



Financial Guaranty UK Limited

Group Solvency and Financial Condition Report (SFCR)

31 December 2023

5 April 2024

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Summary

Amounts in £000's unless otherwise noted.

The Group Solvency and Financial Condition Report (“SFCR”) covers Chelsea Insurance Holdings LLC (“Chelsea Insurance Holdings” or the “Holding Company”), an Insurance Holding Company and Financial Guaranty UK Limited (“Financial Guaranty” or the “Company”), an Insurance Undertaking (together the “Group”).

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

The sole activity of Chelsea Insurance Holdings is its 82.5% holding in Financial Guaranty. Other than its investment in Financial Guaranty, Chelsea Insurance Holdings has no other assets, liabilities or activity. The Group is subject to group supervision by the Prudential Regulation Authority (“PRA”).

The Group has been granted a waiver (No. 00005614) by the PRA allowing it to produce a single report covering its SFCR at the level of the Group and at the level of Financial Guaranty at the same time.

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 was purchased by Chelsea Insurance Holdings and Chelsea Holdings Midwest LLC (“Chelsea Holdings Midwest”). 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”).

The sole activity of Chelsea Insurance Holdings is its holding in Financial Guaranty.

Financial Guaranty is no longer engaged in the business of writing new financial guarantees. Financial Guaranty’s principal business activity continues to be the run-off of its existing portfolio of financial guarantees in an orderly and efficient manner.

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.

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 2023 together with the Group’s share.

	Group Share		Company Share	
	Total Par in Force £'000	% of Total	Total Par in Force £'000	% of Total
Utility	515,014	40%	624,259	40%
PFI	780,873	60%	946,513	60%
Total	1,295,887	100%	1,570,772	100%

The Group reported a profit of £4,710 for the year ended 31 December 2023 (2022: £2,545) 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 2023, and the Company has not recorded a provision for claims at 31 December 2023, nor to date, based on the information available to, and related estimates, assumptions and judgments by management.

The Investment Portfolio of Financial Guaranty as of 31 December 2023 was invested in short-term money market funds, bank debt term loans, UK government bonds and other government related obligations, common stock, corporate bonds, investment funds, collateralised securities, related undertakings, foreign government bonds and foreign currency forward contracts.

Chelsea Insurance Holdings holds no other investments other than its investment in Financial Guaranty.

System of governance

The body charged with governance within Chelsea Insurance Holdings is the managing member thereof.

As of 31 December 2023, Financial Guaranty's Board of Directors (the "Board") consisted of five directors (two of whom are senior officers of GoldenTree, one of whom is a senior officer of Midwest and two of whom are non-executive directors).

As of 31 December 2023, 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"), the Group's Own Funds at 31 December 2023 are £64.7m (2022: £53.7m) in the form of Tier 1 unrestricted capital. Based on the standard formula, the Group's Minimum Capital Requirement ("MCR") is £19.1m (2022: £18.7m) and its Solvency Capital Requirement ("SCR") is £76.3m (2022: £74.9m). The Group therefore has a capital surplus of £45.6m (2022: £35.0m) over the MCR and a capital deficit of £11.6m (2022: £21.2m) against the SCR at 31 December 2023. The ratio of Own Funds to SCR is 84.8% (2022: 71.7%).

The Company's Own Funds at 31 December 2023 are £78.4m (2022: £65.1m) in the form of Tier 1 unrestricted capital. Based on the standard formula, the Company's Minimum Capital Requirement ("MCR") is £23.1m (2022: £22.7m) and its Solvency Capital Requirement ("SCR") is £92.4m (2022: £90.7m). The Company therefore has a capital surplus of £55.3m (2022: £42.4m) over the MCR and a capital deficit of £14.0m (2022: £25.6m) against the SCR at 31 December 2023. The ratio of Own Funds to SCR is 84.8% (2022: 71.7%).

Section E provides further information on the Group and the Company's Own Funds, MCR and SCR.

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.

**Directors' Responsibility Statement in respect of the Solvency and Financial Condition Report
Financial Year Ended 31 December 2023**

Chelsea Insurance Holdings LLC

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

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

- a) throughout the financial year in question, the Group 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 Group's non-compliance with the SCR; and
- b) it is reasonable to believe that, at the date of publication of the SFCR, the Group has continued so to comply and will continue so to comply in the future except for the Group's continuing non-compliance with the SCR.

On behalf of the Board

Simon Granger
Director
5 April 2024



Financial Guaranty UK Limited

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:

- c) 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
- d) 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

Simon Granger
Director
5 April 2024



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
30 Old Bailey
London
EC4M 7AU

