treaties. Financial guaranty insurance policies provide an unconditional and irrevocable guaranty that protects the holder of a financial obligation against non-payment of scheduled principal and interest (debt service) when due. Upon an obligor's default on scheduled principal or interest payments due on the obligation, the primary insurer is required under the financial guaranty policy to pay the principal or interest shortfall. Under a reinsurance agreement, the reinsurer, in consideration of a premium paid to it, agrees to indemnify another insurer, called the ceding company, for part or all of the liability of the ceding company under one or more insurance policies that the ceding company has issued. While AGRO has not provided new financial guaranty reinsurance in the recent past, it may do so again in the future.

The financial information in this report is presented on a consolidated basis.

## **i. BUSINESS AND PERFORMANCE**

### **a. Name of Insurer**

AGRO was incorporated in 1994 under the Companies Act as a Bermuda exempted company limited by shares. AGRO is licensed as a Class 3A Insurer and a Class C Long-Term Insurer under the Insurance Act.

The registered office of the Company is:  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### **b. Supervisors**

The Company's insurance supervisor at the Bermuda Monetary Authority is:

Edyta Janiszek  
Assistant Director, Insurance  
Bermuda Monetary Authority  
BMA House  
43 Victoria Street  
Hamilton  
Bermuda  
Phone: 441-295-5278  
Email: [ejaniszek@bma.bm](mailto:ejaniszek@bma.bm)

The Company's group insurance supervisor is:

The New York State Department of Financial Services  
1 State Street  
New York, New York 10004  
United States of America  
Attention: Margot Small, Supervising Risk Management Specialist  
Phone: 212-709-1625  
Email: [margot.small@dfs.ny.gov](mailto:margot.small@dfs.ny.gov)

### **c. Approved Auditor**

The Company's approved auditor is:

Statutory Reporting  
PricewaterhouseCoopers Ltd.  
P. O. Box HM 1171  
Hamilton HM EX,  
Bermuda

GAAP Reporting  
PricewaterhouseCoopers LLP  
300 Madison Avenue  
New York, New York 10017  
United States of America

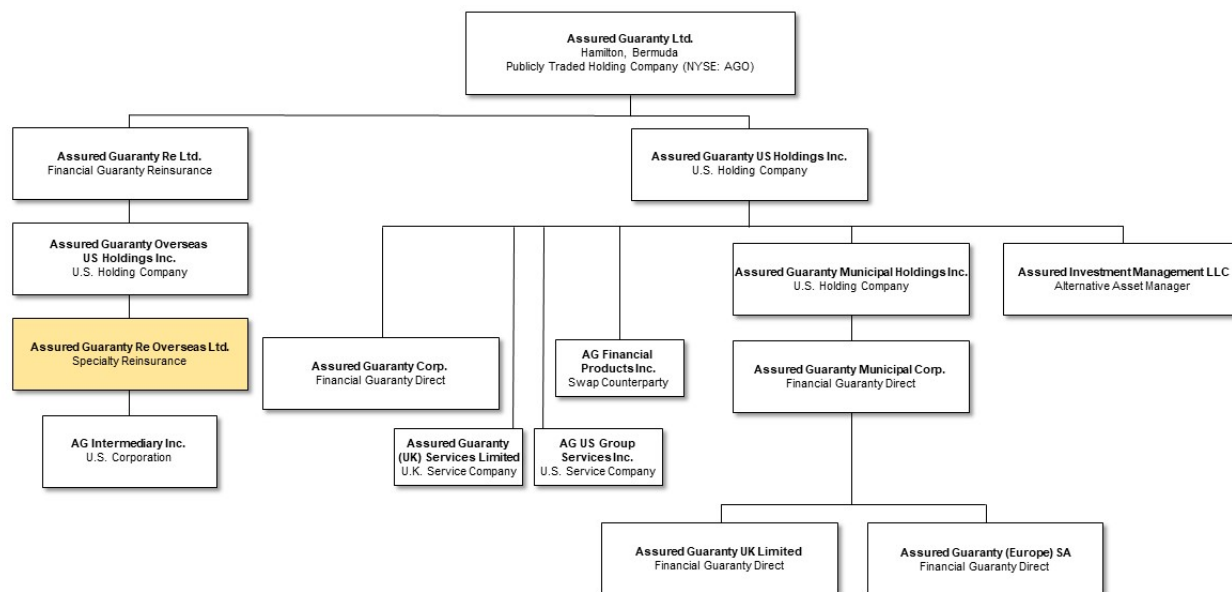
#### d. Ownership Details

AGRO is a direct, wholly-owned subsidiary of AGOUS, a Delaware corporation, which is, in turn, a direct, wholly-owned subsidiary of AG Re. AG Re was incorporated in 1996 under the Companies Act as a Bermuda exempted company limited by shares and is licensed as a Class 3B Insurer under the Insurance Act.

AG Re is a direct, wholly-owned subsidiary of AGL, a Bermuda-based holding company, which was organized in 2003. AGL's common shares are publicly traded on the New York Stock Exchange and are registered with the U.S. Securities and Exchange Commission.

#### e. Group Structure

The abbreviated organizational chart below shows the position of the Company within the Group as of December 31, 2022.



#### f. Insurance Business Written by Business Segment and by Geographical Region

##### Exposure

The Company's outstanding exposure is primarily to assumed reinsurance. Approximately 75% and 92% of its gross outstanding exposure was assumed exposure as of December 31, 2022 and December 31, 2021, respectively, with the remainder written on a direct basis. The Company's assumed reinsurance exposure is to both specialty business (e.g., life insurance transactions and RVI) and financial guaranty transactions (almost exclusively public finance). The Company's specialty business not executed in financial guaranty form have risk profiles similar to those of its structured finance exposures written in financial guaranty form.

##### *Life Insurance Transactions*

Life insurance transactions assumed by the Company provide U.S. life insurers and reinsurers capital relief from the excess statutory reserves they are required to hold by U.S. state regulators over what the respective life insurers and reinsurers believe are necessary for level premium term life insurance policies. The Company underwrites life insurance transactions by evaluating the amount and type of assets supporting the excess statutory reserves for a pool of life insurance policies. The Company would be required to pay reinsurance claims if mortality rates in the insured pool significantly exceeded currently

expected mortality rates and if the assets supporting the excess statutory reserves to cover such an increase in mortality rates were exhausted.

The Company has executed life insurance transactions in both specialty insurance and reinsurance form and financial guaranty form (such transactions executed in financial guaranty form are included in the structured finance financial guaranty insurance exposure totals in this note).

### ***RVI***

RVI policies guarantee that a specific, properly maintained asset will have a specified value at a specified future date, or strike date. The Company seeks to limit its exposure to losses by underwriting aviation assets that it views as IG at inception, diversifying its insured portfolio across aircraft types and policy strike dates. This approach is designed to reduce the Company's exposure to the severe devaluation of a specific aircraft type or a temporary disruption in the overall aviation market. The RVI policy amount is set at or below a stressed forecasted value for the asset, so that the asset value would need to be below the stressed forecasted amount on the strike date for payment to be due under the RVI policy, with the loss under the RVI policy being the difference between the RVI amount and the amount recovered on the asset. Payment under the policy is contingent upon several factors, including, but not limited to, the asset being delivered to an agreed upon location in a satisfactory condition and without any liens, with deductions being made for any required repairs or improvements. The Company may choose to obtain additional reinsurance for its aircraft RVI reinsurance portfolio in the future in order to manage the size of the total portfolio and the exposure to specific aircraft types. The Company's RVI transactions were executed in specialty insurance and reinsurance form.

### ***Other Guaranties***

The Company also guarantees other specialty business, including guaranteeing the receipt of minimum rental income on portfolios of commercial and real estate properties that is significantly below current annual rental income. The Company accounts for the guarantee in accordance with ASC 460, *Guarantees*.

### ***Financial Guaranty***

The Company seeks to limit its exposure to losses by underwriting obligations that it views to be IG at inception, although on occasion it may underwrite new issuances that it views to be BIG, typically as part of its loss mitigation strategy for existing troubled exposures. The Company may also assume portfolios of insurance written by financial guarantors that are no longer writing new business; in such instances, it evaluates the risk characteristics of the target portfolio, which may include some BIG exposures, as a whole in the context of the proposed transaction. The Company diversifies its insured portfolio across sector and geography and, in the structured finance portfolio, generally requiring subordination or collateral to protect it from loss. Reinsurance may be used in order to reduce net exposure to certain insured transactions. While the Company has not provided new financial guaranty reinsurance in the recent past, it may do so again in the future.

Public finance obligations covered by financial guaranty insurance assumed by the Company primarily consist of general obligation bonds supported by the taxing powers of U.S. state or municipal governmental authorities, as well as tax-supported bonds, revenue bonds and other obligations supported by covenants from state or municipal governmental authorities or other municipal obligors to impose and collect fees and charges for public services or specific infrastructure projects. The Company also includes within public finance obligations those obligations backed by the cash flow from leases or other revenues from projects serving substantial public purposes, including utilities, toll roads, healthcare facilities and government office buildings.

