Assured Guaranty (Europe) plc

Registered Number: 2510099

Annual report and financial statements

For the year ended 31 December 2019

Annual report and financial statements

For the year ended 31 December 2019

Contents

Company information

Directors
Robert Adam Bailenson
Charles Peter Barrington
Mark Batten
Dominic James Frederico
Simon William de Mussenden Leathes
Dominic James Brian Nathan
Nicholas James Proud
Penelope Margaret Shaw (appointed 11th April 2019)

Company secretary
Sandali Harvey
Ruth Cove

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Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
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Strategic report for the year ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019.

Principal activities

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

The Company is authorised by the Prudential Regulation Authority ("PRA") and regulated by both the PRA and the Financial Conduct Authority ("FCA"). The Company is authorised to effect and carry out three classes of general insurance, specifically: classes 14 (credit), 15 (suretyship) and 16 (miscellaneous financial loss). In 2019, the Company underwrote financial guarantees on public and infrastructure finance obligations only. The Company also has permission to advise on, to arrange and to assist in the administration and performance of its financial guarantee insurance contracts.

The Company is a wholly owned subsidiary of Assured Guaranty Municipal Corp. ("AGM"). AGM is an insurance company domiciled in the State of New York, United States of America ("US"). AGM currently provides financial guarantee insurance on debt obligations issued in the US public finance and global public finance and infrastructure markets.

On 7 November 2018 the Company combined its operations with those of its subsidiaries, Assured Guaranty (UK) plc ("AGUK"), Assured Guaranty (London) plc ("AGLN") and CIFG Europe SA ("CIFGE") ("the Merger"). Under the Merger, the subsidiaries transferred their insurance portfolios and merged with and into the Company. The subsidiaries were immediately dissolved on the date of the Merger without going into liquidation. The transaction was effected under Part VII of the Financial Services and Markets Act 2000 and French insurance portfolio transfer procedures, pursuant to the Companies (Cross-Border Merger) Regulations 2007 and the French Commercial Code. The effective accounting date of the Merger was 1 November 2018, with the transferring assets and liabilities of the subsidiaries recognised by the Company from that date. The results of the Company include the operations of the former subsidiaries from 1 November 2018. Further information on the Merger is provided in note 5 to the financial statements.

The Company generally guarantees transactions under a co-insurance structure with its parent company, AGM, under which the Company directly insures 15% of new transactions and AGM directly guarantees the remaining 85% balance of the guaranteed obligations and also provides a second-to-pay guarantee for the Company's portion of the guaranteed obligations. Where a co-insurance structure is not permitted by local regulations, the Company directly provides the guarantee and subsequently reinsures a significant portion to AGM. For transactions closed prior to 2011, the Company typically guaranteed obligations directly and reinsured to AGM approximately 92% of the Company's retention, after cessions to other reinsurers, under the quota share cover of the AGM Reinsurance Agreement (as defined under Parental and Affiliate Support Agreements below). Transactions originally underwritten by AGUK and CIFGE and transferred to the Company under the Merger were reinsured 90% and 100% respectively to Assured Guaranty Corp. ("AGC"). Transactions originally underwritten by AGLN and transferred to the Company have only limited levels of reinsurance, typically less than 5% to AGC and Assured Guaranty Reinsurance Limited ("AGRE").

Review of business

Financial position and performance of the Company

The results of the Company for the year, as set out on page 17 of the financial statements, show a profit on ordinary activities before tax of £10.8 million (2018: loss of £4.2 million). The profit results from the Company's underwriting and investment activities, which are described further below. The Board of Directors (the "Board") monitors the performance and position of the Company by reference to, among other measures, the following KPI's:

Strategic report for the year ended 31 December 2019 (continued)

	2019	2018
Number of new transactions	**10**	8
	£'000	£'000
PVP[1]	**29,932**	11,567
Net earned premiums	**11,412**	(7,595)
Claims incurred, net of reinsurance	**11**	903
Change in other technical provisions, net of reinsurance	**597**	(2,772)
Investment return	**15,385**	(77)
Net insured par value of obligations ("par") outstanding	**10,401,784**	9,959,000
Regulatory solvency cover ratio	**226%**	230%

[1] PVP, which is a non-GAAP (Generally Accepted Accounting Principles) financial measure, is defined as gross upfront and instalment premiums received plus the present value of gross estimated future instalment premiums, on contracts written in the current year, discounted at 6% per year.

[2] The regulatory solvency cover ratio is the ratio of the Company's Solvency II Own Funds to the Company's Solvency Capital Requirement calculated in accordance with the Solvency II Standard Formula.

The Company continued to underwrite business across a number of public finance sectors during the year, including student accommodation, regulated utilities and social housing, generating PVP and gross premiums written of £29.9 million and £69.2 million respectively. This represents an increase in PVP of 159% on the prior year and is the highest level of new business premium generated by the Company since 2008. This increase is attributable to a higher level of new business activity, including the underwriting of a large portfolio of public finance sub-sovereign risks and a Spanish solar energy refinancing, which was the Company's first financial guarantee policy in Spain since 2008. Gross premiums written from new business of £69.2 million were partially offset by £8.6 million of negative gross premiums following the restructuring of an existing transaction.

The overall underwriting result for the year was a profit of £1.4 million (2018: loss of £4.6 million). The improved underwriting result is due to a significant increase in net earned premiums to £11.4 million (2018: negative £7.6 million), partially offset by an increase in net operating expenses to £10.0 million (2018: £0.5 million). These increases resulted from the growth in the Company's insured portfolio and of its operating expense base due to the Merger.

During the year the Company restructured one of its below investment grade ("BIG") transactions which resulted in the Company recovering previously paid claims and loss adjustment expenses of £2.7 million. The restructuring also reduced the Company's gross insured exposure from $500 million to $40.4m and resulted in an increase in net outstanding claims reserves of £0.3 million. The increase in other technical provisions, net of reinsurance of £0.6 million was driven from adverse developments in the performance of BIG transactions, which have not defaulted, but for which the Company had previously established an unexpired risk provision.

The Company's investment portfolio generated a net investment return of £15.4 million (2018: loss of £0.1 million). The increase in investment income results from lower unrealised losses and increased interest income following a significant increase in the size of the investment portfolio. The Company's preferred measure of its investment return is yield to maturity; as at 31 December 2019 the yield on the Company's investment portfolio was 1.62% (2018: 2.05%).

The level of new business written during the year was such that new insured par exceeded the reduction due to run-off of existing insured obligations. As at 31 December 2019, the Company had issued guarantees on financial obligations with gross outstanding par of £24.1 billion (2018: £23.6 billion) and net par after reinsurance of £10.4 billion (2018: £10.0 billion). The Company's unearned premium reserves also increased during the year due to the level of new business premium.

The Company remains in a very strong financial position with a regulatory solvency cover ratio of 226% at 31 December 2019. The reduction from 230% at the prior year end is due to the capital required to support new business written during the year.

Strategic report for the year ended 31 December 2019 (continued)

Ratings

Obligations insured by the Company are generally awarded ratings on the basis of the financial strength ratings given to the Company by major securities rating agencies. As at 1 May 2020, AGM and the Company have been assigned the following insurance financial strength ratings set out below, by S&P Global Ratings, a business unit of Standard & Poor's Financial Services ("S&P"), Moody's Investors Service, Inc. ("Moody's") and Kroll Bond Rating Agency, Inc. ("KBRA"):

S&P: AA / Stable Outlook

Moody's: A2 / Stable Outlook

KBRA: AA+ / Stable Outlook

These ratings are subject to continuous review. S&P, Moody's and KBRA have all reaffirmed the financial strength ratings of AGM and the Company within the last 12 months. Most recently, on 16 December 2019, S&P issued a credit rating report in which it affirmed AGM's and the Company's financial strength rating of "AA" (stable outlook). On 27 August 2019, Moody's affirmed its existing insurance financial strength rating of "A2" (stable outlook) and on 7 January 2020, KBRA affirmed its financial strength rating of AA+ (stable outlook). There have been no further rating reports on the Company or AGM to the date of this report.

Parental and Affiliate Support Agreements

AGM currently provides support to the Company, through a quota share and excess of loss reinsurance agreement (the "AGM Reinsurance Agreement") and a net worth maintenance agreement (the "AGM Net Worth Maintenance Agreement"). The versions of such agreements currently in force became effective on 7 November 2018 upon completion of the Merger.

Under the quota share cover of the AGM Reinsurance Agreement, AGM reinsures between approximately 95% - 99% of the Company's retention of each policy after cessions to other reinsurers, excluding the transactions transferred to the Company under the Merger. The policies reinsured under the agreement were those issued prior to 2011 because, as noted above, the Company generally underwrote new business on a coinsurance basis from 2011. The agreement also provides that to the extent AGE issues a future qualifying policy without utilising the coinsurance structure described above, AGM will reinsure a fixed 85% share of the Company's gross liabilities under such policy.

Under the excess of loss cover of the AGM Reinsurance Agreement, AGM is required to pay the Company the amount by which (i) the sum of (a) the Company's incurred losses calculated in accordance with UK GAAP and (b) the Company's net paid losses and loss adjustment expenses, exceed (ii) an amount equal to (a) the Company's capital resources under UK law minus (b) 110% of the amounts as may be required by the PRA as a condition for the Company to maintain its authorisation to carry on a financial guarantee business in the UK. The AGM Reinsurance Agreement permits the Company to terminate the agreement upon the following events: a downgrade of AGM's ratings by Moody's below Aa3 or by S&P below AA- if AGM fails to restore its rating(s) to the required level within a prescribed period of time, AGM's insolvency or failure by AGM to maintain the minimum capital required by its home jurisdiction.

