

**Assured Guaranty Re Ltd.**

**(a wholly-owned subsidiary of Assured Guaranty Ltd.)**

**2023 Financial Condition Report**

**Assured Guaranty Re Ltd.**  
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**Table of Contents**

	<b>Page</b>
<a href="#">Definitions</a>	<a href="#">1</a>
<a href="#">Executive Summary</a>	<a href="#">3</a>
<a href="#">Section i</a> <a href="#">BUSINESS AND PERFORMANCE</a>	<a href="#">7</a>
<a href="#">a. Name of Insurer</a>	<a href="#">7</a>
<a href="#">b. Supervisors</a>	<a href="#">7</a>
<a href="#">c. Approved Auditor</a>	<a href="#">7</a>
<a href="#">d. Ownership Details</a>	<a href="#">8</a>
<a href="#">e. Group Structure</a>	<a href="#">8</a>
<a href="#">f. Insurance Business Written by Business Segment and by Geographical Region</a>	<a href="#">8</a>
<a href="#">g. Performance of Investments &amp; Material Income &amp; Expenses for the Reporting Period</a>	<a href="#">11</a>
<a href="#">h. Any Other Material Information</a>	<a href="#">14</a>
<a href="#">Section ii</a> <a href="#">GOVERNANCE STRUCTURE</a>	<a href="#">15</a>
<a href="#">a. Board and Senior Executive</a>	<a href="#">15</a>
<a href="#">b. Fitness and Propriety Requirements</a>	<a href="#">18</a>
<a href="#">c. Risk Management and Solvency Self-Assessment</a>	<a href="#">19</a>
<a href="#">d. Internal Controls</a>	<a href="#">21</a>
<a href="#">e. Internal Audit</a>	<a href="#">23</a>
<a href="#">f. Actuarial Function</a>	<a href="#">23</a>
<a href="#">g. Outsourcing</a>	<a href="#">24</a>
<a href="#">h. Any Other Material Information</a>	<a href="#">24</a>
<a href="#">Section iii</a> <a href="#">RISK PROFILE</a>	<a href="#">25</a>
<a href="#">a. Underwriting Risk</a>	<a href="#">25</a>
<a href="#">b. Market Risk</a>	<a href="#">30</a>
<a href="#">c. Credit Risk</a>	<a href="#">32</a>
<a href="#">d. Liquidity Risk</a>	<a href="#">32</a>
<a href="#">e. Operational Risk</a>	<a href="#">32</a>
<a href="#">f. Any Other Material Information</a>	<a href="#">33</a>
<a href="#">Section iv</a> <a href="#">SOLVENCY VALUATION</a>	<a href="#">35</a>
<a href="#">a. Valuation Bases, Assumptions and Methods to Derive the Value of Each Asset Class</a>	<a href="#">35</a>
<a href="#">b. Valuation Bases, Assumptions and Methods to Derive the Value of Technical Provisions</a>	<a href="#">36</a>
<a href="#">c. Description of Recoverables from Reinsurance Contracts</a>	<a href="#">38</a>
<a href="#">d. Valuation Bases, Assumptions and Methods to Derive the Value of Other Liabilities</a>	<a href="#">38</a>
<a href="#">e. Any Other Material Information</a>	<a href="#">39</a>
<a href="#">Section v</a> <a href="#">CAPITAL MANAGEMENT</a>	<a href="#">40</a>
<a href="#">a. Eligible Capital</a>	<a href="#">40</a>
<a href="#">b. Regulatory Capital Requirements</a>	<a href="#">41</a>
<a href="#">c. Approved Internal Capital Model</a>	<a href="#">42</a>
<a href="#">Section vi</a> <a href="#">SUBSEQUENT EVENTS</a>	<a href="#">43</a>
<a href="#">a. Description of Significant Events</a>	<a href="#">43</a>
<a href="#">b. Approximate Date(s) or Proposed Timings of the Significant Event</a>	<a href="#">43</a>
<a href="#">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</a>	<a href="#">43</a>
<a href="#">d. Any Other Material Information</a>	<a href="#">43</a>
<a href="#">Declaration</a>	<a href="#">44</a>

## Definitions

Term	Definition
AGC	Assured Guaranty Corp.
AGE	Assured Guaranty (Europe) SA
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.
AGUK	Assured Guaranty UK Limited
AG Services	AG US Group Services Inc.
Affiliated Ceding Companies	AGC, AGM, AGUK and AGE
Assured Guaranty or the Group	AGL together with its subsidiaries
Bankruptcy Code	United States Bankruptcy Code
Bermuda Service Agreement	Amended and Restated Service Agreement amount AG Services, AG Re and AGL, effective as of January 1, 2022 (as may be amended from time to time)
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
CDS	Credit default swap
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	AG Re together with its subsidiaries
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.
FOMB	Financial Oversight and Management Board
GPO	Gross par outstanding
IG	Investment Grade
Insurance Act	Bermuda Insurance Act 1978, as amended, and related rules and regulations
Insurance Securitizations	Transactions, including life insurance transactions, where obligations are secured by the future earnings from pools of various types of insurance/reinsurance policies and income produced by invested assets
IT	Information Technology
KRIs	Key risk indicators
LAE	Loss adjustment expense
Moody's	Moody's Investors Service Inc.
MSM	Minimum Margin of Solvency
NPO	Net par outstanding
PRHTA	Puerto Rico Highways and Transportation Authority
PRIFA	Puerto Rico Infrastructure Financing Authority
PR MFA	Puerto Rico Municipal Finance Agency
PROMESA	Puerto Rico Oversight, Management, and Economic Stability Act

**Definitions  
(continued)**

<b>Term</b>	<b>Definition</b>
PVP	Present Value of New Business Production
Rating Agencies	S&P, Moody's or Fitch
RMBS	Residential Mortgage-Backed Securities
RVI	Residual Value Insurance
S&P	S&P Global Ratings, a division of Standard & Poor's Financial Services LLC
Solvency Regulations	BMA's Insurance (Prudential Standards) (Class 4 and 3B Solvency Requirement) Rules
Standard Formula	Standard formula to calculate the Bermuda Solvency Capital Requirement provided by the BMA
U.S.	United States of America
U.S. GAAP	Accounting Principles Generally Accepted in the United States of America
USD	U.S. Dollars

## **EXECUTIVE SUMMARY**

This Financial Condition Report has been prepared in accordance with the Bermuda Insurance (Public Disclosure) Rules 2015 and sets out information on the business and financial performance of the Company, its system of governance, risk profile, valuation of assets and liabilities for solvency purposes and capital management as of December 31, 2023. The Bermuda Insurance (Public Disclosure) Rules 2015 prescribe the structure of the document and the information required to be reported in each section.

### **Principal Activities**

AG Re is wholly owned by AGL, a Bermuda-based holding company that provides, through its operating subsidiaries, credit protection products to the U.S. and non-U.S. public finance (including infrastructure) and structured finance markets.

AG Re is incorporated with limited liability under the Companies Act and is licensed as a Class 3B Insurer under the Insurance Act. AG Re owns AGOUS, a Delaware corporation, which owns the entire share capital of a Bermuda reinsurer, AGRO. AGRO was also 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 granted by the Missouri Department of Insurance.

AG Re and AGRO write business as reinsurers of third-party primary insurers and as reinsurers/retrocessionaires of certain affiliated companies. 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. The Company reinsures financial guaranty insurance contracts under quota share and excess of loss reinsurance treaties and, through AGRO, provides certain other types of insurance and reinsurance.

AG Re underwrites financial guaranty reinsurance. Financial guaranty insurance protects holders of debt instruments and other monetary obligations from defaults in scheduled payments. If an obligor defaults on a scheduled payment due on an obligation, including a scheduled principal or interest payment (collectively, debt service), the insurer is required under its unconditional and irrevocable financial guaranty to pay the amount of the shortfall to the holder of the obligation. AG Re provides financial guaranty reinsurance under quota share and excess of loss treaties.

AGRO also guarantees specialty business with risk profiles similar to those of its structured finance exposures written in financial guaranty form. Specialty business includes, for example, excess-of-loss guarantees of a minimum amount of billed rent on diversified portfolios of real estate properties, insurance securitizations and residual value insurance (RVI) transactions.

AG Re's affiliates, AGC, AGM, AGUK and AGE, account for all of the new financial guaranty assumed reinsurance business.

The financial information in this report is presented on a U.S. GAAP consolidated basis in USD.

### **Ratings**

The obligations insured or reinsured by the Company are generally awarded ratings on the basis of the financial strength ratings given to the Company by major securities rating agencies. As of April 29, 2024 the Company has been assigned an insurance financial strength rating of AA with a stable outlook from S&P.

### **Business and Performance**

#### ***Underwriting performance***

During 2023 the Company reinsured approximately \$7.4 billion (2022: \$4.1 billion) of gross par written and gross exposure written for financial guaranty insurance and for several specialty transactions, generating PVP of \$149.6 million (2022: \$98.3 million).

