Assured Guaranty (Europe) SA

Solvency and Financial Condition Report 2020

Contents

GLOSSARY OF ABBREVIATIONS AND DEFINITIONS

Term	Definition
ACPR	Autorité de Contrôle Prudentiel et de Résolution
AGC	Assured Guaranty Corp
AGC Transferred Business Reinsurance Agreement	The AGM Transferred Business Reinsurance Agreement between the Company and AGC reinsures business transferred to the Company under the Portfolio Transfer.
AGE SA or the Company	Assured Guaranty (Europe) SA
AGL	Assured Guaranty Ltd.
AGL Group	AGL and its subsidiaries
AGLN	Assured Guaranty (London) plc
AGM	Assured Guaranty Municipal Corp
AGM Excess of Loss Reinsurance Agreement	The AGM Excess of Loss Reinsurance Agreement between the Company and AGM dated 2 January 2020.
AGM Net Worth Maintenance Agreement	AGM Net Worth Maintenance Agreement between the Company and AGM dated 2 January 2020
AGM New Business Reinsurance Agreement	Quota share and excess of loss reinsurance agreement between the Company and AGM dated 2 January 2020
AGM Transferred Business Reinsurance Agreement	The AGM Transferred Business Reinsurance Agreement between the Company and AGM reinsures business transferred to the Company under the Portfolio Transfer.
AGRE	Assured Guaranty Reinsurance Limited
AGRE Transferred Business Reinsurance Agreement	The AGRE Transferred Business Reinsurance Agreement between the Company and AGRE reinsures the AGUK and legacy AGLN policies transferred to the Company under the Portfolio Transfer.
AGUK	Assured Guaranty UK Limited (formerly Assured Guaranty (Europe) plc)
AG (UK) Services	Assured Guaranty (UK) Services Limited
AGUS Services	AG US Group Services Inc
BIG	Below-investment-grade
Board	Board of Directors
Brexit	UK’s departure from the EU
CFO	Chief Financial Officer
Company	Assured Guaranty (Europe) SA
Directive	Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), as amended from time to time
ECM	Economic Capital Model
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ERC	Executive Risk Committee
EU	European Union
Fitch	Fitch Ratings Inc
French GAAP	French Generally Accepted Accounting Principles
GBP	Great Britain Pound
GPO	Gross par outstanding
Group Service Agreement	Third Amended and Restated Service Agreement among the Company, AGUS Services and other affiliates, effective 2 January 2020.
ICA	Individual Capital Assessment
IG	Investment Grade
ISCC	International Supervisory Credit Committee
IT	Information Technology

Term	Definition
KBRA	Kroll Bond Rating Agency Inc
Key Function	The Key Functions specified in the Directive
KFH	The holders of Key Functions
KRIs	Key risk indicators
LTIP	Long term incentive plan
MCR	Minimum Capital Requirement
Moody’s	Moody’s Investors Service Inc
NPO	Net par outstanding
NYDFS	The New York Department of Financial Services
ORSA	Own Risk and Solvency Assessment
Par	Par value of the obligation
PF	Public finance
plc	Public limited company
Portfolio Transfer	During 2020, AGUK transferred its existing EEA insured risks based policies to the Company, utilising an insurance transfer under Part VII of the United Kingdom Financial Services and Markets Act 2000 and French insurance portfolio transfer procedures.
PVP	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 3% per year.
Rating Agencies	S&P, KBRA and Moody’s
RCS	Trade and Companies Register
RMBS	Residential Mortgage-Backed Securities
S&P	S&P Global Ratings, a division of Standard & Poor's Financial Services LLC
SCR	Solvency Capital Requirement
SCR Ratio	Ratio of eligible own funds to SCR
SF	Structured finance
SFCR	Solvency and Financial Condition Report
Solvency II Regulation	Commission Delegated Regulation EU 2015/35 of 10 October 2014, as amended
Standard Formula	Standard formula prescribed by EIOPA
UK	United Kingdom of Great Britain and Northern Ireland
US	United States of America
USD	US Dollars
USPs	Undertaking-specific parameters

Directors' Statement

Year ended 31 December 2020

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

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

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

For and on behalf of the Board of Assured Guaranty (Europe) SA

Richard Nicholas
Director
7 April 2021

Executive Summary

This Solvency and Financial Condition Report has been prepared in accordance with the Solvency II regulatory framework and sets out information on the business and performance of the Company, its system of governance, risk profile, valuation of assets and liabilities for solvency purposes and capital management as at 31 December 2020.

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

Principal activities

AGE SA was established to enable the Assured Guaranty Group to continue underwriting new business and service existing EEA policies following the UK's departure from the EU and EEA in January 2020. The Company was incorporated on 19 July 2019.

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

The Company is governed by the French Insurance Code and regulated by the ACPR and is registered with the RCS in France (SIREN: 852 597 384).

The ACPR authorised the Company as an insurance undertaking from 2 January 2020, pursuant to Article R.321-1 of the French Insurance Code. The Company is authorised to carry out three classes of general insurance business in France:

- 14) Credit;
- 15) Suretyship; and
- 16) Miscellaneous financial loss.

AGE SA is a subsidiary of AGM. AGM is an insurance company domiciled in the State of New York, United States of America. AGM provides financial guarantee insurance on debt obligations issued in the US public finance and global public finance and infrastructure markets.

During the year, an affiliate Company, AGUK, transferred certain of its existing EEA policies to the Company under Part VII of the United Kingdom Financial Services and Markets Act 2000 and French insurance portfolio transfer procedures. The Part VII Transfer was approved by the UK High Court with an effective date of 1 October 2020 and resulted in a significant increase in the size of the Company's insured portfolio. As at 31 December 2020 the company has €7.8 billion gross par insured (€512.1 million net). Further details of the Portfolio Transfer are provided within *Section A.1.g.*

Ratings

The obligations insured by the Company are generally awarded ratings on the basis of the financial strength ratings given to the Company by major rating agencies. As at 1 April 2021, 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 S&P and KBRA:

S&P: AA / Stable Outlook

KBRA: AA+ / Stable Outlook

COVID-19 pandemic

COVID-19 triggered a global public health crisis and has caused unprecedented disruption to people lives, the global economy and financial markets. While the development and rollout of effective vaccination programmes offer a potential route out of the current crisis, significant uncertainty remains as to the speed of economic recovery, as well as longer-term impacts to society, specific business sectors and the global economy generally.

As the pandemic took hold in France in March 2020, the Board moved quickly to invoke the Company's business continuity plans to ensure the safety and well-being of its staff. The Company has now operated on a remote working basis for over a year, with no significant impact on day-to-day operations.

To date the Company has not incurred any claims related to the pandemic impacts. While insured transactions in certain demand-based sectors have experienced significant strain due to the unprecedented slowdown in economic activity, their credit quality is supported by the resilient nature of the underlying transaction business model and strong liquidity.

During the year the Board has regularly reviewed the impact of COVID-19 on the Company's insured portfolio, solvency, liquidity, investment portfolio and operations and the Company continues to actively monitor the potential impacts across all areas of its business. This includes utilising stress and scenario testing to assess potential impacts on its insured portfolio, and more broadly, solvency and liquidity positions. These scenarios take into consideration the impact to the insured portfolio of 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 downside stress scenarios in which lockdowns and travel restrictions continue for a further 12 months or more and are followed by a prolonged period of reduced economic activity and recession. The Company does not expect to incur significant losses under such scenarios and its regulatory solvency and liquidity is expected remain significantly in excess of the Company's minimum target requirements.

Business and Performance

Underwriting performance
Following its authorisation by the ACPR on 2 January 2020, the Company underwrote its first financial guarantee policy in February, related to the refinancing of a Spanish solar power transaction. Despite subsequent significant disruption to financial markets during the first and second quarters of 2020 due to the outbreak of the COVID-19 pandemic, the Company continued to underwrite business across the year, closing a total of 5 transactions with PVP and gross written premiums of €44.1 million (2019: €nil) and €50.6 million (2019: €nil) respectively. The value of net par insured was €512.1 million (2019: €nil).

In addition to new business premiums a total of €174.7 million gross written premiums were recorded in respect of the Portfolio Transfer.

The Company's overall underwriting result for the year was a loss of €2.6 million. The loss was due to the cost of certain reinsurance obligations transferred to the Company under the Portfolio Transfer, which resulted in the Company recognising negative net earned premiums of €0.3 million. The expense base of the Company also remains high relative to the amount of in-force business while the Company continues to grow its in-force portfolio.

The Company has not incurred any claims to date. As noted, above the COVID-19 pandemic is not expected to significantly impact the credit quality of the Company's insured portfolio. No claims reserves or unexpired risk provisions have been recognised as at the balance sheet date.

As at 31 December 2020, the Company had issued guarantees on financial obligations with gross par outstanding of €7.8 billion (2019: €0.0 billion) and net par of €0.5 billion (2019: €0.0 billion).

The Company's insured portfolio of guarantees split by obligation type as at 31 December 2020 is summarised below:

Insured Portfolio by Sector

As at 31 December	**2020**		**2019**	
€ '000	**GPO**	**NPO**	**GPO**	**NPO**
Sector				
Regulated Utilities	3,224,091	210,341	—	—
Infrastructure Finance	2,036,210	124,800	—	—
Sovereign and Sub-sovereign	1,259,049	52,397	—	—
RMBS	142,746	4,022	—	—
Renewable Energy	1,113,448	120,578	—	—
Total	**7,775,544**	**512,138**	—	—

Investment performance
The Company has an investment strategy which focuses on establishing highly liquid, diversified investment portfolios of high credit quality managed by an external investment manager. The Company's first investment purchases were made in October 2020 following the significant increase in capital to support the Portfolio Transfer. Under French GAAP, the Company's investments are recorded on an amortised cost basis. The investment return of negative €0.2 million (2019: €0.01 million) is due to negative interest earned on the Company's operating and non-operating cash balances and amortisation recognised on investments purchased at a premium to par.

System of Governance

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

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

Risk Profile

The most significant risk to which the Company is exposed remains underwriting risk, the key element of which, due to the nature of financial guarantee contracts written, is credit risk, i.e. the risk that obligors of insured obligations will fail to pay. The other material components of the Company's risk profile are market risk, counterparty default risk, liquidity risk and operational risk and.

