Scheme Report of the Independent Expert on the Proposed Insurance Business Transfer Scheme from Assured Guaranty (Europe) plc to Assured Guaranty (Europe) SA under Part VII of the Financial Services and Markets Act 2000

20 September 2019

Prepared by Kate Angell, Independent Expert


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Section 1: Executive Summary

Introduction

1.1 When a scheme for transferring insurance business from one company to another is put to the High Court of Justice in England and Wales ("Court") for approval it has to be accompanied by a report on the terms of the scheme from an independent expert (the "Independent Expert"). The Independent Expert's report (the "Scheme Report") is a requirement under Part VII of the Financial Services and Markets Act 2000 ("FSMA").

1.2 I have also produced a summary of the Scheme Report (the "Summary") which is based on this Executive Summary of the Scheme Report. The Scheme Report contains detailed information that is not shown in the Summary. In particular, the Scheme Report contains the following sections:

- Section 2 sets out the details of the Proposed Scheme, my statement of independence and the terms of reference of my work;
- Section 3 sets out the scope of my work;
- Section 4 sets out an overview of the methodology I have followed;
- Section 5 provides background to the Proposed Scheme and the companies involved;
- Sections 6 to 8 contain details of the review I have performed, and my findings, with regards to policyholder security;
- Section 9 sets out the details of my findings with regards to other considerations, including the levels of service provided to policyholders;
- Section 10 contains my conclusions and Statement of Truth; and
- The Appendices contain a glossary of terms, my credentials and details of the information I have used in forming my conclusions.

1.3 The Scheme Report and the Summary have been prepared on the instruction of Assured Guaranty (Europe) plc ("AGE plc") for the benefit of the Court solely for the purposes of the FSMA requirements for Part VII transfers. I owe a duty to the Court to help the Court on matters within my expertise. This duty overrides any obligation to any person from whom I have received instructions or by whom I am paid.

1.4 This Scheme Report, and the Summary, may be distributed to policyholders and any other person entitled to receive a copy under applicable law or regulation.

1.5 This Scheme Report and the Summary may be relied on by the Court. Neither the Independent Expert nor Willis Towers Watson accepts any responsibility or liability to any third party in relation to the Scheme Report or the Summary. Any reliance placed by such third parties on the Scheme Report or the Summary is entirely at their own risk.

About the Independent Expert

1.6 I, Kate Angell, am a Fellow of the Institute and Faculty of Actuaries, having qualified in 1998. I am a Senior Director in the firm of Towers Watson Limited ("TWL") where I am part of the Insurance Consulting and Technology business line. TWL is part of Willis Towers Watson which is a leading global advisory, broking and solutions firm.

1.7 I consider that I have no conflict of interest or involvement, current or historical, with AGE plc, Assured Guaranty (Europe) SA ("AGE SA") or any other Assured Guaranty group companies which would affect my suitability to act as the Independent Expert for the Proposed Scheme.

1.8 Willis Towers Watson, globally, has relationships with the Assured Guaranty group of companies. However, I do not consider that the nature and size of these involvements impact on my ability to act as Independent Expert for the Proposed Scheme. I have provided details of these relationships directly to the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA").

1.9 My appointment as the Independent Expert in connection with the Proposed Scheme has been approved by the PRA, in consultation with the FCA.

1.10 A more detailed statement of independence is included from paragraph 2.11 of this Scheme Report, and my curriculum vitae is enclosed at Appendix B.

The Proposed Scheme

1.11 The Proposed Scheme relates to the transfer of certain policies from AGE plc to AGE SA.

1.12 AGE plc and AGE SA are both wholly owned subsidiaries of Assured Guaranty Municipal Corp. ("AGM")[1] and are members of the group of companies ultimately owned by Assured Guaranty Ltd. in Bermuda (the "Assured Guaranty Group").

1.13 AGE plc is incorporated in the UK, authorised by the PRA and regulated by the PRA and the FCA. AGE SA is domiciled in France and is in the process of obtaining authorisation from the Autorité de Contrôle Prudentiel et de Résolution ("the ACPR"). It is intended that AGE SA will be authorised and regulated by the ACPR. Assured Guaranty Municipal Corp. is incorporated in the US and is authorised and regulated by the New York State Department of Financial Services ("NYDFS").

1.14 The policies to be transferred under the Proposed Scheme are 90 financial guarantee policies (the "Transferring Policies"). AGE plc only writes financial guarantee business and no other types of business are directly involved in the Proposed Scheme. The purpose of the Proposed Scheme is to enable the Assured Guaranty Group to continue providing financial guarantee insurance throughout the EEA after the UK leaves the EU and to carry out existing contracts of insurance with EEA based policyholders in respect of the Transferring Policies.

Scope of review

1.15 This Scheme Report considers the likely effects of the Proposed Scheme on the following groups of affected policyholders:

- Those policyholders of AGE plc whose insurance policies are remaining with AGE plc (the "Remaining Policyholders"); and
- Those policyholders of AGE plc whose insurance policies are transferring to AGE SA (the "Transferring Policyholders").

[1] Technically, AGE SA is wholly owned by AGM with the exception of one share. Under French law, a public limited company (société anonyme), which is the legal form of AGE SA, needs to have at least two shareholders. The second shareholder of AGE SA is AGM's direct parent, Assured Guaranty Municipal Holdings Inc. ("AGMH"), which owns 0.003% of the shares of AGE SA. For ease of description and given this minimal AGMH holding, this Scheme Report describes AGE SA throughout as being wholly owned by AGM.

1.16 As AGE SA has been established for the purpose of receiving the Transferring Policyholders there will be no policyholders of AGE SA before the Proposed Scheme and hence I have not carried out any assessment on policyholders in AGE SA before the Proposed Scheme.

1.17 In performing my review, I considered each of the following areas:

- The security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;
- Matters such as investment management, new business strategy, management, administration, claims handling, governance arrangements, expense levels and valuation bases in relation to how they may affect the security of policyholders' contractual rights and levels of service provided to policyholders; and
- Matters such as cost and tax effects of the Proposed Scheme, in relation to how they may affect the security of policyholders' contractual rights.

1.18 For each of the above areas I considered whether the Remaining Policyholders and the Transferring Policyholders would be materially adversely affected under the Proposed Scheme.

- When considering the security of policyholders' contractual rights I have considered an outcome to be materially adverse if it raises the likelihood of insurer failure above a 1 in 200 year likelihood (a 0.5^{th} percentile level of risk), which is the likelihood imposed by regulatory requirements, and I have considered outcomes under two bases:
  - Outcomes over a one-year time horizon. This is the basis on which the regulatory capital for the Transfer Companies will be set.
  - Outcomes on a "run-off to ultimate" basis. The "run-off to ultimate" basis represents the amount of capital required to fully run-off all liabilities, rather than the emergence of risk over a one-year time frame. Given the long policy terms of the liabilities of the Transfer Companies, this is the basis which is used to inform business decisions and which AGE plc refer to internally as the ICA.
- When considering the levels of service provided to policyholders I have compared the levels of service which can be expected in the No Scheme Position and the Post Scheme Position and relied on my judgement in assessing whether a difference in expected service levels can be considered to materially adversely affect policyholders, explaining the reasons for my opinion.

1.19 This Scheme Report also considers the likely effect of the Proposed Scheme on reinsurers whose contracts of reinsurance are to be transferred by the Proposed Scheme.

Findings of the Independent Expert

Security of policyholders remaining within AGE plc

1.20 It is my opinion that the Remaining Policyholders will not be materially adversely affected by the Proposed Scheme.

1.21 The Remaining Policyholders currently have policies with AGE plc, a company whose level of Solvency II Own Funds exceed the Solvency II Solvency Capital Requirement.

1.22 AGE plc has a stochastic capital model, referred to as the Economic Capital Model (or "ECM"), which is a proprietary model that is not used for regulatory purposes and is not approved by the PRA. The ECM models risk on a "run-off to ultimate" basis and covers insurance risk and reinsurance credit risk. Given the very long-term nature of its business AGE plc uses the long-term view of risk to inform business decisions, referred to internally within AGE plc as the Individual Capital Assessment (or "ICA"). The ICA is based on the ECM results for insurance risk and reinsurance credit risk and the Solvency II Standard Formula approach for market risk, operational risk and correlation assumptions to combine the risks. AGE plc also has sufficient Capital Resources to meet its ICA.

1.23 After the Proposed Scheme, the Remaining Policyholders will continue to have policies with AGE plc. Immediately after the Proposed Scheme, the SCR coverage ratio will reduce for AGE plc, although it will remain well in excess of 100%. The ICA coverage ratio for AGE plc will increase as a result of the Proposed Scheme. As a result of the Proposed Scheme the probability of their insurer remaining solvent, based on the methods and assumptions underlying the ICA, is unchanged for the Remaining Policyholders.

1.24 As such, I consider that the security of the Remaining Policyholders' contractual rights is not materially disadvantaged by the Proposed Scheme.

Security of policyholders transferring from AGE plc to AGE SA

1.25 It is my opinion that the Transferring Policyholders will not be materially adversely affected by the Proposed Scheme.

1.26 The Transferring Policyholders currently have policies with AGE plc, a company whose level of Solvency II Own Funds exceed the Solvency II Solvency Capital Requirement, and whose Capital Resources exceed its ICA.

1.27 After the Proposed Scheme, the Transferring Policyholders will have policies with AGE SA. Immediately after the Proposed Scheme, AGE SA is projected to have Solvency II Own Funds which exceed its Solvency II Solvency Capital Requirement and Capital Resources which exceed its ICA.

1.28 The value of the investment assets which are to be transferred from AGE plc to AGE SA as part of the Proposed Scheme has been determined such that AGE SA will exactly meet its target capital immediately after the Effective Date of the transaction. The target capital of AGE SA is still in the process of being determined but is likely to be specified in the form of maintaining a buffer above its SCR and ICA requirements. Hence, immediately after the Proposed Scheme, the SCR and ICA coverage ratios relevant for the Transferring Policyholders will reduce, although both will remain above 120% (and therefore well in excess of 100%).

1.29 This means that as a result of the Proposed Scheme the probability of their insurer remaining solvent, based on the methods and assumptions underlying the ICA, reduces for the Transferring Policyholders, although not by a material amount (by just under 0.3%, from 99.99% to 99.7%).

1.30 As such, I consider that the security of the Transferring Policyholders' contractual rights is not materially disadvantaged by the Proposed Scheme.

Effect of Brexit on the above conclusions

1.31 In the absence of the Proposed Scheme and in the event of the UK leaving the EU ("Brexit") without a deal (a "No-Deal Brexit"), insurance regulators have put in place measures which provide some protection to the policyholders of AGE plc. However, I note that it is not clear how long these measures would apply for and therefore it is not certain that it will remain legal for AGE plc to continue to pay all future claims of EEA-based policies in all relevant EEA jurisdictions. This is particularly relevant for AGE plc due to the very long duration of its liabilities.

1.32 Therefore, in respect of a No-Deal Brexit, I consider that the Proposed Scheme would have no impact on the policyholders remaining in AGE plc and would be beneficial to the policyholders transferring from AGE plc to AGE SA.

Effect of stress scenarios on the above conclusions

1.33 I have tested the impact on my conclusions of plausible and extreme stress scenarios that AGE plc and AGE SA may experience. I consider that my conclusions are resilient to these stresses but note that in the unlikely event of these stresses being realised ahead of the Proposed Scheme I would expect to address this in my Supplementary Report (which is discussed further below).

Other considerations

1.34 I consider that the Proposed Scheme will have no significant effect on the policyholders remaining in AGE plc and the policyholders transferring from AGE plc to AGE SA in respect of matters such as investment management, new business strategy, management, administration, claims handling, governance arrangements, expense levels and valuation bases in relation to how they may affect the security of policyholders' contractual rights and levels of service provided to policyholders.

1.35 I also consider that matters such as the cost and tax effects of the Proposed Scheme will have no significant effect on the security of the contractual rights of policyholders, either those remaining in AGE plc or those transferring from AGE plc to AGE SA.

1.36 I am satisfied that the proposed material to be presented to policyholders and AGE plc's approach to communication with policyholders (including with respect to its scope) is appropriate, reasonable and proportionate.

Internal reinsurance

1.37 Companies within the Assured Guaranty Group make substantial use of internal reinsurance (defined as reinsurance which is provided by other companies within the Assured Guaranty Group). Under the Proposed Scheme the existing internal reinsurance in respect of the Remaining Policies will remain with AGE plc and the existing internal reinsurance in respect of the Transferring Policies will be transferred to AGE SA. Some additional internal reinsurance will also be put in place in respect of the AGE plc legacy business which is transferring to AGE SA. As a result, after the Proposed Scheme, AGE SA will benefit from a higher level of reinsurance protection, but also have a greater exposure to reinsurance recoveries than AGE plc, although the terms of the collateral requirements ensure a commensurate increase in the collateral available to AGE SA.

1.38 This additional reinsurance protection, increased exposure to reinsurance credit risk and the benefit of the additional collateral is reflected in the Solvency Capital Requirement and ICA calculations I have considered. In addition, the stress scenarios I have considered include two scenarios which reflect stresses in relation to this internal reinsurance.

1.39 Based on the summary set out in paragraph 1.37 above, and my consideration of the impact of the Proposed Scheme on the Solvency Capital Requirement, ICA calculations and stress scenarios, I conclude that with regards to the internal reinsurance there is no material adverse impact on either the Remaining Policyholders or the Transferring Policyholders as a result of the Proposed Scheme.

External reinsurers

1.40 The external reinsurance (defined as reinsurance which is provided by companies which are not within the Assured Guaranty Group) of AGE plc consists of reinsurance provided by only one reinsurer covering five policies issued in respect of the same transaction and covering obligations of the same obligor. I understand that these five policies will all remain within AGE plc after the Proposed Scheme and that no further external reinsurance will be purchased in connection with the Proposed Scheme. The external reinsurance of AGE plc will therefore cover the same liabilities for AGE plc after the Proposed Scheme and the claims handling will be undertaken by the same team under the same policies and procedures both before and after the Proposed Scheme. As such, I consider the transfer will have no material effect on the external reinsurers of AGE plc.

Supplementary Report

1.41 This Scheme Report is based on audited financial information in respect of AGE plc as at 31 December 2018 and financial projections performed by AGE plc based on this information. I expect to produce a Supplementary Report based on updated financial projections, which will take into account any significant changes.

1.42 At the time of my Supplementary Report I will also consider whether the ongoing investigation and planning which is being undertaken by AGE plc in respect of the Proposed Scheme will result in changes to the structure of the Proposed Scheme which requires my review.

Section 2: Introduction

2.1 When a scheme for transferring insurance business from one company to another is put to the Court for approval it has to be accompanied by a Scheme Report on the terms of the scheme from an Independent Expert. The Independent Expert's Scheme Report is a requirement under Part VII of the Financial Services and Markets Act 2000.

2.2 I, Kate Angell, have been appointed by AGE plc to provide an Independent Expert Scheme Report for the proposed Part VII transfer of certain policies from AGE plc to AGE SA (the "Proposed Scheme").

2.3 AGE plc and AGE SA (together "the Transfer Companies") are both wholly owned subsidiaries of Assured Guaranty Municipal Corp. and are members of the Assured Guaranty Group.

2.4 AGE plc is incorporated in the UK, authorised by the PRA and regulated by the PRA and the FCA. AGE SA is domiciled in France and is in the process of obtaining authorisation from the ACPR. It is intended that AGE SA will be authorised and regulated by the ACPR. Assured Guaranty Municipal Corp. is incorporated in the US and is authorised and regulated by the NYDFS.

2.5 It is intended that the Effective Date of the transaction will be 25 January 2020.

2.6 My appointment as the Independent Expert in connection with the Proposed Scheme was approved by the PRA, in consultation with the FCA, on 11 December 2018. In connection with this appointment there is an engagement letter dated 26 October 2018 in place between Towers Watson Limited and AGE plc.

2.7 The costs and expenses relating to my appointment as the Independent Expert will be incurred by AGE plc.

Structure of this Scheme Report

2.8 The structure of this Scheme Report is as follows:

- Section 3 sets out the scope of my work;
- Section 4 sets out an overview of the methodology I have followed;
- Section 5 provides background to the Proposed Scheme and the companies involved;
- Sections 6 to 8 contain details of the review I have performed, and my findings, with regards to policyholder security;
- Section 9 sets out the details of my findings with regards to other considerations, including the levels of service provided to policyholders;
- Section 10 contains my conclusions and statement of truth; and
- The Appendices contain a glossary of terms, my credentials and details of the information I have used in forming my conclusions.

Professional experience

2.9 I am a Fellow of the Institute and Faculty of Actuaries, having qualified in 1998.

2.10 I am a Senior Director in the firm of Towers Watson Limited where I am part of the Insurance Consulting and Technology business line. TWL is part of Willis Towers Watson which is a leading global advisory, broking and solutions firm. My curriculum vitae is enclosed at Appendix B.

Statement of independence

2.11 Neither I, nor any member of my immediate family, have any direct shareholdings, have any contracts of insurance or have any other financial interest in the legal entities involved in the Proposed Scheme or in any other companies in the Assured Guaranty Group.

2.12 I have not carried out any consulting work for the legal entities involved in the Proposed Scheme, or for any other companies in the Assured Guaranty Group, in the last five years, and to the best of my recollection, ever.

2.13 Insurance Consulting and Technology associates and other TWL colleagues from other lines of business have not carried out any consulting work for AGE plc or any other company in the Assured Guaranty Group, during the last three years.

2.14 The insurance and reinsurance broking teams within Willis Towers Watson have relationships with companies within the Assured Guaranty Group, including AGE plc. However, the broking businesses (from the Willis group of companies, which merged with the Towers Watson group of companies in 2016) are being maintained as separate lines of business to the Insurance Consulting and Technology business segment (of which I am part) within Willis Towers Watson, and Willis Towers Watson is committed to maintaining the confidentiality, objectivity and independence of the services it provides to its insurance clients. TWL remains a separate legal entity from the insurance and reinsurance broking businesses within Willis Towers Watson.

2.15 Save as disclosed above, I have no conflict of interest of any kind. I do not consider that any of the matters disclosed above affect my suitability to act as the Independent Expert for the Proposed Scheme.

Terms of reference

2.16 The terms of reference for my review of the Proposed Scheme were agreed by AGE plc and have been seen by the PRA and FCA.

2.17 This Scheme Report is intended to aid the Court's deliberations as to whether the Proposed Scheme should be approved. In reporting on the Proposed Scheme in accordance with Part VII of the FSMA, I owe a duty to the Court to help the Court on matters within my expertise. This duty overrides any obligation to any person from whom I have received instructions or by whom I am paid. I have complied, and continue to comply, with this duty.

2.18 In preparing this Scheme Report I have taken account of the following:

- Part 35 of the Civil Procedure Rules;
- The Practice Direction supplement to Part 35 of the Civil Procedure Rules;
- The protocol for the instruction of experts to give evidence in civil claims drafted by the Civil Justice Council;
- The guidance in SUP18 of the FCA Handbook and the “PRA’s Statement of Policy: The PRA’s approach to insurance business transfers” which sets out guidance on the form of the Scheme Report; and

- The FCA guidance entitled "FG18/4: The FCA's approach to the review of Part VII insurance business transfers" which was issued on 29 May 2018.

