

# **Assured Guaranty UK Limited**

**Registered Number: 2510099**

**Annual report and financial statements**

**For the year ended 31 December 2023**

**ASSURED  
GUARANTY®**

# Assured Guaranty UK Limited

Registered in England No. 2510099

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## **Assured Guaranty UK Limited**

Registered in England No. 2510099

### **Company information**

#### **Directors**

Robert Bailenson

Mark Batten

Dominic Frederico

Samantha Hoe-Richardson

Dominic Nathan

Richard Nicholas

Nicholas Proud

Penelope Shaw

David Todd

#### **Company secretary**

Joanne Merrick

Stephen Rosling (appointed 21st June 2023)

Sandali Harvey (resigned 27th June 2023)

#### **Registered office**

11<sup>th</sup> Floor

6 Bevis Marks

London

England

EC3A 7BA

#### **Independent auditors**

Deloitte LLP

2 New Street Square

London

England

EC4A 3BZ

**Strategic report for the year ended 31 December 2023**

The directors present their strategic report for the year ended 31 December 2023.

**Principal activities**

The principal activity of Assured Guaranty UK Limited (the “Company” or “AGUK”) 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 Prudential Regulation Authority (“PRA”), and regulated by both the PRA and the Financial Conduct Authority (“FCA”), and is authorised to effect and carry out three classes of general insurance business: classes 14 (credit), 15 (suretyship) 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.

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

The Company generally issues its guarantees under a coinsurance structure. The coinsurer for public finance (including infrastructure finance) transactions is AGM, and for structured finance transactions it is Assured Guaranty Corp. (“AGC”). Under the coinsurance structure the Company directly insures 15% of new transactions and AGM or AGC directly guarantee the remaining 85% balance of the guaranteed obligations and also provide a second-to-pay guarantee for the Company’s portion of the guaranteed obligations. For transactions closed prior to 2011, the Company typically guaranteed obligations directly and reinsured to AGM approximately 92% of the Company’s retention, after cessions to other reinsurers, under the quota share cover of the AGM Reinsurance Agreement (as defined under Parental and Affiliate Support Agreements below). Transactions originally underwritten by 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 Assured Guaranty (London) plc (“AGLN”) and also transferred to the Company under the 2018 cross-border merger have only limited levels of reinsurance, typically less than 5% to AGC and Assured Guaranty Reinsurance Limited (“AGRE”).

Given the limited level of reinsurance on the transactions originally underwritten by AGLN, commencing in 2022 the Company undertook a programme of policy novations to reduce its net retention for certain single name risks by transferring an 85% share of certain policies originally underwritten by AGLN to AGM. During 2023 the Company transferred 85% of the insured par originally underwritten by AGLN for the four largest net risks to AGM (£3,022.4 million net par transferred). This follows the transfer of an 85% share of a UK regulated utility risk to AGM in December 2022. The total net par transferred to AGM during 2022 and 2023 of £3,489.2 million represents a 48% reduction in the Company’s net insured par over that period. Following the policy novations, the policy structure for these risks is aligned with the coinsurance structure described above.

**Economic environment**

The Bank of England steadily raised the Bank Rate five times during the year, increasing to 5.25% by December 2023 (December 2022: 3.5%) to address inflation. Although rates of inflation have reduced significantly from the March 2023 high of 10.3% and central banks, including the Bank of England, are expected to begin cutting interest rates in 2024 it is currently unclear the extent to which inflation will return to the historically low levels of the pre-pandemic era. Additionally, the current economic environment saw the UK fall into technical recession during 2023 and forecasts of UK economic growth in the coming years continue to be low.

A higher interest rate environment is generally regarded as favourable for the Company. Although inflation and higher interest rates could impact certain of AGUK’s insured transactions, the majority have business models under which cost inflation can be passed to customers or for which revenues are contractually inflation-linked, largely mitigating the financial impacts of a higher interest rate environment. More favourably, higher interest rates are often accompanied by wider credit spreads which generally make the Company’s financial guarantees more attractive, increase the level of premiums which can be charged and increase the competitiveness of the Company’s guarantee in a range of sectors. A deteriorating economy can create a more challenging environment for certain of the Company’s insured transactions. Such an environment generally also increases investor sensitivity to credit risk, potentially increasing demand for the Company’s guarantee.

**Strategic report for the year ended 31 December 2023 (continued)**

Consumer price inflation increases the Company's insured par for contracts where the insured obligations are inflation-linked. However, such increases are accompanied by corresponding increases in future instalment premiums the Company receives in respect of these exposures.

Equally, the impact of interest rate changes is mitigated by the Company's book yield investment strategy, under which it seeks to hold investments to maturity and by managing the Company's overall net duration exposure. In the longer term, higher interest rates will increase the amount the Company can earn on its investment portfolio as fixed-rate securities mature and the proceeds are reinvested in higher yielding securities. During the year the Company benefited from unrealised gains of £22.5 million (2022: unrealised losses of £62.8 million) on the investment portfolio due to reduction in investment yields.

**Business Review***Financial position and performance of the Company*

The Company generated a profit on ordinary activities before tax of £16.5 million (2022: loss of £31.5 million) due to unrealised profits on investment holdings, as further described below.

The Board monitors the performance and position of the Company by reference to, among other measures, the following Key Performance Indicators:

	<b>2023</b>	2022
Number of new transactions excluding policy amendments	<b>14</b>	5
	<b>£'000</b>	£'000
Total Gross Written Premium (GWP)	<b>(63,017)</b>	3,331
Total GWP excluding novations	<b>24,274</b>	24,500
Present value of new business production (PVP) <sup>1</sup>	<b>17,775</b>	6,491
Earned premiums, net of reinsurance	<b>8,106</b>	15,463
Claims incurred, net of reinsurance	<b>143</b>	336
Change in other technical provisions, net of reinsurance	<b>3,426</b>	1,092
Net operating expenses	<b>19,613</b>	11,640
Underwriting result	<b>(9,293)</b>	4,870
Investment return	<b>32,684</b>	(50,306)
Profit before tax	<b>16,531</b>	(31,497)
Net insured par value of obligations ("par") outstanding	<b>4,011,745</b>	6,907,266
Regulatory solvency cover ratio <sup>2</sup>	<b>418%</b>	213%

<sup>1</sup> PVP, a non-GAAP (Generally Accepted Accounting Principles) financial measure used by Assured Guaranty group companies, is defined as gross upfront and instalment premiums received, plus the present value of gross estimated future instalment premiums on contracts written in the current year. Future instalment premiums are discounted at the approximate average pre-tax book yield of fixed-maturity securities purchased across Assured Guaranty group companies during the prior calendar year, other than loss mitigation securities. The discount rate is recalculated annually and updated as necessary

<sup>2</sup> The regulatory solvency cover ratio is the ratio of the Company's Solvency II own funds to the Company's Solvency Capital Requirement calculated in accordance with the Solvency II Standard Formula.

**Strategic report for the year ended 31 December 2023 (continued)**

During 2023 the Company generated PVP and gross written premiums from new business of £17.8 million (2022: £6.5 million) and £22.3 million (2022: £7.9 million), respectively. New business comprises new policies issued and amendments to existing policies in respect of transactions that were restructured or modified during the year which generated additional PVP but no additional insured exposure. The Company underwrote business in several public and structured finance sectors during the year, including university accommodation, social housing, regulated utilities, transportation and subscription lines. This included a series of liquidity guarantees for UK regulated utilities, the guarantee of a new public bond issue for Heathrow Airport and the guarantee of index-linked bonds for the construction of new student accommodation for the University of Sussex. The largest insured transaction was the restructuring of an existing UK water transaction, generating PVP of £6.3m.

Gross written premium includes new business and changes to underlying debt service schedules, including changes to the value of scheduled principal repayments, and adjustments for indexation. Total gross written premium for 2023 was negative £63.0 million (2022: £3.3 million) due to the policy novations completed in the year which transferred an 85% share of the Company's four largest net risks (by gross par outstanding) to AGM. For accounting purposes, the reduction in future premiums due to the policy novations was recorded as negative gross written premium of £87.3 million (2022: negative £21.2 million). Excluding the impact of policy novations, gross written premium was £24.3 million (2022: £24.5 million).

The overall underwriting result for the year was a loss of £9.3 million compared to a profit of £4.9 million in 2022. A large proportion of this reduction was attributable to a decrease in net earned premiums to £8.1 million (2022: £15.5 million) as a result of the policy novations. Additionally, the underwriting result was impacted by adverse development of net £3.4 million on the unexpired risks provision in respect of the Company's below investment grade ("BIG") risks and higher net operating expenses.

The increase in net operating expenses to £19.6 million from £11.6 million in 2022 was primarily due to a one-off additional irrecoverable VAT charge of £4.0m attributable to prior years and higher acquisition costs due to the required accelerated recognition of £3.2m of deferred acquisition costs in respect of the 85% share of policies transferred to AGM.

The overall credit quality of the insured portfolio has not significantly changed during the year. The proportion of BIG risks remained stable at 4.8% (2022: 4.8%) of gross par outstanding ("GPO"). There were no new claims incurred during the year, although the Company experienced favourable net development of £0.05 million (2022: adverse £0.2 million) on existing claims and, as noted above, £3.4 million deterioration in respect of the unexpired risks provision.

The Company's investment strategy focuses on establishing highly liquid, diversified investment portfolios of high credit quality managed by an external investment manager. Due to the significant decreases in investment yields during the year, the Company benefited from unrealised gains on its investment portfolio, resulting in a total investment return of £32.7 million for the year (2022: negative £50.3 million). Investments are typically held to maturity, therefore, the Company's preferred measure of investment return is yield-to-maturity, which was 1.87% (2022: 1.71%), including securities held for loss mitigation purposes.

The overall duration of the investment portfolio at 31 December 2023 was 2.36 years (2022: 2.78 years) and the average credit quality was AA- (2022: AA-), excluding short term deposits and securities held for loss mitigation purposes. The market value of the investment portfolio at 31 December 2023 was £607.4 million (2022: £685.6 million).

The Company's regulatory solvency position has strengthened considerably during the year with the regulatory solvency coverage ratio increasing to 418% (2022: 213%) due to the reduction in certain single name risks and the reduction in total net insured par following the policy novations to AGM. During the year the Company took measures to address the current excess capital position with the payment of a £100m dividend to its parent company, AGM.