Net earned premiums were \$81.3 million in 2023 (2022: \$85.4 million), decreasing year on year primarily as a result of fewer accelerations from refundings and terminations in 2023 compared to 2022.

Loss and loss adjustment expenses were \$50.8 million in 2023 (2022: \$3.0 million). Higher losses for certain U.S. public finance exposures and the deterioration related to certain insurance securitization exposures resulted in the increase.

Net income for the year was \$283.5 million (2022: \$51.8 million), due in most part to a deferred tax benefit of \$188.8 million recorded in the fourth quarter of 2023, arising from the new Bermuda corporate income tax law that was passed in December 2023 as described in more detail in *Section i.g. Performance of Investments & Material Income & Expenses for the Reporting Period*.

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

### *Insured and reinsured portfolio summaries*

#### **Financial Guaranty Portfolio Summary**

	As of December 31, 2023			As of December 31, 2022		
	GPO	Ceded to Non-Affiliated Reinsurers	NPO	GPO	Ceded to Non-Affiliated Reinsurers	NPO
	(in thousands)					
Public finance	\$ 54,696,266	\$ —	\$ 54,696,266	\$ 52,956,953	\$ —	\$ 52,956,953
Structured finance	4,278,271	300,000	3,978,271	3,644,285	—	3,644,285
Total	<u>\$ 58,974,537</u>	<u>\$ 300,000</u>	<u>\$ 58,674,537</u>	<u>\$ 56,601,238</u>	<u>\$ —</u>	<u>\$ 56,601,238</u>
IG (1)	\$ 57,700,519	\$ 300,000	\$ 57,400,519	\$ 55,213,751	\$ —	\$ 55,213,751
BIG (1)	\$ 1,274,018	\$ —	\$ 1,274,018	\$ 1,387,487	\$ —	\$ 1,387,487

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

#### **Specialty Business Portfolio Summary**

	As of December 31, 2023		As of December 31, 2022	
	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure
	(in thousands)			
Insurance securitizations	\$ 1,370,393	\$ 1,043,418	\$ 1,313,795	\$ 986,204
RVI	355,101	200,048	355,101	200,048
Other guaranties	2,056,997	2,056,997	228,302	228,302

### *Investment performance*

The total investment return for 2023 was \$52.0 million (2022: \$43.7 million). The increase was primarily as a result of increased investment income on short-term investments as a result of higher interest rates in 2023. The Company's investments are typically held to maturity, therefore the preferred measure of investment return is yield-to-maturity, which was approximately 5% at December 31, 2023.

### **System of Governance**

The Company's Board has overall responsibility for directing and controlling the activities of the Company which includes the establishment and oversight of its system of governance. The Board and management of the Company are committed to high standards of corporate governance and have placed significant focus on the establishment and maintenance of a comprehensive and effective governance framework. Integral to this framework are the functions overseen by the Board that perform the day-to-day operations of the Company and implement policies, procedures, guidelines and limits approved by the Board.

The Company's risk management and compliance functions are responsible for managing risks and are supplemented by an independent (outsourced) Internal Audit function which provides assurance over the operation of the risk management framework, including the Company's internal control framework.

The Company's governance and risk management framework is described in more detail in *Section ii, Governance Structure* and *Section iii, Risk Profile*.

## Risk Profile

The most significant risk to which the Company is exposed remains underwriting risk. The Company's tolerance for risk is established within its Risk Appetite Statement. Risk exposures are controlled and monitored under the Risk Management Framework, which ensures a continuous process of risk identification, measurement, monitoring, management and reporting. The Company's risks and how those risks are addressed are described in more detail in *Section iii, Risk Profile*.

## Valuation for Solvency Purposes

Under the Solvency Regulations all assets and liabilities are required to be valued on a basis that reflects their fair value. The excess of the Company's assets over liabilities within its economic balance sheet as at December 31, 2023 was \$1.2 billion. Net assets as reported within the Company's U.S. GAAP financial statements were \$1.1 billion. The adjustments made to U.S. GAAP shareholder's equity to derive solvency capital are set out below.

### Summary of adjustments to U.S. GAAP balance sheet

	As of December 31, 2023	As of December 31, 2022
	(in thousands)	
Shareholder's equity under U.S. GAAP	\$ 1,094,448	\$ 837,720
Disallowed items (prepayments, deferred tax related to Bermuda CIT)	(189,024)	(295)
Adjustment to net best estimate provision & discounting	425,849	293,672
Risk Margin	(100,609)	(102,213)
Deferred tax adjustment	(10,684)	(3,082)
Solvency capital under Solvency Regulations	<u>\$ 1,219,980</u>	<u>\$ 1,025,802</u>

Further details of the Company's valuation of assets, technical provisions and other liabilities under the Solvency Regulations are described in more detail in *Section iv, Solvency Valuation*.

## Capital Management

A primary objective of the Company's capital management is to ensure sufficient capital resources to meet the Company's regulatory capital requirements.

The Company's regulatory solvency position has strengthened considerably during the year with the regulatory solvency coverage ratio increasing to 424.9% (2022: 349.6%) due to an increase in the investment portfolio and decrease in Technical Provisions. The ECR and MSM solvency coverage ratios are shown below.

### Summary of ECR and MSM

	As of December 31, 2023	As of December 31, 2022
	(in thousands)	
Eligible Capital to meet the ECR	\$ 1,219,980	\$ 1,025,802
ECR	\$ 287,094	\$ 293,445
ECR Ratio	424.9 %	349.6 %
Eligible Capital to meet the MSM	\$ 1,219,980	\$ 1,025,802
MSM	\$ 71,774	\$ 73,361
MSM Ratio	1,699.8 %	1,398.3 %

All of the Company's eligible capital was categorized as Tier 1.

The Company's eligible capital and solvency capital requirements are described in more detail in *Section v, Capital Management*.



## **i. BUSINESS AND PERFORMANCE**

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

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

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

AG Re was incorporated in 1996 under the Companies Act as a Bermuda exempted company limited by shares. AG Re is licensed as a Class 3B 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:

Ariane Evangelista  
Assistant Director, Insurance  
Bermuda Monetary Authority  
BMA House  
43 Victoria Street  
Hamilton  
Bermuda  
Phone: 441-295-5278  
Email: aariasEvangelista@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: Peter Wong, Supervising Risk Management Specialist  
Phone: 212-709-1640  
Email: peter.wong@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

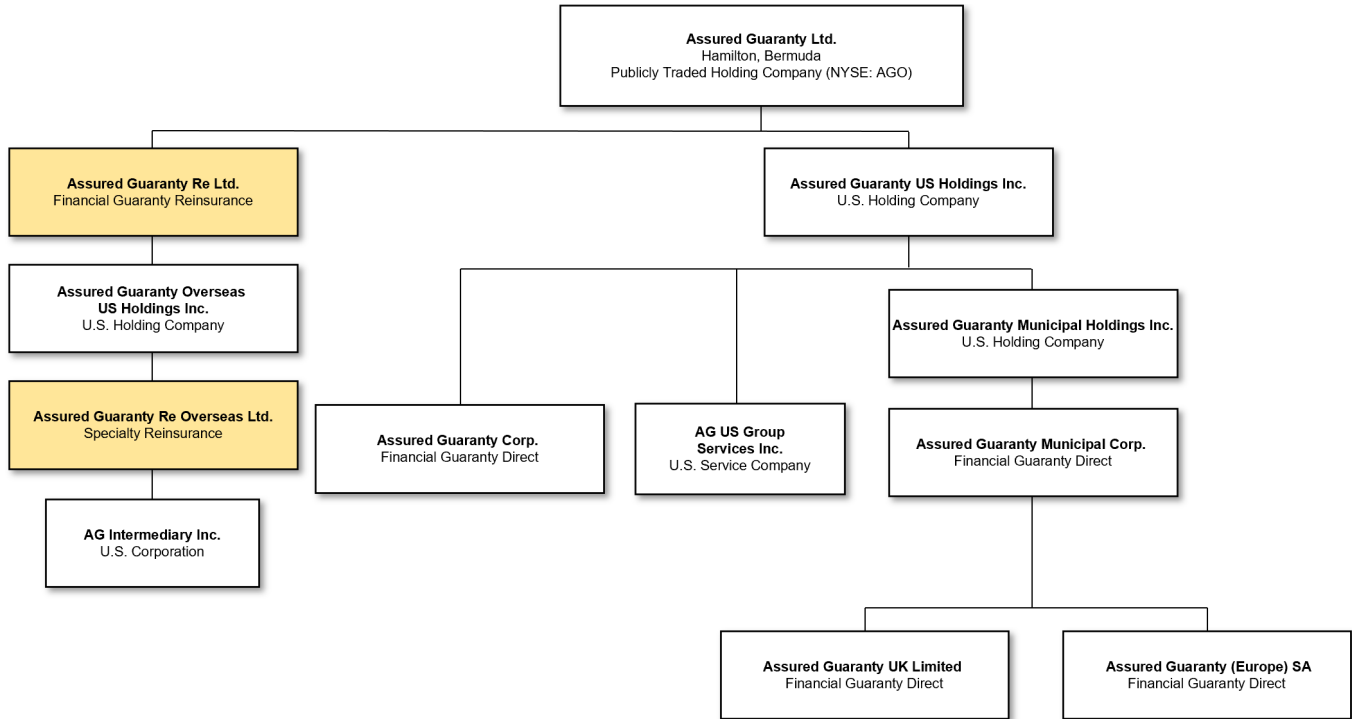
GAAP Reporting  
PricewaterhouseCoopers LLP  
300 Madison Avenue  
New York, New York 10017  
United States of America

**d. Ownership Details**

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, 2023.



