



Financial Guaranty UK Limited

Solvency and Financial Condition Report (SFCR)

31 December 2020

28 April 2021

Index

Summary

Statement of Directors' Responsibilities

A. Business and Performance

- A.1 Business
- A.2 Underwriting Performance
- A.3 Investment Performance
- A.4 Performance of other Activities
- A.5 Any Other Information

B. System of Governance

- B.1 General Information on the System of Governance
- B.2 'Fit and Proper' requirements
- B.3 Risk Management System including the Own Risk and Solvency Assessment
- B.4 Internal Control System
- B.5 Internal Audit Function
- B.6 Actuarial Function
- B.7 Outsourcing
- B.8 Any Other Information

C. Risk Profile

- C.1 Underwriting Risk
- C.2 Market Risk
- C.3 Credit Risk
- C.4 Liquidity Risk
- C.5 Operational Risk
- C.6 Other Material Risks
- C.7 Any Other Information

D. Valuation for Solvency Purposes

- D.1 Assets
- D.2 Technical Provisions
- D.3 Other Liabilities
- D.4 Alternative Methods for Valuation
- D.5 Any Other Information

E. Capital Management

- E.1 Own Funds
- E.2 Solvency Capital Requirement and Minimum Capital Requirement
- E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement
- E.4 Differences between the standard formula and any internal model used
- E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement
- E.6 Any Other Information

Appendix: Annual Quantitative Reporting Templates (QRTs)

Summary

Amounts in £000's unless otherwise noted.

This document is the Solvency and Financial Condition Report (“SFCR”) for Financial Guaranty UK Limited (“Financial Guaranty” or the “Company”) for the year ended 31 December 2020.

The Company is considered a small Solvency II firm for external audit purposes and has taken advantage of the external audit exemption as stated in the PRA Rulebook: External Audit.

Business Overview

Financial Guaranty is an insurance company subject to regulation by the Prudential Regulation Authority (“PRA”) and the Financial Conduct Authority (“FCA”). Effective 19 June 2020, Financial Guaranty is now owned by Chelsea Insurance Holdings LLC (“Chelsea Insurance Holdings”) and Chelsea Holdings Midwest LLC (“Chelsea Holdings Midwest” and together with Chelsea Insurance Holdings, the “New Shareholders”). Chelsea Insurance Holdings is indirectly controlled by a group of individual investors who are also partners of GoldenTree Asset Management LP (“GoldenTree”). Chelsea Insurance Midwest is directly owned by American Life and Security Corp. which is a wholly owned subsidiary of Midwest Holding Inc. (“Midwest”).

Financial Guaranty is no longer engaged in the business of writing new financial guarantees. The Company’s principal business activity continues to be the run-off of its outstanding financial guarantees.

The Company’s remaining financial guarantees cover the following types of financial obligations:

Private Finance Initiatives (“PFI”) obligations, which are financial obligations issued by certain corporate entities as part of public-private initiatives to finance the construction of public sector hospitals and healthcare facilities in the United Kingdom (“UK”), which are supported by long-term concession arrangements with National Health Service (NHS) trusts.

Transportation obligations, which comprise financial obligations of a single corporate entity that operates toll road concessions in France, which are largely supported by the related toll road revenues.

Utility obligations, which are financial obligations issued by certain government-regulated providers of essential services and commodities, including electric, water and gas utilities.

The following table sets out the par in force of the Company’s financial guarantee (insured) portfolio, by type as of 31 December 2020.

	Total Par in Force (GBP, MM's)	% of Total
Private Finance Initiatives ("PFI")	898	43%
Transportation	54	3%
Utility	1,161	55%
	2,113	100%

The Company reported a profit of £1,615 for the year ended 31 December 2020 (2019: £4,338) which was primarily driven by the premiums earned on financial guarantee contracts and investment income.

The remaining financial guarantees issued by the Company ensure the payment of scheduled debt service on the insured obligations when due in the event, and to the extent, the issuer of such obligations fails to make such payments. The Company's obligation to pay claims (should any claim be validly submitted), however, cannot be accelerated without its consent, regardless of whether the insured obligations have been accelerated, although the Company may have the right, at its sole option, to accelerate its payments on defaulted insured obligations. The Company did not pay any claims during 2020, and the Company has not recorded a provision for claims at 31 December 2020, nor to date, based on the information available to, and related estimates, assumptions and judgements by, management.

The Investment Portfolio of Financial Guaranty as of 31 December 2020 was invested in UK and other government bonds, corporate bonds, collateralised securities, equities, derivatives, loans and short term money market funds. The Company also held 10% of its total cash and invested assets in cash and 56% of its total cash and invested assets in short-term money market funds, UK government bonds and cash.

System of governance

As of 31 December 2020, Financial Guaranty's Board of Directors (the "Board") consisted of seven directors (five of whom are senior officers of GoldenTree or Midwest and two are non-executive directors).

As of 31 December 2020, the Company's Audit Committee consisted of its two non-executive Board members who assist the Board in fulfilling its oversight responsibilities relating to the integrity of Financial Guaranty's financial statements and reports, the effectiveness of Financial Guaranty's internal financial controls, the performance of Financial Guaranty's external auditor and Financial Guaranty's compliance with laws and regulations.

Section B provides further details of the Company's system of governance.

Valuation for solvency purposes

An analysis of the adjustments made from the Statutory Accounts to the Solvency II assets and other liabilities is provided in sections D.1 and D.3 of this report, respectively.

The valuation of the technical provisions, including the amount of the best estimate and risk margin, are disclosed in section D.2 of this report. Descriptions of the methods and main assumptions and an analysis of the adjustments made from the Statutory Accounts to the Solvency II technical provisions are also discussed there.

Own Funds and Solvency Capital Requirement

Under the European Union's Solvency II Directive (2009/138/EC) ("Solvency II" or "SII"), Financial Guaranty's Own Funds at 31 December 2020 are £31.6m (2019: £38.4m) in the form of Tier 1 unrestricted capital. Based on the standard formula, Financial Guaranty's Minimum Capital Requirement ("MCR") is £27.0m (2019: £24.1m) and its Solvency Capital Requirement ("SCR") is £108.0m (2019: £96.2m). Financial Guaranty therefore has a capital surplus of £4.6m (2019: £14.3m) over the MCR and a capital deficit of £76.4m (2019: £57.8m) against the SCR at 31 December 2020. The ratio of Own Funds to SCR is 29.2% (2019: 39.9%). Section E provides further information on the Company's Own Funds, MCR and SCR.

The SCR has been updated to reflect changes to the Solvency II regulations which increase the premium risk charge under the standard formula. A more detailed allocation of expenses to currency has also been undertaken to improve the accuracy of the currency risk charge calculation.

Other aspects of the calculation of SCR and MCR remain unchanged but the calculations have been updated to include the latest data in accordance with Solvency II rules. The most notable changes in the data used in the calculation are the changes in investment profile and discount rates (which are prescribed).

Financial Guaranty has notified the PRA of its non-compliance with the SCR and about not having access to incremental capital to remediate this non-compliance.

Financial Guaranty UK Limited

Directors' Responsibility Statement in respect of the Solvency and Financial Condition Report

Financial Year Ended 31 December 2020

The Directors acknowledge their responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and Solvency II Regulations as applicable to the Company.

The Directors are satisfied that, to the best of their knowledge:

- a) throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to it except for the Company's non-compliance with the SCR; and
- b) it is reasonable to believe that, at the date of publication of the SFCR, the Company has continued so to comply and will continue so to comply in the future except for the Company's continuing non-compliance with the SCR.

On behalf of the Board



Yadin Rozov
Director

28 April 2021

Business and Performance

A.1 Business

General information:

Financial Guaranty is incorporated in the UK and is a company limited by shares. The address of the registered office of Financial Guaranty is:

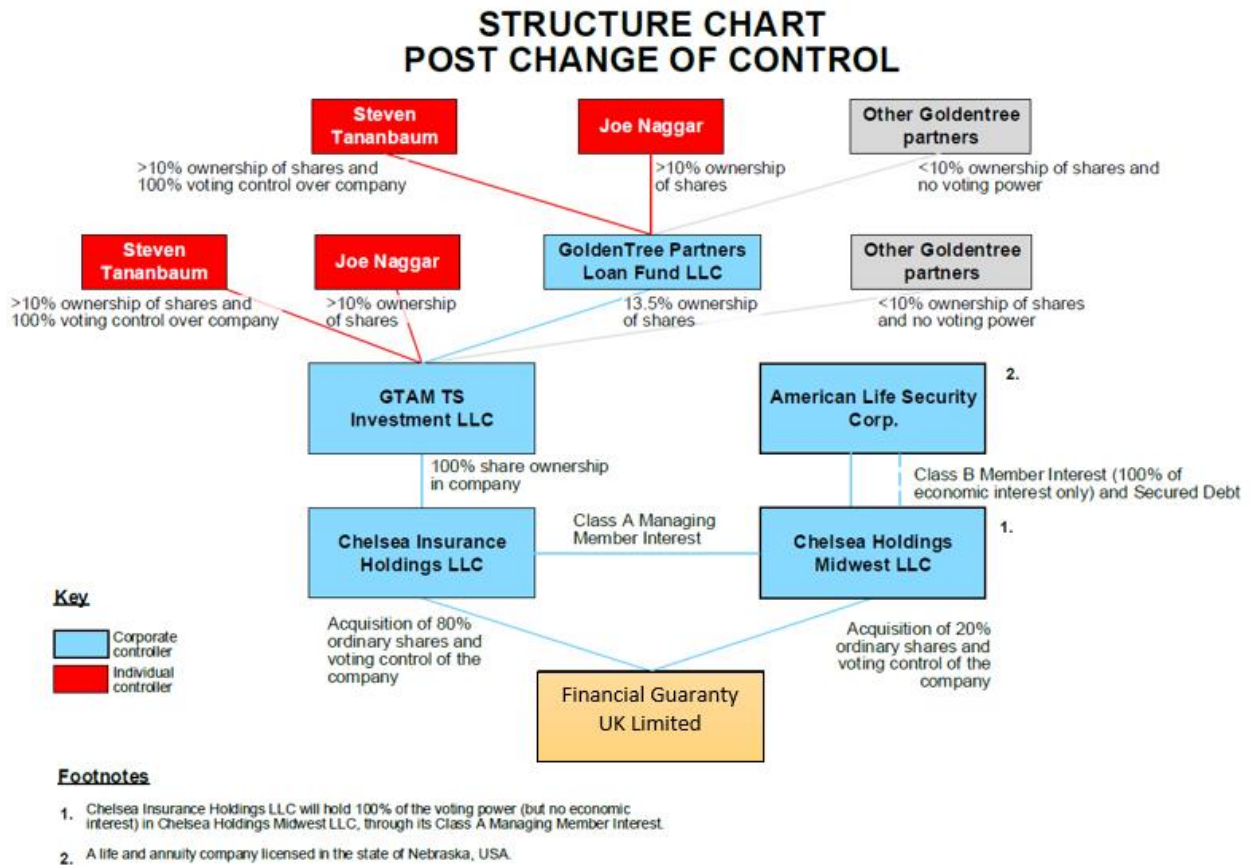
c/o Mazars LLP Tower Bridge
House
St Katharine's Way
London
E1W 1DD

As depicted below in the corporate structure, Financial Guaranty is an insurance company subject to regulation by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). Financial Guaranty is now owned by Chelsea Insurance Holdings LLC ("Chelsea Insurance Holdings") and Chelsea Holdings Midwest LLC ("Chelsea Holdings Midwest" and together with Chelsea Insurance Holdings, the "New Shareholders"). Chelsea Insurance Holdings is indirectly controlled by a group of individual investors who are also partners of GoldenTree Asset Management LP ("GoldenTree"). Chelsea Insurance Midwest is directly owned by American Life and Security Corp. which is a wholly owned subsidiary of Midwest Holding Inc. ("Midwest").