**Strategic report for the year ended 31 December 2023 (continued)***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 28 March 2024, AGM and the Company have been assigned the following insurance financial strength ratings set out below, by S&P Global Ratings, a business unit of Standard & Poor's Financial Services ("S&P"), Moody's Investors Service, Inc. ("Moody's") and Kroll Bond Rating Agency, Inc. ("KBRA"):

S&P: AA / Stable Outlook

Moody's: A2 / Stable Outlook

KBRA: AA+ / Stable Outlook

These ratings are subject to continuous review. S&P, Moody's and KBRA have all reaffirmed the financial strength ratings of AGM and the Company within the last 12 months. Most recently, in October 2023, KBRA affirmed its financial strength rating of "AA+" (stable outlook) and in July 2023, S&P issued a credit rating report in which it affirmed AGM's and the Company's financial strength rating of "AA" (stable outlook). In March 2023, Moody's issued a credit rating report in which it upgraded AGM's and the Company's financial strength rating of "A2" (stable outlook).

**Parental and Affiliate Support Agreements**

AGM currently provides support to the Company, through a quota share and excess of loss reinsurance agreement (the "AGM Reinsurance Agreement") and a net worth maintenance agreement (the "AGM Net Worth Maintenance Agreement"). 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 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 risks provision, in each case as calculated in accordance with Generally Accepted Accounting Practice in the UK ("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.

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. 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 in 2018.

**Strategic report for the year ended 31 December 2023 (continued)**

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.

**Strategy and future outlook**

The Company continues to develop its pipeline of new business opportunities, building upon the established demand for its financing solutions within the public finance and essential infrastructure markets, including roads, airports, ports, social infrastructure, student accommodation and other physical assets delivering services. The Company is targeting growth in new business volumes and is continuing the development of its offering in the structured finance markets, as well as evaluating opportunities in new public finance sectors, markets and geographies.

**Principal risks and uncertainties**

The Company has a risk management framework which seeks to ensure that risk is managed within the overall risk appetite and associated limits established by the Board. Under this framework risks are categorised into five areas: insurance risk, counterparty default risk, market risk, liquidity risk and operational risk. The Company's exposure to these risks and its approach to managing them is described within note 21 to the financial statements. Risks arising from climate change are also discussed in the climate change and sustainability section below.

There have been no significant developments in principal risks and uncertainties from 31 December 2023 to the date of this report.

**Climate change and sustainability**

We recognise the importance of a healthy environment to the global community, our business, and our employees. The challenges of protecting the environment and combating climate change, including the challenges of energy transition, have become a major global issue. We are committed to understanding, managing and mitigating the risks to our business associated with the environment and to operating our business in a sustainable and environmentally responsible manner.

We believe the Company is most likely to be exposed to the financial risks of climate change from its underwriting and investing activities. As a financial guarantor of public finance (including infrastructure finance) and structured finance transactions, the Company does not take direct insurance exposure to climate change but does face the risk that its obligors' ability to pay debt service will be impaired by the impact of climate related events. AGUK provides insurance policies with durations of 30 years or longer, meaning in-force risks, as well as those currently being underwritten, are potentially exposed to climate change impacts many years into the future. AGUK also has a substantial investment portfolio backing its insurance liabilities and regulatory capital requirements. Equally, while we believe the direct impact of our operations on the environment is relatively small, we understand that we have a role and a responsibility to manage our operations in ways that reflect our respect for the environment.

AGUK's ultimate parent, AGL, has implemented policies and procedures on environmental responsibility which apply to AGUK's operations and employees. AGL's statements on Environmental Policy, Climate Change, and Environmental Stewardship can be found in the "Environmental and Social Responsibility" subsection of AGL's website ([www.assuredguaranty.com/about-us/environmental-and-social-responsibility](http://www.assuredguaranty.com/about-us/environmental-and-social-responsibility)). The policy establishes key requirements for the Assured Guaranty Group, in managing climate impacts and the approach to mitigating the business impact on the environment, including risk management and strategic opportunities, investment opportunities, business operations and facilities management, and employee engagement. The policy applies to all personnel, across all offices and operations of the Assured Guaranty Group, including AGUK.

Although the Company is not required to provide climate-related information in line with the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD'), given the growing importance of this area for many stakeholders, the climate-related disclosures below have been prepared with reference to TCFD recommendations, focusing on four key thematic areas; governance, strategy, risk management and metrics.

*Governance*

The Company's Board is committed to operating the Company in a sustainable and environmentally responsible manner.



**Strategic report for the year ended 31 December 2023 (continued)**

To oversee, implement and further develop the objectives and initiatives of the Environmental Policy, AGL created the Environmental and Social Initiatives Task Force (“Task Force”), whose members include senior Assured Guaranty Group management. The Company’s management, including members of the Board, work closely with members of the Task Force who are responsible for:

- Reporting on the progress of the Assured Guaranty Group’s environmental efforts
- Examining the Assured Guaranty Group to identify ways to contribute to the sustainability of the environment
- Coordinating and supporting activities that reduce environmental impact
- Promoting environmental awareness among employees and encouraging employee engagement

The Company’s Board is responsible for overseeing the implementation of environmental and sustainability initiatives at an AGUK level. The initiatives implemented by AGUK during the year are detailed within the Streamlined Energy and Carbon Reporting section of the Directors’ Report. The Company has also established an AGUK ESG management working group which is tasked with further developing the Company’s ESG framework and appropriately embedding Assured Guaranty Group’s environmental policies and procedures at a Company level.

The Board is also responsible for the oversight of climate risk. Assessment of the financial risks associated with climate change is now embedded in the Company’s risk management framework and within regular cycles of risk reporting to the Board and Risk Oversight Committee of the Board, led by the Chief Risk Officer who is the Senior Manager with regulatory responsibility for managing the financial risks from climate change.

*Strategy*

The increasing focus on climate change action may give rise to a number of opportunities for the Company to support environmentally responsible business developments and other initiatives. We believe that AGUK’s financing solutions have an important role to play in helping to finance the infrastructure improvements, renewable energy generation and new technologies required to prepare for the impacts of climate change related events, reduce greenhouse gas emissions and transition to a low-carbon economy. We continue to explore new business opportunities in these areas.

*Risk Management*

AGUK takes a holistic and long-term approach to managing the risks arising from climate change, utilising its risk management framework to identify and manage the related financial risks. We have integrated environmental considerations into underwriting, surveillance, and risk management processes.

*(i) Surveillance of existing exposures*

The potential impacts of climate change on the Company’s insured portfolio have been incorporated into our surveillance monitoring 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, 259 (263 as at 31 December 2022), means that consideration can be given to the impact of climate on individual insured risks.

*(ii) Underwriting guidelines for new exposures*

The financial impacts of climate change have also been incorporated into the underwriting processes. Underwriting submissions are required to include environmental and/or transitional risk factors as part of the underwriting analysis, including vulnerability of obligors to future climate changes, extreme weather events, and other physical risks.

*(iii) Own Risk and Solvency Assessment (“ORSA”)*

The ORSA process is integral to the Company’s risk management framework. Through the ORSA process, AGUK uses scenario analysis and stress testing to inform the risk identification process and understand the short- and long-term financial risks to the Company’s business model from climate change.

**Strategic report for the year ended 31 December 2023 (continued)***(iv) Investments*

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 (2.36 years as at 31 December 2023). Nonetheless, the risks arising from climate change are relevant in the evaluation by AGUK and its investment manager of the creditworthiness of specific issuers and industries. The Company's investment manager relies on their ESG corporate philosophy statements and uses ESG information, when conducting research and due diligence on new investments and in managing the portfolio. AGUK has prohibited its investment manager from making any new investments in thermal coal enterprises, specifically; (i) thermal coal enterprises that generate 30% or more of their revenue from either the ownership, exploration, mining, or refining of thermal coal, and (ii) corporate and municipally owned utilities that generate 30% or more of their electricity from thermal coal.

*Metrics and Targets*

The Company's climate-related metrics are included in the Streamlined Energy and Carbon Reporting ("SECR") information provided in the Directors' report. The Company continues to work to enhance the sophistication of its metrics and targets with respect to climate change.

**Stakeholder engagement**

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

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

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

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

Each year, the Board oversees a review of the Company's strategy, including the business plan for the following three years. Once approved by the Board, the business plan and strategy form the basis for financial budgets, resource plans and investment decisions, and also the future strategic direction of the Company. The ORSA process is a key component of the risk and capital management frameworks and integral to the business planning process and the Board's long-term decision making. In making decisions concerning the business plan and future strategy, the Board has regard to a variety of matters including the interests of various stakeholders, the consequences of its decisions in the long term and its long-term reputation.

The following summarises how the directors have fulfilled their duties with respect to specific stakeholders.

*Shareholders*

AGM is the sole shareholder of the Company. Representatives of AGM are also directors of the Company which ensures that strategies and objectives are well understood by the shareholder and, where appropriate, aligned to those of the external shareholders of AGL, the Company's ultimate parent.

**Strategic report for the year ended 31 December 2023 (continued)**

*Policyholders/Customers*

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

Ensuring that the Company can meet its obligations to existing policyholders is a key objective for the Board in its oversight of the Company's strategy and business plan. The Company's capital management process is further described in note 21 to the financial statements.

*Regulators and rating agencies*

The Board is committed to working constructively with regulators and recognises the importance of engagement to meeting regulatory expectations. Senior management have maintained regular dialogue with regulators to explain key changes during the period, such as key operational initiatives and the policy novations to AGM.

The independent views from rating agencies on the Company's financial strength and claims paying capabilities, are very important for several of our stakeholders. The directors believe the Company has well-established relationships with the rating agencies. All relevant publications produced by the Company's key rating agencies were published on AGL's website for ease of access by all stakeholders.

*Employees*

We regard the employees of Assured Guaranty (UK) Services Limited ("AGUKS") as the workforce of the Company. The Company's long-term success is dependent on the commitment of its workforce and their demonstration of the Company's values on a daily basis. As part of the governance framework, the Board oversees the delivery of employee training programmes under which employees complete annual training on the Company's code of conduct, anti-money laundering, anti-bribery and corruption, anti-workplace harassment and whistleblowing requirements. Employees are also required to prepare personal development plans to ensure the identification of other training and development needs.