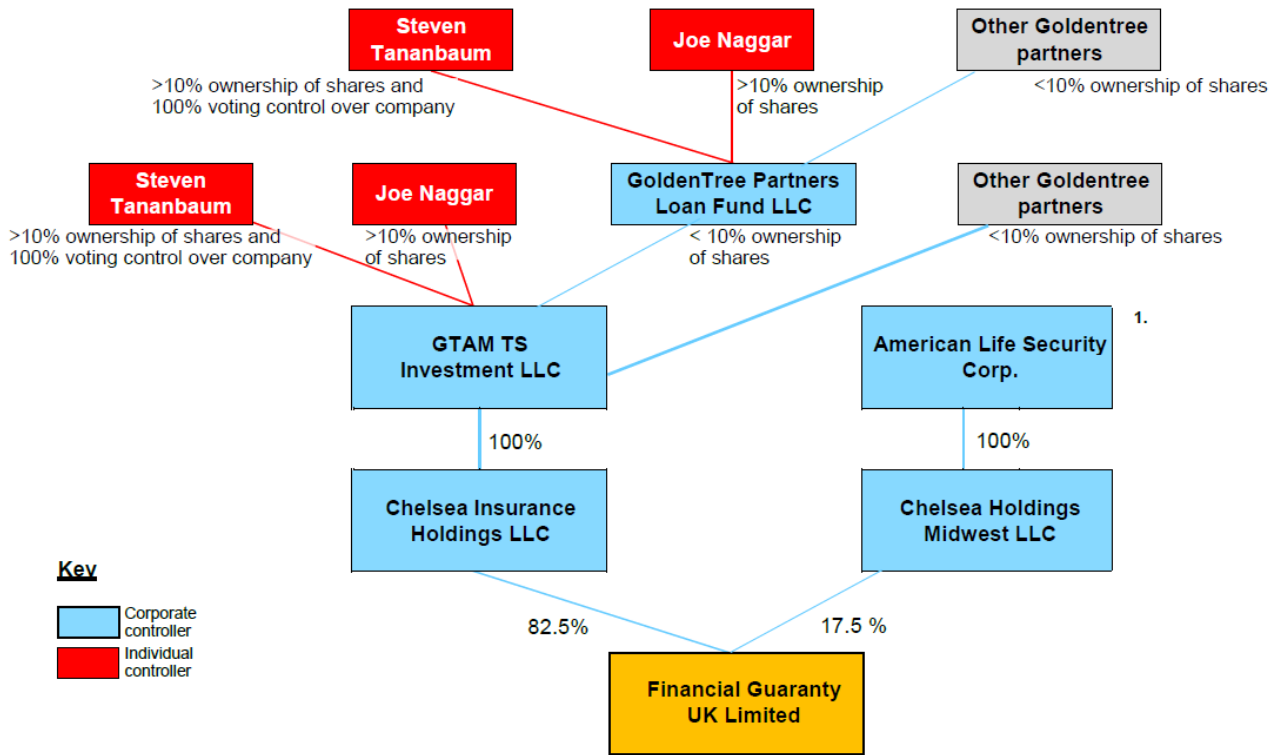
As depicted below in the corporate structure, Financial Guaranty is an insurance company subject to regulation by the Prudential Regulation Authority (“PRA”) and the Financial Conduct Authority (“FCA”). Financial Guaranty is now owned by Chelsea Insurance Holdings and Chelsea Holdings Midwest. Chelsea Insurance Holdings is indirectly controlled by a group of individual investors who are also partners of GoldenTree. Chelsea Insurance Midwest is directly owned by American Life and Security Corp. which is a wholly owned subsidiary of 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 2023.

STRUCTURE CHART



The supervisory authority of the Group and 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 Group's premiums, claims and expenses for the years ended 31 December 2023 and 2022 together with the Company's share. All amounts are in respect of the Solvency II Credit and Suretyship insurance line of business.

	Group Share		Company Share	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Gross premium written	925	2,823	1,121	3,422
Gross premium earned	3,440	2,638	4,170	3,197
Gross claims paid	-	-	-	-
Net operating expenses	(2,846)	(1,651)	(3,450)	(2,001)

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.

Financial Guaranty estimated future instalment 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 2023 relates 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 instalment premiums. Gross premiums earned in 2023 were £1.0m higher than 2022 primarily due to the partial termination (65%) of the outstanding policy for Severn Trent Water in comparison to a smaller commutation in the prior year.

The Company did not pay any claims during 2023, and the Company has not recorded a provision for claims at 31 December 2023, nor to date, based on the information available to, and related estimates, assumptions and judgments 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, any other person or entity, including, without limitation, Chelsea Insurance Holdings, Chelsea Holdings Midwest, GoldenTree or 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 2023 and 2022.

Gross premium written by geographical area for the	Group Share		Company Share	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
United Kingdom	925	2,823	1,121	3,422
Total	925	2,823	1,121	3,422

The par in force of the Group and Company's insured portfolio at 31 December 2023 and 2022 is set out below, by type of obligation. Increases associated with inflation index-linked insured obligations in the Utility sector and PFI sector were partially offset by decreases due to normal amortisation of the insured PFI obligations.

	Group Share		Company Share	
	31 December	31 December	31 December	31 December
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
PFI	780,873	753,433	946,513	913,252
Utility	515,014	580,664	624,259	703,835
Total	1,295,887	1,334,097	1,570,772	1,617,087

Net operating expenses for the year ended 31 December 2023 were £1.4m higher than 2022 primarily due to higher fees in the current year associated with the policy 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 2023, 15% of the investments were in UK government bonds and other government related obligations (2022: 16%), 5% in common stock (2022: 3%), 24% in corporate bonds (2022: 24%), 3% in investment funds (2022: 2%), 17% in collateralised securities (2022: 17%), 2% in holdings in related undertakings (2022: 2%), 16% in loans (2022: 17%) and 17% in derivatives (2022: 18%), which are foreign currency forward contracts used to reduce the investment portfolio's GBP currency risk.

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

Group Share	31 December		31 December	
	2023		2022	
	£'000	%	£'000	%
Holdings in related undertakings	1,805	2	1,697	2
Equities	4,717	5	2,727	3
UK government bonds	9,015	10	8,648	10
Other Government bonds	4,677	5	5,226	6
Corporate bonds	21,678	24	21,049	24
Collateralised securities	15,172	17	14,932	17
Collective investment schemes	3,141	3	1,375	2
Derivatives	15,552	17	15,794	18
Loans	14,526	16	15,353	17
Other investments	348	1	493	1
Total investments	90,630	100	87,294	100
Cash at bank and in hand	1,634		4,995	
Total investments and cash and cash equivalents	92,264		92,289	

Company Share	31 December		31 December	
	2023		2022	
	£'000	%	£'000	%
Holdings in related undertakings	2,188	2	2,057	2
Equities	5,718	5	3,305	3
UK government bonds	10,927	10	10,482	10
Other Government bonds	5,669	5	6,335	6
Corporate bonds	26,276	24	25,514	24
Collateralised securities	18,390	17	18,099	17
Collective investment schemes	3,807	3	1,667	2
Derivatives	18,851	17	19,144	18
Loans	17,607	16	18,610	17
Other investments	422	1	597	1
Total investments	109,855	100	105,810	100
Cash at bank and in hand	1,980		6,054	
Total investments and cash and cash equivalents	111,835		111,864	

The annualised book yield of the portfolio at year end 2023 was 5.6% (2022: 9%).

In 2023, Financial Guaranty recognised investment income of £5,034 (2022: £3,052), a realised gain of £614 (2022: realised gain of £5,361) and an unrealised gain of £1,513 (2022: an unrealised loss of £6,008). Investment management fees for 2023 were £668 (2022: £777).

There were no gains or losses recognised directly in equity.

A.4 Performance of other activities

There are no other material activities undertaken by the Group or 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 during April 2023, the Company signed an agreement with a counterparty in respect of a partial termination (65%) of the outstanding policy for Severn Trent Water which removed £115m of inflation-linked in-force guaranteed principal exposure. This transaction received a non-objection from the PRA.