The Company's tolerance for risk is established within its Risk Appetite Statement. Risk exposures are controlled and monitored under the Risk Management Framework, which ensures a continuous process of risk identification, measurement, monitoring, management and reporting.

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

Valuation for Solvency Purposes

Under Solvency II rules all assets and liabilities are required to be valued on a basis that reflects their fair value. The excess of the Company's assets over liabilities within its Solvency II balance sheet as at 31 December 2020 was €74.8 million. Net assets as reported within the Company's French GAAP financial statements were €107.8 million. The adjustments made to the Company's French GAAP balance sheet in moving to the Solvency II basis of valuation are set out below.

Summary of adjustments to French GAAP balance sheet

As at 31 December	**2020**	**2019**
€ '000		
Shareholders' equity under French GAAP	107,839	—
Disallowed items (prepayments & deferred acquisition costs)	(936)	—
Solvency II fair value adjustment to investments	1,031	—
Solvency II adjustment to net best estimate provision & discounting	(19,114)	—
Risk margin	(13,989)	—
Deferred tax in Solvency II balance sheet	—	—
Solvency II excess of assets over liabilities	74,831	—

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

Capital Management

The Company’s share capital was increased by €24 million on 31 January 2020. In addition, in contemplation of the Portfolio Transfer, and to provide AGE SA with sufficient capital to support the transferring business, the share capital of the Company was increased again by €83 million on 28 September 2020 to €110.9 million, contributed by AGM, the majority shareholder of the Company.

The Company calculates its SCR using the Standard Formula. The ratios of the Company's own funds to its SCR and MCR are shown below.

Summary of SCR and MCR

As at 31 December	**2020**	**2019**
€ '000		
Solvency II own funds	74,831	—
SCR	21,704	—
SCR Ratio %	**345**	—
MCR	5,542	—
MCR Ratio %	1,350	—

The Company's own funds structure, as defined under Solvency II rules, is comprised of Tier One own funds only.

As at 31 December **€ '000**	**2020**	**2019**
Tier 1	74,831	—
Tier 2	—	—
Tier 3	—	—
Total	**74,831**	**—**

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

A. Business and Performance

This section of the SFCR provides information about the Company's business, its structure and financial performance. The Company prepares its financial statements in accordance with French GAAP. The information on financial performance provided in this section is therefore presented on a French GAAP basis, unless otherwise stated.

A.1 Business

a. Name and legal form

The Company is a Société Anonyme registered in France (registration number 852 597 384 RCS Paris).

By a decision dated 11 July 2019, published in the Official Journal of the French Republic on 28 December 2019, the ACPR authorized the Company as an insurance undertaking as from 2 January 2020, pursuant to Article R.321-1 of the French Insurance Code.

The registered office of the Company is:

71, rue du Faubourg
Saint-Honoré
75008 Paris
France

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

The Company is governed by the French Insurance Code and regulated by the ACPR.

4 Place de Budapest
CS 92459
75436 Paris
Cedex 09
France

c. Name and contact details of the external auditor

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
63 Rue de Villiers
92200 Neuilly sur Seine
France

d. Holders of qualifying holdings in the Company

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

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

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

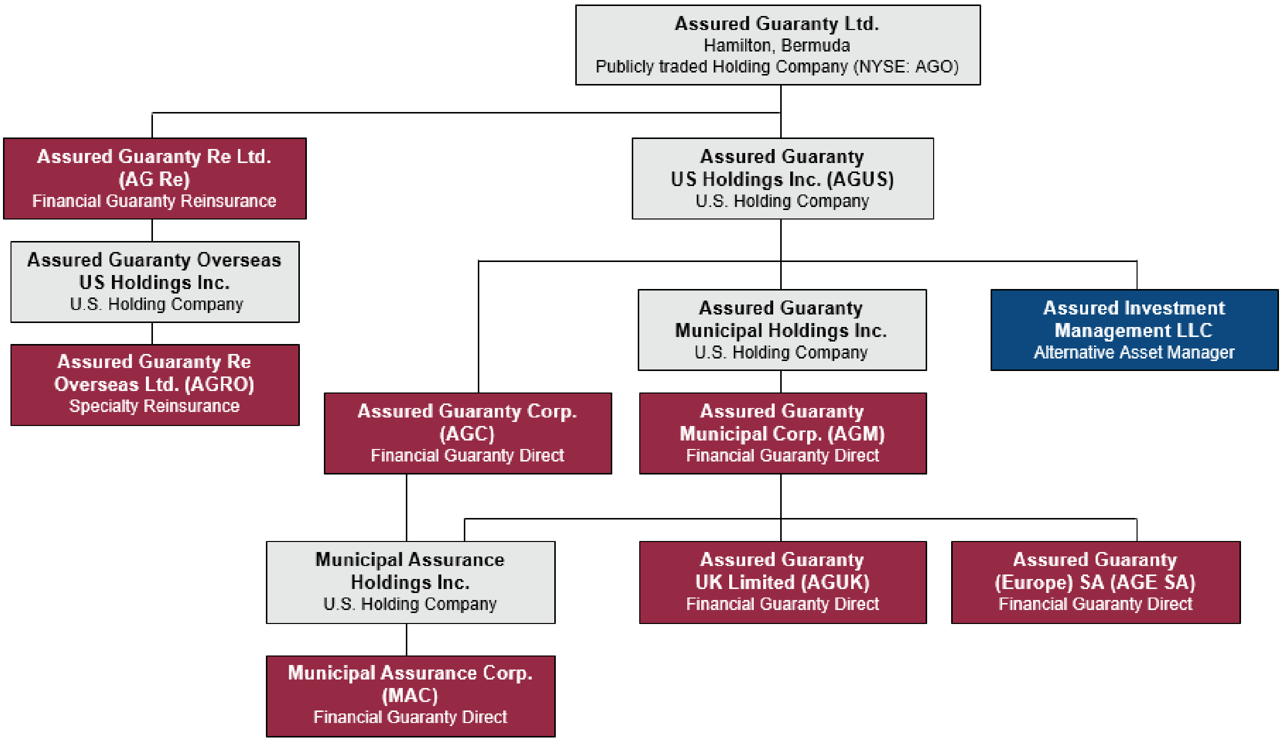
AGL is a Bermuda-based holding company, which was formed in 2003, and as a public company, is subject to certain requirements of the US Securities and Exchange Commission.

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

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

Assured Guaranty Ltd. Corporate Structure

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



*AGM holds 99.999894% of the share capital of the Company. The remaining 0.000106% is owned by Assured Guaranty Municipal Holdings Inc.
Assured Guaranty merged MAC with and into Assured Guaranty Municipal on April 1, 2021, with Assured Guaranty Municipal as the surviving company

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

The principal activity of the Company is providing financial guarantees in the EEA, specifically to the public finance (including infrastructure finance) and structured finance markets. As described more fully in *Section A.1.g* below, following the establishment and authorisation of the Company from 2 January 2020, the Company's affiliate, AGUK, ceased the underwriting of new EEA business, with all EEA new business being underwritten by the Company from that date.

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

Par insured by location of risk

As at 31 December	2020	
€ '000	Gross Par Outstanding	Net Par Outstanding
Public finance		
UK	3,248,408	210,552
France	2,000,798	128,072
Spain	1,483,132	127,555
Japan	508,895	29,692
Poland	246,565	8,588
Italy	145,000	3,657
Total public finance	**7,632,798**	**508,116**
Structured finance		
Italy	115,060	3,039
UK	22,074	775
Germany	5,612	208
Total structured finance	**142,746**	**4,022**
Total	**7,775,544**	**512,138**

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

Brexit and the Portfolio Transfer

To ensure that the Assured Guaranty Group could continue to administer its existing EEA policies after the end of the transition period for the UK's departure from the EU, AGUK transferred certain of its existing EEA policies to the Company under Part VII of the United Kingdom Financial Services and Markets Act 2000 and French insurance portfolio transfer procedures. The Portfolio Transfer was approved by the UK High Court with an effective date of 1 October 2020. Under the terms of the transfer agreement, from that date AGUK transferred to the Company:

i. the rights, benefits, obligations and liabilities under approximately 79 financial guarantee policies;
ii. the rights, benefits, obligations and liabilities under all outwards reinsurance contracts attaching to the transferred policies;
iii. the records, rights and obligations under ancillary contracts entered into in connection with the transferred policies; and
iv. cash consideration.

In contemplation of the Portfolio Transfer, and to provide AGE SA with sufficient capital to support the transferring business, the share capital of the Company was increased by €83.0 million on 28 September 2020 to €110.9 million, contributed by AGM, the majority shareholder of the Company.

The Portfolio Transfer was affected as a sale of the transferring policies and related reinsurance protections at fair value. The assets and liabilities transferred from AGUK on 1 October 2020 are shown in the table below.

	1 October 2020
€'000	Fair value
Assets and liabilities transferred to the Company	
Reinsurance assets	139,136
Debtors, including insurance receivables	57,792
Cash at bank	27,422
Insurance liabilities	(174,664)
Creditors, including reinsurance payables	(26,047)
Accruals and deferred income	(23,639)
Net assets transferred	—

Total gross premiums of €174.7 million, (€35.5 million net) due to the Company in respect of the transferred business have been recorded in the income statement.

COVID-19 pandemic

COVID-19 triggered a global public health crisis and has caused unprecedented disruption to people lives, the global economy and financial markets. The pandemic related slowdown has pushed most global economies into recession with levels of unemployment continuing to rise despite unprecedented levels of central government support. While the development and rollout of effective vaccination programmes offer a potential route out of the current crisis, significant uncertainty remains as to the speed of economic recovery, as well as longer-term impacts to society, specific business sectors and the global economy generally.

As the pandemic took hold in France in March 2020, the Board moved quickly to invoke the Company's business continuity plans to ensure the safety and well-being of its staff. The Company has now operated on a remote working basis for over a year, with no significant impact on day-to-day operations. Appropriate changes have been made to key processes and internal controls to ensure their continued effective operation during the period of remote working. Additional employee training has also been provided. The Company will continue to take measures to appropriately support and minimize risks to its employees, including the use of travel restrictions, appropriate provisions for those staff providing childcare and the continuation of remote working protocols.