Financial Guaranty, subject to regulation by the PRA and the FCA, was authorised to write financial guarantee business in the UK and had passport rights to write business in other European Economic Area member countries. Financial Guaranty previously issued financial guarantees covering public finance, structured finance and other obligations. Financial Guaranty is no longer engaged in the business of writing new financial guarantees and has no present intention to seek permission to recommence writing new financial guarantees. Financial Guaranty's principal business activity continues to be the run-off of its outstanding financial guarantees.

Financial Guaranty prepares its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 and FRS 103.

The group structure diagram on the following page presents the identities of and legal links between the Company, its parent undertaking and its related entities as at 31 December 2020:



The supervisory authority of the Company is the PRA. Contact details of the PRA are:

Prudential Regulation Authority
Bank of England
Threadneedle Street
London
EC2R 8AH

The independent auditors of the Company are:

Ernst & Young LLP
25 Churchill Place, Canary Wharf
London
E14 5EY

Business overview:

Financial Guaranty previously wrote financial guarantee business and it ceased writing new business in 2008. Financial Guaranty's principal business activity continues to be the run-off of its outstanding financial guarantees. For Solvency II purposes the Company's business falls under the Credit and Suretyship insurance line of business.

A.2 Underwriting Performance

The table below shows the Company's premiums, claims and expenses for the years ended 31 December 2020 and 2019. All amounts are in respect of the Solvency II Credit and Suretyship insurance line of business.

	2020	2019
	£'000	£'000
Gross premium written	(943)	106
Gross premium earned	3,447	3,437
Gross claims recovered/ (paid)	-	-
Net operating expenses	(3,385)	(1,206)

Premiums, claims and expenses by country are disclosed within the 'S.05.01 Premiums, claims and expenses by line of business' Quantitative Reporting Template (QRT) in the Appendix hereto.

The Company estimated future installment premiums at inception of each financial guarantee and then re-estimates the remaining amount of instalment premiums at the end of each reporting period, based on various assumptions and circumstances at the time, which are subject to change. The gross premium written in 2020 and 2019 relate to the estimated remaining amount of instalment premiums on financial guarantees incepted in prior years, based on changes in the related assumptions and circumstances for such estimates during the period, including changes in the index to which such premium or the related insured obligation is linked and the early termination of one policy with installment premiums.

The Company did not pay any claims during 2020, and the Company has not recorded a provision for claims at 31 December 2020, nor to date, based on the information available to, and related estimates, assumptions and judgements by, management. In the event any claims against the Company should arise under its financial guarantees, the Company would pay such claims solely from its own claims paying resources. There is no reinsurance or support from, or recourse to, other persons, including GoldenTree and Midwest, to pay any such claims. The Company's existing claims paying resources are limited, and if the Company were to incur material claims, it could materially adversely affect the Company's ability to continue its business.

The table below shows the gross premiums written by geographical area for the years ended 31 December 2020 and 2019.

Gross premiums written by geographical area for the year ended 31 December	2020 £'000	2019 £'000
United Kingdom	(590)	165
Australia	(353)	(59)
Total	(943)	106

The par in force of the Company's insured portfolio at 31 December 2020 and 2019 is set out below, by type of obligation. Increases associated with inflation index-linked insured obligations in the Utility sector were partially offset by decreases due to normal amortisation of the insured obligations and foreign exchange differences.

	31 December 2020 £'000	31 December 2019 £'000
PFI	898,458	1,018,928
Transportation	54,107	86,233
Utility	1,161,242	1,148,383
Total	2,113,807	2,253,544

Net operating expenses for the year ended 31 December 2020 were £2,179k higher than 2019, primarily due to consultancy fees associated with the change in ownership and the commutation process.

A.3 Investment performance

The Investment Strategy is designed for Financial Guaranty to take investment risk in a prudent manner. It aligns with the business model and takes into account the nature and duration of Financial Guaranty's liabilities and obligations, and the best interests of policyholders.

Financial Guaranty only invests in an asset when it understands the risk profile of the asset and the investment in such asset aligns with its risk appetite, risk management policies, risk tolerance limits and the Investment Strategy. In particular:

- i Financial Guaranty does not invest in a derivative or quasi-derivative unless, and to the extent that, it contributes to a reduction of risks or facilitates efficient portfolio management,
- ii investments and assets which are not admitted to trading on a regulated market must be kept to prudent levels,
- iii assets must be properly diversified in such a way as to avoid: (a) excessive reliance on any particular asset, issuer, group of undertakings or geographical area; and (b) excessive accumulation of risk in the portfolio as a whole, and
- iv investments in assets issued by the same issuer, or issuers belonging to the same group, must not expose the firm to excessive risk concentration.

Financial Guaranty only invests in assets the risks of which we are able to identify, measure, monitor, manage, control, report and take into account in our assessment of own solvency needs in the own risk and solvency assessment ('ORSA').

In order to achieve this objective, Financial Guaranty may also rely on GoldenTree's expertise in portfolio construction.

As of 31 December 2020, 17% of the investments were in UK government bonds and other government related obligations (2019: 54%), 3% in common stock, 6% in corporate bonds (2019: 43%), 3% in an investment fund, 19% in collateralised securities, 1% in both holdings in related undertakings and foreign government bonds and 15% in derivatives, which are foreign currency forward contracts used to reduce the investment portfolio's GBP currency risk.

The assets held by Financial Guaranty on a SII basis fall into the following categories:

	31 December		31 December	
	2020		2019	
	£'000	%	£'000	%
Holdings in related undertakings	1,335	1	-	-
Equities	2,326	3	-	-
UK government bonds	14,578	16	44,975	54
Other Government bonds	1,284	1	-	-
Corporate bonds	5,738	6	36,106	43
Collateralised securities	17,495	19	-	-
Short-term money market funds	32,966	36	2,025	3
Derivatives	13,465	15	-	-
Loans	3,158	3	-	-
Total investments	92,345	100.0	83,106	100.0
Cash at bank and in hand	10,260		2,104	
Total investments and cash and cash equivalents	102,605		85,210	

The annualised book yield of the portfolio at year end 2020 was 2.4 % (2019: 1.8%).

In 2020, Financial Guaranty recognised investment income of £1,503 (2019: £2,183), a realised gain of £1,771 (2019: realised loss of £140) and an unrealised loss of £1,126 (2019: an unrealised gain of £1,186). Investment management fees for 2020 were £300 (2019: £76).

There were no gains or losses recognised directly in equity.

A.4 Performance of other activities

There are no other material activities undertaken by Financial Guaranty other than its insurance-related activities.

A.5 Any other information

Since the last SFCR submission the following material transactions have occurred:

- Effective 19 June 2020 Financial Guaranty was sold by Financial Guaranty Insurance Company to Chelsea Insurance Holdings and Chelsea Holdings Midwest.
- Outsourcing arrangements for Liability Management and Operational Services were entered into with GoldenTree and Midwest at the time of the change in control and purchase of Financial Guaranty.
- A revised investment strategy was implemented as a new Investment Management Agreement was entered into with GoldenTree at the time of the change in control and purchase of Financial Guaranty.
- The Board of Directors of Financial Guaranty is an entirely new Board. With the change in control and purchase of Financial Guaranty the previous Directors and Independent Non-Executive

Directors were terminated and new Executive Directors were selected and approved by the PRA as well as two new Independent Non-Executive Directors.

- The committee structure has changed since the change in control and purchase of Financial Guaranty. The new committee structure consists of the Audit Committee as well as an Executive Committee.

System of Governance

B.1 General Information on the System of Governance

As of 31 December 2020, the Board consists of seven directors (five of which are senior executives of the entities that own Financial Guaranty and two are independent non-executive directors). Financial Guaranty's Audit Committee consists of its two independent non-executive Board members who assist the Board in fulfilling its oversight responsibilities relating to the integrity of the Company's financial statements and reports, the effectiveness of internal financial controls, the performance of the Company's external auditor and compliance with laws and regulations.

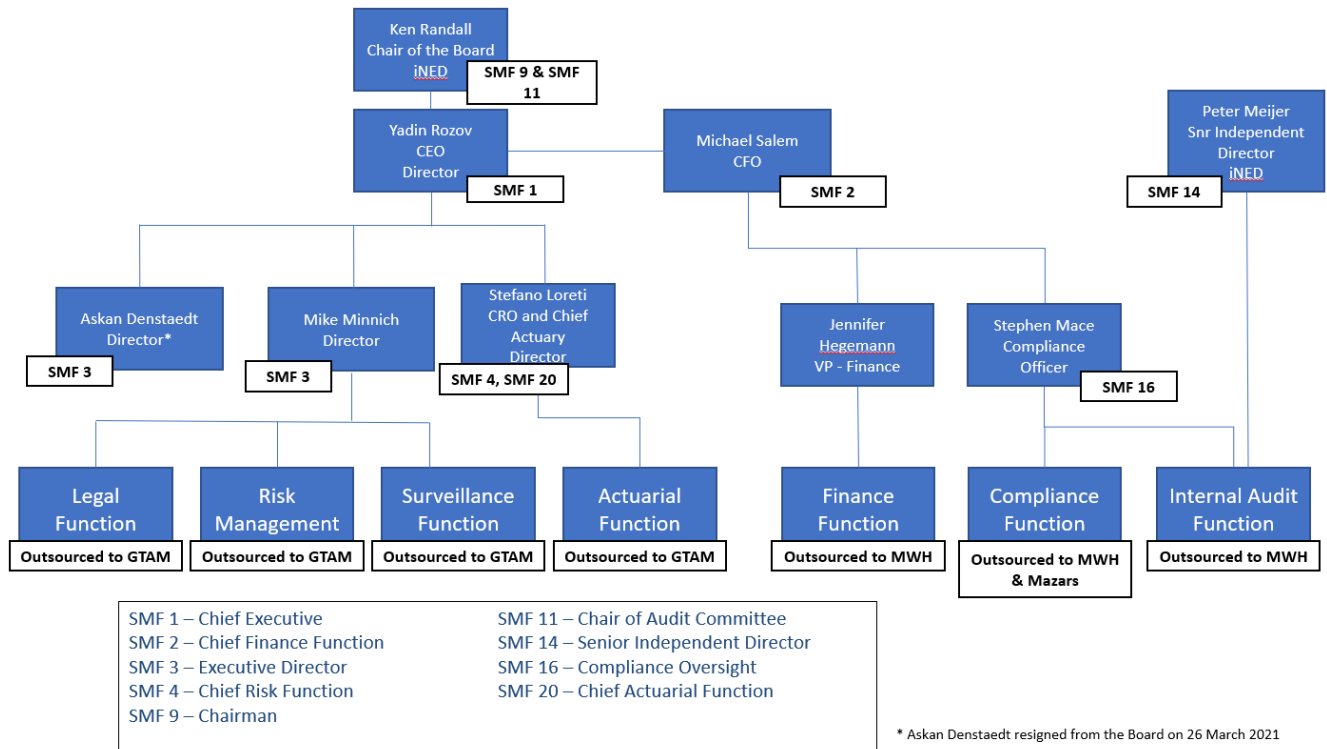
Financial Guaranty is managed by its Chief Executive Officer ("CEO"), who has responsibility, under the immediate authority of the Board, for managing the whole of Financial Guaranty's business. Financial Guaranty's CEO is a Partner at GoldenTree.