System of Governance

B.1 General Information on the System of Governance

The body charged with governance within Chelsea Insurance Holdings is the managing member thereof.

As of 31 December 2023, Financial Guaranty's Board consists of five directors (two of which are senior executives of GoldenTree, one of which is a senior executive of Midwest and two of which 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.

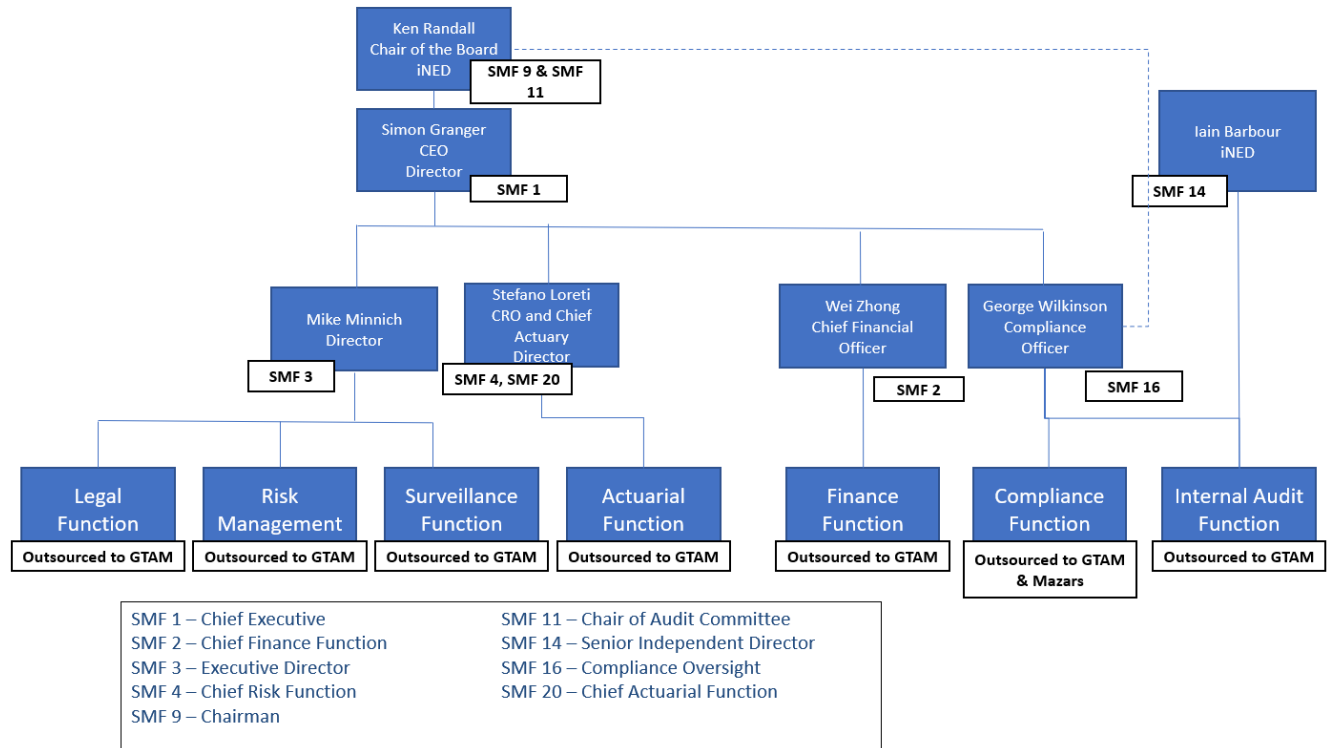
The Company has no direct employees (2022: Nil) hence there is no remuneration, fixed or variable. Instead, it has contracted with GoldenTree, as outsourced service provider, to provide it with most management and administrative services. An administration fee is charged to the Company by GoldenTree. 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, operational services and surveillance that was agreed upon in agreements between Financial Guaranty and GoldenTree. Relevant agreements were not objected to by the PRA. In 2023, the Company was charged £419 (2022: £563) for these services.

The non-executive directors are paid on a fixed salary basis directly by the Company. These payments amounted to £135 in 2023 (2022: £133) 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:

Governance Structure



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

Individual	SMF	Role Description
Simon Granger	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.
Wei Zhong	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)	
George Wilkinson	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.
Ian Barbour	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)	Simon Granger as CEO (SMF1)
Responsibility for the firm's performance of its obligations under the certification regime	B (dual)	Simon Granger as CEO (SMF1)
Responsibility for the firm's: (a) Conduct rules training; and (b) Conduct rules reporting.	B1 (FCA)	Simon Granger as CEO (SMF1)
Responsibility for compliance with the requirements of the regulatory system relating to the responsibilities map	C (dual)	Simon Granger 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)	Simon Granger 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)	Simon Granger as CEO (SMF1)
Responsibility for overseeing the adoption of the firm's culture in the day-to-day management of the firm	H (PRA)	Simon Granger 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)	Iain Barbour as Senior Independent Director (SMF14).
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)	Wei Zhong as acting CFO (SMF2)
Responsibility for the production and integrity of the firm's financial information and its regulatory reporting	Q (PRA)	Wei Zhong as acting CFO (SMF2)
Responsibility for the development and maintenance of the firm's business model by the governing body	T (PRA)	Simon Granger as CEO (SMF1)
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)	Wei Zhong as acting 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 SMF appointments 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 or FCA approval is required before the position is formalised.

