Assured Guaranty UK Limited

(formerly Assured Guaranty (Europe) plc)

Solvency and Financial Condition Report 2020

Contents

Glossary of Abbreviations and Definitions

Term	Definition
AGC	Assured Guaranty Corp.
AGC Reinsurance Agreement	Reinsurance agreement between AGUK and AGC dated 7 November 2018
AGE SA	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 Net Worth Maintenance Agreement	Net Worth Maintenance Agreement dated 7 November 2018 between AGUK and AGM
AGM Reinsurance Agreement	Quota share and excess of loss reinsurance agreement between AGUK and AGM dated 7 November 2018
AGRE	Assured Guaranty Reinsurance Limited
AGUK or the Company	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
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIFGE	CIFG Europe S.A.
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
FCA	The Financial Conduct Authority
Fitch	Fitch Ratings Inc.
GBP	Great Britain Pound
GPO	Gross par outstanding
Group Service Agreement	Third Amended and Restated Service Agreement among AGUK, AGUS Services and other affiliates, effective 1 January 2020
ICA	Individual Capital Assessment
IG	Investment Grade
ISCC	International Supervisory Credit Committee
IT	Information Technology
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

Term	Definition
Part VII Transfer	During 2020 the Company transferred its existing EEA policies to AGE SA, utilising an insurance transfer under Part VII of the United Kingdom Financial Services and Market Act 2000 and French insurance portfolio transfer procedures
PF	Public finance
plc	Public limited company
PRA	The Prudential Regulation Authority
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
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
SMF	A Senior Manager Function specified in the SMCR
SMCR	The UK's Senior Managers and Certification Regime, which applies to the insurance and reinsurance sectors as of 10 December 2018
Solvency II Regulation	Commission Delegated Regulation EU 2015/35 of 10 October 2014, as amended
Standard Formula	Standard formula as prescribed by EIOPA
UK	United Kingdom of Great Britain and Northern Ireland
UK GAAP	United Kingdom Generally Accepted Accounting Principles
US	United States of America
USD	US Dollars
USPs	Undertaking-specific parameters

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

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 authorised by the PRA, and regulated by both the PRA and the FCA, and is authorised to effect and carry out three classes of general insurance, specifically: classes 14 (credit), 15 (surety-ship) and 16 (miscellaneous financial loss). The Company also has permission to advise on, to arrange and to assist in the administration and performance of its financial guarantee insurance contracts.

On 24 February 2021, the Company was re-registered as a private limited company and renamed Assured Guaranty UK Limited (formerly, Assured Guaranty (Europe) plc). The change followed the transition of the Company's European Economic Area ('EEA") insurance activities to Assured Guaranty Europe SA ("AGE SA"), further details of which are provided below.

The Company generally guarantees transactions under a co-insurance structure with its parent company, AGM, under which the Company directly insures 15% of new transactions and AGM directly guarantees the remaining 85% balance of the guaranteed obligations and also provides a second-to-pay guarantee for the Company's portion of the guaranteed obligations. Where a co-insurance structure is not permitted by local regulations, the Company directly provides the guarantee and subsequently reinsures a significant portion to AGM. For transactions closed prior to 2011, the Company typically guaranteed obligations directly and reinsured to AGM approximately 92% of the Company's retention, after cessions to other reinsurers, under the quota share cover of the AGM Reinsurance Agreement. Transactions originally underwritten by the Company's former subsidiaries, Assured Guaranty (UK) plc and CIFG Europe SA, and transferred to the Company under a cross-border merger completed in 2018, are reinsured 90% and 100% respectively to AGC. Transactions originally underwritten by AGLN and transferred to the Company under the cross-border merger have only limited levels of reinsurance, typically less than 5% to AGC and AGRE.

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 securities rating agencies. As at 31 March 2021, AGM and the Company have been assigned the insurance financial strength ratings set out below:

S&P: AA / Stable Outlook

Moody's: A2 / Stable Outlook

KBRA: AA+ / Stable Outlook

Brexit and the Part VII Transfer

In response to the UK's decision to leave the EU and the likely impacts of the UK's withdrawal upon the Company's ability to underwrite new business and service existing EEA policies, the Company's parent, AGM, established a new French insurance subsidiary, AGE SA, in 2019. AGE SA was authorised to conduct insurance business in France and certain other EEA countries from 2 January 2020, and from that date the Company ceased the underwriting of new business in the EEA.

To ensure that its existing EEA polices could continue to be administered after the end of the transition period of the UK's departure from the EU, the Company transferred certain of its existing EEA based polices to AGE SA 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, with the rights and obligations of the policies, related reinsurance protections and ancillary contracts transferring to AGE SA on that date.

In contemplation of the Part VII Transfer, and to provide AGE SA with sufficient capital to support the transferring obligations, the Company paid a dividend of £97.6 million (€107 million) on 25 September 2020 to AGM. In return for payment of the dividend, AGM subscribed for €107m in additional share capital in AGE SA.

COVID-19

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, certain business sectors and the global economy generally.

As the pandemic took hold in the UK 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, debt service coverage 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

Despite significant disruption to financial markets during the first and second quarters of 2020, the Company continued to underwrite business across the year in a number of public finance sectors, including student accommodation, regulated utilities, transportation and healthcare, generating PVP and new business gross written premiums of £9.2 million (2019: £41.7 million) and £9.8 million (2019: £69.2 million) respectively. The reduction in new business from 2019 is attributable to the cessation of EEA new business underwriting from January 2020, following the establishment and authorisation of AGE SA and a single large portfolio transaction completed in 2019.

As noted above, the Company has not incurred any claims to date related to the impact of the COVID-19 pandemic and the overall credit quality of the insured portfolio has not been significantly impacted, with the proportion of BIG risks reducing from 2.7% of GPO at 31 December 2019 to 2.0% at 31 December 2020.

While the Company generated higher levels of earned premiums during 2020, the overall underwriting result for the year was a loss of £4.7 million (2019: profit of £1.4 million) due to a £10.1 million loss recorded on the recognition of the Part VII Transfer. Further details on the impacts of the Part VII Transfer are provided in *Section A.1.g.*

As at 31 December 2020, the Company had issued guarantees on financial obligations with gross par outstanding of £17.8 billion (2019: £23.8 billion) and net par outstanding of £8.1 billion (2019: £10.4 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	7,943,165	3,290,761	10,402,512	4,396,624
Infrastructure Finance	7,391,169	3,049,299	9,525,196	4,091,959
Sovereign and Sub-sovereign	2,410,398	1,724,227	3,431,635	1,880,839
RMBS	25,285	—	214,395	4,670
Renewable Energy	8,608	—	173,913	24,656
Insurance Securitisation	29,397	2,940	30,365	3,037
Total	**17,808,022**	**8,067,227**	23,778,016	10,401,785

Investment performance
The economic environment proved significantly favourable for fixed income investors during 2020, resulting in a strong performance for the Company's investment portfolio, which generated a net investment return of £25.3 million (2019: £15.4 million), including an increase in unrealised market value gains of £8.5 million.

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 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.

The Company implemented a number of changes to its risk management framework during the year. These changes are described in *Sections B1. and B3*.

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

The Company's risk profile has changed over the year due to the Part VII Transfer, which materially decreased the size of the Company's insured portfolio to £8.1 billion net par insured (2019: £10.4 billion).

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 £572.2 million. Net assets as reported within the Company's UK GAAP financial statements were £701.7 million. The adjustments made to the UK GAAP balance sheet in moving to the Solvency II basis of valuation are set out below.

Summary of adjustments to UK GAAP balance sheet

As at 31 December	2020	2019
£ '000		
Shareholders' equity under UK GAAP	701,659	781,057
Disallowed items (prepayments, deferred acquisition costs & fixed assets)	(24,742)	(30,096)
Solvency II adjustment to net best estimate provision & discounting	112,796	153,568
Risk Margin	(247,825)	(246,309)
Deferred tax in Solvency II balance sheet	30,356	20,922
Solvency II excess of assets over liabilities	572,244	679,142

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 primary objective of the Company's capital management policy is to ensure sufficient capital resources to meet both the Company's regulatory capital requirements as well as its own economic capital assessment, the ICA.