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

Under the terms of the AGM Net Worth Maintenance Agreement, as noted above, AGM is obligated to ensure the Company maintains capital resources equal to 110% of the amounts as may be required by the PRA as a condition of the Company maintaining its authorisation to carry on financial guarantee business in the UK provided that AGM's contributions (a) do not exceed 35% of AGM's policyholders' surplus on an accumulated basis as determined by the laws of the State of New York, and (b) are in compliance with Section 1505 of the New York Insurance Law. AGM has never been required to make any contributions to the Company's capital under the AGM Net Worth Maintenance Agreement.

At the date of the Merger, the Company also entered into a quota share reinsurance agreement with Assured Guaranty Corp. ("AGC"), (the "AGC Reinsurance Agreement"). This agreement preserves AGC's 90% quota share reinsurance of the legacy AGUK policies and 100% reinsurance of the legacy CIFG policies that are now part of the

Strategic report for the year ended 31 December 2019 (continued)

Company's portfolio, but it has no application to new business written by the Company. The AGC Reinsurance Agreement imposes a collateral requirement on AGC consistent with that for the AGM Reinsurance Agreement, as described above, except that AGC continues also to post as collateral its share of an AGE-guaranteed (formerly, prior to the Merger, AG UK-guaranteed) triple-X insurance bond purchased by AGC for loss mitigation, as AGC had done under its prior reinsurance agreement with AGUK.

Strategy and future outlook

The Company continues to develop its pipeline of new business opportunities. In the UK the Company continues to build upon the demand for its financing solutions within the essential infrastructure markets, as well as seeking to develop its offering in the structured finance markets.

COVID-19

The outbreak of a new coronavirus, now known as COVID-19, has resulted in a pandemic causing significant disruption across the world. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

The Company has invoked its business continuity plans to help ensure the safety and well-being of its staff who have been working remotely for a number of weeks. During this period the Company has demonstrated that it can operate effectively under remote working with no significant impact on day-to-day operations. The Company's governance procedures and internal control processes have continued to operate as designed during the Company's transition to remote working. The Company will continue to take appropriate measures to ensure the well-being of its staff.

The Company is actively monitoring the potential impacts of the pandemic across all areas of its business. Uncertainty around the extent, duration and impact of the pandemic, including the duration of nationwide travel bans and longer-term impact to the global economy, mean it is currently not possible to reliably estimate the financial impacts of COVID-19. The Company has utilised stress and scenario testing to assess potential impacts on its insured portfolio, and more broadly, its solvency and liquidity position. These scenarios have taken into consideration the impact on the insured portfolio from potential claims, the potential downgrade of insured risks, as well as the impact on the Company's investments. They include reverse stress scenarios and severe stress scenarios in which lockdowns and travel restrictions continue for over 12 months and are followed by a prolonged period of reduced economic activity and recession. After consideration of these assessments the Company believes that in such scenarios its regulatory solvency would remain in compliance with the Company's risk appetite and its liquidity would remain significantly in excess of the Company's requirements.

The Company believes that its affiliated reinsurers' are well positioned to manage the impacts of the pandemic and to continue to honour their obligations to AGE.

The impact of COVID-19 on the Company's new business opportunities will be dependent upon the extent and duration of economic disruption and cannot be determined at this time. Although it is clear there has and will continue to be a slowdown or delay in new market issuances, the Company has continued its underwriting activities within both the primary and secondary markets and has continued to underwrite new policies while operating remotely. The Company believes that the value offered by its guarantees is evident in the current volatile markets in helping investors gain greater confidence in unprecedented times and to limit the cost of widening credit spreads.

The potential impacts of COVID-19 are further discussed within principal risks and uncertainties below.

Brexit

The UK's withdrawal from the European Union ("Brexit") continues to be an area of uncertainty for the Company. However, significant progress has been made during the year in mitigating the potential impact of Brexit upon the Company's operations.

The UK parliament approved a withdrawal agreement with the EU and the UK left the EU on 31 January, 2020, entering into a transition period which is currently set to end on 31 December 2020. The terms of any future trading relationship between the UK and EU are likely to restrict the Company's ability to underwrite new business and service existing policies within the EEA after the end of the transitional period on 31 December 2020. In order to

Strategic report for the year ended 31 December 2019 (continued)

ensure that existing EEA based policies can continue to be serviced and new EEA transactions can be entered into, the Company's parent, AGM, has established a new French insurance subsidiary, AGE SA, from which these activities will be conducted. AGE SA was authorised to conduct insurance business in France and certain other EEA countries in January 2020 and issued its first financial guarantee policy in February 2020 in respect of a Spanish solar energy refinancing. The Company is in the process of transferring existing EEA polices to AGE SA utilising an insurance transfer under Part VII of the Financial Services and Markets Act 2000 ("Part VII Transfer"). Significant progress has been made in respect of the transfer with the Court Order for Directions received in September 2019. The Part VII Transfer is expected to complete later this year.

The Company has also taken steps to mitigate any potential impact of Brexit upon staffing by ensuring that all employees working in AGE's London office are either UK citizens or have UK resident status. In addition, as the terms of the UK's future trading relationship with EU become known, especially in the event that terms are not agreed by the end of the transition period, this could have a significant impact on currency exchange rates. The Company's exposure to currency risk is disclosed in note 21 to the financial statements.

Principal risks and uncertainties

The Company has established a Risk Management Framework which seeks to ensure that risk is managed within the overall risk appetite and associated limits established by the Board. Under this framework risks are categorised into five areas: underwriting risk, counterparty default risk, market risk, liquidity risk and operational risk. The Company's exposure to these risks as at 31 December 2019 and its approach to managing them is described within note 21 to the financial statements.

The COVID-19 pandemic could significantly impact the Company's key risks. As noted above, the Company has utilised stress and scenario testing to assess the potential financial impacts, including potential impacts on regulatory solvency and liquidity. The potential impacts to the Company's key risks and how the Company is working to assess and monitor these is described in further detail below.

Underwriting Risk

The high credit quality of the Company's insured risks mean it is generally well positioned to manage the short and longer-term impacts of the pandemic. However, in some scenarios, the Company could experience claims, particularly in the case of insured risks subject to demand or construction risk. The impact of any defaults will be significantly mitigated by the fact that the Company is only obligated to pay the shortfall in principal and interest due on scheduled payment dates; payments insured under policies generally cannot be accelerated without the Company's consent and the Company has the right to seek subsequent reimbursement from the issuer for any paid claims. The Company is also generally afforded a level of protection from insured claims in the shorter-term due to the liquidity available at transaction level, which includes available credit lines and debt service reserve accounts.

Counterparty Credit Risk

The Company's reinsurers are subject to potential claims on their respective insured portfolios due to the impacts of COVID-19, as well as potential impacts to market, liquidity, credit and operational risks. The Company believes that the affiliated reinsurers' significant levels of excess capital and liquidity mean they are well positioned to manage the impacts of the pandemic. The Company continues to actively monitor its counterparty credit exposure to its reinsurers.

Market Risk

The recent volatility and significant weakening in financial markets is being monitored closely and the Company has undertaken more frequent valuations of its portfolio to monitor the impact of this volatility on the Company's balance sheet. The Company's conservative investment philosophy has meant that the market value of its investments, which principally comprise government or government supported securities and investment grade corporate bonds, have not been significantly impacted by recent market weakening. Positive investment performance in early 2020, prior to the significant effects of the pandemic on financial markets, and the partial recovery of financial markets following government stimulus and other interventions has resulted in the fair value of the Company's investment holdings (including cash on deposit with the investment custodian) increasing from £797.8 million as at 31 December 2019 to £800.7 million as at 31 March 2020.

Strategic report for the year ended 31 December 2019 (continued)

The Company's sensitivity to interest rate and currency risk is detailed in note 21 to the financial statements.

The Company is also exposed to the potential for credit downgrades or defaults on its corporate bond investments. Corporate default risk is actively monitored by the Company and its investment manager and the Company has been working with its investment manager to reassess this risk in the current environment. The high credit quality of the investment portfolio should also mitigate significant impacts arising from downgrades or defaults.

Liquidity Risk

The Company possesses significant liquidity with £340.1 million in cash and government securities as at 31 December 2019. Under the Company's severe COVID-19 stress scenarios liquidity is expected to remain significantly in excess of the Company's requirements.

Operational Risk

The Company's staff have now been working remotely for a number of weeks with no significant impact on day-to-day operations. While operational risk could increase as a result of remote working, the Company is satisfied that this can be appropriately mitigated by the Company's internal control and governance processes which have continued to operate effectively during this time.

Stakeholder engagement

The directors of the Company must act in accordance with a set of general duties. These duties are detailed in Section 172 of the UK Companies Act 2006, which is summarised as follows:

"A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- the likely consequences of any decision in the long term,
- the interests of the Company's employees,
- the need to foster the Company's business relationships with suppliers, customers and others,
- the impact of the Company's operations on the community and the environment,
- the desirability of the Company maintaining a reputation for high standards of business conduct, and
- the need to act fairly as between members of the Company."

As part of their induction, the directors are briefed on their duties and they can access professional advice on these, either through the Company or, if they judge it necessary, from an independent provider. The Board is responsible for the management and long-term success of the Company, taking into account the interests of the Company and its stakeholders. To discharge this responsibility, the Board has established frameworks for governance, risk management and internal control.