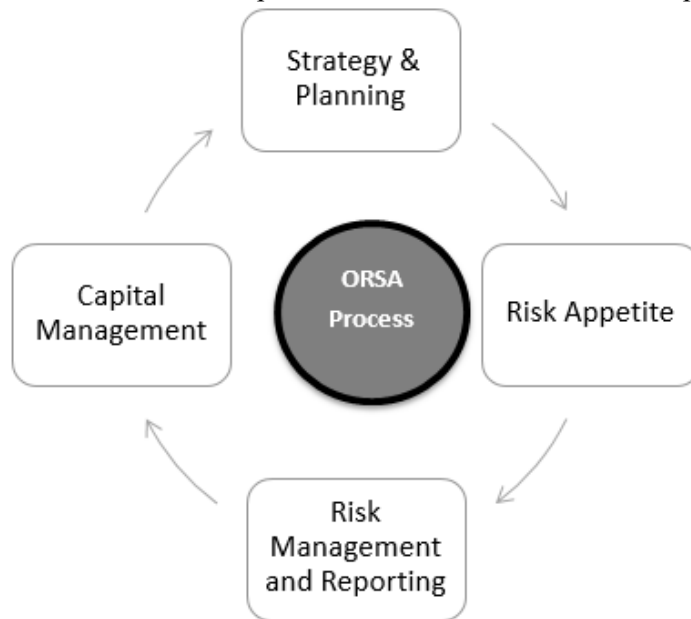
B.3 Risk Management System including the Own Risk and Solvency Assessment

The Group's Own Risk Solvency Assessment ("ORSA") follows the ORSA process carried out by Financial Guaranty as the Holding Company has no other assets, liabilities or activity other than its 82.5% holding in Financial Guaranty. The Group's risk assessment process relies Financial Guaranty's risk management framework as there are no other risks at Group level that require additional consideration.

The Group and 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 Company’s 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

The Company 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. The Group’s Solvency II capital position is calculated as 82.5% of the Company results.

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 the Group’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 Group and the Company’s 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. This process is also used for the purposes of the Group’s management of risk.

The Company conducts stress and scenario testing and reverse stress testing as part of its ORSA process. These scenarios are also utilised for the purpose of the Group as there were no additional factors at Chelsea Insurance Holdings level that required additional consideration.

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

Chelsea Insurance Holdings has no other activities apart from the holding of the investment in Financial Guaranty. All decisions regarding the management of Financial Guaranty are taken by the Financial Guaranty Board with no input from Chelsea Insurance Holdings.

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 the Group and Financial Guaranty rely upon are consistent with those used by its outsourced service providers, GoldenTree and Mazars. Financial Guaranty believes that it is most effective and efficient to use the specialist knowledge available within GoldenTree 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, GoldenTree and overseen by the Audit Committee and Financial Guaranty's CEO. In July 2023 the Board approved the Internal Audit Plan for the period ended 31 December 2024. Three reviews have been scheduled, and the first covering the Company's ORSA process and controls was completed in 2023.

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 as an outsourced service provider, 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 at 31 December 2023 are outlined below:

Outsourced Provider	Service Outsourced	Jurisdiction
GoldenTree	Accounting and Financial Reporting	US and UK
	Human Resources	
	Information Technology	
	Compliance	
	Portfolio Surveillance and Remediation	
	Actuarial Services	
	Investment Management Services	
	Internal Audit	
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

As mentioned herein, the operational services previously provided by Midwest were transitioned to GoldenTree on or about March 31, 2022. There are no other material matters to disclose in respect of the system of governance of the Company or the Group.

C. Risk Profile

This section discusses the material risks to which the Group and Financial Guaranty are exposed in executing Financial Guaranty's business strategy to run-off its remaining financial guarantees. No additional risks have been identified for the Group outside of those recorded for Financial Guaranty.

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 cancellable, 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 2023, 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 2023, and the Company has not recorded a provision for claims at 31 December 2023, nor to date, based on the information available to, and related estimates, assumptions and judgments 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 judgments 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 judgments 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 £46,533. 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 cancellable as a result of any failure to pay premium. The expected profit in future premiums (SII Gross Best Estimate) is £11,180 at 31 December 2023.

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 2023, 15% of the investments were in UK government bonds and other government related obligations (2022: 16%), 5% in common stock (2022: 3%), 24% in corporate bonds (2022: 24%), 3% in investment funds (2022: 2%), 17% in collateralised securities (2022: 17%), 2% in holdings in related undertakings (2022: 2%), 16% in loans (2022: 17%) and 17% in derivatives (2022: 18%), which are foreign currency forward contracts used to reduce the investment portfolio's GBP currency risk.

As of 31 December 2023, the investment portfolio had an overall average credit quality of BBB-, a book yield of about 5.6% per annum, and an effective duration of about 1.6 years.

Management has considered the investment strategy in its assessment of market risk, which 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 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 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

Financial Guaranty 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

Financial Guaranty 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. On 31 December 2023 Financial Guaranty's investment assets are denominated in GBP, USD and EUR. As of 31 December 2023, GBP and USD are unhedged, while EUR is appropriately hedged. As of 31 December 2023, Financial Guaranty's insured exposure (by principal outstanding) no longer has financial guarantees denominated in currencies other than GBP, therefore, Financial Guaranty is no longer exposed to currency risk in relation to its financial guarantees.

In addition, there are no remaining instalment premiums or other amounts receivable by Financial Guaranty denominated in EUR, however some expenses related to services provided by GoldenTree 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 2023, Financial Guaranty insured inflation index-linked obligations with an aggregate outstanding principal amount of £1 billion. 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 totalled £1,980 at 31 December 2023. 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 totalling £4,181 at 31 December 2023. Financial Guaranty had no debt obligations at 31 December 2023 (2022: 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.

FG UK manages its liquidity risk by maintaining a high quality, diversified portfolio of liquid investment securities, with a large portion of FG UK's investments comprising UK government bonds and other government-related obligations. FG UK considers its liquidity risk to be low.

C.5 Operational Risk

Financial Guaranty 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, as an outsourced service provider, 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 2023. 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. It also includes the risk of changes to regulation that have an adverse impact on Financial Guaranty. 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 to advise on regulatory matters as appropriate.

At 31 December 2023, both the Group and Financial Guaranty are 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 Group and the Company's risk profile, including the risks discussed above in this section C.

C.6.1 LIBOR Cessation

The cessation of the most widely used tenors the London Interbank Offered Rate ("LIBOR") occurred at the end of June 2023. None of the Company's remaining financial guarantees cover LIBOR-based obligations (except for two ancillary policies for change in law and liquidity that have no exposure). As of 30 June 2023, there were no positions in the FG UK investment portfolio that referenced a LIBOR-based rate that was discontinued as of such date. Accordingly, the Company had no meaningful exposure to risks associated with the cessation of LIBOR at the end of June 2023.