The Company calculates its SCR using the Standard Formula. The Company remains in a strong financial position with a SCR cover ratio of 181% (2019: 226%). The solvency surplus reduced during 2020 due to: (i) a change in calibration of the premium risk component of the SCR, which had a large impact on the SCR requirement due to the long duration of policies and the significant unearned premium reserve; and (ii) the impact of the Part VII Transfer because the reduction in SCR as a result of the transfer was not proportionate to the reduction in insured risk. The ratios of the 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	572,244	679,142
SCR	316,709	300,301
SCR Ratio	181 %	226 %
MCR	79,177	75,075
MCR Ratio	684 %	876 %

The Company's own funds are principally comprised of tier one own funds. The split of the Company's own funds by Solvency II tiers is shown below.

As at 31 December	2020	2019
£ '000		
Tier 1	541,196	657,483
Tier 2	—	—
Tier 3	31,048	21,659
Total	572,244	679,142

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 SCR.

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 PRA 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 PRA 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 UK Limited

Richard Nicholas
Director
6 April 2021

INDEPENDENT AUDITORS' REPORT

Report of the external independent auditors to the Directors of Assured Guaranty UK Limited (formerly Assured Guaranty (Europe) plc) ("the Company")

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

Opinion

We have audited the following documents prepared by the Company as at 31 December 2020:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2020, ('**the Narrative Disclosures subject to audit**'); and
- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('**the Templates subject to audit'**).

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

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

- The 'Introduction', 'Executive Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02, S.05.02.01 and S.19.01.21;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Directors' Statement**').

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2020 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluation of management's going concern assessment and inquires with directors and relevant members of management;
- Assessment of impact of Covid-19 pandemic on going concern basis of preparation and specific assessment made by management in evaluating the impact of Covid-19 on unexpired risk provision; and
- Assessment of the Company's financial position, capital and solvency measures, and liquidity at the valuation date.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from the date on which the Solvency and Financial Condition Report is authorised for issue.

In auditing the Solvency and Financial Condition Report, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate.

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

Our responsibilities and the responsibilities of the Directors with respect of going concern are described in the relevant sections of this report.

Emphasis of Matter - Basis of Accounting

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

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

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

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

The Directors have elected to comply with the External Audit Part of the PRA Rulebook for Solvency II firms as if it applied to the Company, notwithstanding that the Company is a small firm for external audit purposes (as defined in the PRA Rulebook).

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

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those established by the Prudential Regulation Authority ('PRA'), and we considered the extent to which non-compliance might have a material effect on the Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the Solvency and Financial Condition Report such as PRA Rules and Solvency II regulations. We evaluated management's incentives and opportunities for fraudulent manipulation of the Solvency and Financial Condition Report (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgemental areas such as the valuation of Solvency II technical provisions, and posting inappropriate journal entries. Audit procedures performed included:

- Discussions with management, the Audit Committee and individuals involved in the Risk and Compliance functions, including considerations of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence and met with the Prudential Regulation Authority and Financial Conduct Authority in relation to compliance with relevant regulations;

- Reviewing relevant meeting minutes including those of the Board and the Risk Oversight Committee;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management;
- Procedures relating to appropriateness of methodologies and assumptions applied in the valuation of Technical Provisions; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the Solvency and Financial Condition Report. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with our letter of engagement dated 11 March 2021 and External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook as if it applied to the Company, and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Report on Other Matters

The Directors have requested that we consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements as if the Company was subject to the External Audit Part of the PRA Rulebook for Solvency II firms. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
7 More London Riverside
London
6 April 2021

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 UK GAAP. The information on financial performance provided in this section is therefore presented on a UK GAAP basis, unless otherwise stated.

A.1 Business

a. Name and legal form

The Company is registered in England and Wales (registration number 2510099). On 24 February 2021, the Company was re-registered as a private limited company and renamed Assured Guaranty UK Limited (formerly, Assured Guaranty (Europe) plc).

The registered office of the Company is:

11th Floor
6 Bevis Marks
London
England
EC3A 7BA

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

The Company is authorised by the PRA, and regulated by both the PRA and the FCA, and is authorised to effect and carry out three classes of general insurance, specifically: classes 14 (credit), 15 (suretyship) and 16 (miscellaneous financial loss).

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

c. Name and contact details of the external auditor

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

d. Holders of qualifying holdings in the Company

The Company is a wholly-owned 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. 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.

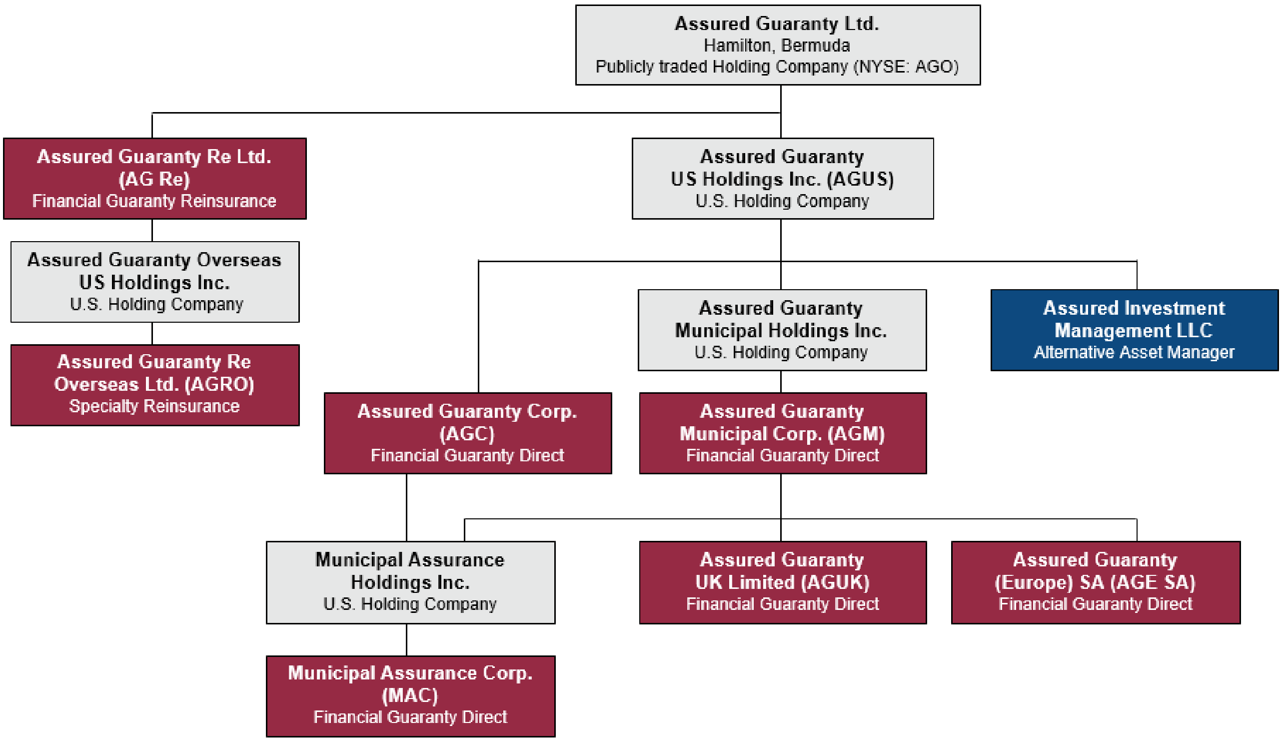
AGL is a Bermuda-based holding company, which was formed in 2003, and as a public company, is subject to certain requirements of the US Securities and Exchange Commission.

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 AGE SA. The remaining 0.000106% is owned by Assured Guaranty Municipal Holdings Inc, which is also an indirect wholly-owned subsidiary of AGL. 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 UK, specifically to the public finance (including infrastructure finance) and structured finance markets. As described more fully in *Section A.1.g* below, AGE SA, an AGL Group affiliate Company, was authorised to conduct insurance business in France and certain other EEA countries from 2 January 2020, and from that date the Company ceased the underwriting of new business in the EEA.