The Company has no direct employees (2020: Nil) hence there is no remuneration, fixed or variable. Instead, it has contracted with both GoldenTree and Midwest, as outsourced service providers, to provide it with most management and administrative services. An administration fee is charged to the Company by both GoldenTree and Midwest. Such administration fee includes charges in respect of the allocable costs associated with the time that directors who are employees of GoldenTree and Midwest devoted to performing services for Financial Guaranty. These services are provided by GoldenTree are provided based on rates for management oversight and surveillance that was agreed upon in an agreement between Financial Guaranty and GoldenTree. The operational services provided by Midwest are provided based on an agreed upon annual rate between Financial Guaranty and Midwest. Both agreements were not objected to by the PRA. In 2020, the Company was charged £938 (2019: £567) for these services.

The non-executive directors are paid on a fixed salary basis directly by the Company. These payments amounted to £94 in 2020 (2019: £100) and do not include any element of variable remuneration.

Financial Guaranty's system of governance is considered to be appropriate, taking into account the nature, scale and complexity of the risks inherent in Financial Guaranty's business.

The overall governance structure of the Company is composed of the functions and senior manager function (“SMF”) holders shown in the chart below:



Below is a table showing the allocation of the PRA’s prescribed principal responsibilities to the members of the Board.

Individual	SMF	Role Description
Yadin Rozov	Chief Executive Officer (SMF 1)	Assuming responsibility, under the immediate authority of the governing body, alone or jointly with others, for carrying out the management the whole of Financial Guaranty UK’s business (or relevant activities). Member of Financial Guaranty UK’s governing body in the performance of the role of Executive Director.
Michael Salem	Chief Financial Officer (SMF 2)	Assuming responsibility for the management of the financial resources of Financial Guaranty UK, including reporting directly to Financial Guaranty UK’s governing body in relation to its financial affairs.
Kenneth Randall	Chair of the Governing Body (SMF 9)	Chairing, and overseeing the performance of the role of, the governing body of Financial Guaranty UK.
Mike Minnich	Executive Director (SMF 3)	Member of Financial Guaranty UK’s governing body in the performance of the role of Executive Director.
Stefano Loreti	Chief Risk Officer (SMF 4)	Assuming responsibility for the overall management of Financial Guaranty UK’s risk controls, including: (i) the setting and managing of Financial Guaranty UK’s risk exposures; and (ii) reporting to Financial Guaranty UK’s governing body in relation to its risk management arrangements. Assuming responsibility for Financial Guaranty UK’s actuarial function. Member of Financial Guaranty UK’s governing body in the performance of the role of Executive Director.
	Chief Actuary (SMF 20)	
Stephen Mace	Compliance Oversight (SMF 16)	Ensuring that Financial Guaranty UK complies with its obligations in relation to its compliance function.

Kenneth Randall	Chair of the Audit Committee (SMF 11)	Responsibility for chairing, and overseeing the performance of, the committee responsible for the oversight of Financial Guaranty UK's internal audit system.
Peter Meijer	Senior Independent Director (SMF 14)	Performing the role of a senior independent director and having particular responsibility for leading the assessment of the person performing the role of the Chair of the Governing Body function.

Allocation of Prescribed Responsibilities

Prescribed Responsibilities	PR Code and supervising regulator	Responsible Senior Manager and SMF number
Responsibility for the firm's performance of its obligations under the SMR	A (dual)	Yadin Rozov as CEO (SMF1)
Responsibility for the firm's performance of its obligations under the certification regime	B (dual)	Yadin Rozov as CEO (SMF1)
Responsibility for the firm's: (a) Conduct rules training; and (b) Conduct rules reporting.	B1 (FCA)	Yadin Rozov as CEO (SMF1)
Responsibility for compliance with the requirements of the regulatory system relating to the responsibilities map	C (dual)	Yadin Rozov as CEO (SMF1)
Responsibility for the firm's policies and procedures for countering the risk that the firm might be used to further financial crime	D (FCA)	Yadin Rozov as CEO (SMF1)
Responsibility for: (a) leading the development of; and (b) monitoring the effective implantation of, policies and procedures for the induction, training and professional development of all members of the firm's governing body	F (FCA)	Kenneth Randall as Chair of the Board (SMF9)
Responsibility for monitoring the effective implementation of policies and procedures for the induction, training and professional development of all of the firm's senior managers / key function holders (other than members of the firm's governing body)	G (dual)	Yadin Rozov as CEO (SMF1)
Responsibility for overseeing the adoption of the firm's culture in the day-to-day management of the firm	H (PRA)	Yadin Rozov as CEO (SMF1)
Responsibility for leading the development of the firm's culture by the governing body as a whole	I (PRA)	Kenneth Randall as Chair of the Board (SMF9)
Responsibility for providing for and oversight of the internal audit function, where this function is outsourced to an external third-party provided by a non-significant firm.	J2 (dual)	Peter Meijer as Senior Independent Director (SMF11)
Responsibility for overseeing the development of, and implementation of, the firm's remuneration policies and practices	M (dual)	Kenneth Randall as Chair of the Board (SMF9)
Responsibility for the independence, autonomy and effectiveness of the firm's policies and procedures on whistleblowing	N (dual)	Kenneth Randall as Chair of the Board (SMF9)

Responsibility for managing the allocation and maintenance of the firm's capital, funding (where applicable) and liquidity	O (PRA)	Michael Salem as CFO (SMF2)
Responsibility for the production and integrity of the firm's financial information and its regulatory reporting	Q (PRA)	Michael Salem as CFO (SMF2)
Responsibility for the development and maintenance of the firm's business model by the governing body	T (PRA)	Stefano Loreti as CRO (SMF4)
Responsibility for the performance of the firm's Own Risk and Solvency Assessment (ORSA)	T2 (PRA)	Stefano Loreti as CRO (SMF4)
Responsibility for the firm's performance of its obligations under <i>Fitness and Propriety</i> (in the PRA Rulebook) in respect of notified non-executive directors and those who perform a key function	U (PRA)	Kenneth Randall as Chair of the Board (SMF9)
Responsibility for the performance of its obligations under <i>Conditions Governing Business 7</i> (in the PRA Rulebook)	X (PRA)	Michael Salem as CFO (SMF2)
Overall responsibility for the firm's compliance with CASS	Z (FCA)	Not Applicable

B.2 'Fit and Proper' requirements

The SMF holders of Financial Guaranty have extensive knowledge and experience of the financial guarantee industry to the benefit of the Company.

The following factors are taken into account when deciding whether an individual is fit and proper:

- honesty, integrity and reputation;
- relevant experience;
- competence and capability; and financial soundness.

New appointments to the Board are required to be approved by the Board. Extensive checks are carried out prior to approval, including:

- interviews with the candidate;
- assessment of fitness and propriety;
- review of CV;
- professional/regulatory references; and criminal records check.

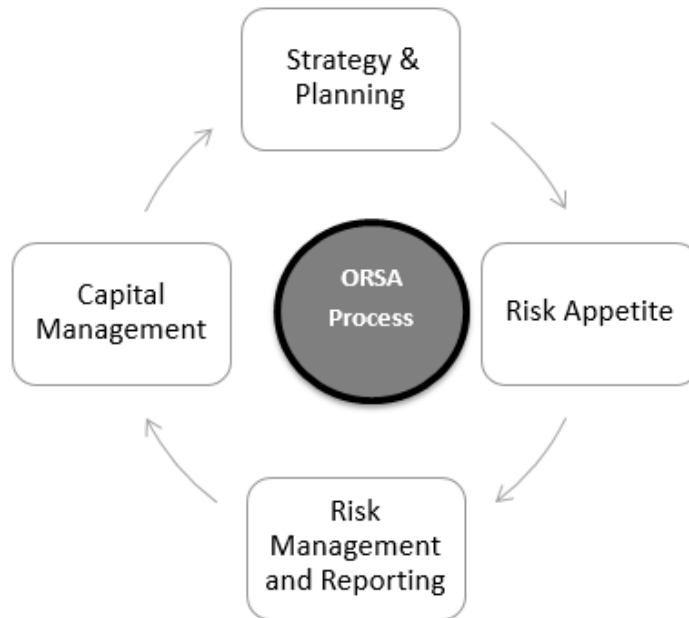
Following appointment by the Board, PRA approval is required before the position is formalised.

B.3 Risk Management System including the Own Risk and Solvency Assessment

The Company's Own Risk and Solvency Assessment ("ORSA") process is the mechanism through which the Company ensures that its risk management framework is sufficient and determines management's own view of risk exposure and associated economic capital needs. The ORSA process is made up of three high level processes:

- Risk Management and Reporting;
- Capital Management; and Strategy and Planning.

The following diagram illustrates how these processes interact within the ORSA process:



Further details on the risk management and reporting, capital management, and strategy and planning processes are set out in the sections below.

Risk management and reporting

The Risk Management and Reporting Process sets out how risks are identified, controlled and managed by Financial Guaranty. It consists of the following three elements:

- Identifying risks and assessing the design and effectiveness of the controls in place to manage risks.
- Measuring and quantifying risks (risk and capital modelling): Financial Guaranty does this through a combination of modelling techniques, stress and scenario testing and qualitative analysis, using relevant internal and external data.
- Management/monitoring: The information resulting from identifying and assessing risks, and measuring and quantifying risks, is reported to senior management and the Board and used to improve how the business is managed.

Capital Management

Financial Guaranty utilises a capital management tool based upon the SII Standard Formula and also projects Management’s Own Economic Capital Assessment (“OECA”) over a five-year time horizon. The OECA uses assumptions for Probable Maximum Loss (“PML”) and projected incremental SII losses (as defined in section D.2) that are different than the Standard Formula.

Management uses the Standard Formula and the OECA as a basis for capital management. Management performs an annual assessment as part of the ORSA process to determine whether the adjusted PML used in the OECA is appropriate for the Company.

The capital management tool is overseen for Financial Guaranty under the Liability Management Services agreement with GoldenTree with support from Mazars LLP (“Mazars”).