C.6.2 Climate Change

The Company has identified the emerging risk of climate change to its insured portfolio of utilities, and UK PFI credits. The Company is no longer writing new business and, accordingly, does not need to consider climate risk in the context of an underwriting process. Its existing insured credits will run off in future years and may be subject to both direct and indirect effects of climate change. The Company's risk management function has identified sectors of the insured portfolio that may have vulnerability to the impact of climate change and considers this within the internal rating assessment, frequency of review, and other risk management processes. The Company has concluded that climate change does not have a material impact on the recognition and measurement of the assets and liabilities in its financial statements as of 31 December 2023. This is because the Company has measured its financial assets and liabilities at fair value. The Company recognises that climate change risks are still developing and future valuations of assets may therefore differ as the market responds to these changing impacts or assesses the impact differently.

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. These scenarios are also utilized for the purpose of the Group as there are no additional factors at Chelsea Insurance Holdings level that require additional consideration. 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 Group'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 2023 (the "Statutory Accounts") compared to the valuation of assets for Solvency II purposes shown on the Solvency II Balance Sheet as of 31 December 2023 (the "Solvency II Balance Sheet") together with the Group share. The Holding Company had no other assets or liabilities other than its holding in the Company at 31 December 2023.

Group Share

As at 31 December 2023

	Statutory Accounts Valuation £'000	Solvency II Valuation Adjustment £'000	Solvency II Balance Sheet Valuation £'000
Deferred acquisition costs	2,181	(2,181)	-
Investments	74,338	740	75,078
Derivatives	-	15,552	15,552
Insurance and intermediaries receivables	38,390	(38,390)	-
Cash at bank and in hand	1,633	-	1,633
Other assets	4,482	(771)	3,711
Total Assets	121,024	-25,050	95,974

Group Share

As at 31 December 2022

	Statutory Accounts Valuation £'000	Solvency II Valuation Adjustment £'000	Solvency II Balance Sheet Valuation £'000
Deferred acquisition costs	2,322	(2,322)	-
Investments	70,906	593	71,499
Derivatives	34	15,670	15,794
Insurance and intermediaries receivables	39,669	(39,669)	-
Cash at bank and in hand	4,994	-	4,994
Other assets	1,499	(593)	906
Total Assets	119,424	(26,231)	93,193

Company Share

As at 31 December 2023

	Statutory Accounts Valuation £'000	Solvency II Valuation Adjustment £'000	Solvency II Balance Sheet Valuation £'000
Deferred acquisition costs	2,644	(2,644)	-
Investments	90,107	897	91,004
Derivatives	-	18,851	18,851
Insurance and intermediaries receivables	46,533	(46,533)	-
Cash at bank and in hand	1,980	-	1,980
Other assets	5,433	(934)	4,499
Total Assets	146,697	(30,363)	116,334

Company Share

As at 31 December 2022

	Statutory Accounts Valuation £'000	Solvency II Valuation Adjustment £'000	Solvency II Balance Sheet Valuation £'000
Deferred acquisition costs	2,815	(2,815)	-
Investments	85,947	719	86,666
Derivatives	41	19,103	19,144
Insurance and intermediaries receivables	48,084	(48,084)	-
Cash at bank and in hand	6,053	-	6,053
Other assets	1,817	(719)	1,098
Total Assets	144,757	(31,796)	112,961

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%), Level II (82%) and Level III (13%).

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 £934 related to investments and derivatives is shown in other assets, but is included within investments and derivatives 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 assets.

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 £934 and other debtors of £4,459.

Accrued investment income is not a separate asset on the SII Balance Sheet and is included within investments and derivatives 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 Financial Guaranty'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 using 7% probability of default survival function. For example, in the initial year the exposure is the PAR with no reduction. For each year thereafter, the exposure is decreased in line with “ $(100\% - 7\%)^{year}$ ” i.e., by 7% for the first SCR year and 13.51% in the second SCR year. The 7% survival function has been calculated from the SCR catastrophe default risk is calibrated to the 1/200 year level. This implies that the probability of default for each catastrophe risk exposure is c. 7% (as $7\%^2 = c. 0.5\%$ or the 1/200 year probability).

The aforementioned approach is used in 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 Group’s and the Company’s technical provisions at 31 December 2023 and 31 December 2022 on the Solvency II Balance Sheet are made up as follows:

	Group Share		Company Share	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
	£’000	£’000	£’000	£’000
Gross Best Estimate Liabilities	(9,223)	(11,821)	(11,180)	(14,328)
Risk Margin	20,021	30,157	24,268	36,544
Technical provisions	10,798	18,336	13,088	22,226

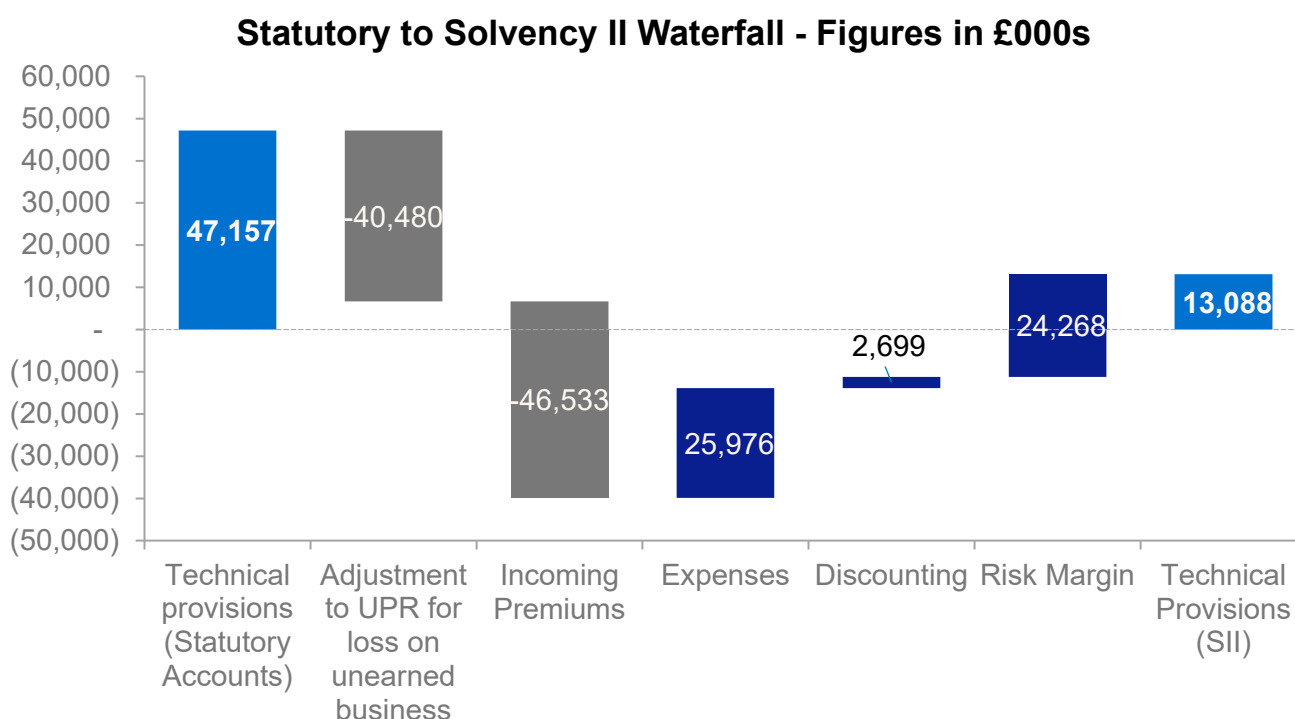
All figures relate to the Credit and Suretyship insurance line of business. As noted earlier there is no reinsurance cover in place for the Company.