Employee engagement and transparent communication are important features of the Company's culture. During the year, members of the Company's Board held town hall meetings with UK employees, providing the opportunity to communicate key updates and answer questions. In addition, each quarter after the Assured Guaranty Group issues its financial results, in addition to meeting with shareholders and investors, the AGL Chief Executive Officer and Chief Financial Officer, who are both members of the AGUK Board, hold a town-hall meeting for all employees where they provide an update on the Assured Guaranty Group's performance and strategy and acknowledge contributions made by employees to the continued success of its business.

Over the course of the year, the Company has enhanced the articulation of its culture, including its values and how these values are understood and met by employees. This has involved the development and delivery of a purpose and vision statement and then, with employee input, a statement of the Company's cultural values. These cultural values are: We are Professional. We act with Integrity. We are Responsible. We are a Team. We are Ambitious. The employees of the Company strive to demonstrate these values and the Company assesses and reports on its progress against these values, including by holding an annual staff survey. Additionally, employees are required to attest to abide by Assured Guaranty Group Global Code of Ethics.

The Assured Guaranty Group's Diversity and Inclusion ("D&I") policy, which can be found in the "Governance and Policies" subsection of AGL's website ([www.assuredguaranty.com/about-us/governance](http://www.assuredguaranty.com/about-us/governance)) applies to all personnel, across all offices and operations of the Assured Guaranty Group and outlines the Assured Guaranty Group's commitment to building and sustaining at all levels of the organization a diverse workforce, and creating an inclusive culture. The Assured Guaranty Group has taken a number of steps to demonstrate its organisational commitment to diversity and inclusion, which include:

- (i) Diversity training has been provided to all employees on how to identify and interrupt unconscious bias and the role each employee can play to promote diversity and inclusion.
- (ii) Based on employee feedback, employee resource groups were launched for woman and working parents to create community, awareness and encourage employees to engage with and support one another.
- (iii) A number of talent acquisition strategies have been added to the recruiting practices in order to deliberately reach and attract a diverse and qualified applicant pool.

**Strategic report for the year ended 31 December 2023 (continued)**

- (iv) An employee-led Diversity and Inclusion Committee plays a key role in recommending strategies and initiatives to achieve diversity and inclusion goals, such as a mentoring program, employee resource groups and investing in organizations that work to create a pipeline of diverse and qualified candidates.

The Company continues to invest in the professional development of its workforce. To support the advancement of its employees, the Company provides access to training, mentoring opportunities, as well as tuition reimbursement assistance.

While the Company encourages open dialogue, it also completes an annual engagement survey which provides a confidential way for employees to provide more candid feedback. In 2023 the same third-party provider conducted a survey and benchmarked the results against prior year and other similar-size financial services companies. The survey was sent to the total global workforce; and the participation in the survey remained high.

*Suppliers*

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

The Company has also established policies and processes to appropriately monitor the performance of outsourced service providers and other material service arrangements to ensure compliance with regulatory requirements and legislative requirements and has issued a Modern Slavery Act statement ([https://assuredguaranty.com/images/uploads/MSA\\_Statement\\_2022.pdf](https://assuredguaranty.com/images/uploads/MSA_Statement_2022.pdf)).

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

As a financial guarantor, the Company plays a valuable role in lowering the financing cost of essential infrastructure projects which benefit communities within the UK, including hospitals, roads, airports, social housing, universities and utilities. The Company also believes that its products have an important role to play in helping to finance the infrastructure improvements, renewable energy generation and new technologies required to prepare for, and mitigate the impacts of, climate change-related events.

The Directors' oversight of the impact of the Company's operations on the environment is described within the climate change section above.

The Assured Guaranty Group has expressed its commitment to social responsibility, not only to its employees and other stakeholders as described above, but also to its community. The Assured Guaranty Group commitment can be found in the "Social Responsibility" subsection of AGL's website ([www.assuredguaranty.com/about-us/environmental-and-social-responsibility/social-responsibility](http://www.assuredguaranty.com/about-us/environmental-and-social-responsibility/social-responsibility)). Both the Company and the wider Assured Guaranty Group believe in giving back through corporate philanthropy, volunteering, and encouraging employees to contribute to the causes they care about. There is a Group wide Assured Guaranty Philanthropy Committee and during 2023 a UK committee was established to lead all UK charitable efforts, including corporate donations and volunteering opportunities. Employee charitable contributions are matched by the Company and to encourage involvement in community outreach, the Company provides employees with the opportunity to take one work day off with pay every calendar year to volunteer in the local community.

Approved by the Board of Directors on 28 March 2024 and signed on its behalf by:



Richard Nicholas  
Chief Financial Officer  
28 March 2024

## **Directors' report for the year ended 31 December 2023**

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2023.

### **Future developments**

The likely future developments for the Company are discussed within the strategic report.

### **Dividends**

The directors approved the payment of a dividend of £100 million during the year (2022: nil).

### **Financial instruments**

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

### **Directors**

The directors of the Company who were in office throughout the year and up to the date of signing the financial statements (unless otherwise stated) were:

Robert Bailenson  
Mark Batten  
Dominic Frederico  
Samantha Hoe-Richardson  
Dominic Nathan  
Richard Nicholas  
Nicholas Proud  
Penelope Shaw  
David Todd

### **Qualifying third party indemnity provisions**

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

### **Statement of directors' responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland." Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

**Directors' report for the year ended 31 December 2023 (continued)**

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

The directors are responsible for the maintenance and integrity of the Company's corporate and financial information included on AGL's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Streamlined Energy and Carbon Reporting ("SECR")**

The Companies (Directors' report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("the Regulations") require companies to disclose their UK annual energy use, greenhouse gas emissions, and related information. The Company has adopted the Greenhouse Gas Protocol Reporting Protocol – Corporate Standard methodology to calculate its annual energy use, greenhouse gas emissions and related information required to be disclosed under the Regulations.

The Company classifies its energy emissions into three categories:

- Scope 1 - Direct emissions,
- Scope 2 - Indirect emissions
- Scope 3 - Other indirect emissions

There are no direct emissions relating to the Company's business activities and it does not own or control any of the utilities it consumes. The Company therefore believes that its Scope 1 emissions are zero. Scope 2 emissions comprise purchased heating and electricity consumed at the Company's London office. Scope 3 emissions primarily comprise those related to business travel undertaken by employees, including flights and ground transport.

The Company's energy use, as defined and required to be reported under the Regulations, which for the Company comprises only Scope 2 emissions, is reported below.

For the years ended 31 December 2023 and 2022:

Onsite energy used:	2023	2022	Change
Gas – kWh	37,546	40,829	(8.0)%
Electricity – kWh	88,282	104,431	(15.5)%
Transport energy used	—	—	— %
Emissions from energy use - CO2 equivalent (kg)	34,974	40,692	(14.1)%
Intensity metric - tonnes of CO2 per employee of AGUKS	0.97	1.23	(21.1)%

Although the direct impact of the Company's operations on the environment is relatively small we are nonetheless committed to reducing our environmental footprint by operating our business in a sustainable and environmentally responsible manner. The Company's office is in a building with an "Excellent" BREEAM (Building Research Establishment Environmental Assessment Method) rating. In addition, the building has in place an ISO 14001: 2015, which establishes the standards for its environmental management system that are intended to minimize the impact of its operations on the environment and comply with applicable laws and regulations. During 2023 the building implemented the following initiatives which contribute to achieving this:

- further LED light installations;
- installation of chemical free closed water system treatment units; and
- the introduction of indoor farms to produce the building's own herbs and vegetables.

**Directors' report for the year ended 31 December 2023 (continued)**

Over recent years the Company has undertaken actions to reduce usage of both paper and single-use plastics, including via the addition of filtered water dispensers and encouraging employees to use reusable water bottles. In addition, the Company's office is equipped with video conferencing capabilities to minimize the need for travel. We also solicit suggestions from employees. The Assured Guaranty Group has established an online employee sustainability suggestion box.

**Statement of disclosure of information to auditors**

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

- 1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- 2) they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

**Independent auditors**

The auditors, Deloitte LLP, have indicated their willingness to continue in office. A resolution concerning their reappointment was approved at the meeting of the Company's Board of Directors on 27 March 2024.

**Information included in strategic report**

In accordance with section 414C(11) of the Companies Act, the Company has chosen to set out the following information in the strategic report, which would otherwise be required to be disclosed within the directors' report:

- Future Developments; and
- Statement of engagement with suppliers, customers and others in a business relationship with the Company.

Approved by the Board of Directors on 28 March 2024 and signed for on its behalf by:



Richard Nicholas  
Chief Financial Officer  
28 March 2024

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF ASSURED GUARANTY UK LIMITED

## Report on the audit of the financial statements

### 1. Opinion

In our opinion the financial statements of Assured Guaranty UK Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts" (United Kingdom Generally Accepted Accounting Practice).

### 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the company for the year are disclosed in note 8 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### 3. Summary of our audit approach

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#### Key audit matters

The key audit matter that we identified in the current year was:

- Completeness of claims outstanding and the unexpired risk provision (“URP”).

Within this report, the key audit matter is identified as follows:

- Ⓐ Increased level of risk

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#### Materiality

The materiality that we used in the current year was £5.9m which was determined on the basis of 1% of net assets.

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#### Scoping

Audit work to respond to the risks of material misstatement was performed directly by the engagement team.

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#### Significant changes in our approach

In our 2022 audit, we identified a key audit matter in relation to Level 3 investment valuation – asset-backed securities, a Triple-X securitisation carried out by a life insurance company. The investment valuation methodology no longer involves discounting long term cash flows, and there is limited judgment in the assumptions used to value the asset. Accordingly, we do not consider the valuation of this asset to be a key audit matter for our audit.