Structured finance obligations covered by financial guaranty insurance assumed by the Company are generally issued by special purpose entities and backed by pools of assets having an ascertainable cash flow or market value or other specialized financial obligations.



## Gross and Net Exposure

	As of December 31, 2022			As of December 31, 2021		
	Gross Exposure (1)	Ceded to Non-Affiliated Reinsurers	Net Exposure (1)	Gross Exposure (1)	Ceded to Non-Affiliated Reinsurers	Net Exposure (1)
	(in thousands)					
Life insurance transactions (2)	\$ 1,313,795	\$ 327,591	\$ 986,204	\$ 1,249,979	\$ 379,503	\$ 870,476
RVI	355,101	155,053	200,048	355,101	155,053	200,048
Other guaranties	228,302	—	228,302	—	—	—
Financial guaranty U.S. public finance	71,855	—	71,855	121,443	—	121,443
Financial guaranty non-U.S. public finance	167,730	—	167,730	—	—	—
Total	\$ 2,136,783	\$ 482,644	\$ 1,654,139	\$ 1,726,523	\$ 534,556	\$ 1,191,967
IG (3)	\$ 1,992,927	\$ 422,644	\$ 1,570,283	\$ 1,582,667	\$ 474,556	\$ 1,108,111
BIG (3)	\$ 143,856	\$ 60,000	\$ 83,856	\$ 143,856	\$ 60,000	\$ 83,856

(1) The amounts for financial guaranty insurance represent par outstanding.

(2) The life insurance transactions' exposure is projected to reach \$1.4 billion gross exposure by the end of 2023 and \$1.1 billion net exposure in 2024.

(3) Ratings on the Company's insured portfolio reflect its internal ratings.

### PVP (New Business)

PVP, the Company's key metric for new business production, is defined as gross upfront and installment premiums received and the present value of gross estimated future installment premiums and fees, on contracts written in the current year, discounted at the approximate average pre-tax book yield of fixed-maturity securities purchased during the prior calendar year. The Company believes PVP is a useful measure for management and other users of the financial statements because it enables the evaluation of the value of new business production by the Company by taking into account the value of estimated future installment premiums on all new contracts underwritten in a reporting period.

### New Business Written

Sector	Year Ended December 31,					
	2022			2021		
	Gross Exposure Written (1)	PVP	Number of Transactions	Gross Exposure Written	PVP	Number of Transactions
	(in thousands, except number of transactions)					
Financial guaranty	\$ 193,881	\$ 2,259	1	\$ —	\$ —	—
Other guaranties	257,094	6,023	1	—	—	—
Total	\$ 450,975	\$ 8,282	2	\$ —	\$ —	—

(1) Represents gross par written for financial guaranty insurance and gross exposure written for an excess-of-loss guaranty of a minimum amount of billed rent on a diversified portfolio of real estate properties.

## g. Performance of Investments & Material Income & Expenses for the Reporting Period

The table below presents the results of operations of the Company on a consolidated basis.

### Consolidated Statements of Operations

	Year Ended December 31,	
	2022	2021
	(in thousands)	
<b>Revenues</b>		
Net earned premiums	\$ 3,916	\$ 4,114
Net investment income	14,111	12,618
Net realized investment gains (losses)	(720)	638
Other income (loss)	(155)	(67)
<b>Total revenues</b>	<b>17,152</b>	<b>17,303</b>
<b>Expenses</b>		
Loss and loss adjustment expenses (benefit)	(793)	3,711
Amortization of deferred acquisition costs	343	391
Other operating expenses	6,361	6,029
<b>Total expenses</b>	<b>5,911</b>	<b>10,131</b>
<b>Income before income taxes</b>	<b>11,241</b>	<b>7,172</b>
Provision for income taxes	1,783	1,226
<b>Net income</b>	<b>\$ 9,458</b>	<b>\$ 5,946</b>

### Material Income and Expenses

The Company's main sources of income relate to investment income and earned premiums on its outstanding book of business.

### Investments

The portfolio consists of fixed-maturity securities and short-term investments. The weighted-average duration of the investment portfolio as of December 31, 2022 was 4.8 years, compared with the weighted-average duration as of December 31, 2021 of 5.3 years. The following tables present the investment portfolio by asset class and contractual maturity.

**Investment Portfolio  
by Asset Class**

Asset Class	As of December 31, 2022		As of December 31, 2021	
	Estimated Fair Value	Weighted Average Credit Rating(1)	Estimated Fair Value	Weighted Average Credit Rating(1)
	(in thousands)			
Fixed-maturity securities:				
Corporate securities	\$ 155,651	A-	\$ 159,720	A-
Obligations of state and political subdivisions	134,944	AA	169,542	AA
Asset-backed securities	32,531	AAA	26,662	AAA
CMBS	24,902	AAA	25,792	AAA
RMBS	17,339	AA-	25,816	AA-
U.S. government and agencies	5,974	AA+	6,518	AA+
Non-U.S. government securities	—	—	589	AA-
Total fixed-maturity securities	371,341	A+	414,639	A+
Short-term investments	2,411	AAA	9,826	AAA
Total investment portfolio	\$ 373,752	A+	\$ 424,465	AA-

(1) Ratings in the table 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-Maturity Securities  
by Contractual Maturity  
As of December 31, 2022**

	Estimated Fair Value
	(in thousands)
Due within one year	\$ 7,219
Year two	20,163
Year three	22,125
Year four	27,115
Year five	18,971
Due after five years through 10 years	124,272
Due after 10 years	109,235
RMBS	17,339
CMBS	24,902
Total	\$ 371,341

## Investment Return

	Year Ended December 31,	
	2022	2021
	(in thousands)	
Investment income:		
Fixed-maturity securities:		
Corporate securities	\$ 5,510	\$ 4,812
Obligations of state and political subdivisions	5,036	4,557
Asset-backed securities	878	377
CMBS	893	834
RMBS	777	971
U.S. government and agencies	336	396
Non-U.S. government securities	4	20
Total fixed-maturity securities	13,434	11,967
Short-term investments	63	2
Interest income from loan receivable from affiliate	917	935
Gross investment income	14,414	12,904
Investment expenses and charges	(303)	(286)
Net investment income	14,111	12,618
Net realized investment gains (losses)	(720)	638
Total investment return	\$ 13,391	\$ 13,256

### Net Earned Premiums

Net earned premiums decreased in 2022 compared with 2021 primarily due to the decrease in financial guaranty insurance. The breakdown of this was as follows:

### Net Earned Premiums

	Year Ended December 31,	
	2022	2021
	(in thousands)	
Specialty insurance:		
Life insurance transactions	\$ 2,297	\$ 2,136
RVI	1,508	1,133
Financial guaranty insurance:		
Scheduled net earned premiums	109	717
Accelerations from refundings	2	—
Accretion of discount on net premiums receivable	—	128
Financial guaranty insurance	111	845
Net earned premiums	\$ 3,916	\$ 4,114

### Expenses

The majority of the Company's expenses relate to operating expenses which totaled \$6 million in both 2022 and 2021.

The loss and loss adjustment expenses (benefit) were \$(1) million in 2022 compared to \$4 million in 2021 due primarily to lower expected losses for certain aircraft RVI exposures and changes in discount rates.

## **h. Any Other Material Information**

### **Guaranty**

AG Re unconditionally and irrevocably guarantees the due, complete and punctual payment of all obligations and liabilities of AGRO (the “Guaranteed Obligations”). The holders of the Guaranteed Obligations are made third-party beneficiaries and may directly claim upon and enforce the obligations of AG Re under such guaranty as provided therein. AGRO has not made any demand to AG Re under this guaranty.

## ii. GOVERNANCE STRUCTURE

### a. Board and Senior Executive

#### i. Board and Senior Executive Structure, role, responsibilities and segregation of responsibilities.

AGRO's affairs are managed by its Board and officers in Bermuda in accordance with the Code of Conduct. The Code of Conduct requires Bermuda insurers to have good corporate governance and risk management procedures in place and to be able to evidence the same, based generally on a principle of proportionality. AGRO's Board has the ultimate responsibility for the sound and prudent management of the company. The Board is responsible for ensuring that AGRO's business (along with its corporate governance policies and practices) is effectively directed, managed and conducted in a sound and prudent manner, with integrity, due care and the professional skills that are relative to the nature, scale and complexity of its business.

The Board is responsible for setting appropriate strategies and policies, and for providing suitable prudential oversight of AGRO's risk management and internal controls framework. In carrying out their duties, AGRO's directors will act in accordance with all relevant and applicable legislative and regulatory rules, including the Insurance Act and the Companies Act, in particular, as well as with AGRO's constitutional framework (e.g., its bye-laws).

The Board generally convenes quarterly at AGRO's offices in Bermuda and on an *ad hoc* basis as required.

The members of the Board are comprised of members of senior management of AGRO or of its ultimate parent, AGL, or other qualified individuals, in each case, who have been selected by AG Re.