The Company’s Solvency II capital position relative to the SCR and MCR (using the Standard Formula) are reviewed quarterly by the Board.

Strategy and planning

The business strategy of Financial Guaranty has been set by the Board and will continue in effect, unless and until it is changed by action of the Board. A scheme of operations is prepared annually and reviewed and approved by the Board.

All major decisions affecting the Company are agreed by the Board, including decisions to commute, terminate or amend any material terms of the Company’s financial guarantees in a manner that would require the Company to incur any material liability or expense or to amend any material terms of the Company’s Board-approved Investment Guidelines (the “Guidelines”).

The ORSA is a continuous evolving process carried out by management and the Board in accordance with Financial Guaranty’s ORSA Policy. Many elements follow a quarterly cycle and reports are produced on this basis to ensure that the Board is regularly made aware of any unexpected deviations from the Company’s risk profile. The annual ORSA report is provided to the Board for review and approval and it is then submitted to the PRA in accordance with regulatory requirements.

The Financial Guaranty ORSA process and related ORSA Policy are reflective of the fact that Financial Guaranty is no longer writing any new business and its business strategy is running off its remaining insured portfolio in an orderly and efficient manner.

The risk assessment process is focused on Financial Guaranty’s Risk Matrix and Heat Map, the integration of appropriate internal controls in the design and implementation of Financial Guaranty’s and Financial Guaranty’s policies and procedures (“Internal Controls”) and the development of Financial Guaranty’s Solvency Capital Adequacy Ratios. These three areas (Risk Matrix, Internal Controls and Solvency Capital Adequacy Ratios) were used in the processes and procedures employed to identify, assess, monitor, manage and report the short and long-term risks Financial Guaranty faces or may face and the process necessary to determine the capital needs for Financial Guaranty.

The Company conducts stress and scenario testing and reverse stress testing as part of its ORSA process.

The ORSA process considers key sensitivities of the Company’s capital position in relation to relevant industry and market events.

B.4 Internal Control System

Although Financial Guaranty has ceased writing new business, the Company remains exposed to a number of risks arising from its insured portfolio and other credit, market and operational risks. The Company has implemented Internal Controls, including governance and management oversight structures that are designed to ensure that the risks facing the Company are appropriately managed.

The Internal Controls, Policies and Procedures that Financial Guaranty relies upon are consistent with those used by its outsourced service providers, GoldenTree, Midwest and Mazars. Financial Guaranty believes that it is most effective and efficient to use the specialist knowledge available within GoldenTree, Midwest and Mazars to help it run off its existing portfolio in an orderly and efficient manner.

B.5 Internal Audit Function

The Internal Audit Function for Financial Guaranty is outsourced to its outsourced service provider, Midwest and overseen by the Audit Committee and Financial Guaranty's CEO. The Audit Committee approves and oversees the performance of the Company's annual Internal Audit Plan.

B.6 Actuarial Function

The actuarial function is outsourced to GoldenTree and overseen by a Financial Guaranty director who is the Head of European Structured Products at GoldenTree. The Company uses the services of the actuarial team within Mazars where required, as Financial Guaranty believes that leveraging the internal staffing at GoldenTree and the professional services provided by Mazars are appropriate for the nature, scale, and complexity of the risks to which Financial Guaranty is exposed.

B.7 Outsourcing

Financial Guaranty does not employ any staff. Instead, it has contracted with GoldenTree and Midwest, as an outsourced service providers, to provide it most management and administrative services. This is a way for Financial Guaranty to benefit and provide a cost-effective access to experienced personnel resources. Financial Guaranty also has contracted to receive certain services from third party providers, including investment accounting, and certain accounting, financial and regulatory reporting, tax, actuarial, and corporate secretarial services. To manage this risk, Financial Guaranty has implemented policies and procedures to monitor and review the outsourced services and the performance and capabilities of its outsourced service providers on a regular basis.

A summary of Financial Guaranty's outsourcing arrangements is outlined below:

Outsourced Provider	Service Outsourced	Jurisdiction
Midwest	Accounting and Financial Reporting	US
	Human Resources	
	Information Technology	
	Compliance	
GoldenTree	Portfolio Surveillance and Remediation	US and UK
	Actuarial Services	
	Investment Management Services	
Mazars	Accounting	UK
	Financial and Regulatory Reporting	
	Tax	
	Actuarial Services	
	Corporate Secretarial	
Clearwater	Investment Accounting Services	US

The Company has put in place policies and procedures to ensure the outsourced services are monitored and reviewed on a regular basis. Refer to the organisation chart provided in section B.1 above for an overview of key function holders and their responsibilities.

B.8 Any Other Information

There are no other material matters to disclose in respect to the system of governance of the Company.

C. Risk Profile

This section discusses the material risks to which the Company is exposed in executing its business strategy to run-off its remaining financial guarantees.

C.1 Insurance Risk

The remaining financial guarantees issued by the Company insure the payment of scheduled debt service on the insured obligations, in the event and to the extent that the issuers of such insured obligations fail to make such payments when due. The principal risk from the Company's legacy insurance business, therefore, is the risk that the issuers of such insured obligations fail to pay scheduled debt service when due. An issuer's failure to pay scheduled debt service when due would entitle the beneficiary to make a claim under the applicable financial guarantee issued by the Company for the amount of such unpaid debt service. The Company's obligation to pay claims (should any valid claim be submitted), however, cannot be accelerated without its consent, regardless of whether the insured obligations have been accelerated, although the Company may have the right, at its sole option, to accelerate its payments on defaulted insured obligations.

The Company's financial guarantees are generally not cancelable, and the Company is entitled to receive instalment premiums under certain of its remaining financial guarantees. The Company, therefore, is exposed to the related credit risk that the remaining instalment premiums (or a portion thereof) are not paid to the Company when due.

The Company reviews its insured obligations on a regular basis with the objective of monitoring credit quality and performance, identifying credit deterioration, and avoiding or minimizing losses. Based on these reviews, the Company assigns each insured obligation to one of the following risk categories, to set the extent and frequency of the Company's ongoing surveillance efforts:

Risk Category 1 – Performing – Regular Surveillance: Includes insured obligations that are performing with no expectation of loss in current or anticipated circumstances. Insured obligations assigned to this risk category are reviewed on at least an annual basis.

Risk Category 2 – Performing – Heightened Surveillance: Includes insured obligations that are performing with no expectation of loss in current or anticipated circumstances, but which have been identified as deserving heightened surveillance due to the occurrence of one or more factors that have impacted, or may impact, the credit quality of the insured obligation, such as financial, economic, political, legal, contractual, performance or other issues adversely impacting an issuer/transaction or an entire sector or category of insured obligations, the breach of one or more representations, covenants or deal triggers by the issuer/transaction, or the downgrade of an insured obligation to low or below investment grade. Insured obligations assigned to this risk category are reviewed on at least a semi-annual basis.

Risk Category 3 – Credit Deterioration – Possible Loss: Includes insured obligations that have suffered credit deterioration sufficient to create a significant possibility of payment default in the future, but that are not currently or likely to be in payment default. Insured obligations assigned to this risk category are reviewed on at least a quarterly basis.

Risk Category 4 – Actual or Likely Payment Default: Includes insured obligations that are currently or likely to be in payment default. A provision for claims is established for insured obligations assigned to this

category for which future loss is probable and can be reasonably estimated. Insured obligations assigned to this risk category are reviewed on at least a quarterly basis.

Each insured obligation is subject to surveillance by highly experienced members of the GoldenTree Surveillance team to which the Financial Guaranty Surveillance process is outsourced. Each insured obligation is reviewed on a regular basis in accordance with the review process described above. The minimum review period can only be altered with Financial Guaranty CEO approval. The insured portfolio is discussed at each quarterly Board meeting.

As part of its monitoring process, the team collects and analyses information from various sources for each insured obligation, including trustee reports, financial statements, technical advisor reports, operating reports, general industry or sector news and analyses, rating agency reports and direct contact with issuer representatives. The team also analyses and considers various factors relevant to each insured obligation, including both transaction-specific and broader macroeconomic developments and trends, changes in applicable law or the legal environment, and the potential impact of other material risks relevant to the Company's insured portfolio. This process minimizes the risk that credit deterioration is not identified on a timely basis.

The Company's insured obligations generally share common risk and other characteristics based on their particular sector. The GoldenTree Surveillance team provides reports to the Board on the Company's key insured portfolio sectors (Utilities and PFI), which are designed to identify and assess trends and developments that may adversely affect the Company's insured obligations in those sectors, as well as potential mitigating considerations.

As of 31 December 2020, all insured obligations were assigned to "Performing" Risk Categories 1 or 2 based on the Financial Guaranty internal reviews and ratings. Financial Guaranty does not rely on third party rating agencies for evaluating credit. The Company did not pay claims during 2020, and the Company has not recorded a provision for claims at 31 December 2020, nor to date, based on the information available to, and related estimates, assumptions and judgements by, management.

In the event that in the future any insured obligations are, or are likely to be, in payment default and the related future loss is probable and can be reasonably estimated, the Company would establish a provision for claims for the value of the estimated losses on such insured obligations. Any determination by the Company to establish (or not establish) a provision for claims is necessarily based upon estimates, assumptions and judgements by management, including with respect to the probability of default, the severity of loss upon default and the outcome of other future events. These estimates, assumptions and judgements may change materially from time to time, and as a result the Company's provision for claims, and its financial results, may change materially during the relevant period. Any estimates of the Company's provision for claims, therefore, may differ from the ultimate claims required to be paid by the Company, possibly materially.

In the event any claims against the Company should arise under its remaining financial guarantees, the Company would pay such claims solely from its own claims paying resources. There is no reinsurance in place or support from, or recourse to, other persons, to pay any such claims. The Company's existing claims paying resources are limited, and if the Company were to incur material claims, it could materially adversely affect the Company's ability to continue its business.

For the remaining financial guarantees under which instalment premiums are payable, the Company projects future instalment premiums of £48,717. Expected premium receipts are monitored against actual premium receipts on a monthly basis. Any discrepancies are reported and investigated. Credit quality of the obligors is monitored on a regular basis and is reported to the Board on a quarterly basis. If any instalment premium was not paid when due, Financial Guaranty would pursue its available remedies. Financial Guaranty's

financial guarantees, however, generally are not cancelable as a result of any failure to pay premium. The expected profit in future premiums (SII Gross Best Estimate) is £5,798 at 31 December 2020.

The risk modules comprising the SCR are shown in the second table in section E.2 and were calculated using the Standard Formula. The risk module for insurance risk is shown in that table as Non-life Underwriting Risk, which comprises the sub-modules for Underwriting Risk and Catastrophe (Cat) Risk shown in that table.

C.2 Market Risk

From a Solvency II perspective, market risk includes Financial Guaranty's exposure to interest rate risk, spread risk, currency risk and inflation risk (discussed below).

Financial Guaranty's exposure to market risk is primarily in respect of Financial Guaranty's investment portfolio, through interest rate risk and spread risk (discussed below). Financial Guaranty is exposed to limited market risk in its insured portfolio, through currency risk and inflation risk (discussed below).