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### 4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors’ assessment of the company’s ability to continue to adopt the going concern basis of accounting included:

- Evaluating forecasts, management’s method in producing these, and the consistency with current year results;
- Obtaining and inspecting correspondence between the company and its regulators, the Prudential Regulation Authority (‘PRA’) and Financial Conduct Authority (‘FCA’), to identify any items of interest which could potentially indicate either non-compliance with legislation or potential litigation or regulatory action held against the company;
- Evaluating management’s capital and solvency stress testing and assessed the reasonableness of management’s assumptions, including those related to the recoverability of reinsurance assets and any support arrangements; and
- Evaluating appropriateness of the disclosures presented in note 3 of the financial statements.

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 when the financial statements are authorised for issue.

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

## 5. Key audit matters

Key audit matters are matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risk of material misstatement (whether or not due to fraud) that we identified. These matters had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### 5.1. Completeness of claims outstanding and the unexpired risk provision (“URP”)

#### Key audit matter description

The economic environment may impact the ability of counterparties of certain guaranteed financial instruments to continue to make required interest or principal payments as they fall due. Management has a surveillance team closely monitoring the performance of the portfolio and assessing where remedial action or specific provisions are necessary.

A provision for claims outstanding is recorded when there is a significant deterioration of a specific insured obligation, such that the insured obligation is in default at the balance sheet date. The gross claims outstanding recorded at 31 December 2023 were £32.7m (2022: £35.2m). Alternatively, a URP is recognised when, for Below Investment Grade (“BIG”) credits, the estimated value of future claims and expenses that are likely to arise after the end of the financial year, exceeds the provision for unearned premiums following the deduction of any deferred acquisition costs and premiums receivable for those specific contracts. The URP at 31 December 2023 was £6.7m (2022: £3.5m) and made up of two out of five (2022: three out of six) BIG credits.

Management use an internal credit rating model that uses a scorecard methodology to assign ratings to each transaction in the portfolio. The ratings reflect the company’s view of the transaction credit quality, considering the long-duration nature of the contracts and the risk of default of the underlying credit. There is a risk therefore that the company does not recognise a provision for credits which have experienced a deterioration in their credit quality based upon the internal rating model and surveillance process. Management’s model further makes use of assumptions such as probability of default, loss given default and severities.

In assessing whether any credits have become BIG, management conducts inflationary stress tests and impact analyses on the portfolio that is most likely to be impacted.

We consider an increased level of risk associated with this key audit matter because the company’s portfolio contains exposures to sectors which have been subject to adverse press articles and financial distress during the year. These include local authorities and water companies.

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Due to the possibility of manipulation of models in the estimation process and internal ratings, we identify a potential fraud risk associated with this key audit matter.

Further details are included in Note 4 (Critical accounting judgements and key sources of estimation uncertainty) and Note 23 (Technical provisions) of the financial statements.

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**How the scope of our audit responded to the key audit matter**

We tested the relevant controls in relation to management's process for identifying BIG credits as well as the subsequent reserving considerations for credits. Our substantive audit procedures to address the completeness of the claims outstanding and the unexpired risk provision involved the following:

- We performed inquiries with management's surveillance team to evaluate the latest monitoring position for all credits.
- For a sample of credits, we corroborated management's internal credit ratings to internal and external evidence including ratings by S&P and Moody's.
- We compared the rating of each exposure in the current portfolio to the rating assigned to the exposure in the prior year and for the exposures that were downgraded during the year, we understood the reasoning behind this and established whether any further deterioration to the ratings would be required, in light of sector and economic outlook.
- For exposures to sectors which have been subject to adverse press articles and financial stress during the year, particularly water companies and local authorities, we have assessed the company's exposure to these sectors and challenged management's assessment of the exposures by reference to external data including regulatory communications.
- We also held discussions with our sector specialists to understand the sector outlook and corroborate management's assessment.
- We involved our in-house credit modelling specialists to evaluate the methodology, ratings and scorecards of the exposures related to local authorities and water companies.
- Involving our in-house credit modelling specialists, we:
  - assessed the appropriateness of management's internal ratings model, scorecard methodology and significant assumptions (probability of default, loss given default and severities) by evaluating judgments applied, and benchmarking with industry data; and
  - obtained and assessed management's inflationary stress tests and impact analysis for reasonableness, by benchmarking with economic data.

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**Key observations**

Based on our procedures performed we are satisfied that the completeness of the claims outstanding and URP recorded as of 31 December 2023 is reasonable.

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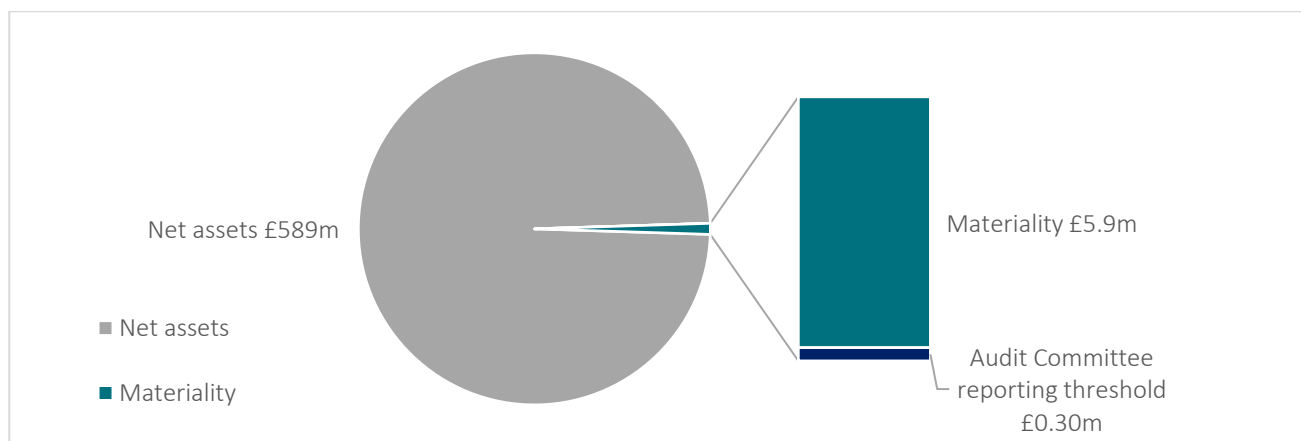
## 6. Our application of materiality

### 6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

<b>Materiality</b>	£5.9 million (2022: £6.7 million)
<b>Basis for determining materiality</b>	1% of net assets (2022: 1% of net assets)
<b>Rationale for the benchmark applied</b>	Net assets are a primary focus of the users of the financial statements. In addition, net assets are one of the key UK GAAP measures monitored and reported by the board, as is expected for insurers who are required to maintain an adequate solvency position in line with the internal and external capital requirements.



### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2023 audit (2022: 70%). In determining performance materiality, we considered the following factors:

- the quality of the control environment and that we were able to rely on controls,
- turnover of management and key accounting personnel,

- c. our understanding of the entity and its control environment and operations including our knowledge of the business from prior years, and
- d. the fact that there were no corrected or uncorrected misstatements identified in our previous audit.

### **6.3. Error reporting threshold**

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.30m (2022: £0.34m) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## **7. An overview of the scope of our audit**

### **7.1. Scoping**

Our audit was scoped by obtaining an understanding of the nature of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed by the audit engagement team.

### **7.2. Our consideration of the control environment**

#### ***IT controls***

In planning our 2023 audit we identified four systems that were material to the company's financial reporting processes. These systems handled data relating to premiums, including the earning patterns applied to instalment policies and we planned to rely on the IT and business controls associated with these systems. We worked alongside our IT specialists to assess the operating effectiveness of the general IT controls associated with these systems, as well as the wider general IT control environment across the business. We were able to rely upon the general IT controls associated with all four systems identified.

#### ***Business processes and financial reporting controls***

In our 2023 audit we identified the gross written premiums (revenue) and claims loss reserving and surveillance business cycles as being significant to the company's financial reporting processes, and we planned to rely on the business controls associated with both cycles. Having completed our testing over the operating effectiveness of business controls associated with these cycles, we concluded that we were able to rely upon the business controls of both the gross written premiums (revenue) and the claims loss reserving and surveillance business cycles.

### **7.3. Our consideration of climate-related risks**

In planning our audit, we have considered the potential impact of climate change on the entity's business and its financial statements.

The company discloses the potential impacts of climate change in the Strategic Report and note 21 of the financial statements. As set out in Note 21, the company does not consider that climate change risk has a material impact on the company's financial statements, however the company recognises climate change as a potential material longer-term risk and utilises its risk management framework to identify and manage the financial risks arising from climate change. This is done through surveillance of existing exposures, underwriting guidelines and approval for new exposures and the company's Own Risk and Solvency Assessment ("ORSA").

We considered the impact of climate related risks as part of our risk assessment on the account balances and classes of transactions. We also read the strategic report and ORSA to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

## 8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

## 9. Responsibilities of directors

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

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

## 10. Auditor's responsibilities for the audit of the financial statements

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

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

## 11. Extent to which the audit was considered capable of detecting irregularities, including fraud

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.

### 11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the company's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the Audit Committee on 21 June 2023;
- results of our enquiries of management, directors and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the company's sector;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, IT, valuation and credit modelling specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the completeness of claims outstanding and the unexpired risk provision ("URP"). In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included those imposed by the FCA, the PRA and the company's regulatory solvency requirements.

### 11.2. Audit response to risks identified

As a result of performing the above, we identified completeness of claims outstanding and the unexpired risk provision ("URP") as a key audit matter related to the potential risk of fraud. The key audit matter section of

our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reviewing minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the FCA, PRA and HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## Report on other legal and regulatory requirements

### 12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

### 13. Matters on which we are required to report by exception

#### 13.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.



### **13.2. Directors' remuneration**

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

## **14. Other matters which we are required to address**

### **14.1. Auditor tenure**

Following the recommendation of the Audit Committee, we were reappointed by the board of directors on 29 March 2023 at the board of directors' meeting, to audit the financial statements for the year ending 31 December 2023. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years, covering the years ending 31 December 2021 to 31 December 2023.