Against the unprecedented financial and economic impacts of COVID-19, we believe the results of the Company for the year, which are described within *Sections A.2 and A.3*, demonstrate the resilience of our insured portfolio and the confidence investors have in the Company's guarantee during times of significant uncertainty. To date the Company has not incurred any claims related to the pandemic impacts. While insured transactions in certain demand-based sectors have experienced significant strain due to the unprecedented slowdown in economic activity, their credit quality is supported by the resilient nature of the underlying transaction business model and strong liquidity. We believe the performance of the insured portfolio during 2020 also underlines the quality of our underwriting diligence.

The Company's affiliated reinsurers have not been significantly impacted by the pandemic to date and are expected to remain financially resilient and well positioned to honour their obligations to the Company.

The Company underwrote new business throughout 2020. Despite the significant financial market disruption seen in the first and second quarters of the year, the Company exceeded its planned new business production for 2020 and has built a strong pipeline of new business for 2021. The heightened focus upon credit quality and liquidity by investors and the prospect for further future ratings migration also potentially increases the value of our guarantee for certain issuers and investors.

During the year the Board has regularly reviewed the impact of COVID-19 on the Company's insured portfolio, solvency, liquidity, investment portfolio and operations and the Company continues to actively monitor the potential impacts across all areas of its business. This includes utilising stress and scenario testing to assess potential impacts on its insured portfolio, and more broadly, solvency and liquidity positions. These scenarios take into consideration the impact to the insured portfolio of 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 downside stress scenarios in which lockdowns and travel restrictions continue for a further 12 months or more and are followed by a prolonged period of reduced economic activity and recession. The Company does not expect to incur significant losses under such scenarios and its regulatory solvency and liquidity would remain significantly in excess of the Company's minimum target requirements.

A.2 Underwriting Performance

New business

The Company measures new business production in terms of PVP. The Company believes PVP is a useful measure for management and other users of the financial statements because it enables the evaluation of new business production by taking into account the impact of the time value of money on estimated future instalment premiums.

Following its authorisation by the ACPR on 2 January 2020, the Company underwrote its first financial guarantee policy in February, related to the refinancing of a Spanish solar power transaction. Despite subsequent significant disruption to financial markets during the first and second quarters of 2020 due to the outbreak of the COVID-19 pandemic, the Company continued to underwrite business across the year, closing a total of 5 transactions with PVP and gross written premiums of €44.1 million (2019: €nil) and €50.6 million (2019: €nil) respectively. The value of net par insured was €512.1 million (2019: €nil).

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

New Business Written

Year Ended 31 December	2020			2019		
	PVP	Par Written	Number of Transactions	PVP	Par Written	Number of Transactions
Sector	**€ '000**	**€ '000**	#	**€ '000**	**€ '000**	#
Sovereign and Sub-Sovereign	7,898	183,140	1	—	—	—
Renewable Energy	28,699	972,553	3	—	—	—
Other Infrastructure	7,500	—	1	—	—	—
Total	**44,097**	**1,155,693**	**5**	**—**	**—**	**—**

In addition to new business premiums a total of €174.7 million gross written premiums were recorded in respect of the Portfolio Transfer.

Underwriting result

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

Technical Account for General Business

Year Ended 31 December € '000	2020	2019
Earned premiums, net of reinsurance	(261)	—
Acquisition and administration expenses	(2,358)	(26)
Balance on the technical account for general business	**(2,619)**	**(26)**

The overall underwriting result for the year was a loss of €2.6 million (2019: loss of €0.03 million). The loss was due to the cost of certain reinsurance obligations transferred to the Company under the Portfolio Transfer, which resulted in the Company recognising negative net earned premiums of €0.3 million. The expense base of the Company also remains high relative to the amount of in-force business while the Company continues to grow its in-force portfolio.

AGE SA has not incurred any claims to date and, based on its analysis of the insured portfolio, does not currently expect to. As noted above, the COVID-19 pandemic is not expected to significantly impact the credit quality of the Company's insured portfolio. No claims reserves or unexpired risk provisions have been recognised as at the balance sheet date.

Net Operating Expense

The Company incurred net operating expenses of €2.4 million (2019: €0.0 million), a breakdown of which is provided below. The significant increase in expenses from the prior year is due to the commencement of the Company's insurance activities from 2 January 2020.

Year Ended 31 December € '000	2020	2019
Acquisition costs deferred	820	—
Change in deferred acquisition costs	(103)	—
Administration expenses	(7,544)	(26)
Reinsurance commissions	4,469	—
Net operating expense	(2,358)	(26)

A.3 Investment Performance

Investment Portfolio

The table below presents the Company's investment return for the year. All financial investments are held at amortised cost, with accretion and amortisation of bonds recognised within the income statement.

a. Income and Expenses

Investment Return

Year Ended 31 December **€ '000**	**2020**
Interest income	
Euro-zone Government bonds	44
Non Eurozone Government bonds	4
Supra-National bonds	34
Corporate bonds	110
Amortisation	
Euro-zone Government bonds	(45)
Non Euro-zone Government bonds	(2)
Supranational bonds	(30)
Corporate bonds	(88)
Interest expense	
Other	(205)
Total interest expense	**(178)**
Investment expenses and charges	(16)
Total investment return	**(194)**

The Company has an investment strategy which focuses on establishing highly liquid, diversified investment portfolios of high credit quality managed by an external investment manager. The Company's first investment purchases were made in October 2020 following the significant increase in capital to support the Portfolio Transfer. Under French GAAP, the Company's investments are recorded on an amortised cost basis. The investment return of negative €0.2 million (2019: €0.01 million) is due to negative interest earned on the Company's operating and non-operating cash balances and amortisation recognised on investments purchased at a premium to par.

The overall duration of the Company's investment portfolio as at 31 December 2020 was 7.8 years, with an average credit quality of AA-.

b. Gains and Losses on Investments Recognised Directly in Equity

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

c. Investments in Securitisation

The were no investment in securitisations as at 31 December 2020 (31 December 2019: €nil).

A.4 Performance of other activities

There is no other material information on performance of other activities.

A.5 Any other information

Lease Payments

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

Future minimum lease payments

Year Ended 31 December **€ '000**	**2020**	**2019**
Not later than one year	166	—
Later than one year and not later than five years	374	—
Later than five years	—	—
Total	**540**	**—**

B. System of Governance

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

B.1 General information on the system of governance

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

Board of Directors

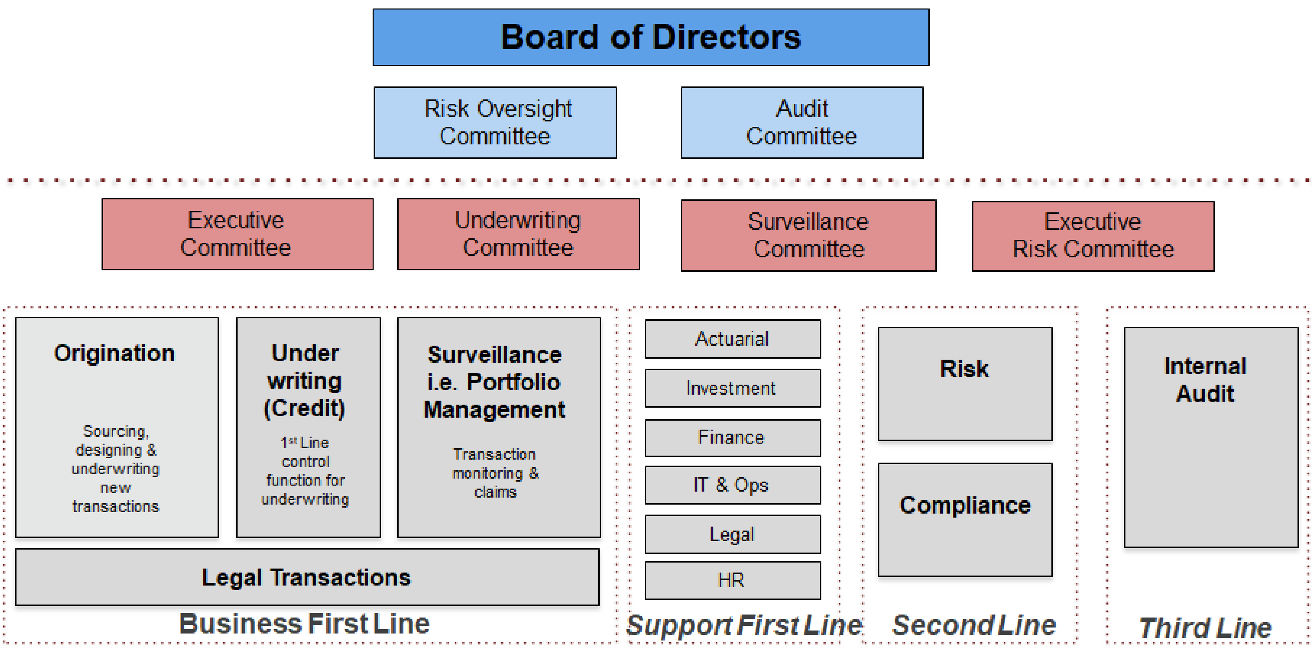
The Company's Board has overall responsibility for the Company's system of governance, oversight of its business and affairs and establishment of its key strategic direction and key financial objectives both directly and through its Committees. The Board is comprised of eight directors, two of which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

The Board has delegated, pursuant to written terms of reference, responsibility for a number of matters to two sub-committees of the Board; the Audit Committee and the Risk Oversight Committee.

Each Committee's terms of reference are reviewed at least annually to ensure that they remain appropriate and to reflect any changes in good practice. Each of the committees is comprised of two non-executive directors of the Company and one individual who is not a director of the Company, but who was appointed on a temporary basis as non-executive member, until the Company appoints an independent non-executive director. The Company appointed an independent non-executive director on 1 March 2021.

The Board has delegated the day to day management of the Company to the Managing Director and to the Deputy Managing Director. The Managing Director and the Deputy Managing Director are supported by a number of management committees; an Executive Committee, an Executive Risk Committee, a Surveillance Committee and an Underwriting Committee and by the key functions.

The Company's overall governance structure is summarised below.