Distribution

2.19 This Scheme Report has been prepared on the instruction of AGE plc for the benefit of the Court solely for the purposes of the FSMA requirements for Part VII transfers. This Scheme Report may be:

- Made available to the PRA, the FCA, the ACPR, any other competent regulator, the Court, policyholders and any other person entitled to receive a copy under law or regulation applicable to the Proposed Scheme; and

- Relied upon by the Court.

2.20 Neither the Independent Expert nor Willis Towers Watson accept any responsibility or liability to any third party in relation to this Scheme Report. Any reliance placed by such third parties on the Scheme Report is entirely at their own risk.

2.21 This Scheme Report has been prepared on an agreed basis for the purpose of reporting on the Proposed Scheme, and must not be relied upon for any other purpose. It must be considered in its entirety because individual sections, if considered in isolation, may be misleading. This Scheme Report is subject to the terms and limitations, including a limitation of liability, set out in my firm's engagement letter.

Reliances

2.22 In carrying out my review and producing this Scheme Report I have relied without independent verification upon the accuracy and completeness of the data and information provided to me, both in written and oral form. Where possible, I have reviewed the information provided for reasonableness and consistency with my knowledge of the insurance and reinsurance industry. I have also met with representatives of AGE plc to discuss in detail the information which they have provided to me in relation to the Proposed Scheme. I consider it is reasonable for me to rely on these individuals since they are PRA and FCA approved persons or are senior professionals employed by AGE plc. Reliance has been placed upon, but not limited to, the information detailed in Appendix C.

2.23 I have obtained confirmation from AGE plc that, to the best of their knowledge and belief:

- All of the items of data and information which have been provided to me by AGE plc for the purposes of this Scheme Report are accurate and complete.

- There are no significant errors or omissions in the descriptions in this Scheme Report of the business of AGE plc, AGE SA or of the Proposed Scheme.

- There are no other material items of data and information which have not been provided to me by AGE plc and which are likely to be relevant to this Scheme Report.

2.24 Based on my review, I am satisfied that the information detailed in Appendix C represents an appropriate basis for the conclusions set out in this Scheme Report and I consider that it is reasonable for me to rely on this information. There is no information which I requested from AGE plc which has not been provided to me.

2.25 I met with the PRA and FCA at an early stage to establish whether there were matters or issues which they wanted me to consider in this Scheme Report. A draft of this Scheme Report has been made available to the PRA and FCA whose comments have been taken into account. The PRA (in consultation with the FCA) has approved the form of this Scheme Report.

Limitations

2.26 No limitations have been imposed on the scope of my work and the opinions in this Scheme Report about the Proposed Scheme are mine, based on the information provided to me and the answers given to the questions I have raised. There are no matters that I have not taken into account or evaluated in this Scheme Report that might, in my opinion, be relevant to policyholders' consideration of the Proposed Scheme.

2.27 This Scheme Report is based on:

- Financial information in respect of AGE plc as at 31 December 2018; and
- Financial projections performed by AGE plc to Q2 2019 and from financial year 2020 through to 2022 in respect of AGE plc and AGE SA, based on actual management accounts as at 31 December 2018.

2.28 This Scheme Report does not take into account any developments after the dates noted above unless stated explicitly to the contrary in this Scheme Report.

2.29 I expect to produce a Supplementary Scheme Report in due course, based on the updated financial position of AGE plc and revised financial projections, which will take into account any significant developments between the dates noted in paragraph 2.27 above and the final Court hearing.

2.30 In my judgement, the results and conclusions contained in this Scheme Report are reasonable given the information made available to me. However, the actual cost of settling future claims and those still outstanding as at the valuation date is uncertain as, amongst other things, it depends on events yet to occur such as future court judgements. It could be different from the estimates shown in this Scheme Report, and possibly materially so. Such differences between the estimated and actual outcome could possibly have a material impact upon the balance sheet strength of the companies, and therefore upon the Proposed Scheme.

2.31 This Scheme Report must not be construed as legal, investment or tax advice.

2.32 Figures in all tables in this Scheme Report are subject to possible rounding differences.

Legal jurisdiction

2.33 This Scheme Report is governed by and shall be construed in accordance with English law. Willis Towers Watson and AGE plc submit to the exclusive jurisdiction of the English courts in connection with all disputes and differences arising out of, under or in connection with this Scheme Report.

Section 3: Scope

3.1 This Scheme Report considers the likely effects of the Proposed Scheme on the following groups of affected policyholders:

- Those policyholders of AGE plc whose insurance policies are remaining with AGE plc (the "Remaining Policyholders"); and

- Those policyholders of AGE plc whose insurance policies are transferring to AGE SA (the "Transferring Policyholders").

3.2 As AGE SA has been established for the purpose of receiving the Transferring Policyholders there will be no policyholders of AGE SA before the Proposed Scheme and hence I have not carried out any assessment on policyholders in AGE SA before the Proposed Scheme. I understand that this will be the case even in the event of a No-Deal Brexit (where the UK leaves the EU without a deal), which will end EEA passporting rights for UK insurers immediately and prevent AGE plc from writing any further EEA policies.

3.3 At the time of writing this Scheme Report, AGE SA is in the process of obtaining authorisation from the ACPR. For this Scheme Report I have assumed that this authorisation will be obtained from the ACPR and therefore that AGE SA will be authorised and regulated by the ACPR. I will consider whether this authorisation has been obtained at the time of my Supplementary Report.

3.4 In performing my review, I considered each of the following areas:

- The security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;

- Matters such as investment management, new business strategy, management, administration, claims handling, governance arrangements, expense levels and valuation bases in relation to how they may affect the security of policyholders' contractual rights and levels of service provided to policyholders; and

- Matters such as cost and tax effects of the Proposed Scheme, in relation to how they may affect the security of policyholders' contractual rights.

3.5 For each of the above areas I considered whether the Remaining Policyholders and the Transferring Policyholders would be materially adversely affected under the Proposed Scheme.

- When considering the security of policyholders' contractual rights I have considered an outcome to be materially adverse if it raises the likelihood of insurer failure above a 1 in 200 year likelihood (a 0.5^{th} percentile level of risk), and I have considered outcomes under two bases:

  - Outcomes over a one-year time horizon. This is the basis on which the regulatory capital for the Transfer Companies will be set.

  - Outcomes on a "run-off to ultimate" basis. The "run-off to ultimate" basis represents the amount of capital required to fully run-off all liabilities, rather than the emergence of risk over a one-year time frame. Given the long policy terms of the liabilities of the Transfer Companies, this is the basis which is used to inform business decisions and which AGE plc refer to as the ICA.

- When considering the levels of service provided to policyholders I have compared the levels of service which can be expected in the No Scheme Position and the Post Scheme Position and relied on my judgement in assessing whether a difference in expected service levels can be considered to materially adversely affect policyholders, explaining the reasons for my opinion.

3.6 This Scheme Report also considers the likely effect of the Proposed Scheme on reinsurers whose contracts of reinsurance are to be transferred by the Proposed Scheme.

3.7 This Scheme Report does not consider any possible alternative schemes or arrangements which might provide a more efficient or effective outcome.

3.8 This Scheme Report assesses the position of policyholders pre and post the Proposed Scheme on the basis of existing legal and regulatory frameworks. It does not attempt to predict or take account of how these frameworks may change in the future.

3.9 This Scheme Report does not consider the likely effects on new policyholders, that is, those whose contracts are entered into after the Effective Date of the Proposed Scheme.

3.10 I have not considered future changes of ownership or any other transactions (such as mergers or acquisitions) which involve any of the entities involved in this Proposed Scheme beyond those set out in this Scheme Report. I am not aware at the time of writing this Scheme Report of any proposed ownership changes or transactions.

3.11 This review does not comprise an audit of the financial resources and liabilities of AGE plc, AGE SA or any other companies in the Assured Guaranty Group.

3.12 I have not reviewed the systems and controls currently operated by AGE plc, AGE SA or any other companies in the Assured Guaranty Group.

Professional guidance

3.13 I am required to comply with relevant technical actuarial standards (“TASs”) issued or adopted by the Financial Reporting Council (“FRC”) in the UK, and relevant actuarial practice standards (“APSs”) issued by the Institute and Faculty of Actuaries (“IFoA”) in the UK. This Scheme Report complies with all applicable TASs and APSs. In particular, this Scheme Report has been prepared in accordance with:

- TAS 100: Principles for Technical Actuarial Work, issued by the FRC;
- TAS 200: Insurance, issued by the FRC;
- The Actuaries’ Code, issued by the IFoA; and
- APS X2: Review of Actuarial Work and APS X3: The Actuary as an Expert in Legal Proceedings, both issued by the IFoA.

Peer review

3.14 The work which has been documented in this Scheme Report has been subject to an internal peer review by an appropriately qualified actuary who was not otherwise involved with the work on the Proposed Scheme.

Section 4: Overview of Methodology

4.1 I have considered the likely effects of the Proposed Scheme on two distinct groups of affected policyholders:

- Remaining Policyholders; and
- Transferring Policyholders.

4.2 For each group of policyholders I have considered the likely effects of the Proposed Scheme on:

- The security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;
- Matters such as investment management, new business strategy, management, administration, claims handling, governance arrangements, expense levels and valuation bases in relation to how they may affect the security of policyholders' contractual rights and levels of service provided to policyholders; and
- Matters such as cost and tax effects of the Proposed Scheme, in relation to how they may affect the security of policyholders' contractual rights.

4.3 In each case I have considered the security of the policyholders on two bases:

- The position should the Proposed Scheme not proceed (the "No Scheme Position"); and
- The position should the Proposed Scheme proceed (the "Post Scheme Position").

4.4 I have therefore made the following comparisons:

- Remaining Policyholders - The No Scheme Position of AGE plc and the Post Scheme Position of AGE plc; and
- Transferring Policyholders - The No Scheme Position of AGE plc and the Post Scheme Position of AGE SA.

Financial positions of the firms

4.5 Security for policyholders is provided by assets backing the technical reserves and by net shareholder assets. In considering policyholder security, it is also necessary to take into account the potential variability of future experience (including investment returns, claims experience, expense levels and wider operational risks), and potential future distributions to, or capital injections from, shareholders. Other factors are the nature of the reinsurance arrangements and the financial security of reinsurance counterparties. Finally, security is affected by the nature and volume of future new business.

4.6 Insurers are subject to capital requirements imposed by their regulators. If the actual level of capital of the insurer comes close to or falls below the level of required capital then the regulator may intervene in or impose restrictions on the day-to-day running of the company. The level of actual available capital compared to regulatory required capital ("Solvency Capital Requirement" or "SCR") is a measure of the security provided to policyholders.

4.7 I have considered the impact of the Proposed Scheme on the following metrics for the Remaining Policyholders and the Transferring Policyholders:

- The projected balance sheets for AGE plc and AGE SA as at Q2 2019, including the valuation of the assets and liabilities. My findings are set out in Section 6.

- The projected capital requirements for AGE plc and AGE SA as at Q2 2019 on both a regulatory basis and according to AGE plc's capital model, together with the available capital on the respective bases. My findings are set out in Section 7.

- The projected capital requirements for AGE plc and AGE SA over the period 2019 to 2022 on both a regulatory basis and according to AGE plc's capital model, together with the available capital on the respective bases. My findings are set out in Section 8.

- The projected capital requirements for AGE plc and AGE SA under a number of alternative scenarios on both a regulatory basis and according to AGE plc's capital model, together with the available capital on the respective bases. My findings for these scenarios are also set out in Section 8.

Section 5: Background

Proposed Scheme

5.1 The Proposed Scheme relates to the transfer of certain policies from AGE plc to AGE SA.

5.2 AGE plc and AGE SA are both wholly owned subsidiaries of Assured Guaranty Municipal Corp. and are members of the Assured Guaranty Group.

5.3 AGE plc is incorporated in the UK, authorised by the PRA and regulated by the PRA and the FCA. AGE SA is domiciled in France and is in the process of obtaining authorisation from the ACPR. It is intended that AGE SA will be authorised and regulated by the ACPR to allow AGE SA to effect and carry out contracts of insurance in classes 14, 15 and 16. Assured Guaranty Municipal Corp. is incorporated in the US and is authorised and regulated by the NYDFS.

5.4 The policies to be transferred under the Proposed Scheme are 90 financial guarantee policies. AGE plc only writes financial guarantee business and no other types of business are directly involved in the Proposed Scheme. Financial guarantee business is described further in paragraph 5.14 below.

Purpose of Proposed Scheme

5.5 On 23 June 2016, the UK voted to leave the European Union. There are a number of direct benefits of the UK's membership of the EU including the ability to establish branches in member states through Freedom of Establishment ("FoE") and the ability to sell insurance policies into any other member state through Freedom of Services ("FoS"). It is likely (subject to the terms of any transitional arrangement) that UK authorised insurers will lose these freedoms on Brexit and it is currently unclear what form the UK's future relationship with the remaining EU members will take.

5.6 AGE plc is authorised by the PRA to effect and carry out the following classes of insurance: 14 (credit), 15 (suretyship) and 16 (miscellaneous financial loss). AGE plc is also currently permitted, on a passport basis, to conduct insurance business in certain member countries of the EEA from its home office in the UK. The purpose of the Proposed Scheme is to enable the Assured Guaranty Group to continue providing financial guarantee insurance throughout the EEA after Brexit and to carry out existing contracts of insurance with EEA based policyholders in respect of the Transferring Policies.

5.7 In the absence of the Proposed Scheme and in the event of the UK losing its passporting rights as a result of Brexit there would be material concerns over the ability of AGE plc to settle claims in line with regulatory rules, service existing EEA based policyholders and underwrite new EEA based policies.

Selection of the Proposed Scheme

5.8 AGE plc's Brexit contingency planning has focused on a No-Deal Brexit scenario where the UK leaves the EU without the continuation of passporting rights. In addition to the Proposed Scheme, the Assured Guaranty Group considered alternative options such as the establishment of EEA branches and the novation of individual transactions. After consultation with external legal counsel, the Assured Guaranty Group concluded that establishing a new insurance company inside the EU and completing a Part VII insurance business transfer would be the best option.

5.9 When selecting the jurisdiction in which to establish a new insurance company, AGE plc initially looked at the EEA jurisdictions in which it has the highest number of policies (being Belgium, France, Luxembourg and Ireland). The Assured Guaranty Group ultimately chose France because of its familiarity with and experience of the French insurance regulator (through interactions in relation to AGE plc's former subsidiary CIFG Europe SA); advantages in both accessibility and proximity to markets; and the ability to replicate and leverage AGE plc's management framework.

Previous insurance business transfer

5.10 A previous insurance business transfer was effected involving AGE plc, which was completed in November 2018. This previous insurance business transfer resulted in the transfer into AGE plc of the entire insurance businesses of three other entities within the Assured Guaranty Group. This previous insurance business transfer has had no impact on my consideration of the Proposed Scheme, except that the historical information available for AGE plc prior to this previous insurance business transfer has not been directly comparable to the current business of AGE plc.

Companies involved

Current and intended group structure

5.11 The current and intended structures of the relevant entities in the Assured Guaranty Group are shown in the diagrams below. Each subsidiary company shown is wholly owned by the direct parent company shown, except for AGE SA which is wholly owned by AGM with the exception of one share (as described in paragraph 1.12).

5.12 AGE SA has been established for the purpose of receiving the Transferring Policyholders under the Proposed Scheme.

Figure 5.1: Current Assured Guaranty Group structure

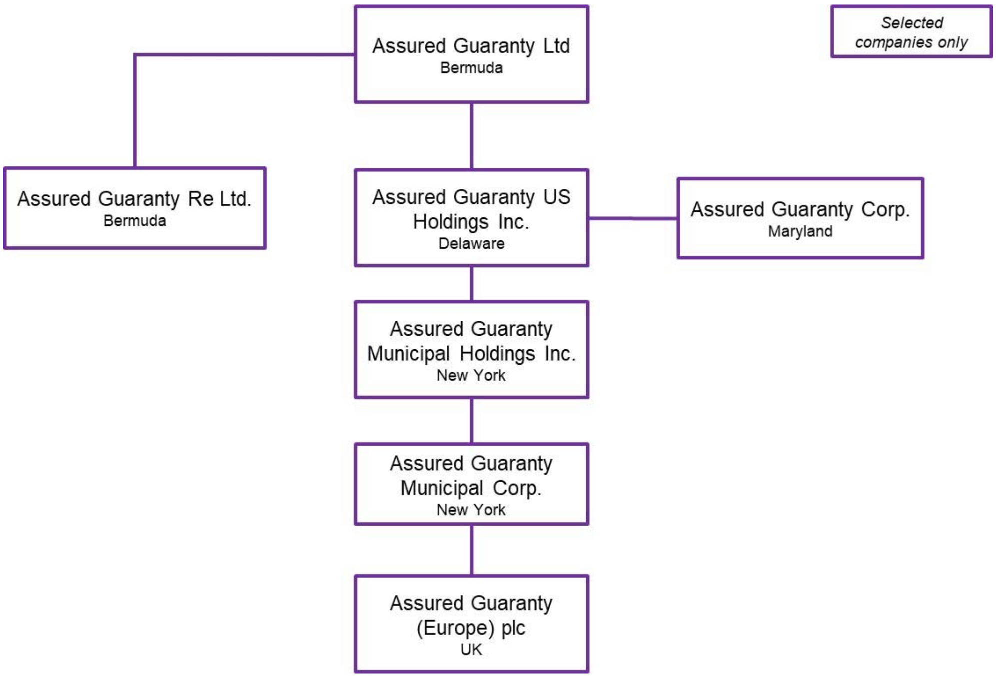
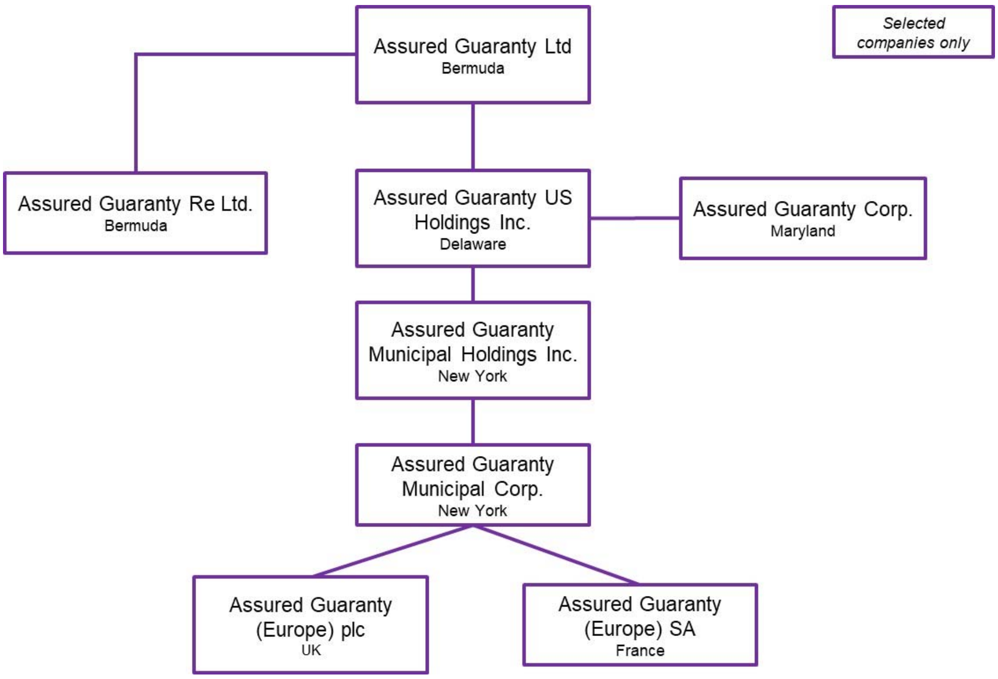


Figure 5.2: Intended Assured Guaranty Group structure



5.13 With the exception of the creation of AGE SA, there is no intended change to the Assured Guaranty Group structure.

Assured Guaranty (Europe) plc

5.14 The principal activity of AGE plc is providing financial guarantee insurance, which protects holders of debt instruments and other monetary obligations from defaults in scheduled interest or principal payments. AGE plc applies its credit underwriting judgement, risk management skills and capital markets experience to offer financial guarantee insurance for new transactions and to manage its existing portfolio of financial guarantee insurance. This is very long-term business with policy durations typically ranging from 20 to 45 years.