As of 31 December 2020, 17% of the investments were in UK government bonds and other government related obligations (2019: 54%), 3% in common stock, 6% in corporate bonds (2019: 43%), 3% in an investment fund, 19% in collateralised securities, 1% in both holdings in related undertakings and foreign government bonds and 15% in foreign currency forward contracts. As of 31 December 2020, the investment portfolio had an overall average credit quality of BBB, a book yield of about 2.4% per annum, and an effective duration of about 1.3 years.

Financial Guaranty's investment portfolio was managed by Wellington previously and adhered to the previous Investment Guidelines. Management has also considered the revised investment strategy in its assessment of market risk, which strategy will leverage the credit experience of GoldenTree to source and manage investments with a high margin of safety and an attractive yield.

The prudent person principle

Financial Guaranty has financial obligations to its policyholders and invests its assets in order to meet those obligations in accordance with the Solvency II Prudent Person Principle ('PPP') and related expectations of the PRA in Supervisory Statement SS1/20 Solvency II: Prudent Person Principle. In determining whether the Investment Strategy is prudent Financial Guaranty has considered the following guiding principles:

- Assets must be invested in the best interest of all policyholders.
- Only assets whose risks can be properly identified, measured, monitored, managed, controlled and reported should be considered for investment.
- Assets that are not admitted to trading on a regulated financial market must be kept to prudent levels.
- Assets must be sufficiently diversified to avoid excessive reliance on any particular asset class, issuer or group of undertakings, or geographical area. Financial Guaranty monitors its portfolio to ensure there is no excessive accumulation of risk in the portfolio.
- Investments in assets issued by the same issuer, or by issuers belonging to the same group, must not expose Financial Guaranty to excessive concentration risk.
- The extent to which Financial Guaranty can meet future liabilities is expressed by its solvency. Financial Guaranty's objective is to move into compliance with the Solvency Capital Requirement ('SCR') in the short to medium term and maintain compliance in the long-term.

The Investment Strategy is aligned with Board risk appetite, risk tolerance limits and investment risk and return objectives.

Interest Rate Risk

The Company is exposed to interest rate risk in its investment portfolio, primarily with respect to its investments in fixed rate bonds. As market interest rates rise, the value of the Company's fixed rate investments generally will decrease, which would produce unrealized losses or reduce the amount of unrealized gains. A fixed rate investment's maturity will generally affect how much its value will decrease as a result of increases in market interest rates, with longer maturities generally experiencing larger decreases. This relationship between interest rates and values is known as interest rate risk.

The Company seeks to manage its interest rate risk by maintaining a diversified portfolio of investments with a variety of remaining maturities and setting a target band of duration for the investment portfolio, which effectively requires GoldenTree to maintain the investment portfolio's interest rate risk within acceptable risk limits.

Spread Risk

The Company is exposed to spread risk in its investment portfolio, particularly with respect to its investments in corporate and other non-government bonds. The Company's investments may suffer credit rating downgrades, credit deterioration, or default, causing the value of the investments to decline. Credit spread generally reflects the risk premium required by investors to own corporate bonds as compared to government debt with an equivalent maturity. Credit spreads may be affected by various factors, including changes in the credit rating or perceived credit quality or default risk of the particular bond or issuer, as well as changes in general market conditions. As credit spreads widen, the value of the Company's corporate bond investments will generally decrease.

The Company seeks to manage this risk by leveraging the credit experience of GoldenTree to source and manage investments with a high margin of safety and an attractive yield. The investment decisions will be in line with the Investment Strategy which is reviewed and approved by the Board of Directors annually.

Currency Risk

Financial Guaranty is exposed to currency risk based on adverse movements in the exchange rate between GBP and certain other currencies. Financial Guaranty's investment assets are denominated in GBP. About 3% of Financial Guaranty's insured exposure (by principal outstanding) is under financial guarantees denominated in EUR. Financial Guaranty is exposed to currency risk in the event and to the extent Financial Guaranty should incur any claims under such financial guarantees. In the event that Financial Guaranty ever determines to record a provision for non-GBP claims, Financial Guaranty would consider mitigating its currency risk through hedging transactions.

In addition, certain remaining instalment premiums or other amounts receivable by Financial Guaranty are denominated in EUR and expenses related to services provided GoldenTree and Midwest and certain other vendors are denominated in USD, which exposes Financial Guaranty to currency risk (which USD risk is materially hedged with USD investments).

Inflation Risk

Financial Guaranty is exposed to inflation risk under financial guarantees covering inflation index-linked obligations. As of 31 December 2020, Financial Guaranty insured inflation index-linked obligations with an aggregate outstanding principal amount of £1,184,593. The insured principal amount of these obligations will increase if the applicable retail price index increases. Any remaining instalment premiums on the financial guarantees covering these inflation index-linked obligations will generally be calculated by reference to the outstanding principal amount of these obligations (as adjusted due to changes in the retail price index). Changes in gross par outstanding are reported to the Board on a quarterly basis. Ongoing surveillance of insured inflation index-linked obligations includes monitoring the underlying exposures and any changes in the related indices.

C.3 Credit Risk

Financial Guaranty is exposed to credit risk under its remaining financial guarantees, including with respect to the collection of the remaining instalment premiums owed to it (discussed above in section C.1), and in connection with the investments held in its investment portfolio (discussed above under Spread Risk in section C.2).

The only other counterparty credit risk to which Financial Guaranty is exposed is the risk relating to cash on deposit at banks, which totaled £10,260 at 31 December 2020. This risk is shown as Counterparty Risk in the second table in section E.2, and it is not material to Financial Guaranty.

C.4 Liquidity Risk

Financial Guaranty manages its liquidity risk by holding cash on deposit at banks and short-term money market fund investments in excess of the aggregate amount of all known financial liabilities coming due within the next twelve months. Financial Guaranty had cash on deposit at banks and short-term money market fund investments totaling £43,227 at 31 December 2020. Financial Guaranty had no debt obligations at 31 December 2020 (2019: no debt obligations).

For Financial Guaranty, liquidity risk relates primarily to how quickly and easily Financial Guaranty will be able to convert its bonds and other investment securities to cash to pay any unanticipated financial liabilities, including unanticipated claims under financial guarantees, as they come due, in the event any such liabilities or claims arise in the future. Financial Guaranty manages its liquidity risk by categorizing

investments by liquidity levels and monitoring those levels, and also holding a large portion of the assets in cash and short-term money market funds. Financial Guaranty considers its liquidity risk to be low.

C.5 Operational Risk

The Company faces operational risk associated with its business, including risks related to accounting, financial, tax and regulatory reporting, information technology and cybersecurity, and legal and regulatory matters. Operational risk includes the risk that the service providers with whom the Company has contracted fail to perform their respective services in accordance with applicable contracts with the Company. Operational risk includes reputational risk and regulatory risk.

Financial Guaranty does not employ any staff. Instead, it has contracted with GoldenTree and Midwest, as an outsourced service providers, to provide it most management and administrative services. This is a way for Financial Guaranty to benefit and provide a cost-effective access to experienced personnel resources. Financial Guaranty also has contracted to receive certain services from third party providers, including investment accounting, and certain accounting, financial and regulatory reporting, tax, actuarial, and corporate secretarial services. To manage this risk, Financial Guaranty has implemented policies and procedures to monitor and review the outsourced services and the performance and capabilities of its outsourced service providers on a regular basis.

Operational risk is further mitigated by policies, procedures and controls implemented by Financial Guaranty, including those relating to compliance, business continuity, and corporate governance which are monitored by the Chief Compliance Officer SMF 16.

Financial Guaranty was not named as a defendant in any litigation or regulatory enforcement proceeding as of 31 December 2020. Reputational risk is minimal for Financial Guaranty as it only conducts the run-off of its business. Financial Guaranty is not writing, nor does it intend to seek to write, any new insurance business.

Regulatory risk represents the potential for losses or other consequences relating to action or inaction by Financial Guaranty, which could potentially result in the taking of regulatory action or the imposition of fines by either the PRA or the FCA. Financial Guaranty mitigates this risk by developing, implementing and enforcing policies and procedures to ensure awareness of and compliance with regulatory obligations.

The CEO is responsible for apportionment and oversight, and roles and responsibilities are defined in Financial Guaranty's governance map and statement of responsibilities (for those holding senior insurance manager roles). Job descriptions are maintained for all such senior insurance manager roles. The CEO reports to the Board on any material operational risks at each Board meeting and has regular telephonic meetings with the PRA.

All material correspondence and interactions with the PRA are covered at each quarterly Board meeting and remedial steps are taken, if required. Minutes of all Board meetings are recorded. The Risk Map is reviewed by the Board at least annually. Compliance with regulatory capital requirements is reported in the quarterly management accounts and reviewed by the Board on a quarterly basis. Financial Guaranty engages Mazars and to advise on regulatory matters as appropriate.

At 31 December 2020, Financial Guaranty is compliant with the MCR but not compliant with the SCR. To date, the PRA has shown forbearance with respect to this non-compliance, but there can be no assurance that it will continue to do so. If the PRA were to discontinue this forbearance, it could materially adversely affect the Company's ability to continue its business.

C.6 Other Material Risks

The events and circumstances discussed below could impact the Company's risk profile, including the risks discussed above in this section C.

C.6.1 COVID-19

A coronavirus disease, COVID-19, began to spread globally in early 2020 and has been declared a pandemic by the World Health Organization. Its emergence and reactions to it have already had a profound effect on both the domestic and global economies and financial markets. The short- and long-term impacts of the COVID-19 pandemic, and the true extent of such impacts, are by their very nature uncertain and will be determined by many factors, including the effectiveness of government and other health measures to contain and prevent the spread of the virus and the effectiveness of economic stimulus, emergency relief, and other government programs, initiatives and actions implemented or taken to mitigate the economic, financial and other disruptions caused by the COVID-19 pandemic.

At this time, however, there remains considerable uncertainty as to how long the COVID-19 pandemic will last and as to the extent and duration of the economic, financial and other disruptions caused by the pandemic. Consequently, there remains considerable uncertainty relating to precisely how the COVID-19 pandemic will impact the insurance, market, credit, liquidity and operational risks to which the Company is exposed, including risks relating to the Company's remaining financial guarantees, and whether or to what extent any such impact will be temporary or lasting.

The Company is working with GoldenTree and Midwest and its other important service providers to ensure continuity of services during the COVID-19 pandemic, and, to date, the Company's business operations have not been disrupted nor adversely impacted in any material respect. To augment the Company's regular surveillance process for its insured portfolio (discussed above in section C.1), the Company conducted an full assessment of, and has continually been monitoring, the impact that the COVID-19 pandemic may have on the obligations insured by each of its remaining financial guarantees, based on the relevant characteristics of the particular insured obligation and the related issuer and sector. Management has identified one credit that is being negatively affected by the lockdowns imposed as a result of COVID, but does not expect that to be lasting or impair the performance of the issuer. Based on the information available to, and related estimates, assumptions and judgements by, management to date, the Company does not expect the issuer of any obligations insured under any of the Company's remaining financial guarantees to fail to make the scheduled debt service payments on such insured obligations when due. To augment the Company's regular review process for its investment portfolio (discussed above in section C.2), the Company continuously monitors the impact that the COVID-19 pandemic may have on its investment portfolio.

