Assured Guaranty UK Limited (formerly Assured Guaranty (Europe) plc)

Registered Number: 2510099

Annual report and financial statements

For the year ended 31 December 2021

ASSURED GUARANTY®

Assured Guaranty UK Limited (formerly Assured Guaranty (Europe) plc)
Registered in England No. 2510099

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Company information

Directors

Robert Bailenson
Mark Batten
Dominic Frederico
Samantha Hoe-Richardson
Dominic Nathan
Richard Nicholas (appointed 26th March 2021)
Nicholas Proud
Penelope Shaw
David Todd

Company secretary

Joanne Merrick (appointed 31st March 2021)
Sandali Harvey

Registered office

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Independent auditors

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Strategic report for the year ended 31 December 2021

The directors present their strategic report for the year ended 31 December 2021.

Principal activities

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

The Company is authorised by the PRA, and regulated by both the PRA and the FCA, and is authorised to effect and carry out three classes of general insurance 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 guarantees 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").

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

Brexit and the Part VII Transfer

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

To ensure that its existing EEA polices could continue to be administered after the end of the transition period for the UK's departure from the EU, the Company transferred certain of its existing EEA polices to AGE SA under Part VII of the Financial Services and Markets Act 2000 and French insurance portfolio transfer procedures ("the Part VII Transfer"). The Part VII Transfer was approved by the UK High Court with an effective date of 1 October 2020, with the rights and obligations of the policies, related reinsurance protections and ancillary contracts transferring to AGE SA on that date. The year ended 31 December 2021 is the Company's first full financial year following completion of the Part VII Transfer.

COVID-19 pandemic

The COVID-19 pandemic has had profound societal and economic impacts globally. The development and distribution of vaccines has reduced the level of COVID-19 infections, hospitalisations and deaths, while also reducing levels of transmission. In turn, this has supported the gradual release of restrictions imposed to limit transmission, resulting in significant progress towards the full reopening of economies. Despite this, there remains a great deal of uncertainty over the path of the pandemic given the potential for future variants and consequently all of the direct and indirect consequences of COVID-19 on the Company are not yet fully known and still may not emerge for some time.

The Company continued to operate on a fully remote basis for much of 2021. From September 2021 the Company returned to the office on a hybrid working basis, where employees spend some of the working week working from the office, and some days working from home. Further periods of remote working were undertaken, as necessitated by government recommendations and restrictions. There was no significant impact on day-to-day operations of working on a fully remote or hybrid basis, with appropriate changes to key processes and internal controls to ensure their continued effective operation having been introduced following the onset of the pandemic in 2020. The Company will continue to take measures to appropriately support and minimize risks to its employees, including the use of travel restrictions and remote working as required.

During the year the Board has continued to regularly review the impact of COVID-19 on the Company. The Company's surveillance department has continued to conduct supplemental periodic surveillance procedures to monitor the impact of COVID-19 and governmental and private responses to COVID-19. While insured transactions in certain demand-based sectors have experienced significant strain due to the unprecedented slowdown in economic activity, their credit quality is supported by the resilient nature of the underlying transaction business model, debt service coverage and strong liquidity. The level of required surveillance activity reduced across 2021 as many government restrictions were lifted and levels of activity for demand based transactions began to increase toward pre-pandemic levels, a trend which has continued in 2022. To date the Company has not incurred any claims related to the pandemic impacts, and currently does not expect to do so.

We continue to make use of stress and scenario testing to assess potential impacts on the insured portfolio. Stress scenarios take into account the potential impacts of future variants and the imposition of lockdowns and other restrictions and related economic effects. The Company does not expect to incur significant losses under such scenarios.

Against the unprecedented financial and economic impacts of COVID-19, we believe the results of the Company for the year, which are described within the business review section below, demonstrate the resilience of our insured portfolio and the confidence investors have in the Company's guarantee during times of uncertainty.

Business Review
Financial position and performance of the Company

The Company generated a loss on ordinary activities before tax of £1.8 million (2020: profit of £18.5 million) due to unrealised losses on the investment holdings, as further described below. The Board monitors the performance and position of the Company by reference to, among other measures, the following KPIs:

	2021	2020
Number of new transactions	**9**	5
	£'000	£'000
Present value of new business production (PVP)[1]	**9,742**	9,249
Earned premiums, net of reinsurance	**17,227**	17,133
Claims incurred, net of reinsurance	**(138)**	75
Change in other technical provisions, net of reinsurance	**3,591**	(1,495)
Net operating expenses	**(13,501)**	(10,692)
Underwriting result	**9,554**	(4,666)
Investment return	**(12,048)**	25,249
Profit before tax	**(1,819)**	18,497
Net insured par value of obligations ("par") outstanding	**7,427,789**	8,067,227
Regulatory solvency cover ratio[2]	**210%**	181%

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

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

The Company underwrote business across the year in a number of public finance sectors, including student accommodation, regulated utilities, local authority, transportation and healthcare. It also underwrote its first structured finance transaction since the financial crisis. A total of 9 transactions were closed (2020: 5 transactions), generating PVP and gross written premiums of £9.7 million (2020: £9.2 million) and £11.4 million (2020: £9.8 million) respectively. PVP included several transactions that were restructured or modified during the year which generated additional PVP but no additional insured exposure.

Gross written premiums increased from negative £99.0 million last year to positive £11.7 million for the year ended 31 December 2021. The increase is due to growth in new business premiums and the impacts of the Part VII Transfer on the 2020 income statement. Prior year new business premiums were offset by negative gross written premiums of £108.8 million primarily relating to the Part VII Transfer. The Part VII Transfer was treated as a policy cancellation for accounting purposes, with the reduction in future premiums recorded as negative written premiums.

The overall underwriting result for the year was a profit of £9.6 million compared to a loss of £4.7 million in 2020. During the year, the Company recognised a £2.0 million gain on the commutation of certain reinsurance cessions to AGM following the restructuring of the underlying insured transaction. The underwriting result also benefited from favourable development of £3.6 million on the unexpired risks provision in respect of one of the Company's below investment grade ("BIG") risks. The 2020 underwriting result was impacted by a £10.1 million loss recorded on the recognition of the Part VII Transfer. The loss was due to the additional premium paid to AGE SA to assume policies in respect of certain underperforming transactions. Excluding the loss recognised on the Part VII Transfer the 2020 underwriting result was a profit of £5.4 million.