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

The Company writes financial guaranty and other lines of reinsurance and insurance.

***Financial Guaranty Business***

The Company’s outstanding exposure consists primarily of reinsurance of financial guaranty contracts written in insurance form. The Company also reinsures some financial guaranty contracts that are in credit derivative form, primarily CDS. The Company last reinsured financial guaranty contracts in CDS form in 2009. Whether written directly or assumed, the Company considers credit derivative contracts to be financial guaranty contracts. The Company also writes specialty business that is consistent with its risk profile and benefits from its financial guaranty underwriting experience.

The Company seeks to limit its exposure to losses by underwriting obligations that it views as 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.

Public finance obligations 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. The Company also includes within public finance obligations similar obligations issued by U.S. and non-U.S. sovereign and sub-sovereign issuers and governmental authorities.

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. 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.

### Financial Guaranty Portfolio Summary

	As of December 31, 2023			As of December 31, 2022		
	GPO	Ceded to Non-Affiliated Reinsurers	NPO	GPO	Ceded to Non-Affiliated Reinsurers	NPO
	(in thousands)					
Public finance	\$ 54,696,266	\$ —	\$ 54,696,266	\$ 52,956,953	\$ —	\$ 52,956,953
Structured finance	4,278,271	300,000	3,978,271	3,644,285	—	3,644,285
Total	<u>\$ 58,974,537</u>	<u>\$ 300,000</u>	<u>\$ 58,674,537</u>	<u>\$ 56,601,238</u>	<u>\$ —</u>	<u>\$ 56,601,238</u>
IG (1)	\$ 57,700,519	\$ 300,000	\$ 57,400,519	\$ 55,213,751	\$ —	\$ 55,213,751
BIG (1)	\$ 1,274,018	\$ —	\$ 1,274,018	\$ 1,387,487	\$ —	\$ 1,387,487

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

### Financial Guaranty Exposure by Geographical Area

Country / State	As of December 31, 2023		As of December 31, 2022	
	GPO	NPO	GPO	NPO
	(in thousands)			
Public finance:				
United Kingdom	\$ 10,011,769	\$ 10,011,769	\$ 8,329,051	\$ 8,329,051
California	8,300,375	8,300,375	8,691,300	8,691,300
Texas	4,995,342	4,995,342	4,616,007	4,616,007
Pennsylvania	3,724,626	3,724,626	3,688,872	3,688,872
New York	3,664,766	3,664,766	3,469,782	3,469,782
Other (1)	23,999,388	23,999,388	24,161,941	24,161,941
Total public finance	<u>54,696,266</u>	<u>54,696,266</u>	<u>52,956,953</u>	<u>52,956,953</u>
Structured finance (2)	<u>4,278,271</u>	<u>3,978,271</u>	<u>3,644,285</u>	<u>3,644,285</u>
Total	<u>\$ 58,974,537</u>	<u>\$ 58,674,537</u>	<u>\$ 56,601,238</u>	<u>\$ 56,601,238</u>

(1) The GPO and NPO of the Company's exposure to Puerto Rico was \$293 million as of December 31, 2023 and \$355 million as of December 31, 2022 (see below). The exposure was internally rated BIG.

(2) Primarily all structured finance exposure is in multiple states that cannot be broken out by individual state.

#### Exposure to Puerto Rico

The Company had reinsured exposure to the general obligation bonds of the Commonwealth of Puerto Rico (Puerto Rico or the Commonwealth) and obligations of various authorities and public corporations of Puerto Rico aggregating \$293 million net par outstanding as of December 31, 2023, down from \$355 million net par outstanding as of December 31, 2022. All of the Company's reinsured exposure to Puerto Rico is rated BIG. As of December 31, 2023, the only remaining outstanding reinsured Puerto Rico exposure subject to a payment default was the Puerto Rico Electric Power Authority (PREPA). As of December 31, 2023, the Company had approximately \$18.5 million of remaining non-defaulting Puerto Rico

exposures related to the Municipal Finance Agency (MFA), which are secured by a lien on local tax revenues and remain current on debt service payments.

On June 30, 2016, the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) was signed into law. PROMESA established a seven-member Financial Oversight and Management Board (the FOMB) with authority to require that balanced budgets and fiscal plans be adopted and implemented by Puerto Rico. Title III of PROMESA provides for a process analogous to a voluntary bankruptcy process under Chapter 9 of the United States Bankruptcy Code.

After over five years of negotiations, a substantial portion of the Company's Puerto Rico exposure was resolved in 2022 in accordance with three orders entered by the United States District Court of the District of Puerto Rico (Federal District Court of Puerto Rico) related to the Company's exposure to all reinsured Puerto Rico credits experiencing payment default in 2022 except PREPA (2022 Puerto Rico Resolutions). As a result of the 2022 Puerto Rico Resolutions, during 2022 the Company's obligations under its reinsurance policies covering debt of the Puerto Rico Infrastructure Authority (PRIFA) were extinguished, and its reinsurance exposure to Puerto Rico general obligations (GO) bonds, Public Buildings Authority (PBA) and the Puerto Rico Highway and Transportation Authority (PRHTA) bonds was greatly reduced. The Company's remaining exposure to GO bonds and PBA bonds was paid down and extinguished on July 1, 2022 and August 31, 2023, respectively.

Under the Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, and the Puerto Rico Public Buildings Authority (GO/PBA Plan), AGC and AGM, the Company's ceding insurers (Ceding Insurers), directly received cash, new general obligation bonds (New GO Bonds) and contingent value instruments (CVIs). In connection with the Modified Fifth Amended Title III Plan of Adjustment for PRHTA (HTA Plan) and related arrangements, the Ceding Insurers directly received cash and new bonds backed by toll revenues (Toll Bonds, and together with the New GO Bonds, New Recovery Bonds) from the PRHTA and CVIs from the Commonwealth. Cash, New Recovery Bonds and CVIs received pursuant to the 2022 Puerto Rico Resolutions are collectively referred to as Plan Consideration.

Beginning in January 2024, the remaining PRHTA liabilities are payable in full by the Ceding Insurers under their financial guaranty policies, and is payable by AG Re to the Ceding Insurers for its share of assumed reinsurance exposure, and are no longer dependent on the credit of PRHTA. The Ceding Insurers are continuing their efforts to resolve the one remaining Puerto Rico reinsured exposure that is in payment default, PREPA.

Economic, political and legal developments, including inflation and increases in the cost of petroleum products may impact any resolution of the Company's PREPA reinsured exposure and the value of any remaining consideration received in connection with the 2022 Puerto Rico Resolutions or any future resolutions of the Company's PREPA reinsured exposures. The impact of developments relating to Puerto Rico during any quarter or year could be material to the Company's results of operations and shareholders' equity.

### ***Specialty Business***

The Company, through AGRO, also guarantees specialty business with risk profiles similar to those of its structured finance exposures written in financial guaranty form.

#### **Specialty Business**

	<u>As of December 31, 2023</u>		<u>As of December 31, 2022</u>	
	<u>Gross Exposure</u>	<u>Net Exposure</u>	<u>Gross Exposure</u>	<u>Net Exposure</u>
	(in thousands)			
Insurance securitizations (1)	\$ 1,370,393	\$ 1,043,418	\$ 1,313,795	\$ 986,204
RVI	355,101	200,048	355,101	200,048
Other guaranties	2,056,997	2,056,997	228,302	228,302

(1) The insurance securitizations exposure is projected to reach \$1.5 billion gross exposure and \$1.2 billion net exposure in 2026.

As of both December 31, 2023 and December 31, 2022, gross exposure of \$144 million and net exposure of \$84 million of aircraft RVI exposure was rated BIG. All other exposures in the table above are IG.