5.15 If an obligor defaults on a scheduled payment due on an obligation, which AGE plc guarantees, AGE plc is required under its unconditional and irrevocable financial guarantee to pay the amount of the shortfall to the holder of the obligation.

5.16 AGE plc markets its financial guarantees directly to issuers and underwriters of public finance and structured finance securities as well as to investors in such obligations.

5.17 AGE plc has the following types of obligations in its insured portfolio:

- Infrastructure Finance Obligations - Obligations issued by a variety of entities engaged in the financing of international infrastructure projects, such as roads, airports, hospitals, social infrastructure, and other physical assets delivering essential services supported either by long-term concession arrangements with a public sector entity or by a regulatory regime.

- Regulated Utilities Obligations - Obligations issued by government-regulated providers of essential services and commodities, including electric, water and gas utilities.

- Other Public Finance Obligations - Among others, obligations of local, municipal, regional or national governmental authorities or agencies.

- Insurance Securitisation Obligations - Obligations secured by the future cash flows generated by a pool of life insurance policies and income produced by invested assets.

- Residential Mortgage Backed Securities (“RMBS”) - Obligations backed by closed-end first lien mortgage loans on residential properties located in the UK, Italy, Germany or Hungary. The mortgage loan products in these transactions are either fixed rate or floating rate and the units are either owner occupied or originated as buy to let. The credit quality of the borrowers is classified as either prime or near prime. Such credit classification is based on the originator’s underwriting guidelines and is generally based on the size and frequency of the borrowers’ delinquent credit history. AGE plc has not insured RMBS transactions since December 2007, although four such policies were acquired as a result of acquisitions in 2016 and 2017.

Assured Guaranty (Europe) SA

5.18 Part of AGE plc’s business will be transferred to AGE SA as part of the Proposed Scheme. As AGE SA has been established for the purpose of receiving the Transferring Policyholders there is no existing insured portfolio within AGE SA.

5.19 AGE SA also plans to write new financial guarantee insurance policies in the future.

Policyholders

5.20 The policyholders of the Transfer Companies are typically financial institutions who are either the bondholders or are performing the role of bond trustee or custodian for the benefit of bondholders. The role of the bond trustee includes both administering distribution of interest and principal repayments to investors who have purchased the insured bond or financial instrument, and enforcing the contractual terms of the bond in the interests of investors (for example, in the event of the insolvency of the issuer of the financial instrument). Investors who currently hold financial instruments guaranteed by the Transfer Companies receive economic benefit from the insurance written by the Transfer Companies.

5.21 Where I refer to “policyholders” in this report I mean the party to each insurance contract, typically a financial institution acting as trustee or custodian. I note that in their role as the fiduciary agents of the investors I consider the interests of policyholders to be aligned with the investors who benefit economically from the guarantees provided by the Transfer Companies, and do not distinguish between them for the purposes of this report.

Transferring Policies

5.22 The existing portfolio of AGE plc comprises 262 policies on risk of which 90 are Transferring Policies. I have considered this allocation of AGE plc’s policies under the Proposed Scheme and I have compared the respective compositions of the AGE plc and AGE SA portfolios after the Proposed Scheme.

Approach to allocating policies

5.23 The overall approach to allocating the policies between AGE plc and AGE SA under the Proposed Scheme is for all policies where the policyholder is located in the “post Brexit EEA” (i.e. the current EEA excluding the UK) to be transferred to AGE SA.

5.24 There are two exceptions to this approach:

- If a policy relates to a transaction which has more than one financial guarantee provided to different beneficiaries, where some beneficiaries are located in the UK or outside of the current EEA, and some are located in the post Brexit EEA. This impacts seven policies.
- If a policy relates to a transaction where AGE plc also guarantees the issuer’s obligations under an interest rate swap in addition to the bond, and the beneficiary of the financial guarantee in relation to the loan is located in the UK but the beneficiary of the interest rate swap guarantee is located in the post Brexit EEA. This impacts three policies.

5.25 After discussion with their legal advisors, AGE plc has determined that these 10 exceptions (relating to eight policies where the beneficiary is located in the UK and two policies where the beneficiary is located outside of the current EEA, namely Jersey) should be transferred to AGE SA, either because the transactions would require significant amendments, which are practically impossible, in order to split the financial guarantees or because there is a provision requiring both financial guarantees to be issued by the same entity.

5.26 This approach results in 90 policies being transferred to AGE SA under the Proposed Scheme, with 172 remaining within AGE plc. This is summarised in Table 5.3 below.

Table 5.3: Portfolio composition

Numbers of policies	AGE plc No Scheme	AGE plc Post Scheme	AGE SA Post Scheme
UK policies	156	148	8
Post Brexit EEA policies	89	9	80
Policies outside the current EEA	17	15	2
Total number of policies	**262**	**172**	**90**

5.27 As a result of the selected approach, I note that there are:

- Nine Remaining Policies where a policyholder is located in the post Brexit EEA;
- Eight Transferring Policies where a policyholder is located in the UK; and
- Two Transferring Policies where a policyholder is located outside the current EEA.

5.28 The nine Remaining Policies where a policyholder is located in the post Brexit EEA will all mature before the Effective Date of the Proposed Scheme. The Effective Date of the Proposed Scheme is 25 January 2020 and the latest maturity date of these nine policies is 28 December 2019.

5.29 For the two Transferring Policyholders where the policyholder is located outside of the current EEA, it is proposed that to ensure that there are no issues with the recognition of the Proposed Scheme the express agreement of the policyholders to the transfer will be obtained.

5.30 For the eight Transferring Policyholders which are located in the UK, AGE plc has been advised that AGE SA will be legally entitled to perform their contracts after the Proposed Scheme. Following discussions with their legal advisors, AGE plc has confirmed that this is because there is no prohibition under UK law of an insurer from outside the UK (in this case AGE SA) which is not authorised in the UK from covering risks situated in the UK, provided it does not carry on regulated activities in the UK. AGE plc has confirmed that AGE SA will carry on the necessary activities solely from outside the UK.

5.31 I have seen the advice provided by AGE plc's legal advisors on this point. It aligns with my understanding of the UK regulatory framework and as such I do not consider it is necessary for me to obtain independent legal advice on this point.

5.32 I therefore consider the approach to allocating policies to be reasonable since:

- All nine Remaining Policies where the policyholder is located in the post Brexit EEA will mature before the Effective Date of the Proposed Scheme and therefore will not be impacted by the Proposed Scheme;
- For the two non-EEA non-UK policies that are to be transferred under the Proposed Scheme, the express agreement of the policyholders to the transfer is to be obtained and therefore any issues around the potential recognition of the Part VII for these policies will not arise (see paragraph 9.69); and
- For the eight Transferring Policyholders located in the UK, AGE SA will be legally entitled to perform their contracts after the Proposed Scheme.

AGE plc and AGE SA Post Scheme portfolios

5.33 I have considered the following information when comparing the AGE plc and AGE SA Post Scheme portfolios:

- The number of risks in each of the AGE plc and AGE SA Post Scheme portfolios;
- The rating of each transaction as set internally by AGE plc;
- The par value of each transaction on both a gross and net basis, as provided by AGE plc as at 31 December 2018; and
- The composition of the transactions by sector.

5.34 Each underlying risk (or insured obligation) can be covered by more than one policy. I have therefore reviewed the number of risks in the AGE plc No Scheme portfolio, and the AGE plc and AGE SA Post Scheme portfolios, to ensure that neither of the portfolios is becoming significantly less diversified as a result of the Proposed Scheme. The number of risks for each portfolio is set out in the table below.

Table 5.4: Portfolio composition

	AGE plc No Scheme	AGE plc Post Scheme	AGE SA Post Scheme
Number of policies	**262**	**172**	**90**
Proportion of policies Post Scheme		*66%*	*34%*
Number of risks[1]	**148**	**111**	**47**
Proportion of risks Post Scheme		*70%*	*30%*

5.35 The proportion of the number of risks in each of the AGE plc and AGE SA Post Scheme portfolios is therefore materially similar to the proportion of the number of policies in each of the AGE plc and AGE SA Post Scheme portfolios.

5.36 The proportion of 'investment grade' ratings (which covers all policies which are rated AAA, AA, A or BBB) is high for both AGE plc and AGE SA Post Scheme, with approximatively 97% of the policies being investment grade rated for AGE plc Post Scheme and approximatively 90% of the policies being investment grade rated for AGE SA Post Scheme.

5.37 AGE plc Post Scheme has two policies which are CC and CCC-rated (which together constitute 1% of the policyholders by number of AGE plc Post Scheme). These are the Ballantyne and Orkney adversely-performing deals which are considered separately in paragraph 9.4.

5.38 The breakdown of the portfolios by par value of the policies per rating is as follows:

- For AGE plc Post Scheme, around 95% of the total gross (or around 99% of the total net) par value relates to investment grade rated policies, with most of the remainder relating to the Ballantyne and Orkney deals.
- For AGE SA Post Scheme, around 91% of the total gross (or around 94% of the total net) par value relates to investment grade rated policies.

5.39 Finally, I have looked at the sectors being covered by both AGE plc and AGE SA Post Scheme:

- In terms of numbers of policies:
  - AGE plc and AGE SA Post Scheme have a similar, large proportion of policies relating to the International Utility Finance sector (around 40-45%).
  - The vast majority of the remaining policyholders relate to Public Infrastructure Finance for both AGE plc and AGE SA Post Scheme.
- Looking at the net par value, the majority of exposure also relates to the International Utility Finance and Public Infrastructure Finance sectors for both AGE plc and AGE SA Post Scheme. AGE plc Post Scheme also has a material (but smaller) amount of exposure on a

[1] For each risk there can be one or more policies. In some instances there are Remaining Policies and Transferring Policies which relate to the same risk. As a result the total number of risks on a Post Scheme basis increases.

net par basis to International Municipal Finance. Therefore the net exposure per sector is materially comparable for AGE plc and AGE SA Post Scheme.

- Neither AGE plc nor AGE SA Post Scheme are materially exposed to other sectors.

5.40 Therefore, although I do note some differences between the proportion of insurance liabilities per rating and some differences between the material sectors being covered, I do not consider that the overall composition of the AGE plc and AGE SA Post Scheme portfolios could materially impact the Transferring or Remaining Policyholders. In addition, I note that the allocation of policies between AGE plc and AGE SA is driven by the purpose of the Proposed Scheme.

Transferring Assets

5.41 The value of the investment assets which are to be transferred from AGE plc to AGE SA as part of the Proposed Scheme are being transferred according to the following arrangement:

- Certain investment assets will be transferred directly from AGE plc to AGE SA pursuant to the Framework Agreement (which is described in paragraph 5.44 below) as part of the transfer of the relevant business as a going concern; and

- To provide the remaining investment assets, a dividend will be paid by AGE plc to AGM, which will then provide additional funds to AGE SA in return for an issue of shares in AGE SA to AGM.

5.42 I refer to these amounts together as the Transferring Assets throughout this report, and all figures in this report include both elements of the assets which are being transferred.

5.43 The amount of the Transferring Assets has been determined such that AGE SA will exactly meet its target capital immediately after the Effective Date of the transaction. The target capital policy of AGE SA is discussed in paragraph 5.82 below.

5.44 AGE SA has a right to the funds referred to in paragraph 5.41 above under an English law contract (the “Framework Agreement”) which has been put in place between AGE plc, AGM and AGE SA.

5.45 I understand that the details of the investments which are to be transferred from AGE plc to AGE SA as part of the Proposed Scheme have not yet been finalised. However, I note that currently most of AGE plc’s investments are Sterling denominated and AGE SA is likely to hold mostly Euro denominated investments. As a result, it is anticipated that a mixture of securities which mature close to the Effective Date will be liquidated by AGE plc and the proceeds will be transferred to AGE SA, in order to fund Euro denominated investments.

5.46 AGE plc has confirmed that the investment guidelines will be identical for both AGE plc and AGE SA after the Proposed Scheme, except with respect to currency denominations (such that where the currency constraints within the investment guidelines refer to GBP for AGE plc they will refer to Euros for AGE SA). To ensure compliance with these guidelines (in particular benchmark and minimum credit requirements), AGE plc plans to achieve an asset portfolio for both AGE plc and AGE SA after the Proposed Scheme of similar composition to that of the current AGE plc portfolio. I therefore consider that the Proposed Scheme will not adversely impact the quality of the investments for either AGE plc or AGE SA.

5.47 Within my Supplementary Report I will confirm the final arrangements for the transfer of investments under the Proposed Scheme and whether the final arrangements have any impact on my conclusions.

5.48 The transfer of other assets under the Proposed Scheme, specifically outwards reinsurance, is discussed below.

Reinsurance protection

Background

5.49 Companies within the Assured Guaranty Group make substantial use of internal reinsurance (defined as reinsurance which is provided by other companies within the Assured Guaranty Group). In particular, AGE plc currently benefits from internal reinsurance provided by Assured Guaranty Re Ltd. ("AGRe"), Assured Guaranty Corp. ("AGC") and AGM. The Assured Guaranty Group plans to continue making extensive use of internal reinsurance after the Proposed Scheme for both AGE plc and AGE SA. This is being effected, in part, via the transfer pursuant to the Proposed Scheme of all of the current internal reinsurance provided by AGRe, AGC and AGM on the Transferring Policies.

5.50 AGE plc also benefits from some external reinsurance (defined as reinsurance which is provided by companies which are not within the Assured Guaranty Group), which is described below.

External reinsurance

5.51 External reinsurance is provided by only one reinsurer. This external reinsurance covers five policies issued in respect of the same transaction and covering obligations of the same obligor. I understand that these five policies will all remain within AGE plc after the Proposed Scheme and that no further external reinsurance will be purchased in connection with the Proposed Scheme. This reinsurer is rated AA- by Standard & Poor's.

Internal reinsurance

Current structure

5.52 Under the current structure and arrangements, AGE plc benefits from extensive reinsurance from companies within the Assured Guaranty Group as follows:

- **AGRe** - Reinsurance, mostly in the form of quota-share reinsurance ("QS") but with some first loss and excess of loss, from AGRe on business within AGE plc which was underwritten in 2008 and prior ("AGE plc legacy business"). The individual reinsurance arrangements are specified for each policy which AGE plc has underwritten, on a policy-by-policy basis. This reinsurance is collateralised with a trust fund in the US.

- **AGC** - Similarly, AGC provides reinsurance (again mostly QS but with some first loss and excess of loss) to AGE plc on the AGE plc legacy business. The reinsurance with AGC is more limited, and it is again specified on a policy-by-policy basis. This is also collateralised with a US trust fund.

- **AGM** – AGM provides multiple reinsurance covers to AGE plc, all of which are memorialised in one agreement:

  - Reinsurance protection similar to that provided by AGRe and AGC for AGE plc legacy business, also collateralised with a US trust fund.

  - 85% quota-share reinsurance for qualifying new business written by AGE since the effective date of the previous insurance business transfer in November 2018, if such new business cannot be co-insured with AGM for regulatory reasons. I note that, as of the date of this report, AGE plc had yet to write any such new business.

- Aggregate excess of loss reinsurance across the entire portfolio of AGE plc (the "XoL Cover"), the purpose of which is to preserve the solvency capital ratio of AGE plc (see paragraph 5.71 below for further details).

5.53 All three of the internal reinsurers are rated AA by Standard & Poor's.

5.54 In addition, AGM has provided a Net Worth Maintenance ("NWM") agreement which protects AGE plc in case of non-insurance losses. This is discussed further from paragraph 5.71 below.

5.55 The terms of the collateral held in the US trust funds are covered by three separate Trust Agreements (one for each of AGRe, AGC and AGM) although the terms of the Trust Agreements are similar. In particular, the reinsurers are required to post collateral equal to 102% of the sum of the reinsurer's share of:

- Unearned premium reserve (net of future reinsurance premiums payable);
- Claims outstanding (net of salvage reserves);
- Loss adjustment expenses; and
- Unexpired risk provisions.

5.56 It is my understanding that the collateral will remain accessible for the duration of the contracts. Effectively, under the terms of each Trust Agreement, the Trustee holds the collateral in the form of cash or other qualifying assets (as specified by the contract) and the reinsurer has no right to withdraw, change or substitute any of the assets held in the trust fund unless consented to by AGE plc (as ceding insurer and beneficiary of the trust collateral). Should any investment loss occur on the assets held within the trust fund, the loss would be incurred by the trust fund and therefore reduce the collateral, although the reinsurers are obligated to "top up" their particular trust fund, as necessary, on a quarterly basis.

Post Scheme structure

5.57 The proposed reinsurance arrangements after the Proposed Scheme seek to preserve AGE plc's current arrangements for the Remaining Policies and to transfer the existing reinsurance of the Transferring Policies to AGE SA, so that the Remaining Policyholders and the Transferring Policyholders benefit from the same internal reinsurance as before the Proposed Scheme.

5.58 For AGE plc, it is proposed that the reinsurance cover provided by AGRe, AGC and AGM would remain identical after the Proposed Scheme, although only to the extent that the reinsurance covers the policies of the Remaining Policyholders. Amendments will therefore be made to AGE plc's existing reinsurance agreements with each of AGRe, AGC and AGM specifying the Transferring Policies which are no longer covered by such agreements upon their transfer to AGE SA.