### **14.2. Consistency of the audit report with the additional report to the Audit Committee**

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

## **15. Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Claire Clough (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

28 March 2024

**Profit and loss account for the year ended 31 December 2023**

	<i>Note</i>	<b>2023</b>	2022
		<b>£'000</b>	£'000
<b>Technical Account – General Business</b>			
<b>Earned premiums, net of reinsurance</b>			
Gross written premiums	6	<b>(63,017)</b>	3,331
Outward reinsurance premiums		<b>(12,269)</b>	(12,904)
Net written premiums		<b>(75,286)</b>	(9,573)
Change in the gross provision for unearned premiums		<b>95,094</b>	38,435
Change in the provision for unearned premiums, reinsurer's share		<b>(11,702)</b>	(13,399)
<b>Net change in unearned premiums</b>		<b>83,392</b>	25,036
<b>Earned premiums, net of reinsurance</b>		<b>8,106</b>	15,463
<b>Other technical income</b>	25	<b>5,783</b>	2,475
<b>Total technical income</b>		<b>13,889</b>	17,938
<b>Claims incurred, net of reinsurance</b>			
<b>Claims paid</b>			
Gross amount		<b>1,918</b>	1,678
Reinsurer's share		<b>(1,726)</b>	(1,566)
		<b>192</b>	112
<b>Changes in the provision for claims</b>			
Gross amount		<b>(489)</b>	2,243
Reinsurer's share		<b>440</b>	(2,019)
		<b>(49)</b>	224
<b>Claims incurred, net of reinsurance</b>		<b>143</b>	336
<b>Changes in other technical provisions, net of reinsurance</b>		<b>3,426</b>	1,092
<b>Net operating expense</b>	7	<b>19,613</b>	11,640
<b>Total technical charges</b>		<b>23,182</b>	13,068
<b>(Loss) / Profit on the technical account for general business</b>		<b>(9,293)</b>	4,870
<b>Non-Technical Account</b>			
<b>Profit / (Loss) on the general business technical account</b>		<b>(9,293)</b>	4,870
Investment income	11	<b>10,758</b>	13,092
Unrealised gains on investments	11	<b>27,928</b>	2,262
Investment expenses and charges	11	<b>(560)</b>	(559)
Unrealised losses on investments	11	<b>(5,442)</b>	(65,101)
Other (expenses)/income	26	<b>(6,860)</b>	13,939
<b>Profit / (Loss) on ordinary activities before tax</b>	12	<b>16,531</b>	(31,497)
<b>Tax (charge) / credit on profit / (loss) on ordinary activities</b>	13	<b>(4,158)</b>	8,085
<b>Profit / (Loss) and total comprehensive income / (loss) for the financial year</b>		<b>12,373</b>	(23,412)

The notes on pages [28](#) to [47](#) form part of the financial statements. All results derive from continuing activities.

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

**Assured Guaranty UK Limited**

Registered in England No. 2510099

<b>Balance sheet as at 31 December 2023</b>	<i>Note</i>	<b>2023</b>	2022
		<b>£'000</b>	£'000
<b>Assets</b>			
<b>Investments</b>			
Financial investments	17	607,392	685,575
<b>Reinsurer's share of technical provisions</b>			
Provision for unearned premiums	23	243,382	255,908
Claims outstanding	23	29,439	31,652
Other technical provisions	23	95	292
<b>Debtors</b>			
Debtors arising out of direct insurance operations	16	272,647	363,057
Other debtors	16	42,896	44,696
<b>Other assets</b>			
Tangible assets	15	447	387
Cash at bank and on hand	21	8,952	8,517
Deferred tax	14	5,105	9,263
<b>Prepayments and accrued income</b>			
Accrued interest		5,403	5,738
Deferred acquisition costs	24	16,551	20,087
Other prepayments and accrued income		413	748
<b>Total assets</b>		<b>1,232,722</b>	<b>1,425,920</b>
<b>Liabilities and shareholder's funds</b>			
<b>Capital and reserves</b>			
Called up share capital	22	55,000	55,000
Capital contribution		385,865	385,865
Other reserves		22,625	122,625
Profit and loss account		125,820	113,447
<b>Total shareholder's funds</b>		<b>589,310</b>	<b>676,937</b>
<b>Technical provisions</b>			
Provision for unearned premiums	23	358,734	454,644
Claims outstanding	23	32,710	35,169
Other technical provisions	23	6,687	3,459
<b>Creditors</b>			
Creditors arising out of reinsurance operations	18	162,304	169,359
Other creditors	18	9,653	9,068
<b>Accruals and deferred income</b>	19	<b>73,324</b>	<b>77,284</b>
<b>Total liabilities and shareholder's funds</b>		<b>1,232,722</b>	<b>1,425,920</b>

The notes on pages [28](#) to [47](#) form part of the financial statements.

The financial statements on pages [25](#) to [47](#) were approved by the Board of Directors on 28 March 2023 and were signed on its behalf by:



Richard Nicholas  
Chief Financial Officer

**Assured Guaranty UK Limited**

Registered in England No. 2510099

**Statement of changes in equity for the year ended 31 December 2023**

	<b>Called up share capital</b>	<b>Capital contribution reserve</b>	<b>Other reserves</b>	<b>Profit and loss account</b>	<b>Total shareholder's funds</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balance as at 1 January 2022	55,000	385,865	122,625	136,859	700,349
Loss for the financial year	—	—	—	(23,412)	(23,412)
Balance as at 31 December 2022	55,000	385,865	122,625	113,447	676,937
Profit for the financial year	—	—	—	12,373	12,373
Dividends paid	—	—	(100,000)	—	(100,000)
<b>Balance as at 31 December 2023</b>	<b>55,000</b>	<b>385,865</b>	<b>22,625</b>	<b>125,820</b>	<b>589,310</b>

The capital contribution reserve represents additional capital contributed by AGUK's parent company, AGM. Other reserves were created following the merger of AGUK with its former subsidiaries in November 2018 and represented the difference between the Company's investment in group undertakings and the value of net assets transferred to the Company upon merger.

**Notes to the financial statements for the year ended 31 December 2023****1. General information**

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

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

**2. Statement of compliance**

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

**3. Summary of significant accounting policies**

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

**(a) Basis of preparation**

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. The directors have also concluded that there are no material uncertainties that could cast significant doubt over the Company's ability to continue as a going concern which should be disclosed.

The Company's products insure some policyholders against very long term, very low probability credit events, often relating to government linked entities. Modelling such defaults is inherently very judgmental, and includes factors which cannot easily be modelled, such as long-term political risk. The insured risk profile is therefore such that plausible events could emerge in the future which are outside the extreme but plausible stress scenarios envisaged under current risk and solvency assessments. In the highly unlikely event that such losses should occur, AGUK may be dependent on the protection available under the AGM Excess of Loss Reinsurance Agreement and other AGM support to continue as a going concern. Other AGM support is secured by the Net Worth Maintenance Agreement, which obliges AGM to contribute further capital, as described in the Parental and Affiliate Support Agreements section of the Strategic Report. The directors have considered the role of these support arrangements with AGM in extreme stress scenarios in presenting the accounts of AGUK on a going concern basis.

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

**(b) Premiums written**

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

- (i) Where the premium on a policy is received up front, the premium is recognised as written on the date of inception.
- (ii) Where a premium is received in instalments and the underlying bonds are callable, management considers the nature of the call provision(s) and the likelihood of exercise of those provisions, and determines whether it is reasonably certain that the contract will run its full term.

The full expected premium is recorded when it is received or when it is reasonably certain that it will be received. When the contract is not expected to run its full term, the written premium recognised is either the premium amount to the first call point under the contract or the guaranteed minimum premium (where such a clause exists in the policy documents) or where the contract is callable without any notice period, the Company records the instalments as they fall due.

### **3. Summary of significant accounting policies (continued)**

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

#### **(c) Earned Premium**

Written premiums are recognised as earned premiums over the policy duration on a time apportionment basis which reflects the incidence of risk. An unearned premiums provision is established for the proportion of written premiums in the current or prior years that relate to unexpired terms of policies in force at the balance sheet date.

#### **(d) Claims and claim expenses incurred**

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

A substantial measure of experience and judgment is involved in assessing claims outstanding, the ultimate cost of which may not be known with certainty at the balance sheet date. Provisions for claims outstanding and related reinsurance recoveries are determined on the basis of information available at the balance sheet date; however, it is inherent in the nature of business written that the ultimate liabilities may vary as a result of subsequent developments. Further information on the estimation of claims outstanding is included within note 4.

#### **(e) Subrogation and salvage**

When the Company becomes entitled to cashflows from the underlying insured transaction as a result of a prior claims payment or an expected future claims payment, the Company recognises a salvage and subrogation asset. Recoveries arising out of subrogation or salvage are estimated on a prudent basis and included within debtors.

#### **(f) Reinsurance**

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

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

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

#### **(g) Acquisition costs and ceding commission income**

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

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

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

### 3. Summary of significant accounting policies (continued)

#### (h) Financial Investments

The Company's policy is to measure all financial investments at fair value through profit or loss. The basis on which the Company determines the fair value of its investments is set out in note 17. Gains or losses arising from changes in the fair value of financial investments are presented in the profit and loss non-technical account in the period in which they arise. Realised gains and losses are calculated as the difference between net sales proceeds and purchase price. Unrealised gains and losses represent the difference between the valuation at the balance sheet date and their purchase price, or if they were held in the prior year also, their valuation at the last balance sheet date.

Financial investments include short term deposits which do not meet the definition of Cash at bank and on hand.

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses.

#### (i) Taxation

##### *Current tax*

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

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

##### *Deferred taxation*

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

#### (j) Operating lease

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

#### (k) Tangible fixed assets

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

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

<b>Tangible assets</b>	<b>Useful life</b>
Leasehold improvements	13 years
Furniture	5 years
Hardware	3 years

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

### **3. Summary of significant accounting policies (continued)**

#### **(l) Provisions**

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle that obligation.

#### **(m) Unexpired risks provision**

A provision is established for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses, after taking into account future investment return. The expected claims are calculated based on information available at the balance sheet date. The unexpired risks provision is included in Other technical provisions gross of reinsurance, whilst the reinsurer's share is included within reinsurer's share of Other technical provisions. Within the profit and loss account, the movement in the unexpired risks provision is shown net of reinsurance.

#### **(n) Foreign currency**

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

#### **(o) Cash at bank and on hand**

Cash at bank and on hand comprises on-demand bank deposits only.