Audit Committee

The Audit Committee is responsible for assisting the Board in its oversight of the integrity of the Company's financial statements, the effectiveness of the systems of internal controls and monitoring the effectiveness, performance, objectivity and independence of the External and Internal Auditors. It is also responsible for oversight of the Company's whistleblowing processes. The Committee receives regular reporting from the Finance, Internal Audit and Actuarial functions.

Risk Oversight Committee

The Risk Oversight Committee is responsible for assisting the Board in the identification and assessment of the Company's key risks. This includes oversight of the Company's risk appetite and monitoring the effectiveness of the Company's risk management framework. The Risk Oversight Committee reviews the Company's risk profile against risk appetite, oversees the management of current and emerging risk exposures and risk issues, oversees the ORSA process and reviews its results and reviews the Company's scenario and stress testing and the use of the Company's ECM.

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

Executive Committee

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

Executive Risk Committee

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

Surveillance Committee

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

Underwriting Committee

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

Roles and Responsibilities of Key functions

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

Risk Management function

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

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

Internal Audit function

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

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

Compliance function

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

Actuarial function

The Chief Actuary carries out the responsibilities of the Actuarial function, which includes the calculation of the Company's French GAAP and Solvency II technical provisions, ensuring that the methodologies and models underlying the technical provisions are appropriate and assessing uncertainties underlying the estimates. The Actuarial function is also responsible for assessing the appropriateness of the Company's underwriting policy and the adequacy of its reinsurance programme. *Section B.6* provides further detail on the activities of the Actuarial function.

Other functions

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

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

The Company's governance and risk management processes have been developed during 2020 as the amount of business underwritten and complexity of the Company's operations increased ahead of the completion of the Portfolio Transfer from AGUK.

c. Remuneration policy and practices

i. Principles of the remuneration policy, with an explanation of the relative importance of the fixed and variable components of remuneration

For the year 2020, the Company ensured that it has appropriate fixed and variable remuneration arrangements through the adoption of the remuneration policy of AGL Group.

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

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

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

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

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

Remuneration consists of three principal elements: base salary, cash incentive remuneration and long-term incentive compensation. The Company's remuneration principles are structured with upside potential for high performers, but also the possibility of reduced remuneration if individuals under-perform (e.g. they are unable to successfully execute group strategies or meet their business or regulatory obligations). The Company's remuneration principles include a recoupment (claw back) policy pursuant to which a portion of the remuneration of certain members of senior management of the Company, may be rescinded or recouped if such person engages in misconduct related to a restatement of financial results or of objectively quantifiable performance goals, and the achievement of those goals is later determined to have been overstated.

The Company adopted its own remuneration policy that was approved by the Board on 1 April 2021.

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

In addition to base pay, certain members of senior executive may be eligible for a cash incentive award. This award is discretionary and the amount of the cash incentive is determined using a formulaic approach and is based on the extent to which an executive achieves six financial performance goals and other non-financial objectives. Cash incentive awards, if awarded, are paid the year following the performance year on which they are based.

AGL also maintains a LTIP, which was designed to enable the employees of subsidiaries, including the Company, to attract and retain employees who contribute to the Company's success by their ability, ingenuity and industry, and to enable those employees to participate in the long-term growth of the AGL Group.

A LTIP award may be made in the form of non-qualified and incentive stock options, stock appreciation rights, full value awards, which include awards such as restricted shares, restricted stock units or performance share units, and cash incentive awards. Awards are made at the discretion of AGL’s Compensation Committee, in consultation with, the Company's Board. For certain senior executives of the Company, LTIP awards can be made in the form of performance share units, which represent a contingent right to receive up to 2.5 of AGL’s common shares. The form of LTIP awards may change at any time. For other personnel who are granted awards, the awards are made in the form of restricted stock, which vest over a three or four year period.

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

The Company, AG (UK) Services and AGUS Services provide employees the opportunity to participate in a defined contribution pension scheme, which is designed to help their respective employees prepare for retirement. Employees who serve as executive directors of the Company who hold Key Functions, are also permitted to participate in the scheme.

d. Material transactions during the reporting period with shareholders, persons who exercise a significant influence on the undertaking, and members of the administrative, management or supervisory body

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

The Company has carried out the transactions described below during the reporting period with affiliated companies. These agreements fall within the scope of Article L. 225-38 of the French commercial Code.

i. Agreements relating to the Portfolio Transfer

The Company entered into a number of agreements with its parent Company, AGM in order to affect the Portfolio Transfer and to increase its share capital in order to support the transferring business.

ii. Reinsurance and support agreements

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

iii Management,service Contracts or cost sharing arrangements

Service Agreement with AG (UK) Services

The Company is party to a services agreement with AG (UK) Services pursuant to which AG (UK) Services provides professional insurance executives and administrative and clerical personnel who are experienced in the management of insurance operations similar to the Company's operations. Under such agreement, the Company pays a fee equal to the costs incurred by AG (UK) Services in providing the services of those individuals plus a mark-up.

Service Agreement with AG (US) Services

In addition, the Company is also party to the Group Services Agreement. Under the Group Services Agreement, the Company's US affiliates make services available to the Company, including actuarial, marketing, underwriting, claims handling, surveillance, legal, compliance, corporate secretarial, information technology, human resources, accounting, tax and investment planning services. Expenses under the Group Service Agreement are allocated directly where appropriate and, where not appropriate, based upon an allocation of employee time and corresponding office overhead.

B.2 Fit and proper requirements

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

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

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

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

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

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

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

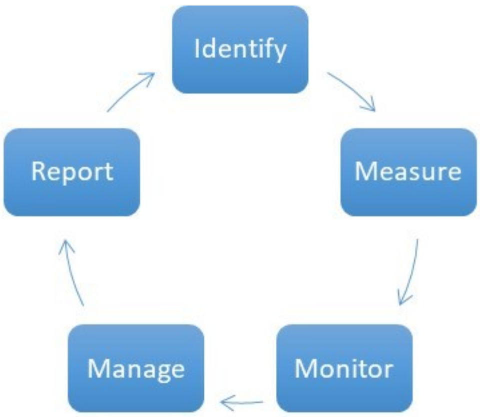
Members of the Company's Board and individuals who hold Key Functions are required to complete training at the inception of their role and thereafter training on an ongoing basis which is appropriate to their regulatory roles and responsibilities and to the professional competencies required for their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

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

B.3 Risk management system

Risk Management Framework

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



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

Risk identification, measurement, monitoring, managing and reporting

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

Risk Appetite Framework

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

Risk Governance

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

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

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

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

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

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

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

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

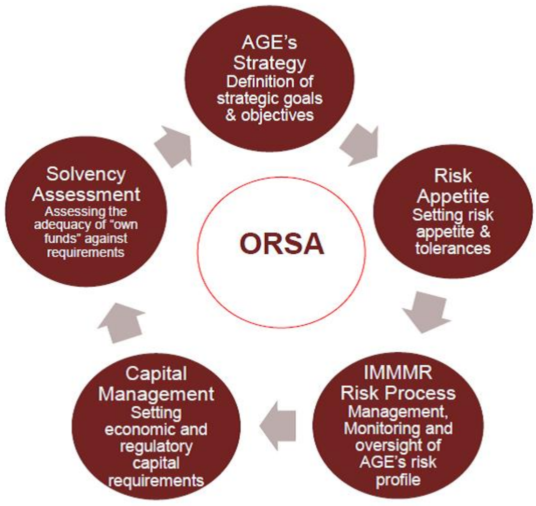
The Risk Management function delegates, oversees and approves certain functions performed by the Group Risk function, including the operation of the ECM and the calculation of the SCR and ICA capital requirements.

ORSA Process

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

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

The model below summarises each element of the ORSA process.



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

ORSA report

The ORSA report projects capital requirements for the next three years based on both expected business volumes and market conditions and results from the Company's stress and scenario testing framework. It considers the suitability of the Pillar 1 capital calculation SCR, against those capital requirements derived from the Company's own view of risks, Pillar 2, based on its own assessment using the ECM. It has been concluded that the standard formula is materially appropriate for the Company's risks.

The Company produces its ORSA annually, and will produce it more frequently if there is a material change in its risk profile or other events that warrant an off-cycle review. The results of the ORSA are presented to the Executive Risk Committee, and the ORSA Report is subject to review and challenge by the Risk Oversight Committee before being recommended to the Board for approval.

Governance of the ORSA process

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

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

B.4 Internal control system

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

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

- *Control environment* - the overall control culture is established by the Company's management and its key governance functions. The Company's Code of Ethics establishes standards by which the Company's directors, management and all personnel acting as officers or otherwise providing services to the Company, must abide and sets the tone for how personnel supporting the Company should conduct themselves. The Code of Ethics is available at www.assuredguaranty.com/governance. The Code of Ethics is designed to discourage personnel from engaging in activities that could jeopardise the Company's business and reputation. The Company and the Assured Guaranty Group have established a suite of entity level level control processes to contribute to the establishment of an appropriate control environment;
- *Risk assessment* - each function completes a risk assessment exercise to identify the key risks relevant to their business objectives and related processes. This risk assessment is required to be reviewed annually;
- *Control activities* - control activities are the actions that individuals are required to undertake to implement and operate the Company's internal controls. The effectiveness of the design and operation of internal controls is the responsibility of the first line risk and control owners;
- *Information and communication* - information on risk and risk assessments is routinely shared within the business by both the first and second lines of defence. Management utilises information from both internal and external sources and assessments to support the functioning of the system of internal control, which includes the results of a control effectiveness assessments; and
- *Monitoring* - the monitoring of risks and controls is primarily the responsibility of the first line risk and control owners. On an annual basis key risks and controls are assessed and confirmed as appropriate by the risk owners as part of the Risk and Control Register review and update process. The Risk Management function oversees a programme of regular control assessments as established by the Risk Management Framework and Operational Risk Policy, with regular reporting provided the Risk Oversight Committee. The Internal Audit function is also responsible for assessing the effectiveness of the Company's internal controls and reporting to the Audit Committee on the effectiveness of the internal controls environment.

b. Description of how the Compliance function is implemented

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

- Advising on compliance with applicable laws and regulations and assessing the possible impact of new laws and regulations;
- Assessing, monitoring and reporting on compliance risk;
- Ensuring that all relevant personnel complete training on their regulatory roles and responsibilities, and in compliance with applicable laws and regulations, on a regular basis (including anti-money laundering and anti-bribery/corruption training); and
- Assessing, together with the Internal Audit function, the adequacy and effectiveness of compliance related procedures and controls.