Net operating expenses increased from 2020 primarily due to a decrease in reinsurance commissions income as a result of the Part VII Transfer, partially offset by a reduction in administration expenses, due in part to the Part VII Transfer and a reduction in other professional fees.

As noted above, the Company has not incurred any claims to date related to the impact of the COVID-19 pandemic and the overall credit quality of the insured portfolio has also not been significantly impacted. The proportion of BIG risks increased marginally from 2.0% of gross par outstanding ("GPO") at 31 December 2020 to 2.4%, although the increase was not related to COVID-19 impacts. There were no new claims incurred during the year and limited net development of £61,000 on existing claims. As noted above, there was a £3.6 million reduction in 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 rising yield environment during 2021, the Company suffered unrealised losses on its investment portfolio, reducing total investment return to a loss of £12.0 million for the year (2020: income of £25.2 million). Given that investments are typically held to maturity, the Company's preferred measure of investment return is yield-to-maturity, which was 1.49% (2020: 1.68%), including securities held for loss mitigation purposes.

The overall duration of the investment portfolio at 31 December 2021 was 3.40 years (2020: 2.95 years) and the average credit quality was AA- (2020: AA-), excluding short term deposits and securities held for loss mitigation purposes. The market value of the investment portfolio at 31 December 2021 was £723.0 million (2020: £730.3 million). The reduction in overall market value was due to unrealised losses.

The Company remains in a strong financial position with a regulatory solvency cover ratio of 210% (2020: 181%). The solvency surplus increased during 2021 due to: (i) a decrease in the Solvency Capital Requirement ("SCR"), primarily due to a reduction in premium and catastrophe risk from the run-off of the insured portfolio; and (ii) an increase in basic own funds, primarily due to a reduction in risk margin as a result of the lower SCR.

Ratings

The obligations insured by the Company are generally awarded ratings on the basis of the financial strength ratings given to the Company by major securities rating agencies. As at 31 March 2022, 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: A1 / Stable Outlook

KBRA: AA+ / Stable Outlook

These ratings are subject to continuous review. S&P, Moody's and KBRA have all reaffirmed the financial strength ratings of AGM and the Company within the last 12 months. Most recently, on 18 March 2022, Moody's issued a credit rating report in which it upgraded AGM's and the Company's financial strength rating from "A2" (stable outlook) to "A1" (stable outlook). On 15 November 2021, S&P issued a credit rating report in which it affirmed AGM's and the Company's financial strength rating of "AA" (stable outlook) and on 20 October 2021, KBRA affirmed its financial strength rating of "AA+" (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.

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 essential infrastructure market, including the student accommodation, social housing, healthcare and transportation sectors. The Company is targeting growth in new business volumes and will look to further develop its offering in structured finance markets following the underwriting this year of the Company's first structured finance transaction since 2007, as well as evaluating opportunities in new sectors.

Assured Guaranty Ltd. ("AGL" and, together with its consolidated entities, the "Assured Guaranty Group") has demonstrated a strong track record in adding value to the financing of renewable energy projects and the Company continues to explore new business opportunities in this sector as the deployment of renewable energy and other technologies accelerates in response to climate change initiatives.

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, including an assessment of the risks posed to the Company by the COVID-19 pandemic as at 31 December 2021 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 2021 to the date of this report.

Russia and Ukraine

The Company's insured portfolio does not have any direct exposure to Russia or Ukraine and none of the insured risks are reliant on assets or revenues from these countries. The Company's investment portfolio also does not have any direct exposure to Russia or Ukraine. Our approach to assessing the risk associated with the situation in Ukraine is therefore focused on understanding the broader macroeconomic implications of the conflict and related governmental sanctions on the insured portfolio. As the situation is fast moving, it is being closely monitored by management and our risk assessment will be kept under regular review.

Climate change and sustainability

We recognize 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 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. 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). 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.

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 appropriate embedding of the 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, 269 (266 as at 31 December 2020), 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 - and are required to be assessed within the underwriting analysis, including physical risk (e.g. catastrophic weather events) and/or transitional risk.

(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.

(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 (3.40 years as at 31 December 2021). 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.

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.

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. The Company has adapted well operationally to ensure periods of remote working during the COVID-19 pandemic have not significantly impacted this engagement. Communications and service levels provided to policyholders have also been unaffected.

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.

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
The Company does not have any direct employees but regards its workforce to be the employees of Assured Guaranty (UK) Services Limited ("AGUKS"), which makes the services of its employees available to the Company. The Company's long-term success is dependent on the commitment of its workforce and their demonstration of the Company's values on a daily basis. As part 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.

The Board oversaw the return of employees to the office during the year following the end of full remote working, including oversight of appropriate safety measures and the issue of an employee survey to prepare for the return to work. The Board continues to oversee the measures taken to appropriately support and minimize risks to its employees in the current environment, including the use of travel restrictions and the continuation of hybrid working or fully remote working, if needed.

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 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.

The Assured Guaranty Group has implemented a 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). The D&I policy 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) During the year bias awareness training was provided for all employees on how to identify and interrupt unconscious bias and the role each employee can play to promote diversity, equity 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 were added to the recruiting practices in order to deliberately reach and attract a diverse and qualified applicant pool.
(iv) An employee-led Diversity and Inclusion Committee has been created and has played a key role in recommending strategies and initiatives to achieve its 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.

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 (www.assuredguaranty.com/images/uploads/AGUK_Statement_under_the_Modern_Slavery_Act_2015.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, 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.

Strategic report for the year ended 31 December 2021 (continued)

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). 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. Donations are made directly to many worthy causes, and employee charitable contributions are matched. Philanthropic initiatives are undertaken throughout the year and events are sponsored to enable our employees to participate in fund-raising and community outreach activities.

Approved by the Board of Directors on 1 April 2022 and signed on its behalf by:

R Nicholas

Richard Nicholas
Chief Financial Officer
1 April 2022

Directors' report for the year ended 31 December 2021

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2021.

Future developments

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

Dividends

The directors do not recommend the payment of a dividend (2020: £97.6 million).