Solvency II and Statutory Accounts valuation differences- technical provisions

The tables below show a reconciliation of the Statutory Accounts valuation of technical provisions to the Solvency II Balance Sheet valuation of technical provisions for the Group and Financial Guaranty at 31 December 2023 and 31 December 2022.

	Group Share		Company Share	
	<u>2023</u> £'000	<u>2022</u> £'000	<u>2023</u> £'000	<u>2022</u> £'000
Technical provisions - Statutory Accounts valuation	38,904	41,420	47,157	50,206
Adjustments for Solvency II	(48,128)	(53,241)	(58,337)	(64,534)
Gross Best Estimate Liabilities	(9,223)	(11,821)	(11,180)	(14,328)
Risk Margin	20,021	30,157	24,268	36,554
Technical provisions – Solvency II valuation	10,798	18,336	13,088	22,226

The Solvency II adjustments for the Company 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 Group Solvency II adjustments are 82.5% of the amounts presented for the Company.

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 for the Group share and Financial Guaranty; no Solvency II valuation adjustments were required.

Group Share

As at 31 December 2023

	Statutory Accounts Valuation £'000	Solvency II Valuation Adjustment £'000	Solvency II Balance Sheet Valuation £'000
Derivatives	26	15,522	15,548
Payables (trade, not insurance)	3,686	-	3,686
Accruals and deferred income	1,001	-	1,001
Financial liabilities	265	-	265
Total Other Liabilities	4,978	15,522	20,500

Group Share

As at 31 December 2022

	Statutory Accounts Valuation £'000	Solvency II Valuation Adjustment £'000	Solvency II Balance Sheet Valuation £'000
Derivatives	-	15,760	15,760
Payables (trade, not insurance)	1,588	-	1,588
Accruals and deferred income	970	-	970
Financial Liabilities	2,840	-	2,840
Total Other Liabilities	5,398	15,760	21,158

Company Share

As at 31 December 2023

	Statutory Accounts Valuation £'000	Solvency II Valuation Adjustment £'000	Solvency II Balance Sheet Valuation £'000
Derivatives	32	18,814	18,846
Payables (trade, not insurance)	4,468	-	4,468
Accruals and deferred income	1,213	-	1,213
Financial liabilities	321	-	321
Total Other Liabilities	6,034	18,814	24,888

Company Share

As at 31 December 2022

	Statutory Accounts Valuation £'000	Solvency II Valuation Adjustment £'000	Solvency II Balance Sheet Valuation £'000
Derivatives	-	19,103	19,103
Payables (trade, not insurance)	1,925	-	1,925
Accruals and deferred income	1,176	-	1,176
Financial Liabilities	3,442	-	3,442
Total Other Liabilities	6,543	19,103	25,646

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 certain 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 amortisation ("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 the Group's Own Funds and Financial Guaranty's own funds is shown below:

		Group Share		Company Share	
	Tier	2023	2022	2023	2022
		£'000	£'000	£'000	£'000
Ordinary share capital	1	144	144	175	175
Share premium account	1	14,249	14,249	17,272	17,272
Reconciliation reserve	1	50,285	39,305	60,951	47,642
Total Own Funds		<u>64,678</u>	<u>53,698</u>	<u>78,398</u>	<u>65,089</u>

Reconciliation of the movement in the reconciliation reserve:

	Group Share		Company Share	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Opening reconciliation reserve	39,305	31,455	47,642	38,127
Profit	4,710	2,718	5,709	3,295
Asset valuation	(1,716)	2,629	(2,080)	3,186
Change in TP and risk margin	7,538	5,664	9,137	6,865
Change in other liabilities	448	(3,161)	543	(3,831)
Reconciliation reserve	<u>50,285</u>	<u>39,305</u>	<u>60,951</u>	<u>47,642</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).

Group Share As at 31 December 2023	Statutory Accounts Valuation £'000	Solvency II Valuation Adjustment £'000	Solvency II Valuation £'000
Assets	121,024		
Exclusion of DAC		(2,181)	
Exclusion of insurance receivables		(38,390)	
Gross up of derivatives		(15,522)	
Total Assets	121,024	(25,049)	95,976
Liabilities			
Technical Provisions	38,905	(28,107)	10,798
Other Liabilities	4,951	-	4,951
Gross up of derivatives	26	15,522	15,548
Total Liabilities	43,882	12,585	31,297
Total Own Funds	77,142	(12,464)	64,749
Group Share As at 31 December 2022	Statutory Accounts Valuation £'000	Solvency II Valuation Adjustment £'000	Solvency II Valuation £'000
Assets	119,425		
Exclusion of DAC		(2,322)	
Exclusion of insurance receivables		(39,669)	
Gross up of derivatives		15,760	
Total Assets	119,425	(26,231)	93,194
Liabilities			
Technical Provisions	41,420	(23,084)	18,336
Other Liabilities	5,398	-	5,398
Gross up of derivatives	-	15,760	39,494
Total Liabilities	46,818	(7,324)	39,494
Total Own Funds	72,607	(18,908)	53,699
Company Share As at 31 December 2023	Statutory Accounts Valuation £'000	Solvency II Valuation Adjustment £'000	Solvency II Valuation £'000
Assets	146,696		
Exclusion of DAC		(2,644)	
Exclusion of insurance receivables		(46,533)	
Gross up of derivatives		18,815	
Total Assets	146,696	(30,362)	116,334
Liabilities			
Technical Provisions	47,157	(34,069)	13,088
Other Liabilities	6,001	-	6,001
Gross up of derivatives	32	18,815	18,847
Total Liabilities	53,190	(15,255)	37,936
Total Own Funds	93,506	(15,108)	78,398