Each year, the Board undertakes an in-depth review of the Company's strategy, including the business plan for the following three years. Once approved by the Board, the business plan and strategy form the basis for financial budgets, resource plans and investment decisions, and also the future strategic direction of the Company. The Company's Own Risk And Solvency Assessment ("ORSA") process, which considers the risks to which the Company is exposed and how they are expected to change over the plan period, is a key component of the risk and capital management frameworks and integral to the business planning process and the Board's long-term decision making. In making decisions concerning the business plan and future strategy, the Board has regard to a variety of matters including the interests of various stakeholders, the consequences of its decisions in the long term and its long-term reputation.

The following summarises how the directors have fulfilled their duties with respect to specific stakeholders. In addition, since the start of the COVID-19 pandemic the directors have closely monitored its impact on the Company and have been focused on maintaining an active dialogue with all stakeholders, including to update them on the Company's actions to assess and manage the impacts of recent events.

Shareholders

AGM is the sole shareholder of the Company. Representatives of AGM are also directors of the Company which ensures that the strategies and objectives for the Company are well understood by the shareholder and, where appropriate, aligned to those of the external shareholders of Assured Guaranty Ltd ("AGL").

Strategic report for the year ended 31 December 2019 (continued)

Policyholders/Customers

The Company aims to provide tailored products that address customer needs within various sectors of the essential infrastructure and public finance markets. The Chief Executive Officer and Chief Underwriting Officer are in regular contact with the project sponsors and investors to ensure the Company's financing solutions continue to meet the needs of its customers.

Ensuring that the Company can meet its obligations to existing policyholders is a key objective for the Board in its oversight of the Company's strategy and business plan. The Company's capital management process is further described in note 21 to the financial statements. During the year the Board approved the Company's entry into the Part VII Transfer, further details of which are given within 'strategy and future outlook' above, to ensure that EEA based insurance policies can continue to be serviced following the UK's planned exit from the EU.

Regulators and rating agencies

The Directors are committed to a strong relationship with regulators and have sought to establish a strong regulatory compliance culture throughout the organisation and maintaining a reputation for high standards of business conduct.

A number of stakeholders give importance to independent views from the rating agencies of the Company's financial strength and claims paying capabilities. The directors believe the Company has well-established relationships with the rating agencies. All relevant publications produced by the Company's key rating agencies were published on AGL's website for ease of access by all stakeholders.

Employees

The Company does not have any direct employees but regards its workforce to be the employees of Assured Guaranty (UK) Services Limited ("AGUKS") which makes the service of its employees available to the Company. The Company's long term success is dependent on the commitment of its workforce and their demonstration of the Company's values on a daily basis. As part its governance regime the Board ensures that the workforce has annual training on the Company's code of conduct, anti-money laundering requirements, anti-workplace harassment and whistleblowing policies. During the year, members of the board also held town hall meetings with these employees, providing an opportunity to engage directly with them on a variety of topics.

Suppliers

The Company has developed a supplier management policy which dictates that all suppliers must adhere to the Company's high ethical standards and aims to treat all suppliers fairly. During the year, the Company utilised the supplier approval process set out in the supplier management policy to assess all new suppliers. Existing suppliers were also periodically reviewed to ensure that they continued to meet the requirements of the supplier management policy.

Impact of the Company's operations on the community and environment

As a financial guarantor, the Company plays a valuable role in lowering the financing cost of essential infrastructure projects which benefit communities within the UK and the wider EEA, including hospitals, roads, universities and utilities.

The Company acknowledges its environmental responsibility and recognises that the way we choose to operate our business, and in who we invest and work with has an environmental and social impact. The directors are committed to understanding, managing and mitigating the risks to our business associated with environmental issues and to operating our business in a sustainable and environmentally responsible manner.

Approved by the Board of Directors on 1 May 2020 and signed on its behalf by:

Nicholas James Proud
Director
1 May 2020

Directors' report for the year ended 31 December 2019

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2019.

Future Developments

Likely future developments for the Company are discussed within the strategic report.

Dividends

The directors do not recommend the payment of a dividend (2018: nil).

Financial Instruments

Information on the use of financial instruments by the Company and its management of financial risk, including the Company's management of its exposure to market risk is disclosed in note 21 to the financial statements.

Directors

The directors of the Company who were in office during the year or up to the date of the signing of the financial statements were:

Robert Adam Bailenson
Charles Peter Barrington
Mark Batten
Dominic James Frederico
Simon William de Mussenden Leathes
Dominic James Brian Nathan
Nicholas James Proud
Penelope Margaret Shaw (appointed 11 April 2019)

Qualifying Third Party Indemnity Provisions

The Company's articles of association include a qualifying third party indemnity provision for the benefit of the members of the Board of Directors.

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements and;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Directors' report for the year ended 31 December 2019 (continued)

Statement of directors' responsibilities (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure of information to auditors

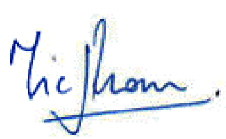
Each of the persons who is a director at the date of this report confirms that:

1) so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2019 of which the auditors are unaware; and
2) they have taken all steps that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. A resolution concerning their reappointment was approved at the meeting of the Company's Board of Directors on 1 May 2020.

Approved by the Board of Directors on 1 May 2020 and signed for on its behalf by:



Nicholas James Proud
Director
1 May 2020

Independent auditors' report to the members of Assured Guaranty (Europe) plc

Report on the audit of the financial statements.

Opinion

In our opinion, Assured Guaranty (Europe) plc's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2019; the Profit and loss account and the Statement of changes in equity for the year then ended; and the Notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

Other than those disclosed in note 8 to the financial statements, we have provided no non-audit services to the Company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview

- Overall materiality: £7.5 million (2018: £7.5 million), based on 0.96% of Net Assets.

- We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.
- Our scope focused on where the directors made subjective judgements, for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- We performed audit procedures over material balances and transactions.

- Valuation and completeness of Unexpired Risk Provisions.
- Potential impact of Covid-19.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Independent auditors' report to the members of Assured Guaranty (Europe) plc (continued)

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those established by the Prudential Regulation Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate balance sheet metrics and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, Audit Committee and individuals involved in the Risk and Compliance functions, including considerations of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with the Prudential Regulation Authority in relation to compliance with relevant regulations;
- Reviewing relevant meeting minutes including those of the Board and the Risk Oversight Committee;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management;
- Procedures relating to appropriateness of methodologies and assumptions applied in the valuation of unexpired risk provisions described in the related key audit matter; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of expenses and journals testing.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Valuation and completeness of unexpired risk provisions The economic environment may impact on the ability of certain guaranteed financial instruments to continue to make interest or other payments as they full due. Management's surveillance team closely monitor and assess the future performance of the UK portfolio, and consider whether remedial actions or specific provisions are necessary. Additionally, an unexpired risks provision ('URP') is recognised when the estimated value of claims and expenses likely to arise after the end of the financial year exceed the provision for unearned premiums, after deduction of any deferred acquisition costs and premiums receivable under those contracts. Management's policy is to review below investment grade ('BIG') credits and recognise a URP, if required,	We have performed the following procedures over the unexpired risk provisions: - Understood, evaluated and tested management's process and controls for identifying BIG credits, as well as the reserving considerations for these credits; - Considered the methodology and assumptions used by management in determining the case reserves and the calculation of unexpired risk provisions; - Evaluated the reasonableness of management's significant assumptions including a comparison to available market information when applicable; - Evaluated the reasonableness of loss scenarios, including scenarios over representation and warranty recoveries; and

Independent auditors' report to the members of Assured Guaranty (Europe) plc (continued)

Key audit matter	*How our audit addressed the key audit matter*
for those credits to which management perceives an expected loss is likely to occur. It is inherently difficult to predict the total liability that may arise from these losses. This therefore gives rise to a risk of a material misstatement occurring due to the incorrect estimation for these, and any other claims that may arise. The unexpired risk provision is included in note 3, 4 and 23 to the financial statements.	- Evaluated the reasonableness of recorded reserves by testing the Company's models and key assumptions, if applicable, based upon publicly available information, status of negotiations with the counterparty, and review of evidence provided by management. Based on the work performed, we consider the unexpired risk provisions to be a reasonable estimate in accordance with UK GAAP.
Potential impact of Covid-19 2020 has begun with the outbreak of a new strain of Coronavirus (Covid-19) in China resulting in a global pandemic causing significant economic disruption. At 31 December 2019 a very limited number of cases of an unknown virus had been reported to the World Health Organisation. The subsequent spread of the virus and its identification as a new coronavirus does not provide additional evidence about the situation that existed at 31 December 2019, and it is therefore deemed a non-adjusting event. Management have prepared the financial statements on a going concern basis and having assessed the heightened financial volatility and uncertainty caused by Covid-19, believe this assumption remains appropriate. In considering whether the Company can meet its obligations as they fall due, management has estimated the impact of the outbreak of Covid-19 on the Company's: - current balance sheet position (assets and liabilities); - future cash flow forecasts and liquidity; and - ability to operate in the coming months. This analysis has then been used to estimate the impact of the Covid-19 outbreak on the Company's solvency capital position which further supports the use of the going concern assumption. The impact of Covid-19 is disclosed in note 28 to the financial statements.	As a result of Covid-19, we have performed the following procedures: - Evaluated management's assessment of the impact of Covid-19, including stress testing and scenario modelling of future loss reserve developments and changes to regulatory capital and solvency; - Assessed the impact of deterioration in financial markets on the Company's financial investments; - Updated our assessment of the creditworthiness of the affiliated reinsurers; - Assessed the impact of Covid-19 on AGE's liquidity and ability to continue as going concern; and - Assessed the adequacy of the post balance sheet events disclosure in the financial statements. As a result of these audit procedures we concur with management's conclusion that it remains appropriate to adopt the going concern basis of preparation and consider the disclosure of the impact of Covid-19 in the financial statements to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

The principal activity of the Company is providing financial guarantees for public finance, infrastructure finance and structured finance obligations.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements have been made; for example, in respect of significant accounting estimates that involve making assumptions and considering events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of controls, including, among other matters, consideration of whether there was evidence of bias in key judgement that represented a risk of material misstatement due to fraud.