## PVP (New Business)

PVP, the Company's key non-GAAP 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,					
	2023			2022		
	Gross Exposure Written (1)	PVP	Number of Transactions	Gross Exposure Written (2)	PVP	Number of Transactions
	(in thousands, except number of transactions)					
Financial guaranty	\$ 5,152,351	\$ 100,028	914	\$ 3,818,649	\$ 92,319	1,026
Other guaranties	2,206,628	49,557	3	257,094	6,023	1
Total	<u>\$ 7,358,979</u>	<u>\$ 149,585</u>	<u>917</u>	<u>\$ 4,075,743</u>	<u>\$ 98,342</u>	<u>1,027</u>

- (1) Represents gross par written for financial guaranty insurance and gross exposure written for several specialty transactions, the largest of which was an excess-of-loss guaranty of a minimum amount of billed rent on a diversified portfolio of real estate properties.
- (2) 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,	
	2023	2022
	(in thousands)	
<b>Revenues</b>		
Net earned premiums	\$ 81,322	\$ 85,404
Net investment income	54,027	44,663
Net realized investment gains (losses)	(2,050)	(1,006)
Fair value gains (losses) on credit derivatives	20,362	(2,153)
Foreign exchange gains (losses) on remeasurement	8,087	(13,482)
Change in assumed funds held with affiliates	21,045	(17,324)
Other income (loss)	9,303	3,589
<b>Total revenues</b>	<u>192,096</u>	<u>99,691</u>
<b>Expenses</b>		
Loss and LAE (benefit)	50,818	2,989
Amortization of deferred acquisition costs	23,373	25,015
Employee compensation and benefit expenses	12,798	11,295
Other operating expenses	6,568	6,256
<b>Total expenses</b>	<u>93,557</u>	<u>45,555</u>
<b>Income before income taxes</b>	<u>98,539</u>	<u>54,136</u>
Provision (benefit) for income taxes	(184,948)	2,351
<b>Net income</b>	<u>\$ 283,487</u>	<u>\$ 51,785</u>

## Material Income and Expenses

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

On December 27, 2023 the Bermuda government enacted a corporate income tax at the rate of 15% which will apply for accounting periods starting on or after January 1, 2025. The enactment of the corporate income tax regime requires the Company to recognize Bermuda deferred taxes for the first time and is recognized in the period that includes the date of enactment. Effective at the beginning of 2025, the Company and its Bermuda subsidiary will be subject to a 15% corporate income tax.

The new Bermuda corporate income tax allows an economic transition adjustment (ETA) equal to the difference between the fair market value and the carrying value of assets and liabilities of the Company and its Bermuda insurance subsidiary as of September 30, 2023. The ETA resulted in the establishment of a deferred tax asset and corresponding benefit of \$188.8 million reported in the fourth quarter of 2023 consolidated statement of operations. The ETA is expected to be utilized over 10 to 15 years, beginning in 2025. Refer to *Section iv, Solvency Valuation* for how the deferred tax asset is valued in the economic balance sheet.

## Investments

The Company's investment strategy focuses on establishing a highly liquid, diversified investment portfolio of high credit quality managed by an external investment manager. Investments are typically held to maturity, therefore, the Company's preferred measure of investment return is yield-to-maturity, which was approximately 5% at December 31, 2023.

The portfolio consists of fixed-maturity securities and short-term investments. The overall duration of the investment portfolio at December 31, 2023 was 4.3 years (2022: 4.2 years.) and the average credit quality was A+ (2022: AA-).

The following tables present the investment portfolio by asset class, contractual maturity, and return.

### Investment Portfolio by Asset Class

Asset Class	As of December 31, 2023		As of December 31, 2022	
	Estimated Fair Value	Weighted Average Credit Rating(1)	Estimated Fair Value	Weighted Average Credit Rating(1)
	(in thousands)			
Fixed-maturity securities:				
Corporate securities	\$ 648,981	A	\$ 553,713	A
Obligations of state and political subdivisions	259,594	AA	280,000	AA-
RMBS	147,832	AA+	136,476	AA+
CMBS	70,015	AAA	132,690	AAA
Asset-backed securities	47,144	BBB+	35,002	AAA
U.S. government and agencies	22,071	AA+	25,490	AA+
Non-U.S. government securities	227	AA-	225	AA-
Total fixed-maturity securities	1,195,864	A+	1,163,596	AA-
Short-term investments	79,313	AAA	100,804	AAA
Total fixed-maturity and short term investment portfolio	\$ 1,275,177	A+	\$ 1,264,400	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, 2023**

	<b>Estimated Fair Value</b>
	<b>(in thousands)</b>
Due within one year	\$ 76,210
Year two	109,498
Year three	68,429
Year four	59,082
Year five	77,526
Due after five years through 10 years	332,466
Due after 10 years	254,806
RMBS	147,832
CMBS	70,015
Total	\$ 1,195,864

**Investment Return**

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
	<b>(in thousands)</b>	
Investment income:		
Fixed-maturity securities:		
Corporate securities	\$ 22,515	\$ 18,979
Obligations of state and political subdivisions	11,283	11,169
RMBS	5,696	6,049
CMBS	3,669	4,762
Asset-backed securities	3,186	961
U.S. government and agencies	437	1,025
Non-U.S. government securities	10	18
Total fixed-maturity securities	46,796	42,963
Short-term investments	6,064	1,784
Other	819	—
Interest income from loan receivable from affiliate	1,282	917
Gross investment income	54,961	45,664
Investment expenses and charges	(934)	(1,001)
Net investment income	54,027	44,663
Net realized investment gains (losses)	(2,050)	(1,006)
Total investment return	\$ 51,977	\$ 43,657

As of December 31, 2023, the Company had one equity method investment in a managed fund with a carrying value of \$3 million. The unfunded commitment related to this managed fund was \$7 million as of December 31, 2023.

**Net Earned Premiums**

The Company's net earned premiums were \$81 million in 2023 and \$85 million in 2022. Net earned premiums decreased in 2023 compared with 2022 primarily due to fewer accelerations from refundings and terminations in 2023 compared to 2022. The breakdown is as follows:

## Net Earned Premiums

	Year Ended December 31,	
	2023	2022
	(in thousands)	
Financial guaranty insurance:		
Scheduled net earned premiums	\$ 63,109	\$ 60,628
Accelerations from refundings and terminations	5,664	15,480
Accretion of discount on net premiums receivable	8,258	5,491
Financial guaranty insurance net earned premiums	77,031	81,599
Specialty net earned premiums	4,291	3,805
Net earned premiums	\$ 81,322	\$ 85,404

### Change in Assumed Funds Held with Affiliates

Change in assumed funds held with affiliates relates primarily to the assumed portion of the Affiliated Ceding Companies' net realized investment gains (losses) and fair value gains (losses) on trading securities associated with salvage received by the Affiliated Ceding Companies in the form of investments from the 2022 Puerto Rico Resolutions.

### Expenses

In 2023 and 2022, loss and LAE (benefit) were \$51 million and \$3 million, respectively. The loss and LAE in 2023 was primarily due to higher losses for certain U.S. public finance exposures and deterioration related to certain insurance securitization exposures.

### 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

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

### a. Board and Senior Executive

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

AG Re's affairs are managed by its Board and officers in Bermuda in accordance with the Code of Conduct and AG Re's Bermuda Operating Guidelines. The Code of Conduct requires Bermuda insurers to establish and maintain a comprehensive corporate governance and risk management framework and to be able to evidence the same, based generally on a principle of proportionality. The Board has the ultimate responsibility for the sound and prudent governance and oversight of the Company. The Board is responsible for ensuring that AG Re'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 AG Re's risk management and internal controls framework. In carrying out their duties, AG Re'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 AG Re's own Bermuda Operating Guidelines and constitutional framework (e.g., its bye-laws).

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

The members of the Board are comprised of members of senior management of AG Re or AGL, or other qualified individuals, in each case, who have been selected by AGL, in its capacity as the sole member of AG Re in accordance with AG Re's and AGL's Bye-Laws.

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

#### Directors

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

#### Officers

Conyers Corporate Services (Bermuda) Limited	Secretary
Gary Burnet	President
Darrin Futter	Vice President and Financial Controller
Coenraad Scheepers	Assistant Vice President, Underwriting
Serena Smith	Vice President, Surveillance

#### Loss Reserve Specialist

Daniel Jaeger

#### Principal Representative

Gary Burnet

## Chief Information Security Officer

Sherman Tsui

Additionally, the Board has established and maintains oversight over a Loss Reserve Committee responsible for setting the technical provisions and reserve risk for the company; and a Credit Committee to implement standards, controls, guidelines and procedures for the evaluation of, and to evaluate and approve, all transactions proposed to be entered into by the Company, in a manner consistent with its Risk Appetite Statement.

### **ii. Remuneration Policy**

The description of the remuneration policy contained herein applies (i) to employees of AG Re, and (ii) employees of AGL and other affiliates in the Group, including those employees who serve as directors of the Board and as the Principal Representative and Loss Reserve Specialist of AG Re. Directors and officers of AG Re who are not employees of AG Re or of affiliates within the Group are entitled to receive a fixed fee.

As noted above, AG Re'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 Chief Executive Officer of AGL, certain other officers of AGL and those individuals with a title of managing director or above who report directly to the Chief Executive Officer are subject to a recoupment (clawback) policy pursuant to which certain of their remuneration 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 \$1.0 million and \$0.9 million for the years ended December 31, 2023 and December 31, 2022, respectively.

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(k) 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**

In accordance with AGL's bye-laws, if AGL is required or entitled to vote at a general meeting of AG Re, AGL's directors must refer the matter to the shareholders of AGL and seek authority from AGL's shareholders for AGL's representative or proxy to vote in favor of the resolution proposed by AG Re. AGL's directors must cause AGL's representative or proxy to vote AGL's shares in AG Re pro rata to the votes received at the general meeting of AGL and AGL's Board has a discretionary power under AGL's bye-laws to resolve any ambiguity in this regard.