5.59 For AGE SA, the reinsurance currently provided by AGRe, AGC and AGM to AGE plc in respect of the Transferring Policies will be transferred to AGE SA pursuant to the Proposed Scheme. In addition, effective upon the Proposed Scheme, AGE SA will amend and restate its reinsurance agreements with each of AGRe, AGC and AGM in order to:

- Memorialize the continuation for AGE SA of the same reinsurance of the Transferring Policies that, prior to the Proposed Scheme, was being provided to AGE plc; and
- Make certain necessary changes to the existing agreements, which will include the following:

- A change to reflect AGE SA as the new ceding insurer;
- A change to the contractual governing law from English to French due to AGE SA being incorporated in France; and
- A change to the form of the existing collateral arrangements in order to meet the requirements of French law.

5.60 In addition, upon the Proposed Scheme becoming effective, AGM (but not AGRe or AGC) will provide the following new reinsurance to AGE SA:

- A 90% QS on new qualifying deals underwritten by AGE SA (an increase from the 85% QS that AGM provides for new qualifying deals written by AGE plc).
- Approximately 88% - 90% QS covering 33 policies within the AGE plc legacy business which are transferring to AGE SA. These policies currently have no reinsurance cover from AGM and only minimal reinsurance (approximately 2% or less in the aggregate) from AGC and/or AG Re.
- 90% QS on six specific transactions that, prior to the Proposed Scheme, are co-insured by AGE plc and AGM (with AGE plc co-insuring 8% of the relevant obligations) but which will be 100% insured (with no co-insurance) by AGE SA when the Proposed Scheme becomes effective.

5.61 The current collateral arrangements for AGM, AGC and AG Re will also be replicated to cover AGE SA, with the collateral held in three newly set up French pledges. Each of AGM, AGC and AG Re will establish a financial instrument account with an EEA credit institution, deposit into such account the requisite amount of assets (including by a transfer of assets from the existing collateral trust for AGE plc), and then pledge such financial instrument account to AGE SA in accordance with French law.

5.62 I understand that the part of the collateral relating to the Transferring Policies will be transferred from the US trust funds into the French pledges, and that the French pledge agreements will be covered by similar terms. Under the existing US trust fund arrangements, AGE plc is protected in the event of a default by one of its group reinsurers by being able to withdraw assets from the US trust fund. Similarly under the French pledges, in the event that one of its group reinsurers defaults, AGE SA will be entitled to withdraw assets from the pledged account.

5.63 The table below shows the collateral amounts immediately before and after the application of the Proposed Scheme, based on projections as at Q2 2019.

Table 5.5: Collateral Pre and Post Scheme as at Q2 2019

	AGE plc	AGE plc	AGE SA
All in £ 000's	**No Scheme**	**Post Scheme**	**Post Scheme**
Collateral amount	209,641	137,266	104,687

5.64 The sum of the collateral amounts for AGE plc and AGE SA in the Post Scheme Position (of £241.953 million) is greater than the collateral for AGE plc in the No Scheme Position. This is due to the planned increase in reinsurance from AGM, as described in paragraph 5.60 above.

5.65 In the Post Scheme Position the amount of collateral required to be posted as described in paragraph 5.55 and the mechanism described in paragraph 5.56 by which the US trust funds and French pledges provide financial security to the policyholders of AGE plc and AGE SA respectively will not be impacted by the Proposed Scheme.

5.66 The collateral which is in place is modelled in both the ECM and the SCR calculations, with the level of the risk reducing with an increasing amount of collateral. Within the ECM the calculation of the insurance risk and counterparty default risk is integrated and therefore this stochastic model incorporates a number of possible scenarios including:

- The default of a reinsurer resulting in ceded losses exceeding the amount of the collateral available; and
- The default of a reinsurer resulting in a reduction in the collateral available (due to ceded losses being paid) which is then not "topped up" due to the reinsurer default.

5.67 In summary, for the Remaining Policyholders the internal reinsurance cover provided will remain identical after the Proposed Scheme, although only to the extent that the reinsurance covers the policies of the Remaining Policyholders.

5.68 For the Transferring Policyholders, the existing reinsurance of the Transferring Policies will be transferred to AGE SA, so that the Transferring Policyholders will benefit from the same internal reinsurance as before the Proposed Scheme. Some additional internal reinsurance will also be put in place in respect of the AGE plc legacy business which is transferring to AGE SA. As a result, after the Proposed Scheme, AGE SA will benefit from a higher level of reinsurance protection, but also have a greater exposure to reinsurance recoveries than AGE plc, although the terms of the collateral requirements ensure a commensurate increase in the collateral available to AGE SA.

5.69 The impact of the Proposed Scheme on the ICA and the SCR capital requirements is set out in Section 7 of this Scheme Report. In Section 8 of this Scheme Report I discuss the results of a number of stress scenarios on the security of the Remaining Policyholders and Transferring Policyholders, including the scenario of the default of all affiliated reinsurers (from paragraph 8.28).

5.70 Based on the summary set out in paragraphs 5.67 and 5.68 above, the impact of the Proposed Scheme on the ICA and SCR capital requirements set out in Section 7 and the results of the stress scenarios discussed in Section 8, I conclude that with regards to the internal reinsurance there is no material adverse impact on either the Remaining Policyholders or the Transferring Policyholder as a result of the Proposed Scheme.

Net Worth Maintenance agreement and XoL Cover

Overview

5.71 AGM provides XoL Cover and a NWM agreement to AGE plc, which are designed to protect AGE plc in case of insurance and non-insurance losses respectively. The XoL Cover is provided in the form of a reinsurance contract, while the NWM agreement is provided in the form of a legal agreement.

5.72 Both the XoL Cover underwritten by AGM, and the NWM agreement, are triggered if the capital resources of AGE plc fall below 110% of the SCR or ICA (as described at the beginning of Section 7 of this Scheme Report). In this situation, AGM will provide recoveries to AGE plc to restore the coverage ratio to 110% of the relevant requirement.

5.73 After the Proposed Scheme, it is planned that AGM will provide XoL Cover and a NWM agreement to both AGE plc and AGE SA on materially the same terms as is currently provided to AGE plc, as described further below.

Details

5.74 Under the XoL Cover, if AGE plc suffers losses on its net retained insurance liabilities (including as a result of a non-performing reinsurer) which would lead to AGE plc's coverage ratio to fall below 110% of AGE plc's most conservative capital requirements then AGM agrees to provide funds to restore the ratio to 110%.

5.75 The amount due under the NWM agreement is calculated after payment by AGM to AGE plc of the recoveries that can be 'reasonably expected to be paid in due course' under the terms of the reinsurance contracts (including the XoL Cover) between AGM and AGE plc.

5.76 The NWM agreement includes the following restrictions:

- AGM shall own 100% of the outstanding capital stock of AGE plc;
- AGM cannot contribute more than 35% of its policyholders' surplus to AGE plc on an accumulated basis; and
- Any contribution by AGM to AGE plc must be made in compliance with Section 1505 of the New York Insurance Law[1].

5.77 In the case of any dispute, disputed payments must be made by AGM whilst the issue is resolved via the use of an independent expert whose remuneration must be shared between AGM and AGE plc.

5.78 Termination of the NWM agreement is the earlier of:

- The expiration date of all of the exposures underwritten by AGE plc; and
- The date of termination of the QS reinsurance and XoL Cover between AGM and AGE plc.

5.79 In addition, termination of the NWM agreement, QS reinsurance and XoL Cover can be made by mutual consent or by AGE plc if:

- Any of AGM's financial ratings fall below AA- or Aa3 and its rating is not restored within 90 days; or
- AGM becomes insolvent, or else enters into liquidation, rehabilitation or fails to maintain its minimum capital requirement and surplus requirements according to the local regulatory requirements.

5.80 I have been provided with the draft agreements for the XoL Cover and NWM agreement which will cover AGE SA after the Proposed Scheme. It is planned that both the XoL Cover and the NWM agreement will be replicated to cover AGE SA under similar terms as described above following the Proposed Scheme, however some differences will exist, notably:

- The capital requirements for AGE SA will refer to the requirements under French rules. In particular UK GAAP accounting will be replaced by French GAAP accounting.
- Under French law AGE SA will be required to have at least two shareholders (as explained in the footnote to paragraph 1.12). To meet this requirement, I have been advised that

[1] This requires:
- The approval of the NYDFS for any contribution by AGM that exceeds 5% of its admitted assets under New York law, which were approximately $5.3 billion at 31 March 2019; and
- AGM to notify the NYDFS at least thirty days in advance of any contribution that exceeds the lesser of 3% of its admitted assets and 25% of AGM's surplus to policyholders (which was approximately $2.5 billion at 31 March 2019) and the NYDFS not to object to the contribution within such period.

AGM will own 99.997% of AGE SA's outstanding capital stock (compared with 100% in the case of AGE plc).

- The rating triggers for termination of the NWM agreement and XoL Cover will be A- or A3 (compared with AA- or Aa3 for the equivalent AGM agreements with AGE plc). This is because AGM is currently rated A2 by Moody's and is unlikely to be permitted by its domestic regulator to enter into new agreements that could immediately be terminated by AGE SA.

5.81 Whilst the current XoL Cover and NWM agreement for AGE plc, and the ones replicated for AGE SA, have some restrictions, I consider that, given the financial strength of AGM, these provide valuable protection to the policyholders of AGE plc and will continue to do so to the policyholders of both AGE plc and to AGE SA on a materially similar basis if the Proposed Scheme goes ahead.

Target capital policy

5.82 AGE plc is currently in the early stages of putting in place a target capital policy, with the intention of potentially paying dividends in the future consistent with a defined capital risk appetite. I understand that AGE SA intends to put in place a policy which is materially similar to AGE plc's.

5.83 The capital risk appetite of AGE plc is likely to be specified in the form of maintaining a buffer above its SCR and ICA requirements, subject to a minimum floor of maintaining a defined SCR coverage ratio. The buffer is likely to be defined as having sufficient additional funds to cover a loss of an amount which is estimated to occur 1 in every X years, where X is specified in the target capital policy.

5.84 The value of the investment assets which are to be transferred from AGE plc to AGE SA as part of the Proposed Scheme has been determined such that AGE SA will exactly meet its target capital immediately after the Effective Date of the transaction. The value of the investment assets to be transferred has been based on the draft capital risk appetite of AGE SA, which is specified in the form of maintaining a buffer above its SCR and ICA requirements.

5.85 This process of putting the target capital policy in place is at a very early stage and the timing (and amount) of any possible dividends is extremely uncertain. The capital projections set out in Section 8 of this report therefore make no allowance for any such dividends. I have commented, though, at the beginning of Section 8, on the impact that the payment of any such dividends may have on my conclusions.

Solvency regimes

5.86 AGE plc is currently regulated under the Solvency II regime. Immediately following the Proposed Scheme both AGE plc and AGE SA will continue to be regulated under the Solvency II regime. Following Brexit the UK could adopt a different solvency regime. I have seen no information as to what such a future UK insurance solvency regime may look like, or whether the UK will continue to regulate insurance companies in line with the Solvency II regime. However, I would expect any such insurance solvency regime to be heavily based on Solvency II in the first instance and that any subsequent divergence between the two regimes is likely to be slow.

5.87 All of my analysis and conclusions in this report are therefore based on the assumption that the Solvency II regulatory regime will continue both in the UK and France. I consider this assumption to be reasonable and in line with my understanding of the PRA's expectations for this report.

Section 6: Balance Sheets

Introduction

6.1 In this section I set out my review of the UK GAAP and Solvency II balance sheets of AGE plc and AGE SA, immediately before and after the Proposed Scheme. I consider the projected balance sheets over the period up to 2022 in Section 8 of this Scheme Report.

6.2 As part of my review of the balance sheets, I have reviewed the approach to reserving and the composition of the investment portfolio for each company. I have considered the balance sheets both on a UK GAAP and Solvency II basis in my review and the key differences between the two bases.

6.3 Unless specifically stated otherwise, I have reviewed the balance sheets projected to Q2 2019, based on actual financial information as at 31 December 2018.

Impact of the Proposed Scheme on the UK GAAP balance sheets

6.4 The table below shows the balance sheets for AGE plc and AGE SA on a UK GAAP basis as at Q2 2019 immediately before and after application of the Proposed Scheme.

6.5 I note that after the Proposed Scheme AGE SA will use French GAAP rather than UK GAAP. This is discussed further from paragraph 9.72 of this Scheme Report. In summary, though, the change from UK GAAP to French GAAP will have no impact on either the Solvency II Own Funds or the Capital Resources of AGE SA and, on an ongoing basis, only a small impact on Shareholders' Funds.

6.6 There will, however, be a material one-off impact on AGE SA's Shareholders' Funds when moving from UK GAAP to French GAAP as a result of the legal structure of the Proposed Scheme. This is discussed further from paragraph 9.72 of this Scheme Report, where I conclude that I do not consider that this change in accounting regime will have a material impact on the security of policyholders' contractual rights.

Table 6.1: UK GAAP balance sheets on a No Scheme and Post Scheme basis

All in £ 000's	AGE plc No Scheme	AGE plc Post Scheme	AGE SA Post Scheme
Assets			
Investments	801,777	709,288	-
Reinsurers' share of technical provisions	452,474	338,484	186,708
Debtors	542,502	449,564	105,242
Other assets including cash	16,693	16,693	68,349
Prepayments and accrued income	36,639	30,694	5,916
Total assets	**1,850,085**	**1,544,723**	**366,215**
Liabilities			
Technical provisions	690,422	531,601	158,821
Creditors	255,037	212,003	84,074
Deferred tax liabilities	-	-	-
Accruals and deferred income	125,364	94,943	51,320
Total liabilities	**1,070,823**	**838,547**	**294,215**
Total Shareholders' Funds	**779,262**	**706,176**	**72,000**

6.7 The sum of the overall balance sheets for AGE plc and AGE SA on a Post Scheme basis is broadly equivalent to that for AGE plc on a No Scheme basis. The key differences arise due to the following:

- The planned increase in reinsurance from AGM, as described in paragraph 5.60 of this Scheme Report.

- No investments being included on the AGE SA balance sheet, with cash being held instead. I understand that investments will be held by AGE SA, but that the precise details of the investments to be held have not yet been finalised as described in paragraph 5.41. The amount of investments held by AGE SA will result in a corresponding reduction in the cash amount shown in the table above.

6.8 I note that although the balance sheet shown above assumes that no investments are held by AGE SA, all of the capital calculations (on both a Solvency II and ICA basis) assume that AGE SA holds an investment portfolio similar to that currently held by AGE plc, as described in paragraph 5.46. I will comment in my Supplementary Report on any impact on my conclusions as a result of the assets to be held by AGE SA, once these are finalised.

6.9 The value of the investment assets which are to be transferred from AGE plc to AGE SA as part of the Proposed Scheme has been determined such that AGE SA will exactly meet its target capital immediately after the Effective Date of the transaction, with all other investment assets remaining in AGE plc (which will exceed its target capital immediately after the Effective Date of the transaction). As a result, the ratio of Shareholders' Funds to total liabilities for AGE SA after the Proposed Scheme is lower than the ratio of Shareholders' Funds to total liabilities for AGE plc both before and after the Proposed Scheme, although I note that after the Proposed Scheme the Transferring Policyholders will benefit from a higher level of reinsurance protection in respect of the liabilities the effects of which are described below.

6.10 The reduction in total Post Scheme cash and investments and the increase in total Post Scheme creditors, debtors and deferred income results from the planned increase in reinsurance from AGM. The reduction in cash and investments relates to premiums (net of reinsurance commissions) which will be paid immediately to AGM in respect of the reinsurance of policies where all or a portion of premium has been received upfront at policy inception but earned over the life of the policy.

6.11 As discussed in Section 4 of this Scheme Report, security for policyholders is provided by assets backing the technical reserves and by Shareholders' Funds. In considering policyholder security, it is also necessary to take into account the potential variability of future experience (including investment returns, claims experience, expense levels and wider operational risks) as well as other factors such as the nature of the reinsurance arrangements and the financial security of reinsurance counterparties.

6.12 In the following sections of this Scheme Report I have therefore considered the impact of the Proposed Scheme on the following metrics for the Remaining Policyholders and the Transferring Policyholders:

- The projected capital requirements on both a regulatory basis and according to AGE plc's capital model, together with the available capital on the respective bases, both as at Q2 2019 and over the period 2019 to 2022.
- The projected capital requirements for AGE plc and AGE SA under a number of alternative scenarios on both a regulatory basis and according to AGE plc's capital model, together with the available capital on the respective bases.
- The probability of their insurer remaining solvent over the lifetime of the existing policies, based on the methods and assumptions underlying the ICA.

6.13 My findings are set out in Section 7 and Section 8 of this Scheme Report, and explain why I consider that the security of the Remaining Policyholders and the Transferring Policyholders will not be materially adversely affected by the Proposed Scheme.

6.14 I also note that for AGE SA Post Scheme the reinsurers' share of technical provisions is greater than the technical provisions (i.e. the technical provisions net of reinsurance are negative). This is the result of:

- AGE SA's unearned inward premium being less than the outward reinsurance premium, reflecting the current fair value of premium that AGE SA will be paying AGM in connection with certain of the AGE plc legacy business for which AGM will be providing 90% quota share reinsurance (see paragraph 5.60); and
- AGE SA's unearned inward premium also being less than its outward reinsurance premium in respect of certain of the transferred business that was the subject of prior reinsurance commutations with unaffiliated reinsurers that entailed AGE plc receiving a commutation premium earned immediately under UK GAAP, while its affiliated reinsurers' share of such commutation premium is earned over time.

6.15 A more detailed summary of the gross technical provisions on a UK GAAP basis is shown in the table below. The majority of the gross technical provisions relate to the unearned premium reserve. The approach to calculating this is set out in paragraph 6.26 below. In addition, there is a small unexpired risk reserve for the under-performing transactions (referred to as "Below Investment Grade" or "BIG" deals) on which AGE plc expects to incur a loss. The reserve for claims outstanding relates to the "Ballantyne" and "Orkney" adversely-performing deals. Further detail on these deals can be found from paragraph 9.4 of this Scheme Report.

Table 6.2: UK GAAP technical provisions on a No Scheme and Post Scheme basis

All in £ 000's	AGE plc No Scheme	AGE plc Post Scheme	AGE SA Post Scheme
Gross unearned premium reserve	646,946	504,269	142,677
Gross unexpired risk reserve	16,246	102	16,144
Gross claims outstanding reserve	27,230	27,230	-
Total gross technical provisions	**690,422**	**531,601**	**158,821**

Impact of the Proposed Scheme on the Solvency II balance sheets

6.16 The table below shows the balance sheets for AGE plc and AGE SA on a Solvency II basis as at Q2 2019 immediately before and after application of the Proposed Scheme.