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

B.5 Internal audit Function

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

The Internal Audit function is responsible for providing the Company with independent, objective assurance and advisory services. The Internal Audit function performs activities including: evaluation of risk management, internal control and governance processes. The Internal Audit function is independent of any other function and has access to any member of staff and to any information it considers necessary to carry out its duties. Independence is maintained by segregation from other functions where possible and by safeguards and review where this is not possible. On a quarterly basis, or when required, the Internal Audit function reports its findings directly to the Company's Audit Committee and informs the Managing Director of any material issues.

The Company have concluded that, at this time, the Internal Audit function is most effective being outsourced to an external firm of certified internal audit professionals. The Company maintains responsibility for oversight of the Internal Audit function.

Internal audit resources are focused on testing the key controls that mitigate business risk. If requested, the Internal Audit function may also provide the Company with advice, support and assistance. The internal audit plan is developed with the input of and review from the Audit Committee.

The Internal Audit function evaluates the design and operating effectiveness of the Company's risk management, internal control and governance processes to validate that:

- risks are appropriately identified and managed;
- interaction with the various governance groups occurs as needed;
- significant financial, managerial, and operating information is accurate, reliable, and timely;
- employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations;
- quality and continuous improvements are fostered in the control processes;
- significant legislative or regulatory issues impacting the organisation are recognised and addressed appropriately;
- processes established to operate and comply with policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports are designed and operating appropriately;
- that key risks are addressed and to ensure that audit duplication with external auditors is avoided whenever possible; and
- controls are implemented to reduce the risk of fraud and misappropriation of assets.

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

The Internal Audit function remains independent of and objective from other functions of the Company primarily through outsourcing the Internal Audit function to an external party who is not involved in the operations that are subject to internal audit activities. To provide an appropriate level of organisational independence, the Internal Audit function reports directly to the chairman of the Audit Committee.

B.6 Actuarial function

The Actuarial function is responsible for coordinating the calculation of technical provisions and recommending them for for approval by the Executive Risk Committee. This includes ensuring the selection of appropriate methodologies and assumptions, assessing the appropriateness of data used and monitoring differences between actual experience and that estimated by actuarial models. The Actuarial function is also responsible for:

i. reporting to the Board on the underwriting policy, reinsurance arrangements and the adequacy of technical provisions;
ii. reviewing the Company's ICA model, including reviewing assumptions, methods, and data used in modelling; and
iii. contributing to the effective operation of risk management and internal control processes.

The Actuarial function comprises the Group Chief Actuary, who is also the Chief Actuary for the Company. The Chief Actuary is supported by various members of the Group actuarial team under outsourced services provided to the Company by the Assured Guaranty Group.

B.7 Outsourcing

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

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

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

Outsourcing to companies within the AGL Group

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

Outsourcing to third parties

Investment Management

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

Internal Audit

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

B.8 Any other information

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

The Board of the Company formally assesses the adequacy of its system of governance on an annual basis. The Board may also recommend changes outside of this annual review as a result of observations or regulatory changes.

The Board of the Company has reviewed the governance system as described in this report and concluded that it provides for sound and prudent management of the business which is proportionate to the nature, scale and complexity of the operations.

b. Any other material information regarding system of governance

None.

C. Risk Profile

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

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

C.1 Underwriting risk

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

Risk Measurement & Mitigation

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

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

As at 31 December	2020			2019		
	Number of Risks #	Gross Par Outstanding € '000	Net Par Outstanding € '000	Number of Risks #	Gross Par Outstanding € '000	Net Par Outstanding € '000
Regulated utilities	22	3,224,091	210,341	—	—	—
Public infrastructure	4	2,036,210	124,800	—	—	—
Sovereign & sub-sovereign	12	1,259,049	52,397	—	—	—
Renewable Energy	4	1,113,448	120,578	—	—	—
Total public finance	**42**	**7,632,798**	**508,116**	**—**	**—**	**—**
RMBS	4	142,746	4,022	—	—	—
Total structured finance	**4**	**142,746**	**4,022**	**—**	**—**	**—**
Total portfolio	**46**	**7,775,544**	**512,138**	**—**	**—**	**—**

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

Portfolio Breakdown by Internal Credit Rating

As at 31 December	2020		2019	
€ '000	Gross Par Outstanding	Net Par Outstanding	Gross Par Outstanding	Net Par Outstanding
AAA	3,271	83	—	—
AA	33,618	2,175	—	—
A	1,268,886	87,135	—	—
BBB	6,189,994	420,167	—	—
BIG	279,775	2,578	—	—
Total	7,775,544	512,138	—	—

BIG Exposure by Sector

As at 31 December	2020			2019		
€ '000	Public Finance	Structured Finance	Total	Public Finance	Structured Finance	Total
Number of risks (#)	1	—	1	—	—	—
GPO	279,775	—	279,775	—	—	—
NPO	2,578	—	2,578	—	—	—

The Company has not recognised a loss reserve or unexpired risk provision in respect of its single BIG risk because the obligation was not in default at the balance sheet and the Company's estimate of future expected losses does not exceed the value of future premiums.

Risk Concentration

Geographic concentration distribution of Gross Par Outstanding and Net Par Outstanding

As at 31 December	2020		2019	
€ '000	Gross Par Outstanding	Net Par Outstanding	Gross Par Outstanding	Net Par Outstanding
Europe, excluding UK	3,996,167	271,119		
United Kingdom	3,270,482	211,327	—	—
Japan	508,895	29,692	—	—
Total	**7,775,544**	**512,138**	**—**	**—**

Approach to Underwriting New Business

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

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

Because of the strong support for the Company's underwriting activities provided by its parent, including the AGM Transferred Business Reinsurance Agreement and AGM New Business Reinsurance Agreement, the AGM Net Worth Maintenance Agreement and AGM Excess of Loss Reinsurance Agreement, all risks entered into by the Company are also subject to review and approval by the ISCC. The ISCC is composed of senior officers of the AGL Group with credit expertise relevant to the type of transaction under consideration. Both committees must approve each transaction.

Approach to Insured Portfolio Monitoring

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

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

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

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

Workout Activities

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

- Exercise of transaction rights and remedies, including enforcement;
- Negotiation of amendments, waivers and consents;
- Employment of advisors, consultants or internal auditors;
- Restructuring or refinancing;
- Repurchase of affected securities at a discount; and
- Litigation

Reinsurance

The Company benefits from significant levels of reinsurance protections with AGL Group affiliated reinsurers, including its parent company, AGM. Details of reinsurance contracts with affiliated reinsurers are provided in *Section E.1.a.* The Company has not entered into any reinsurance agreements with third-party reinsurers.

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

Ceded Par Outstanding to Reinsurers

As at 31 December	2020	2019
€ '000		
Affiliated reinsurers	7,263,405	—
Unaffiliated reinsurers	—	—
Total reinsurance	**7,263,405**	**—**

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

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

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

Risk Sensitivity

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

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

As at 31 December 2020, a 10% increase in the loss severity used to calculate the loss associated with the default of the largest two exposures (from 10% to 20%), would increase the non-life underwriting risk by €13.5 million to €27.1 million. The SCR would increase by €11.8 million to €33.6 million. This would cause the SCR Ratio to decline by 122 percentage points to 223%.

C.2 Market risk

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

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

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

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

Risk Measurement & Mitigation

Spread risk

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

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

Investment Portfolio (excluding cash) by external credit rating

As at 31 December **€ '000**	**2020**	**2019**
AAA	45,066	—
AA	21,138	—
A	20,790	—
BBB	25,261	—
Lower than BBB or not rated	—	—
Total	**112,255**	**—**

Interest Rate Risk

The Company is exposed to interest rate risk in respect of both assets and liabilities. The Company receives cash inflows in the form of investment income, instalment premiums, reinsurance commissions and salvage on previously paid claims. The Company pays cash outflows in the form of expenses, claims, loss adjustment expenses and reinsurance premiums. Due primarily to the Company's large investment portfolio and the generally strong ratings of the Company's financial guarantees, cash inflows are expected to materially exceed the cash outflows and the Company's interest rate exposure therefore arises primarily from its investments in fixed interest securities. As at 31 December 2020, on a Solvency II balance sheet basis, the Company has total assets of €104.7 million and total liabilities of €34.6 million with exposure to interest rate risk.

The Company’s exposure to interest rate risk is managed by restricting the overall duration of the investment portfolio to within a prescribed range of a selected benchmark portfolio.

Due primarily to the high credit quality of the Company's insured portfolio, cash inflows are expected to materially exceed the cash outflows and the Company therefore does not seek to mitigate interest rate risk by matching the duration of the Company's invested assets with liabilities arising from the ensued portfolio.

The Company regularly reviews the duration of assets and liabilities, this includes monitoring the mean duration of the investment portfolio and the spread risk requirement under the SCR Standard Formula. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates.

Currency Risk

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

Solvency II Assets and Liabilities by currency
As at 31 December 2020

€ '000	GBP	EUR	USD	Other	Total
Assets					
Investments	16,822	83,137	12,296	—	**112,255**
Cash and cash equivalents	510	8,023	1	66	**8,600**
Reinsurance recoverables	1,184	(14,502)	(612)	2,383	**(11,547)**
Deposits to cedants and insurance and reinsurance receivables	—	12	—	—	**12**
Other assets	157	—	3,295	—	**3,452**
Total assets	**18,673**	**76,670**	**14,980**	**2,449**	**112,772**
Liabilities					
Technical provisions	7,828	11,760	14,383	(217)	**33,754**
Deposits from reinsurers and insurance, intermediaries and reinsurance payables	—	—	—	—	**—**
Any other liabilities	1,437	514	2,236	—	**4,187**
Total liabilities	**9,265**	**12,274**	**16,619**	**(217)**	**37,941**

Risk Concentration

As at 31 December 2020, the Company's investment portfolio had an average credit quality rating of AA-. Issuer constraints as well as sector limitations are also followed in managing the investment portfolio.