In 2023, the Company paid dividends of \$53.4 million.

AG Re and its parent, AGL, are parties to the Bermuda Service Agreement. AG Re'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 Bermuda Service Agreement, AG Services' employees make certain services available to AG Re and AGL, as applicable and as needed and requested by such companies, including, but not limited to, insurance, investor relations, actuarial, data collection and analysis, claims related services, legal, information technology, human resources, accounting, tax, financial reporting, regulatory and investment planning services. In addition, AGL employees make certain services available to AG Services and AG Re as applicable and as needed and requested by such companies, including, but not limited to, executive management, general corporate strategy, risk management and investor relations services. Expenses under the Bermuda Service Agreement are allocated directly where appropriate and, where not appropriate, based upon an allocation of employee time and corresponding office overhead. The agreement also provides for quarterly settlements and an express right of offset with regard to amounts owing between parties under the Bermuda Service Agreement and other agreements between such parties. AG Re allocates a portion of the rent to its parent company, AGL.

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

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

In connection with AG Re's annual general meeting, AG Re 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**

AG Re 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 financial guaranty and 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 Chair of the Board of AG Re and AGRO.

***Robert A. Bailenson*** has been the Chief Operating Officer of AGL since January 1, 2024. Mr. Bailenson has been with Assured Guaranty and its predecessor companies since 1990. Mr. Bailenson was Chief Financial Officer of AGL from June 2011 through December 2023. Prior to that, 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 Operating Officer 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 Chair 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. Mr. Gana currently serves on the Board of Directors of AG Re and AGRO.

**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. Ms. Horn currently serves on the Board of Directors of AG Re and AGRO.

**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.

**Walter A. Scott** was the Chairman of the AGL Board of Directors from May 2005 until his retirement in May 2013, and a director of AGL from 2004 through 2013. Mr. Scott was Chairman, President and Chief Executive Officer of ACE Limited (ACE) from 1991 until his retirement in 1994, and President and Chief Executive Officer of ACE from 1989 to 1991. Subsequent to his retirement he served as a consultant to ACE until 1996. Mr. Scott was a director of ACE from 1989 through May 2005. Prior to joining ACE, Mr. Scott was President and Chief Executive Officer of Primerica's financial services operations. Mr. Scott currently serves as the Chairman of the Board of Wachusett Brewing Company, Inc. and was also the Chairman of Vermont Hard Cider Company, LLC from 2003 until 2012, when that company was sold. Mr. Scott is an Emeritus Trustee of Lafayette College and a founding trustee of the Bermuda Foundation for Insurance Studies. Mr. Scott currently serves as an independent non-executive member of the Board of Directors of AG Re and AGRO.

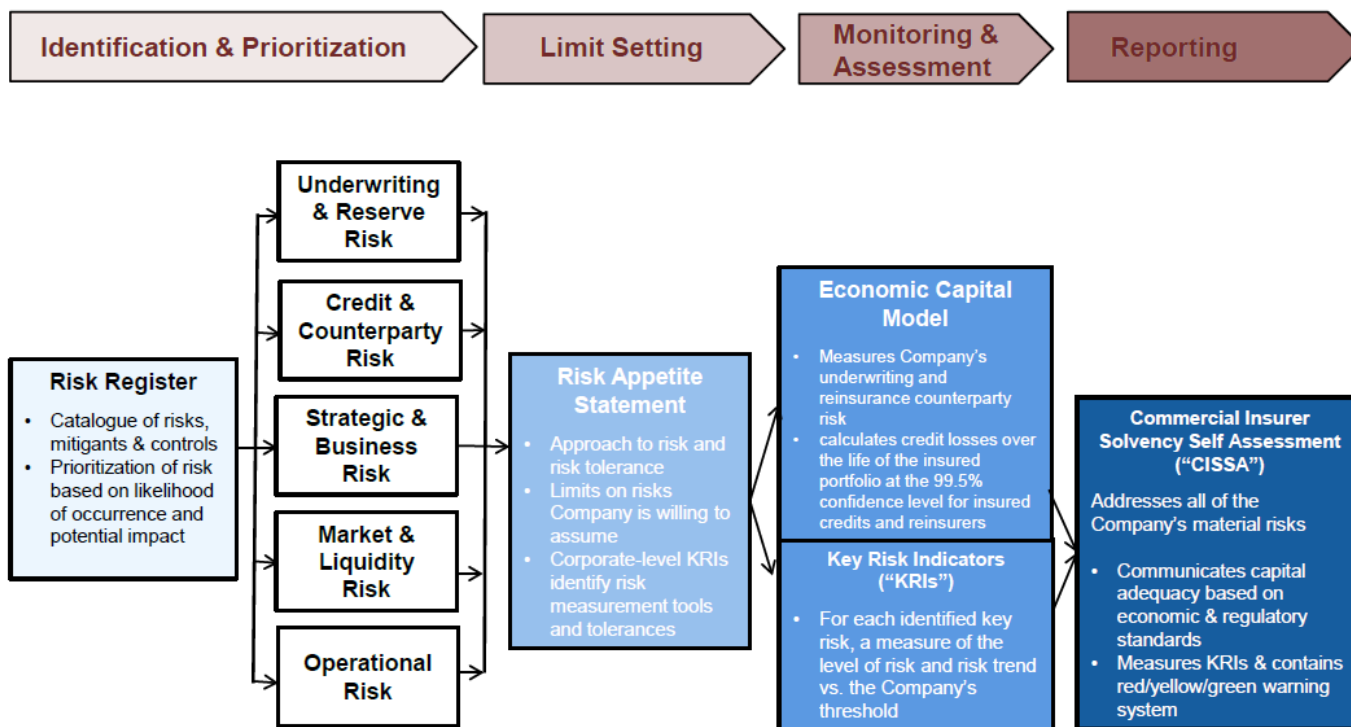
**Darrin Futter** was elected Financial Controller of AG Re and AGRO in 2007 and appointed as a director of AG Re and AGRO on May 27, 2021. Prior to joining Assured Guaranty, he worked for Deloitte Ltd. in the Bermuda office and worked as a consultant to AG Re. Mr. Futter has worked in various senior 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, which are measured quarterly, 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 reviews and updates its KRIs at least annually 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**

The Company has put in place an effective internal control system. The Company's control framework is based upon five key components:

- *Control environment* - the overall culture is established by the Company's management and its key governance functions. The Assured Guaranty Group's Code of Ethics establishes standards by which the Company's directors, management and all personnel providing services to the Company, must abide and sets the tone for how personnel supporting the Company should conduct themselves. The Code of Ethics is available at [www.assuredguaranty.com/about-us/governance](http://www.assuredguaranty.com/about-us/governance). The Code of Ethics is designed to discourage personnel from engaging in activities that could jeopardize the Company's business and reputation. The Company and the Assured Guaranty Group have established a suite of entity level control processes to contribute to the establishment of an appropriate control environment;
- *Risk assessment* - each function identifies the key risks relevant to their business objectives and related processes. This allows management to implement controls where needed;
- *Control activities* - control activities are the actions that individuals are required to undertake to implement and operate the Company's internal controls to appropriately mitigate the identified risks. The effectiveness of the design and operation of internal controls is the responsibility of the control owners and management;
- *Information and communication* - information on risk and risk assessments is routinely shared within the business. Management utilizes information from both internal and external sources and assessments to support the functioning of the system of internal control, which includes the results of control effectiveness assessments; and
- *Monitoring* - the monitoring of risks and controls is primarily the responsibility of the control owners. The Internal Audit function is also responsible for assessing the effectiveness of the Company's internal controls and reporting to the Board on the effectiveness of the internal control environment.

#### **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 approval by the Company's Board and 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 AG Re'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 AG Re'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 and ultimately the Board.

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.
- Monitoring compliance with the Company's policies, procedures and process and reporting compliance violations or significant issues raised during the year.



- 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.
- Promoting a corporate culture of compliance and integrity and developing a mechanism for employees to report confidentially concerns regarding compliance deficiencies and breaches.
- Implementing a training program for Company personnel on compliance issues and 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 (i) 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; and (ii) monitoring and reporting to the Group's Chief Compliance Officer new and/or revised laws, rules, regulations or other requirements coming into effect or being proposed that are or may be applicable to the Company or that could otherwise impact the Company's business. These items are 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 primary responsibility of the Internal Audit function is to provide the Board with an independent and objective analysis and appraisal of the efficiency and effectiveness of the Company's governance, operations and internal control systems, the accuracy of financial reporting, and compliance with applicable laws and regulations.

The Internal Audit function must be segregated and staffed by persons independent from operational functions, including risk management, compliance, underwriting, actuarial, claims and finance.