#### **(p) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### **(q) Dividends**

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the shareholders. Interim dividends are deducted from equity when they are paid.

#### **(r) Exemption for qualifying entities under FRS 102**

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

- (i) from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate parent company includes the Company's cash flows in its own consolidated financial statements; and
- (ii) from disclosing related party transactions on the basis that the transactions are with related parties which are wholly owned within the same group.

### **4. Critical accounting judgements and key sources of estimation uncertainty**

The preparation of financial statements requires the use of estimates, judgements and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

Judgements and estimates are continually evaluated for their appropriateness and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The use of such judgements and estimates is most critical to the measurement of the Company's insurance liabilities. Further information on the methodologies and processes used to establish key judgements and estimates in respect of the Company's insurance liabilities is included within note 21.

#### *Key sources of estimation uncertainty*

The directors consider the following to be the key sources of estimation uncertainty and those most critical to understanding the Company's result and financial position.



#### 4. Critical accounting judgements and key sources of estimation uncertainty (continued)

##### *(i) Instalment Premium*

The premiums received by the Company are received upfront on transaction close, in instalments across the policy life, or a combination of both. For premiums received in instalments, written premiums are equal to the value of the expected premiums to be collected over the life of the contract, where premium payments must be contractually payable, the amount of premium payable must be probable, and the amount of premium payments must be reasonably estimated.

For certain contracts where the insured par outstanding is index-linked, the value of instalment premiums is dependent upon rates of inflation. The Company assumes a stable rate of inflation for future periods. In determining the long-term inflation rate assumptions, historical inflation experience over several time periods was assessed, including 20, 30 and 40 years, given the typically 20 to 40 year duration of the Company's index-linked contracts. If future inflation rates differ to that assumed by the Company then the estimated premium due to the Company will differ. When the Company adjusts premium payment assumptions or expected premium collections, an adjustment is recorded to the written premiums.

##### *(ii) Claims reserves and unexpired risks provision*

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

The Company does not use traditional actuarial approaches to determine its estimates of expected losses. Technical Provisions are estimated via the use of a transaction specific loss model, incorporating transaction specific assumptions or, where the use of such a model is not appropriate, the Scenario Loss Model ("SLM"). The SLM relies on expert judgement assumptions for Loss Given Default (LGD) and probability of Default (PD) that vary by rating and industry sector. Actual losses will ultimately depend on future events or transaction performance and may be influenced by many interrelated factors that are difficult to predict. As a result, the Company's current projections of probable and estimated losses may be subject to considerable volatility and may not reflect the Company's ultimate claims obligations.

##### *Critical Accounting Judgements*

There are no critical accounting judgements associated with the financial statements

#### 5. Policy novations to AGM

During 2023 the Company completed a series of policy novations to transfer 85% of the insured par originally underwritten by AGLN in respect of its four largest net risks to AGM. The 85% share of the policies were novated at their fair value and cash was paid by AGM to AGUK for the difference between the fair value of the exposure transferred and 85% of the future premiums to be paid by the policyholder, resulting in AGM paying AGUK £4.5 million (2022: £1.3 million). A total of £3,022.4 million of net insured par was transferred (2022: £466.8 million).

The policy novations were treated as policy cancellations for accounting purposes and the Company derecognised the carrying value of the related insurance and reinsurance balances as of the effective date with the difference of £5.5 million between the amounts derecognised and the cash received from AGM representing a gain on transfer and reported within other technical income (2022: £2.2 million). The reduction in future net premiums of £87.3 million (negative £86.2 million net) was recorded as negative gross written premiums within the income statement (2022: negative £21.2 million gross and negative £20.4 million net).

## 6. Segmental analysis

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

### (a) Gross written premiums by location of risk

	2023	2022
	£'000	£'000
– UK	(64,227)	865
– Europe, excluding UK	1,002	3,517
– Other	208	(1,051)
<b>Total gross premiums written</b>	<b>(63,017)</b>	<b>3,331</b>

Total gross written premiums include new business written in the year and changes to in-force business written in prior years. Negative premiums can arise where estimated total premiums have been either adjusted for indexation, refunds or cancellation. As noted above, the policy novations to AGM were treated as policy cancellations for accounting purposes and all related to UK business, resulting in negative gross written premiums of £87.3 million. The Company does not measure profit and loss on geographical segments.

### (b) Gross claims incurred by location of risk

	2023	2022
	£'000	£'000
– Europe, excluding UK	—	844
– Other	1,429	3,077
<b>Total gross claims incurred</b>	<b>1,429</b>	<b>3,921</b>

## 7. Net operating expense

	2023	2022
	£'000	£'000
Acquisition costs in the year	1,673	844
Change in deferred acquisition costs	3,536	1,712
Administrative expenses	21,084	16,172
Reinsurance commissions in the year	(6,681)	(7,088)
<b>Net operating expense</b>	<b>19,612</b>	<b>11,640</b>

The presentation of this note has been amended from the prior year to show the portion of expenses relating to acquisition costs incurred in the year. The presentation of the comparative amounts have also been updated.

## 8. Auditors' remuneration

	2023	2022
	£'000	£'000
Fees payable to the Company's auditors for the audit of the Company's financial statements	430	408
Fees payable to the Company's auditors for other services:		
Audit related assurance services	65	62
Other non-audit services	—	—
<b>Total auditors' remuneration</b>	<b>495</b>	<b>470</b>

Auditors' remuneration is included within net operating expense.

**9. Directors' emoluments**

The Company did not have any employees during the year (2022: nil). With the exception of the independent non-executive directors, with whom the Company has entered into separate service contracts, the directors of the Company are employees of AGUKS, Assured Guaranty US Group Services Inc ("AGSRV") and AGL. In consideration for their services, management fees were levied on the Company. Amounts paid by AGUKS, AGSRV, AGL and by the Company to the directors in respect of their services to the Company are summarised below.

	<b>2023</b>	2022
	<b>£'000</b>	£'000
Aggregate remuneration	<b>1,759</b>	1,438
Aggregate amounts (excluding share options) under long-term incentive plans of the ultimate parent company, AGL	<b>646</b>	582
	<b>2,405</b>	2,020

**Share options**

No directors (2022: no directors) exercised share options in the parent Company's shares during the year.

**Long-term incentive scheme**

Five directors (2022: five directors) received shares (or had shares receivable) under a long-term incentive scheme. An amount of £0.65 million (2022: £0.58 million) was paid to or receivable by directors under a long-term incentive scheme.

**Pension contributions**

There were three directors for whom retirement benefits are accruing under money purchase schemes (2022: three directors). The Company paid £4,000 (2022: £16,000) to a money purchase pension scheme in respect of directors' qualifying services.

There are no other assets (2022: £nil) (other than money, shares and share options) received or receivable by directors in respect of their services to the Company.

**Highest paid director**

The highest paid director's emoluments were as follows:

	<b>2023</b>	2022
	<b>£'000</b>	£'000
Aggregate remuneration and benefits under long-term incentive schemes (excluding share options)	<b>1,084</b>	899
Company pension contributions to money purchase scheme	—	—
	<b>1,084</b>	899

The highest paid director did not exercise any share options in 2023 (2022: no shares exercised) and is accruing benefits under a long-term incentive scheme in 2023 and 2022.

**9. Directors' emoluments (continued)****Key management compensation**

Key management includes the executive directors and members of senior management. The compensation paid or payable to key management for their services to the Company is shown below:

	<b>2023</b>	2022
	<b>£'000</b>	£'000
Salaries and other short-term benefits	<b>2,166</b>	1,899
Post-employment benefits	<b>45</b>	57
Share-based payments	<b>734</b>	652
	<b>2,945</b>	2,608

**10. Employees**

All staff supporting the Company's operations are employees of AGUKS and AGSRV. In consideration for their services, management service fees were levied on the Company by AGUKS and AGSRV. The total amount levied during the year was £10.5 million (2022: £9.6 million). It is not feasible to ascertain separately the element of the service fee that relates to staff costs and hence no disclosure of staff costs is provided.

**11. Investment return**

	<b>2023</b>	2022
	<b>£'000</b>	£'000
<b>Investment Income</b>		
Interest income from investments	13,731	13,527
Unrealised gains on investments	27,928	2,262
	<b>41,659</b>	15,789
<b>Investment expense and charges</b>		
Investment management expenses	(560)	(559)
Net realised losses on investments	(2,973)	(435)
Unrealised losses on investments	(5,442)	(65,101)
	<b>(8,975)</b>	(66,095)
<b>Total investment return</b>	<b>32,684</b>	(50,306)

**12. Profit on ordinary activities before tax**

	<b>2023</b>	2022
	<b>£'000</b>	£'000
<b>Profit on ordinary activities before tax is stated after (charging) / crediting:</b>		
Operating lease charges	<b>(223)</b>	(242)
Depreciation on tangible fixed assets	<b>(65)</b>	(102)
Foreign exchange (loss) / gain	<b>(6,860)</b>	13,939

**13. Tax on profit on ordinary activities**

	2023 £'000	2022 £'000
<b>UK corporation tax (charge) / credit</b>		
– Deferred tax	(4,158)	8,085
<b>Tax (charge) / credit on profit on ordinary activities</b>	<u>(4,158)</u>	<u>8,085</u>

The tax assessed for the year is higher (2022: lower) than the standard rate of corporation tax in the UK. The reconciliation between the current tax provision and that expected from the standard UK tax rate of 25.0% (2022: 19.0%) is as follows:

	2023 £'000	2022 £'000
<b>Profit / (loss) on ordinary activities before tax</b>	<u>16,531</u>	<u>(31,497)</u>
Profit / (loss) on ordinary activities before tax multiplied by standard rate tax in the UK of 20.6% (2022: 19.0 %)	(3,413)	5,985
Effects of:		
– Expenses not deductible for tax purposes	(14)	32
– Change in tax rate	(710)	2,091
– Deferred tax credits forfeited in Part VII Transfer	(21)	(23)
<b>Tax credit / (charge) for the year</b>	<u>(4,158)</u>	<u>8,085</u>

With effect from 1 January 2024, the Assured Guaranty group is within the scope of the UK multinational top-up tax and domestic top-up tax. The Company is a ‘qualifying entity’ for the purposes of the domestic top-up tax. However, no impact on the tax position of the Company is expected.