Table 6.3: Solvency II balance sheets on a No Scheme and Post Scheme basis

All in £ 000's	AGE plc No Scheme	AGE plc Post Scheme	AGE SA Post Scheme
Assets			
Deferred tax assets	17,168	17,726	-
Investments	809,329	716,840	-
Reinsurance recoverables	(37,640)	(55,030)	17,685
Cash and cash equivalents	15,000	15,000	68,348
Any other assets, not elsewhere shown	-	-	-
Total assets	**803,857**	**694,536**	**86,033**
Liabilities			
Best estimate	(104,382)	(117,323)	40,641
Risk margin	212,796	186,417	13,197
Payables (trade, not insurance)	1,027	1,027	-
Total liabilities	**109,441**	**70,121**	**53,838**
Own Funds	**694,416**	**624,415**	**32,195**
Tier 1 assets	*677,248*	*606,689*	*32,195*
Tier 3 assets	*17,168*	*17,726*	-

6.17 The sum of the overall balance sheets for AGE plc and AGE SA on a Solvency II Post Scheme basis is broadly equivalent to that for AGE plc on a No Scheme basis. As for the UK GAAP basis, the key differences arise due to the planned increase in reinsurance from AGM and no investments being included on the AGE SA balance sheet, with cash being held instead.

6.18 In addition there is an increase in the overall best estimate when moving to the Post Scheme basis, which is driven by an increase in the allowance for expenses which is incorporated. This is partially offset by a reduction in the overall risk margin when moving to the Post Scheme basis, which is discussed further below.

6.19 The risk margin has been calculated using a consistent methodology for both AGE plc and AGE SA. For the risk margin calculation the SCR has been approximated for each future year of the run-off of the liabilities based on the run-off of the net par outstanding for the insured risks. The run-off of net par outstanding was selected as representing a good approximation of the reduction in SCR for those risks which are included in the risk margin calculation (namely underwriting risk, reinsurance counterparty risk and operational risk). As a result, the reduction in the risk margin mostly impacts AGE SA and is driven by:

- The reduction in the SCR due to the planned increase in reinsurance for AGE SA; and
- A faster expected run-off for AGE SA, given the policy durations of the underlying risks in the portfolio.

6.20 I have satisfied myself that the risk margin has been calculated appropriately (and in accordance with the requirements of Solvency II). I also note that my conclusions set out in this Scheme Report take into account the impact of the Proposed Scheme on both a Solvency II and ICA basis, which is based on the stochastic capital model of the Assured Guaranty Group and does not rely on the risk margin calculation.

UK GAAP to Solvency II

6.21 When moving from a UK GAAP basis to Solvency II basis the impact on the Own Funds is as follows:

Table 6.4: Movement in Own Funds from UK GAAP to Solvency II basis

All in £ 000's	AGE plc No Scheme	AGE plc Post Scheme	AGE SA Post Scheme
UK GAAP Shareholders' Funds	779,262	706,176	72,000
Solvency II Own Funds	694,416	624,415	32,195
Movement	**(84,846)**	**(81,761)**	**(39,805)**

6.22 This reduction in Own Funds is driven by the changes set out in the table below.

Table 6.5: Movement in Own Funds from UK GAAP to Solvency II basis

All in £ 000's	AGE plc No Scheme	AGE plc Post Scheme	AGE SA Post Scheme
Movement from UK GAAP reserves to Solvency II Technical Provisions, which comprises of:	(195,571)	(168,568)	(85,208)
Movement in best estimate reserves	*17,225*	*17,849*	*(72,011)*
Inclusion of risk margin	*(212,796)*	*(186,417)*	*(13,197)*
Removal of deferred acquisition costs and deferred reinsurance commissions	95,283	70,807	45,404
Increase in deferred tax asset	16,182	16,740	-
Other adjustments	(740)	(740)	-
Total movement	**(84,846)**	**(81,761)**	**(39,805)**

6.23 Deferred acquisition costs and deferred reinsurance commissions payable are fully eliminated in the Solvency II balance sheet. The removal of the deferred acquisition costs serves to reduce the own funds. However, this movement is more than offset by the removal of the deferred reinsurance commissions, which increases the own funds.

6.24 The method for recognition and valuation of deferred tax assets is the same under Solvency II and UK GAAP. The increase in the deferred tax asset on the Solvency II balance sheet increases the own funds, and is driven by the temporary differences arising from the valuation adjustments when moving from a UK GAAP to Solvency II basis.

6.25 The largest movement is driven by the movement in the UK GAAP reserves to the Solvency II Technical Provisions[1]. This is driven by the following key movements:

- Upfront recognition of the profit in the unearned premiums. On a UK GAAP basis, AGE plc recognises all premium expected to be received under the contract as written premium on issuance of the policy and an unearned premium reserve is held equal to the proportion of the written premium that relates to future years of exposure, calculated on a time apportioned basis. On a Solvency II basis the expected cost of claims arising from this business is held plus an allowance for expenses, less the future expected premiums.

  For AGE plc, as the business is expected to be profitable, this results in a reduction in the Solvency II Technical Provisions compared with the UK GAAP reserves, and therefore an increase in Own Funds when moving from a UK GAAP to Solvency II basis.

  For AGE SA, there is an increase in the Solvency II Technical Provisions compared with the UK GAAP reserves and, therefore, a reduction in Own Funds when moving from a UK GAAP to Solvency II basis. This is due to AGE SA's inward premium receivable being less than the outward reinsurance premium payable, reflecting the current fair value of premium that AGE SA will be paying AGM in connection with certain of the AGE plc legacy business for which AGM will be providing 90% quota share reinsurance (see paragraph 5.60).

- Under Solvency II a risk margin is included in the Solvency II balance sheet as a liability. This is on a defined basis under Solvency II using a cost of capital approach. The inclusion of a risk margin results in an increase in the Solvency II Technical Provisions compared with the UK GAAP reserves, and therefore a reduction in Own Funds when moving from a UK GAAP to Solvency II basis.

Premium reserving

6.26 Under UK GAAP, AGE plc recognises the whole expected premium as 'written' as the contract is underwritten. For single premium policies this is the full amount of the premium. For policies with instalment premiums an assessment is taken as to how many instalments are expected to be received (as, for instance, an underlying contract could be callable if the credit in question could be repaid early). If a contract is callable without notice then only one instalment of premium is recognised as written.

6.27 The unearned premium reserve is then calculated as the proportion of the written premium that relates to future years of exposure, calculated on a time apportioned basis.

6.28 Under Solvency II, the same approach to premium recognition is followed as for UK GAAP. For the Solvency II Premium Provisions (and the Claims Provisions, as noted below) Assured Guaranty uses a stochastic approach and calculates the reserves using the ECM. This approach is consistent with the Solvency II requirement that "the best estimate shall correspond to the probability-weighted average of future cash-flows".

Claims reserving

Background

6.29 AGE plc only writes financial guaranty business, exclusively for commercial clients. This is very long-term business with policy durations typically ranging from 20 to 45 years. Due to the nature of this business and the small number of individual policies written (AGE plc currently has 262 policies on risk), the best estimate reserving is performed individually for each policy

[1] Technical Provisions comprise Claims Provisions (which cover earned exposures), Premium Provisions (which cover unearned periods of exposure) and the risk margin.

(or “deal”). For the selection of certain assumptions, the deals are, however, split into “sectors”, each representing a different industry categorisation. These sectors are:

- Roads;
- University accommodations;
- Schools;
- Social housing;
- Regulated utilities;
- Public buildings;
- Hospital / Healthcare; and
- Prisons.

6.30 This categorisation does not exactly match the types of financial guarantee obligations described in paragraph 5.17 but provides a better view of the types of infrastructure covered by AGE plc. For parameterisation purposes the classification described above is used.

6.31 The deals are classified as either “Credit” or “Reserve Credit”, with the former denoting deals that are performing well and the latter deals where a future loss is expected. The “surveillance team” within Portfolio Risk Management at AGE plc monitors all deals individually on a regular basis (at least annually, and more frequently where deals are not performing as expected). This allows for timely mitigation of losses, where possible, due to contractual protections that are in place on the deals.

Credit deals

6.32 Although credit deals are modelled individually, the same set of assumptions is used for all deals within the same sector, differentiated by rating. The setting of these assumptions requires a significant amount of expert judgement due to the lack of historical or market data. The expert judgements are subject to AGE plc’s Expert Judgement Policy and are consistent between the best estimate reserving and AGE plc’s capital model.

Reserve Credit deals

6.33 For reserve credit deals, these are either reserved using sector specific assumptions (in the same way credit deals are reserved) or reserved individually using a range of scenarios (from pessimistic to optimistic). The scenario approach is generally used for the reserve credit deals unless: the risk of default is due to a sovereign or sovereign-like exposure; Assured Guaranty has limited or no information on which to create scenarios; or the exposure is small.

6.34 There are currently less than 10 loss-making reserve credit deals (out of 262 policies on risk in total) and therefore these do not represent a significant part of AGE plc’s portfolio (around 6% of the total par value as at Q1 2019 on a gross basis, and around 1.25% on a net basis).

6.35 Of these reserve credit deals, the two worst-performing deals (“Ballantyne” and “Orkney”) will remain within AGE plc after the Proposed Scheme. Further detail on these deals can be found from paragraph 9.4 of this Scheme Report.

UK GAAP reserving

6.36 For the best estimate reserving for UK GAAP purposes, Assured Guaranty takes a deterministic approach using the reserving process set out in paragraph 6.33 above. Under UK GAAP reserves are only established for the reserve credit deals (and not the credit deals).

Solvency II Claims Provisions

6.37 For the calculation of the Solvency II Claims Provisions, Assured Guaranty uses a stochastic approach and calculates the reserves using the ECM. This approach covers both the credit and reserve credit deals and is consistent with the Solvency II requirement that "the best estimate shall correspond to the probability-weighted average of future cash-flows".

Approach

6.38 I have used the following to satisfy myself with the reasonableness of the reserves booked by AGE plc:

- The review of the best estimate reserves which is undertaken internally within the Assured Guaranty Group. This is covered by internal memos and reports (including the ORSA and the Actuarial Function Report).
- The external audit of the accounts and Solvency II Technical Provisions which is undertaken annually.
- My own review of the reasonableness of the approach to estimating the best estimate reserves.

6.39 Further details on my approach are set out in the paragraphs below.

6.40 Common actuarial reserving techniques do not apply to financial guarantees business. Instead, an approach similar to that used in the banking industry is used by AGE plc. Such an approach requires the application of expert judgement to derive each of the required assumptions.

6.41 Given the high level of expert judgement that is required to be applied to the calculation of the reserves for AGE plc, the focus of my review has been to assess whether the process applied to derive the reserves is appropriate and sufficiently robust to produce reliable results.

Data and information

6.42 I was provided with the following key pieces of data and information:

- The 2017 Annual Actuarial Function Report (dated March 2018) and the 2018 Annual Actuarial Function Report (dated March 2019);
- Internal Loss Reserve Memos as at Q4 2017 and Q4 2018, presented to the Reserve Committee for four Reserve Credit deals;
- The reserves presented to the Reserve Committee in relation to the Reserve Credit deals, both as at Q4 2017 and Q4 2018;
- The financial statements for 2015, 2016 and 2017 audited externally by either PwC or KPMG. These are presented separately for each of the three entities which were transferred into AGE plc as a result of the previous insurance business transfer (see paragraph 5.10), as well as for AGE plc;

- The AGE plc financial statements for 2018 audited externally by PwC; and
- The spreadsheet where the Solvency II Technical Provisions are calculated.

6.43 I also had several meetings and calls with AGE plc personnel to discuss AGE plc's reserves history and approach to reserving.

Review of internal methodology and process

6.44 I have reviewed the terms of reference of the actuarial function of AGE plc.

6.45 I have reviewed the reserving process undertaken by AGE plc and the communication of its findings via the Reserve Committee, in conjunction with further verbal explanations from AGE plc.

6.46 These are in line with my expectations for this type of business and have not required me to review these in any further detail.

Review of internal reserving as at Q4 2018

6.47 I have reviewed AGE plc's approach to estimating reserves, including the rationale for key expert judgements. To aid me in this review I have had access to:

- AGE plc's Loss Reserve Memos and Reserve Committee exhibits produced during 2017 and 2018;
- AGE plc's documentation of the expert judgements underlying the credit estimates for the Public Infrastructure sector. I have focussed on this sector as being of significant materiality to AGE plc; and
- AGE plc's verbal explanation and background on the reserving process and reserves history.

6.48 Together this provided good support for the reasonableness of the approach to estimating the reserves.

Review of external actuarial reserve studies

6.49 There has been no external actuarial review performed of the reserving process. However, the methodologies, approaches and assumptions are consistent with those used in the ECM, which has been subject to external review. This is covered in detail in Section 7 of this Scheme Report.

Findings

6.50 Whilst I have not attempted to review in detail the internal or external calculations performed, the above review has given me comfort that AGE plc's best estimate reserves are derived in a sufficiently robust manner, and are therefore likely to be reasonable.

6.51 However, when undertaking any reserving exercise there are a range of assumptions that could be reasonable with any two experts looking at the same set of data likely to produce different projections of future claims depending on their individual judgement. This is particularly the case for the type of business underwritten by AGE plc where there is significant uncertainty over the level of reserves due to the range of expert judgements that can be applied to the calculations.

6.52 The range of scenarios and stress tests in Section 8 of this Scheme Report tests the financial strength of AGE plc and AGE SA to large deteriorations, in particular of the largest exposures or of the least well performing deals, and therefore provides comfort that the impact of using materially different assumptions would not significantly impact the financial strength of AGE plc or AGE SA.

Investments

6.53 AGE plc's strategy is to invest in highly rated, short term bonds and to monitor its asset portfolio regularly. Part of the portfolio is managed externally, whilst investments relating to loss mitigation purchases are managed internally. The Assured Guaranty Group objective is to maintain an overall portfolio credit quality (excluding the loss mitigation bonds in the internally managed portfolio) on an ongoing basis corresponding to a minimum rating of AA-/Aa3/AA-.

6.54 AGE plc's interest on investments comes mainly from UK government bonds and highly rated corporate bonds. The composition of the portfolio as at Q4 2018 was primarily UK government bonds (29%), government guaranteed bonds (31%) and corporate bonds (20%).

6.55 Overall, a large portion of the investments (including cash and cash equivalents) are in GBP, with most of the remaining investments in USD. AGE plc also has some exposure to Euros.

6.56 Further details of the investments, including the investments transferring under the Proposed Scheme, were discussed in paragraphs 5.41 to 5.47 of this Scheme Report.

Section 7: Capital Requirements

Ultimate vs one-year basis

7.1 AGE plc currently assesses its capital requirements on two different bases as follows:

- A stochastic capital model which models risk on a “run-off to ultimate” basis and covers insurance risk and reinsurance credit risk. This is referred to as the “Economic Capital Model” or “ECM”, and is used throughout the Assured Guaranty Group; and

- The one-year basis for its regulatory SCR, which is calculated according to the Standard Formula approach under Solvency II.

7.2 AGE plc’s business is very long-term with policy durations typically ranging from 20 to 45 years. As a result, AGE plc uses the long-term view of risk to inform business decisions, referred to as the Individual Capital Assessment (or “ICA”). The ICA is based on the ECM results for insurance risk and reinsurance credit risk and the Solvency II Standard Formula approach for market risk, operational risk and correlation assumptions to combine the risks.

7.3 The ECM is a proprietary model and while it is used throughout the Assured Guaranty Group it is not used for regulatory purposes and is not approved by the PRA.

7.4 The SCR is not used within the business, given that the one-year view of risk is less meaningful for risks which take many years to fully emerge, but is used to set the company’s regulatory capital.

7.5 The same approach is planned with regards to the capital requirements for both AGE plc and AGE SA after the Proposed Scheme. I understand that there are no plans for either AGE plc or AGE SA to apply for internal model approval under Solvency II, such that a bespoke capital model could be used to set the regulatory capital requirement.

7.6 As the ICA considers all of the risks until the policies have expired it produces higher capital requirements than the Standard Formula assessment. Given that the businesses are managed using the ICA, but that the Standard Formula is used for regulatory purposes, I have considered both of these measures in my analysis of the impact of the Proposed Scheme on policyholder security.

7.7 The results of the ICA (and ECM) are not in the public domain. I have therefore not included the results of these calculations in this report, but discuss their relativities before and after the Proposed Scheme and the manner of their changes. I have shown the results of the Standard Formula calculations in this report as these are published.

7.8 In this section I consider the impact of the Proposed Scheme on the security of the Remaining Policyholders and Transferring Policyholders immediately before and after the Proposed Scheme. In Section 8 of this report I consider the capital requirements of AGE plc and AGE SA over the period up to 2022 and under a number of alternative scenarios.

Details of Standard Formula

7.9 The Standard Formula is one of the approaches under Solvency II for calculating a company’s Solvency Capital Requirement. The Standard Formula methodology, as prescribed in the Solvency II Delegated Acts for calculating an undertaking’s SCR and MCR, uses a combination of factor and scenario based methods.

7.10 The Standard Formula aims to assess the Value-at-Risk of the Solvency II Own Funds subject to a likelihood of 1 in 200 over a one-year time horizon (a 0.5th percentile level of risk).

7.11 The Standard Formula approach looks at each risk individually and applies a prescribed factor or scenario based approach for each individual risk. The process followed is that firstly individual sub-risks and risks are calculated, with the results aiming to represent the 99.5th percentile (or 1 in 200 year outcome) for each component. The individual risks are then aggregated, incorporating an allowance for diversification.

7.12 The key risks included within the SCR calculation are as follows:

- Market risk
  - Interest rate risk
  - Equity risk
  - Property risk
  - Spread risk
  - Currency risk
  - Concentration risk
- Counterparty default risk
- Underwriting risk
  - Premium & reserve risk
  - Catastrophe risk
  - Lapse risk
- Operational risk

Details of Economic Capital Model

7.13 The ECM is a proprietary model owned by the Assured Guaranty Group and as such the modelling approaches used in the ECM are confidential.

7.14 Similar to the Solvency II basis, the key risks modelled are insurance (or underwriting) risk and reinsurance credit risk. Market and operational risk are less material and therefore the Standard Formula approach for these risks is combined with the results of the ECM in order to produce the ICA.

7.15 In the ECM, insurance risk is split between:

- Sector-Based Credits, covering high-performing deals and some deals which are not performing well. These are grouped by sector within which the same set of assumptions is used, differentiated by rating. The modelling approach is similar to approaches used in banking. I consider this to be appropriate given the similarities in risk drivers between financial guarantee business and banking risks.

- Scenario-Based Reserve Credits, covering deals where a future loss is expected. The modelling for these deals is scenario based with the underlying assumptions set using expert judgement which is regularly re-assessed and reviewed by AGE plc.

7.16 As mentioned in paragraph 6.49, the assumptions underlying insurance risk are consistent with those used for the calculation of the reserves, with the calculation of the reserves being based on the mean outcomes from the ECM.

7.17 Reinsurance credit risk is directly modelled within insurance risk, i.e. the amount of recoveries generated in each insurance risk simulation in turn generates the amount of counterparty default risk associated with these recoveries. This counterparty default risk is modelled using standard market approaches.

Appropriateness of the capital models

Process

7.18 I have reviewed documents and calculations relating to the calculation of the SCR on the Standard Formula basis and the capital on the ICA basis and have had the opportunity to discuss and challenge AGE plc's staff involved in the calculation of the SCR and the running of the ECM.