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 (appointed 26th March 2021)
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.

Post balance sheet events

In February 2022, a military conflict arose in Ukraine. As described further within the Strategic report, the Company does not have any direct exposure to Russia or Ukraine.

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 prepared 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.

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

The directors are responsible for the maintenance and integrity of the Company's financial statements published 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 2021 and 2020:

Onsite energy used:	**2021**	2020	Change
Gas – kWh	**53,999**	55,123	(2.0)%
Electricity – kWh	**105,512**	107,426	(1.8)%
Transport energy used	**—**	—	— %
Emissions from energy use - CO2 equivalent (kg)	**43,523**	44,344	(1.9)%
Intensity metric - tonnes of C02 per employee	**1.66**	1.69	(1.9)%

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 2021 the building implemented the following initiatives:

- installed smart meters on the chillers, to reduce energy consumption,
- installed LED lights in the lifts, and
- made several changes to plant operation hours to align with individual floor operation hours

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.

Directors' report for the year ended 31 December 2021 (continued)

Statement of disclosure of information to auditors
Each of the persons who is a director at the date of this report confirms that:

1) so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2021 of which the auditors are unaware; and
2) they have taken all steps that they ought to have taken in their duties 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
Following a competitive tender process completed in accordance with the requirements of Statutory Auditors and Third Country Auditors Regulations 2016, the Company decided to appoint Deloitte LLP ("Deloitte") as the Company's statutory auditor. PricewaterhouseCoopers LLP resigned as auditor in May 2021 following the signing of the Company's annual report and financial statements for the year ended 31 December 2020, and the Company's member accordingly appointed Deloitte.

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 1 April 2022 and signed for on its behalf by:

R Nicholas

Richard Nicholas
Chief Financial Officer
1 April 2022

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 Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss 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 28.

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

Key audit matters	The key audit matters that we identified in the current year were: • Valuation and completeness of claims outstanding and the unexpired risk provision ("URP"); • Level 3 investment valuation – asset-backed securities; and • Revenue recognition – Instalment Income.
Materiality	The materiality that we used in the current year was £7.0m which was determined on the basis of net assets.
Scoping	All audit work for the Company was performed by, or under the supervision of, one engagement team using the statutory materiality.
Significant changes in our approach	This is a first-year audit for Deloitte. In the current year we have identified additional key audit matters in relation to revenue – earning of instalment income, and level 3 investments – asset-asset backed securities. Both are reported as critical accounting judgements within the financial statements. Covid-19 is not considered as a key audit matter in the current year given the results of the business through 2020 and 2021, and no increase in defaulting insured obligations over this period.

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:

- Evaluated future profit forecasts, management's method in producing these, and the consistency with current year results;
- Evaluated capital and solvency future projections and assessed the reasonableness of management's assumptions, including those related to the recoverability of reinsurance assets;
- Assessed management's sensitivity analysis of key assumptions underpinning liquidity;
- Evaluated management analysis for possible future developments of Covid- 19 including further stress scenarios on the insured portfolio; and
- Evaluated consistency of the disclosures in the directors' report and as presented in note 2 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 those 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 risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters 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. Valuation and completeness of claims outstanding and the unexpired risk provision ("URP")

Key audit matter description	The economic environment may impact on the ability of certain guaranteed financial instruments to continue to make required interest or 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 2021 were £29.4m (2020: £28.4m). Alternatively, a URP is recognised when the estimated value of future claims and expenses 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 2021 was £2.5m (2020: £6.4m) made up of three (2020: three) credits. Due to the nature of the credits, there is inherent judgement applied in estimating the valuation of the total liability that may arise from losses on specific insured obligations. The estimation process requires the application of assumptions and other judgements driven by management's experience, and internal and external data sources including with regard to the frequency, severity of loss, economic projections, governmental actions, climate, negotiations and other factors which can affect credit performance. The estimates, assumptions and judgements may change materially over a year and therefore the Company's estimates of the expected loss may change materially over that period. Management use an internal credit rating model to assign ratings to each transaction in the portfolio. The ratings reflect the company's view of the transaction credit quality, taking into account 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. Due to the possibility of manipulation of models in the estimation process and internal ratings, we identify a fraud risk associated with this key audit matter. Refer to Note 4 (Critical accounting judgements and estimation uncertainties) and Note 23 (Technical provisions) of the financial statements.

How the scope of our audit responded to the key audit matter	We obtained an understanding of the end-to-end surveillance and technical provision setting processes including the relevant controls over the data, assumptions and models (internal credit rating and valuation) used in the setting of the claims outstanding and URP. We have worked with our credit specialists to assess and challenge the appropriateness of the methodology and assumptions used in setting the claims outstanding and URP. This included: • Assessing the methodology used by management in determining the 'Below Investment Grade' (BIG) credits as well as the reserving considerations for these credits; • Evaluating the reasonableness of management's significant assumptions (probability of default and loss given default) including a comparison to market information where applicable and other internal information in determining the case reserves and the calculation of the URP; • Evaluating the reasonableness of the loss scenarios used by management; • Evaluating the mathematical accuracy of credit models; and • Reviewing correspondence between counterparties. In addition, we performed the following audit procedures: • We tested a sample of investment grade credits by agreeing the assigned internal credit rating to an independent third-party rating agency, thereby assessing that in line with AGUK's accounting policy no reserve is required; • We tested a sample of BIG credits to assess if a provision for losses is recognised in line with AGUK's accounting policy; • We made enquiries of the AGUK surveillance team and inspected minutes of the reserving committee; and • We assessed financial statement disclosures for completeness and accuracy as a key area of estimation uncertainty.
Key observations	Based on our procedures performed we are satisfied the completeness and valuation of the claims outstanding, and URP recorded as of 31 December 2021 is reasonable.