Investment Portfolio composition concentrations by security type

As at 31 December	2020
Eurozone Government bonds	12 %
Non Eurozone Government bonds	5 %
Supranational bonds	28 %
Corporate bonds	51 %
Collective Investment Undertakings	4 %
Total	**100 %**

Risk Sensitivity

The most material risk to the Company's investment portfolio is interest rate risk on fixed income investments. Each year, the Company's external investment manager provides stress testing results on the portfolio's exposure to interest rate risk. The scenario below assumes a 200% parallel upwards shift in the yield curve across all maturities. No benefit is assumed for future management actions which could potentially mitigate losses.

Interest rate risk

Sensitivity analysis

As at 31 December	Upward Shift in Yield Curve	Decrease in Value of Investment Portfolio	Interest Rate Risk included in Standard Formula Calculation of the SCR	Increase of the SCR in this Scenario	Decrease of SCR Ratio
	Basis points	€ '000	€ '000	€ '000	Percentage points
2020	200	(15,299)	6,609	(467)	64
2019	—	—	—	—	—

An increase in the yield curve by 200 bps would result in a 64% percentage point reduction to the Company's SCR solvency surplus as at 31 December 2020.

Spread risk

A 3 notch ratings downgrade of all investments in the investment portfolio would cause the SCR to increase by €4.0 million to €25.7 million, causing the Company's SCR ratio as at 31 December 2020 to decrease by 54 percentage points to 291%.

Currency risk

The Company has a net foreign currency asset position for Pound Sterling and a net foreign currency liability position for US Dollars and is exposed to the devaluation of the GBP against Euros and an increase valuation of the USD. A 25% adverse movement of the Pound Sterling and the US Dollar relative to Euro would result in a loss of €2.8 million and cause the SCR ratio as at 31 December 2020 to decrease by 13 percentage points to 332%.

C.3 Credit risk

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

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

As at 31 December € '000	2020	2019
Cash and cash equivalents	**8,600**	3,874

C.4 Liquidity risk

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

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

Worth Maintenance Agreement; AGM is required to contribute the required funding within three business days of receipt of notice.

The financial assets and liabilities, as measured under French GAAP, by maturity date:

As at 31 December 2020				
€ '000	**< 1 year or no contracted maturity**	**1 to 5 years**	**5 + years**	**Total**
Assets				
Investments	4,695	45,319	60,560	**110,574**
Cash at bank	8,600	—	—	**8,600**
Debtors arising out of direct insurance operations	14,289	27,648	47,452	**89,389**
Debtors arising out of reinsurance operations	3,220	6,399	12,983	**22,602**
Other receivables and accrued interest	3,498	51	—	**3,549**
	34,302	79,417	120,995	**234,714**
Liabilities				
Creditors arising out of reinsurance operations	12,983	24,696	44,208	**81,887**
Other creditors	3,863	—	—	**3,863**
	16,846	**24,696**	**44,208**	**85,750**
As at 31 December 2019				
Assets				
Investments	—	—	—	**—**
Cash at bank	3,874	—	—	**3,874**
Debtors arising out of direct insurance operations	—	—	—	**—**
Debtors arising out of reinsurance operations	—	—	—	**—**
Other receivables and accrued interest	—	—	—	**—**
	3,874	—	—	**3,874**
Liabilities				
Creditors arising out of reinsurance operations	—	—	—	**—**
Other creditors	—	—	—	**—**
	—	**—**	**—**	**—**

Expected future profit included in future premiums

In respect of premiums receivable, the Company estimates that it has €28.6 million of expected future profits which are not immediately available to meet liquidity needs since they have not yet been paid to the Company.

Risk Concentration

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

Risk Sensitivity

Each year, as part of its ORSA, the Company performs liquidity stress testing to ensure that it has sufficient liquid assets to cover all of its liabilities that could arise in a stress scenario. When the Company performs the stress test, it considers only government bonds, money markets and cash to be liquid assets.

C.5 Operational risk

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

As at 31 December 2020, the Company had 46 risks in its insured portfolio and it is expected that generally the Company will only add a small number of new transactions each year, limiting potential operational errors. The relatively small number of risks allows careful review of the transaction documents and quality control of the data points captured in the Company's systems by knowledgeable employees.

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 appetite or limits 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 to assist business functions in monitoring operational risk. Operational risk reporting is provided to the Company's Risk Oversight Committee on a quarterly basis.

The Company was not involved in any ongoing litigation as at 31 December 2020.

C.6 Other material risks

Climate Change

The Intergovernmental Panel on Climate Change concluded that increased greenhouse gas emissions as a result of human activity are extremely likely to have been the dominant cause of the observed global warming since the mid-20th century. There is also a clear consensus within the scientific community that emission of greenhouse gasses will cause further warming and have wide ranging impacts on weather patterns, people and ecosystems. Insurers have and will continue to be impacted by the physical, transitional, and liability risks arising from climate change.

The Company utilises its risk management framework to identify and manage the financial risks arising from climate change. While the current impacts of climate change do not have a material impact to the Company's balance sheet, the Company recognises climate change as a potential material longer-term risk.

Monitoring of the potential impacts of climate change on the Company's insured portfolio has been incorporated into surveillance processes. The susceptibility of insured transactions to climate change is assessed when initially assigning and subsequently reassessing internal ratings. This assessment includes the vulnerability of the operations or assets of the insured transaction to long-term physical and transitional impacts of climate change and also the immediate exposure to extreme weather hazards or increasing volatility. The small number of risks in the insured portfolio, 46 as at 31 December 2020, means that consideration can be given to the impact of climate on individual insured risks.

The financial impacts of climate change have also been incorporated into the underwriting processes and are required to be assessed within the underwriting analysis.

These assessments are subject to review and challenge by the Risk Management function and will continue to be assessed and challenged through the ORSA process. The Company continues to work to enhance the sophistication of its stress testing of transactions under differing climate change scenarios.

The Company's investment portfolio predominantly comprises fixed-income securities; therefore the potential impacts of climate change are primarily credit-related and significantly mitigated by the relatively short-term duration of the portfolio, 7.8 years as at 31 December 2020. Nonetheless, the physical, transitional and litigation risks arising from climate change are relevant in the evaluation by the Company and its investment managers of the creditworthiness of specific issuers and industries.

COVID-19

The COVID-19 pandemic could significantly impact the Company's key risks. While the development and rollout of effective vaccination programmes offer a potential route out of the current crisis, significant uncertainty remains as to the speed of economic recovery, as well as longer-term impacts to society, specific business sectors and the global economy generally. The Company utilises extensive stress and scenario testing to assess the potential financial impacts, including potential impacts on regulatory solvency and liquidity. The impact to the Company's key risks and how the Company assesses and monitors these impacts is described in further detail below.

Underwriting Risk
To date the Company has not incurred any claims related to the impacts of COVID-19. While insured transactions in certain demand-based sectors have experienced significant strain during the year due to the unprecedented slowdown in economic activity, their credit quality is supported by the resilient nature of the underlying transaction business model, debt service coverage and strong liquidity.

The Company's surveillance department has undertaken extensive analysis across all impacted sectors during 2020 to understand the current and possible impacts to transaction revenues and the funds available to meet debt service. The Company has utilised extensive stress and scenario testing to assess potential impacts to these transactions under severe downside scenarios. They include reverse stress scenarios and severe downside stress scenarios in which lockdowns and travel restrictions continue for a further 12 months or more and are followed by a prolonged period of reduced economic activity and recession. Even in such severe downside scenarios the Company does not expect to incur significant losses.

Market Risk
The Company's conservative investment strategy is designed to preserve liquidity and claims paying resources in times of significant financial market stress. In the current environment the Company is exposed to an increased risk of credit rating 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 not seen significant rating migration on its corporate bond portfolio during 2020 and has not experienced any defaults.

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. To date the Company's affiliated reinsurers have not been significantly impacted by the pandemic and continue to retain significant levels of excess capital and liquidity. As noted above, the Company regularly assesses the creditworthiness of its reinsurers, which includes considering the results of severe downside COVID-19 stress testing performed by the Assured Guaranty Group. The Company believes that its reinsurers remain well positioned to honour their obligations to the Company.

Liquidity risk
The Company possesses significant liquidity with €63.4 million in cash and government securities as at 31 December 2020 (2019: €3.9 million). Under the Company's severe COVID-19 stress scenarios liquidity is expected to remain significantly in excess of the Company's requirements.

Operational risk
Since the onset of the pandemic the Company has remained operationally resilient and has demonstrated that it can operate effectively under remote working with no significant impact on day-to-day operations. While remote working increased the level of inherent operational risk, the Company has made appropriate changes to processes, internal controls and employee training to appropriately mitigate this.

C.7 Any other information

None.

D. Valuation for solvency purposes

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

D.1 Assets

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

Assets
As at 31 December 2020

€ '000	Financial Statement Balance Sheet	Solvency II Balance Sheet	Difference
Deferred acquisition costs		—	—
Deferred tax assets	—	—	—
Investments	110,574	112,255	(1,681)
Property, plant & equipment held for own use	—	—	—
Reinsurance recoverables:			
Reinsurer's share of provision for unearned premiums	89,389	—	89,389
Reinsurer's share of claims outstanding	—	—	—
Reinsurer's share of other technical provisions (unexpected risk provisions)	—	—	—
Reinsurer's share of technical provisions (premium provision and claims provision)	—	(11,547)	11,547
Total reinsurance recoverables	**89,389**	**(11,547)**	100,936
Insurance and intermediaries receivables:			
Current premiums receivable	12	12	—
Future premiums receivable	227,113	—	227,113
Salvage recoverable	—	—	—
Total insurance and intermediaries receivables	**227,125**	**12**	227,113
Reinsurance receivables:			
Current reinsurance commissions receivable	—	—	—
Future reinsurance commissions receivable	22,602	—	22,602
Reinsurer's share of paid claims	—	—	—
Total reinsurance receivables	**22,602**	**—**	22,602
Trade receivables	3,452	3,452	—
Cash and cash equivalents	8,600	8,600	—
Other assets	1,683	—	1,683
Total assets	**463,425**	**112,772**	**350,653**

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

Deferred acquisition costs

Under French GAAP, acquisition costs incurred, which represent a portion of expenses related to the production of new business, are classified as an asset and are deferred and amortised on a straight-line basis over the shorter of the contractual maturity date on the associated direct policy or a maximum of five years.