7.19 I have also performed a review of a selection of the Standard Formula SCRs calculated by AGE plc using WTW's own SCR modelling software. I have also compared AGE plc's ICA modelling approach to my experience of those elsewhere in the market for similar risks.

Reliance on internal and external review

7.20 The SCR calculated using the Standard Formula approach has been audited every year by AGE plc's external auditors, most recently as at 31 December 2018.

7.21 An external third party performed a full review of the ECM in 2012. This resulted in findings and recommendations for improvement in respect of reserve risk and governance. Following remediation, the same external third party performed a follow-up review in 2016 of the reserve risk methodology and of the governance over the ECM. At this follow-up review no material findings were raised and improvements made by the Assured Guaranty Group were noted.

7.22 The ECM was also reviewed internally during 2016. This review did not give rise to any material findings.

Findings

7.23 I reviewed the calculation of the Standard Formula SCR projected as at Q2 2019 for both AGE plc and AGE SA and consider this to be reasonable. In forming this opinion, I note that the AGE plc Standard Formula SCR is audited every year by AGE plc's external auditors.

7.24 I found the methods and assumptions underlying the ICA for AGE plc and AGE SA to be generally reasonable and broadly in line with my expectations. In forming this opinion, my considerations included the following:

- The external reviews of the ECM undertaken in 2012 and 2016 and the internal review undertaken during 2016.

- The recent improvements made by the Assured Guaranty Group following the 2016 external review of the ECM noted above.

- My review of the documentation of the ICA which has been provided and my discussions with AGE plc's staff involved in the running of the ECM.
- My review of the impact on the ICA of the stress scenarios set out in Section 8 of this Scheme Report.
- AGE plc's active use of the ICA in determining the strategy of the firm.

7.25 In forming my opinion I also considered the granularity of the assumptions within the ECM (and therefore the appropriateness of applying them to AGE SA) and my review of the AGE plc and AGE SA Post Scheme portfolios, as set out from paragraph 5.33 of this Scheme Report.

7.26 The setting of the assumptions within the ICA requires a significant amount of expert judgement due to the lack of historical or market data. Based on my review (including of the expert judgement documentation provided) the expert judgements made (and the parameters selected for the ICA based on these expert judgements) reflect this high level of parameter uncertainty by typically selecting cautious assumptions. An example of this is where market data is available it often includes exposures which would fall outside the risk appetite of AGE plc. As a result the use of this data to project the performance of the insured portfolio of AGE plc is likely to be conservative. Such conservatism results in a higher calculated ICA requirement than would otherwise be the case, and a lower ICA coverage ratio.

Impact of the Proposed Scheme on capital requirements

Coverage ratios on Solvency II basis

7.27 The table below shows the Standard Formula SCR results projected as at Q2 2019, immediately before and after application of the Proposed Scheme, using the same modelling assumptions and assuming the reinsurance is as set out in Section 5.

Table 7.1: Standard Formula projections as at Q2 2019

All in £000's Risk	AGE plc No Scheme	AGE plc Post Scheme	AGE SA Post Scheme
Premium & reserve risk	*81,112*	*66,138*	*0*
Catastrophe risk	*235,051*	*228,469*	*12,412*
Total underwriting risk	267,134	253,234	12,412
Market risk	90,597	78,915	6,936
Credit risk	1,394	1,394	150
Operational risk	1,697	1,387	1,263
Diversification	(55,634)	(49,365)	(3,762)
Total SCR	**305,189**	**285,565**	**16,999**
Solvency II Own Funds	**694,416**	**624,415**	**32,195**
Solvency II coverage ratio	**228%**	**219%**	**189%**

7.28 AGE SA has no premium and reserve risk due to the claims provisions being zero and net earned premiums being negative.

7.29 The negative net earned premiums are the result of:

- AGE SA's inward premium being less than the outward reinsurance premium, reflecting the current fair value of premium that AGE SA will be paying AGM in connection with certain of the AGE plc legacy business for which AGM will be providing 90% quota share reinsurance (see paragraph 5.60); and

- AGE SA's inward premium also being less than its outward reinsurance premium in respect of certain of the transferred business that was the subject of prior reinsurance commutations with unaffiliated reinsurers that entailed AGE plc receiving a commutation premium earned immediately under UK GAAP, while its affiliated reinsurers' share of such commutation premium is earned over time.

7.30 As expected, the SCR in nominal terms is reduced after the Proposed Scheme for AGE plc. AGE SA's SCR after the Proposed Scheme is materially lower than that of AGE plc after the Proposed Scheme.

7.31 The sum of the SCRs for AGE plc and AGE SA after the Proposed Scheme are marginally lower than the SCR for AGE plc before the Proposed Scheme. I would typically expect the sum of the SCRs after the Proposed Scheme to be greater than the SCR before the Proposed Scheme due to the reduction in the diversification benefit. The opposite is true in this case due to the planned increase in reinsurance for AGE SA, as described in paragraph 5.60 of this Scheme Report.

7.32 In terms of the coverage ratios, the SCR coverage ratio for both the Transferring Policyholders and the Remaining Policyholders decreases as a result of the Proposed Scheme. However, the coverage ratio for all policyholders remains well above 100%.

7.33 Hence, although the SCR coverage ratio reduces for the Transferring Policyholders and the Remaining Policyholders as a result of the Proposed Scheme, the Solvency II Own Funds available are still considerably in excess of the regulatory capital requirements after the Proposed Scheme.

Coverage ratios on ICA basis

7.34 AGE plc has also projected its ICA as at Q2 2019 immediately before and after application of the Proposed Scheme using the same modelling assumptions and assuming the reinsurance is as set out in Section 5.

7.35 As noted in paragraph 7.7, the results of the ICA (and ECM) are not in the public domain and therefore I have not included the results of these calculations in this report. I instead discuss their relativities before and after the Proposed Scheme and the manner of their changes.

7.36 As expected, and similar to the SCR basis, the ICA for AGE SA and AGE plc combined after the Proposed Scheme are lower than for AGE plc before the Proposed Scheme, due to the additional reinsurance that the AGE plc legacy business will benefit from when transferring to AGE SA.

7.37 The application of the Proposed Scheme results in an increase in the ICA coverage ratio[1] for AGE plc. The ICA coverage ratio for AGE SA after the Proposed Scheme is lower than that

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[1] On the ICA basis, the coverage ratios are calculated based on the available "Capital Resources". AGE plc calculates the Capital Resources by taking the Shareholder's Funds on a UK GAAP basis and including the additional resources which are contractually available over the life of the liabilities included within the ECM (consistent with the time period considered by the ECM). The additional resources included are:

- Unearned portion of upfront premiums and ceding commissions;
- Present value of future instalment premiums and future ceding commissions; and

for AGE plc before the Proposed Scheme. Hence the ICA coverage ratio for the Transferring Policyholders is weakened by the Proposed Scheme.

7.38 As noted in paragraph 5.41, the value of the investment assets which are to be transferred from AGE plc to AGE SA as part of the Proposed Scheme has been determined such that AGE SA will exactly meet its target capital immediately after the Effective Date of the transaction. The target capital of AGE SA is still in the process of being determined but is likely to be specified in the form of maintaining a buffer above its SCR and ICA requirements. Hence, although the ICA coverage ratio for the Transferring Policyholders is weakened by the Proposed Scheme, AGE SA exactly meets its target capital immediately after the Proposed Scheme and AGE SA's ICA coverage ratio remains above 120% (and therefore well above 100%) after the Proposed Scheme, with a surplus of capital.

7.39 Therefore, based on the ICA, after the Proposed Scheme the capital strength remains high for both AGE plc and AGE SA.

7.40 In addition, the existence of the XoL Cover and the NWM agreement enables AGE plc and AGE SA to call upon AGM to maintain their capital in line with the details of those agreements. Although I have not relied on these agreements in order to reach my conclusions, I consider that, given the financial strength of AGM, they provide valuable additional protection to the policyholders of AGE plc and will continue to do so to the policyholders of both AGE plc and to AGE SA on a materially similar basis if the Proposed Scheme goes ahead.

Probability of insolvency

7.41 I have also considered the impact of the Proposed Scheme on the probability of insolvency for both AGE plc and AGE SA. Under Solvency II, holding the SCR is intended to ensure that a company remains solvent over a one-year timeframe with a probability of 99.5%.

7.42 Given the long-term nature of the business I have considered the probabilities of remaining solvent on the ICA basis, which is the long-term view of risk and considers the likelihood of remaining solvent over the lifetime of the existing policies.

7.43 Based on the methods and assumptions underlying the ICA, the probability of AGE plc remaining solvent on a No Scheme basis is 99.99% over the lifetime of the existing policies. This probability remains unchanged after the Proposed Scheme. As a result, based on the methods and assumptions underlying the ICA, there is no change in the probability of their insurer remaining solvent for the Remaining Policyholders as a result of the Proposed Scheme.

7.44 For AGE SA, based on the methods and assumptions underlying the ICA, the probability of remaining solvent over the lifetime of the existing policies is 99.7% on a Post Scheme basis. Based on the methods and assumptions underlying the ICA, there is therefore a reduction in the probability of their insurer remaining solvent for the Transferring Policyholders of just under 0.3% (from 99.99% to 99.7%), which in my opinion is not a material reduction.

Conclusions

7.45 I reviewed the calculation of the Standard Formula SCR projected as at Q2 2019 for both AGE plc and AGE SA and consider this to be reasonable. I also found the methods and assumptions underlying the ICA for AGE plc and AGE SA to be generally reasonable and broadly in line with my expectations. In forming this opinion on the ICA, my considerations included the external and internal reviews of the ECM which have been undertaken, my review

- UK GAAP reserves (since the ECM includes all losses, including expected losses, up to the 99.5th percentile level of risk).

of the documentation of the ICA which has been provided, my discussions with AGE plc's staff involved in the running of the ECM and my review of the impact on the ICA of the stress scenarios set out in Section 8 of this Scheme Report.

7.46 After the Proposed Scheme, the Remaining Policyholders will continue to have policies with AGE plc. Immediately after the Proposed Scheme, the SCR coverage ratio will reduce for AGE plc, although it will remain well in excess of 100%. The ICA coverage ratio for AGE plc will increase as a result of the Proposed Scheme.

7.47 Based on the methods and assumptions underlying the ICA, the probability of AGE plc remaining solvent on a No Scheme basis is 99.99% over the lifetime of the existing policies. This probability remains unchanged after the Proposed Scheme. As a result, based on the methods and assumptions underlying the ICA, there is no change in the probability of their insurer remaining solvent for the Remaining Policyholders as a result of the Proposed Scheme.

7.48 After the Proposed Scheme, the Transferring Policyholders will have policies with AGE SA. Immediately after the Proposed Scheme, AGE SA is projected to have Solvency II Own Funds which exceed its Solvency II Solvency Capital Requirement and Capital Resources which exceed its ICA.

7.49 The value of the investment assets which are to be transferred from AGE plc to AGE SA as part of the Proposed Scheme has been determined such that AGE SA will exactly meet its target capital immediately after the Effective Date of the transaction. The target capital of AGE SA is still in the process of being determined but is likely to be specified in the form of maintaining a buffer above its SCR and ICA requirements. Hence, immediately after the Proposed Scheme, the SCR and ICA coverage ratios relevant for the Transferring Policyholders will reduce, although both will remain above 120% (and therefore well in excess of 100%).

7.50 This means that for AGE SA, based on the methods and assumptions underlying the ICA, the probability of remaining solvent over the lifetime of the existing policies is 99.7% on a Post Scheme basis. Based on the methods and assumptions underlying the ICA, there is therefore a reduction in the probability of their insurer remaining solvent for the Transferring Policyholders of just under 0.3% (from 99.99% to 99.7%), which in my opinion is not a material reduction.

7.51 Consequently, I consider that the security of the Remaining Policyholders and the Transferring Policyholders will not be materially adversely affected immediately after the Proposed Scheme.

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Section 8: Projections and Scenarios

Introduction

8.1 In this Section, I have considered the impact of the Proposed Scheme on the Transfer Companies' UK GAAP Shareholders' Funds, Solvency II Own Funds, and both SCR and ICA coverage ratios over the period 2019 to 2022. I have also considered the impact of the Proposed Scheme on these metrics under different scenarios.

8.2 The capital projections and scenarios set out in the tables below assume that six of the policies that will be transferred to AGE SA under the Proposed Scheme will remain in AGE plc. This is due to a late update to the Transferring Policies which has therefore not been reflected in the capital projections and scenarios. AGE plc has provided me with analysis which shows that the impact of this is immaterial on the ICA amounts for AGE plc and AGE SA on a Post Scheme basis[1]. The effect on the capital projections and scenarios is also expected to be immaterial and therefore I do not consider that this inconsistency impacts my conclusions. I will receive updated capital projections and scenarios when producing my Supplementary Report, which will reflect the final portfolio of Transferring Policies.

Impact of dividend payments

8.3 As discussed in paragraph 5.82, AGE plc and AGE SA may put in place a target capital policy, with the intention of potentially paying dividends in the future consistent with a defined capital risk appetite. The process of putting this target capital policy in place is, however, at a very early stage and the timing (and amount) of any possible dividends is extremely uncertain. It is not intended that there will be any dividend payments on or before the Effective Date. The capital projections set out throughout this report therefore make no allowance for any such dividends.

8.4 I have, however, also been provided with capital projections which show the capital position of AGE plc and AGE SA if dividends were paid in line with a draft capital risk appetite. These capital projections show that dividends would be paid from AGE plc over the projection period up to 2022, but that no dividends would be paid from AGE SA over the period.

8.5 I consider that my conclusions would not be impacted should dividends be paid in the future given that:

- Any target capital policies put in place for AGE plc and AGE SA will be materially similar;
- The implementation of the target capital policy is not dependent on the Proposed Scheme; and
- The form of the risk appetite for the Transfer Companies (as set out in paragraph 5.83) relates to maintaining a buffer above its SCR and ICA requirements.

8.6 I therefore consider it reasonable to assume that no future dividends will be paid when considering the security of policyholders' contractual rights.

UK GAAP Balance sheet projection

8.7 Set out in the table below is a projection of the Shareholders' Funds on an UK GAAP basis.

[1] The ICA amount for AGE plc is impacted by less than 1% and the ICA amount for AGE SA is impacted by less than 2.5%. In my opinion these differences are immaterial given the overall underlying uncertainty in such capital assessments.

Table 8.1: Projected Shareholders' Funds

All in £000's	Q2 2019	Q4 2019	2020	2021	2022
AGE plc - No Scheme					
Shareholders' Funds	779,262	787,388	805,503	824,973	845,512
AGE plc - Post Scheme					
Shareholders' Funds	706,176	714,770	732,431	751,024	770,358
AGE SA - Post Scheme					
Shareholders' Funds	72,000	69,814	65,842	62,404	59,527

8.8 The Shareholders' Funds for AGE SA are expected to reduce over the period. This is driven by the high expense base given the premium volume and negative net earned premiums in each year (as discussed in paragraph 7.28). The business is expected to be profitable from 2026 when the projected new business volumes become sufficient to support the expense base.

8.9 This means that until 2026 AGE plc Post Scheme is projected to have a lower expense ratio and to be profitable whereas AGE SA is projected to have a high expense ratio and not be profitable. However, given the long-term nature of the policies underwritten and the SCR / ICA coverage ratios (as discussed below) I do not consider that this short term unprofitability of AGE SA materially adversely affects the security of the Transferring Policyholders.

Projected SCR coverage ratios

8.10 The table below shows the impact of the Proposed Scheme on key Solvency II metrics for the Transfer Companies from Q2 2019 to year-end 2022. The projections set out in the table below are on a post-tax basis, make no allowance for any dividend payments and include the estimated costs of the Proposed Scheme.

Table 8.2: Key projected Solvency II metrics

All in £000's	Q2 2019	Q4 2019	2020	2021	2022
AGE plc – No Scheme					
Solvency II Own Funds	694,416	707,150	719,966	748,872	753,236
SCR	305,189	305,581	308,282	280,573	284,032
SCR coverage ratios	228%	231%	234%	267%	265%
AGE plc – Post Scheme					
Solvency II Own Funds	624,415	642,180	654,023	681,091	685,261
SCR	285,565	286,133	287,735	254,432	253,242
SCR coverage ratios	219%	224%	227%	268%	271%
AGE SA – Post Scheme					
Solvency II Own Funds	32,195	32,918	35,913	41,454	49,520
SCR	16,999	16,004	14,437	12,871	11,384
SCR coverage ratios	189%	206%	249%	322%	435%

8.11 In the period after the Proposed Scheme the SCR coverage ratios for AGE plc are projected to increase over time. In the case of AGE plc in the No Scheme Position we see a similarly increasing trend.

8.12 The projected Solvency II Own Funds for AGE plc (in both the No Scheme and Post Scheme Position) increase over time as the result of planned profitable new business. The SCR is projected to reduce from 2021 due to the expiry of some existing business. Together these changes lead to an overall increasing trend from Q4 2019 in the SCR coverage ratio.

8.13 For AGE SA, negative cashflows are projected until the volume of new business becomes sufficient to offset the expense base. Profitable new business leads to an increase in Solvency II Own Funds, as the profit is recognised upfront under the Solvency II regulations. Overall the SCR is set to reduce over time for AGE SA, due to the expiry of some existing business. Overall, there is a material increase in the SCR coverage ratio over time following the Proposed Scheme.

Projected ICA coverage ratios

8.14 I have also considered the impact of the Proposed Scheme on the ICA coverage ratios for AGE plc and AGE SA. The basis for the calculations is the same as for the SCR, in particular the calculations are on a post-tax basis, make no allowance for any dividend payments and include the estimated costs of the Proposed Scheme.

8.15 The ICA coverage ratios move in a broadly similar direction to those on a Solvency II basis, with the ICA coverage ratios projected to increase from Q2 2019 to year-end 2022 for AGE plc on a No Scheme basis and for both AGE plc and AGE SA on a Post Scheme basis.

8.16 The Proposed Scheme will therefore result in ICA coverage ratios remaining above 120% (and therefore well above 100%) for both AGE SA and AGE plc from Q2 2019 to year-end 2022.

Impact of proposed changes to the Standard Formula

8.17 During 2018, EIOPA communicated a number of changes that it proposed to make to the Standard Formula calculation. At the time of writing this report, the European Commission has adopted these amendments to the Solvency II Delegated Regulation. These amendments now need to be agreed by the European Parliament and Council.

8.18 AGE plc has assessed the impact of these proposed changes on the Transfer Companies immediately before and after the Proposed Scheme (on a consistent basis with the results presented elsewhere in this section).