Independent auditors' report to the members of Assured Guaranty (Europe) plc (continued)

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£7.5 million (2018: £7.5 million).
How we determined it	0.96% of Net Assets
Rationale for benchmark applied	The long-term nature of the business, significant co-insurance and reinsurance agreements and the fact that recently merged entities were previously in run-off, leads us to conclude that the net asset value is the focus of the key users of the financial statements.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £375,000 (2018: £375,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Independent auditors' report to the members of Assured Guaranty (Europe) plc (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 1 January 1994 to audit the financial statements for the year ended 31 December 1994 and subsequent financial periods. The period of total uninterrupted engagement is 26 years, covering the years ended 31 December 1994 to 31 December 2019.

James Pearson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 May 2020

Profit and loss account for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Technical Account – General Business			
Earned premiums, net of reinsurance			
Gross premiums written	6	**60,593**	5,823
Outward reinsurance premiums		**(6,042)**	(8,593)
Net premiums written		**54,551**	(2,770)
Change in the gross provision for unearned premiums		**(10,526)**	30,188
Change in the provision for unearned premiums, reinsurer's share		**(32,613)**	(35,013)
Net change in unearned premiums		**(43,139)**	(4,825)
Earned premiums, net of reinsurance		**11,412**	(7,595)
Other technical income	26	**619**	1,595
Total Technical income / (loss)		**12,031**	(6,000)
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		**(4,161)**	544
Reinsurer's share		**3,725**	(520)
		(436)	24
Changes in the provision for claims			
Gross amount		**4,470**	8,805
Reinsurer's share		**(4,023)**	(7,926)
		447	879
Claims incurred, net of reinsurance		**11**	903
Changes in other technical provisions, net of reinsurance		**597**	(2,772)
Net operating expense	7	**9,998**	499
Total technical charges / (income)		**10,606**	(1,370)
Balance on the technical account for general business		**1,425**	(4,630)
Non-Technical Account			
Balance on the general business technical account		**1,425**	(4,630)
Investment income	11	**19,913**	8,436
Unrealised gains on investments	11	**9,335**	1,363
Investment expenses and charges	11	**(912)**	(316)
Unrealised losses on investments	11	**(12,951)**	(9,560)
Other (charges) / income	25	**(6,054)**	495
Profit / (loss) on ordinary activities before tax	12	**10,756**	(4,212)
Tax on profit / (loss) on ordinary activities	13	**(682)**	1,094
Profit / (loss) for the financial year		**10,074**	(3,118)

The notes on pages 20 to 37 form part of the financial statements.

All results derive from continuing activities.

The Company has no material recognised gains and losses other than the profit / (loss) for the financial year above and therefore no separate statement of comprehensive income is presented.

Balance sheet as at 31 December 2019

	Note	**2019 £'000**	2018 £'000
Assets			
Investments			
Financial investments	*17*	**758,704**	759,597
Reinsurer's share of technical provisions			
Provision for unearned premiums	*23*	**394,710**	433,178
Claims outstanding	*23*	**27,472**	24,607
Other technical provisions	*23*	**5,227**	12,711
Debtors			
Debtors arising out of direct insurance operations	*16*	**501,027**	484,790
Other debtors	*16*	**64,543**	75,011
Other Assets			
Tangible assets	*15*	**636**	707
Cash at bank and on hand		**66,263**	48,387
Deferred Tax	*14*	**737**	1,118
Prepayments and accrued income			
Accrued interest		**6,354**	7,552
Deferred acquisition costs	*24*	**28,533**	29,784
Other prepayments and accrued Income		**926**	33
Total assets		**1,855,132**	1,877,475
Liabilities and shareholder's funds			
Capital and reserves			
Called up share capital	*22*	**55,000**	55,000
Capital contribution		**385,865**	385,865
Other reserves	*5*	**220,265**	220,265
Profit and loss account		**119,927**	109,853
Total shareholder's funds		**781,057**	770,983
Technical provisions			
Provision for unearned premiums	*23*	**670,141**	665,701
Claims outstanding	*23*	**30,524**	27,341
Other technical provisions	*23*	**9,394**	16,285
Creditors			
Creditors arising out of reinsurance operations	*18*	**232,288**	254,200
Other creditors	*18*	**12,020**	11,883
Accruals and deferred income	*19*	**119,708**	131,082
Total liabilities and shareholder's funds		**1,855,132**	1,877,475

The notes on pages 20 to 37 form part of the financial statements.

The financial statements on pages 17 to 37 were approved by the Board of Directors on 1 May 2020 and were signed on its behalf by:

Nicholas James Proud
Director

Statement of changes in equity for the year ended 31 December 2019

	Called up share capital £'000	**Capital contribution reserve £'000**	**Other reserves £'000**	**Profit and loss account £'000**	**Total shareholder's funds** £'000
Balance as at 1 January 2018	55,000	385,865	-	112,971	553,836
Merger with subsidiaries	-	-	220,265	-	220,265
Loss for the financial year	-	-	-	(3,118)	(3,118)
Balance as at 31 December 2018	55,000	385,865	220,265	109,853	770,983
Profit for the financial year	-	-	-	10,074	10,074
Balance as at 31 December 2019	**55,000**	**385,865**	**220,265**	**119,927**	**781,057**

Notes to the financial statements for the year ended 31 December 2019

1. General information

The principal activity of Assured Guaranty (Europe) plc ("AGE" or the "Company") is the provision of financial guarantee insurance for public finance (including infrastructure finance) and structured finance obligations. The policies underwritten by the Company generally guarantee scheduled payments on an issuer's obligation in the event, and to the extent of, a payment default by the obligor.

The Company is a public company limited by shares and is incorporated and domiciled in England. Its registered office is 6 Bevis Marks, London, EC3A 7BA.

2. Statement of compliance

The individual financial statements of AGE have been prepared in compliance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, United Kingdom Accounting Standards, including Financial Reporting Standard 102 and Financial Reporting Standard 103, the Financial Reporting Standards applicable in the United Kingdom and Republic of Ireland ("FRS 102" and "FRS103") and the Companies Act 2006.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation
The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. In making this assessment the directors have specifically considered the possible impacts of the COVID-19 pandemic on the financial position, regulatory solvency and liquidity of the Company, including the use of severe but plausible stress scenarios to consider a range of possible outcomes. The directors have also concluded that there are no material uncertainties that could cast significant doubt over the Company's ability to continue as a going concern which should be disclosed.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Those areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4, Critical accounting judgments and estimation uncertainties.

(b) Premiums written
Premiums written relate to business incepted during the year, together with any differences between premiums recognised for prior years and those previously accrued, and include estimates of premiums not yet due.

(i) Where the premium on a policy is received up front, the premium is recognised as written on the date of inception.
(ii) Where a premium is received in instalments and the underlying bonds are callable, management considers the nature of the call provision(s) and the likelihood of exercise of those provisions, and determines whether it is reasonably certain that the contract will run its full term. The full expected premium is recorded when it is received or when it is reasonably certain that it will be received. When the contract is not expected to run its full term, the premium that is recognised as written is either the premium amount to the first call point under the contract or guaranteed minimum premium (where such a clause exists in the policy documents) or where the contract is callable without any notice period, the Company records the instalments as they fall due. Written premiums are recognised as earned income over the period of the policy having regard to the incidence of risk.

    When instalment premiums to be received under the policy are linked to an outstanding debt that could be paid down faster than anticipated, or where a premium is linked to an index, the Company recognises premiums written based upon an analysis of the premium it is reasonably certain to receive. Any anticipated change in the expected premium receivable is recognised as an adjustment to premium; in the case of decreases in premium, as soon as it is foreseen and in the case of increases, when such an adjustment is assessed as reasonably certain.

Notes to the financial statements for the year ended 31 December 2019 (continued)

3. Summary of significant accounting policies (continued)

(c) Provision for Unearned premiums
Unearned premiums represent the proportion of premiums written in the current or prior years that relate to unexpired terms of policies in force at the balance sheet date. Premiums written are recognised as earned premiums over the policy duration on a time apportionment basis which reflects the incidence of risk.

(d) Claims and claim expenses incurred
Claims incurred comprise claims and related claims expenses paid in the year and the change in provision for claims outstanding. A provision for claims outstanding is recorded when there is significant deterioration on a specific insured obligation and the obligation is in default at the balance sheet date. When appropriate, provisions for claims outstanding are discounted to their present value using a discount rate which represents the rate of return achieved on the Company's investment portfolio. Claims outstanding are calculated gross of any reinsurance recoveries which are calculated separately (see reinsurance below).

A substantial measure of experience and judgment is involved in assessing claims outstanding, the ultimate cost of which may not be known with certainty at the balance sheet date. Provisions for claims outstanding and related reinsurance recoveries are determined on the basis of information available at the balance sheet date; however, it is inherent in the nature of business written that the ultimate liabilities may vary as a result of subsequent developments.