Par insured by location of risk

As at 31 December	2020		2019	
£ '000	Gross Par Outstanding	Net Par Outstanding	Gross Par Outstanding	Net Par Outstanding
Country				
Public finance				
United Kingdom	16,208,796	7,716,243	18,936,767	8,972,808
Italy	657,107	18,702	789,220	20,920
France	450,949	18,069	2,322,027	1,011,875
Spain	—	—	485,894	30,651
Ireland	139,977	139,977	—	—
Japan	—	—	294,685	10,307
Malaysia	153,621	153,621	—	—
Other	142,890	17,675	704,663	347,517
Total public finance	**17,753,340**	**8,064,287**	**23,533,256**	**10,394,078**
Structured finance				
Italy	—	—	146,073	3,742
United Kingdom	25,285	—	63,012	733
United States of America	29,397	2,940	30,365	3,037
Germany	—	—	5,310	195
Hungary	—	—	—	—
Total structured finance	**54,682**	**2,940**	**244,760**	**7,707**
Total	**17,808,022**	**8,067,227**	**23,778,016**	**10,401,785**

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 Part VII Transfer

In response to the UK's decision to leave the European Union and the likely impacts of the UK's withdrawal upon the Company's ability to underwrite new business and service existing EEA policies, the Company's parent, AGM, established a new French insurance subsidiary, AGE SA, in 2019. AGE SA was authorised to conduct insurance business in France and certain other EEA countries from 2 January 2020, and from that date the Company ceased the underwriting of new business in the EEA.

To ensure that its existing EEA polices could continue to be administered after the end of the transition period for the UK's departure from the European Union, the Company transferred certain of its existing EEA based polices to AGE SA 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, with the rights and obligations of policies with gross par insured of £5.7 billion transferring to AGE SA on that date, along with the related in-force reinsurance protections and any ancillary contracts to the insured transaction.

In contemplation of the Part VII Transfer, and to provide AGE SA with sufficient capital to support the transferring obligations the Company paid a dividend of £97.6 million (€107.0 million) on 25 September 2020 to AGM. In return for payment of the dividend, AGM subscribed for €107 million of additional share capital in AGE SA.

The assets and liabilities transferred by the Company are shown at their book values at the date of transfer in the table below. The value of net asset transferred was recognised as a loss within the income statement, further detail of which is provided in *Section A.2* below.

Assets and liabilities transferred

£'000	1 October 2020
Reinsurance assets	75,720
Debtors, including insurance receivables	51,925
Cash at bank	24,877
Prepayments and accrued income	3,696
Insurance liabilities	(101,384)
Creditors, including reinsurance payables	(23,353)
Accruals and deferred income	(21,361)
Net assets transferred	**10,120**
Loss on Part VII Transfer recognised within Other technical (expenses) / income	**10,120**

COVID-19

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 the UK 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.

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* below, 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, debt service coverage 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 continued to underwrite new business throughout 2020. Although the significant financial market disruption seen in the first and second quarters of the year delayed the closing of some new business transactions until 2021, 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 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 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.

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	—	—	—	22,333	614,279	2
Regulated utilities	79	—	1	9,346	53,171	4
Renewable energy	—	—	—	6,087	212,703	1
Other infrastructure	9,170	13,459	4	3,914	50,162	3
	9,249	**13,459**	**5**	**41,680**	**930,315**	**10**

Despite significant disruption to financial markets during the first and second quarters of 2020, the Company continued to underwrite business across the year in a number of public finance sectors, including student accommodation, regulated utilities, transportation and healthcare. A total of 5 transactions were closed during the year (2019: 10 transactions), generating PVP and gross written premiums of £9.2 million (2019: £41.7 million) and £9.8million (2019: £69.2 million) respectively. The reduction in new business premium from the prior year is primarily due to the cessation of EEA new business underwriting from January 2020, following the establishment and authorisation of AGE SA and the benefit to 2019 new business volumes from a single large portfolio transaction which generated PVP of £20.9 million and gross written premium of £41.5 million.

New business premiums were offset by negative gross written premiums of £108.2 million relating to the Part VII Transfer, policy terminations and adjustments to estimated premiums for indexation. The Part VII Transfer has been treated as a policy cancellation for accounting purposes, with the reduction in future premiums recorded as negative written premiums.

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	17,133	11,412
Other technical (expense) / income	(9,687)	619
Total technical income	**7,446**	**12,031**
Net claims (expenses) / benefits	(75)	11
Net changes in other technical provisions expenses	1,495	597
Net operating expenses	10,692	9,998
Total technical charges	12,112	10,606
(Loss) / gain on the technical account for general business	**(4,666)**	**1,425**

While the Company generated higher levels of earned premiums during 2020, the overall underwriting result for the year was a loss of £4.7 million (2019: profit of £1.4 million) due to a £10.1 million loss recorded on the recognition of the Part VII Transfer. The loss was due to the additional premium paid to AGE SA to assume policies in respect of certain underperforming transactions. Excluding the loss recognised on the Part VII Transfer, the underwriting result was a profit of £5.4 million.

As noted above, the Company has not incurred any claims to date related to the impact of the COVID-19 pandemic. The overall credit quality of the insured portfolio has not been significantly impacted by the COVID-19 pandemic, with the proportion of BIG risks reducing from 2.7% of GPO at 31 December 2019 to 2.0%. There were no new claims incurred in 2020, although Company experienced adverse development on the existing claims reserves and unexpired risk provisions during the year of £1.5 million.

The components of net operating expenses are shown in the table below.

Net Operating Expense

Year Ended 31 December **£ '000**	**2020**	**2019**
Acquisition costs deferred	671	1,164
Change in deferred acquisition costs	(2,320)	(2,416)
Administration expenses	(19,056)	(19,454)
Reinsurance commissions	10,013	10,708
Net operating expenses	(10,692)	(9,998)

Net operating expenses increased from 2019 due a reduction in acquisition costs deferred, as a result of lower new business volumes and a reduction in reinsurance commissions, principally due to the Part VII Transfer.

A.3 Investment performance

Investment Portfolio

The table below presents the Company's investment return for the year. All financial investments are held at fair value, with changes in valuation recognised within the income statement.

a. Income and Expenses

Investment return

Year Ended 31 December **£ '000**	**2020**	**2019**
Interest income		
UK Government bonds	2,846	5,174
Corporate bonds	8,318	5,452
Supra-National bonds	2,253	2,523
Non UK Government bonds	1,561	1,763
UK Government Agency bonds	1,059	1,458
Covered bonds	929	905
Other	103	438
Total interest income	**17,069**	**17,713**
Net unrealised gain / (loss) on investments	8,462	(3,616)
Net realised gain on investments	369	2,200
Investment expenses and charges	(651)	(912)
Total investment return	**25,249**	**15,385**

The Company's investment strategy focuses on establishing highly liquid, diversified investment portfolios of high credit quality managed by an external investment manager. The economic environment proved significantly favourable for fixed income investors during 2020, resulting in a strong performance for the investment portfolio which generated a net investment return of £25.3 million (2019: £15.4 million).

Given the Company typically holds investments to maturity, the preferred measure of investment return is yield to maturity, which was 1.68% (2019: 1.62%). The overall duration of the investment portfolio at 31 December 2020 was 2.95 years (2019: 2.75 years), with an average credit quality of AA- (2019: AA). The reduction in average credit rating during 2020 is principally due to an increased allocation to corporate bonds during what the Company identified as favourable market conditions for fixed income investors during the second quarter of 2020.

The overall market value of the investment portfolio at 31 December 2020 was £719.8 million (2019: £758.7 million). The reduction in overall market value was due to investment disposals required to fund dividend payments.

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 Company held securitised assets as at 31 December 2020 of £28.6 million (31 December 2019: £28.7 million) representing 4.0% (2019: 3.8%) of the investment portfolio. The securitised assets are primarily securities that are guaranteed by the Company and were purchased for loss mitigation purposes. The remainder of the securitised assets representing less than 1% of the investment portfolio (2019: <1%) are US Agency mortgage-backed securities rated AA+ and an asset backed security rated AAA.

A.4 Performance of other activities

The Company also recorded a foreign exchange loss of £2.1 million during the year (2019: loss of £6.1 million) due to losses on the Company's US Dollar denominated assets following the strengthening of Pound Sterling.