5.2 Level 3 investment valuation – asset-backed securities

Key audit matter description	AGUK holds a single Level 3 financial asset, being asset-backed securities guaranteed by AGUK for loss mitigation purposes. The asset value as at 31 December 2021 is £24.5m (2020: £24.2m). Management engages a third-party valuation expert to price the level 3 investment on a quarterly basis. The valuation uses a discounted cash flow model with input data being life insurance cash flows from the underlying assets and recent trading

	activity. The key assumption applied is the yield, which is determined as 4.96% at year-end. Given the critical judgements applied to the discounted cash flow model we consider this as a key audit matter. Refer to Note 4 (Critical accounting judgements and estimation uncertainties) and to Note 17 (Financial Investments) of the financial statements.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the level 3 investment valuation process including the relevant controls. In addition, we performed the following audit procedures: • We involved our valuation specialists to assess the methodology applied by management's third-party expert and evaluate the yield rate used; • We assessed the reasonableness of bond cash flows, agreeing inputs to supporting documentation; and • We assessed the competence, capabilities and objectivity of management's third-party expert.
Key observations	Based on our procedures performed we are satisfied the valuation of level 3 asset-backed securities to be reasonable.

5.3 Revenue recognition – Instalment Income

Key audit matter description	AGUK writes insurance contracts which are bespoke and complex in nature. Gross written premium at contract inception is determined as follows: • Premium received upfront is booked equal to the level of the cash received; or • Premium received in instalments is booked equal to the value of expected receipts over the life of the contract. Instalment premiums on certain contracts are dependent on an inflation assumption for future periods which is inherently uncertain. Current economic conditions add further uncertainty than in prior periods. Furthermore, contract terms may change over time,, either as amendments to the original agreement or due to other unforeseen circumstances. Therefore, there is a risk that the recognition of written premium in relation to contracts with instalments is inaccurate.
How the scope of our audit responded to the key audit matter	We obtained an understanding of management's end to end process for recording written premiums including relevant controls. We performed the following audit procedures:

	• Tested a sample of new contracts written and premium recognised in the year by:
	  o agreeing management's revenue recognition model inputs (premium written, earnings profile, close date, par at inception) to underlying contract documentation for accuracy;
	  o reviewing the model for mechanical accuracy;
	  o assessing key assumptions – inflation and discount rates; and
	  o recalculating earning patterns for accuracy and agreement of attributes to supporting documentation.
	• Tested a sample of existing contracts for changes in the revenue recognition model (update of terms, terminations, other payment assumptions), and the impact on revenue recognition in the year;
	• Assessed and challenged management on mid-term adjustments including the inflation rate assumption and subsequent changes in expected premium collections;
	• Recalculated a sample of the year end unearned premium reserve.

Key observations	Our testing of premiums recognised including instalment income for 2021 did not identify any issues. We concluded the premium earning patterns applied to instalment income used in the recognition of revenue are reasonable.

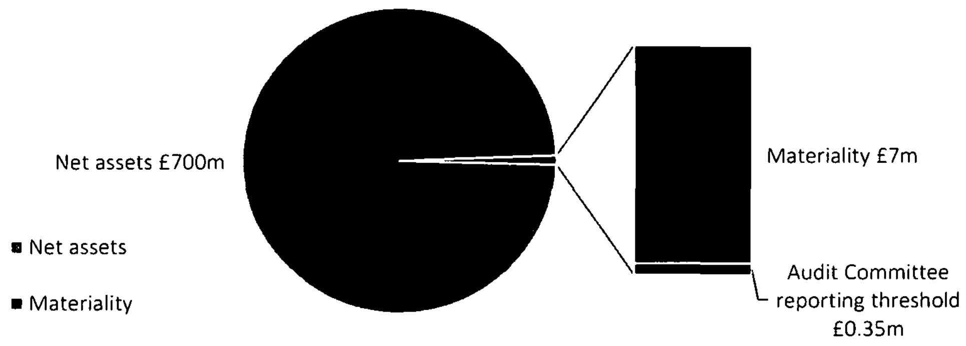
6. Our application of materiality

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:

Materiality	£7.0 million
Basis for determining materiality	1% of net assets
Rationale for the benchmark applied	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 60% of materiality for the 2021 audit (2020: 75%). In determining performance materiality, we considered the following factors:

a. The fact that this is the first year we have audited the Company;
b. Our understanding of the entity and its control environment and operations; and
c. Our review of the predecessor auditor's work.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.35m 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 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 2021 audit we identified four systems that were material to AGUKs financial reporting processes. These systems handled data relating to premiums, including the earning patterns applied to instalment policies and we intended 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 IT controls associated with all four systems identified.

Business process and financial reporting controls

In our 2021 audit we identified the gross written premium (revenue) business cycle as being material to AGUKs financial reporting processes and we intended to rely on the business controls associated with this cycle. Having completed our testing over the operating effectiveness of business controls associated with gross written premium, we concluded that we were able to rely upon the business controls associated with this cycle.

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. 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;
- results of our enquiries of management, internal audit, directors and the audit committee about their own identification and assessment of the risks of irregularities;
- 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, and credit 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 following areas: Valuation and completeness of claims outstanding and the unexpired risk provision ("URP") and Revenue - Instalment incomeIn 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 Financial Conduct Authority ('FCA'), the Prudential Regulation Authority ('PRA') and the company's regulatory solvency requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified Valuation and completeness of claims outstanding and the unexpired risk provision ("URP") and Revenue - Earning of instalment income as key audit matters 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 the 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;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the FCA and PRA; 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 appointed by the Company's member on 21 May 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 1 year, covering the year ending 31 December 2021.

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

1 April 2022

Assured Guaranty UK Limited (formerly Assured Guaranty (Europe) plc)
Registered in England No. 2510099