The Internal Audit function's duties include:

- Developing and maintaining clearly defined charters, roles and responsibilities that are reviewed and acknowledged by the Board regularly;
- Establishing, documenting and executing the internal audit plan;
- Assessing the adequacy and effectiveness of the Company's governance, risk management policies, procedures, and controls;
- Identifying areas for improvement; and
- Reporting findings to the Board, and evaluating and monitoring the implementation of recommendations.

The internal audit plan should take into consideration the Company's nature, scale and complexity. The internal audit plan is to be reviewed and approved annually by the Board.

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. All employees are required to assist the Internal Audit function in fulfilling their duty.

#### **f. Actuarial Function**

AG Re's Actuarial Function is supported by the Loss Reserve Specialist, who provides actuarial services to AG Re pursuant to the Bermuda Service Agreement. The Loss Reserve Specialist's responsibilities include:

- proposing loss reserves to the Loss 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, 2023,
- is a CFA Charterholder; 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 its operations and the desire to ensure the efficiency and effectiveness of its operations, the Company has determined that certain functions and processes should be outsourced to an affiliate company or third parties.

All of AG Re'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 AG Re's management and/or the Board, as appropriate.

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

##### *Investment Management*

AG Re outsources the management of its fixed maturity and short term investment portfolio to third party investment managers 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 managers manage AG Re's investment portfolio in accordance with the investment guidelines approved by AG Re's Board. The investment managers are Goldman Sachs Asset Management, L.P. and Wellington Management Company, LLP. 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, AG Re's affairs are managed by its Board and officers in Bermuda. In addition, the Company contracts with its affiliate to provide certain administrative support services. The Company is a party to service agreements with AG Services pursuant to which AG Services makes available to the Company certain services, including actuarial, marketing, claims handling, surveillance, legal, compliance, corporate secretarial, information technologies, human resources, accounting, tax, financial reporting and investment planning services. The costs charged to the Company for the provision of these services are determined based upon an allocation of employee time and corresponding office overhead. Employees of AG Services that are performing administrative services for AG Re are not empowered to make underwriting or other decisions on behalf of AG Re or to bind AG Re in any way.

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

There was no other material information.

### iii. RISK PROFILE

This section of the FCR provides information on the material risks faced by the Company. The Company categorizes these risks into five areas: underwriting risk, market risk, credit risk, liquidity risk and operational risk. All key risks are captured within the Company's Risk Register along with the internal control and other actions designed to mitigate these risks. Key risks are monitored via the use of key risk indicators and the Company's CISSA, which forms an integral part of the risk management framework.

#### a. Underwriting Risk

The Company's most material risk is underwriting risk. The Company underwrites financial guaranty reinsurance under quota share and excess of loss treaties and other types of insurance and reinsurance that have risk profiles similar to its structured finance business. 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.

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.

#### Measurement

The Company's main metrics for measuring its portfolio underwriting 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 and maturity dates for its RVI transactions, as well as the investment performance and mortality rates for its insurance securitization transactions. At the closing of each transaction, the Company's 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 financial guaranty insured portfolio and the breakdown of internal ratings, measured by GPO and NPO as of December 31, 2023 and 2022, are set forth below.

## Sector Breakdown of the Financial Guaranty Insured Portfolio

Sector	As of December 31, 2023			As of December 31, 2022		
	Number of Risks	GPO	NPO	Number of Risks	GPO	NPO
	(in thousands, except number of risks)					
<b>Public finance:</b>						
General obligation	3,843	\$ 18,036,462	\$ 18,036,462	3,552	\$ 18,401,313	\$ 18,401,313
Tax backed	1,026	7,872,501	7,872,501	1,035	8,292,446	8,292,446
Regulated utilities	74	6,607,966	6,607,966	69	5,475,871	5,475,871
Municipal utilities	815	6,104,264	6,104,264	822	5,915,708	5,915,708
Infrastructure finance	160	4,815,410	4,815,410	154	4,205,263	4,205,263
Transportation	138	4,333,135	4,333,135	144	4,099,239	4,099,239
Healthcare	109	2,100,585	2,100,585	105	1,912,162	1,912,162
Higher education	180	1,777,266	1,777,266	181	1,814,999	1,814,999
Sovereign and sub-sovereign	314	1,335,653	1,335,653	326	1,156,163	1,156,163
Pooled infrastructure	3	566,626	566,626	3	540,258	540,258
Renewable energy	9	453,544	453,544	9	466,269	466,269
Housing revenue	23	218,999	218,999	25	189,588	189,588
Investor-owned utilities	6	188,882	188,882	6	189,697	189,697
Other public finance	14	284,973	284,973	15	297,977	297,977
Total public finance	6,714	54,696,266	54,696,266	6,446	52,956,953	52,956,953
<b>Structured finance:</b>						
Insurance securitizations	12	3,667,821	3,367,821	10	3,044,686	3,044,686
Pooled corporate obligations	16	130,981	130,981	15	105,911	105,911
RMBS	181	125,036	125,036	191	140,602	140,602
Consumer receivables	12	113,848	113,848	13	159,848	159,848
Subscription Finance Facilities	14	103,544	103,544	3	58,192	58,192
Commercial receivables	4	2,707	2,707	4	7,788	7,788
Other structured finance	34	134,334	134,334	33	127,258	127,258
Total structured finance	273	4,278,271	3,978,271	269	3,644,285	3,644,285
Total financial guaranty insured portfolio	6,987	\$ 58,974,537	\$ 58,674,537	6,715	\$ 56,601,238	\$ 56,601,238

### *Specialty Business*

In addition to the financial guaranty par exposure shown in the table above, the Company offers, through AGRO, specialty insurance, reinsurance and other guaranties on either a direct or reinsurance basis. As of both December 31, 2023 and December 31, 2022, 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 IG.

### Specialty Business Gross and Net Exposure

	As of December 31, 2023		As of December 31, 2022	
	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure
	(in thousands)			
Insurance securitizations (1)	\$ 1,370,393	\$ 1,043,418	\$ 1,313,795	\$ 986,204
RVI	355,101	200,048	355,101	200,048
Other guaranties	2,056,997	2,056,997	228,302	228,302

(1) The insurance securitizations exposure is projected to reach \$1.5 billion gross exposure and \$1.2 billion net exposure in 2026.

### Risk Concentration

The Company's top ten credit exposures measured by GPO represented 12.2% of GPO as of December 31, 2023. These exposures were in various sectors, including regulated utilities, insurance securitizations and tax backed bonds.

### Financial Guaranty Portfolio Breakdown by Internal Credit Rating (1)

Rating Category	As of December 31, 2023		As of December 31, 2022	
	GPO	NPO	GPO	NPO
	(in thousands)			
AAA	\$ 778,430	\$ 778,430	\$ 775,210	\$ 775,210
AA	7,229,785	7,229,785	7,042,060	7,042,060
A	28,246,745	27,946,745	25,594,033	25,594,033
BBB	21,445,559	21,445,559	21,802,448	21,802,448
BIG	1,274,018	1,274,018	1,387,487	1,387,487
Total	\$ 58,974,537	\$ 58,674,537	\$ 56,601,238	\$ 56,601,238

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

The table below sets forth the Company's BIG transactions net par outstanding as of December 31, 2023 and 2022. There were no ceded BIG exposures.

**Financial Guaranty  
BIG Net Par Outstanding by Sector**

Sector	As of December 31, 2023		As of December 31, 2022	
	Number of Risks	Par	Number of Risks	Par
	(in thousands, except number of risks)			
Insurance securitizations	2	\$ 293,798	2	\$ 293,798
Municipal utilities	6	276,769	6	306,451
Healthcare	5	175,061	5	175,251
Tax backed	9	119,598	9	187,450
General obligation	31	105,581	40	122,090
RMBS	72	56,317	85	63,340
Renewable Energy	1	48,701	—	—
Infrastructure finance	4	48,442	6	80,722
Consumer receivables	5	42,008	4	47,404
Higher education	5	27,774	6	30,186
Housing revenue	1	15,812	1	16,494
Transportation	3	13,275	3	13,238
Investor Owned Utilities	1	7,099	—	—
Commercial receivables	2	1,500	2	6,578
Sovereign and sub-sovereign	2	900	2	1,030
Other	1	41,383	1	43,455
Total BIG (1)	150	\$ 1,274,018	172	\$ 1,387,487

(1) The Company's BIG net par outstanding for Puerto Rico was \$293 million and \$355 million as of December 31, 2023 and 2022, respectively.

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

## Risk Mitigation

### *Underwriting & Credit Procedures*

Most of the Company's business comes to it through quota share and other reinsurance treaties from its Affiliated Ceding Companies. The Company does not underwrite individual exposures under these treaties. The Company performs diligence on potential ceding companies prior to entering into reinsurance treaties to assess, among other things, the ceding company's business strategy, underwriting abilities, surveillance and workout functions, data integrity, internal audit findings and accounting and payment processes. The Company applies its risk underwriting judgment, risk management skills and capital markets experience in the conduct of its business.

In general, transactions ceded under insurance treaties are comprised of U.S. and non-U.S. public finance, infrastructure, and structured finance transactions. In negotiating treaties, the Company may seek to limit its exposure to losses by, among other things, limiting covered transactions to ones that are rated IG at inception by the ceding company and /or fit within the Company's diversification goals; or prohibiting certain types of transactions that the Company has not approved as insurable risks.