Company Share As at 31 December 2022	Statutory Accounts Valuation £'000	Solvency II Valuation Adjustment £'000	Solvency II Valuation £'000
Assets	144,758		
Exclusion of DAC		(2,815)	
Exclusion of insurance receivables		(48,085)	
Gross up of derivatives		19,103	
Total Assets	144,758	(31,797)	112,961
Liabilities			
Technical Provisions	50,206	(27,981)	22,225
Other Liabilities	6,544	-	6,544
Gross up of derivatives	-	19,103	19,103
Total Liabilities	56,750	(8,878)	47,872
Total Own Funds	88,008	(22,919)	65,089

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 Group and the Company have 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 Group's and 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 the Group at 31 December 2023 were £77,143 (2022: £72,206), compared to Solvency II Own Funds of £64,678 (2022: £53,698). 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 Group and Financial Guaranty at 31 December 2023 and 2022 are as follows:

	Group Share		Company Share	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
	£'000	£'000	£'000	£'000
SCR	76,265	74,853	92,442	90,731
MCR	19,066	18,713	23,111	22,683

The SCR is calculated using the Standard Formula. The final amount of the SCR is subject to supervisory assessment. The ratio of the Group's Own Funds to SCR is 84.8% (2022: 71.7%).

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

	Group Share	
	<u>2023</u>	<u>2022</u>
	£'000	£'000
SCR Interest Rate	4,222	5,225
SCR Spread	19,500	21,219
SCR Currency Risk	14,007	12,148
SCR Equity	3,235	2,240
SCR Concentration	824	2,675
Sub total	41,787	43,507
Less Diversification	(11,974)	(13,795)
Market Risk	29,813	29,712
Counterparty Risk	172	293
Underwriting Risk	15,996	16,363
Catastrophe (Cat) Risk	56,996	55,258
Sub total	72,992	71,621
Less Diversification	(10,061)	(10,194)
Non-life underwriting risk	62,931	61,427
Total	92,916	91,432
Less Diversification	(16,754)	(16,658)
BSCR	76,161	74,774
Operational Risk	103	79
SCR	76,265	74,853

	Company Share	
	2023	2022
	£'000	£'000
SCR Interest Rate	5,118	6,333
SCR Spread	23,637	25,720
SCR Currency Risk	16,978	14,724
SCR Equity	3,921	2,716
SCR Concentration	998	3,242
Sub total	50,651	52,735
Less Diversification	(14,514)	(16,721)
Market Risk	36,137	36,014
<hr/>		
Counterparty Risk	208	355
<hr/>		
Underwriting Risk	19,389	19,834
Catastrophe (Cat) Risk	69,086	66,980
Sub total	88,475	86,814
Less Diversification	(12,195)	(12,356)
Non-life underwriting risk	76,280	74,458
<hr/>		
Total	112,625	110,827
Less Diversification	(20,308)	(20,192)
BSCR	92,317	90,635
Operational Risk	125	96
SCR	92,442	90,731

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 or the Group and there are no capital add ons.

The inputs to calculate the MCR are as follows:

	Group Share		Company Share	
	2023	2022	2023	2022
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
AMCR	3,495	3,445	3,495	3,445
Linear MCR	-	319	-	387
SCR	76,265	74,853	92,442	90,731
Combined MCR	19,066	18,713	23,111	22,683
MCR	18,713	18,315	22,683	22,200

The Absolute Minimum Capital Requirement (“AMCR”) of 4,000 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.

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 Group or 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 Group or 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, the Group’s Own Funds at 31 December 2023 are £64.7m (2022: £53.7m). Based on the standard formula, the Group’s MCR is £19.1m (2022: £18.7m) and its SCR is £76.3m (2022: £74.9m). The group therefore has a capital surplus of £45.6m (2021: £35.0m) against the MCR and a capital deficit of £11.6m (2022: £21.2m) against the SCR at 31 December 2023.

Financial Guaranty’s Own Funds at 31 December 2023 are £78.4m (2022: £65.1m). Based on the standard formula, Financial Guaranty’s MCR is £23.1m (2022: £22.7m) and its SCR is £92.4m (2022: £90.7m). Financial Guaranty therefore has a capital surplus of £55.3m (2022: £42.4m) against the MCR and a capital deficit of £14.0m (2022: £25.6m) against the SCR at 31 December 2023.

As of 31 December 2023, The Group and Financial Guaranty are 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 2023. 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 48% (2022: 45%) by Gross Par in Force of Financial Guaranty's outstanding insured exposures at 31 December 2023, the catastrophe risk element is a material consideration for Financial Guaranty. Approximately 75% (2022: 74%) of the SCR at 31 December 2023 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 Group or the Company's capital management.