C.6.2 Anticipated LIBOR Cessation

The anticipated cessation of the London Interbank Offered Rate ("LIBOR") at the end of 2021 and/or June 2023 could impact the financial markets and certain market participants. None of the Company's remaining financial guarantees covers LIBOR-based obligations. As of 31 December 2020, there were no LIBOR-based obligations in the Financial Guaranty portfolio. The Company, therefore, believes that it has no meaningful exposure to risks associated with the anticipated cessation of LIBOR at the end of 2021 or June 2023, as the case may be.

C.6.3 Climate Change

The financial risks from climate change could impact the Company's risk profile, including the insurance and market risks to which it is exposed.

C.7 Any Other Information

C.7.1 Stress Tests

The Company conducts stress and scenario testing and reverse stress testing as part of its ORSA process. Stress and scenario testing are designed to provide quantitative and qualitative insight with respect to the impact that plausible, adverse stress scenarios could have on the Company's capital position. Reverse stress testing is designed to identify plausible, but severe stress scenarios that could threaten the Company's continued business viability. Results of this testing are included in the Company's ORSA Report that is presented to and approved by the Company's Board.

D. Valuation for Solvency Purposes

D.1 Assets

The following table provides a comparison of the valuation of assets in Financial Guaranty's UK GAAP financial statements as of 31 December 2020 (the "Statutory Accounts") compared to the valuation of assets for Solvency II purposes shown on the Solvency II Balance Sheet as of 31 December 2020 (the "Solvency II Balance Sheet").

As at 31 December 2020	Statutory Accounts Valuation £'000	Solvency II Valuation Adjustment £'000	Solvency II Balance Sheet Valuation £'000
Deferred acquisition costs	3,389	(3,389)	-
Investments	78,557	323	78,880
Derivatives	-	13,465	13,465
Insurance and intermediaries receivables	48,717	(48,717)	-
Cash at bank and in hand	10,260	-	10,260
Other assets	851	(323)	528
Total Assets	141,774	(38,641)	103,133

As at 31 December 2019	Statutory Accounts Valuation £'000	Solvency II Valuation Adjustment £'000	Solvency II Balance Sheet Valuation £'000
Deferred acquisition costs	3,642	(3,642)	-
Investments	82,440	666	83,106
Insurance and intermediaries receivables	53,967	(53,967)	-
Cash at bank and in hand	2,104	-	2,104
Other assets	775	(666)	109
Total Assets	142,928	(57,609)	85,319

An explanation of the adjustments made to arrive at the Solvency II Balance Sheet valuation is provided in the paragraphs below.

Deferred acquisition costs

On a Statutory Accounts basis deferred acquisition costs comprise costs associated with the conclusion of insurance contracts that were incurred in prior reporting periods during which the Company wrote business, which were deferred and not expensed during those periods, but are amortised over the period in which unearned premiums are earned.

Deferred acquisition costs are not an asset on the Solvency II Balance Sheet and, therefore, are fully eliminated.

Investments

Investments comprise equities, UK government bonds, other government-related obligations, corporate bonds, collateralised securities, short-term money market funds, holdings in related undertakings, derivatives and loans. For both the Statutory Accounts and the Solvency II Balance Sheet all financial investments are valued at fair value. The investments in the portfolio are classified as Level I (5.2%), Level II (84.71%) and Level III (7.17%) and some using NAV as a fair value method (2.89%).

The fair value hierarchy is defined as below:

- Level I – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. The unadjusted quoted prices are generally received from widely recognized data providers.
- Level II – Quoted prices in active markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly. The valuations received for Level II investments are generally from external pricing vendors or multiple brokers.
- Level III – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. The inputs or methodology used for valuing securities are not necessarily an indication of the risks associated with investing in those securities. The valuations received for Level III investments are generally from a single broker or the Consultants. The types of investments which would generally be included in this category are private equity and/or debt instruments issued by private entities.

Some investments are classified as using alternative methods for valuation as explained in Section D.4

On a Statutory Accounts basis, accrued income of £323 related to investments is shown in other assets, but is included within investments on the Solvency II Balance Sheet.

The derivatives are included on a gross basis on the SII balance sheet whereas on a statutory accounts basis the net derivative position has been shown in liabilities.

Insurance and intermediaries receivables

On a Statutory Accounts basis, insurance and intermediaries receivables consists of all projected future instalment premiums and other receivables of the Company at the balance sheet, including any such amounts that were past due. There were no past due amounts at the balance sheet.

Insurance and intermediaries receivables are not an asset on the Solvency II Balance Sheet (except to the extent any were past due) as amounts receivable are included within the calculation of technical provisions. No amounts were past their due date.

Cash at bank and in hand

Cash at bank and in hand comprises cash on demand deposits with banks which are exchangeable for GBP currency on demand at par and which are directly usable without penalty or restriction.

Cash at bank and in hand is included within both the Statutory Accounts and the Solvency II Balance Sheet.

Other assets

On a Statutory Accounts basis, other assets comprise accrued investment income of £323, a tax receivable of £492 and a prepayment of £36.

Accrued investment income is not a separate asset on the SII Balance Sheet and is included within investments on the Solvency II Balance Sheet.

D.2 Technical Provisions

On a Statutory Accounts basis technical provisions for Financial Guaranty comprise the provision for unearned premiums, since Financial Guaranty has not determined it necessary to establish a provision for claims. On the Solvency II Balance Sheet, technical provisions comprise the gross best estimate and a risk margin (each discussed below).

Technical provision calculation methodology under Solvency II

For the Company, the Solvency II technical provisions equal the sum of a gross best estimate and a risk margin valued in accordance with the Solvency II Directive.

Gross Best Estimate

The gross best estimate component of Solvency II technical provisions represents the present value of the Company's projected future cash outflows less the present value of the Company's projected future cash inflows, in each case determined in accordance with SII. For the Company, projected cash outflows include projected future expenses to run-off the Company's remaining financial guarantees and projected future claim payments under the Company's remaining financial guarantees, in each case determined for these purposes in accordance with SII. Even though the Company has not recorded a provision for claims in its Statutory Accounts (having not determined that the likelihood of loss under any financial guarantee is probable), the Gross Best Estimate includes a provision for projected claim payments under every remaining financial guarantee not just those where the likelihood of loss is probable (the "projected incremental SII losses"). To determine the projected incremental SII losses the Company relies on Management's judgement as well as external sources to determine the appropriate probability of default and loss severities to apply to its insured portfolio. For the Company, projected cash inflows include all projected future instalment premiums and other insurance-related amounts payable to the Company. The Company's projected cash inflows exceed its projected cash outflows and therefore the gross best estimate component of Solvency II technical provisions is negative.

Risk Margin

For Solvency II, the risk margin is intended to represent an estimate of the amount that a third party insurer would expect to receive in addition to the gross best estimate to assume liability for the Company's remaining financial guarantees. The Company uses a cost-of-capital approach to determine the risk margin, including an assumption that the Company's remaining insurance obligations run off on a linear basis over time to their respective scheduled maturity dates for purposes of calculating the SCR for each future year to which the assumed cost of capital is applied. The Company's insured portfolio has a much longer run-off period (over 30 years) than other insurers. The risk margin drives the Company's Solvency II technical provisions.

The technical provisions at 31 December 2020 and 31 December 2019 on the Solvency II Balance Sheet are made up as follows:

	<u>2020</u> £'000	<u>2019</u> £'000
Gross Best Estimate Liabilities	(5,798)	(13,696)
Risk Margin	61,251	59,625
Technical provisions	<u>55,453</u>	<u>45,929</u>

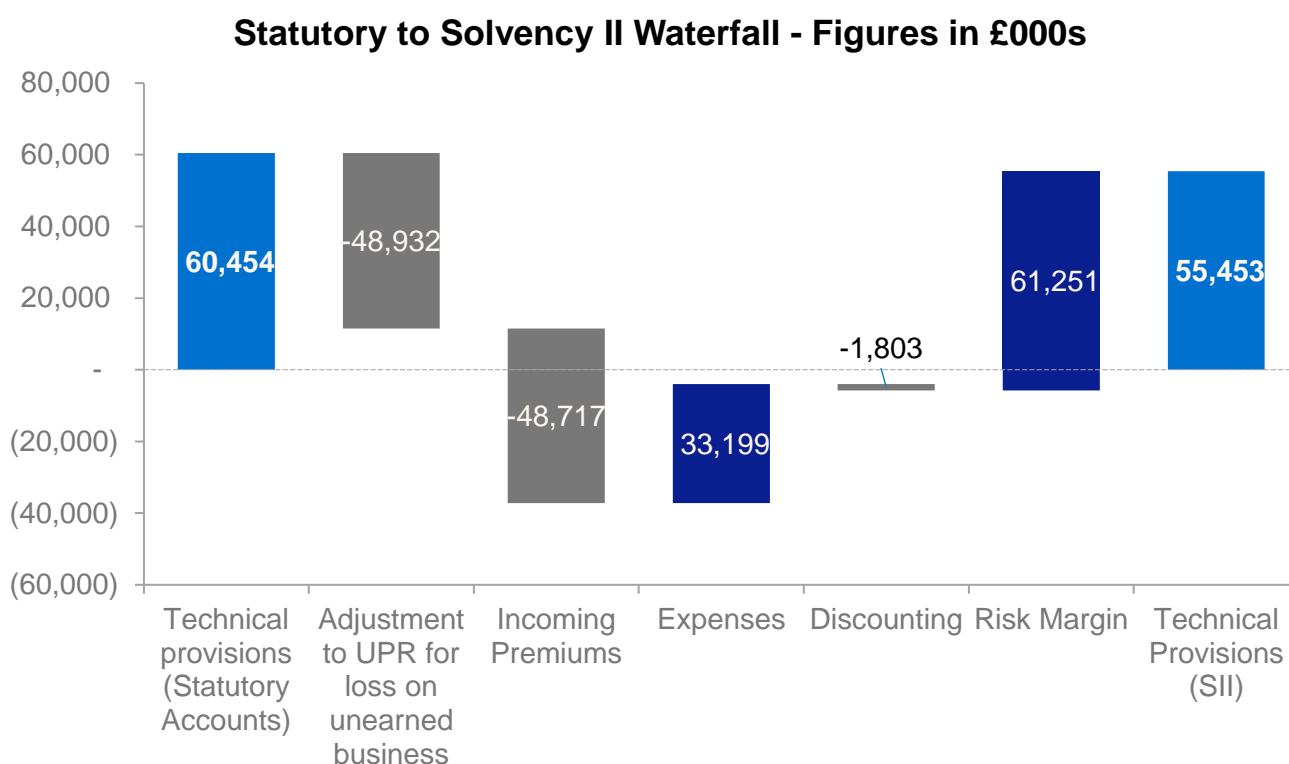
All figures relate to the Credit and Suretyship insurance line of business. As noted earlier there is no reinsurance cover in place for the Company.