A.5 Any other information

Lease Payments

The Company leases and occupies office space in London 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	529	529
Later than one year and not later than five years	2,118	2,118
Later than five years	1,981	2,511
Total	**4,628**	**5,158**

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 six non-executive directors (four of which are independent non-executive directors) and three executive directors.

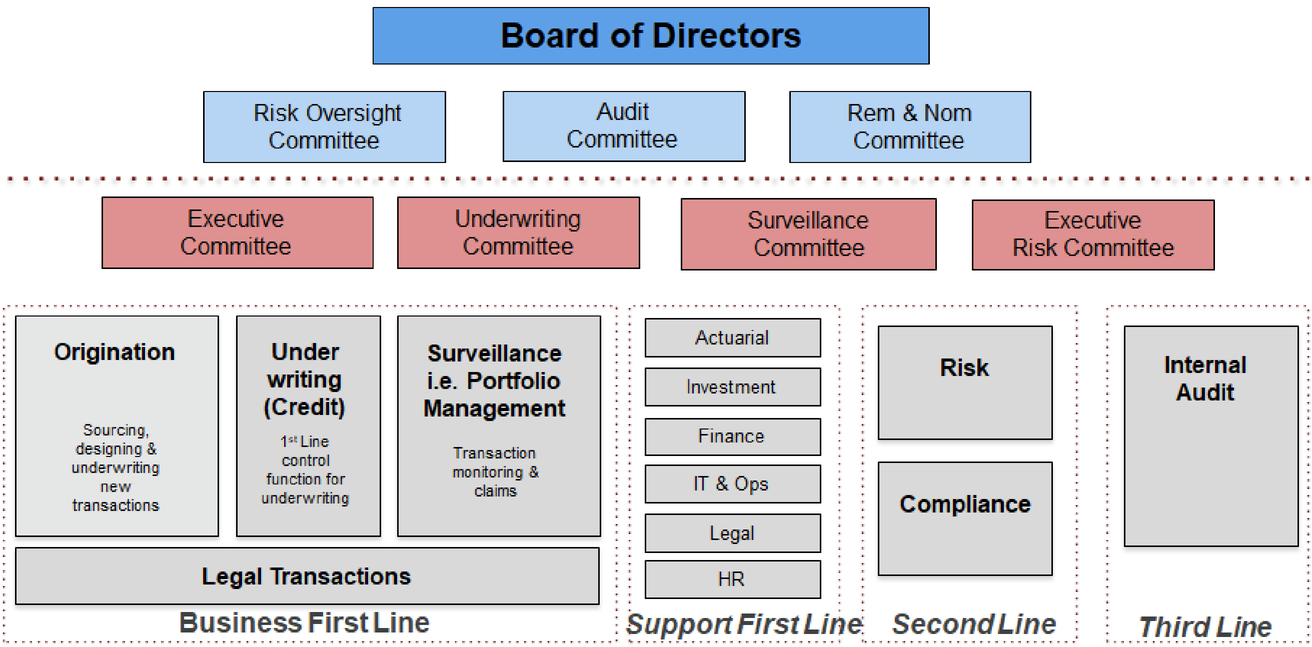
The Board has delegated, pursuant to written terms of reference, responsibility for a number of matters to three sub-committees of the Board:

- Audit Committee,
- Risk Oversight Committee; and
- Remuneration and Nomination 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 independent non-executive directors.

The Board has delegated the day to day management of the Company to the Chief Executive Officer. The CEO is 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. It is also responsible for overseeing and challenging the activities of the Risk Management and Compliance functions.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee assists the Board with its oversight of the Company's remuneration and related personnel policies and for overseeing compliance with those policies. This includes ensuring that the remuneration arrangements support the strategic aims of the business and enable the recruitment and retention of senior executives while complying with regulatory and governance requirements. The Committee is responsible for overseeing the performance and appointment of executive directors, non-executive directors, the Board Chair and senior managers.

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 CEO.

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 UK 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 UK 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 Chief Executive 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

During 2019 the Company undertook a review of its governance and risk management frameworks to ensure it is well equipped to oversee, challenge and support the business as it continues to grow. The Company continued to implement and further embed changes to those frameworks during 2020. This included the implementation of changes to risk management policies, policies and processes for the management and oversight of outsourcing arrangements and remuneration.

In line with the Board succession plan, two independent non-executive directors retired from the Board during the year, with two new independent non-executives directors joining the Board in their place.

c. Remuneration policy and practices

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

The Company ensures that it has appropriate fixed and variable remuneration arrangements through the adoption of a remuneration policy.

The Company's remuneration policy is grounded in the concept of attracting and retaining talented and experienced business leaders who can drive financial and strategic growth objectives intended to build long-term shareholder value 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 independent non-executive directors of the Company's Board receive a fixed fee.

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 management 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 its subsidiaries 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 management 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.

For performance share units granted in 2020, the number of common shares an individual can earn is based on growth in core adjusted book value per share and relative total shareholder return versus the Russell Midcap Financial Services Index. LTIP for certain senior management also can be awarded in the form of restricted stock units, which represent the right to receive certain amount of AGL’s common shares at the end of a three-year vesting period. The form of LTIP awards may change at any time. For other personnel who are granted awards, the awards are made in the form of restricted stock, which vest over a three or four year period.

Variable remuneration is subject to a downwards risk adjustment process overseen by the Company's Risk Management function. The measurement of performance as a basis for variable remuneration must include appropriate consideration of the Company's risk position compared with risk appetite and limits, capital adequacy, changes to the risk profile and other relevant risk metrics as set out in the Remuneration Policy.

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

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 by allowing them to contribute a percentage of their remuneration to the scheme and by matching an employee's contribution up to a certain amount. Employees of AG (UK) Services or AGUS Services who serve as executive directors of the Company, who hold SMFs or who hold key functions are also permitted to participate in the scheme. The Company does not provide any supplementary pension or retirement schemes for independent non-executive members of the Board.

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

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 independent non-executive directors under contracts of service with the Company.

During the year transactions were entered into with parent Company, AGM, and other Assured Guaranty Group affiliate companies under the following arrangements:

i. Agreements relating to the Part VII Transfer

The Company entered into a number of agreements with its parent Company, AGM in order to affect the Part VII 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 and the AGM 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 under which AG (UK) Services provides the Company with professional insurance executives and staff, as well as administrative and clerical personnel. Under the 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 AGUS Services

In addition, the Company also is a 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. The costs charged to the Company for the provision of these services are determined based upon an allocation of employee time and corresponding office overhead. Intra-group outsourcing is further described in S*ection B.7.*

iv. Payment of dividend

As noted in *Section A.1.* the Company paid a dividend of £97.6 million (€107 million) on 25 September 2020 to AGM.

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 SMF for the Company or 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 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

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 AG (UK) Services or AGUS Services who are considered for SMF roles or 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.

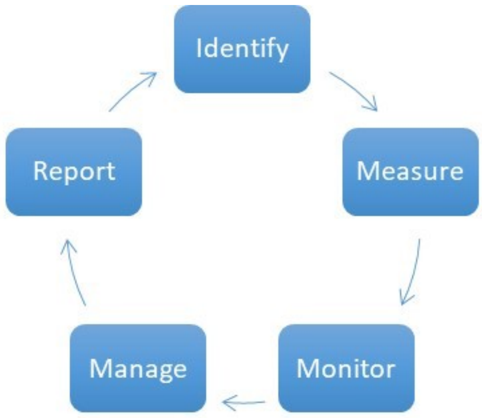
Members of the Company's Board and individuals who hold SMFs or Key Functions are required to complete training at the inception of their role and thereafter training on an ongoing basis which is appropriate to their regulatory roles and responsibilities and to the professional competencies required 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 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 the executive management in the execution and conduct of their risk management duties and 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 Registers;
- 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.