Table 8.3: Impact of EIOPA's proposed changes to the Standard Formula – as at Q2 2019

All in £000's	AGE plc No Scheme			AGE plc Post Scheme			AGE SA Post Scheme		
Risk	Current SCR	New SCR	Impact	Current SCR	New SCR	Impact	Current SCR	New SCR	Impact
Premium & reserve risk	*81,112*	*124,112*	*43,000*	*66,138*	*99,953*	*33,816*	*0*	*0*	*0*
Catastrophe risk	*235,051*	*235,051*	*0*	*228,469*	*228,469*	*0*	*12,412*	*12,412*	*0*
Total underwriting risk	267,134	291,957	24,823	253,234	271,306	18,072	12,412	12,412	0
Market risk	90,597	90,597	0	78,915	78,915	0	6,936	6,936	0
Credit risk	1,394	1,394	0	1,394	1,394	0	150	150	0
Operational risk	1,697	1,697	0	1,387	1,387	0	1,263	1,263	0
Diversification	(55,634)	(56,619)	(985)	(49,365)	(49,994)	(630)	(3,762)	(3,762)	0
Total SCR	**305,189**	**329,026**	**23,838**	**285,565**	**303,007**	**17,442**	**16,999**	**16,999**	**0**
Solvency II Own Funds	**694,416**	**694,416**	**0**	**624,415**	**624,415**	**0**	**32,195**	**32,195**	**0**
SCR coverage ratios	**228%**	**211%**	**(16%)**	**219%**	**206%**	**(13%)**	**189%**	**189%**	**0%**

8.19 As shown in the table above, the proposed changes to the Standard Formula specification would result in an increase in the SCR for AGE plc on both a No Scheme and Post Scheme basis, which in turn would lead to lower SCR coverage ratios. There is no impact for AGE SA as the proposed changes from EIOPA relate only to premium and reserve risk which is nil for AGE SA.

8.20 The proposed changes would therefore not have a material impact on the capital strength of either of the entities impacted by the Proposed Scheme.

8.21 The ICA calculations will not be impacted by these proposed changes.

Scenarios

8.22 I set out in this section the impact on the Transfer Companies of the Proposed Scheme under different circumstances. I firstly consider the impact on the Transfer Companies if they were to write no new business following the Proposed Scheme. I then consider the impact on the Transfer Companies of a number of different stress scenarios.

Impact of no new business

8.23 One of the key assumptions underlying the projections is the writing of new business after the Effective Date of the Proposed Scheme for both AGE plc and AGE SA, but in particular for AGE SA (given its higher expense base). The table below has been produced on the same basis as Table 8.2 above, however the projections do not allow for any new business after the Effective Date of the Proposed Scheme. I have also considered the impact of the same scenario on the projected metrics on an ICA basis.

Table 8.4: Key projected Solvency II metrics: No new business

All in £000's	2019	2020	2021	2022
AGE plc – No Scheme				
Solvency II Own Funds	702,665	709,258	731,085	726,815
SCR	301,749	301,971	271,044	271,433
Solvency II coverage ratio	233%	235%	270%	268%
AGE plc – Post Scheme				
Solvency II Own Funds	637,976	644,728	664,404	660,366
SCR	282,518	282,644	251,278	251,758
Solvency II coverage ratio	226%	228%	264%	262%
AGE SA – Post Scheme				
Solvency II Own Funds	30,913	27,739	23,983	20,227
SCR	16,096	14,833	13,725	12,360
Solvency II coverage ratio	192%	187%	175%	164%

8.24 On a Solvency II basis, these projections show an increase in Own Funds for AGE plc on a No Scheme and Post Scheme basis, although with the projected Own Funds in each year being lower than those seen under the assumption that AGE plc writes new business. This is consistent with the assumption that the new business is profitable. For AGE SA, the Own Funds decrease over time, due to the higher expense base, whereas these showed a generally increasing trend under the assumption that AGE SA wrote new business.

8.25 The projected SCRs for AGE plc and AGE SA are lower under the assumption of no new business, but not materially so.

8.26 The interaction of the changes in the projected Own Funds and SCR results in projected increasing SCR coverage ratios for AGE plc. For AGE SA, the interaction results in the SCR coverage ratio being projected to reduce over the period to 2022, although it remains significantly in excess of the minimum regulatory requirement for the period considered.

8.27 On an ICA basis, the interaction of the changes in the projected Capital Resources and ICA results in a similar trend for the ICA coverage ratios – with the ICA coverage ratios for AGE plc projected to increase over the period to 2022 and the ICA coverage ratios for AGE SA projected to decrease over the same period, although they remain above 100% for all projected years.

Other Scenarios

8.28 AGE plc has run several stress scenarios that reflect a variety of different circumstances to enable me to consider the ability of the Transfer Companies to deal with adverse scenarios. These stressed scenarios include:

- Default of the deals with the largest potential loss.
- Default of the deals with the largest exposure.
- Default of under-performing deals (referred to as “Below Investment Grade” or “BIG”).

- The impact of unfavourable market conditions, covering the default of Italian exposures, the default of Spanish exposures and a low interest rate environment.
- Downgrade of all internally-rated exposures and reinsurers by two notches.
- Default of all affiliated reinsurers (AGM, AGC and AGRe).
- Run-off expenses above projected levels.

8.29 Whilst the stressed scenarios are extreme, the results of the scenarios provide an understanding of the robustness of the capital position of both AGE plc and AGE SA under different scenarios.

8.30 With respect to the scenario analysis which has been undertaken, I note the following:

- The main results make no allowance for the additional collateral that would need to be placed by reinsurers following the stress event.
- The results make no allowance for any recoveries under either the XoL Cover or NWM agreement. These additional protections would be available for all the scenarios other than the scenario which assumes the default of all affiliated reinsurers.

8.31 The scenarios have been undertaken as at Q2 2019. I have also been provided with the results of a selection of the scenarios as at 31 December 2022. These results show a similar picture to the results as at Q2 2019 for both AGE plc and AGE SA, albeit with higher coverage ratios after the impact of the scenarios given the higher starting coverage ratios immediately before the stress.

8.32 I do not consider that there is a high likelihood of these scenarios occurring simultaneously and as such I have only considered them individually. In the event of any one of these scenarios occurring prior to the date of the Proposed Scheme or in the event that I consider that a material positive correlation has arisen between the likelihoods of these scenarios occurring then I would expect to consider this in my Supplementary Report.

Conclusions for Remaining Policyholders

8.33 On a No Scheme basis the SCR coverage ratios and ICA coverage ratios for AGE plc remain above 120% (and therefore well above 100%) for all of the scenarios, with a surplus of capital.

8.34 This is also the case for AGE plc after the Proposed Scheme and consequently I consider that the security of the Remaining Policyholders will not be materially adversely affected immediately after the Proposed Scheme.

Conclusions for Transferring Policyholders

8.35 After the Proposed Scheme, AGE SA has lower initial coverage ratios than AGE plc before any of the stresses are assumed to occur. In addition, the results of the stressed scenarios show that the coverage ratios of AGE SA are more severely impacted than those of AGE plc by the default of individual deals which have been written and by the default of reinsurers. These aspects are reflected in the ICA calculated for AGE SA on a Post Scheme basis. For the Transferring Policyholders the coverage ratios on both an SCR and ICA basis are lower for each of the stressed scenarios after the Proposed Scheme.

8.36 For AGE SA, the SCR coverage ratio is lower than 100% for three of the stressed scenarios – the default of an individual deal with the largest potential loss, the default of an individual deal with the largest exposure and the default of all affiliated reinsurers – although the Solvency II Own Funds are positive for each of these scenarios suggesting that AGE SA would have sufficient assets to meet its liabilities on a Solvency II basis. In addition, these scenarios are extreme and the probability of each of them occurring individually over a one-year period (based on the expert judgement of AGE plc, consistent with the assumptions used in the ECM) is below 0.5%, which is beyond the level of risk which insurance companies are required to be capitalised to.

8.37 On an ICA basis, the coverage ratios for AGE SA fall below 120% for all of the stressed scenarios and below 100% for the majority of them. However, I would note the following:

- The scenarios are extreme and the probability of each of them occurring individually over a one-year period (based on the expert judgement of AGE plc, consistent with the assumptions used in the ECM) is typically below 0.5%, which is beyond the level of risk which insurance companies are required to be capitalised to.

- For those scenarios which give rise to the lowest ICA coverage ratios the estimated probabilities of each of them occurring individually over the lifetime of AGE SA's portfolio of insurance contracts (based on the expert judgement of AGE plc, consistent with the assumptions used in the ECM) is also significantly lower than a probability of 0.5%.

- As noted above, the results make no allowance for the additional collateral that would need to be placed by the reinsurer following the stress event. Additional collateral would be available for all of the scenarios other than the scenario where all reinsurers have defaulted. Incorporating allowance for this additional collateral would result in ICA coverage ratios for AGE SA Post Scheme which are greater than 100% for all of the scenarios except for:

  - Downgrade of all internally-rated exposures and reinsurers by two notches; and

  - Default of all affiliated reinsurers (AGM, AGC and AGRe).

  However, the likelihood of these scenarios occurring is remote (with a probability of occurrence of below 0.5% over both a one-year timeframe and the lifetime of the portfolio of insurance contracts) and the Shareholders' Funds are positive for each of these scenarios suggesting that AGE SA would have sufficient assets to meet its expected liabilities.

8.38 I therefore consider that the security of the Transferring Policyholders will not be materially adversely affected immediately after the Proposed Scheme for the following reasons:

- Under each of the scenarios, AGE SA would not be insolvent, having an excess of assets over liabilities in all cases.

- On a SCR basis, the coverage ratio for AGE SA would be in excess of 100% for all but three of the scenarios. However, the scenarios are extreme and the probability of each of them occurring individually over a one-year period is below 0.5%, which is beyond the level of risk which insurance companies are required to be capitalised to.

- On an ICA basis (and allowing for the additional collateral that would need to be placed by the reinsurer following the stress event), the coverage ratio for AGE SA would be in excess of 100% for all of the scenarios except those which have an estimated probability below 0.5% (over both a one-year timeframe and the lifetime of the portfolio of insurance contracts).

- The results of the scenarios make no allowance for any recoveries from either the XoL Cover or the NWM Agreement. Although I have not relied on these agreements in order to reach my conclusions above, I note that they would provide additional protection to policyholders in all the scenarios discussed above other than for the scenario which assumes the default of all affiliated reinsurers.

- Finally, I also note that AGE SA would undertake a number of management actions should the capital of AGE SA fell below its capital risk appetite (as described in paragraph 5.82). However, while these management actions provide some additional protection to policyholders I have not relied on such actions taking place in order to reach my conclusions above.

Section 9: Other Considerations

Introduction

9.1 In this section, I discuss other considerations arising from the Proposed Scheme, including the levels of service provided to policyholders.

9.2 I have considered the likely effects of the Proposed Scheme on:

- The Remaining Policyholders; and
- The Transferring Policyholders.

9.3 I have discussed these considerations under the following headings:

- Impact of the Ballantyne and Orkney deals
- Impact of Brexit
- Policyholder service levels, including claims handling, investment management, new business strategy, administration and governance
- Comparison of regulatory regimes
- Insolvency, including the ranking of policyholders in a winding-up and access to compensation schemes
- Ombudsman services
- Policyholder communication
- Trust Funds and Guarantees
- Non-EEA and Swiss policyholders
- Accounting and reserve approach
- Tax implications of the Proposed Scheme
- Costs of the Proposed Scheme
- Excluded policies
- Recognition of the Proposed Scheme
- Liquidity
- Allocation of outwards reinsurance assets
- Outwards reinsurers
- Pension schemes.

Impact of the Ballantyne and Orkney deals

9.4 AGE plc holds two insurance securitisation credits which are considered likely to be impaired in the future – the Ballantyne obligation and the Orkney bonds. After the Proposed Scheme, these credits will continue to be held by AGE plc.

9.5 These two credits are reinsured by AGC, and have been either entirely (in the case of the Orkney bonds) or substantially (in the case of the Ballantyne bonds) provided for by purchasing the underlying insured bonds and holding them as collateral against the exposures. The reinsurance with AGC is a 90% quota share and hence 90% of the bonds purchased by the Assured Guaranty Group are owned by AGC with the remaining 10% held by AGE plc. For Orkney, this ensures that any future claim payment would effectively become an internal transfer of funds with the claim payment restoring the lost principal or interest on the bonds. As a result, for as long as the Orkney bonds are held in the collateral fund there is no material remaining exposure to default on this credit. The Ballantyne transaction was recently restructured and the Ballantyne bonds previously purchased and owned by the Assured Guaranty Group were cancelled. Therefore, the only remaining exposure on the Ballantyne transaction is to the portion of the bonds that were not purchased by the Assured Guaranty Group, as discussed further in the following paragraph.

9.6 In respect of these bonds, the residual risks to AGE plc arise in respect of the following:

- Expected claim payments for the Ballantyne transaction in respect of the obligations which remain following the restructuring, being payments of principal and interest on the remaining exposure with par value of $40.1 million, and hence AGE plc is exposed to a claim, net of reinsurance, of approximately $4 million of the total underlying exposures. AGE plc holds a reserve in respect of this exposure.

- A decrease in the value of the Orkney bonds held on AGE plc's balance sheet. The value of the bonds (both on AGE plc's balance sheet and within the collateral fund) is based on the impaired value (the estimated market value ignoring the insurance which is in place), and is valued externally by KPMG each quarter.

- If the Orkney bonds are removed from the collateral fund, which is discussed below.

9.7 The only practical scenario in which the Orkney bonds could be removed from the collateral fund (which would result in any future claim payment no longer simply resulting in an internal transfer of funds) is if AGC were to become insolvent and an administrator were to succeed in taking control of some or all of the bonds. I have therefore considered the situation regarding these bonds should AGC become insolvent. I note firstly that AGE plc has confirmed that the value of the collateral including these bonds is substantially greater than the termination payment that would become payable in this circumstance. The amount of the termination payment should therefore be able to be paid to AGE plc out of the collateral funds in the event of AGC entering administration. This amount is calculated as the sum of:

- All of AGC's assumed unearned premium (net of ceding commission and net of AGE plc's reinsurance premium payable to AGC);

- All of AGC's assumed loss and loss expense reserves; and

- All of AGC's assumed unexpired risk reserves, with each such amount being calculated on a UK GAAP basis.

9.8 By receiving an amount equal to the termination payment, AGE plc would therefore receive sufficient resources to be able to establish its own reserves (on a UK GAAP basis) in relation to the Orkney exposure with additional funds to cover unexpired risks and unearned premium as well, except in the event AGC's administrator, at the time of payment, succeeds in removing the bond holdings from the collateral and denying AGC's claim against a sufficient amount of the bonds' market value in order for AGE plc to be paid its termination amount in full.

9.9 I also note that one of the stress scenarios I look at in Section 8 of this report involves the default of all affiliated reinsurers and that AGE plc after the Proposed Scheme would still be able to meet its liabilities under this stress.

9.10 Finally, I note that the Ballantyne and Orkney transactions will remain in AGE plc under the Proposed Scheme and AGE plc's exposure to the Ballantyne and Orkney deals, as described above, is unaffected by the Proposed Scheme.

9.11 Based on the above, in my opinion the Ballantyne and Orkney deals have no material impact on the security of the contractual rights of the Remaining Policyholders or the Transferring Policyholders.

Impact of Brexit

9.12 As noted in paragraph 5.7 of this report, in the absence of the Proposed Scheme and in the event of the UK losing its passporting rights as a result of Brexit there would be material concerns over the ability of AGE plc to settle claims in line with regulatory rules, service existing EEA based policyholders and underwrite new EEA based policies.

9.13 I have therefore considered the impact of a No-Deal Brexit (where the UK leaves the EU without a deal and which will result in EEA passporting rights for UK insurers ending immediately) on the security of the policyholders of the Transfer Companies. In addition to the UK, within the EEA Assured Guaranty has policyholders domiciled in Belgium, France, Germany, Ireland, Luxembourg, the Netherlands and Spain.

9.14 Insurance regulators in the UK and EEA have agreed two "Memorandums of Understanding" ("MoUs") which set out how the regulators will co-operate and exchange information in the event of a No-Deal Brexit. The exact terms of the MoUs are not yet public however they include the need for maintaining "sound prudential and conduct supervision" in relation to cross-border insurance with the aim to protect policyholders in the UK and the EEA.

9.15 In addition, some individual EEA regulators have published documents setting out how they will operate in the event of a No-Deal Brexit. For example, the French Government has recently published a set of emergency insurance measures in the event of a No-Deal Brexit. These measures provide some protection for policyholders domiciled in France who are insured by a UK-based insurer. In particular, the payment of claims by a UK insurer will not constitute a regulatory breach. However, all renewals, including automatic renewals, will be prohibited.

9.16 I consider the MoUs and other measures provide some protection to the policyholders of AGE plc should the Proposed Scheme not proceed and should there be a No-Deal Brexit. However, I note that it is not clear how long these measures would apply for and therefore there is considerably uncertainty as to how long it will remain legal for AGE plc to continue to pay all future claims of EEA-based policies in all relevant EEA jurisdictions. This is particularly relevant for AGE plc given the long-term nature of AGE plc's business, with policy durations typically ranging from 20 to 45 years.

9.17 Therefore, in respect of a No-Deal Brexit, I consider that the Proposed Scheme would have no impact on the Remaining Policyholders and would be beneficial to the Transferring Policyholders since it would remove the uncertainty referred to in the previous paragraph.

Policyholder service levels

9.18 In this section I comment on the potential effects of the Proposed Scheme on matters such as claims handling, investment management, new business strategy, administration and governance in so far as these will affect the security of policyholders' contractual rights or the levels of service provided to policyholders.

9.19 AGE plc currently has in place service agreements with a UK service company and a US service company, both of which are within the Assured Guaranty Group. Under these service agreements the relevant service companies make available to AGE plc insurance, reinsurance and such other services, including actuarial, marketing, underwriting, claims handling, surveillance, legal, corporate secretarial, information technology, human resources, accounting, tax, financial reporting and investment planning services.

9.20 AGE SA will have equivalent service agreements in place after the Proposed Scheme.

9.21 In addition, before and after the Proposed Scheme both AGE plc and AGE SA will be subject to the same policies and procedures of the Assured Guaranty Group, including having the same governance structure in place.

9.22 All key functions of AGE plc under the Solvency II regime (Audit, Risk, Actuarial and Compliance) are undertaken by expert teams within the Assured Guaranty Group. It is intended that the same teams will be performing these roles for AGE plc and AGE SA after the Proposed Scheme, although the Compliance function will benefit from an additional local resource in France as noted below. The teams will be performing these roles in respect of AGE plc and AGE SA under the same policies and procedures.

9.23 As a result, except as noted below, the services will be unaffected by the Proposed Scheme and will be undertaken by the same individuals, and in line with the same policies and procedures, both before and after the Proposed Scheme. In particular, this will cover the following services:

- Claims handling;
- Administration;
- Investment management; and
- New business strategy.

9.24 The Board of AGE plc currently comprises four executive directors and three non-executive directors. The Board of AGE SA will comprise three executive directors (and no non-executive directors), all of whom will also sit on the Board of AGE plc.

9.25 AGE SA will also have two employees based in France, focussed solely on the business of AGE SA. These individuals will cover the roles of Deputy Managing Director and lead the local compliance function.

9.26 I therefore consider that AGE plc and AGE SA will maintain a materially similar level of service to policyholders to that of AGE plc prior to the Proposed Scheme.