Solvency II and Statutory Accounts valuation differences- technical provisions

The table below shows a reconciliation of the Statutory Accounts valuation of technical provisions to the Solvency II Balance Sheet valuation of technical provisions at 31 December 2020 and 31 December 2019.

	<u>2020</u>	<u>2019</u>
	<u>£'000</u>	<u>£'000</u>
Technical provisions - Statutory Accounts valuation	60,454	64,844
Adjustments for Solvency II	(66,252)	(78,540)
Gross Best Estimate Liabilities	(5,798)	(13,696)
Risk Margin	61,251	59,625
Technical provisions – Solvency II valuation	55,453	45,929

The Solvency II adjustments are further detailed in the waterfall diagram below:



The material differences between the Statutory Accounts valuation of technical provisions and the Solvency II Balance Sheet valuation of technical provision are summarized below:

- The Statutory Accounts provision for unearned premiums is eliminated because an unearned premium reserve is not included in the calculation of the Solvency II technical provisions;
- The total discounted amount of the projected incremental SII losses is included in the calculation of the Solvency II technical provisions;
- The total discounted amount of future instalment premiums expected to be received is included in the calculation of the Solvency II technical provisions as a contra amount;

- The total discounted amount of all projected future run-off expenses is included in the calculation of the Solvency II technical provisions; and
- The risk margin is included in the calculation of the Solvency II technical provisions.

The Company does not have any approvals in place in relation to any Solvency II transitional measures.

Uncertainty

Uncertainty associated with the valuation of technical provisions primarily arises from how future actual experience will differ from the best estimate assumptions used to calculate technical provisions. Future experience may differ materially from the Company's projected technical provisions. The key assumptions driving technical provisions are estimates of future premiums, claims, inflation rates and expenses. Future premiums are based on the premium rate applicable to each financial guarantee and the estimated future par outstanding on Financial Guaranty's existing exposure. Future expenses reflect costs associated with outsourced service providers, including Financial Guaranty. Expense projections reflect the projected run-off of the insured portfolio, partially offset by future inflation. The Company's projection of claim payments utilises probability of default and loss severities which are higher than that experienced by Financial Guaranty historically.

D.3 Other Liabilities

The table below presents a valuation of the other liabilities in the Statutory Accounts and Solvency II Balance Sheets; no Solvency II valuation adjustments were required.

	Statutory Accounts Valuation £'000	Solvency II Valuation Adjustment £'000	Solvency II Balance Sheet Valuation £'000
As at 31 December 2020			£'000
Derivatives	143	13,465	13,608
Payables (trade, not insurance)	828	-	828
Accruals and deferred income	1,640	-	1,640
Total Other Liabilities	2,611	13,465	16,076

	Statutory Accounts Valuation £'000	Solvency II Valuation Adjustment £'000	Solvency II Balance Sheet Valuation £'000
As at 31 December 2019			£'000
Payables (trade, not insurance)	800	-	800
Accruals and deferred income	189	-	189
Total Other Liabilities	989	-	989

Accruals and deferred income are classified under 'any other liabilities, not elsewhere shown' on the Solvency II Balance Sheet.

The derivatives are included on a gross basis on the SII balance sheet whereas on a statutory accounts basis the net derivative position has been shown in liabilities.

D.4 Alternative Methods for Valuation

Alternative methods for valuation are used for two investments in the portfolio. The investments are classified as Level III of the fair value hierarchy. This is a financial statement classification. In the absence of consistently available market price quotations that reflect observable market inputs, investments are generally classified as Level III. The Company uses a variety of valuation techniques in the fair value process including, but not limited to, recent market transactions, single market quotations, discounted cash flow models, market approaches and option value models. The Company may use one or a combination of these valuation techniques in determining the fair value of a Level III investment.

The inputs used in these valuation techniques are generally unobservable and significant to the fair value. In a discounted cash flow model, the inputs include, but are not limited to, the expected timing and level of future cash flows, yields, credit quality, coupon rate, maturity, credit risk assessments and recovery assumptions. For certain debt of collateralized loan obligations and private equity, additional inputs into the discounted cash flow model include, but are not limited to, the discount rate and the cumulative loss rate. In a market approach, the inputs include, but are not limited to, additional rounds of equity financing, comparable trading or transaction multiples, financial metrics such as revenues, earnings before interest, taxes, depreciation and amortization (“EBITDA”) and balance sheet ratios. In an option value model, the inputs include but are not limited to the volatility, the time to expiration, the risk free rate and the marketability discount.

D.5 Any Other Information

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

E. Capital Management

E.1 Own Funds Objective, policies and processes of managing Own Funds

Financial Guaranty is no longer engaged in the business of writing new financial guarantees and its principal business activity continues to be the run-off of its outstanding guarantees. Financial Guaranty has no access to new funds and is unable to pay dividends without the prior approval of the PRA. The Company's investment portfolio is managed by GoldenTree pursuant to the Guidelines (see Section C.2 for further details).

An analysis of Own Funds is shown below:

	Tier	<u>2020</u> £'000	<u>2019</u> £'000
Ordinary share capital	1	175	175
Share premium account	1	17,272	17,272
Reconciliation reserve	1	14,158	20,954
Total Own Funds		<u>31,605</u>	<u>38,401</u>

Reconciliation of the movement in the reconciliation reserve:

	<u>2020</u> £'000	<u>2019</u> £'000
Opening reconciliation reserve	20,954	17,102
Profit	1,616	4,338
Asset valuation	2,734	1,252
Change in TP and risk margin	(9,524)	(2,188)
Change in other liabilities	(1,622)	450
Reconciliation reserve	<u>14,158</u>	<u>20,954</u>

The reconciliation reserve represents retained earnings and reconciliation adjustments from the Statutory Accounts balance sheet to the SII Balance Sheet. The volatility in the valuation of assets and liabilities is dependent on various factors discussed in the stress testing section (C.7).

As at 31 December 2020	Statutory Accounts Valuation £'000	Solvency II Valuation Adjustment £'000	Solvency II Valuation £'000
Assets	141,775		
Exclusion of DAC		(3,389)	
Exclusion of deferred tax asset		-	
Exclusion of insurance receivables		(48,717)	
Gross up of derivatives		13,465	
Total Assets	141,775	(38,641)	103,134
Liabilities			
Technical Provisions	60,454	(5,001)	55,453
Other Liabilities	2,611	-	2,611
Gross up of derivatives		13,465	13,465
Total Liabilities	63,065	8,464	71,529
Total Own Funds	78,710	(47,105)	31,605
As at 31 December 2019	Statutory Accounts Valuation £'000	Solvency II Valuation Adjustment £'000	Solvency II Valuation £'000
Assets	142,928		
Exclusion of DAC		(3,642)	
Exclusion of insurance receivables		(53,967)	
Total Assets	142,928	(57,609)	85,319
Liabilities			
Technical Provisions	64,844	(18,915)	45,929
Other Liabilities	989	-	989
Total Liabilities	65,833	(18,915)	46,918
Total Own Funds	77,095	(38,694)	38,401

The ordinary share capital and share premium account are not subordinated and have no restricted duration and are therefore classified as Tier 1 capital for Solvency II purposes. There are no foreseeable dividends nor own shares held and therefore no deductions have been made to Own Funds for these items.

The Company has no Tier 1 restricted Own Funds (per Article 80 of the Delegated Regulations), no Tier 2 Own Funds (per Article 72 of the Delegated Regulations) and no Tier 3 Own Funds (per Article 76 of the Delegated Regulations).

The Company's Own Funds are all unrestricted Tier 1 and may be used towards meeting the SCR and MCR.

The Statutory Accounts Own Funds of Financial Guaranty at 31 December 2020 were £78,710 (2019: £77,095), compared to Solvency II Own Funds of £31,605 (2019: £38,401). The difference primarily arises due to the difference in valuation of technical provisions as well as the adjustments made in respect of deferred acquisition costs, and insurance receivables discussed in Section D.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

The SCR and MCR of the Company at 31 December 2020 and 2019 are as follows:

	<u>2020</u> £'000	<u>2019</u> £'000
SCR	108,024	96,215
MCR	27,006	24,054

The SCR is calculated using the Standard Formula. The final amount of the SCR is subject to supervisory assessment. The ratio of the Company's Own Funds to SCR is 29.2% (2019: 39.9%).

The SCR of the Company is made up of the risk modules as follows:

	<u>2020</u> £'000	<u>2019</u> £'000
SCR Interest Rate	240	3,969
SCR Spread	16,816	3,445
SCR Currency Risk	10,249	6,502
SCR Equity	1,447	-
SCR Concentration	2,380	-
Sub total	31,132	13,916
Less Diversification	(8,081)	(4,221)
Market Risk	23,051	9,695
Counterparty Risk	1,100	28
Underwriting Risk	32,929	20,825
Catastrophe (Cat) Risk	85,746	85,8041
Sub total	118,676	106,626
Less Diversification	(19,436)	(13,412)
Non-life underwriting risk	99,240	93,215
Total	123,391	102,938
Less Diversification	(15,471)	(6,826)
BSCR	107,920	96,112
Operational Risk	104	103
SCR	108,024	96,215

Simplified calculations are not used for any of the risk modules or sub-modules in applying the Solvency II standard formula.

Undertaking specific measures have not been used by the Company and the Company does not have a capital add on.

The inputs to calculate the MCR are as follows:

	2020	2019
	£'000	£'000
AMCR (3,700 in Euros)	3,338	3,187
Linear MCR	-	26
SCR	108,024	96,215
Combined MCR	27,006	24,054
MCR	27,006	24,054

The Absolute Minimum Capital Requirement (“AMCR”) of 3,700 EUR is the absolute floor for the MCR which is provided in the technical specifications.

The linear MCR is calculated based on the best estimate technical provisions and the net written premiums of the last 12 months. The combined MCR is the linear MCR subject to a floor of 25% of the SCR and a cap of 45% of the SCR.

The overall MCR is the greater of the combined MCR and the AMCR.

The SCR has been updated to reflect changes to the Solvency II regulations which increase the premium risk charge under the standard formula. A more detailed allocation of expenses to currency has also been undertaken to improve the accuracy of the currency risk charge calculation.

Other aspects of the calculation of SCR and MCR remain unchanged but the calculations have been updated to include the latest data in accordance with Solvency II rules. The most notable changes in the data used in the calculation are the changes in investment profile and discount rates (which are prescribed).

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

This is not applicable to the Company as the PRA has not implemented the member State option set out in Article 304 to use this module in the standard formula.

E.4 Differences between the standard formula and any internal model used

This section is not applicable to the Company as it does not have a PRA approved internal model.

E.5 Non-compliance with the Solvency Capital Requirement and Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

Under Solvency II, Financial Guaranty’s Own Funds at 31 December 2020 are £31.6m (2019: £38.4m). Based on the standard formula, Financial Guaranty’s MCR is £27.0m (2019: £24.1m) and its SCR is £108.0m (2019: £96.2m). Financial Guaranty therefore has a capital surplus of £4.6m (2019: £14.3m) against the MCR and a capital deficit of £76.4m (2019: £57.8m) against the SCR at 31 December 2020.