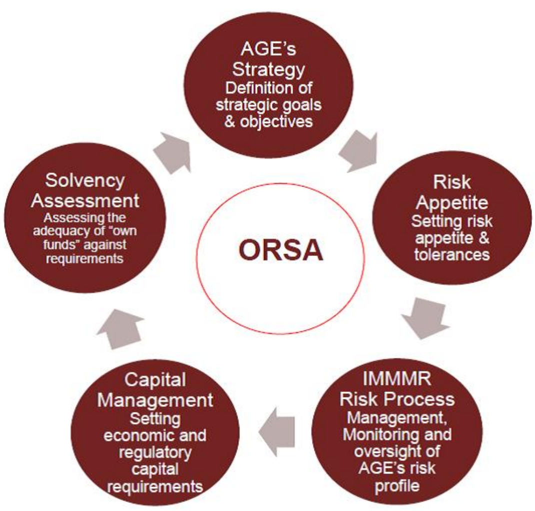
The Risk Management function delegates, oversees and approves certain activities performed by the Group Risk Management function, including the operation of the ECM and the calculation of the SCR and ICA capital requirements.

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 Risk Management Framework. The Company's control framework is based upon five key components:

- *Control environment* - the overall culture is established by the Company's management and its key governance functions. The Company's Code of Ethics establishes standards by which the Company's directors, management and all personnel providing services to the Company, must abide and sets the tone for how personnel supporting the Company should conduct themselves. The Code of Ethics is available at www.assuredguaranty.com/ 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 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 to appropriately mitigate the identified risks. The effectiveness of the design and operation of internal controls is the responsibility of the first line risk and control owners.
- *Information and communicati*on - 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.
- *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 Self Assessment review. 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 control 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 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 CEO of any material issues.

The Company has concluded that, at this time, the Internal Audit function is most effective being outsourced to an international professional services firm. The Company maintains responsibility for oversight of the Internal Audit function.

Internal audit resources are focused on testing the key controls that mitigate business risks. 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;
- the Company's internal controls are designed and operating effectively.
- 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; and
- significant legislative or regulatory issues impacting the organisation are recognised and addressed appropriately;

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 Assured Guaranty 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 policy identifies those members of management responsible for the oversight of each outsourced process or function, and their respective responsibilities in assessing, monitoring and reporting on outsourcing arrangements, both prior to entering into an arrangement and ongoing performance. The requirements of the policy differ depending on whether the outsourcing arrangement is assessed as material. The requirements for material outsourcing arrangements include:

- completion of a risk assessment considering the impact upon overall risk profile, operational risk and risk concentration;
- completion of appropriate due diligence, including in respect of service provider's financial situation, ownership structure, scale, capability, expertise, reputation, financial position, people and technology resources;
- ongoing assessment of the service providers’ performance, performed by the relevant SMF;
- each outsourcing arrangement must have a documented and tested business continuity plan and documented exit strategy; and
- Board approval of all material outsourcing.

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 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. As noted in *Section B.1*, during 2019 the Company undertook a review of its governance and risk management frameworks to ensure it is well equipped to oversee, challenge and support the business as it continues to grow. Changes to the governance and risk management frameworks arising from that review continued to be implemented and further embedded during 2020.

The Board 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

The Company's governance procedures and processes have continued to operate as described whilst the Company has operated on a remote working basis due to the COVID-19 pandemic. Executive management, in conjunction with the Risk Management function, report regularly to the Risk Oversight Committee and Board in respect of the Company's ongoing monitoring and management of the impacts of the pandemic.

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 the 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	Net Par Outstanding	Number of Risks	Gross Par Outstanding	Net Par Outstanding
	#	£ '000	£ '000	#	£ '000	£ '000
Regulated utilities	36	7,943,165	3,290,761	52	10,402,512	4,396,624
Public infrastructure	62	7,391,169	3,049,299	64	9,525,196	4,091,959
Sovereign & sub-sovereign	164	2,410,398	1,724,227	175	3,431,635	1,880,839
Renewable Energy	1	8,608	—	2	173,913	24,656
Total public finance	**263**	**17,753,340**	**8,064,287**	**293**	**23,533,256**	**10,394,078**
RMBS	1	25,285	—	7	214,395	4,670
Insurance securitisation	2	29,397	2,940	2	30,365	3,037
Total structured finance	**3**	**54,682**	**2,940**	**9**	**244,760**	**7,707**
Total portfolio	**266**	**17,808,022**	**8,067,227**	**302**	**23,778,016**	**10,401,785**

The table above excludes £279.8 million of GPO (31 December 2019: £288.5 million) and £28.0 million (31 December 2019 £28.9 million) of NPO, attributable to loss mitigation strategies.

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	25,285	—	45,345	82
AA	362,382	334,695	449,935	404,715
A	4,350,119	3,303,532	8,280,360	5,226,315
BBB	12,719,117	4,291,862	14,367,976	4,617,856
BIG	351,119	137,138	634,400	152,817
Total	17,808,022	8,067,227	23,778,016	10,401,785

The table above excludes £279.8 million (31 December 2019: £288.5 million) of GPO and £28.0 million (31 December 2019: £28.9 million) of NPO, attributable to loss mitigation strategies.

BIG exposure by sector

As at 31 December	2020			2019		
£ '000	Public Finance	Structured Finance	Total	Public Finance	Structured Finance	Total
Number of risks (#)	5	2	7	6	2	8
GPO	321,721	29,398	351,119	604,035	30,365	634,400
NPO	134,198	2,940	137,138	149,781	3,037	152,818

As at 31 December 2020 and at 31 December 2019, the Company had established loss reserves or unexpired risk provisions for the BIG transactions on which it expects to incur a loss, and had paid claims on three (2019: three) BIG transactions during the year.

Risk concentration

Geographic concentration 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
United Kingdom	16,234,081	7,716,243	18,999,779	8,973,542
Europe, excluding UK	1,350,406	189,353	4,226,956	1,225,219
Other	223,535	161,631	551,281	203,024
Total	**17,808,022**	**8,067,227**	**23,778,016**	**10,401,785**

The table above excludes £279.8 million (31 December 2019: £288.5 million) of GPO and £28.0 million (31 December 2019: £28.9 million) of NPO, attributable to loss mitigation strategies.

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 CEO, the Head of Underwriting Oversight and the CFO of the Company.

Because of the strong support for the Company's underwriting activities provided by its parent, including the co-insurance arrangement, the AGM Net Worth Maintenance Agreement and the excess of loss cover of the AGM Reinsurance Agreement, all risks entered into by the Company are also subject to review and approval by the 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.*

Historically, the Company entered into reinsurance contracts with both affiliated and unaffiliated reinsurers in order to support its capital position and reduce the net potential loss from large risks. By virtue of several commutations completed by the Company since the 2008 financial crisis, as well as acquisitions of formerly unaffiliated reinsurers by AGL, the Company, had outstanding reinsurance with one unaffiliated reinsurer as at 31 December 2020. (31 December 2019: one).

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	9,724,478	13,359,902
Unaffiliated reinsurers	16,317	16,330
Total reinsurance	**9,740,795**	**13,376,232**

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 £224.4 million to £518.9 million. The SCR would increase by £222.2 million to £538.9 million. This would cause the SCR Ratio to decline by 75 percentage points to 106%, assuming no other changes.

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, with the exception of the portion invested in bonds held for loss mitigation purposes. 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 (excluding the loss mitigation bonds in the internally managed portfolio), on an ongoing basis must be rated a minimum of "A+"/"A1"/"A+" as measured by S&P, Moody’s and Fitch. All securities purchased by external managers must be rated by one of S&P, Moody’s or Fitch and at least 95% of the portfolio must be rated by two of S&P, Moody’s and Fitch. The Company's exposure to spread risk increased during the year due to an increased allocation to corporate bonds following what the Company identified as favourable market conditions for fixed income investors during the second quarter of 2020.

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 CEO.

Investment Portfolio (excluding cash) by external credit rating

As at 31 December £ '000	**2020**	**2019**
AAA	237,793	343,153
AA	184,011	259,441
A	139,073	81,477
BBB	134,743	50,824
Lower than BBB or not rated	24,209	23,809
Total	**719,829**	**758,704**

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. As at 31 December 2020, on a Solvency II balance sheet basis, the Company has total assets of £728.9 million and total liabilities of £156.8 million with exposure to interest rate risk.

AGE’s exposure to interest rate risk is managed by restricting the overall duration of the investment portfolio to within a prescribed range of a selected benchmark portfolio. Given the Company’s cautious approach to market risk and the primary objectives of the Company's investment strategy, the overall duration is generally short.