Profit and loss account for the year ended 31 December 2021

	Note	**2021** **£'000**	2020 £'000
Technical Account – General Business			
Earned premiums, net of reinsurance			
Gross written premiums	*6*	**11,706**	(99,031)
Outward reinsurance premiums		**(3,931)**	73,506
Net written premiums		**7,775**	(25,525)
Change in the gross provision for unearned premiums		**30,111**	153,059
Change in the provision for unearned premiums, reinsurer's share		**(20,659)**	(110,401)
Net change in unearned premiums		**9,452**	42,658
Earned premiums, net of reinsurance		**17,227**	17,133
Other technical income / (expense)	*25*	**2,375**	(9,687)
Total technical income		**19,602**	7,446
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		**1,842**	841
Reinsurer's share		**(1,765)**	(786)
		77	55
Changes in the provision for claims			
Gross amount		**604**	(1,307)
Reinsurer's share		**(543)**	1,177
		61	(130)
Claims incurred, net of reinsurance		**138**	(75)
Changes in other technical provisions, net of reinsurance		**(3,591)**	1,495
Net operating expense	*7*	**13,501**	10,692
Total technical charges		**10,048**	12,112
Profit / (Loss) on the technical account for general business		**9,554**	(4,666)
Non-Technical Account			
Profit / (Loss) on the general business technical account		**9,554**	(4,666)
Investment income	*11*	**13,644**	17,438
Unrealised gains on investments	*11*	**2,035**	13,750
Investment expenses and charges	*11*	**(459)**	(651)
Unrealised losses on investments	*11*	**(27,268)**	(5,288)
Other charges	*26*	**675**	(2,086)
(Loss) / Profit on ordinary activities before tax	*12*	**(1,819)**	18,497
Tax credit / (charge) on (loss) / profit on ordinary activities	*13*	**509**	(255)
(Loss) / Profit for the financial year		**(1,310)**	18,242

The notes on pages 30 to 50 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 (formerly Assured Guaranty (Europe) plc)
Registered in England No. 2510099

Balance sheet as at 31 December 2021	*Note*	**2021**	2020
		£'000	£'000
Assets			
Investments			
Financial investments	*17*	**722,958**	730,347
Reinsurer's share of technical provisions			
Provision for unearned premiums	*23*	**267,118**	289,788
Claims outstanding	*23*	**26,427**	25,596
Other technical provisions	*23*	**472**	718
Debtors			
Debtors arising out of direct insurance operations	*16*	**387,155**	408,491
Other debtors	*16*	**46,867**	48,899
Other assets			
Tangible assets	*15*	**445**	525
Cash at bank and on hand	*3*	**4,318**	7,619
Deferred tax	*14*	**1,178**	692
Prepayments and accrued income			
Accrued interest		**5,698**	6,831
Deferred acquisition costs	*24*	**21,799**	23,187
Other prepayments and accrued income		**657**	1,029
Total assets		**1,485,092**	1,543,722
Liabilities and shareholder's funds			
Capital and reserves			
Called up share capital	*22*	**55,000**	55,000
Capital contribution		**385,865**	385,865
Other reserves		**122,625**	122,625
Profit and loss account		**136,859**	138,169
Total shareholder's funds		**700,349**	701,659
Technical provisions			
Provision for unearned premiums	*23*	**490,819**	522,877
Claims outstanding	*23*	**29,363**	28,440
Other technical provisions	*23*	**2,546**	6,384
Creditors			
Creditors arising out of reinsurance operations	*18*	**171,652**	180,819
Other creditors	*18*	**9,819**	16,132
Accruals and deferred income	*19*	**80,544**	87,411
Total liabilities and shareholder's funds		**1,485,092**	1,543,722

The notes on pages 30 to 50 form part of the financial statements.

The financial statements on pages 27 to 50 were approved by the Board of Directors and authorised for issue on 1 April 2022 and were signed on its behalf by:

Richard Nicholas
Chief Financial Officer

Assured Guaranty UK Limited (formerly Assured Guaranty (Europe) plc)

Registered in England No. 2510099

Statement of changes in equity for the year ended 31 December 2021

	Called up share capital	Capital contribution reserve	Other reserves	Profit and loss account	Total shareholder's funds
	£'000	£'000	£'000	£'000	£'000
Balance as at 1 January 2020	55,000	385,865	220,265	119,927	781,057
Dividend	—	—	(97,640)	—	(97,640)
Profit for the financial year	—	—	—	18,242	18,242
Balance as at 31 December 2020	55,000	385,865	122,625	138,169	701,659
Loss for the financial year	—	—	—	(1,310)	(1,310)
Balance as at 31 December 2021	**55,000**	**385,865**	**122,625**	**136,859**	**700,349**

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 2021

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 tail-risk 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 on page 6. 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.

3. Summary of significant accounting policies (continued)

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

(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 in set out in note 17. Gains or losses arising from changes in the fair value of financial investments are presented in the profit and loss non-technical account in the period in which they arise. 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.

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:

Tangible assets	Useful life
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 consists of on-demand bank deposits. Short term deposits of £10.5 million as at 31 December 2020 were included within Cash at bank and on hand in the prior year financial statements. Short term deposits consist of short term money market funds which do not meet the definition of Cash at bank and on hand. Accordingly, the 2020 comparatives have been restated to include these amounts within financial investments.

(p) 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.

(i) Written premiums
The amount of written premiums at contract inception is determined as follows:

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

For premiums received upfront on financial guarantee insurance contracts, written premiums are equal to the amount of cash received. 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.

Instalment premiums on certain insurance contracts are dependent upon the rate of inflation. The Company assumes a stable rate of inflation for future periods. However, if future inflation rates differ to that assumed by the Company then the estimated premium due to the Company will differ. When the Company adjusts premium payment assumptions or expected premium collections, an adjustment is recorded to the 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. 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.

(iii) Valuation of investments - Level 3 investments
Level 3 investments (as determined under the UK GAAP fair value hierarchy) are those investments which due to their illiquidity cannot be valued using market observable inputs and are instead valued using a valuation model and estimates/assumptions which are not observable from market activity for that asset or similar assets. Unobservable inputs reflect the assumptions the Company believes that market participants would use in pricing the asset or liability.

The Company held only one Level 3 investment for loss mitigation purposes at 31 December 2021. A valuation of these bonds is prepared each quarter by independent valuation specialists and reviewed by management. Additional information on the Company's valuation techniques for this Level 3 investment is included in note 17.

5. Part VII insurance portfolio transfer

During 2020 the Company transferred certain of its existing EEA polices to its affiliate, AGE SA under Part VII of the Financial Services and Markets Act 2000 and French insurance portfolio transfer procedures. The Part VII Transfer was approved by the UK High Court with an effective date of 1 October 2020. Under the terms of the transfer agreement with AGE SA the Company transferred:

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

The amount of cash consideration paid to AGE SA was determined based on the fair value of the insurance contracts and related reinsurance protections as at the transfer date. The Company recorded a loss of £10.1m within the income statement on recognition of the transfer due to the higher premium paid to AGE SA to assume policies in respect of certain underperforming transactions. The assets and liabilities transferred from the Company are shown at their book value at the date of transfer in the table below.