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

Deferred tax assets

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

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

Investments

French GAAP
a. Variable income investments
Shares and other variable-income securities under Article R. 343-10 of the French Insurance Code are recorded at their purchase price, excluding accrued interest.

b. Fixed income investments
Bonds and other fixed-income securities under Articles R. 343-9 and R. 343-10 of the French Insurance Code are recorded at their purchase price, net of accrued interest at the time of purchase. The difference between the purchase price and the redemption value is reported in the income statement over the remaining term until the repayment date using the actuarial method. An amortisation of the premium or discount is recorded up to the time of transfer in the year the fixed income marketable securities are sold.

Impairment
(a) Amortisable securities under Article R. 343-9 of the Insurance Code
A reserve for impairment will be recognized when there is reason to believe that the debtor will not be able to honour its commitments, either through a default in the payment of interest or repayment of principal.

(b) Variable-income or fixed-income securities falling under Article
For those investments covered by Article R. 343-10 of the French Insurance Code, a reserve for impairment may only be recognised when there is reason to deem that the impairment is long-term.

Investments are measured on a fair value basis for Solvency II. Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on either internally developed models or third party proprietary pricing models that primarily use, as inputs, market-based or independently sourced market parameters, including but not limited to yield curves, interest rates and debt prices 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. The Company considers markets to be active where transactions take place with sufficient frequency and volume for pricing information to be available on an ongoing basis.

Reinsurance recoverables

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

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

Insurance and intermediaries receivables

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

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

Reinsurance receivables

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

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

Trade receivables

These relate to other debtors that were due at the balance sheet date. Given the short-term nature, the expected settlement amount is taken to approximate fair value for both French GAAP and Solvency II purposes.

Cash and cash Equivalents

Cash relates to deposits held at financial institutions. These are recognised at face value without any deductions for both French GAAP and Solvency II purposes.

Under Solvency II, certain deposits are reported as collective investment undertakings and included within the value of financial investments. Under French GAAP these deposits are included within cash and cash equivalent.

Any other assets, not shown elsewhere

Under French GAAP, other assets include accrued interest due at the balance sheet date and prepaid expenses.

Under Solvency II, accrued interest is included within the value of financial investments.

D.2 Technical provisions

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

Technical provisions
As at 31 December 2020

€ '000	Financial Statement Balance Sheet	Solvency II Balance Sheet	Difference
Best estimate	—	19,765	(19,765)
Risk margin	—	13,989	(13,989)
Provision for unearned premiums	222,369	—	222,369
Claims outstanding	—	—	—
Unexpired risk provisions	—	—	—
Total	**222,369**	**33,754**	**188,615**

a. Valuation bases, methods and main assumptions

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

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

The Company's expected lifetime losses under Solvency II are calculated using the Company's ECM which uses assumptions for cumulative probability of default, loss given default and correlation to calculate the gross expected cash outflows that the Company will be required to pay over the lifetime of the insured exposures. The Company considers both external and internal sources of data when setting assumptions for probability of default, loss given default and correlation, including any relevant experience by companies within the AGL Group.

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

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

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

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

b. Uncertainty

While the Company believes that the assumptions and methods used to develop the technical provisions are reasonable and consistent and that they provide for a calculation of expected outcomes in an appropriate manner, it remains possible future experience may differ from expectation. The level of uncertainty in relation to the calculation of expected losses is high as the Company guarantees against low probability events with high value exposures.

Some of this uncertainty is mitigated by the Company's reinsurance protections, 93% of the Company's total gross par exposure is fully reinsured as at 31 December 2020. The level of uncertainty in respect of future premiums, future ceding commission and projected operating expenses is expected to be low because in most cases cash inflows are contractually guaranteed and the annual operating expenses that would be required to manage the run-off of the portfolio can be reasonably estimated based on current staffing levels. The Company does not include any benefits related to future management actions.

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

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

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

Matching Adjustment

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

Volatility adjustment

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

Transitional risk free interest rate term structure

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

Transitional deduction

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

Recoverables from reinsurance and special purpose vehicles

The Company reinsures 93% of its gross exposure to affiliated reinsurers. Under Solvency II, reinsurance recoverables represent the contractually obligated payments, less a component for the expected losses in the event that reinsurers are unable to make their share of these payments in excess of the amount of collateral provided by the Company. This component is calculated based on the projected ceded expected losses to each reinsurer, the assumed cumulative default rate of each reinsurer and the amount of collateral posted by each reinsurer. Under French GAAP the Company does not include a provision for reinsurance counterparty default unless such a scenario, in which the reinsurer fails to pay, becomes probable.

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

D.3 Valuation of other liabilities

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

Liabilities
As at 31 December 2020

€ '000	Financial Statement Balance Sheet	Solvency II Balance Sheet	Difference
Reinsurance payables			
Current reinsurance premiums payable	—	—	—
Future reinsurance premiums payable	81,887	—	81,887
Salvage payable			
Total reinsurance payables	**81,887**	**—**	**81,887**
Trade payables	3,675	3,675	—
Other liabilities			
Reinsurance commissions deferred	47,143	—	47,143
Other liabilities including accrued expenses	512	512	—
Total other liabilities	**47,655**	**512**	**47,143**
Total liabilities excluding technical provisions	**133,217**	**4,187**	**129,030**
Best estimate	—	19,765	(19,765)
Risk margin	—	13,989	(13,989)
Technical provisions	**222,369**	**33,754**	**188,615**
Total liabilities	**355,586**	**37,941**	**317,645**

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

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

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

Trade payables

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

Any other liabilities, not shown elsewhere

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

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

D.4 Alternative methods of valuation

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

All the Company's investments are either:

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

D.5 Any other information

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

E. Capital Management

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

E.1 Own funds

a. Objectives, policies and processes for managing own funds

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

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

The Company assesses its capital position against both regulatory capital requirements and an internally developed economic capital requirement, the ICA. For its economic capital requirement, the Company utilises an in-house capital model. The model is designed to measure the Company’s 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 SCR and MCR. The Company maintained compliance with both the SCR and MCR throughout the year.

The Company’s capital management policy establishes a target range for both regulatory and economic capital. The Company seeks to manage its current and forecasted levels of capital 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 its ORSA, which incorporates regular use of stress and scenario testing.

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

AGM Transferred Business Reinsurance Agreement
The AGM Transferred Business Reinsurance Agreement reinsures business transferred to the Company under the Portfolio Transfer. Different percentages of reinsurance cessions are specified for the different reinsured policies.

AGM New Business Reinsurance Agreement
The New Business Reinsurance Agreement reinsures 90% of the Company’s retention on any new transactions underwritten by the Company. It also provides reinsurance for certain policies transferred to the Company for which AGUK was not reinsured by AGM, for which the quota share percentage cession is approximately 88% to 90%, varying by policy.

Both the Transferred Business Reinsurance Agreement and the New Business Reinsurance Agreement require 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) the unearned premium reserve (net of reinsurance premium payable to AGM); (b) 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 French GAAP.

AGC Transferred Business Reinsurance Agreement
The AGC Transferred Business Reinsurance Agreement preserves AGC’s 90% quota share reinsurance of the legacy Assured Guaranty (UK) plc policies, and 100% reinsurance of the legacy CIFG Europe S.A. policies transferred to the Company under the Portfolio Transfer.

AGRE Transferred Business Reinsurance Agreement
The AGRE Transferred Business Reinsurance Agreement preserves AGRE’s quota share reinsurance of the AGUK and legacy AGLN policies transferred to the Company under the Portfolio Transfer.

Both the AGC and AGRE Transferred Business Reinsurance Agreements impose collateral requirements consistent with the AGM Reinsurance Agreement, as described above.

AGM Excess of Loss Reinsurance Agreement
Under the AGM Excess of Loss 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 French 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 French law minus (b) 110% of the amounts as may be required by the ACPR as a condition for the Company to maintain its authorization to carry on a financial guarantee business in France. 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.

AGM Net Worth Maintenance Agreement
Under the terms of the AGM Net Worth Maintenance Agreement AGM is obligated to ensure the Company maintains capital resources equal to 110% of the amounts as may be required by the ACPR as a condition of the Company maintaining its authorization to carry on financial guarantee business in France 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.

b. Structure, amount and quality of own funds

The capital structure of the Company consists of basic own funds only. As at 31 December 2020, basic own funds comprised €110.9 million of allotted and fully paid ordinary shares and the reconciliation reserve of €36.1 million, both classified as Tier 1 capital. The Company does not have any restricted Tier 1 capital.

c. Eligibility of own funds to cover SCR

The value of eligible own funds to cover SCR is shown below:

As at 31 December **€ '000**	**2020**	**2019**
Tier 1	74,831	—
Tier 2	—	—
Tier 3	—	—
Total	**74,831**	**—**

The quantitative limits on items eligible to cover the SCR do not result in any deductions from own funds.

d. Eligibility of own funds to cover MCR

All of the Company's own funds are eligible to cover the MCR.

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

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

Reconciliation between shareholder's equity and excess of assets over liabilities

As at 31 December **€ '000**	**2020**	**2019**
Shareholders' equity under French GAAP	107,839	—
Disallowed items (prepayments & deferred acquisition costs)	(936)	—
Solvency II fair value adjustment to investments	1,031	
Solvency II adjustment to net best estimate provision & discounting	(19,114)	—
Risk Margin	(13,989)	—
Deferred tax in Solvency II balance sheet	—	—
Excess of assets over liabilities for Solvency II purposes	**74,831**	**—**

f. Basic own funds subject to transitional arrangements

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

g. Ancillary own funds

There are no ancillary own funds.

h. Basic own funds deductions and significant restrictions

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

E.2 SCR and MCR

a. SCR and MCR

The Company’s SCR as at 31 December 2020 was €21.7 million (2019: €nil). This is shown in *Section F S.25.01*. The Company’s MCR as at 31 December 2020 was €5.5 million (2019: €nil). This is shown on the S*ection F S.28.01*.

b. Split of the SCR by risk module

The Company uses the Standard Formula to calculate its SCR.