(e) Subrogation and salvage
Recoveries arising out of subrogation or salvage are estimated on a prudent basis and included within other debtors.

(f) Reinsurance
Contracts entered into by the Company with reinsurers, under which the Company is compensated for losses on insurance policies issued by the Company and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts.

Reinsurance premiums are recognised based on the premium reasonably expected to be paid across the life of the reinsurance contract. Reinsurance premiums earned are accounted for with regard to the incidence of risk for the direct business to which they relate.

The amounts recoverable from reinsurers are estimated based upon the gross claims outstanding, having due regard to collectability. The recoverability of reinsurance recoveries (shown in reinsurer's share of Claims outstanding, reinsurer's share of Other technical provisions and Other debtors) are assessed having regards to market data on the financial strength of each of the reinsurance companies and any collateral provided to the Company. The reinsurers' share of claims incurred in the profit and loss account reflects the change in amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as "Outward reinsurance premiums".

(g) Acquisition costs and ceding commission income
Acquisition costs comprise the direct expenses for the production of new business, which include underwriter salaries and transaction legal fees. Management uses its judgment in determining what types of costs, as well as what percentage of these costs should be deferred.

The Company conducts an annual study to determine how much of the operating costs qualify for deferral. Costs incurred for soliciting potential customers, market research, training, administration, unsuccessful acquisition efforts, and product development as well as all overhead related costs are expensed as incurred and not deferred. When an insured obligation is retired early, the remaining related deferred acquisition cost is expensed.

Reinsurance ceding commission income is deferred, subject to recoverability, and earned over the period in which the related reinsurance premiums are recognised.

Notes to the financial statements for the year ended 31 December 2019 (continued)

3. Summary of significant accounting policies (continued)

(h) Investments

Financial Investments

The Company's policy is to measure all financial investments at fair value through profit or loss. The basis on which the Company determines the fair value of its investments in set out in note 17. Gains or losses arising from changes in the fair value of financial investments are presented in the profit and loss non-technical account in the period in which they arise.

Investment in group undertakings

The Company's policy is to measure investments in group undertakings at fair value. The Company does not have any investments in group undertakings following the Merger in 2018 under which the Company combined its operations with those of its subsidiaries.

(i) Taxation

Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation

A deferred tax asset or liability is recognised if transactions have occurred at the balance sheet date that give rise to an obligation to pay more tax in the future, or a right to pay less tax in the future. Deferred tax is measured using tax rates that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

(j) Operating lease

Leases of assets where a significant portion of the risk and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease. Any operating lease incentives, including rent free periods, are spread over the period of the lease.

(k) Tangible fixed assets

Tangible fixed assets comprising leasehold improvements, office furniture and IT hardware are recorded at cost less depreciation.

The costs of tangible fixed assets comprise their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated on the straight line method to recognise the asset's cost over its estimated useful life as follows:

Tangible Assets	**Useful Life**
Leasehold improvements	13 years
Furniture	5 years
Hardware	3 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of tangible fixed assets are determined by reference to their carrying amount and are taken into account in determining net operating income / (expense).

Notes to the financial statements for the year ended 31 December 2019 (continued)

3. Summary of significant accounting policies (continued)

(l) Unexpired risks provision

Provision has been made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses, after taking into account future investment return. The expected claims are calculated based on information available at the balance sheet date. The unexpired risks provision is included in other technical provisions gross of reinsurance as a liability, whilst the reinsurer's share is included in other technical provisions as an asset on the balance sheet, and within the profit and loss account balances are shown net of reinsurance.

(m) Foreign currency

The Company's financial statements are presented in pounds sterling. The Company's functional currency is pounds sterling. Transactions in foreign currencies are translated to sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into sterling at the rates of exchange ruling at that date. Differences arising on exchange are reflected in the non-technical account. All insurance balances are treated as monetary and foreign currency insurance balances are translated to sterling as described above.

(n) Exemption for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain exemptions. The Company has taken advantage of the following exemptions:

(i) from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate parent company includes the Company's cash flows in its own consolidated financial statements, and;

(ii) from disclosing related party transactions on the basis the transactions are with related parties which are wholly owned within the same group.

4. Critical accounting judgments and estimation uncertainties

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following are applicable critical accounting judgments and estimation uncertainties:

(i) Premiums written

The amount of premiums written at contract inception is determined as follows:

For premiums received upfront on financial guaranty insurance contracts, premium written is equal to the amount of cash received. For premiums received in instalments, premium written is equal to the value of the expected premiums to be collected over the life of the contract, where premium payments must be contractually payable, the amount of premium payable must be probable, and the amount of premium payments must be reasonably estimated. Instalment premiums on certain insurance contracts are dependent upon the rate of inflation. The Company assumes a stable rate of inflation for future periods. However if future inflation rates differ to that assumed by the Company then the estimated premium due to the Company will differ. When the Company adjusts premium payment assumptions or expected premium collections, an adjustment is recorded to the premium written, with corresponding adjustment to the premium receivable.

(ii) Claims reserves and unexpired risk provisions

Determining the ultimate cost of the Company's insurance obligations is an inherently subjective process involving numerous estimates, assumptions and judgments by management, using both internal and external data sources with regard to frequency, severity of loss, economic projections, governmental actions, negotiations and other factors that affect credit performance. These estimates, assumptions and judgments, and the factors on which they are based, may change materially over a year, and as a result the Company's loss estimates may change materially over that same period.

The Company does not use traditional actuarial approaches to determine its estimates of expected losses. Actual losses will ultimately depend on future events or transaction performance and may be influenced by many interrelated factors that are difficult to predict. As a result, the Company's current projections of probable and estimated losses may be subject to considerable volatility and may not reflect the Company's ultimate claims obligations.

Notes to the financial statements for the year ended 31 December 2019 (continued)

5. Cross border merger with subsidiaries

During 2018, the Company combined its operations with those of its subsidiaries, Assured Guaranty (UK) plc ("AGUK"), Assured Guaranty (London) plc ("AGLN") and CIFG Europe SA ("CIFGE") in a transaction that was completed on 7 November 2018 ("the Merger"). To effect the Merger, AGUK, AGLN and CIFGE simultaneously:

(i) transferred their insurance portfolios to the Company in accordance with Part VII of the Financial Services and Markets Act 2000 and French insurance portfolio transfer procedures; and
(ii) merged with and into the Company pursuant to the Companies (Cross Border Mergers) Regulations 2007 and the French Commercial code.

The transaction met the definition of a group reconstruction under FRS102, and was accounted for using the merger accounting method, with an effective accounting date of 1 November 2018. Under the merger accounting method, the assets and liabilities of the subsidiaries were recognised by the Company only from the effective accounting date. As such, the income statement comparatives presented within these financial statements only include the operations of the former subsidiaries from the effective accounting date.

The assets and liabilities transferred to the Company were recognised at their carrying values, adjusted to conform to the accounting policies of the Company. The conforming adjustments increased the value of net assets transferred by £0.15 million.

The difference between the Company's investment in group undertakings and the net assets transferred, including conforming adjustments, was recorded within equity under "other reserves". The assets and liabilities transferred to the Company and the amounts recorded within other reserves are shown in the table below.

	1 November 2018 £'000
Assets and liabilities acquired	
Financial investments	**575,737**
Reinsurance assets	**43,431**
Debtors, including insurance receivables	**280,972**
Cash at bank	**23,560**
Deferred tax assets	**1,125**
Prepayments and accrued income	**11,467**
Insurance liabilities	**(323,601)**
Creditors, including reinsurance payables	**(59,535)**
Accruals and deferred income	**(10,011)**
Net assets recognised	**543,145**
Derecognition of investments in group undertakings	**(322,880)**
Other reserves recognised in equity	**220,265**

6. Segmental analysis

The Company has only one business segment, which is financial guarantee insurance. The net assets and the business written by the Company are predominantly based in the United Kingdom, with business underwriting decisions made in the United Kingdom.

(a) Gross premiums written by location of risk

	2019 £'000	2018 £'000
- UK	**62,308**	1,253
- Europe, excluding UK	**5,941**	4,336
- Other	**(7,656)**	234
Total gross premiums written	**60,593**	5,823

Notes to the financial statements for the year ended 31 December 2019 (continued)

6. Segmental analysis (continued)

Total gross premiums written include new business written in the year and changes to in-force business written in prior years. Negative premiums have arisen where estimated total premiums have been either adjusted for inflation, refunded or cancelled. The Company does not measure profit and loss on geographical segments.

(b) Gross claims incurred by location of risk

	2019	2018
	£'000	£'000
- Europe, excluding UK	**280**	430
- Other	**29**	8,919
Total gross claims incurred	**309**	9,349

7. Net operating expense

	2019	2018
	£'000	£'000
Acquisition costs deferred	**1,164**	525
Change in deferred acquisition costs	**(2,416)**	(2,355)
Administration expenses	**(19,454)**	(11,546)
Reinsurance commissions	**10,708**	12,877
Net operating expense	**(9,998)**	(499)

8. Auditors' remuneration

	2019	2018
	£'000	£'000
Fees payable to the Company's auditors for the audit of the Company's financial statements	**532**	396
Fees payable to the Company's auditors for other services:		
Audit related assurance services	**50**	50
Other non-audit services	**293**	3
Total auditors' remuneration	**875**	449

Auditors' remuneration is included within administrative expenses.