The directors and officers of, and other appointed persons providing services to, AGRO are detailed below:

#### Directors

Robert Bailenson  
Gary Burnet  
Ling Chow (Deputy Chair)  
Stephen Donnarumma  
Dominic Frederico (Non-executive Chair)  
Jorge A. Gana  
Holly Horn  
Darrin Futter

#### Officers

Conyers Corporate Services (Bermuda) Limited	Secretary
Robert Bailenson	Managing Director, Chief Financial Officer
Gary Burnet	President
Darrin Futter	Vice President and Financial Controller
Ling Chow	General Counsel and Assistant Secretary
Brendan O'Brien	Assistant Vice President, Underwriting
Serena Smith	Vice President, Surveillance

#### Loss Reserve Specialist

Benjamin Rosenblum

#### Principal Representative

Gary Burnet

#### Chief Information Security Officer

Sherman Tsui

## **ii. Remuneration Policy**

The description of the remuneration policy contained herein applies to employees of AGRO's affiliates, which serve as the employers of the Group's Bermuda and U.S. employees, including those who serve as directors of the Board and as the Principal Representative and Loss Reserve Specialist of AGRO. Officers of AGRO who are not employees of affiliates within the Group are entitled to receive a fixed fee.

AGRO's affairs are managed by its Board and officers in Bermuda. The Company also contracts with affiliates to provide certain administrative support services. Group employees providing such services to the Company 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 build long-term shareholder value in a manner consistent with AGL's risk parameters. AGL'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 as well as measures of shareholder value, and discourages excessive risk taking or undue leverage by avoiding too much emphasis on any one metric or on short-term results.

AGL's remuneration policy rewards the performance of its senior leadership team, who are directly responsible for operational results, with a higher proportion of variable and performance-based compensation than it rewards lower-level executives. The policy employs a mix of variable at-risk compensation with different time horizons and payout forms to provide an incentive for both annual and long-term sustained performance, in order to maximize shareholder value in a manner consistent with AGL's risk parameters. Most of the remuneration of the Company's directors and most senior personnel consists of variable incentive compensation, in the form of an annual cash incentive as well as long-term equity compensation.

In developing its remuneration philosophy, AGL worked to identify 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 believes 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 Chief Executive Officer of AGL and those individuals with a title of managing director or above who report directly to him may be rescinded or recouped if such person engages in misconduct, there is a material restatement of AGL's financial statements or such remuneration is calculated based on objectively quantifiable performance goals, and the achievement of those goals is later determined to have been overstated.

## **iii. Pension or Early Retirement Schemes for Members, Board and Senior Employees**

The Company participates in defined contribution retirement plans maintained by AGL, which are available to eligible full-time employees upon hire. Bermuda national employees are required to contribute 5% of their eligible compensation into the Bermuda Retirement Plan which are matched by the Company at a rate of 100%. Bermuda national employees may also contribute an additional 1% of their eligible compensation into the International Retirement Plan which are matched by the Company at a rate of 100%. International employees based in Bermuda may contribute up to 6% of their eligible compensation into the International Retirement Plan which are matched by the Company at a rate of 100%. The Company also makes a core contribution of 6% of the employee's eligible compensation to the International Retirement Plan, regardless of whether the employee otherwise contributes to the plan. Employees become fully vested in Company contributions after one year of service,

as defined in the plans. The Company recognized defined contribution expenses of \$0.4 million for both years ended December 31, 2022 and 2021.

The Company's U.S. affiliate, AG Services, also maintains defined contribution retirement plans. Employees of AG Services who serve as directors of, or other appointed persons providing services to, the Company are entitled to participate in AG Services' retirement plans. AG Services maintains a savings incentive plan, which is qualified under Section 401(a) of the Internal Revenue Code for U.S. employees. The savings incentive plan is available to eligible full-time employees upon hire. Eligible participants could contribute a percentage of their eligible compensation subject to U.S. Internal Revenue Service (IRS) limitations. AG Services' matching contribution is an amount equal to 100% of each participant's contributions up to 7% of such participant's eligible compensation, subject to IRS limitations. Certain eligible participants may also contribute a percentage of eligible compensation over the IRS limitations to a nonqualified supplemental executive retirement plan. AG Services' matching contribution in the nonqualified plan is an amount equal to 100% of each participant's contributions up to 6% of participant's eligible compensation above the IRS limitations for the qualified plan. AG Services also makes core contributions of 7% of the participant's eligible compensation to the qualified plan, subject to IRS limitations, regardless of whether the employee otherwise contributes to the plan, and a core contribution of 6% of the participant's eligible compensation above the IRS limitations for the qualified plan to the nonqualified plan for eligible employees. Employees become fully vested in AG Services contributions to the qualified and nonqualified plans after one year of service, as defined in the plan (or upon reaching age 65 for the nonqualified plan, if earlier).

The Company does not provide any supplementary pension or retirement schemes for non-executive members of the Board or non-Group employees who serve as Company officers or other representatives.

#### **iv. Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executive Material Transactions**

As noted above, AG Re unconditionally and irrevocably guarantees the Guaranteed Obligations of AGRO. The holders of the Guaranteed Obligations are made third-party beneficiaries and may directly claim upon and enforce the obligations of AG Re under such guaranty as provided therein. AGRO has not made any demand to AG Re under this guaranty.

The Company and the Assured Affiliated Group have entered into an Agreement Concerning the Filing of Consolidated Federal Income Tax Returns, dated as of August 1, 2000, as amended by the Acknowledgment thereto dated as of March 1, 2013 (such agreement, as now or hereafter amended, supplemented or otherwise modified from time to time, the Tax Agreement) pursuant to which each party thereto agrees to (i) be included in a consolidated U.S. federal income tax return for the taxable year 2000 and succeeding tax years during which such party remains a member of the Assured Affiliated Group and (ii) pay its proportionate share of the consolidated U.S. federal income tax burden that would have been paid if such party had filed on a separate return basis. The Company's direct parent, AGOUS, prepares and files the applicable consolidated U.S. federal income tax returns and any other returns, documents or statements required to be filed with the Internal Revenue Service with respect to the determinations of the Federal income tax liability of the Assured Affiliated Group.

The Company and various of its affiliates are parties to the Group Service Agreement. The Company's affiliate, AG Services, a Delaware corporation, acts as the payroll company and employer for U.S. personnel, and the central, dedicated service provider within the Group. Under the Group Service Agreement, AG Services' employees make available to the Company certain 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 are allocated directly where appropriate and, where not appropriate, based upon an allocation of employee time and corresponding office overhead. The agreement provides for pre-funding by affiliates who are the largest consumers of group services, intercompany allocation of expenses and 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.

#### **b. Fitness and Propriety Requirements**

##### **i. Fit and Proper Process in assessing the Board and Senior Executives**

In connection with AGRO's annual general meeting, AGRO assesses the fitness and propriety of all of its Board members, officers, Principal Representative and Loss Reserve Specialist to confirm, prior to their appointment or reappointment, that all such individuals possess appropriate qualifications and experience to perform their designated role(s) and responsibilities.



## ii. Board and Senior Executives Professional Qualifications, Skills and Expertise

AGRO ensures that all Board members and executive officers 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 judgment,
- understanding of the insurance business written by the Company, including residual value, financial guaranty and life reinsurance, as well as other relevant insurance businesses,
- honesty and integrity,
- a good reputation,
- competency and capacity to perform key functions, and
- financial soundness.

Below are details of the Board and executive officer qualifications, skills and experience:

**Dominic J. Frederico** has been a director of AGL since its 2004 initial public offering, and the President and Chief Executive Officer of AGL since December 2003. Mr. Frederico served as Vice Chairman of ACE Limited from 2003 until 2004 and served as President and Chief Operating Officer of ACE Limited and Chairman of ACE INA Holdings, Inc. from 1999 to 2003. Mr. Frederico was a director of ACE Limited from 2001 through May 2005. From 1995 to 1999 Mr. Frederico served in a number of executive positions with ACE Limited. Prior to joining ACE Limited, Mr. Frederico spent 13 years working for various subsidiaries of the American International Group. His last position at the group was Senior Vice President and Chief Financial Officer of AIG Risk Management. Mr. Frederico currently serves as a Director and Chairman of the Board of AG Re and AGRO.

**Robert A. Bailenson** has been the Chief Financial Officer of AGL since June 2011. Mr. Bailenson has been with Assured Guaranty and its predecessor companies since 1990. Mr. Bailenson became Chief Accounting Officer of AGC in 2003, of AGL in May 2005, and of AGM in July 2009, and served in such capacities until May 2019. He was Chief Financial Officer and Treasurer of AG Re from 1999 until 2003 and was previously the Assistant Controller of Capital Re Corp., the Company's predecessor. Mr. Bailenson currently serves as a Director of AG Re and AGRO, as well as Chief Financial Officer and Managing Director of AGRO.