5. Part VII insurance portfolio transfer (continued)

Assets and liabilities transferred

	1 October 2020
	£'000
Reinsurance assets	75,720
Debtors, including insurance receivables	51,925
Cash at bank	24,877
Prepayments and accrued income	3,696
Insurance liabilities	(101,384)
Creditors, including reinsurance payables	(23,353)
Accruals and deferred income	(21,361)
Net assets transferred (see note 25)	10,120
Loss on Part VII Transfer recognised within Other technical (expenses) /income	10,120

The transfer of policies has been treated as a policy cancellation for accounting purposes, with the reduction in future premiums of £97.0 million recorded as negative gross written premiums (negative £25.6 million net).

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

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

	2021	2020
	£'000	£'000
– UK	**10,297**	(48,539)
– Europe, excluding UK	**1,395**	(46,497)
– Other	**14**	(3,995)
Total gross premiums written	**11,706**	(99,031)

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, during 2020 the Part VII Transfer was treated as a policy cancellation for accounting purposes, resulting in negative premiums of £97.0 million. The Company does not measure profit and loss on geographical segments.

(b) Gross claims incurred by location of risk

	2021	2020
	£'000	£'000
– Europe, excluding UK	**1,601**	438
– Other	**845**	(904)
Total gross claims incurred	**2,446**	(466)

7. Net operating expense

	2021 £'000	2020 £'000
Acquisition costs deferred	**726**	671
Amortisation of deferred acquisition costs	**(2,114)**	(2,320)
Administrative expenses	**(18,620)**	(19,056)
Reinsurance commissions earned	**6,507**	10,013
Net operating expense	**(13,501)**	(10,692)

8. Auditors' remuneration

	2021 £'000	2020 £'000
Fees payable to the Company's auditors for the audit of the Company's financial statements	**365**	517
Fees payable to the Company's auditors for other services:		
Audit related assurance services	**52**	50
Other non-audit services	**—**	42
Total auditors' remuneration	**417**	609

Auditors' remuneration is included within net operating expense.

9. Directors' emoluments

The Company did not have any employees during the year (2020: 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.

	2021 £'000	2020 £'000
Aggregate remuneration	**1,419**	1,431
Aggregate amounts (excluding share options) under long-term incentive plans of the ultimate parent company, AGL	**479**	627
	1,898	2,058

Share options

No directors (2020: one director) exercised share options in the parent Company's shares during the year.

Long-term incentive scheme

Five directors (2020: four directors) received shares (or had shares receivable) under a long-term incentive scheme. £0.48 million (2020: £0.63 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 (2020: two directors). The Company paid £0.02 million (2020: £0.03 million) to a money purchase pension scheme in respect of directors' qualifying services.

There are no other assets (2020: £nil) (other than money, shares and share options) received or receivable by directors in respect of their services to the Company.

9. Directors' emoluments (continued)

Highest paid director
The highest paid director's emoluments were as follows:

	2021 £'000	2020 £'000
Aggregate remuneration and benefits under long-term incentive schemes (excluding share options)	**895**	930
Company pension contributions to money purchase scheme	**—**	—
	895	930

The highest paid director did not exercise any share options in 2021 (2020: no shares exercised) and is accruing benefits under a long-term incentive scheme in 2021 and 2020.

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:

	2021 £'000	2020 £'000
Salaries and other short-term benefits	**1,618**	**1,391**
Post-employment benefits	**48**	**58**
Share-based payments	**420**	**300**
	2,086	**1,749**

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 £11.4 million (2020: £11.5 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

	2021 £'000	2020 £'000
Investment Income		
Interest income from investments	14,921	17,069
Net realised gains on investments	—	369
Unrealised gains on investments	2,035	13,750
	16,956	31,188
Investment expense and charges		
Investment management expenses	(459)	(651)
Net realised losses on investments	(1,277)	—
Unrealised losses on investments	(27,268)	(5,288)
Total investment return	**(12,048)**	25,249

12. Profit on ordinary activities before tax

	2021 £'000	2020 £'000
Profit on ordinary activities before tax is stated after (charging) / crediting:		
Operating lease charges	**(230)**	(262)
Depreciation on tangible fixed assets	**(87)**	(111)
Foreign exchange gain / (loss)	**675**	(2,086)

13. Tax on profit on ordinary activities

	2021 £'000	2020 £'000
UK corporation tax (charge) / credit		
– Prior year adjustment	**83**	—
– Deferred tax	**426**	255
Tax credit / (charge) on profit on ordinary activities	**509**	255

The tax assessed for the year is lower (2020: 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 19.0% (2020: 19.0%) is as follows:

	2021 £'000	2020 £'000
(Loss) / profit on ordinary activities before tax	**(1,819)**	18,497
(Loss) / profit on ordinary activities before tax multiplied by standard rate tax in the UK of 19.0% (2020: 19.0 %)	**346**	(3,514)
Effects of:		
– Expenses not deductible for tax purposes	**(16)**	(22)
– Adjustments to tax charge in prior year	**83**	—
– Group relief benefit	**—**	3,369
– Change in tax rate	**96**	81
– Deferred tax credits forfeited in Part VII Transfer	**—**	(169)
Tax credit / (charge) for the year	**509**	(255)

Factors affecting current and future tax changes

The increase in corporation tax rate outlined in Finance No. 2 Bill 2021 became substantively enacted on 24 May 2021. As a result, deferred tax for temporary timing differences that are forecast to unwind on or after 1 April 2023 have been re-measured and recognised at 25%.

14. Deferred tax asset

	2021 £'000	2020 £'000
Double taxation relief	**83**	—
Capital Allowances	**26**	24
Other temporary timing differences	**1,068**	668
Net deferred tax asset	**1,178**	**692**

14. Deferred tax asset (continued)

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

	2021 £'000	2020 £'000
At 1 January	**692**	737
Impact of Part VII Transfer	**—**	(169)
Temporary timing differences	**307**	42
Double taxation relief	**83**	—
Tax rate change	**96**	82
At 31 December	**1,178**	692

15. Tangible assets

	Leasehold improvements £'000	Furniture £'000	Hardware £'000	Total £'000
Cost				
At 1 January 2021	751	273	86	1,110
Additions	—	—	7	7
At 31 December 2021	751	273	93	1,117
Accumulated Depreciation				
At 1 January 2021	255	244	86	585
Charge for year	57	29	1	87
At 31 December 2021	312	273	87	672
Net book value at 31 December 2021	439	—	6	445
Net book value at 31 December 2020	496	29	—	525

16. Debtors

	2021 £'000	2020 £'000
Arising out of direct insurance operations	**387,155**	408,491
Arising out of reinsurance operations	**46,867**	48,899
Other debtors including taxation and social security	**—**	—
Total debtors	**434,022**	457,390

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.