In the event the Company does directly underwrite and provide insurance on a transaction, it undertakes a complete review and analysis of the transaction and all of the material risks identified during the process, including underwriting risks, structural risks, legal and other risks as described in the Company's Risk Appetite Statement.

The Company's Credit Committee is composed of senior officers of the Company. Within the parameters delegated to it by the Board, the Credit Committee establishes underwriting standards and guidelines and processes and controls that govern transactions, and has the authority to review and approve or reject transactions undertaken by the Company. All new transactions approved by the credit committee, other than small RVI transactions and internal reinsurance cessions, 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***

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. For directly insured transactions, the Company's surveillance personnel are responsible for managing workout activities. 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.

### ***Reinsurance***

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

	<u>As of December 31, 2023</u>	<u>As of December 31, 2022</u>
	(in thousands)	
Financial guaranty ceded par outstanding (2)	\$ 300,000	\$ —
Specialty ceded exposure	482,028	482,644

- (1) The total collateral posted by third-party reinsurers was \$5 million as of December 31, 2023. There was no collateral posted by third-party reinsurers as of December 31, 2022. As of both December 31, 2023 and December 31, 2022, \$60 million of ceded RVI exposure (Specialty) is rated BIG. There were no cessions to affiliated reinsurers.
- (2) All ceded par was rated investment grade as of December 31, 2023.

### **Risk Sensitivity**

At least annually, the Company runs a series of stress tests to determine the sensitivity of its ECR to various material underwriting risks. 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:

- Puerto Rico,
- U.S. Municipals,
- Infrastructure Finance

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

Market risk includes the Company's exposure to spread risk, interest rate risk, foreign exchange risk, and market risk concentrations. The Company is exposed to market risk via its investment portfolio and future cash flows from the insured portfolio. The Company is primarily exposed to market risk via its investment portfolio. The Company's investment portfolio had a market value of \$1.3 billion as of December 31, 2023 and December 31, 2022.

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

The investment portfolio is managed by third party investment managers. The established investment limits are included within the Board approved investment guidelines issued to the investment managers. The investment managers are required to regularly confirm their compliance with limits.

## Spread Risk

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

The Company manages its exposure to spread risk by establishing minimum credit rating standards for the investment portfolio, for both individual securities and the overall portfolio. The overall portfolio credit quality, on an ongoing basis must be rated a minimum of "A+/"A1"/"A+" as measured by S&P, Moody's and Fitch. All securities purchased by external managers must be rated by one of S&P, Moody's or Fitch and at least 90% of the portfolio must be rated by two of S&P, Moody's and Fitch.

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

## Investment Portfolio by external credit rating

	As of December 31, 2023	As of December 31, 2022
	(in thousands)	
AAA	\$ 128,039	\$ 188,841
AA	455,738	446,941
A	448,144	382,582
BBB	147,563	142,012
Lower than BBB or not rated <sup>1</sup>	16,380	3,220
<b>Total fixed-maturity securities</b>	<b>\$ 1,195,864</b>	<b>\$ 1,163,596</b>

<sup>1</sup> investments rated below BBB or not rated comprise an alternative investment which is not rated and a security held for loss mitigation purposes



## Interest Rate Risk

The Company is exposed to interest rate risk in respect of both assets and liabilities. The Company receives cash inflows in the form of investment income and premiums. The Company pays cash outflows in the form of operating expenses and claims.

The Company's exposure to interest rate risk is managed by restricting the overall duration of the investment portfolio to within a prescribed range of a selected benchmark portfolio. Given the Company's cautious approach to market risk and the primary objectives of the Company's investment strategy, the overall duration is generally short and the investments are generally held to maturity. The Company does not seek to mitigate interest rate risk by matching the duration of the Company's invested assets with liabilities arising from the insured portfolio. However, the Company's liabilities which include expected claims and operating expenses, are more than offset by future premiums and investment income.

## Currency Risk

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

## Measurement

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

## Risk Concentration

As of December 31, 2023 and December 31, 2022, respectively, the Company's investment portfolio had an average credit quality rating of "A+" and "AA-". 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.

### Investment Portfolio Composition Concentrations by Security Type

Security Type	As of December 31, 2023	As of December 31, 2022
Fixed-maturity securities:		
Corporate securities	50.9 %	43.8 %
Obligations of state and political subdivisions	20.4	22.1
RMBS	11.6	10.8
CMBS	5.5	10.5
Asset-backed securities	3.7	2.8
U.S. government and agencies	1.7	2.0
Total fixed-maturity securities	93.8	92.0
Short-term investments	6.2	8.0
Total fixed-maturity and short term investment portfolio	100.0 %	100.0 %

## Risk Mitigation

In the event of any downgrade of any investment below the Company's requirements, the investment managers 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. Each quarter, 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 the risk of non-payment by the obligors on the transactions that it insures or reinsures which are discussed above in *Section iii.a. Underwriting Risk*. The only other counterparty credit risks the Company has relate to a small amount of exposure ceded to reinsurers, to an intra-Group loan, a small reinsurance recoverable and cash that the Company holds. The external reinsurer credit ratings are reviewed and approved at least annually by the Group Risk Management Committee.

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**

Liquidity risk is the risk that cash may not be available at a reasonable cost to pay obligations as they fall due. 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 investment portfolio had a duration of 4.3 years as of December 31, 2023 and 4.2 years as of December 31, 2022 which is shorter than the duration of its insurance liabilities of 12.5 years as of December 31, 2023 and 12.9 years as of December 31, 2022. For more information see *Section i.g Performance of Investments & Material Income & Expenses for the Reporting Period*.

## **Risk Sensitivity**

Each quarter, 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**

Operational risk is defined as the risk of loss or other adverse consequences on business outcomes resulting from inadequate or failed internal processes, personnel or systems, or from external events. Operational risk is seen as a business-wide risk that could arise from either underwriting, investing, risk mitigation or any other activity the Company undertakes. Consequently, operational risk is inherent in all of the Company's processes, interactions with third parties and other activities.

The Company faces a variety of operational risks including those related to 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. The Company has limited appetite for operational risk and expects that the Company's business functions work actively to avoid operational risk to the extent it is commercially appropriate. The Company regularly assesses its ability to prevent, adapt, respond to, recover from, and learn from operational disruptions on the basis that from time to time, disruptions may occur which will prevent management and staff from operating as usual.

As of December 31, 2023, the Company had approximately 7,006 risks in its insured portfolio, up from 6,700 risks as

of December 31, 2022. The moderate increase in the 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, 2023, the Company was not a party in any litigation or subject to any known regulatory investigation.

## **f. Any Other Material Information**

### **Climate change**

As an insurer and reinsurer, AG Re endeavors to manage risk wisely, responsibly and with a view towards the long-term success of our business. We are committed to understanding, managing and mitigating the risks to our business associated with climate change and to operating our business in a sustainable and environmentally responsible manner.

We believe the Company is most likely to be exposed to the financial risks of climate change from its underwriting and investing activities.

*Insured Portfolio.* The Company does not take direct insurance exposure to climate change but with respect to its financial guaranty reinsurance, it does face the risk that its obligors' ability to pay debt service may be impaired by the impact of extreme weather events. The Company provides financial guaranty reinsurance to policies with durations of approximately 20 years, meaning in-force risks, as well as those currently being underwritten, are potentially exposed to the long-term consequences of frequent or severe natural disaster perils (e.g., storms and wildfires). AG Re takes a holistic and long-term approach to managing the risks arising from climate change. The Company continues to enhance its consideration of climate risk in the underwriting, credit approval, and surveillance of its insured exposures and has integrated climate risk into its Risk Management function. The Company also incorporates climate-related risk into its CISSA process, as outlined in the BMA's Guidance Notes, Management of Climate Change Risks for Commercial Insurers, March 2023.

*Investment Portfolio.* The Company has a substantial investment portfolio supporting its insurance exposures and regulatory capital requirements. The portfolio consists predominantly of fixed-maturity securities. Nevertheless, environmental issues, including regulatory changes, changes in supply or demand characteristics of fuels, and extreme weather events, may impact the value of certain securities. The Company revised its investment guidelines to incorporate material environmental factors into its investment analysis to enhance the quality of investment decisions. On an annual basis, the Company requests and reviews reports from its primary investment managers on any material non-financial risks (including vulnerability to climate change risks or exposure to extreme weather events) that may adversely impact returns.

*Environmental Stewardship.* While we believe the direct impact of our operations on the environment is relatively small, we understand that we have a role and a responsibility to manage our operations in ways that reflect our respect for the environment. The Assured Guaranty group contributes to the global effort to combat climate change by measuring and reporting its greenhouse (GHG) emissions. Pursuant to the Greenhouse Gas Protocol, Assured Guaranty conducts internal data collection and analysis annually for its Scope 1, Scope 2 and certain key Scope 3 GHG emissions (air travel). Assured Guaranty's methodology and results are reviewed by an independent third party, which conducts a reasonable assurance review for Scopes 1 and 2 emissions and a limited assurance review for Scope 3 emissions, in accordance with ISO 14064-3 International Standards.