9. Directors' emoluments

Apart from the non-executive directors, the directors did not receive any emoluments in respect of their services to the Company during the year (2018: nil).

The total emoluments received by the non-executive directors during 2019 were £352k (2018: £70k). The highest paid non-executive director received total remuneration of £100k (2018: £31k).

The Company did not make any contributions during the year to the defined contribution pension scheme in respect of the non-executive directors (2018: nil). The non-executive directors do not have any share options and as such no share options were exercised during the year (2018: nil).

During the year two executive directors (2018: two) and two non-executive directors of (2018: two) of the Company participated in the long term incentive plan of the ultimate parent company, Assured Guaranty Ltd ("AGL"). No retirement benefits were accruing to the directors during the year (2018: nil) as the Company does not operate a pension scheme.

Notes to the financial statements for the year ended 31 December 2019 (continued)

10. Employees

The Company did not have any employees during the year (2018: nil). All staff supporting the Company's operations are employees of Assured Guaranty (UK) Services Limited ("AGUKS"), and Assured Guaranty US Group Services, Inc ("AGSRV"). In consideration for their services, management service fees were levied on the Company. The total amount levied during the year was £12.2 million (2018: £7.7 million). It is not feasible to ascertain separately the element of the service fee that relates to staff costs and hence no disclosure of staff costs is provided.

11. Investment return

	2019	2018
	£'000	£'000
Investment Income		
Interest income from investments	**17,713**	8,395
Net realised gains on investments	**2,200**	41
Unrealised gains on investments	**9,335**	1,363
	29,248	9,799
Investment expense and charges		
Investment management expenses	**(912)**	(316)
Unrealised losses on investments	**(12,951)**	(9,560)
Total investment return	**15,385**	(77)

12. Profit / (loss) on ordinary activities before tax

	2019	2018
	£'000	£'000
Profit / (loss) on ordinary activities before tax is stated after (charging) / crediting:		
Operating lease charges	**(237)**	(183)
Depreciation on tangible fixed assets	**(71)**	(125)
Foreign exchange (loss) / gain	**(6,054)**	495

13. Tax on profit / (loss) on ordinary activities

	2019	2018
	£'000	£'000
UK corporation tax (charge) / credit		
- Current year tax	**-**	1,027
- Prior year adjustment	**(378)**	105
- Deferred tax	**(304)**	(38)
Tax (expense) / income on profit / (loss) on ordinary activities	**(682)**	1,094

The tax assessed for the year is lower (2018: higher) than the standard rate of corporation tax in the UK. The reconciliation between the current tax provision and that expected from the standard UK tax rate of 19.0% (2018: 19.0%) is as follows:

	2019	2018
	£'000	£'000
Profit / (loss) on ordinary activities before tax	**10,756**	(4,212)
Profit / (loss) on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 19.0 % (2018: 19.0 %)	**(2,044)**	800
Expenses not deductible for tax purposes	**(3)**	(24)
Adjustments to tax (charge) / credit in prior year	**(378)**	105
Group relief benefit	**1,743**	213
Tax (charge) / credit for the year	**(682)**	1,094

Notes to the financial statements for the year ended 31 December 2019 (continued)

13. Tax on profit / (loss) on ordinary activities (continued)

Factors affecting current and future tax changes
The Finance Act 2015 introduced a reduction to the UK corporation tax rate from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. The Finance Act 2016 further reduced the corporation tax rate to 17% from 1 April 2020.

14. Deferred tax

	2019 £'000	2018 £'000
Double taxation relief	**169**	169
Capital Allowances	**29**	35
Other temporary timing differences	**539**	914
Net deferred tax asset	**737**	1,118

The movement in the net deferred tax asset is as follows:

	2019 £'000	2018 £'000
At 1 January	**1,118**	10
Impact of Merger	**-**	1,125
Other temporary timing differences	**(381)**	(17)
At 31 December	**737**	1,118

15. Tangible assets

	Leasehold improvements £'000	**Furniture £'000**	**Hardware £'000**	**Total £'000**
Cost				
At 1 January 2019	751	273	86	1,110
Additions	-	-	-	-
Cost at 31 December 2019	751	273	86	1,110
Accumulated Depreciation				
At 1 January 2019	180	150	73	403
Charge for year	18	40	13	71
Accumulated depreciation as 31 December 2019	198	190	86	474
Net book value at 31 December 2019	**553**	**83**	**-**	**636**
Net book value at 31 December 2018	571	123	13	707

16. Debtors

	2019 £'000	**2018 £'000**
Arising out of direct insurance operations	**501,027**	**484,790**
Arising out of reinsurance operations	**64,463**	**71,481**
Other debtors including taxation and social security	**80**	**3,530**
Total debtors	**565,570**	**559,801**

Notes to the financial statements for the year ended 31 December 2019 (continued)

17. Investments

(i) Financial investments

All financial investments are held at fair value. Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on either internally developed models that primarily use, as inputs, market-based or independently sourced market parameters, including but not limited to yield curves, interest rates and debt prices or third party proprietary pricing models.

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.

Classification within the fair value hierarchy is determined based on whether the inputs to valuation techniques used to measure fair value are observable or unobservable.

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (that is, developed using market data) for the asset or liability, either directly or indirectly,

Level 3: Inputs that are unobservable (that is, for which market data is unavailable) for the asset.

The Company's Level 3 assets were priced with the assistance of an independent third-party. The pricing is based on a discounted cash flow approach using the third-party's proprietary pricing models. The models use inputs such as projected prepayment speeds; severity assumptions; recovery lag assumptions; 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); home price appreciation/depreciation rates based on macroeconomic forecasts and recent trading activity. The yield used to discount the projected cash flows is determined by reviewing various attributes of the security including collateral type, weighted average life, sensitivity to losses, vintage, and convexity, in conjunction with market data on comparable securities. Significant changes to any of these inputs could have materially changed the expected timing of cash flows within these securities which is a significant factor in determining the fair value of the securities.

The table below presents the Company's financial investments measured at fair value at 31 December 2019 and at 31 December 2018, including classification of the fair value in accordance with the fair value hierarchy.

		2019		2018	
		Carrying Value £'000	**Purchase Cost £'000**	Carrying Value £'000	Purchase Cost £'000
Level	**Financial investments**				
2	UK government bonds	**182,246**	**189,607**	260,674	270,786
2	Non UK government bonds	**91,669**	**92,059**	15,845	15,991
2	Government agency bonds	**95,032**	**100,030**	104,398	109,578
2	Supranational bonds	**144,725**	**146,716**	129,712	132,168
2	Corporate bonds	**216,303**	**217,221**	199,303	203,872
2	Asset-Backed securities	**4,920**	**4,930**	3,590	3,638
3	Asset-Backed securities	**23,809**	**18,528**	46,075	28,570
Total financial investments		**758,704**	**769,091**	**759,597**	**764,603**

The value of listed investments as at 31 December 2019 is £730.0 million (2018: £740.4 million).

Notes to the financial statements for the year ended 31 December 2019 (continued)

17. Investments (continued)

(ii) Investment in group undertakings

	2019	2018
	£'000	£'000
At 1 January	**-**	322,880
Impact of Merger	**-**	(322,880)
At 31 December	**-**	-

Set out below are the details of the Company's former subsidiaries, all of which undertook general insurance business, as at 1 January 2018. The Company merged its operations with those of its subsidiaries during 2018. On completion of the Merger on 8 November 2018 the subsidiaries were immediately dissolved without going into liquidation (see note 5 for further details).

Former subsidiary undertakings	**Country of domicile**	**Class of shares held**	**Percentage of nominal value and voting rights held by the Company**
Assured Guaranty (London) plc	England	Ordinary	100
Assured Guaranty (UK) plc	England	Ordinary	100
CIFG Europe SA	France	Ordinary	100

The registered office of AGUK and AGLN was 6 Bevis Marks London, EC3A 7BA, United Kingdom. The registered office of CIFGE was 61 Quai de Paludate, 33800 Bordeaux France.

The Company did not receive any dividends from the subsidiary undertakings in 2018 or 2019.

18. Creditors

	2019	2018
	£'000	£'000
Arising out of reinsurance operations (including amounts owed to group undertakings)	**232,288**	254,200
Other amounts owed to group undertakings	**11,973**	11,883
Other creditors including taxation and social security	**47**	-
Total creditors	**244,308**	266,083

Other amounts owed to group undertakings are unsecured, interest free and payable on demand.

19. Accruals and deferred income

	2019	2018
	£'000	£'000
Accrued expense	**1,836**	1,027
Reinsurance commission deferred	**117,872**	130,055
Total accruals and deferred income	**119,708**	131,082

20. Other financial commitments and guarantees

The Company has guaranteed certain obligations of its affiliate, Assured Guaranty Credit Protection Limited ("AGCPL") for which the Company receives insurance premiums. AGCPL sells credit protection to counterparties through credit default swaps and may incur a loss in the event of payment default by an obligor. The Company is not aware of any actual or potential liabilities in relation to these guarantees. The Company does not expect AGCPL to issue credit default swaps in the future.

Notes to the financial statements for the year ended 31 December 2019 (continued)

20. Other financial commitments and guarantees (continued)

At the balance sheet date, the Company had the following future minimum lease payments under non-cancellable lease rentals:

	2019 £'000	2018 £'000
Payments due:		
Not later than one year	**529**	529
Later than one year and not later than five years	**2,118**	2,118
Later than five years	**2,511**	3,040
Total payments due	**5,158**	5,687

21. Risk management

The Company has established a risk management framework which seeks to ensure that risk is managed within the overall risk appetite and associated limits established by the Company's Board. The Risk Management Framework seeks to identify, measure, manage, monitor and report ("IMMMR") on the risks to which the Company is or could be exposed.