**Ling Chow** has been General Counsel and Secretary of AGL since January 1, 2018. She is responsible for legal affairs and corporate governance at the Company, including its litigation and other legal strategies relating to distressed credits, and its corporate, compliance, regulatory and disclosure efforts. She is also responsible for the Assured Guaranty's human resources function. Ms. Chow began her tenure at the Company in 2002 as a transactional attorney, working on the insurance of structured finance and derivative transactions. She previously served as Deputy General Counsel and Assistant Secretary of AGL from May 2015 and as Assured Guaranty's U.S. General Counsel from June 2016. Prior to that, Ms. Chow served as Deputy General Counsel of Assured Guaranty's U.S. subsidiaries in several capacities from 2004. Before joining Assured Guaranty, Ms. Chow was an associate at various law firms, most recently Brobeck, Phleger & Harrison LLP, where she was a senior associate responsible for transactional work associated with public and private mergers and acquisitions, venture capital investments, and private and public securities offerings. Ms. Chow currently serves as a Director and Deputy Chairman of the Board of AG Re and AGRO, and also serves as the General Counsel and Assistant Secretary of AGRO.

**Gary Burnet** has been President of AG Re and AGRO since August 2012, and prior to that he served as the Managing Director - Chief Credit Officer of AG Re from 2006 until his appointment as President. Mr. Burnet also served as the Vice President - Risk Management and Operations of AG Re from 2002 to 2005. Prior to joining Assured Guaranty, Mr. Burnet's previous experience included two years at ACE Asset Management, where he was Investment Officer with responsibility for developing and modeling the ACE group's consolidated investment and insurance credit risk. Prior to ACE Asset Management, he was an Assistant Vice President-Investments at ACE Bermuda. Mr. Burnet trained as a Chartered Accountant with Geoghegan & Co. CA from 1993 to 1996 in Edinburgh, Scotland and also worked as an audit senior for Coopers & Lybrand from 1996 to 1998 in Bermuda. Mr. Burnet currently serves on the Board of Directors and as President as well as the Principal Representative of AG Re and AGRO.

**Jorge A. Gana** has been Chief Risk Officer of AGL and Chair of the U.S. Risk Management and Portfolio Risk Management Committees since January 1, 2023. Mr. Gana also maintains primary responsibility for the environmental aspect of Assured Guaranty's ESG efforts. Prior to that, Mr. Gana served as Deputy Chief Risk Officer of AGM and AGC. Mr. Gana joined Assured Guaranty in 2005 as a Director in structured finance. Over the years, Mr. Gana has held a number of positions at

Assured Guaranty, including Managing Director, Structured Finance at AGC, Senior Managing Director of Workouts and Government & Corporate Affairs at AGM and AGC, and chair of AGM's and AGC's Workout Committees. Mr. Gana continues to serve as a voting member of AGM's and AGC's Credit and Workout Committees. Prior to joining Assured Guaranty, Mr. Gana served as a Director of Global Commercial Asset Securitization for XLCA (now Syncora). Prior to XLCA, Mr. Gana worked at Natexis Banques Populaires (now Natixis) and at Banco Santander in global capacities dealing with credit and risk, managing investment portfolios, originating complex transactions, and issuing repackaged debt. Mr. Gana also worked for the Chile Economic Development Agency, New York Office, and as Editor of the Chile Economic Report until 1996.

**Holly L. Horn** has been Chief Surveillance Officer of AGL, AGM and AGC since January 2022. Prior to that, Ms. Horn served as AGM's and AGC's Chief Surveillance Officer, Public Finance where she was responsible for ongoing surveillance, monitoring and loss mitigation of municipal risks insured by the Company across all sectors of the municipal market. She joined AGM in 2003 as a director in the health care underwriting group, where she was responsible for analyzing and recommending the insurability of health care credits. She also served as a director in AGM's health care surveillance group. Ms. Horn began her public finance career at Inova Health System, a nationally ranked integrated health care delivery system, and subsequently served as a senior manager for the national health care strategy practice at Ernst & Young.

**Stephen Donnarumma** was appointed as a director of AG Re on September 11, 2012. Mr. Donnarumma has been the Chief Credit Officer of AGC since 2007, of AGM since its 2009 acquisition, and of Municipal Assurance Corp. since its 2012 capitalization. Mr. Donnarumma has been with Assured Guaranty since 1993. Over the years, Mr. Donnarumma has held a number of positions at Assured Guaranty, including Deputy Chief Credit Officer of AGL, Chief Operating Officer and Chief Underwriting Officer of AG Re, Chief Risk Officer of AGC, and Senior Managing Director, Head of Mortgage and Asset-backed Securities of AGC. Prior to joining Assured Guaranty, Mr. Donnarumma was with Financial Guaranty Insurance Company from 1989 until 1993, where his responsibilities included underwriting domestic and international financial guaranty transactions. Prior to that, he served as a Director of Credit Risk Analysis at Fannie Mae from 1987 until 1989. Mr. Donnarumma was also an analyst with Moody's Investors Services from 1985 until 1987. Mr. Donnarumma currently serves as a Director of AG Re and AGRO.

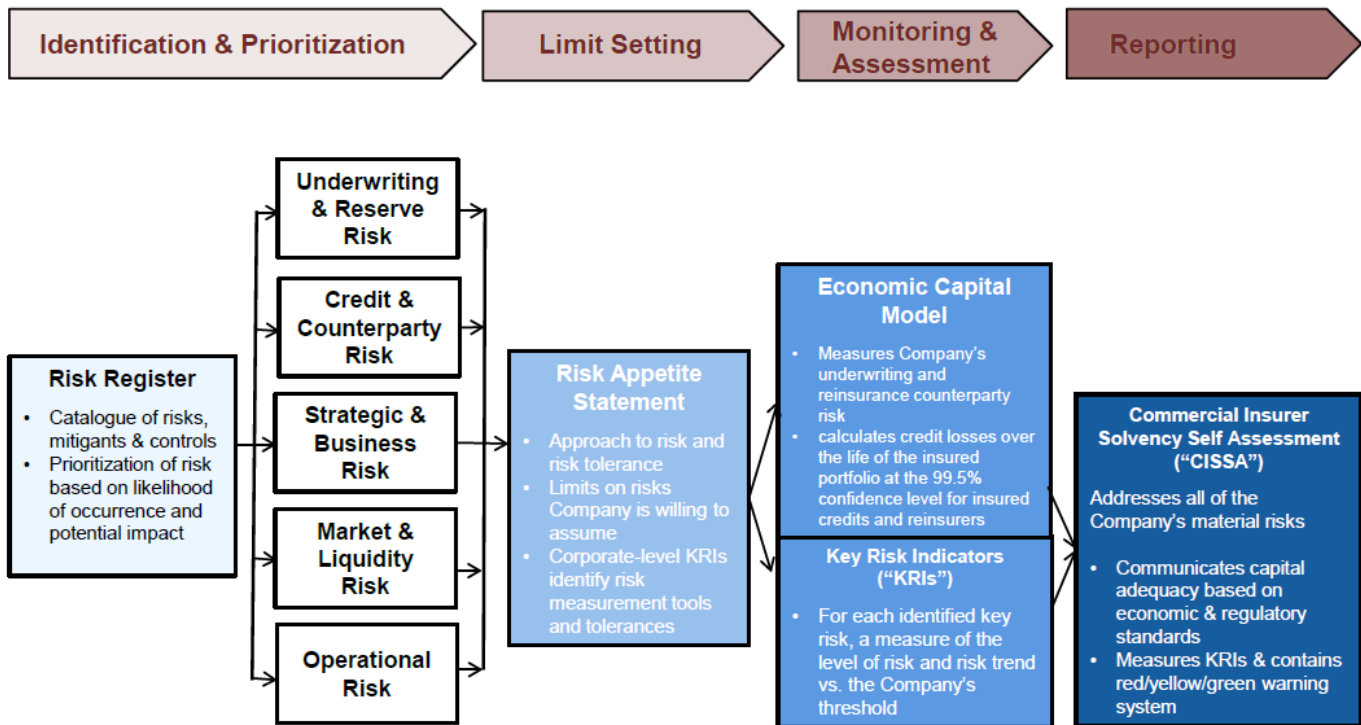
**Darrin Futter** was elected Financial Controller of AG Re and AGRO in 2007 and appointed as a director AG Re and AGRO on May 27, 2021. Prior to joining Assured Guaranty, he worked for Deloitte Ltd. in the Bermuda office and worked as a consultant to AG Re. Mr. Futter has worked in various senior audit roles with Ernst and Young LLP in the U.S. and KPMG in Zimbabwe, where he completed his Articles of Clerkship in 2000. He holds a Bachelor of Accounting Science (Hon.) degree from the University of South Africa and is also a Chartered Accountant and a member of the Institute of Chartered Accountants of Zimbabwe.

### **c. Risk Management and Solvency Self-Assessment**

#### **Risk Management**

The Board plays a critical role in enterprise risk management. The Board is responsible for addressing the linkage between risk, capital planning and business decisions. The Board oversees the creation and maintenance of the risk register, risk appetite statement and CISSA, the ECM and the design of stress and sensitivity testing. Regular CISSA reporting keeps management and its governing body continually aware of the information needed to develop informed business strategy 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, which is responsible for the operational aspects of risk management, follows the framework set out below in executing its responsibilities.



### 1. The Risk Register

The Company's CISSA process begins with a complete assessment of the Company's universe of risks. The risk management function works with business unit leaders to ensure that all known risks are identified, and to assess the relative importance of these risks and the most effective ways to measure them. 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 minimize the risk; and the area responsible for the risk. The Risk Register is updated by the risk management function annually. The Risk Register is subject to review, challenge and approval by the Board.