The Company's ultimate parent, AGL, has implemented policies and procedures on environmental stewardship which apply to the Company's operations and employees. AGL's Environmental Policy and Climate Change Statement can be found at: <https://assuredguaranty.com/about-us/governance> The Environmental Policy guides strategies and actions in four critical areas: (i) insurance risk management and strategic opportunities, (ii) investment opportunities, (iii) business operations and facilities management, and (iv) employee engagement. The policy applies to all personnel, across all offices and operations of Assured Guaranty, including the Company.

*Governance.* The Company's Board is responsible for the oversight of climate risk management. At each of its quarterly meetings, the Company's Board reviews environmental risk reports. The Group Chief Risk Officer is designated as the AG Re board member and member of senior management responsible for overseeing the management of climate risks.

At the group level, the Environmental and Social Responsibility Committee and the Risk Oversight Committee of AGL's Board of Directors, each consisting solely of independent directors, provide oversight of Assured Guaranty's approach to addressing climate change risk in accordance with their respective charters. The Environmental and Social Responsibility Committee reviews updates on the consideration of environmental risks in Assured Guaranty's insurance risk management and

its investment portfolio, as well as legislative and regulatory developments of significance to Assured Guaranty's environmental initiatives and related oversight. The Risk Oversight Committee reviews the establishment and implementation of enterprise risk management policies and practices.

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

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

##### **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.

Set out below is a summary of the valuation methodology used to arrive at the value of each category of assets shown on the economic balance sheet and the differences to U.S. GAAP.

##### ***Investments***

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

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

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

As of December 31, 2023, the Company used models to price 19 securities with a fair value of \$42 million. As of December 31, 2022, the Company used models to price 19 securities with a fair value of \$28 million. All of these securities were priced with the assistance of independent third parties.

As of December 31, 2023, the Company had one equity method investment in a managed fund with a carrying value of \$3.5 million. The unfunded commitment related to this managed fund was \$6.5 million as of December 31, 2023. For purposes of the economic balance sheet, the equity method carrying value approximates fair value.

##### ***Cash and cash equivalents***

Cash relates to deposits held at financial institutions. These are recognised at face value without any deductions for both U.S. GAAP and economic balance sheet purposes.

##### ***Deferred acquisition costs***

Under U.S. GAAP, acquisition costs incurred in respect of the successful production of new business are capitalized in the balance sheet and amortized over the period in which the related premiums are earned.

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

### ***Deferred tax assets***

The method for recognition and valuation of deferred tax assets is different under Solvency Regulations and U.S. GAAP. Refer to *Section i.g. Performance of Investments & Material Income & Expenses for the Reporting Period* for more information on the new Bermuda corporate income tax.

Within the economic balance sheet deferred tax assets are established for the temporary differences arising from the valuation adjustments to move from U.S. GAAP to an economic balance sheet. Deferred tax is measured using tax rates that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Per instruction from the BMA, the Company has not reflected the impact of the Bermuda CIT on its economic balance sheet and deferred taxes are only calculated in so far as they pertain to U.S. tax paying entities.

### ***Insurance receivables***

Insurance receivables reported under U.S. GAAP consist of all premiums and reinsurance balances that were receivable at the balance sheet date.

Expected future cash flows are included within Technical Provisions as described in *Section b.* below.

### ***Other assets***

Under U.S. GAAP, other assets include guaranty fee receivable and prepaid expenses. Under Solvency Regulations, prepaid expenses are a non-admitted asset. The guarantee fee receivable is included within Technical Provisions as described in *Section b.* below

Advances or loans from affiliates are recorded at fair value for the economic balance sheet and balances receivable in more than one year are discounted at the relevant risk free rate. Under U.S. GAAP, the advances or loans are recorded at their face value

All other insurance assets are included in the calculation of Technical Provisions as discussed in *Section b.* below.

## **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, 2023**

	<b>Financial Statement Balance Sheet</b>	<b>Economic Balance Sheet</b>
	<b>(in thousands)</b>	
Best Estimate	\$ —	\$ 54,062
Risk margin	—	100,609
Gross unearned premium reserve	824,249	—
Gross loss and loss expense provisions	244,243	—
Total	<u>\$ 1,068,492</u>	<u>\$ 154,671</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 Technical Provisions 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 contracts written in insurance and CDS forms as well as specialty insurance and reinsurance 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. For financial guaranty contracts written in CDS form, premiums that are due to be received after the balance sheet date are incorporated into the fair value of the CDS.
- 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 both financial guaranty contracts written in insurance and CDS forms 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. For financial

guaranty contracts written in CDS form, commissions that are due to be paid after the balance sheet date are incorporated into the fair value of the CDS.

- Under Solvency Regulations, projected losses are included in the calculation of Technical Provisions and are calculated on payment guarantees, financial guaranty contracts written in insurance and CDS forms as well as specialty insurance and reinsurance 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. For financial guaranty contracts written in CDS form, potential losses are incorporated into the fair value of the CDS under U.S. GAAP.
- 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 reinsurers are contractually obligated to pay and will likewise be entitled to receive their share of any recoveries. Under Solvency Regulations, the Company's reinsurance recoverable for these transactions are 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 reinsurers, the assumed cumulative default rate of the reinsurers and the amount of collateral posted by the reinsurers. 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.

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

#### ***Trade payables***

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



***Any other liabilities***

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

All other insurance liabilities are included in the calculation of Technical Provisions as discussed in *Section b.* below.

**e. Any Other Material Information**

None.

## v. CAPITAL MANAGEMENT

This section sets out how the Company manages its solvency capital, including policies and procedures for the management of capital. It also details the Company's calculation of the ECR and MSM.

### 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. Surplus capital may be paid out in dividends, subject to statutory limitations as defined by the Insurance Act. All dividends are at the discretion of the Board and subject to Board approval and the Company will only consider amounts in excess of the Company's enhanced capital requirement plus sufficient excess to satisfy applicable internal and regulatory target capital requirements. In 2023, the Company paid dividends of \$53 million.

With respect to the liquidity of its capital base, 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 managers, setting forth single risk and asset category limits, duration guidelines and rating standards. The outside investment managers 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, 2023 and 2022, all of the Company's eligible capital was categorized as Tier 1:

#### Eligible Capital

	<u>2023</u>	<u>2022</u>
	(in thousands)	
Tier 1 Capital	<u>\$ 1,219,980</u>	<u>\$ 1,025,802</u>

The Tier 1 capital consists of capital stock, contributed surplus and statutory surplus. The increase in the Tier 1 capital in 2023 compared to prior year is primarily due to an increase in the investment balances and a decrease in Technical Provisions. The increase in the investment balances is primarily due to unrealized gains and investment income on the investment portfolio. The decrease in Technical Provisions is due to an increase in future installment premiums and a decrease in loss reserves.

**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, 2023 and 2022, the Company's eligible capital used to meet its MSM and ECR was categorized as follows:

	<b>Eligible Capital</b>			
	<b>2023</b>		<b>2022</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	<u>\$ 1,219,980</u>	<u>\$ 1,219,980</u>	<u>\$ 1,025,802</u>	<u>\$ 1,025,802</u>

**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 difference in shareholder's equity, as stated in the U.S. GAAP financial statements and the available statutory capital and surplus, primarily relates to the impact of employing Solvency Regulations based Technical Provision valuation techniques.

The difference between shareholder's equity of the Company in the U.S. GAAP financial statements and the economic balance sheet is set out below. Further details of the Company's assets, technical provisions and other liabilities under the Solvency Regulations basis of valuation are described in more detail in *Section iv, Solvency Valuation*.

**Summary of adjustments to U.S. GAAP balance sheet**

	<u>As of December 31, 2023</u>	<u>As of December 31, 2022</u>
	(in thousands)	
Shareholder's equity under U.S. GAAP	\$ 1,094,448	\$ 837,720
Disallowed items (prepayments, deferred tax related to Bermuda CIT)	(189,024)	(295)
Adjustment to net best estimate provision & discounting	425,849	293,672
Risk Margin	(100,609)	(102,213)
Deferred tax adjustment	(10,684)	(3,082)
Solvency capital under Solvency Regulations	<u>\$ 1,219,980</u>	<u>\$ 1,025,802</u>

**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.

### MSM and ECR Amounts

	<u>As of</u> <u>December 31, 2023</u>	<u>As of</u> <u>December 31, 2022</u>
	(in thousands)	
MSM	\$ 71,774	\$ 73,361
ECR	287,094	293,445

The decreases in 2023 compared to prior year were primarily due to a decrease in the catastrophe risk offset by increases in the fixed income and premium risks.

#### **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, 2023 and 2022.

#### **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.

**vi. SUBSEQUENT EVENTS**

**a. Description of Significant Events**

There are no other 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 Ltd.



Darrin Futter  
Financial Controller  
Assured Guaranty Re Ltd.