**14. Deferred tax asset**

	2023 £'000	2022 £'000
Double taxation relief	20	44
Capital Allowances	19	23
Net operating losses	4,854	8,786
Other temporary timing differences	212	410
<b>Net deferred tax asset</b>	<u>5,105</u>	<u>9,263</u>

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

	2023 £'000	2022 £'000
At 1 January	9,263	1,178
Temporary timing differences	(3,448)	5,993
Tax rate change	(710)	2,092
<b>At 31 December</b>	<u>5,105</u>	<u>9,263</u>

**15. Tangible assets**

	<b>Leasehold improvements</b>	<b>Furniture</b>	<b>IT Hardware</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost</b>				
<b>At 1 January 2023</b>	793	273	94	1,160
Additions	—	—	126	126
At 31 December 2023	793	273	220	1,286
<b>Accumulated Depreciation</b>				
At 1 January 2023	412	273	89	774
Charge for year	57	—	8	65
At 31 December 2023	469	273	97	839
<b>Net book value at 31 December 2023</b>	<b>324</b>	<b>—</b>	<b>123</b>	<b>447</b>
Net book value at 31 December 2022	381	—	5	386

**16. Debtors**

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Arising out of direct insurance operations	<b>272,647</b>	363,057
Arising out of reinsurance operations	<b>42,896</b>	44,671
Other debtors including taxation and social security	—	25
<b>Total debtors</b>	<b>315,543</b>	407,753

**17. Financial investments**

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

The fair value of bonds in the investment portfolio is generally based on prices received from third party pricing services or alternative pricing sources with reasonable levels of price transparency. The pricing services prepare estimates of fair value measurements using their pricing models, which take into account: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, industry and economic events and sector groupings.

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

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

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

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

As at 31 December 2023, the only Level 3 financial investment held by the Company was a single holding in an asset-backed security guaranteed by AGUK and purchased for loss mitigation purposes. The security is priced with the assistance of an independent third-party and the pricing is based on a discounted cash flow approach using the third-party's proprietary pricing model. The model uses inputs including life insurance cash flow projections, investment portfolio asset values and securitisation liabilities, and yields on similar risked securities.

**17. Financial investments (continued)**

The key valuation input as of 31 December 2023 was yield which was determined by reviewing various attributes of the security including collateral type, weighted average life, and sensitivity to losses, in conjunction with market data on comparable securities. The yield used to discount the projected cash flows as at 31 December 2023 was 7.7% (2022: 11.3%)

The table below presents the Company's financial investments measured at fair value at 31 December 2023 and at 31 December 2022, including classification of the fair value in accordance with the fair value hierarchy.

	2023		2022	
	Carrying Value	Purchase Cost	Carrying Value	Purchase Cost
	£'000	£'000	£'000	£'000
<b>Level Financial investments</b>				
1 Short term deposits	11,948	11,948	14,374	14,374
2 UK government bonds	70,442	77,314	69,361	77,314
2 Non-UK government bonds	2,354	2,430	33,293	32,916
2 UK government agency bonds	12,406	9,438	12,350	15,479
2 Supranationals	174,426	184,214	186,972	202,106
2 Corporate bonds	276,410	299,737	282,436	315,900
2 Non-UK government agency bonds	34,240	43,112	59,698	64,091
2 Asset-Backed securities	1,298	1,403	1,541	1,592
3 Asset-Backed securities	23,868	19,010	25,550	19,010
<b>Total financial investments</b>	<b>607,392</b>	<b>648,606</b>	685,575	742,782

The value of listed investments as at 31 December 2023 is £607.4 million (2022: £685.6 million).

**18. Creditors**

	2023	2022
	£'000	£'000
Arising out of reinsurance operations - including amounts owed to group undertakings	162,304	169,359
Other amounts owed to group undertakings	9,550	8,929
Other creditors including taxation and social security	103	139
<b>Total creditors</b>	<b>171,957</b>	178,427

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

**19. Accruals and deferred income**

	2023	2022
	£'000	£'000
Accrued expense	1,540	1,630
Reinsurance commission deferred	71,784	75,654
<b>Total accruals and deferred income</b>	<b>73,324</b>	77,284

**20. Other financial commitments and guarantees**

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

The Company has entered into a lease agreement in respect of the Company’s offices at 6 Bevis Marks. At the balance sheet date, the Company had the following future minimum lease payments under non-cancellable lease rentals in respect of this agreement:

	<b>2023</b>	2022
	<b>£’000</b>	£’000
Payments due:		
Not later than one year	<b>529</b>	529
Later than one year and not later than five years	<b>2,118</b>	2,118
Later than five years	<b>393</b>	923
<b>Total payments due</b>	<b>3,040</b>	3,570

**21. Risk management**

The Company has established a Risk Management Framework which seeks to ensure that risk is managed within the overall risk appetite and associated limits established by the Company’s Board. The Risk Management Framework seeks to identify, measure, 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, market risk, counterparty default risk, liquidity risk and operational risk. The identified key risks are captured within the Company’s risk register along with the internal controls and other actions designed to mitigate these risks to a level consistent with that set out within the Company’s Risk Appetite Framework. The key risks and compliance with limits and capital allocations are monitored via the use of key risk indicators prescribed under the Risk Appetite Framework. The Company’s ORSA, which forms an integral part of the Risk Management Framework, is the process by which management determines an appropriate level of capital to hold against the identified risks. The operation of the risk management framework is overseen by the Board Risk Oversight Committee.

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

**(a) Underwriting risk***Insurance risk*

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

*(i) Insurance risk – Approach to underwriting new business*

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



**21. Risk management (continued)***(ii) Insurance risk – Approach to insured portfolio monitoring*

To manage the insurance risk associated with the insured portfolio, the Company's surveillance personnel are responsible for monitoring and reporting on all risks. The primary objective of the surveillance process is to monitor trends and changes in transaction credit quality, detect any deterioration in credit quality, and recommend to management such remedial actions as may be necessary or appropriate. All risks in the insured portfolio are assigned internal credit ratings, and surveillance personnel are responsible for recommending adjustments to those ratings to reflect changes in transaction credit quality. Surveillance personnel are also responsible for managing work-out and loss situations when necessary.

The Company segregates its insured portfolio into investment grade 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 of each exposure. BIG exposures include all exposures with internal credit ratings below BBB-. The Company's internal credit ratings are based on internal assessments of the likelihood of a default and loss severity in the event of a default. Internal credit ratings are expressed on a ratings scale similar to that used by the rating agencies and generally are reflective of an approach similar to that employed by the rating agencies.

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

***(b) Market risk****(i) Market risk*

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

The Company's investments, other than those purchased for loss mitigation purposes, are managed by a third-party investment manager and governed through an investment management agreement and guidelines. The investment guidelines are established by the Company with the key objectives of maximising after-tax book income within the Company's stated appetite for market risk, whilst also preserving the highest possible ratings for the Company and maintaining sufficient liquidity to cover unexpected stress in the insurance portfolio. The guidelines include specific restrictions which limit risk arising from duration, currency, liquidity and counterparty credit risks. The investment manager is required to regularly confirm its compliance with these limits.

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.

*(ii) Interest rate risk*

Interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk. The average duration of the investment portfolio is restricted by the investment guidelines to within a prescribed range of the selected benchmark portfolio. The Company monitors interest rate risk on a quarterly basis by calculating the mean duration of the investment portfolio. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates.

The sensitivity analysis for interest rate risk set out below illustrates the financial impact to the Company of changes in market interest rates at the reporting date. An increase or decrease of 300 basis points in interest yields would result in the following:

**21. Risk management (continued)**

£'000	300 Basis Point			
	Increase		Decrease	
	2023	2022	2023	2022
(Loss) / profit before tax	(39,731)	(52,538)	44,377	59,777
(Decrease) / increase in equity	(29,798)	(42,556)	33,283	48,419

*(iii) Currency risk*

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

At 31 December 2023, if the pound had weakened/strengthened by 20% against the Euro and US Dollar with all other variables held constant, profit for the year would have been £15.7 million (2022: £26.4 million) higher/lower respectively. Shareholder's equity would have been £12.7 million (2022: £21.3 million) higher/lower, respectively.

*(c) Counterparty default risk*

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

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

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

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

Counterparty default risk (including spread risk) in respect of financial investments is managed by the use of detailed investment guidelines which place limits and restrictions on the size of holdings with individual issuers and also include minimum credit quality levels and duration requirements for both individual securities and the overall portfolio. The average credit quality of the Company's investment portfolio as at 31 December 2023 was AA- (2022: AA-), with an average duration of 2.36 years (2022: 2.78 years), excluding short term deposits and securities held for loss mitigation purposes.

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

**21. Risk management (continued)**

	AAA £'000	AA £'000	A £'000	BBB £'000	> BBB or not rated £'000	Total £'000
<b>2023</b>						
Investments	237,181	103,285	133,616	109,442	23,868	607,392
Cash at bank	—	8,658	294	—	—	8,952
Debtors arising out of direct insurance operations	100	15,617	45,340	178,447	33,143	272,647
Debtors arising out of reinsurance operations	—	42,896	—	—	—	42,896
<b>2022</b>						
Investments	275,144	138,866	110,501	135,514	25,550	685,575
Cash at bank	—	8,224	293	—	—	8,517
Debtors arising out of direct insurance operations	146	17,429	86,664	223,088	35,730	363,057
Debtors arising out of reinsurance operations	—	44,671	—	—	—	44,671

**(d) Liquidity risk**

Liquidity risk is the risk that cash may not be available at a reasonable cost to pay obligations as they fall due. The Company has established an overall liquidity risk appetite and liquidity risk management framework to appropriately manage its exposure to liquidity risk. This includes maintaining an appropriate “liquidity buffer” which comprises short-term deposits and financial investment 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’s exposure to liquidity risk is also significantly mitigated by the terms of its reinsurance contracts with Assured Guaranty Group companies, under which the reinsurers are required to pay the Company within the earlier of five business days of receipt of a claim or the day on which AGUK is required to make a claim payment to a policyholder. Similarly, in the event of a funding requirement under the Net Worth Maintenance Agreement; the Company’s parent company is required to contribute the required funding within three business days of receipt of notice.