Appendix

Annual Quantitative Reporting Templates (QRTs)

FINANCIAL GUARANTY

Solvency and Financial Condition Report

Disclosures

31 December

2023

(Monetary amounts in GBP thousands)

General information

Participating undertaking name	FINANCIAL GUARANTY UK LIMITED
Group identification code	213800ZWVZNGTY15PP67
Type of code of group	LEI
Country of the group supervisor	GB
Language of reporting	en
Reporting reference date	31 December 2023
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the group SCR	Standard formula
Method of group solvency calculation	Method 1 is used exclusively
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: Non-life insurance and reinsurance obligations
- S.05.02.01 - Premiums, claims and expenses by country: Non-life insurance and reinsurance obligations
- S.23.01.22 - Own Funds
- S.25.01.22 - Solvency Capital Requirement - for groups on Standard Formula
- S.32.01.22 - Undertakings in the scope of the group

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)	76,105
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	1,805
R0100	<i>Equities</i>	4,718
R0110	<i>Equities - listed</i>	4,718
R0120	<i>Equities - unlisted</i>	
R0130	<i>Bonds</i>	50,832
R0140	<i>Government Bonds</i>	13,692
R0150	<i>Corporate Bonds</i>	21,677
R0160	<i>Structured notes</i>	290
R0170	<i>Collateralised securities</i>	15,172
R0180	<i>Collective Investments Undertakings</i>	3,141
R0190	<i>Derivatives</i>	15,552
R0200	<i>Deposits other than cash equivalents</i>	0
R0210	<i>Other investments</i>	57
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	14,525
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	14,525
R0270	Reinsurance recoverables from:	0
R0280	<i>Non-life and health similar to non-life</i>	0
R0290	<i>Non-life excluding health</i>	
R0300	<i>Health similar to non-life</i>	
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	1,633
R0420	Any other assets, not elsewhere shown	3,711
R0500	Total assets	95,975

S.02.01.02
Balance sheet

Solvency II value		
C0010		
R0510	Technical provisions - non-life	10,798
R0520	<i>Technical provisions - non-life (excluding health)</i>	10,798
R0530	<i>TP calculated as a whole</i>	
R0540	<i>Best Estimate</i>	-9,223
R0550	<i>Risk margin</i>	20,021
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	
R0580	<i>Best Estimate</i>	
R0590	<i>Risk margin</i>	
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	15,548
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)	3,686
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	1,265
R0900	Total liabilities	31,297
R1000	Excess of assets over liabilities	64,678

S.05.01.02

Premiums, claims and expenses by line of business: Non-life insurance and reinsurance obligations

Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total			
Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Misc. financial loss	Health	Casualty	Marine, aviation and transport	Property		C0200		
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160				
Premiums written																			
R0110	Gross - Direct Business															925			
R0120	Gross - Proportional reinsurance accepted																	0	
R0130	Gross - Non-proportional reinsurance accepted																	0	
R0140	Reinsurers' share																	0	
R0200	Net															925		925	
Premiums earned																			
R0210	Gross - Direct Business															3,440			3,440
R0220	Gross - Proportional reinsurance accepted																	0	
R0230	Gross - Non-proportional reinsurance accepted																	0	
R0240	Reinsurers' share																	0	
R0300	Net															3,440		3,440	
Claims incurred																			
R0310	Gross - Direct Business																	0	
R0320	Gross - Proportional reinsurance accepted																	0	
R0330	Gross - Non-proportional reinsurance accepted																	0	
R0340	Reinsurers' share																	0	
R0400	Net															0		0	
Changes in other technical provisions																			
R0410	Gross - Direct Business																	0	
R0420	Gross - Proportional reinsurance accepted																	0	
R0430	Gross - Non-proportional reinsurance accepted																	0	
R0440	Reinsurers' share																	0	
R0500	Net															0		0	
R0550	Expenses incurred															3,397		3,397	
R1200	Other expenses																		
R1300	Total expenses																	3,397	

S.05.02.01

Premiums, claims and expenses by country: Non-life insurance and reinsurance obligations

	C0010	C0020	C0030	C0040	C0050	C0060	C0070
	Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
	C0080	C0090	C0100	C0110	C0120	C0130	C0140
R0010							
	Premiums written						
R0110	Gross - Direct Business	925					925
R0120	Gross - Proportional reinsurance accepted						0
R0130	Gross - Non-proportional reinsurance accepted						0
R0140	Reinsurers' share						0
R0200	Net	925					925
	Premiums earned						
R0210	Gross - Direct Business	3,440					3,440
R0220	Gross - Proportional reinsurance accepted						0
R0230	Gross - Non-proportional reinsurance accepted						0
R0240	Reinsurers' share						0
R0300	Net	3,440					3,440
	Claims incurred						
R0310	Gross - Direct Business						0
R0320	Gross - Proportional reinsurance accepted						0
R0330	Gross - Non-proportional reinsurance accepted						0
R0340	Reinsurers' share						0
R0400	Net	0					0
	Changes in other technical provisions						
R0410	Gross - Direct Business						0
R0420	Gross - Proportional reinsurance accepted						0
R0430	Gross - Non-proportional reinsurance accepted						0
R0440	Reinsurers' share						0
R0500	Net	0					0
R0550	Expenses incurred	3,397					3,397
R1200	Other expenses						
R1300	Total expenses						3,397

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Own Funds

Basic own funds before deduction for participations in other financial sector

Own funds when using the D&A, exclusively or in combination of method 1

R0450	Own funds aggregated when using the D&A and combination of method
R0460	Own funds aggregated when using the D&A and combination of method net of IGT
R0520	Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)
R0530	Total available own funds to meet the minimum consolidated group SCR
R0560	Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)

R0610	Minimum consolidated Group SCR
R0650	Ratio of Eligible own funds to Minimum Consolidated Group SCR
R0660	Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)
R0680	Group SCR
R0690	Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A

Reconciliation reserve

R0700	Excess of assets over liabilities
R0710	Own shares (held directly and indirectly)
R0720	Forseeable 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
R0750	Other non available own 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
0				
0				
64,678	64,678	0	0	0
64,678	64,678	0	0	
64,678	64,678	0	0	0
64,678	64,678	0	0	
19,066				
339.23%				
64,678	64,678	0	0	0
76,265				
84.81%				
C0060				
64,678				
14,394				
0				
50,284				
9,223				
9,223				

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Undertakings in the scope of the group

	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/ non mutual)	Supervisory Authority
Row	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080
1	GB	213800ZVZNGTY15PP67	LEI	Financial Guaranty UK Limited	Non life insurance undertaking	Limited by shares	Non-mutual	Prudential Regulation Authority
2	US	CIH	Specific code	Chelsea Insurance Holdings LLC	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC		Non-mutual	

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Undertakings in the scope of the group

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation	
				% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking	
C0010	C0020	C0030	C0040	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260	
1	GB	Z13800ZWVZNGTY15PP67	LEI	Financial Guaranty UK Limited	82.50%	82.50%	82.50%		Dominant	82.50%	Included in the scope		Method 1: Proportional consolidation
2	US	CIH	Specific code	Chelsea Insurance Holdings LLC							Included in the scope		Method 1: Proportional consolidation