### 2. The 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 risk management function updates the Risk Appetite Statement annually, and it is subject to review, challenge and approval by the Board.

### 3. The Key Risk Indicators

The CISSA process includes a series of KRIs 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 prioritized 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. The Company measures each of its KRIs annually and reviews them to ensure that they continue to provide a relevant, appropriate and comprehensive assessment of the Company's risk.

### 4. CISSA Capital Requirement & ECM

To calculate what it believes to be its true economic risk for its CISSA, the Company calculates its own internal CISSA capital requirement. The CISSA capital requirement employs a model created by the Company, its ECM, to measure its key risk: underwriting risk. The Company's ECM was designed to measure the Company's underwriting risk, by calculating projected stress losses across the portfolio in a 1-in-200 lifetime loss scenario (the 99.5% lifetime value-at-risk). The CISSA capital requirement uses the Standard Formula for calculation of its less material risks: market & liquidity risks and operational risks.

The risk management function is responsible for the design, testing, validation and implementation of the Company's CISSA capital requirement, including its ECM. In designing parameters and assumptions for the ECM, risk management consulted with senior managers throughout the Company (and its ceding companies). 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 modeling. Periodically, risk management works with senior managers in the Company to re-evaluate and update the CISSA capital requirement and ECM to ensure that they continue to satisfactorily address the Company's key risks.

## **5. CISSA Report**

The Company documents the results of its management activities described above in its CISSA 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 CISSA 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 ongoing compliance with internal and regulatory capital requirements. The Company produces its CISSA annually, and presents it to senior management and the Board, and examines the CISSA framework and related components at least annually to ensure that they continue to properly identify and assess the Company's risks.

### **d. Internal Controls**

#### **i. Internal Control System**

##### ***Financial Reporting Internal Controls***

- The Company's annual financial statements are produced by the finance team, with support from the finance department of the affiliated ceding companies. The production process incorporates review for completeness and accuracy by senior management. The financial statements are subsequently reviewed by the Company's management prior to being presented to the Company's Board for final approval.
- Management maintains internal controls over the preparation of information contained in this Report. A Disclosure Committee reviews the Company's Financial Condition Report prior to filing.
- The persons responsible for these controls attest that they have properly executed these controls each reporting period.
- Members of the Group's management independently review the execution of the Group's internal controls and report to the Group Board on the results of their testing.

##### ***Vendor Management Controls***

- 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.

##### ***Outsourcing Controls***

- All of AGRO's outsourcing arrangements are reviewed on an annual basis by the Board 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 AGRO's management and/or the Board, as appropriate.

##### ***IT Controls***

The Company purchases IT services from its affiliate, AG Services, via an outsourcing arrangement and as a result utilizes 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 center 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.

## **ii. Compliance Function**

Due to the relatively small size of the Company, the Company does not have a separate compliance department whose sole remit is monitoring compliance-related activities. The compliance function is carried out by the Company's President and Financial Controller, with oversight by the Group's General Counsel and the Group's Chief Compliance Officer.

The Group's General Counsel and the Group's Chief Compliance Officer are independent from any business or operational unit. The Group's General Counsel and the Group's Chief Compliance Officer report to the Board at its quarterly meetings.

The principal activities of the compliance function are as follows:

- Advising 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 dialog with the BMA, 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 Group's General Counsel and the Group's Chief Compliance Officer work 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. Refer to *Section ii.e Internal Audit* for additional information. The Company's compliance program also is integrated with the Group's compliance program, which includes providing the Group's Chief 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 Group personnel with applicable experience and outside advisors, as appropriate.

## **e. Internal Audit**

The Company has outsourced its Internal Audit function to an international public accounting firm. Internal Audit has unrestricted access to all areas and property of the organization, including personnel records, records held by third-party service providers, and also reports directly to the Board.

## **f. Actuarial Function**

The Actuarial Function has been outsourced to the loss reserve specialist. The loss reserve specialist's responsibilities include:

- proposing loss reserves to the Reserve Committee,
- coordinating the calculation, and review, of Technical Provisions and Risk Margin,
- reviewing assumptions, methods, and data used in modeling,
- contributing to risk modeling, and
- identifying and proposing recommendations regarding any deficiencies in the above areas.

The loss reserve specialist:

- is a Fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries,

- is a member in good standing with and has satisfied the continuing education requirements for both societies as of December 31, 2022, and
- holds relevant experience to evaluate the Technical Provisions for business written by the Company.

## **g. Outsourcing**

### **i. Outsourcing Policy and Key Functions that have been Outsourced**

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 AGRO's outsourcing arrangements are reviewed on an annual basis by the Board 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 AGROs management and/or the Board, as appropriate.

#### ***Third-Party Outsourcing Arrangements***

##### *Investment Management*

AGRO outsources the management of its investment portfolio to a third party investment manager (Wellington Management Company, LLP) under a mandate designed to support the highest possible ratings, manage credit risk, ensure ample liquidity to cover losses in a stress scenario and maximize income. The investment manager manages AGRO's investment portfolios in accordance with the investment guidelines approved by AGRO's Board. For more information on the 'prudent person principle' see *Section iii.b Market Risk*.

##### *Internal Audit*

The Company outsources the internal audit function to an international public accounting firm. Refer to *Section ii.e Internal Audit Function* above for additional information.

### **ii. Material Intra-Group Outsourcing**

As described in *Section ii.a.ii Remuneration Policy and Section ii.a.iv Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executive Material Transactions* above, AGRO's affairs are managed by its Board and officers in Bermuda. In addition, the Company contracts with its affiliates to provide certain administrative support services. The Company is a party to a service agreement with AG Services pursuant to which AG Services makes available to the Company certain services, including actuarial, surveillance, marketing, claims handling, legal, information technologies, human resources, accounting, tax, financial reporting and investment planning services. Employees of AG Services that are performing administrative services for AGRO are not empowered to make underwriting or other decisions on behalf of AGRO or to bind AGRO in any way.

## **h. Any Other Material Information**

There was no other material information.

### iii. RISK PROFILE

#### a. Underwriting Risk

The Company's most material risk is underwriting risk. The Company currently provides insurance and reinsurance mainly through life insurance and RVI transactions, and other guaranties. The Company also has a legacy book of transactions assumed under financial guaranty reinsurance treaties.

Life insurance transactions provide U.S. life insurers and reinsurers capital relief from the excess statutory reserves they are required to hold by U.S. state regulators over what the respective life insurers and reinsurers believe are necessary for level premium term life insurance policies. RVI policies guarantee that a specific, properly maintained asset will have a specified value at a specified future date. The Company also guarantees other specialty business, including guaranteeing the receipt of minimum rental income on portfolios of commercial and real estate properties that is significantly below current annual rental income.

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

#### Measurement

The Company's main metrics for measuring its portfolio risk (in addition to its risk management and CISSA process, discussed in *Section ii.c Risk Management and Solvency Self-Assessment*) are exposure, sector and internal rating. The Company also considers geographic concentrations for its financial guaranty transactions and the underlying assets for its RVI transactions. At the closing of each transaction, the credit committee assigns the transaction to a sector (i.e., a group of transactions with similar risk characteristics) for purposes of evaluating risk and potential correlations. The credit committee also assigns an internal rating reflecting the risk profile 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 Risk Management Committee.

The sector composition of the insured portfolio and the breakdown of internal ratings as of December 31, 2022 and 2021 are set forth below.

#### Specialty Business

AGRO offers specialty insurance, reinsurance and other guaranties on either a direct or reinsurance basis. As of both December 31, 2022 and December 31, 2021, gross exposure of \$144 million and net exposure of \$84 million of aircraft RVI exposure was rated BIG. All other exposures in the table below are investment-grade quality.

#### Specialty Business

	As of December 31, 2022		As of December 31, 2021	
	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure
	(in thousands)			
Life insurance transactions (1)	\$ 1,313,795	\$ 986,204	\$ 1,249,979	\$ 870,476
RVI	355,101	200,048	355,101	200,048
Other guaranties	228,302	228,302	—	—

(1) The life insurance transactions' exposure is projected to reach \$1.4 billion gross exposure by the end of 2023 and \$1.1 billion net exposure in 2024.

## Financial Guaranty Portfolio

### Sector Breakdown of the Financial Guaranty Insured Portfolio

Sector	As of December 31, 2022			As of December 31, 2021		
	Number of Risks	GPO	NPO	Number of Risks	GPO	NPO
	(in thousands, except number of risks)					
<b>U.S. public finance:</b>						
General obligation	16	\$ 62,600	\$ 62,600	21	\$ 65,911	\$ 65,911
Investor-owned utilities	—	—	—	1	45,000	45,000
Transportation	6	4,789	4,789	7	5,363	5,363
Municipal utilities	12	3,703	3,703	16	4,364	4,364
Tax-backed	2	763	763	2	805	805
Total U.S. public finance	36	71,855	71,855	47	121,443	121,443
<b>Non-U.S. public finance:</b>						
Regulated Utilities	1	167,730	167,730	—	—	—
Total Non-U.S. public finance	1	167,730	167,730	—	—	—
Total portfolio	37	\$ 239,585	\$ 239,585	47	\$ 121,443	\$ 121,443

### Risk Concentration

#### Life Insurance Transactions (Specialty Reinsurance)

The underlying exposure of the life insurance transactions are spread across different vintages and geographic locations. In addition, the assets providing support to the facility (before the Company is required to pay a claim) are diversified and of high credit quality. The life insurance transactions' exposure is discussed in *Section i.f Insurance Business Written by Business Segment and by Geographical Region*. The exposure is internally rated IG.