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 pounds sterling. The currencies to which the Company has the most exposure are the US Dollar and Euro. The Company has established defined tolerances for the level of currency risk it is willing to accept and compliance with these prescribed limits is monitored under the Risk Management Framework. The Company generally manages its exposure to non-sterling insurance liabilities by maintaining monetary assets denominated in those currencies. Exposure to the Euro has reduced significantly during the year following the completion of the Part VII Transfer.

Solvency II assets and liabilities by currency

As at 31 December 2020 **£ '000**	**GBP**	**EUR**	**USD**	**Other**	**Total**
Assets					
Investments	611,318	—	125,858	—	**737,176**
Cash and cash equivalents	4,089	2,712	700	118	**7,619**
Reinsurance recoverables	(44,640)	11,567	(23,163)	—	**(56,236)**
Deposits to cedants and insurance and reinsurance receivables	—	19	9,430	—	**9,449**
Other assets	30,751	—	—	—	**30,751**
Total assets	**601,518**	**14,298**	**112,825**	**118**	**728,759**
Liabilities					
Technical provisions	60,101	3,094	69,438	(163)	**132,470**
Deposits from reinsurers and insurance, intermediaries and reinsurance payables	—	—	6,142	—	**6,142**
Any other liabilities	5,755	828	10,919	17	**17,519**
Total liabilities	**65,856**	**3,922**	**86,499**	**(146)**	**156,131**

Risk concentration

As at 31 December 2020, the Company's investment portfolio (excluding bonds held for loss mitigation purposes) 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**	**2019**
UK government bonds	15 %	24 %
Corporate bonds	42 %	23 %
Supranational bonds	19 %	19 %
Non UK government bonds	12 %	12 %
UK government agency bonds	2 %	12 %
Covered bonds	5 %	5 %
Asset and mortgage backed	4 %	4 %
Collective Investment Undertakings	1 %	1 %
Total	**100 %**	**100 %**

The Company’s exposure to any individual non-government or non-supranational issuer did not exceed 1% of the investment portfolio (excluding loss mitigation bonds) as at 31 December 2020.

Risk sensitivity

The most material market risks to which the Company is exposed are spread risk and 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

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	(41,086)	23,214	698	13
2019	200	(41,471)	33,381	2,998	16

An increase in the yield curve by 200 bps would result in a 13 percentage point reduction in the Company's SCR Ratio as at 31 December 2020 to 168%.

Spread risk

A 3 notch ratings downgrade of all investments in the investment portfolio would cause the SCR to increase by £6.4 million to £323.1 million, causing the Company's SCR ratio as at 31 December 2020 to decrease by 4 percentage points to 177%.

Currency risk

The Company has a net foreign currency position for both Euros and US Dollars and is exposed to the devaluation of either currency against pound sterling. A 25% weakening of both the Euro and the US Dollar relative to Sterling would result in a loss of £10.2 million (2019: £16.6 million). This would decrease the SCR by 3 percentage points to 1.78.

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 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	**7,619**	**55,632**

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 UK GAAP, by maturity date:

As at 31 December 2020

£ '000	< 1 year or no contracted maturity	1 to 4 years	5 to 10 years	10 + years	Total
Assets					
Investments	195,434	379,980	114,689	29,726	**719,829**
Cash at bank	18,137	—	—	—	**18,137**
Debtors arising out of direct insurance operations	62,224	107,681	109,222	129,364	**408,491**
Debtors arising out of reinsurance operations	7,115	12,713	13,352	15,719	**48,899**
	282,910	500,374	237,263	174,809	**1,195,356**
Liabilities					
Creditors arising out of reinsurance operations	**41,098**	**42,415**	**44,605**	**52,701**	**180,819**

As at 31 December 2019

£ '000	< 1 year or no contracted maturity	1 to 4 years	5 to 10 years	10 + years	Total
Assets					
Investments	183,312	385,818	159,942	29,632	**758,704**
Cash at bank	66,263	—	—	—	**66,263**
Debtors arising out of direct insurance operations	78,542	127,501	128,453	166,531	**501,027**
Debtors arising out of reinsurance operations	10,373	16,258	15,991	21,841	**64,463**
	338,490	529,577	304,386	218,004	**1,390,457**
Liabilities					
Creditors arising out of reinsurance operations	**52,254**	**53,980**	**53,291**	**72,763**	**232,288**

Expected future profit included in future premiums

In respect of premiums receivable, the Company estimates that it has £196.1 million (2019: £221.9 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. The Company has minimal short term liquidity requirements and does not believe that any plausible liquidity risk scenario that could occur over a 1 year time horizon would cause significant loss or impact on the SCR or the SCR capital ratio.

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 266 (2019: 302) risks in its insured portfolio and generally adds only a small number of new transactions each year, limiting the potential for 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 Management 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.

Risk sensitivity

The Company does not believe that any plausible operational risk scenario that could occur over a 1 year time horizon would cause significant loss or impact on the SCR or the SCR capital ratio.

C.6 Other material risks

Brexit

Following the deal agreed between the UK government and the European Union in December 2020, the economic impact of the UK's withdrawal from the EU continues to be an area of uncertainty for the Company.

The operational impact was minimised through the Part VII Transfer of EU business to a newly established French affiliate company, AGE SA, which was completed in October 2020. The impact on the UK economy and how this affects the Company's insured portfolio will continue to be monitored closely. The current assessment indicates that the insured portfolio will not be significantly affected.

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, 266 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 average duration of the portfolio, 2.95 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 investment strategy is designed to preserve liquidity and claims paying resources in times of significant financial market stress. The resilience of the investment portfolio was underlined during the significant financial market weakening seen in March 2020, with the fair value of the Company’s investment holdings (including cash on deposit with the investment custodian and investment return) increasing from £797.8 million as at 31 December 2019 to £800.7 million as at 31 March 2020. The Company’s sensitivity to interest volatility arising from the current volatile economic environment is detailed in *Section C.2* above.

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. The overall reduction in average credit rating from AA to AA- is principally due to an increased allocation to corporate bonds following what the Company identified as favourable market conditions for fixed income investors during the second quarter of 2020.

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 £143.7 million in cash and government securities as at 31 December 2020 (2019: £340.1 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 UK 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 UK GAAP financial statements and the Solvency II balance sheet.

Assets
As at 31 December 2020

£ '000	**UK GAAP Balance Sheet**	**Solvency II Balance Sheet**	**Difference**
Deferred acquisition costs	23,187	—	23,187
Deferred tax assets	692	31,048	(30,356)
Investments	719,829	737,176	(17,347)
Property, plant & equipment held for own use	525	—	525
Reinsurance recoverables:			
Reinsurer's share of provision for unearned premiums	289,788	—	289,788
Reinsurer's share of claims outstanding	25,596	—	25,596
Reinsurer's share of other technical provisions (unexpected risk provisions)	718	—	718
Reinsurer's share of technical provisions (premium provision and claims provision)	—	(56,236)	56,236
Total reinsurance recoverables	**316,102**	**(56,236)**	**372,338**
Insurance and intermediaries receivables:			
Current premiums receivable	6,990	6,990	—
Future premiums receivable	401,501	—	401,501
Total insurance and intermediaries receivables	**408,491**	**6,990**	401,501
Reinsurance receivables:			
Current reinsurance commissions receivable	2,459	2,459	—
Future reinsurance commissions receivable	46,431	—	46,431
Reinsurer's share of paid claims	9	—	9
Total reinsurance receivables	**48,899**	**2,459**	**46,440**
Trade receivables	—	—	—
Cash and cash equivalents	18,137	7,619	10,518
Other assets	7,860	—	7,860
Total assets	**1,543,722**	**729,056**	**814,666**

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 UK GAAP.

Deferred acquisition costs

Under UK 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 over the period in which the related premiums are earned.

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 UK GAAP.

Within the Solvency II balance sheet deferred tax assets are established for the temporary differences arising from the valuation adjustments to move from UK 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

Investments are measured on a fair value basis under both UK GAAP and 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.