17. Financial investments (continued)

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 2021, the only Level 3 asset held by the Company is a holding in asset-backed securities guaranteed by AGUK and purchased for loss mitigation purposes. The Level 3 securities are priced with the assistance of an independent third-party. The pricing is based on a discounted cash flow approach using the third-party's proprietary pricing models. The models use inputs including life insurance cash flow projections; estimated default rates (determined on the basis of an analysis of collateral attributes, historical collateral performance; collateral reinvestment assumptions; and other features relevant to the evaluation of collateral credit quality); yields on similar securities and recent trading activity. The key valuation input as of 31 December 2021 was yield, which was 4.96% at the end of the year.

The yield used to discount the projected cash flows is 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. Significant changes to any of these inputs could have materially changed the expected timing of cash flows within this security which is a significant factor in determining the fair value.

The table below presents the Company's financial investments measured at fair value at 31 December 2021 and at 31 December 2020, including classification of the fair value in accordance with the fair value hierarchy.

		2021		2020 (restated)	
		Carrying Value	**Purchase Cost**	Carrying Value	Purchase Cost
		£'000	**£'000**	£'000	£'000
Level	**Financial investments**				
1	Short term deposits	**15,191**	**15,191**	10,518	10,518
2	UK government bonds	**83,189**	**84,366**	107,193	107,329
2	Non-UK government bonds	**16,480**	**16,057**	18,371	19,137
2	UK government agency bonds	**13,921**	**15,479**	80,504	82,522
2	Supranationals	**166,269**	**169,627**	136,137	136,713
2	Corporate bonds	**342,373**	**348,507**	341,920	340,649
2	Non-UK government agency bonds	**57,330**	**58,175**	7,145	7,368
2	Asset-Backed securities	**3,726**	**3,730**	4,350	4,336
3	Asset-Backed securities	**24,479**	**19,010**	24,209	19,010
Total financial investments		**722,958**	**730,142**	730,347	727,582

The value of listed investments as at 31 December 2021 is £723.0 million (2020: £730.3 million).

Short term deposits of £10.5 million as at 31 December 2020 were included within Cash at bank and on hand in the prior year financial statements. Short term deposits consist of short term money market funds which do not meet the definition of Cash at bank and on hand. Accordingly, the 2020 comparatives have been restated to include these amounts within financial investments.

18. Creditors

	2021 £'000	2020 £'000
Arising out of reinsurance operations - including amounts owed to group undertakings	**171,652**	180,819
Other amounts owed to group undertakings	**9,803**	13,107
Other creditors including taxation and social security	**16**	3,025
Total creditors	**181,471**	196,951

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

19. Accruals and deferred income

	2021 £'000	2020 £'000
Accrued expense	**1,342**	1,388
Reinsurance commission deferred	**79,202**	86,023
Total accruals and deferred income	**80,544**	87,411

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:

	2021 £'000	2020 £'000
Payments due:		
Not later than one year	**529**	529
Later than one year and not later than five years	**2,118**	2,118
Later than five years	**1,452**	1,981
Total payments due	**4,099**	4,628

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.

21. Risk management (continued)

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.

(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

COVID-19
To date the Company has not incurred any claims related to the impacts of COVID-19. While insured transactions in certain demand-based sectors have experienced significant strain since the beginning of the pandemic due to the unprecedented slowdown in economic activity, their credit quality is supported by the resilient nature of the underlying transaction business model and strong liquidity. The Company continues to monitor the impacts of COVID-19 on its insured portfolio following the process described above and adjusting internal ratings, when appropriate to reflect changes in credit quality.

21. Risk management (continued)

(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 permitted the 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 200 basis points in interest yields would result in the following:

	200 Basis Point			
	Increase		**Decrease**	
£'000	**2021**	2020	**2021**	2020
(Loss) / profit before tax	**(45,380)**	(41,086)	**20,663**	3,949
(Decrease) / increase in equity	**(36,758)**	(33,280)	**16,737**	3,199

(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 2021, 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 £24.9 million (2020: £25.0 million) higher/ lower respectively. Equity for the year would have been £20.2 million (2020: £20.2 million) higher/lower, respectively.

21. Risk management (continued)

(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 recommend mitigating actions are reported to the Risk Oversight Committee.

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

Counterparty default risk (including spread risk) in respect of financial investments is managed by the use of detailed investment guidelines which place limits and restrictions on the size of holdings with individual issuers and also include minimum credit quality levels and duration requirements for both individual securities and the overall portfolio. The average credit quality of the Company's investment portfolio as at 31 December 2021 was AA- (2020: AA-), with an average duration of 3.40 years (2020: 2.95 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.

2021	AAA £'000	AA £'000	A £'000	BBB £'000	> BBB or not rated £'000	Total £'000
Investments	**261,501**	**162,218**	**122,775**	**151,985**	**24,479**	**722,958**
Cash at bank	—	**4,036**	**282**	—	—	**4,318**
Debtors arising out of direct insurance operations	**185**	**19,530**	**110,548**	**223,252**	**33,640**	**387,155**
Debtors arising out of reinsurance operations	—	**46,867**	—	—	—	**46,867**
2020						
Investments	248,311	184,011	139,073	134,743	24,209	730,347
Cash at bank	—	7,326	293	—	—	7,619
Debtors arising out of direct insurance operations	49	22,937	115,615	235,948	33,942	408,491
Debtors arising out of reinsurance operations	—	48,899	—	—	—	48,899

(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..