Under this framework risks are categorised into five areas: underwriting risk, counterparty default risk, market risk, liquidity risk and operational risk. The identified key risks are captured within the Company's risk register along with the internal controls and other actions designed to mitigate these risks to a level consistent with that set out within the Company's Risk Appetite Framework. The key risks and compliance with limits and capital allocations are monitored via the use of key risk indicators prescribed under the Risk Appetite Framework. The Company's Own Risk and Solvency Assessment ("ORSA"), which forms an integral part of the Risk Management Framework, is the process by which management determines an appropriate level of capital to hold against the identified risks.

The Company has adopted the three lines of defence risk management model to ensure the effective implementation of the Risk Management Framework. Under the three lines of defence model, the first line of defence comprises the business functions who have the primary responsibility for risk identification, measurement, monitoring, management and reporting; the second line risk and compliance functions provide support for management, oversee risk-taking activities, and provide challenge; and the third line functions provide independent assurance over the activities of the business and the risk and compliance function.

(a) Insurance risk

As a financial guarantee insurance company, which protects holders of debt instruments and other monetary obligations from defaults in scheduled payments, the Company's key underwriting risk is credit risk, i.e., the risk that obligors of insured debt obligations will fail to pay. The policies issued by the Company are generally non-cancellable, with the premiums paid up front, in instalments, or both. The obligation of the Company to make claim payments cannot be accelerated, although the Company generally maintains the right to accelerate payment on defaulted obligations. The Company has no life or health underwriting risk or any other general insurance underwriting risk. The Company actively seeks insurance risk; taking insurance credit risk for appropriate financial return is the Company's primary corporate objective. The approach to managing and monitoring insurance risk is described below.

(i) Insurance risk – Approach to underwriting new business

The Company's underwriting risk appetite and associated risk limits have been established by the Board, and are set out within the Company's Risk Appetite Framework. The adherence to risk appetite and limits is overseen by the Company's Underwriting Committee. The Company can only enter into new risks or significantly vary the terms of existing risks on the approval of the Underwriting Committee.

Because of the strong relationship of the Company to its parent, including the co-insurance arrangement for all risks underwritten by the Company, the AGM Net Worth Maintenance Agreement and the excess of loss cover of the AGM Reinsurance Agreement, all risks entered into by the Company are also subject to review and approval by the International Supervisory Credit Committee of AGM.

Notes to the financial statements for the year ended 31 December 2019 (continued)

21. Risk management (continued)

(ii) Insurance risk – Approach to insured portfolio monitoring
To manage the insurance risk associated with the insured portfolio, the Company's surveillance personnel are responsible for monitoring and reporting on all risks. The primary objective of the surveillance process is to monitor trends and changes in transaction credit quality, detect any deterioration in credit quality, and recommend to management such remedial actions as may be necessary or appropriate. All risks in the insured portfolio are assigned internal credit ratings, and surveillance personnel are responsible for recommending adjustments to those ratings to reflect changes in transaction credit quality. Surveillance personnel are also responsible for managing work-out and loss situations when necessary. For risks where a loss is considered probable, surveillance personnel and the Actuarial Function make recommendations on loss reserves to the Reserve Committee.

The Company segregates its insured portfolio into investment grade and below-investment-grade surveillance categories to facilitate the appropriate allocation of resources to monitoring and loss mitigation efforts and to aid in establishing the appropriate cycle for periodic review of each exposure. Below investment grade ("BIG") exposures include all exposures with internal credit ratings below BBB-. The Company's internal credit ratings are based on internal assessments of the likelihood of a default and loss severity in the event of a default. Internal credit ratings are expressed on a ratings scale similar to that used by the rating agencies and generally are reflective of an approach similar to that employed by the rating agencies.

The Company monitors its investment grade risks to determine whether any additional risks need to be internally downgraded to BIG. Quarterly surveillance procedures include qualitative and quantitative analysis on the Company's insured portfolio to identify potential new BIG risks. The Company refreshes its internal credit ratings on individual credits in cycles based on the Company's view of the credit quality, loss potential, volatility and sector. Ratings on risks and in sectors identified as under the most stress or with the most potential volatility are reviewed every quarter. Risks identified through this process as BIG are subjected to further review by surveillance personnel to determine the various probabilities of a loss.

As noted above, the Company's approach to internal credit ratings is based on whether future losses are projected on a transaction (as opposed to whether lifetime losses are projected). Accordingly, the Company may rate a transaction investment grade if it (a) has turned generally cash-flow positive and (b) is projected to have net future reimbursements with sufficient cushion to warrant an investment grade rating – even if it is projected to have overall lifetime net insurance claim payments.

(b) Financial risk
The Company is exposed to financial risk through its financial investments. The key financial risk is that the proceeds from its financial investments are not sufficient to fund the obligations arising from financial guarantees as they fall due. The most significant components of this financial risk are market risk, counterparty default risk and liquidity risk. The Company has some appetite for financial risk in return for an appropriate level of return. The financial risk taken by the Company is closely monitored via key risk indictors and against agreed levels of capital allocation.

(i) Market risk
Market risk is defined as the risk of loss or adverse change in financial position arising from variations in the level and in the volatility of market prices of assets and financial instruments. Market risk comprises interest rate risk, currency rate risk and other price risk.

The Company's investments are managed by a third party investment manager and governed through an investment management agreement and guidelines. The investment guidelines are established by the Company with the key objective of preserving the highest possible ratings for the Company and to maintain sufficient liquidity to cover unexpected stress in the insurance portfolio. The guidelines include specific restrictions which limit risk arising from duration, currency, liquidity and counterparty credit risks. The investment manager is required to regularly confirm its compliance with these limits.

Interest risk
Interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk. The average

Notes to the financial statements for the year ended 31 December 2019 (continued)

21. Risk management (continued)

duration of the investment portfolio is restricted to a specific range by the investment guidelines. The Company monitors interest rate risk on a monthly basis by calculating the mean duration of the investment portfolio. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates.

The sensitivity analysis for interest rate risk set out below illustrates the financial impact to the Company of changes in market interest rates at the reporting date. An increase or decrease of 100 basis points in interest yields would result in the following:

	100 Basis Point Increase		100 Basis Point Decrease	
£'000	**2019**	2018	**2019**	2018
(Loss) / profit before tax	**(21,322)**	(23,009)	**12,354**	22,069
(Decrease) / increase in equity	**(17,270)**	(18,637)	**10,007**	17,876

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

At 31 December 2019, if the pound had weakened/strengthened by 20% against the Euro and US Dollar with all other variables held constant, profit for the year would have been £29.5 million (2018: £35.1 million) higher/lower respectively. Equity for the year would have been £23.9 million (2018: £28.4 million) higher/lower respectively.

(ii) Counterparty default risk
Counterparty default risk is the risk that a counterparty will be unable to pay amounts in full when due. The Company's primary exposures to counterparty default risk are in respect of:

- Premiums due from financial guarantee holders and / or bond issuers.
- Reinsurer's shares of insurance liabilities.
- Proceeds due on maturity of financial investments held (i.e. bond investments).

To manage the risk of a reinsurer defaulting when it is called upon to pay its share of insurance liabilities, collateral is required from the reinsurer for the reinsurer's share of insurance liabilities. The creditworthiness of the Company's reinsurers is analysed on a quarterly basis by reviewing their financial strength and other developments which could impact creditworthiness. The results of this assessment, and any recommend mitigating actions are reported to the Risk Oversight Committee.

To manage the risk of non-recoverability of premiums due from financial guarantee holders and / or bond issuers, the Company undertakes extensive due diligence prior to underwriting a contract with its counterparties.

Counterparty default risk (including spread risk) in respect of financial investments is managed by the use of detailed investment guidelines which place limits and restrictions on the size of holdings with individual issuers and also include minimum credit quality levels and duration requirements for both individual securities and the overall portfolio. The average credit quality of the Company's investment portfolio as at 31 December 2019 was AA with a mean duration of 2.75 years.

The table below summarises credit risk exposure for the Company's material assets. Ratings for financial investments and cash represents the lower of the Moody's and Standard & Poor's ("S&P") classifications. For reinsurance debtors the S&P rating has been used and for other assets the Company's internal rating, as described above, is used. There were no assets that were past due or impaired.

Notes to the financial statements for the year ended 31 December 2019 (continued)

21. Risk management (continued)

2019	AAA £'000	AA £'000	A £'000	BBB £'000	> BBB or not rated £'000	Total £'000
Investments	**343,153**	**259,441**	**81,477**	**50,824**	**23,809**	**758,704**
Cash at bank	**-**	**66,001**	**262**	**-**	**-**	**66,263**
Debtors arising out of direct insurance operations	**82**	**33,682**	**194,103**	**237,421**	**35,739**	**501,027**
Debtors arising out of reinsurance operations	**-**	**64,463**	**-**	**-**	**-**	**64,463**
2018						
Investments	252,094	341,701	76,407	43,320	46,075	759,597
Cash at bank	-	47,996	391	-	-	48,387
Debtors arising out of direct insurance operations	95	3,761	180,421	252,738	47,775	484,790
Debtors arising out of reinsurance operations	-	71,481	-	-	-	71,481

(iii) 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 maintains holdings in short term deposits to ensure there are sufficient funds available to cover anticipated liabilities. Furthermore, the Company's investment managers are mandated to invest only in debt securities with the objective of maintaining a high degree of liquidity within the Company's investment portfolio. In the event of claims arising under the AGM Reinsurance Agreement, AGM is required to pay the Company within the earlier of five business days of receipt of a claim or the day on which AGE is required to make a claim payment to a policyholder. Similarly, in the event of a funding requirement under the Net Worth Maintenance Agreement; the Company's parent company is required to contribute the required funding within three business days of receipt of notice.