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

Where the Company has concluded that markets are not active (i.e. investment assets cannot be priced using quoted market prices or using observable market-based prices or other inputs), assets are valued under a discounted cash flow approach using an independent third-party's proprietary pricing models. The models use inputs such as projected prepayment speeds; severity assumptions; recovery lag assumptions; life insurance cash flow projections; estimated default rates (determined on the basis of an analysis of collateral attributes, historical collateral performance; collateral reinvestment assumptions; borrower profiles and other features relevant to the evaluation of collateral credit quality); and recent trading activity. The yield used to discount the projected cash flows is determined by reviewing various attributes of the security including collateral type, weighted average life, sensitivity to losses, vintage, and convexity, in conjunction with market data on comparable securities. Significant changes to any of these inputs could materially change the expected timing of cash flows within these securities which is a significant factor in determining the fair value of the securities. As at 31 December 2020 these assets comprised 3.4% (2019: 3.1%) of the investment.

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 UK GAAP are discussed in *Section D.2*

Insurance and intermediaries receivables

Insurance and intermediaries receivables reported under UK GAAP consist of all premiums that were receivable at the balance sheet date, including those past due, and future premiums receivable. Additionally, under UK 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. Expected cash flows from salvage are included within technical provisions.

Reinsurance receivables

Reinsurance commission receivables reported under UK 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.

Cash and cash equivalents

Cash relates to deposits held at financial institutions. These are recognised at face value without any deductions for both UK GAAP and Solvency II purposes. Under UK GAAP all deposits are included within cash and cash equivalents. Under Solvency II, certain deposits are reported as collective investment undertakings and included within the value of financial investments.

Any other assets

Under UK 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 UK 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	—	(114,674)	114,674
Risk margin	—	247,825	(247,825)
Provision for unearned premiums	522,877	—	522,877
Claims outstanding	28,440	—	28,440
Unexpired risk provisions	6,384	—	6,384
	557,701	**133,151**	**424,550**

a. Valuation bases, methods and main assumptions

The best estimate component of technical provisions represents 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, for each sector including any relevant experience by companies within the AGL Group, the country and exposure characteristics. There are no material changes to these assumption from the prior period.

The boundary of each insurance contract is assumed to be the period of time for which principal remain 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. The uncertainty associated with assumptions related to probability of default and loss given default is also heightened by the limited level of historical loss data available to inform the Company's assumption setting.

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 or future policyholder behaviour.

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

The following is a summary of the material differences between Solvency II and UK 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 UK GAAP;
- Expected future claims under Solvency II are significantly higher than under UK 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 UK 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 UK 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 UK 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 UK GAAP; and
- Solvency II technical provisions include a risk margin which is not required under UK 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 55% (2019: 56%) of its gross exposure to affiliated and non-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 UK 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 UK 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	6,142	6,142	—
Future reinsurance premiums payable	174,677	—	174,677
Total reinsurance payables	**180,819**	**6,142**	**174,677**
Trade payables	16,132	16,132	—
Other liabilities			
Reinsurance commissions deferred	86,024	—	86,024
Other liabilities including accrued expenses	1,387	1,387	—
Total other liabilities	**87,411**	**1,387**	**86,024**
Total liabilities excluding technical provisions	**284,362**	**23,661**	**260,701**
Best estimate	—	(114,674)	114,674
Risk margin	—	247,825	(247,825)
Technical provisions	**557,701**	**133,151**	**424,550**
Total liabilities	**842,063**	**156,812**	**685,251**

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

Reinsurance payables

Reinsurance premiums payable reported under UK 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 UK GAAP.

Any other liabilities

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

Under UK 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 currently provides support to the Company, through a quota share and excess of loss reinsurance agreement, the AGM Reinsurance Agreement and a net worth maintenance agreement, the AGM Net Worth Maintenance Agreement.

Under the quota share cover of the AGM Reinsurance Agreement, AGM reinsures between approximately 95% - 99% of the Company's retention of each policy after cessions to other reinsurers, excluding the transactions which were originally underwritten by the Company's former subsidiaries and transferred to the Company under a cross-border merger in 2018. The policies reinsured under the agreement are those issued prior to 2011 because, as noted above, since 2011 the Company has generally underwritten new business on a coinsurance basis.

Under the excess of loss cover of the AGM Reinsurance Agreement, AGM is required to pay the Company the amount by which (i) the sum of (a) the Company's incurred losses calculated in accordance with UK GAAP and (b) the Company's net paid losses and loss adjustment expenses, exceed (ii) an amount equal to (a) the Company's capital resources under UK law minus (b) 110% of the amounts as may be required by the PRA as a condition for the Company to maintain its authorisation to carry on a financial guarantee business in the UK.

The AGM Reinsurance Agreement permits the Company to terminate the agreement upon the following events: a downgrade of AGM's ratings by Moody's below Aa3 or by S&P below AA- if AGM fails to restore its rating(s) to the required level within a prescribed period of time, AGM's insolvency or failure by AGM to maintain the minimum capital required by its home jurisdiction.

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

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

The Company has also entered into quota share reinsurance agreements with AGC and AGRE. The AGC Reinsurance Agreement provides 90% quota share reinsurance of the Company's legacy Assured Guaranty (UK) plc policies and 100% reinsurance of the legacy CIFG policies which were transferred to the Company under the 2018 cross-border merger. The AGRE Reinsurance Agreement provides quota share reinsurance for policies written by the Company prior to 2011, and also for policies originally underwritten by AGLN and transferred to the Company under the cross-border merger.

These agreements impose a collateral requirement on AGC and AGRE consistent with that for the AGM Reinsurance Agreement, as described above, except that AGC continues also to post as collateral its share of an AGUK-guaranteed triple-X insurance bond purchased by AGC for loss mitigation.

b. Structure, amount and quality of own funds

The capital structure of the Company consists of basic own funds only. Basic own funds have decreased during the year due to: (i) a change in calibration of the premium risk component of the Solvency Capital Requirement ("SCR") calculation from 1 Jan 2020. This change had a substantial impact on SCR (£27.5 million increase as at 31 December 2020) due to the long duration of policies and the significant unearned premium reserve; and (ii) the impact of the Part VII Transfer because the reduction in SCR as a result of the Part VII Transfer was not proportionate to the reduction in insured risk.

As at 31 December 2020, basic own funds comprised £55.0 million of allotted and fully paid ordinary shares and the reconciliation reserve of £486.9 million, both classified as Tier 1 capital. The Company does not have any restricted Tier 1 capital. Additionally the Company has Tier 3 capital of £31.0 million in the form of deferred tax assets.

c. Eligibility of own funds to cover SCR

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

As at 31 December **£ '000**	**2020**	**2019**
Tier 1	541,196	657,483
Tier 2	—	—
Tier 3	31,048	21,659
Total	**572,244**	**679,142**

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

The Company's Tier 3 own funds are not eligible to cover the MCR, as such total own funds available to cover the MCR as at 31 December 2020 were £541.2 million (2019: £657.5 million).

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

The difference between the net assets of the Company in the financial statements and the Solvency II valuation of the excess of the assets over liabilities is 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 UK GAAP	701,659	781,057
Disallowed items (prepayments, deferred acquisition costs & fixed assets)	(24,742)	(30,096)
Solvency II adjustment to net best estimate provision & discounting	112,796	153,568
Risk margin	(247,825)	(246,309)
Deferred tax in Solvency II balance sheet	30,356	20,922
Excess of assets over liabilities for Solvency II purposes	**572,244**	**679,142**

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 £316.7 million (2019: £300.3 million). This is shown in *Section F S.25.01*. The Company's MCR as at 31 December 2020 was £79.2 million (2019: £75.1 million). 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	294,506	276,971
Market risk	59,761	60,086
Counterparty risk	539	1,664
Diversification benefit	(39,718)	(40,128)
Operational risk	1,621	1,708
SCR	**316,709**	**300,301**
SCR Ratio	**181 %**	**226 %**
MCR	**79,177**	**75,075**
MCR Ratio	**684 %**	**876 %**

The increase in the underwriting risk from prior year was due a change in calibration of the premium risk requirement, which increased from 36% to 57% of the premium volume measure. This change increased SCR by £27.5 million as at 31

December 2020 due to the long duration of policies and the significant unearned premium reserve. This increase was partially offset by a £17.8m reduction in underwriting risk due the Part VII Transfer.