As of 31 December 2020, Financial Guaranty is compliant with the MCR but not compliant with the SCR. The primary factors driving non-compliance with the SCR are highlighted below:

- Financial Guaranty has included a substantial risk margin in its estimated Solvency II Balance Sheet at 31 December 2020. The risk margin is intended to be the premium that another insurer taking on the liabilities at the valuation date would require over and above the best estimate of technical provisions. It is calculated using a cost-of-capital approach. Since Financial Guaranty’s insured

portfolio has a very long duration (over 30 years), the risk margin is a material consideration for Financial Guaranty.

- Financial Guaranty's SCR includes an amount for catastrophe risk based on its two largest exposures. Since Financial Guaranty's top two exposures represent about 42% (2019: 40%) by Gross Par in Force of Financial Guaranty's outstanding insured exposures at 31 December 2020, the catastrophe risk element is a material consideration for Financial Guaranty. Approximately 79% (2019: 89%) of the SCR at 31 December 2020 relates to catastrophe risk before the impact of diversification.

Financial Guaranty has notified the PRA about the non-compliance with the SCR and about not having access to incremental capital to remediate this non-compliance.

Financial Guaranty has already ceased, and has no plans to recommence, writing new business. Financial Guaranty's overriding business strategy is to run off its remaining insured portfolio in an orderly and efficient manner.

As a potential means to reduce the capital deficit against the SCR, Financial Guaranty explores ways to reduce its insured exposure through commutations and other methods on appropriate economic and other terms. The ability to meaningfully reduce insured exposure may not be available to Financial Guaranty on terms that would improve the SCR and MCR ratios or for other reasons beyond the control of Financial Guaranty, and such opportunities may be limited, given the nature of Financial Guaranty's insured portfolio.

E.6 Any Other Information

There is no further information to disclose in relation to the Company's capital management.



Appendix

Annual Quantitative Reporting Templates (QRTs)

FINANCIAL GUARANTY UK LIMITED

Solvency and Financial Condition Report

Disclosures

31 December

2020

(Monetary amounts in GBP thousands)

General information

Undertaking name	FINANCIAL GUARANTY UK LIMITED
Undertaking identification code	213800ZVWZNGTY15PP67
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2020
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

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

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Assets		
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	89,188
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	1,335
R0100	<i>Equities</i>	2,326
R0110	<i>Equities - listed</i>	2,326
R0120	<i>Equities - unlisted</i>	
R0130	<i>Bonds</i>	39,095
R0140	<i>Government Bonds</i>	15,862
R0150	<i>Corporate Bonds</i>	5,738
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	17,495
R0180	<i>Collective Investments Undertakings</i>	32,966
R0190	<i>Derivatives</i>	13,465
R0200	<i>Deposits other than cash equivalents</i>	0
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	3,158
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	3,158
R0270	Reinsurance recoverables from:	0
R0280	<i>Non-life and health similar to non-life</i>	0
R0290	<i>Non-life excluding health</i>	0
R0300	<i>Health similar to non-life</i>	0
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	
R0330	<i>Life excluding health and index-linked and unit-linked</i>	
R0340	<i>Life index-linked and unit-linked</i>	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	10,260
R0420	Any other assets, not elsewhere shown	528
R0500	Total assets	103,134

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Liabilities		
R0510	Technical provisions - non-life	55,453
R0520	<i>Technical provisions - non-life (excluding health)</i>	55,453
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	-5,798
R0550	<i>Risk margin</i>	61,251
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	0
R0590	<i>Risk margin</i>	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	
R0630	<i>Best Estimate</i>	
R0640	<i>Risk margin</i>	
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	
R0670	<i>Best Estimate</i>	
R0680	<i>Risk margin</i>	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	
R0710	<i>Best Estimate</i>	
R0720	<i>Risk margin</i>	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	13,608
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	828
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	1,640
R0900	Total liabilities	71,528
R1000	Excess of assets over liabilities	31,605

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020

Accident year / underwriting year

Gross Claims Paid (non-cumulative)													
(absolute amount)													
Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Development year										In Current year	Sum of years (cumulative)	
	0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior										0	0	0
R0160	2011	0	0	0	0	0	0	0	0	0	0	0	0
R0170	2012	0	0	0	0	0	0	0	0	0		0	0
R0180	2013	0	0	0	0	0	0	0				0	0
R0190	2014	0	0	0	0	0	0					0	0
R0200	2015	0	0	0	0	0						0	0
R0210	2016	0	0	0	0							0	0
R0220	2017	0	0	0								0	0
R0230	2018	0	0									0	0
R0240	2019	0	0									0	0
R0250	2020	0										0	0
R0260												Total	0

Gross Undiscounted Best Estimate Claims Provisions													
(absolute amount)													
Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360	
	Development year										Year end (discounted data)		
	0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior										0	0	
R0160	2011	0	0	0	0	0	0	0	0	0	0	0	
R0170	2012	0	0	0	0	0	0	0	0			0	
R0180	2013	0	0	0	0	0	0	0				0	
R0190	2014	0	0	0	0	0	0					0	
R0200	2015	0	0	0	0	0						0	
R0210	2016	0	0	0	0							0	
R0220	2017	0	0	0								0	
R0230	2018	0	0									0	
R0240	2019	0	0									0	
R0250	2020	0										0	
R0260												Total	0

S.23.01.01

Own Funds

Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35

R0010	Ordinary share capital (gross of own shares)
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	An amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds
R0230	Deductions for participations in financial and credit institutions
R0290	Total basic own funds after deductions

Ancillary own funds

R0300	Unpaid and uncalled ordinary share capital callable on demand
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand
R0320	Unpaid and uncalled preference shares callable on demand
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC
R0390	Other ancillary own funds
R0400	Total ancillary own funds

Available and eligible own funds

R0500	Total available own funds to meet the SCR
R0510	Total available own funds to meet the MCR
R0540	Total eligible own funds to meet the SCR
R0550	Total eligible own funds to meet the MCR

R0580	SCR
R0600	MCR
R0620	Ratio of Eligible own funds to SCR
R0640	Ratio of Eligible own funds to MCR

Reconciliation reserve

R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Foreseeable dividends, distributions and charges
R0730	Other basic own fund items
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
R0760	Reconciliation reserve

Expected profits

R0770	Expected profits included in future premiums (EPIFP) - Life business
R0780	Expected profits included in future premiums (EPIFP) - Non- life business
R0790	Total Expected profits included in future premiums (EPIFP)

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
175	175		0	
17,272	17,272		0	
0	0		0	
0		0	0	0
0	0			
0		0	0	0
0		0	0	0
0		0	0	0
14,158	14,158			
0		0	0	0
0				0
0	0	0	0	0
0				
0				
31,605	31,605	0	0	0

0				
0				
0				
0				
0				
0				
0				
0				
0				
0				
0				
0			0	0

31,605	31,605	0	0	0
31,605	31,605	0	0	
31,605	31,605	0	0	0
31,605	31,605	0	0	

108,024
27,006
29.26%
117.03%

C0060
31,605
0
17,447
0
14,158

5,798
5,798

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0090	C0120
R0010 Market risk	23,051		
R0020 Counterparty default risk	1,100		
R0030 Life underwriting risk	0		
R0040 Health underwriting risk	0		
R0050 Non-life underwriting risk	99,240		
R0060 Diversification	-15,471		
R0070 Intangible asset risk	0		
R0100 Basic Solvency Capital Requirement	107,920		
Calculation of Solvency Capital Requirement	C0100		
R0130 Operational risk	103		
R0140 Loss-absorbing capacity of technical provisions	0		
R0150 Loss-absorbing capacity of deferred taxes			
R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0		
R0200 Solvency Capital Requirement excluding capital add-on	108,024		
R0210 Capital add-ons already set	0		
R0220 Solvency capital requirement	108,024		
Other information on SCR			
R0400 Capital requirement for duration-based equity risk sub-module	0		
R0410 Total amount of Notional Solvency Capital Requirements for remaining part	0		
R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds	0		
R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0		
R0440 Diversification effects due to RFF nSCR aggregation for article 304	0		
Approach to tax rate	C0109		
R0590 Approach based on average tax rate	0		
Calculation of loss absorbing capacity of deferred taxes	LAC DT		
	C0130		
R0640 LAC DT			
R0650 LAC DT justified by reversion of deferred tax liabilities	0		
R0660 LAC DT justified by reference to probable future taxable economic profit	0		
R0670 LAC DT justified by carry back, current year	0		
R0680 LAC DT justified by carry back, future years	0		
R0690 Maximum LAC DT	0		

USP key

For life underwriting risk:

- 1 - Increase in the amount of annuity benefits
- 9 - None

For health underwriting risk:

- 1 - Increase in the amount of annuity benefits
- 2 - Standard deviation for NSLT health premium risk
- 3 - Standard deviation for NSLT health gross premium risk
- 4 - Adjustment factor for non-proportional reinsurance
- 5 - Standard deviation for NSLT health reserve risk
- 9 - None

For non-life underwriting risk:

- 4 - Adjustment factor for non-proportional reinsurance
- 6 - Standard deviation for non-life premium risk
- 7 - Standard deviation for non-life gross premium risk
- 8 - Standard deviation for non-life reserve risk
- 9 - None

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

C0010

R0010 MCR_{NL} Result

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
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C0020

C0030

R0020 Medical expense insurance and proportional reinsurance	0	
R0030 Income protection insurance and proportional reinsurance	0	
R0040 Workers' compensation insurance and proportional reinsurance	0	
R0050 Motor vehicle liability insurance and proportional reinsurance	0	
R0060 Other motor insurance and proportional reinsurance	0	
R0070 Marine, aviation and transport insurance and proportional reinsurance	0	
R0080 Fire and other damage to property insurance and proportional reinsurance	0	
R0090 General liability insurance and proportional reinsurance	0	
R0100 Credit and suretyship insurance and proportional reinsurance	0	0
R0110 Legal expenses insurance and proportional reinsurance	0	
R0120 Assistance and proportional reinsurance	0	
R0130 Miscellaneous financial loss insurance and proportional reinsurance	0	
R0140 Non-proportional health reinsurance	0	
R0150 Non-proportional casualty reinsurance	0	
R0160 Non-proportional marine, aviation and transport reinsurance	0	
R0170 Non-proportional property reinsurance	0	

Linear formula component for life insurance and reinsurance obligations

C0040

R0200 MCR_L Result

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
---	--

C0050

C0060

R0210 Obligations with profit participation - guaranteed benefits		
R0220 Obligations with profit participation - future discretionary benefits		
R0230 Index-linked and unit-linked insurance obligations		
R0240 Other life (re)insurance and health (re)insurance obligations		
R0250 Total capital at risk for all life (re)insurance obligations		

Overall MCR calculation

C0070

R0300 Linear MCR	0
R0310 SCR	108,024
R0320 MCR cap	48,611
R0330 MCR floor	27,006
R0340 Combined MCR	27,006
R0350 Absolute floor of the MCR	3,338
R0400 Minimum Capital Requirement	27,006