The following table analyses financial assets and liabilities by maturity date

2019	< 1 year or no contracted maturity	1 to 4 years	5 to 10years	10 + years	Total
Assets (£'000)					
Investments	**183,312**	**385,818**	**159,942**	**29,632**	**758,704**
Cash at bank	**66,263**	**-**	**-**	**-**	**66,263**
Debtors arising out of direct insurance operations	**78,542**	**127,501**	**128,453**	**166,531**	**501,027**
Debtors arising out of reinsurance operations	**10,373**	**16,258**	**15,991**	**21,841**	**64,463**
	338,490	**529,577**	**304,386**	**218,004**	**1,390,457**
Liabilities (£'000)					
Creditors arising out of reinsurance operations	**52,254**	**53,980**	**53,291**	**72,763**	**232,288**
2018					
Assets (£'000)					
Investments	196,228	360,197	151,010	52,162	759,597
Cash at bank	48,387	-	-	-	48,387
Debtors arising out of direct insurance operations	69,470	137,703	129,965	147,652	484,790
Debtors arising out of reinsurance operations	11,517	17,536	17,442	24,986	71,481
	325,602	515,436	298,417	224,800	1,364,255
Liabilities (£'000)					
Creditors arising out of reinsurance operations	56,941	57,475	57,424	82,360	254,200

Notes to the financial statements for the year ended 31 December 2019 (continued)

21. Risk management (continued)

(c) 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 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.

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

Key risk indicators and other risks metrics effectively 'convert' the Board's risk preference and the Solvency II operational risk capital allocation into practical monitoring tools for business functions to assist business units in monitoring operational risk. Operational risk reporting is provided to the Company's Risk Oversight Committee on a quarterly basis.

(d) Capital management

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

- Preserve the claims paying ability of the Company to ensure all policyholder claims can be met on a timely basis;
- Ensure that the Company is adequately capitalised and remains in compliance with its regulatory capital requirements;
- Maintain the Company's external financial strength ratings; and
- Enable an appropriate return on capital for the Company's shareholder.

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

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

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

22. Called up share capital

	2019	2018
	£'000	£'000
Authorised		
500,000,000 (2018: 500,000,000) ordinary shares of £1 each	**500,000**	500,000
Allotted and fully paid		
55,000,003 (2018: 55,000,003) ordinary shares of £1 each	**55,000**	55,000

Notes to the financial statements for the year ended 31 December 2019 (continued)

23. Technical provisions

(i) Unearned premiums and deferred reinsurance commissions

Reconciliations of the opening and closing unearned premium provision and deferred reinsurance commissions are set out below:

	Gross		Reinsurers' share	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Unearned premium provision				
At 1 January	**665,701**	395,683	**433,178**	439,346
Movement in provision	**10,526**	(30,188)	**(32,613)**	(35,012)
Impact of the Merger	**-**	298,223	**-**	25,367
Foreign exchange movements	**(6,086)**	1,983	**(5,855)**	3,477
At 31 December	**670,141**	665,701	**394,710**	433,178

	2019	2018
	£'000	£'000
Deferred reinsurance commission		
At 1 January	**130,055**	129,960
Movement in provision	**(10,436)**	(10,432)
Impact of the Merger	**-**	9,492
Foreign exchange movements	**(1,747)**	1,035
At 31 December	**117,872**	130,055

(ii) Claims development tables

The Company has taken advantage of the exemption provided under FRS 103, paragraph 6.3, from preparing information about claims development that occurred earlier than five years before the end of the first financial year in which the FRS was first applied.

	2019	2018
	£'000	£'000
Gross provision in respect of periods prior to 2011	**30,524**	27,341
Total gross provision included in the balance sheet	**30,524**	27,341
Net provision in respect of periods prior to 2011	**3,052**	2,734
Total net provision included in balance sheet	**3,052**	2,734

(iii) Claims outstanding

A reconciliation of the opening and closing provision for claims outstanding is set out below:

	Gross		Reinsurers' share	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Claims outstanding				
At 1 January	**27,341**	-	**24,607**	-
Movement in provision	**4,470**	8,805	**4,023**	7,926
Impact of the Combination	**-**	18,361	**-**	16,525
Foreign exchange movements	**(1,287)**	175	**(1,158)**	156
At 31 December	**30,524**	27,341	**27,472**	24,607

Movement in prior year's provision for claims outstanding

An adverse movement of £4.5 million (£0.4 million net) in the claims outstanding provision was experienced during the year due the restructuring of the Company's obligations in respect of one of its defaulted bond exposures.

Notes to the financial statements for the year ended 31 December 2019 (continued)

23. Technical provisions (continued)

(iv) Discounted claims

Claims outstanding have been discounted at a rate of 1.89% (2018: 1.99%) and the mean term of the liabilities is 1 year (2018: 11). These claims relate to a single class of business. The period that will elapse before claims are settled is determined by the contractual date. The claims provisions before discounting are as follows:

	2019	2018
	£'000	£'000
Claims outstanding before discounting	**30,985**	31,705
Reinsurer's share of claims outstanding before discounting	**(27,886)**	(28,534)
Claims outstanding before discounting net of reinsurance	**3,099**	3,171

The amortisation during the year of the discount on the claims outstanding provision, which was included within claims incurred, was £0.04 million (2018: nil). The investment return on the assets supporting the liabilities being discounted was £0.05 million (2018: £0.05 million).

(v) Unexpired risk provisions

A reconciliation of opening and closing unexpired risk provisions included in Other technical provisions is presented in the table below:

	Gross		**Reinsurers' share**	
	2019	**2018**	**2019**	2018
	£'000	£'000	**£'000**	£'000
Unexpired risk provision				
At 1 January	**16,285**	16,241	**12,711**	15,996
Movement in provision	**(6,474)**	(7,146)	**(7,071)**	(4,373)
Impact of the Merger	**-**	7,017	**-**	1,539
Foreign exchange movements	**(417)**	173	**(413)**	(451)
At 31 December	**9,394**	16,285	**5,227**	12,711

The future investment return assumed in calculating the unexpired risk provision is 1.89% (2018: 1.99%).

24. Deferred acquisition costs

A reconciliation of opening and closing deferred acquisition costs is presented in the table below:

	2019	2018
	£'000	£'000
At 1 January	**29,784**	25,382
Movement in provision	**(1,251)**	(1,830)
Impact of the Merger	**-**	6,232
At 31 December	**28,533**	29,784

25. Other (charges) / income

	2019	2018
	£'000	£'000
Foreign exchange (loss) / gain	**(6,054)**	495

Notes to the financial statements for the year ended 31 December 2019 (continued)

26. Other technical income

	2019	2018
	£'000	£'000
Other technical income	**619**	1,595

Other technical income for 2019 relates primarily to surveillance fees received by the Company and 2018 is primarily commutation payments received on the cancellation of reinsurance contracts with third party reinsurers.

27 . Ultimate and immediate parent company

The immediate parent undertaking of the Company is AGM, a stock insurance corporation organised under the laws of the State of New York, United States of America. The ultimate parent undertaking and controlling party of the Company is AGL, a Bermuda incorporated insurance holding company.

AGL is the parent undertaking of the largest group of undertakings to consolidate these financial statements for the year ended 31 December 2019. The consolidated financial statements of AGL can be obtained from 30 Woodbourne Avenue, Hamilton HM 08, Bermuda or on the ultimate parent's website www.assuredguaranty.com

AGM is the parent undertaking of the smallest group of undertakings to consolidate these financial statements. The consolidated financial statements of AGM can be obtained from 1633 Broadway, New York, NY 10019, United States of America or on the ultimate parent's website www.assuredguaranty.com

28. Events after the balance sheet date

The outbreak of a new coronavirus, now known as COVID-19, has resulted in a pandemic causing significant disruption across the world. In many countries, businesses have been forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel restrictions, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

The Company has determined that these events are non-adjusting subsequent events because only a limited number of cases of the Coronavirus had been reported at the balance sheet date and the subsequent spread of the virus which triggered the pandemic occurred after this date. Accordingly, the financial position and results of operations of the Company as of and for the year ended 31 December 2019 have not been adjusted to reflect the impact of the pandemic. Uncertainty around the extent, duration and impact of the pandemic, including the duration of nationwide travel bans and longer-term impacts to the global economy, mean it is not currently possible to reliably estimate its impact on the financial position and results of the Company for future periods.

The Company has utilised stress and scenario testing to assess potential impacts on its insured portfolio, and more broadly, its solvency and liquidity position. These scenarios have taken into consideration the impact on the insured portfolio from potential claims, the potential downgrade of insured risks, as well as the impact on the Company's investments. They include reverse stress scenarios and severe stress scenarios in which lockdowns and travel restrictions continue for over 12 months and are followed by a prolonged period of reduced economic activity and recession. After consideration of these assessments the Company believes that in such scenarios its regulatory solvency would remain in compliance with the Company's risk appetite and its liquidity would remain significantly in excess of the Company's requirements.