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 calculation 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	(58,440)	(83,013)
Net technical provisions (floor 0)	—	—
Net written premiums over 12-month reporting period	20,726	19,515
Net written premiums over 12-month reporting period (floor 0)	20,726	19,515
Linear MCR	2,342	2,205
SCR	316,709	300,301
MCR Cap	142,519	135,135
MCR Floor	79,177	75,075
Absolute Floor of the MCR	3,338	3,187

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

There were no material changes to the SCR over the reporting period.

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

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

The Company has utilised stress and scenario testing to assess the possible impacts of COVID-19 on the Company's economic capital and regulatory solvency 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 economic capital and regulatory solvency positions remain significantly in excess of the Company's minimum target capital requirements.

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
GBP £'000

Assets

		Solvency II value
		C0010
Intangible assets	R0030	
Deferred tax assets	R0040	31,048
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**	**737,176**
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	
Equities	*R0100*	
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	*R0130*	726,659
Government Bonds	R0140	351,582
Corporate Bonds	R0150	346,508
Structured notes	R0160	
Collateralised securities	R0170	28,569
Collective Investments Undertakings	R0180	10,517
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**	**(56,236)**
Non-life and health similar to non-life	R0280	(56,236)
Non-life excluding health	R0290	(56,236)
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	6,990
Reinsurance receivables	R0370	2,459
Receivables (trade, not insurance)	R0380	
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	7,619
Any other assets, not elsewhere shown	R0420	
Total assets	**R0500**	**729,056**

Balance Sheet
S.02.01.02
GBP £'000

		Solvency II value
		C0010
Liabilities		
Technical provisions - non-life	**R0510**	**133,151**
Technical provisions - non-life (excluding health)	**R0520**	**133,151**
TP calculated as a whole	R0530	
Best estimate	R0540	(114,674)
Risk margin	R0550	247,825
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	6,142
Payables (trade, not insurance)	R0840	16,132
Subordinated liabilities	**R0850**	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	1,387
Total liabilities	**R0900**	**156,812**

Excess of assets over liabilities	**R1000**	**572,244**

Premiums, claims and expenses by line of business
S.05.01.02
GBP £'000

		Credit and suretyship insurance	Total
		C0090	C0200
Premiums written			
Gross - Direct Business	R0110	(99,031)	**(99,031)**
Gross - Proportional reinsurance accepted	R0120		
Gross - Non-proportional reinsurance accepted	R0130		
Reinsurers' share	R0140	(73,506)	**(73,506)**
Net	**R0200**	**(25,525)**	**(25,525)**
Premiums earned			
Gross - Direct Business	R0210	54,028	**54,028**
Gross - Proportional reinsurance accepted	R0220		
Gross - Non-proportional reinsurance accepted	R0230		
Reinsurers' share	R0240	36,895	**36,895**
Net	**R0300**	**17,133**	**17,133**
Claims incurred			
Gross - Direct Business	R0310	(469)	**(469)**
Gross - Proportional reinsurance accepted	R0320		
Gross - Non-proportional reinsurance accepted	R0330		
Reinsurers' share	R0340	(393)	**(393)**
Net	**R0400**	**(76)**	**(76)**
Changes in other technical provisions			
Gross - Direct Business	R0410	3,392	**3,392**
Gross - Proportional reinsurance accepted	R0420		
Gross - Non-proportional reinsurance accepted	R0430		
Reinsurers' share	R0440	4,887	**4,887**
Net	**R0500**	**(1,495)**	**(1,495)**
Expenses incurred	**R0550**	**11,344**	**11,344**
Other expenses	R1200		
Total expenses	**R1300**		**11,344**

Non - life Technical Provisions
S.17.01.02
GBP £'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	**(120,541)**	**(120,541)**
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	(62,107)	**(62,107)**
Net Best Estimate of Premium Provisions	**R0150**	**(58,434)**	**(58,434)**
Claims provisions			
Gross - Total	R0160	**5,867**	**5,867**
Gross - direct business	R0170	5,867	**5,867**
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	**5,871**	**5,871**
Recoverables from reinsurance (except SPV and Finite Reinsurance) before adjustment for expected losses	R0210	5,871	**5,871**
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	5,871	**5,871**
Net Best Estimate of Claims Provisions	R0250	**(4)**	**(4)**
Total Best estimate - gross	R0260	**(114,674)**	**(114,674)**
Total Best estimate - net	**R0270**	**(58,438)**	**(58,438)**
Risk margin	**R0280**	247,825	**247,825**
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	**133,151**	**133,151**
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	**(56,236)**	**(56,236)**
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	R0340	**189,387**	**189,387**

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

Gross Claims Paid (non-cumulative)

		Development year (absolute amount)														In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10	11	12			
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130		C0170	C0180
Prior	R0100														R0100		
2006	R0110														R0110		
2007	R0120	1,208	529	2,638	1,913	1,705	2,201	1,768	1,549	1,753	2,983	2,094			R0120		11,962
2008	R0130	178,513	(513)			3,592				(605)	(1,469)	(2,899)	(4,558)	315	R0130	315	181,592
2009	R0140	7,326													R0140		7,326
2010	R0150														R0150		
2011	R0160	1,024	195,405												R0160		196,430
2012	R0170	6,337													R0170		6,337
2013	R0180	97,668													R0180		97,668
2014	R0190	11,439													R0190		11,439
2015	R0200														R0200		
2016	R0210	1,251													R0210		1,251
2017	R0220	219													R0220		219
2018	R0230	430													R0230		430
2019	R0240	280													R0240		280
2020	R0250	438													R0250	438	438
														Total	R0260	**753**	**515,371**

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

Gross undiscounted Best Estimate Claims Provisions

		Development year (absolute amount)															Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10	11	12	13		
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0310	C0320	C0330		C0360
Prior	R0100															R0100	
2006	R0110															R0110	
2007	R0120										149,846	(21,382)	(20,913)	(25,336)	(23,387)	R0120	(23,630)
2008	R0130									51,784	26,359	35,268	30,720	29,673		R0130	29,496
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	**5,867**

Own funds
S.23.01.01
GBP £'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	**55,000**	55,000			
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	**486,196**	486,196			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160	**31,048**				31,048
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**	**572,244**	**541,196**			**31,048**
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
GBP £'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**	**572,244**	**541,196**			**31,048**
Total available own funds to meet the MCR	**R0510**	**541,195**	**541,196**			
Total eligible own funds to meet the SCR	**R0540**	**572,244**	**541,196**			**31,048**
Total eligible own funds to meet the MCR	**R0550**	**541,196**	**541,196**			
SCR	**R0580**	**316,709**				
MCR	**R0600**	**79,177**				
Ratio of Eligible own funds to SCR	**R0620**	**181%**				
Ratio of Eligible own funds to MCR	**R0640**	**684%**				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	**572,244**	
Own shares (held directly and indirectly)	R0710		
Foreseeable dividends, distributions and charges	R0720		
Other basic own fund items	R0730	**86,048**	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740		
Reconciliation reserve	**R0760**	**486,196**	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life Business	R0770		
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	196,093	
Total Expected profits included in future premiums (EPIFP)	**R0790**	**196,093**	

Solvency Capital Requirement - for undertakings on Standard Formula
S.25.01.21
GBP £'000

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	59,761		
Counterparty default risk	R0020	539		
Life underwriting risk	R0030			
Health underwriting risk	R0040			
Non-life underwriting risk	R0050	294,506		
Diversification	R0060	(39,718)		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	**R0100**	**315,088**		

Calculation of Solvency Capital Requirement

		C0100
Adjustment due to RFF/MAP nSCR aggregation	R0120	
Operational risk	R0130	1,621
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**	**316,709**
Capital add-on already set	R0210	
Solvency capital requirement	**R0220**	**316,709**
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
GBP £'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		20,726

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	2,342	
MCRL Result	R0200		

Overall MCR calculation

		C0070
Linear MCR	R0300	2,342
SCR	R0310	316,709
MCR cap	R0320	142,519
MCR floor	R0330	79,177
Combined MCR	R0340	79,177
Absolute floor of the MCR	R0350	3,338

		C0070
Minimum Capital Requirement	**R0400**	**79,177**