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

As at 31 December **€ '000**	**2020**	**2019**
Underwriting risk	13,620	—
Market risk	12,725	—
Counterparty risk	385	—
Diversification benefit	(5,708)	—
Operational risk	682	—
SCR	**21,704**	**—**
SCR Ratio %	**345**	**—**
MCR	**5,542**	**—**
MCR Ratio %	**1,350**	**—**

c. Use of simplified calculations

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

d. Use of USPs

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

e. Disclosure of USPs and capital add-on

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

f. Impact of USPs and capital add-on

Not applicable.

g. Information on the inputs into MCR calculation

The inputs into the MCR calculation were:

As at 31 December **€ '000**	**2020**	**2019**
Net Technical Provisions	31,312	—
Net Technical Provisions (floor 0)	31,312	—
Net written premiums over 12-month reporting period	(12,456)	—
Net written premiums over 12-month reporting period (floor 0)	—	—
Linear MCR	**5,542**	—
SCR	**21,704**	—
MCR Cap	**9,767**	—
MCR Floor	**5,426**	—
Absolute Floor of the MCR	**3,700**	—

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

The SCR and MCR increased significantly during the period following completion of the Portfolio Transfer.

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

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

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

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

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

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

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

E.6 Any other information

None.

F. Quantitative Reporting Templates

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

Balance Sheet
S.02.01.02
EUR €'000

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	0
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**112,255**
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	*R0100*	
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	*R0130*	107,560
Government Bonds	R0140	62,284
Corporate Bonds	R0150	45,276
Structured notes	R0160	
Collateralised securities	R0170	
Collective Investments Undertakings	R0180	4,695
Derivatives	R0190	
Deposits other than cash equivalents	R0200	
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	**R0230**	
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	
Reinsurance recoverables from:	**R0270**	**(11,547)**
Non-life and health similar to non-life	R0280	(11,547)
Non-life excluding health	R0290	(11,547)
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	12
Reinsurance receivables	R0370	
Receivables (trade, not insurance)	R0380	3,452
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	8,600
Any other assets, not elsewhere shown	R0420	
Total assets	**R0500**	**112,772**

Balance Sheet
S.02.01.02
EUR €'000

		Solvency II value
		C0010
Liabilities		
Technical provisions - non-life	**R0510**	**33,754**
Technical provisions - non-life (excluding health)	**R0520**	**33,754**
TP calculated as a whole	R0530	
Best estimate	R0540	19,765
Risk margin	R0550	13,989
Technical provisions - health (similar to non-life)	**R0560**	
TP calculated as a whole	R0570	
Best estimate	R0580	
Risk margin	R0590	
TP - life (excluding index-linked and unit-linked)	**R0600**	
Technical provisions - health (similar to life)	**R0610**	
TP calculated as a whole	R0620	
Best estimate	R0630	
Risk margin	R0640	
TP - life (excluding health and index-linked and unit-linked)	**R0650**	
TP calculated as a whole	R0660	
Best estimate	R0670	
Risk margin	R0680	
TP - index-linked and unit-linked	**R0690**	
TP calculated as a whole	R0700	
Best estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	
Deferred tax liabilities	R0780	
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	3,675
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	512
Total liabilities	**R0900**	**37,941**
Excess of assets over liabilities	**R1000**	**74,831**

Premiums, claims and expenses by line of business
S.05.01.02
EUR €'000

		Credit and suretyship insurance	Total
		C0090	C0200
Premiums written			
Gross - Direct Business	R0110	234,206	**234,206**
Gross - Proportional reinsurance accepted	R0120		
Gross - Non-proportional reinsurance accepted	R0130		
Reinsurers' share	R0140	239,065	**239,065**
Net	**R0200**	**(4,859)**	**(4,859)**
Premiums earned			
Gross - Direct Business	R0210	11,368	**11,368**
Gross - Proportional reinsurance accepted	R0220		
Gross - Non-proportional reinsurance accepted	R0230		
Reinsurers' share	R0240	11,629	**11,629**
Net	**R0300**	**(261)**	**(261)**
Claims incurred			
Gross - Direct Business	R0310	0	**0**
Gross - Proportional reinsurance accepted	R0320		
Gross - Non-proportional reinsurance accepted	R0330		
Reinsurers' share	R0340	0	**0**
Net	**R0400**	**-**	**-**
Changes in other technical provisions			
Gross - Direct Business	R0410	0	**0**
Gross - Proportional reinsurance accepted	R0420		
Gross - Non-proportional reinsurance accepted	R0430		
Reinsurers' share	R0440	0	**0**
Net	**R0500**	**0**	**0**
Expenses incurred	**R0550**	**2,374**	**2,374**
Other expenses	R1200		
Total expenses	**R1300**		**2,374**

Non - life Technical Provisions
S.17.01.02
EUR €'000

		Direct business and accepted proportional reinsurance	Total Non-Life obligations
		Credit and suretyship insurance	
		C0100	C0180
Technical provisions calculated as a whole	**R0010**		
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050		
Technical Provisions calculated as a sum of BE and RM			
Best estimate			
Premium provisions			
Gross - Total	R0060	**19,765**	**19,765**
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	(11,547)	**(11,547)**
Net Best Estimate of Premium Provisions	**R0150**	**31,312**	**31,312**
Claims provisions			
Gross - Total	R0160	**0**	**0**
Gross - direct business	R0170	0	**0**
Gross - accepted proportional reinsurance business	**R0180**		
Gross - accepted non-proportional reinsurance business	R0190		
Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default	R0200	**0**	**0**
Recoverables from reinsurance (except SPV and Finite Reinsurance) before adjustment for expected losses	R0210	0	**0**
Recoverables from SPV before adjustment for expected losses	**R0220**		
Recoverables from Finite Reinsurance before adjustment for expected losses	**R0230**		
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	0	**0**
Net Best Estimate of Claims Provisions	R0250	**0**	**0**
Total Best estimate - gross	R0260	**19,765**	**19,765**
Total Best estimate - net	**R0270**	**31,312**	**31,312**
Risk margin	**R0280**	13,989	**13,989**
Amount of the transitional on Technical Provisions			
TP as a whole	**R0290**		
Best estimate	**R0300**		
Risk margin	**R0310**		
Technical provisions - total			
Technical provisions - total	R0320	**33,754**	**33,754**
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	**(11,547)**	**(11,547)**
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	R0340	**45,301**	**45,301**

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

		Development year (absolute amount)												In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +			

Gross Claims Paid (non-cumulative)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110		C0170	C0180
Prior	R0100												R0100		
2006	R0110												R0110		
2007	R0120												R0120		
2008	R0130												R0130		
2009	R0140												R0140		
2010	R0150												R0150		
2011	R0160												R0160		
2012	R0170												R0170		
2013	R0180												R0180		
2014	R0190												R0190		
2015	R0200												R0200		
2016	R0210												R0210		
2017	R0220												R0220		
2018	R0230												R0230		
2019	R0240												R0240		
2020	R0250												R0250		
												Total	R0260		

The Company has not incurred any claims since its formation and as such there is no information to be disclosed in the above table.

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

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

Gross undiscounted Best Estimate Claims Provisions

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		C0360
Prior	R0100												R0100	
2006	R0110												R0110	
2007	R0120												R0120	
2008	R0130												R0130	
2009	R0140												R0140	
2010	R0150												R0150	
2011	R0160												R0160	
2012	R0170												R0170	
2013	R0180												R0180	
2014	R0190												R0190	
2015	R0200												R0200	
2016	R0210												R0210	
2017	R0220												R0220	
2018	R0230												R0230	
2019	R0240												R0240	
2020	R0250												R0250	
													Total R0260	

The Company has not incurred any claims since its formation and as such there is no information to be disclosed in the above table.

Own funds
S.23.01.01
EUR €'000

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	**110,900**	110,900			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	**(36,069)**	(36,069)			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160	**-**				-
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	**R0290**	**74,831**	**74,831**			**-**
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					

Own funds
S.23.01.01
EUR €'000

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	**R0400**					
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	**74,831**	**74,831**			**-**
Total available own funds to meet the MCR	**R0510**	**74,831**	**74,831**			
Total eligible own funds to meet the SCR	**R0540**	**74,831**	**74,831**			**-**
Total eligible own funds to meet the MCR	**R0550**	**74,831**	**74,831**			
SCR	**R0580**	**21,704**				
MCR	**R0600**	**5,542**				
Ratio of Eligible own funds to SCR	**R0620**	**345%**				
Ratio of Eligible own funds to MCR	**R0640**	**1350%**				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	**74,831**
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	**110,900**
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	**R0760**	**(36,069)**
Expected profits		
Expected profits included in future premiums (EPIFP) - Life Business	R0770	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	28,643
Total Expected profits included in future premiums (EPIFP)	**R0790**	**28,643**

Solvency Capital Requirement - for undertakings on Standard Formula
S.25.01.21
EUR €'000

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	12,725		
Counterparty default risk	R0020	385		
Life underwriting risk	R0030			
Health underwriting risk	R0040			
Non-life underwriting risk	R0050	13,620		
Diversification	R0060	(5,708)		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	**R0100**	**21,022**		

Calculation of Solvency Capital Requirement

		C0100
Adjustment due to RFF/MAP nSCR aggregation	R0120	
Operational risk	R0130	682
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	**R0200**	**21,704**
Capital add-on already set	R0210	
Solvency capital requirement	**R0220**	**21,704**
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

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

Linear formula component for non-life insurance and reinsurance obligations

MCR calculation Non Life		Non-life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Credit and suretyship insurance and proportional reinsurance	R0100		0

Linear formula component for life insurance and reinsurance obligations

MCR calculation Life		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210		
Obligations with profit participation - future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230		
Other life (re)insurance and health (re)insurance obligations	R0240		
Total capital at risk for all life (re)insurance obligations	R0250		

		Non-life activities	Life activities
		C0010	C0040
MCRNL Result	R0010	5,542	
MCRL Result	R0200		

Overall MCR calculation

		C0070
Linear MCR	R0300	5,542
SCR	R0310	21,704
MCR cap	R0320	9,767
MCR floor	R0330	5,426
Combined MCR	R0340	5,542
Absolute floor of the MCR	R0350	3,700

		C0070
Minimum Capital Requirement	**R0400**	**5,542**