21. Risk management (continued)

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 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:

2021	< 1 year or no contracted maturity	1 to 4 years	5 to 10 years	10 + years	Total
Assets (£'000)					
Investments	88,542	483,713	121,894	28,809	**722,958**
Cash at bank	4,318	—	—	—	**4,318**
Debtors arising out of direct insurance operations	61,507	106,584	102,822	116,242	**387,155**
Debtors arising out of reinsurance operations	8,152	12,409	12,903	13,403	**46,867**
	162,519	**602,706**	**237,619**	**158,454**	**1,161,298**
Liabilities (£'000)					
Creditors arising out of reinsurance operations	**41,901**	**41,537**	**43,249**	**44,965**	**171,652**

2020					
Assets (£'000)					
Investments	205,952	379,980	114,689	29,726	730,347
Cash at bank	7,619	—	—	—	7,619
Debtors arising out of direct insurance operations	62,224	107,681	109,222	129,364	408,491
Debtors arising out of reinsurance operations	7,115	12,713	13,352	15,719	48,899
	282,910	**500,374**	**237,263**	**174,809**	**1,195,356**
Liabilities (£'000)					
Creditors arising out of reinsurance operations	**41,098**	**42,415**	**44,605**	**52,701**	**180,819**

(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.

21. Risk management (continued)

As at 31 December 2021, the Company had 269 risks (2020: 266) 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 credit risk and reinsurance counterparty risk, by calculating projected stress losses across the portfolio in a 1-in-200 lifetime loss scenario (the 99.5% lifetime value-at-risk, or VaR), instead of the 1-in-200 one year loss scenario required under the 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.

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, 269 (266 as at 31 December 2020), 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 - and are required to be assessed within the underwriting analysis, including physical risk (e.g. catastrophic weather events) and/or transitional risk.

21. Risk management (continued)

(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 (3.40 years as at 31 December 2021). 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

	2021	2020
	£'000	£'000
Authorised		
500,000,000 (2020: 500,000,000) ordinary shares of £1 each	**500,000**	500,000
Allotted and fully paid		
55,000,003 (2020: 55,000,003) ordinary shares of £1 each	**55,000**	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**	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
Unearned premium provision:				
At 1 January	**522,877**	670,141	**289,788**	394,710
Movement in provision	**(30,111)**	(56,087)	**(20,659)**	(39,052)
Part VII Transfer	**—**	(96,972)	**—**	(71,349)
Foreign exchange movements	**(1,947)**	5,795	**(2,011)**	5,479
At 31 December	**490,819**	522,877	**267,118**	289,788

	2021	2020
	£'000	£'000
Deferred reinsurance commission:		
At 1 January	**86,023**	117,872
Movement in provision	**(6,227)**	(12,097)
Part VII Transfer	**—**	(21,361)
Foreign exchange movements	**(594)**	1,609
At 31 December	**79,202**	86,023

(ii) Claims development tables

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

23. Technical provisions (continued)

	Gross	Reinsurer's share
	£'000	£'000
Estimate of ultimate claim cost as at 31 December:		
2012	**59,846**	**53,862**
2013	**62,749**	**56,474**
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**
Cumulative claims payments to date	**35,600**	**31,917**

(iii) Claims outstanding

A reconciliation of the opening and closing provision for claims is set out below, excluding salvage recoverable:

	Gross		Reinsurers' share	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
At 1 January	**28,440**	30,524	**25,596**	27,472
Increase / (decrease) in provision	**2,470**	(426)	**2,330**	(355)
Paid claims	**(1,842)**	(841)	**(1,765)**	(786)
Foreign exchange movements	**295**	(817)	**266**	(735)
At 31 December	**29,363**	28,440	**26,427**	25,596

Movement in prior year's provision for claims outstanding

The movement in the provisions for claims outstanding during the year is due to adverse claims development.

(iv) Discounted claims

Claims outstanding have been discounted at a rate of 1.58% (2020: 1.71%) and the mean term of the liabilities is 2.5 years (2020: 2.5 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:

	2021	2020
	£'000	£'000
Claims outstanding before discounting	**30,458**	30,444
Reinsurer's share of claims outstanding before discounting	**(27,412)**	(27,400)
Claims outstanding before discounting net of reinsurance	**3,046**	3,044

The amortisation of claims discounting, which is reported within claims incurred, was £0.05 million (2020: £0.05 million). The investment return on the assets supporting the liabilities being discounted was £0.04 million (2020: £0.05 million).

23. Technical provisions (continued)

(v) Unexpired risks provision

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

	Gross		Reinsurers' share	
	2021	2020	**2021**	2020
	£'000	£'000	**£'000**	£'000
At 1 January	**6,384**	9,394	**718**	5,227
Movement in provision	**(3,800)**	1,019	**(209)**	(517)
Part VII Transfer	**—**	(4,412)	**—**	(4,371)
Foreign exchange movements	**(38)**	383	**(37)**	379
At 31 December	**2,546**	6,384	**472**	718

The future investment return assumed in calculating the unexpired risks provision is 1.58% (2020: 1.71%).

24. Deferred acquisition costs

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

	2021	2020
	£'000	£'000
At 1 January	**23,187**	28,533
Deferred in the year	**726**	670
Amortisation	**(2,114)**	(2,320)
Part VII Transfer	**—**	(3,696)
At 31 December	**21,799**	23,187

25. Other technical income / (expense)

	2021	2020
	£'000	£'000
Other technical income	**2,375**	433
Part VII Transfer (refer to note 5)	**—**	(10,120)
	2,375	(9,687)

Other technical income for 2021 comprises surveillance fees received by the Company and a commutation gain recognised on the cancellation of a reinsurance contract.

26. Other charges

	2021	2020
	£'000	£'000
Foreign exchange gains / (losses)	**675**	(2,086)

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 2021. 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

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

28. Events after the balance sheet date

In February 2022, a military conflict arose in Ukraine. The Company's insured portfolio does not have any direct exposure to Russia or Ukraine and none of the insured risks are reliant on assets or revenues from these countries. The Company's investment portfolio also does not have any direct exposure to Russia or Ukraine. Our approach to assessing the risk associated with the situation in Ukraine is therefore focused on understanding the broader macroeconomic implications of the conflict and related governmental sanctions on the insured portfolio. As the situation is fast moving, it is being closely monitored by management and our risk assessment will be kept under regular review.