#### RVI

RVI obligations assumed by the Company consist primarily of exposure to modern, in-production aircraft with a large installed operator base. The RVI exposure is discussed in *Section i.f Insurance Business Written by Business Segment and by Geographical Region*.

#### Other Guaranties

The Company also guarantees other specialty business, including guaranteeing the receipt of minimum rental income on portfolios of commercial and real estate properties that is significantly below current annual rental income. This exposure is discussed in *Section i.f Insurance Business Written by Business Segment and by Geographical Region*.

#### Financial Guaranty

The Company's top ten financial guaranty exposures measured by GPO represented 98.7% of financial guaranty GPO as of December 31, 2022. These exposures were in various sectors, including regulated utilities and general obligation bonds.



**Net Exposure (1)  
by Internal Rating  
As of December 31, 2022**

Rating Category	Life Insurance Transactions		RVI		Other Guaranties		Financial Guaranty		Total	
	Net Exposure	%	Net Exposure	%	Net Exposure	%	Net Exposure	%	Net Exposure	%
	(dollars in thousands)									
AAA	\$ —	— %	\$ —	— %	\$ —	— %	\$ —	— %	\$ —	— %
AA	986,204	100.0	—	—	228,302	100.0	8,314	3.5	1,222,820	73.9
A	—	—	—	—	—	—	8,067	3.4	8,067	0.5
BBB	—	—	116,197	58.1	—	—	223,199	93.1	339,396	20.5
BIG (2)	—	—	83,851	41.9	—	—	5	—	83,856	5.1
Total net exposure	<u>\$ 986,204</u>	<u>100.0 %</u>	<u>\$ 200,048</u>	<u>100.0 %</u>	<u>\$ 228,302</u>	<u>100.0 %</u>	<u>\$ 239,585</u>	<u>100.0 %</u>	<u>\$ 1,654,139</u>	<u>100.0 %</u>

**Net Exposure (1)  
by Internal Rating  
As of December 31, 2021**

Rating Category	Life Insurance Transactions		RVI		Financial Guaranty		Total	
	Net Exposure	%	Net Exposure	%	Net Exposure	%	Net Exposure	%
	(dollars in thousands)							
AAA	\$ —	— %	\$ —	— %	\$ —	— %	\$ —	— %
AA	870,476	100.0	—	—	9,356	7.7	879,832	73.8
A	—	—	—	—	54,487	44.9	54,487	4.6
BBB	—	—	116,197	58.1	57,595	47.4	173,792	14.6
BIG (2)	—	—	83,851	41.9	5	—	83,856	7.0
Total net exposure	<u>\$ 870,476</u>	<u>100.0 %</u>	<u>\$ 200,048</u>	<u>100.0 %</u>	<u>\$ 121,443</u>	<u>100.0 %</u>	<u>\$ 1,191,967</u>	<u>100.0 %</u>

- (1) Exposure for life insurance, RVI transactions, other guaranties, and par outstanding for financial guaranty contracts are shown net of any reinsurance ceded.
- (2) As of both December 31, 2022 and December 31, 2021, BIG exposure related to six risks. A risk represents the aggregate of the insurance policies that share the same revenue source for purposes of making debt service payments.

For exposure by geographic distribution, see Section i.f. Insurance Business Written by Business Segment and by Geographical Region, Exposure.

## Risk Mitigation

### *Underwriting & Credit Procedures*

The Company has in place an underwriting process and single risk, sector and country limits across the insured portfolio, as well as procedures for ensuring that they are adhered to in the transaction approval process. The Company sets the risk limits within the limits that are allocated to the Company by the Group Portfolio Risk Management Committee, subject to the Company's underwriting guidelines and process. The Company applies its underwriting judgment, risk management skills and capital markets experience in the conduct of its business. The Company seeks to limit its exposure to losses by underwriting obligations that are expected to have no losses.

The credit committee, which is composed of senior officers of the Company, has the authority to review and approve or reject transactions undertaken by the Company. All new transactions approved by the credit committee, except internal transactions, must also be approved by the Board. As part of the approval process, the credit committee enforces the single risk, sector and country limits which it has established. It also incorporates critical feedback on the performance of, and any problems related to, transactions in the Company's insured portfolio.

## ***Surveillance***

The Company conducts regular monitoring of the performance of each insured transaction throughout its life and also tracks the aggregation of risk across the portfolio, to provide early identification of any credit concerns. 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.

The Company assigns internal credit ratings to all transactions based on its 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 generally reflect 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 surveillance staff analyzes all available information related to the financial health of the transaction with the goal of identifying early warning signs of deteriorating performance. Generally, transactions are reviewed and presented in sector reports, which group together transactions that share common risk characteristics. Reviewing exposures by sector facilitates comparison of performance, risk ranking and early identification of underperforming transactions. In addition, each quarter, surveillance staff prepares and presents a quarterly risk management review to the Board.

## ***Workout Activities***

The Company's surveillance personnel are responsible for managing workout activities for directly insured transactions. For these transactions, the Company's surveillance personnel are responsible for developing strategies designed to enhance the ability of the Company to enforce its contractual rights and remedies and mitigate potential losses and may also engage in negotiation discussions with transaction participants. For reinsurance transactions, the ceding companies typically maintain control over the development and implementation of workout and loss mitigation strategies on troubled reinsurance transactions that are experiencing losses or could be at risk of losses. The Company's surveillance personnel are responsible for tracking reinsurance workout activities, reporting on these activities to the Board in its quarterly surveillance report to the Board and for making any required related decisions.

## ***Reinsurance***

### **Exposure to Non-Affiliated Reinsurers (1)**

	<u>As of December 31, 2022</u>	<u>As of December 31, 2021</u>
	(in thousands)	
Life insurance transactions and RVI ceded exposure (specialty)	\$ 482,644	\$ 534,556

(1) There was no collateral posted by non-affiliated reinsurers as of December 31, 2022 and December 31, 2021. As of both December 31, 2022 and December 31, 2021, \$60 million of ceded RVI exposure is rated BIG. There were no cessions to affiliated reinsurers.

## **Risk Sensitivity**

Underwriting risk exposure is tested for risk concentration to a specific region as well as identification of stress events that can lead to material losses across the portfolio. Examples of these concentrations are:

- Mortality risk
- Aircraft
- Commercial real estate

The Company runs stress tests for each of the parameters. Based on the latest stress testing results, management of the Company believes that the Company has sufficient capital to comply with its contractual obligations and regulatory requirements and remain within its risk tolerance.

## b. Market Risk

The potential for market risk resides mainly in the Company's investment portfolio. As of December 31, 2022 and December 31, 2021, the Company's investment portfolio had a market value of \$373.8 million and \$424.5 million, respectively. 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 Regulations, and setting forth credit rating standards, single risk and asset category limits and duration guidelines. The Company has established investment guidelines for its investment manager regarding credit quality, exposure to a particular sector and exposure to a particular obligor within a sector.

### Currency Risk

The Company has currency risk to Canadian dollar and pound sterling exchange rates due to guaranties denominated in those currencies and the associated income receivable. The overall level of currency risk is low.

### Interest Rate Risk

The Company is exposed to interest rate risk on its assets and liabilities. The Company manages the interest rate risk on its investment portfolio by managing the duration of its investment portfolio. The Company's liabilities include expected claims and operating expenses, which are offset by future premiums.

### Spread Risk

The Company has a low amount of credit spread risk due to its investment guidelines.

### Measurement

The Company measures the results of its investment portfolio by its compliance with investment guidelines, and by the portfolio performance, particularly book yield.

### Risk Concentration

As of December 31, 2022 and December 31, 2021, the Company's investment portfolio had an average credit quality rating of "A+" and "AA-", respectively. 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.

#### Composition of Investment Portfolio by Security Type

Security Type	As of December 31, 2022	As of December 31, 2021
Fixed-maturity securities:		
Corporate securities	41.7 %	37.6 %
Obligations of state and political subdivisions	36.1	39.9
Asset-backed securities	8.7	6.3
CMBS	6.7	6.1
RMBS	4.6	6.1
U.S. government and agencies	1.6	1.6
Non-U.S. government securities	—	0.1
Total fixed-maturity securities	99.4	97.7
Short-term investments	0.6	2.3
Total investment portfolio	100.0 %	100.0 %

## **Risk Mitigation**

In the event of any downgrade of any investment below the Company's requirements, the portfolio manager must contact the Company's management to discuss the course of action and may hold the position only if approved by the Company's President and the Board, with oversight by the Group.