The following table analyses financial assets and liabilities by maturity date:

	< 1 year or no contracted maturity	1 to 4 years	5 to 10 years	10 + years	Total
<b>2023</b>					
<b>Assets (£'000)</b>					
Investments	106,667	435,516	62,159	3,050	607,392
Cash at bank	8,952	—	—	—	8,952
Debtors arising out of direct insurance operations	55,415	67,616	63,396	86,220	272,647
Debtors arising out of reinsurance operations	7,972	12,287	12,292	10,345	42,896
	<b>179,006</b>	<b>515,419</b>	<b>137,847</b>	<b>99,615</b>	<b>931,887</b>
<b>Liabilities (£'000)</b>					
Creditors arising out of reinsurance operations	44,013	41,682	41,755	34,854	162,304

**21. Risk management (continued)**

2022

Assets (£'000)

Investments	96,490	487,252	73,109	28,724	685,575
Cash at bank	8,517	—	—	—	8,517
Debtors arising out of direct insurance operations	65,201	102,947	89,477	105,432	363,057
Debtors arising out of reinsurance operations	7,793	12,159	12,648	12,071	44,671
	<b>178,001</b>	<b>602,358</b>	<b>175,234</b>	<b>146,227</b>	<b>1,101,820</b>
Liabilities (£'000)					
Creditors arising out of reinsurance operations	<b>44,919</b>	<b>41,015</b>	<b>42,787</b>	<b>40,638</b>	<b>169,359</b>

**(e) Operational risk**

Operational risk is defined as the risk of loss or other adverse consequences on business outcomes resulting from inadequate or failed internal processes, personnel or systems, or from external events. Operational risk is seen as a business-wide risk that could arise from either underwriting, investing, risk mitigation or any other activity the Company undertakes. Consequently, operational risk is inherent in all the Company's processes, interactions with third parties and other activities. The Company has limited appetite for operational risk and expects that the Company's business functions work actively to avoid operational risk to the extent it is commercially appropriate.

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

As at 31 December 2023, the Company had 259 risks (2022: 263) 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.

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

**Capital management**

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:

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

The Company assesses its capital position against both regulatory capital requirements and an internally developed economic capital requirement. For determining its economic capital requirement, the Company utilises an in-house capital model. The model is designed to measure the Company's underwriting 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 Solvency II Standard Formula.

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

## 21. Risk management (continued)

The Company's capital management policy establishes a target range for both regulatory and economic solvency which is determined with reference to the Company's established capital risk appetite. The Company seeks to manage its current and forecasted levels of capital against this range to meet its capital management objectives, including remaining compliant with both its regulatory and internal economic capital requirements. The Company regularly assesses the appropriateness of its capital position under the ORSA, which incorporates regular use of stress and scenario testing.

### *Other risks*

#### *Climate change*

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

#### *(i) Surveillance of Existing Exposures*

The potential impacts of climate change on the Company's insured portfolio have been incorporated into our surveillance monitoring 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, 259 (263 as at 31 December 2022), means that consideration can be given to the impact of climate on individual insured risks.

#### *(ii) Underwriting Guidelines and Credit approval for New Exposures*

The financial impacts of climate change have also been incorporated into the underwriting and credit approval processes. Underwriting submissions are required to include environmental and/or transitional risk factors as part of the underwriting analysis, including vulnerability of obligors to future climate changes, extreme weather events, and other physical risks. To improve the Company's understanding of these climate change risks and to better evaluate the related financial risks, AGL's Risk Management group recently recruited a risk analyst with climate science expertise who is available to the Company.

#### *(iii) ORSA*

The ORSA process is integral to the Company's risk management framework. Through the ORSA process, AGUK uses scenario analysis and stress testing to inform the risk identification process and understand the short- and long-term financial risks to the Company's business model from climate change.

#### *(iv) Investments*

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 (2.36 years as at 31 December 2023). Nonetheless, the risks arising from climate change are relevant in the evaluation by AGUK and its investment managers of the creditworthiness of specific issuers and industries. Our portfolio manager relies on their ESG corporate philosophy statements and uses ESG information, when conducting research and due diligence on new investments and in managing the portfolio. AGUK has prohibited its investment manager from making any new investments in thermal coal enterprises, specifically; (i) thermal coal enterprises that generate 30% or more of their revenue from either the ownership, exploration, mining, or refining of thermal coal, and (ii) corporate and municipally owned utilities that generate 30% or more of their electricity from thermal coal.

## 22. Called up share capital

	2023	2022
	£'000	£'000
<b>Authorised</b>		
500,000,000 (2022: 500,000,000) ordinary shares of £1 each	<b>500,000</b>	500,000
<b>Allotted and fully paid</b>		
55,000,003 (2022: 55,000,003) ordinary shares of £1 each	<b>55,000</b>	55,000

**23. Technical provisions**
**(i) Unearned premiums and deferred reinsurance commissions**

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

	Gross		Reinsurers' share	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Unearned premium provision:				
At 1 January	454,644	490,819	255,908	267,118
Movement in provision (excluding policy novations)	(7,803)	(17,261)	(9,752)	(12,592)
Policy novations to AGM	(87,291)	(21,174)	(1,950)	(807)
Foreign exchange movements	(816)	2,260	(824)	2,189
<b>At 31 December</b>	<b>358,734</b>	<b>454,644</b>	<b>243,382</b>	<b>255,908</b>
			<b>2023</b>	2022
			<b>£'000</b>	£'000
Deferred reinsurance commission:				
At 1 January			75,654	79,202
Movement in provision (excluding policy novations)			(2,941)	(3,960)
Policy novations to AGM			(675)	(275)
Foreign exchange movements			(254)	687
<b>At 31 December</b>			<b>71,784</b>	<b>75,654</b>

**(ii) Claims development tables**

The development of the Company's claims estimates is reported within the table below. All balances relate to claims from underwriting years greater than 10 years in the past. Therefore the table below sets out the ultimate claims by financial year for the prior 10 years.

	Gross £'000	Reinsurer's share £'000
<b>Estimate of ultimate claim cost as at 31 December:</b>		
2014	70,621	63,559
2015	84,016	75,614
2016	78,704	70,834
2017	57,289	51,560
2018	66,930	60,237
2019	65,673	59,106
2020	63,903	57,513
2021	64,963	58,467
2022	71,476	64,328
2023	70,784	63,706
<b>Cumulative claims payments to date</b>	<b>38,074</b>	<b>34,267</b>
<b>Claims outstanding</b>	<b>32,710</b>	<b>29,439</b>

**23. Technical provisions (continued)**
**Claims outstanding**

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

	<b>Gross</b>		<b>Reinsurers' share</b>	
	<b>2023</b>	2022	<b>2023</b>	2022
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
At 1 January	<b>35,169</b>	29,363	<b>31,652</b>	26,427
Increase in provision	<b>1,228</b>	3,917	<b>1,105</b>	3,581
Paid claims	<b>(1,918)</b>	(1,678)	<b>(1,726)</b>	(1,566)
Foreign exchange movements	<b>(1,769)</b>	3,567	<b>(1,592)</b>	3,210
<b>At 31 December</b>	<b>32,710</b>	35,169	<b>29,439</b>	31,652

**(iii) Discounted claims**

Claims outstanding have been discounted at a rate of 1.83% (2022: 1.56%) and the mean term of the liabilities is 1.5 years (2022: 2 years). These claims relate to a single class of business. The period that will elapse before claims are settled is determined by the contractual date. The claims outstanding provisions before discounting are as follows:

	<b>2023</b>	2022
	<b>£'000</b>	£'000
Claims outstanding before discounting	<b>33,436</b>	36,156
Reinsurer's share of claims outstanding before discounting	<b>(30,093)</b>	(32,541)
<b>Claims outstanding before discounting net of reinsurance</b>	<b>3,343</b>	3,615

The amortisation of claims discounting, which is reported within claims incurred, was £0.05 million (2022: £0.05 million). The investment return on the assets supporting the liabilities being discounted was £0.06 million (2022: £0.06 million).

**(iv) Unexpired risks provision**

A reconciliation of the opening and closing unexpired risks provision included within other technical provisions is presented in the table below:

	<b>Gross</b>		<b>Reinsurers' share</b>	
	<b>2023</b>	2022	<b>2023</b>	2022
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
At 1 January	<b>3,459</b>	2,546	<b>292</b>	472
Movement in provision	<b>3,569</b>	894	—	(198)
Foreign exchange movements	<b>(341)</b>	19	<b>(197)</b>	18
<b>At 31 December</b>	<b>6,687</b>	3,459	<b>95</b>	292

The future investment return assumed in calculating the unexpired risks provision is 1.83% (2022: 1.56%).

**24. Deferred acquisition costs**

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

	<b>2023</b>	2022
	<b>£'000</b>	£'000
At 1 January	<b>20,087</b>	21,799
Deferred in the year	<b>1,674</b>	844
Amortisation	<b>(2,035)</b>	(2,015)
Accelerated amortisation due to policy novations to AGM	<b>(3,175)</b>	(541)
<b>At 31 December</b>	<b>16,551</b>	20,087

**25. Other technical income**

	<b>2023</b>	2022
	<b>£'000</b>	£'000
Surveillance fees received	<b>288</b>	323
Gain on policy novations to AGM	<b>5,495</b>	2,152
	<b>5,783</b>	2,475

**26. Other income**

	<b>2023</b>	2022
	<b>£'000</b>	£'000
Foreign exchange (losses)/gains	<b>(6,860)</b>	13,939

**27. Ultimate and immediate parent company**

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

AGL is the parent undertaking of the largest group of undertakings to consolidate these financial statements for the year ended 31 December 2023. The consolidated financial statements of AGL can be obtained from their registered office at 30 Woodbourne Avenue, Hamilton HM 08, Bermuda or on the ultimate parent's website [www.assuredguaranty.com](http://www.assuredguaranty.com).

AGM is the parent undertaking of the smallest group of undertakings to consolidate these financial statements. The consolidated financial statements of AGM can be obtained from their registered office at 1633 Broadway, New York, NY 10019, United States of America or on the ultimate parent's website [www.assuredguaranty.com](http://www.assuredguaranty.com).