## **Risk Sensitivity**

The main risk in the Company's investment portfolio is interest rate risk on its fixed rate investments. Annually, as part of its CISSA, the Company stress tests the sensitivity of the investment portfolio to interest rate movements. Based on the latest stress testing results, management of the Company believes that it has sufficient resources to comply with its contractual obligations and regulatory requirements and remain within its risk tolerance.

### **c. Credit Risk**

The Company's most significant credit risks are discussed above in *Section iii.a Underwriting Risk*. The only other counterparty credit risks the Company has relate to an intra-Group loan, a small reinsurance recoverable and cash that the Company holds.

The Company's reinsurance recoverables, loan receivable, and premiums receivable are tested to assess the impact on the Company of a counterparty's ability to make payments in accordance with the contractual terms. Based on the latest stress testing results, management of the Company believes that it has sufficient resources to comply with its contractual obligations and regulatory requirements and remain within its risk tolerance.

### **d. Liquidity Risk**

The Company manages its liquidity risk by maintaining a liquid, high quality investment portfolio, with a duration that is shorter than the duration of its insurance liabilities. Additionally, for its financial guaranty contracts, 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. For information on 'prudent person principle' see *Section iii.b Market Risk*.

## **Measurement**

The Company measures duration relative to its investment guideline range, discussed above, which is set in accordance with the Company's investment guidelines. The portfolio had a duration of 4.8 years as of December 31, 2022 and 5.3 years as of December 31, 2021. For more information see *Section i.g Performance of Investments & Material Income & Expenses for the Reporting Period*.

## **Risk Sensitivity**

Annually, as part of its CISSA, 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.S. Government bonds, pre-refunded bonds, agency bonds and cash to be liquid assets. Based on the latest stress testing results, management of the Company believes that it has sufficient liquidity to comply with its contractual obligations and regulatory requirements and remain within its risk tolerance.

### **e. Operational Risk**

The Company faces a variety of operational risks including those related to IT, 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 December 31, 2022, the Company had approximately 60 risks in its insured portfolio and generally adds only a small number of new transactions each year, limiting potential operational errors. The relatively small number of risks allows careful review of the transaction documents and quality control of the data points captured in the Company's systems by knowledgeable employees.

Operational risks are further limited by the Company's risk management policies, such as the policies governing the credit approval process, compliance, data protection, 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 ii.d Internal Control System*.

With regard to legal risk, another aspect of operational risk, as of December 31, 2022, the Company was not a party in any litigation or subject to any known regulatory investigation.

**f. Any Other Material Information**

None.

#### **iv. SOLVENCY VALUATION**

##### **a. Valuation Bases, Assumptions and Methods to Derive the Value of Each Asset Class**

The Company has used the valuation principles outlined by the BMA's "Guidance Note for Statutory Reporting Regime" for the reporting period's statutory filing. The economic valuation principles outlined in this document are to measure assets and liabilities on a fair value basis.

The Company carries all of its investment portfolio at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., exit price). The price represents the price available in the principal market for the asset or liability. If there is no principal market, then the price is based on a hypothetical market that maximizes the value received for an asset or minimizes the amount paid for a liability (i.e., the most advantageous market).

Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on either internally developed models that primarily use, as inputs, market-based or independently sourced market parameters, including but not limited to yield curves, interest rates and debt prices or with the assistance of an independent third-party using a discounted cash flow approach and the third party's proprietary pricing models. In addition to market information, models also incorporate transaction details, such as maturity of the instrument and contractual features designed to reduce the Company's credit exposure, such as collateral rights as applicable.

Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, and constraints on liquidity. As markets and products develop and the pricing for certain products becomes more or less transparent, the Company may refine its methodologies and assumptions. During 2022 and 2021, no changes were made to the Company's valuation models that had or are expected to have, a material impact on the valuation of the investment portfolio.

The Company's methods for calculating fair value produce a fair value that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a materially different estimate of fair value at the reporting date.

The categorization within the fair value hierarchy is determined based on whether the inputs to valuation techniques used to measure fair value are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Company estimates of market assumptions. The fair value hierarchy prioritizes model inputs into three broad levels as follows, with Level 1 being the highest and Level 3 the lowest. An asset's or liability's categorization is based on the lowest level of significant input to its valuation.

Level 1—Quoted prices for identical instruments in active markets. The Company generally defines an active market as a market in which trading occurs at significant volumes. Active markets generally are more liquid and have a lower bid-ask spread than an inactive market.

Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and observable inputs other than quoted prices, such as interest rates or yield curves and other inputs derived from or corroborated by observable market inputs.

Level 3—Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

There were no transfers of fixed-maturity securities into or from Level 3 during the periods presented.

## ***Fixed-Maturity Securities and Short-Term Investments***

The fair value of fixed-maturity securities is generally based on prices received from third party pricing services or alternative pricing sources with reasonable levels of price transparency. The pricing services prepare estimates of fair value using their pricing models, which take into account: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, industry and economic events and sector groupings. Additional valuation factors that can be taken into account are nominal spreads and liquidity adjustments. The pricing services evaluate each asset class based on relevant market and credit information, perceived market movements, and sector news.

Benchmark yields have in many cases taken priority over reported trades for securities that trade less frequently or those that are distressed trades, and therefore may not be indicative of the market. The extent of the use of each input is dependent on the asset class and the market conditions. The valuation of fixed-maturity securities is more subjective when markets are less liquid due to the lack of market based inputs.

Short-term investments that are traded in active markets are classified within Level 1 in the fair value hierarchy as their value is based on quoted market prices. Securities such as discount notes are classified within Level 2 because these securities are typically not actively traded due to their approaching maturity and, as such, their cost approximates fair value.

As of December 31, 2022, the Company used models to price 19 securities with a fair value of \$28 million. As of December 31, 2021, the Company used models to price 20 securities with a fair value of \$30 million. All Level 3 securities were priced with the assistance of independent third parties. The pricing is based on a discounted cash flow approach using the third-party's proprietary pricing models. The models use inputs such as projected prepayment speeds; severity assumptions; recovery lag assumptions; estimated default rates (determined on the basis of an analysis of collateral attributes, historical collateral performance, borrower profiles and other features relevant to the evaluation of collateral credit quality); home price appreciation/depreciation rates based on macroeconomic forecasts and recent trading activity. The yield used to discount the projected cash flows is determined by reviewing various attributes of the security including collateral type, weighted average life, sensitivity to losses, vintage, and convexity, in conjunction with market data on comparable securities. Significant changes to any of these inputs could have materially changed the expected timing of cash flows within these securities which is a significant factor in determining the fair value of the securities.

### **Other Assets**

- Advances to affiliates - are recorded at fair value and balances receivable in more than one year have been discounted at the relevant risk free rate.
- Investment income due and accrued - carrying value approximates fair value.
- Premiums and reinsurance balances receivable - are current balances due and are recorded at fair value.

### **b. Valuation Bases, Assumptions and Methods to Derive the Value of Technical Provisions**

#### **Technical Provisions under Economic Balance Sheet versus Financial Statements**

##### **Technical Provisions As of December 31, 2022**

	<b>Financial Statement Balance Sheet</b>	<b>Economic Balance Sheet</b>
	<b>(in thousands)</b>	
Best Estimate	\$ —	\$ (857)
Risk margin	—	13,883
Gross unearned premium reserve	16,961	—
Gross loss and loss expense provisions	6,109	—
Total	<u>\$ 23,070</u>	<u>\$ 13,026</u>

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 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 the Economic Balance Sheet are calculated using the Company's ECM which uses its judgments 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 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 zero. The Company uses its judgment to assess future inflation rates for guarantees that are linked to an inflation index.

For purposes of the best estimate loss component of Technical Provisions, the provision for future run-off expense is projected based on the Company's current operating costs taking into consideration activities required to service the existing insured portfolio.

The risk margin is an estimate of the amount that a third party would expect to receive in addition to the best estimate liability to assume the Company's insurance obligations. The risk margin is calculated as the present value of the cost of capital (i.e., cost of holding capital equal to BSCR) in all future years. The cost of capital to be used in the calculation is prescribed by the BMA at 6% per annum.

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, 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 because, in most cases cash inflows are contractually guaranteed and the annual operating expenses that would be required to manage the runoff of the portfolio can be reasonably estimated based on current staffing levels. The Company does not include any benefits related to future management actions and it is unlikely that policyholder behavior would affect the Technical Provisions.

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 BMA.

The Best Estimate Technical Provisions must include the Company's expected future cash inflows and outflows, excluding investment income.

The following is a listing of the material differences between Technical Provisions under Solvency Regulations and under U.S. GAAP:

- Under Solvency Regulations, premiums and fee income that are due to be received after the balance sheet date are included in the calculation of Technical Provisions and include amounts receivable from both financial guaranty and specialty insurance and reinsurance contracts and exclude an amount that may not be received due to potential defaults on underlying transactions. The amount is discounted at the BMA specified risk free rate. Under U.S. GAAP, financial guaranty premiums that are due to be received after the balance sheet date are included in the premiums receivable, net of commissions payable, discounted at the risk-free rate at inception and such discount rate is updated only when changes to prepayment assumptions are made that change the expected date of final maturity. For specialty premiums, premiums receivable consist of the amount of contractual premiums due. There is no provision for amounts that may not be received unless such amounts are deemed uncollectible.
- Under Solvency Regulations, commissions that are due to be paid on assumed policies after the balance sheet date are included in the calculation of Technical Provisions and include amounts payable on financial guaranty contracts as well as specialty insurance and reinsurance and exclude an amount that may not be payable due to potential defaults on underlying transactions, discounted at the BMA specified risk free rate. Under U.S. GAAP, commissions (for financial guaranty policies accounted for as insurance) that are due to be paid on assumed



policies after the balance sheet date are included in premiums receivable. The amount is discounted at the risk-free rate at inception and such discount rate is updated only when changes to prepayment assumptions are made that change the expected date of final maturity.

- Under Solvency Regulations, projected losses are included in the calculation of Technical Provisions and are calculated on payment guarantees, financial guaranty and specialty insurance and reinsurance contracts and a loss value is ascribed to every exposure. The resulting amount is discounted at the BMA specified risk free rate. Under U.S. GAAP, a loss reserve is recorded on financial guaranty only to the extent, and for the amount, that expected loss to be paid exceeds the unearned premium reserve on a contract by contract basis, and is discounted at risk-free rates. For specialty insurance and reinsurance contracts, U.S. GAAP loss reserves consist of the estimates of unpaid reported losses and estimates for incurred but not reported losses.
- Under Solvency Regulations, an amount is included for the Projected Expense Load. Under U.S. GAAP, a loss adjustment expense amount, if applicable, is included for financial guaranty or specialty insurance and reinsurance contracts, as applicable, but the loss adjustment expense amount does not include a projected expense load covering the Company's other expenses.
- Under Solvency Regulations, unearned premium reserve is not included in the Technical Provisions. Under U.S. GAAP, unearned premium reserve is recorded.
- Under Solvency Regulations, deferred acquisition costs are not included in the Technical Provisions. Under U.S. GAAP, deferred acquisition costs are recorded on financial guaranty and specialty insurance and reinsurance contracts.

### **c. Description of Recoverables from Reinsurance Contracts**

#### **Recoverables From Reinsurance and Special Purpose Vehicles**

The Company cedes some of its exposure to non-affiliated reinsurers. In calculating the Technical Provisions and risk margin net of this reinsurance, the reinsurer is contractually obligated to pay and will likewise be entitled to receive its share of any recoveries. Under Solvency Regulations, the Company's reinsurance recoverable for these transactions is the contractually obligated payments, less an amount which represents the reinsurer's share of its loss in excess of the amount of collateral available that it is unable to make. This amount is calculated based on the projected ceded expected losses to the reinsurer, the assumed cumulative default rate of the reinsurer and the amount of collateral posted by the reinsurer. Under U.S. GAAP, the Company does not include a provision for reinsurance counterparty default unless the reinsurance recoverable is deemed uncollectible.

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

### **d. Valuation Bases, Assumptions and Methods to Derive the Value of Other Liabilities**

Similar to the valuation principles for assets, the Company's other liabilities follow the valuations principles outlined by the BMA's "Guidance Note for Statutory Reporting Regime", which values other liabilities at a fair value basis.

### **e. Any Other Material Information**

None.

## v. CAPITAL MANAGEMENT

### a. Eligible Capital

#### i. Capital Management Policy and Process for Capital Needs, How Capital is Managed and Material Changes During the Reporting Period

The primary capital management objectives of the Company are to maintain a strong capital base to support the development of its business and to meet regulatory and rating agency capital requirements at all times. The Company recognizes the impact on shareholder returns of the level of equity capital employed and seeks to maintain a prudent balance. It strives for an appropriate capital structure that efficiently allocates the risk to the capital. The Company's capital and risk management strategy is unchanged over the prior year.

To maintain a strong capital base, the Company identifies, assesses, manages and monitors the various risk sources it faces in the course of business both currently and as anticipated over the life of its insured obligations. This process culminates in an assessment of the capital necessary to maintain solvency at the threshold targeted by senior management given the Company's risk profile. The Company's risk profile includes an assessment of the current and anticipated future material risks faced by the Company, the strength of the organization's enterprise risk management, capital measures derived from proprietary and vendor models, qualitative risks, stress testing and liquidity. Surplus capital may be paid out in dividends, subject to statutory limitations as defined by the Insurance Act.

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. 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 minimizing 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 purchase only a small amount of securities rated lower than BBB- by S&P or Baa3 by Moody's, and then only those securities rated no lower than B by S&P or B2 by Moody's and subject to certain other specific requirements. 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 iii.b Market Risk*.

With regard to managing liabilities, the Company's Risk Appetite Statement dictates that risks accepted are estimated at inception to have low potential loss severity. Therefore, the Company aims to avoid risks that have or are projected to have a high severity in the event of a default.

#### ii. Eligible Capital Categorized by Tiers in Accordance with the Eligible Capital Rules

As of December 31, 2022 and 2021, all of the Company's eligible capital was categorized as Tier 1:

#### Eligible Capital

	2022	2021
	Dual Class 3A and Class C	Dual Class 3A and Class C
	(in thousands)	
Tier 1 Capital	\$ 387,967	\$ 421,881

The tier 1 capital consists of capital stock, contributed surplus and statutory surplus. The decrease in the combined Tier 1 capital in 2022 compared to prior year is due to a decline in the investment portfolio, offset by a decrease in technical provisions. The decline in the investment portfolio is largely as a result of an increase in unrealized losses. The decrease in technical provisions is mainly due to (i) an increase in future premiums and (ii) a decrease in non-reserve credits.

**iii. Eligible Capital Categorized by Tiers in Accordance to the Eligible Capital Rules Used to Meet ECR and MSM Requirements of the Insurance Act**

As of December 31, 2022 and 2021, the Company's eligible capital used to meet its MSM and ECR was categorized as follows:

	<b>Eligible Capital</b>			
	<b>2022</b>		<b>2021</b>	
	<u>Applied to MSM</u>	<u>Applied to ECR</u>	<u>Applied to MSM</u>	<u>Applied to ECR</u>
	(in thousands)			
Tier 1 Capital	\$ 387,967	\$ 387,967	\$ 421,881	\$ 421,881

**iv. Confirmation of Eligible Capital That is Subject to Transitional Arrangements**

None of the eligible capital is subject to transitional arrangements.

**v. Identification of Any Factors Affecting Encumbrances on the Availability and Transferability of Capital to Meet the ECR**

The Company has entered into contracts with cedants that require the Company to fully collateralize estimates of its obligations calculated by the cedants. Assets are held in trust accounts for the benefit of the cedant. These assets are released to the company on payment of the obligations.

**vi. Identification of Ancillary Capital Instruments Approved by the Authority**

The Company has no ancillary capital instruments.

**vii. Identification of Differences in Shareholder's Equity as Stated in the Financial Statements Versus the Available Capital and Surplus**

The differences in shareholder's equity, as stated in the U.S. GAAP financial statements versus the available statutory capital and surplus relate to the impact of employing Solvency Regulations based technical provision valuation techniques as well as the reduction in available Solvency Regulations capital for non-admitted assets.

**b. Regulatory Capital Requirements**

**i. ECR and MSM Requirements at the End of the Reporting Period**

The following table presents the Company's MSM and ECR amounts.

	<b>MSM and ECR Amounts</b>			
	<u>As of December 31, 2022</u>		<u>As of December 31, 2021</u>	
	<u>Dual Class 3A and Class C</u>		<u>Dual Class 3A and Class C</u>	
	(in thousands)			
MSM	\$	10,792	\$	12,819
ECR		43,170		51,276

The decreases in 2022 compared to prior year were primarily due to a decrease in catastrophe risk as a result of a lower probable maximum loss.

**ii. Identification of Any Non-Compliance with the MSM and the ECR**

The company was compliant with the MSM and ECR requirement as of December 31, 2022 and 2021.

**iii. A Description of the Amount and Circumstances Surrounding the Non-Compliance, the Remedial Measures and Their Effectiveness**

Not Applicable.

**iv. Where the Non-Compliance is not Resolved, a Description of the Amount of the Non-Compliance at the end of the reporting period**

Not Applicable.

**c. Approved Internal Capital Model**

The Company does not use an internal model to calculate its ECR. For more information see *Section v.b Regulatory Capital Requirements*.

**vi. SUBSEQUENT EVENTS**

**a. Description of Significant Events**

There are no significant events either in the reporting period, or that have occurred between the end of the reporting period and the date of signing the return.

**b. Approximate date(s) or proposed timings of the significant event**

Not applicable.

**c. Confirmation of how the significant event has impacted or will impact any information provided in the most recent financial condition report filed with the Authority**

Not applicable.

**d. Any other material information**

Not applicable.

## DECLARATION

We declare, to the best of our knowledge and belief, that the financial condition report fairly presents the financial condition of the Company in all material respects.



Gary Burnet  
President  
Assured Guaranty Re Overseas Ltd.



Darrin Futter  
Financial Controller  
Assured Guaranty Re Overseas Ltd.