Comparison of regulatory regimes

9.27 In this section I consider the comparison of regulatory regimes under the categories of prudential regulation[1] and conduct regulation[2].

Prudential regulatory regimes

9.28 The Remaining Policyholders will be subject to the UK prudential regulatory regime both before and after the Proposed Scheme and so will not experience a change in prudential regulatory regimes.

9.29 The Transferring Policyholders will be transferring from the UK regulatory regime where the PRA is responsible for prudential regulation to the French Regulatory Regime where the ACPR is responsible for prudential regulation.

9.30 Solvency II has harmonised prudential regulation across the EU. As such, I consider that the prudential regulatory regime in France is materially similar to that in the UK.

9.31 As such, I do not consider that either the Remaining Policyholders or the Transferring Policyholders are likely to be materially adversely affected by the change in prudential regulatory regime as a result of the Proposed Scheme.

9.32 I comment in paragraph 5.86 of this report of the potential for the UK to adopt a different solvency regime following Brexit.

Conduct regulatory regimes

Overview and conclusion

9.33 The French and UK conduct rules stem from EU directives and regulations. The Insurance Distribution Directive applies across EU member states covering organisational and conduct of business requirements for insurance and reinsurance undertakings and therefore provides consistency across certain aspects of conduct regulation. For the UK, conduct rules are set by the PRA and FCA; whilst for France conduct rules are implemented by the ACPR and set out in various codes and laws.

9.34 I consider that neither the Transferring nor Remaining Policyholders will be materially impacted by differences in conduct regimes as these have an overall broadly similar effect between France and the UK.

Detailed comments

9.35 Under the UK regime, conduct requirements are covered by a set of principles and rules mostly set out by the FCA, with some conduct of business rules issued by the PRA. These are set out in Handbooks and Rulebooks. Under the French regime, insurance-related primary rules are covered by the French Insurance Code ("FIC") and the Monetary and Financial Code, with additional laws and regulations provided in several other codes.

9.36 In the UK, Principles for Businesses are covered by the FCA Handbook and cover fundamental obligations of firms. In France, the ACPR is responsible for ensuring that general principles are met by French-regulated firms however such concepts are spread out across

[1] Broadly, regulation that requires financial firms to control risks and hold adequate capital as defined by capital requirements to promote the safety and soundness of the regulated firms.
[2] Typically including consumer protection, regulation of market conduct and setting and enforcing ethical codes of conduct.

several different pieces of legislation. These principles are similar in purpose to those set out by the FCA.

9.37 The Fair Treatment of Customers Outcomes set out, in six consumer outcomes, the principles to achieve fair treatment of customers. There is no similar list in the FIC or other documents however similar principles are covered by French law in general.

9.38 The Insurance: Conduct of Business rules set out in the FCA Handbook describe the conduct requirements and responsibilities for insurance and reinsurance undertakings. The FIC provides similar requirements and responsibilities in France.

9.39 Similarly, Product Oversight and Governance requirements set out in the FCA Handbook have a similar counterpart in the FIC.

9.40 The PRA Rulebook sets out some specific individual conduct standards. There are no such standards described under French law, however individuals managing and administering insurers are expected to be subject to integrity and act as per their professional capacity requirements.

Insolvency

9.41 I am required to consider the effects of the insolvency of AGE plc and AGE SA. As I have explained in this Scheme Report, the likelihood of either of these entities being able to pay all future claims will remain in excess of the level implied by the Solvency II solvency criterion of 99.5% value-at-risk over a one-year time horizon. In addition, the companies' target capital, which is specified in the form of maintaining a buffer above its SCR and ICA requirements, results in capital in excess of a 99.5% value-at-risk over an ultimate time horizon on their capital model, or ICA, basis. This implies that the possibility of the insolvency of AGE plc before the Proposed Scheme or either AGE plc or AGE SA after the Proposed Scheme is remote.

Ranking of policyholders

9.42 In the event of the insolvency of AGE plc then under UK insolvency rules policyholders would be paid in priority to all other unsecured debts, except employee remuneration and pension contributions. These rules mean that any sums available for insurance debts after the secured and preferred creditors have been satisfied are to be paid off in advance of all other debts.

9.43 In the event of the insolvency of AGE plc direct policyholders will rank ahead of any assumed reinsurance policyholders when the assets of the insolvent company are allocated to its creditors. All of the policies underwritten by AGE plc are direct insurance policies, as opposed to reinsurance policies covering another insurer. In the event of AGE plc running into financial difficulties each direct policyholder ranks equally as a creditor under UK laws.

9.44 In the event of insolvency of AGE SA, then under French insolvency laws policyholders would be paid in priority to all other unsecured creditors. This has been implemented in Article 327-2 of the French Insurance Code. Similar to the UK rules, the French Insurance Code provides for a number of exceptions, whereby the French tax authorities and employees rank ahead of the policyholders. These rules mean that any sums available for insurance debts after the secured and preferred creditors have been satisfied are to be paid off in advance of all other debts.

9.45 As for AGE plc, all of the policies underwritten by AGE SA will be direct insurance policies, and therefore will rank equally as a creditor under French laws.

9.46 I have been informed by AGE plc that there are no creditors who would rank above any policyholders in the event of the insolvency of either AGE plc or AGE SA.

9.47 As such there are no issues in relation to the Proposed Scheme arising from the different ranking of policyholders either for the Remaining Policyholders or the Transferring Policyholders.

Access to compensation schemes

9.48 In the UK, in the event of an insurer's insolvency the policyholder may seek alternative compensation from the Financial Services Compensation Scheme ("FSCS"). However, this compensation scheme is only available to personal policyholders and therefore is not relevant for the current policyholders of AGE plc.

9.49 A similar scheme to the FSCS also operates for French policyholders, which again is only available to personal policyholders.

9.50 As a result, there is no loss of access to compensation schemes as a result of the Proposed Scheme for either the Remaining Policyholders or the Transferring Policyholders.

Ombudsman services

9.51 In the UK, if an insurer and a policyholder cannot resolve a complaint they may use an ombudsman service which will provide unbiased advice via the Financial Ombudsman Service. However, this service is only available to personal policyholders and therefore is not relevant for the current policyholders of AGE plc.

9.52 A similar scheme to the Financial Ombudsman Service also operates for French policyholders, which is also only available to personal policyholders.

9.53 As a result, there is no loss of access to Ombudsman services as a result of the Proposed Scheme for either the Remaining Policyholders or the Transferring Policyholders.

Policyholder communication

9.54 AGE plc is required to notify policyholders and advertise the Proposed Scheme. Set out below is a summary of AGE plc's proposed approach to policyholder communication and my conclusions on its appropriateness.

Individual policyholder communication

9.55 Subject to the approval of the Court, AGE plc proposes to send by post a cover letter and accompanying information leaflets, including a summary of this Scheme Report (together the "Policyholder Statement and Summary"), to each policyholder who holds a policy under which:

- the period of insurance is continuing; or
- a claim has been made and is outstanding; or
- a sum, payment or benefit is contingently due, payable or to be provided,

in each case where the contact information of that policyholder is held by AGE plc.

9.56 For the majority of the policies for which AGE plc is the insurer, the policyholder is defined as being one person: a bond trustee, lender or loan agent. In these cases, it is proposed that AGE plc will send a Policyholder Statement and Summary to the bond trustee, lender or loan agent (as the case may be).

9.57 There are some policies for which AGE plc is the insurer where the definition of policyholder also includes any successor to the original bond trustee, lender or loan agent or any additional bond trustee, lender or loan agent. In these cases, it is proposed that AGE plc will send a Policyholder Statement and Summary to each successor or additional policyholder that has been notified to it.

9.58 AGE plc's policies include a small number of policies which were initially issued to one or more named bank(s), where a loan is capable of syndication to multiple banks. The definition of policyholder under these policies extends to those additional banks. In these cases, it is proposed that AGE plc will send copies of the Policyholder Statement and Summary to the bank to which the policy was initially issued and any other institution known to AGE plc which has become a policyholder through syndication of the loan. It is also proposed that the initial bank concerned will be requested by AGE plc to forward a copy of the Policyholder Statement and Summary to all other banks to whom the loan has been syndicated.

9.59 AGE plc's policies also include a small number of policies where the policyholder is defined under the policy as meaning the holders of bonds. Where:

- AGE plc maintains a register of bondholders in respect of these policies, it is proposed that AGE plc will send a copy of the Policyholder Statement and Summary to each person registered as a bondholder on the register of bondholders which it maintains in respect of these policies;
- The bond trustee itself maintains a register of bondholders, it is proposed that AGE plc will send copies of the Policyholder Statement and Summary to the bond trustee concerned with a request to forward a copy of the Policyholder Statement and Summary to the bondholders registered as bondholders in the bond trustee's register of bondholders; and
- Neither AGE plc nor the bond trustee maintains a register of bondholders, it is proposed that AGE plc will request the bond trustee to make a notification through the clearing system of the bond concerned in order to notify bondholders in the market.

9.60 The Policyholder Statement and Summary will only be provided in English. Although a few policies are written in French, all of the policyholders are sophisticated financial institutions with whom AGE plc currently corresponds in English.

Wider communication

9.61 Notice of the Proposed Scheme will be advertised in the London, Belfast and Edinburgh Gazettes, The Times and The Financial Times.

9.62 The majority of the Transferring Policies relate to insurance risks situated in EEA states other than the UK but, subject to the Court's approval, notice of the proposed Transfer will not be published in these EEA states given that the policyholders of these EEA states will receive the individual notifications as described above.

9.63 In addition, both a full copy and the summary of this Scheme Report will be posted on the Assured Guaranty group website at the following location: http://assuredguaranty.com/static/brexit.

9.64 A detailed letter and a copy of the summary of this Scheme Report will also be sent to each reinsurer of AGE plc who reinsures Transferring Policies and whose name and address appear in the computerised database of AGE plc. Only the three intra-group reinsurers (AGRe, AGC and AGM) will therefore be contacted in this way.

Conclusions on policyholder communications

9.65 I have reviewed a draft of the Policyholder Statement and Summary to be provided to policyholders and I consider that the level of information it contains is appropriate and its presentation is clear, fair and not misleading. I consider the Policyholder Statement and Summary will allow policyholders to form their own view on the Proposed Scheme and know how to access additional information as required.

9.66 Based on the above, and in light of the nature of the policies of which AGE plc is the insurer, I am satisfied that the proposed material to be presented to policyholders and AGE plc's approach to communication with policyholders (including with respect to its scope) is appropriate, reasonable and proportionate.

Trust funds and guarantees

9.67 The Remaining Policyholders and the Transferring Policyholders benefit from the existence of collateral which supports the intra-group reinsurance. The impact of this collateral on policyholder security before and after the Proposed Scheme is discussed in Section 5 of this report.

9.68 AGE plc has confirmed that neither the Remaining Policyholders nor the Transferring Policyholders benefit from any other trust funds or guarantees either before or after the Proposed Scheme.

Non-EEA policyholders

9.69 Certain policies of AGE plc insure policyholders who are located outside the current EEA. Such policies are typically governed by the law of the location of the policyholder under which it may not be clear how a Part VII transfer is to be treated.

9.70 AGE plc has 17 policyholders from outside the current EEA (i.e. the EEA including the UK). Of these policies, 15 will remain in AGE plc under the Proposed Scheme and therefore the problem around the potential recognition of the Part VII for these policyholders does not arise.

9.71 The other two policyholders are located in Jersey and will transfer to AGE SA under the Proposed Scheme. For these Transferring Policyholders it is proposed that to ensure that there are no issues with the recognition of the Proposed Scheme the express agreement of the policyholders to the transfer will be obtained.

Accounting and reserve approach

9.72 I understand from my discussions with AGE plc that there will be no significant change in the accounting and reserving approaches for AGE plc and AGE SA following the Proposed Scheme as both companies are subject to the same Assured Guaranty Group accounting and reserving policies and the same personnel will be involved after the Proposed Scheme.

9.73 However, AGE plc currently uses the UK GAAP accounting regime and AGE SA will use French GAAP. The differences between UK GAAP and French GAAP, to the extent that they are relevant to AGE plc and AGE SA, are set out below.

Premium recognition

- As set out in paragraph 6.26, under UK GAAP AGE plc recognises the whole expected premium as 'written' as the contract is underwritten. For single premium policies this is the full amount of the premium. For policies with instalment premiums an assessment is taken as to how many instalments are expected to be receivable. This means that, under

UK GAAP, all premium expected to be received under the contract is recognised as written premium on issuance of the policy.

- Under French GAAP, for single premium policies the whole expected premium will be recognised as 'written' when the contract is underwritten. However, for instalment premiums, only the next instalment premium will be recognised, based on the instalment schedule defined in the policy.

- Under both UK and French GAAP, the unearned premium reserve is calculated as the proportion of the written premium that relates to future years of exposure, calculated on a time apportioned basis. As a result, the written premium recognised and the unearned premium reserve will be higher under UK GAAP, but the premiums earned will be the same under both accounting regimes.

Investments

- Under UK GAAP, investments are valued at fair value, with movements in fair value reported in the profit and loss account.

- Under French GAAP, both fixed and variable income investments are recognised at cost and subsequently measured at amortised cost less impairment. AGE SA will recognise impairment where unrealised losses are driven from counterparty default risk and of a permanent nature.

Equalisation provisions

- Equalisation provisions are not permissible under UK GAAP but are possible under French GAAP. However, under French GAAP the equalisation provisions for AGE SA are estimated to be zero across the forecast period considered in this Scheme Report (from 2019 to 2022) as a result of the negative net earned premiums across this period.

9.74 As a result, on an ongoing basis, the only change which will impact the Shareholders' Funds as a result of AGE SA moving from UK GAAP to French GAAP will be a change in the basis for the valuation of investments. To illustrate the impact of this change, AGE plc has calculated the impact on the balance sheet of AGE plc as at 31 December 2018. The result of the change is a reduction in AGE plc's Shareholders' Funds of approximately 1.25%.

9.75 There will, however, also be a material one-off impact of moving from UK GAAP to French GAAP as a result of the structure of the transaction under the Framework Agreement. Under French GAAP the assets and liabilities which are being transferred from AGE plc to AGE SA under the Framework Agreement as part of the transfer of a business as a going concern need to be revalued to reflect the current fair value of the transferring contracts. As a result of this revaluation the Shareholders' Funds of AGE SA will reduce from £72 million on a UK GAAP basis (as shown in Table 6.1 on page 30 of this Scheme Report) to £57.3 million.

9.76 The change from UK GAAP to French GAAP will have no impact on either the Solvency II Own Funds or the Capital Resources of AGE SA.

9.77 I do not consider that this change in accounting regime will have a material impact on the security of policyholders' contractual rights. This is because in forming my views on policyholder security I have focused on the Solvency II Own Funds and SCRs, together with the Capital Resources and ICA, for each of these entities rather than the financial report and accounts.

Tax implications

9.78 I understand from AGE plc that the Proposed Scheme is designed to be tax neutral. At the time of writing this Scheme Report, AGE plc was in the process of obtaining formal external tax advice to confirm that any tax implications of the Proposed Scheme will be immaterial.

9.79 Within my Supplementary Report I will confirm the findings of this external tax advice and set out whether the tax implications of the Proposed Scheme have any impact on my conclusions.

Costs of the Proposed Scheme

9.80 The costs of the Proposed Scheme are to be covered by AGE plc. These costs have been included in the projections to Q2 2019. Given my comments elsewhere in this report on the security of AGE plc and AGE SA at this date I consider that this allocation of costs to AGE plc does not affect the security of policyholders' contractual rights or the levels of service provided to policyholders.

Excluded policies

9.81 The Proposed Scheme theoretically provides for the possibility of a limited number of policies not being transferred ("excluded policies") and, in this eventuality, provides for 100% reinsurance of the liabilities under the excluded policies by AGE SA. However, it is not expected that there will be any excluded policies.

9.82 There are three circumstances in which excluded policies could arise:

- An EEA regulator objects to the transfer of their local risks.
- The Court decides to exclude a policy at the final Court Hearing.
- The parties agree to exclude a policy before the final Court Hearing.

9.83 The Transfer Companies are not aware of any reason why any of these situations should arise and as such regard the risk of excluded policies to be largely theoretical. In the event that there are one or more excluded policies, AGE plc has confirmed to me that they will engage with the PRA on this issue before proceeding with the Proposed Scheme, in order to obtain the PRA's non-objection to the proposed plan to address any excluded policies. For the purposes of this report I have assumed that there are no excluded policies. I will confirm whether there are likely to be any excluded policies at the time of my Supplementary Report.

Recognition of the Proposed Scheme

9.84 The Solvency II Directive (which is required to be implemented in all EEA jurisdictions) provides that a portfolio transfer authorised in a member state in accordance with the requirements of the Solvency II Directive shall automatically be valid against policyholders.

9.85 I have therefore considered the extent to which Brexit may have an impact on the recognition of the Proposed Scheme in EEA jurisdictions. While the impact on the recognition of the Proposed Scheme as a result of Brexit is still unclear, in the event of a No-Deal Brexit (where the UK leaves the EU without a deal), the provisions of the Solvency II Directive would, in the absence of any action by member states, cease to oblige member states to apply this requirement in relation to a portfolio transfer from a UK insurance company.

9.86 However, to cater for the possibility of such a No-Deal Brexit, the EU insurance regulators' body EIOPA has agreed to implement a number of measures. The relevant measure in relation to portfolio transfers provides that competent authorities of member states should allow the finalisation of portfolio transfers from UK insurance undertakings to EU27[1] insurance undertakings, provided they have been 'initiated' before the withdrawal date.

9.87 EIOPA recommends that member state regulators should deem a portfolio transfer to be initiated if the UK supervisory authorities have notified the member state regulator about the initiation of the portfolio transfer, the firm has paid the regulatory transaction fee to the supervisory authority in the UK and appointed an independent expert for the transfer. As a result, I understand that the Proposed Scheme will be deemed to have been initiated before the withdrawal date.

9.88 In my opinion it is reasonable to assume that the advice from EIOPA will be followed and therefore I see no reason why the Proposed Scheme from AGE plc to AGE SA will not be recognised in all EEA jurisdictions.

Liquidity

9.89 AGE plc has a high degree of liquidity within its investment portfolio, reflecting substantial holdings of liquid investments such as cash and short-dated government and corporate bonds. The assets of AGE SA (and AGE plc Post Scheme) will follow the same investment guidelines and therefore will be of similar composition.

9.90 I therefore consider that the Proposed Scheme will not have a material impact on the degree of liquidity risk for either the Remaining Policyholders or the Transferring Policyholders.

Allocation of outwards reinsurance assets

9.91 As set out in Section 5 of this report, companies within the Assured Guaranty Group make substantial use of internal reinsurance. The Assured Guaranty Group plans to continue making extensive use of internal reinsurance after the Proposed Scheme for both AGE plc and AGE SA. This is being effected, in part, via the transfer pursuant to the Proposed Scheme of all of the current internal reinsurance provided by AGRe, AGC and AGM on the Transferring Policies.

9.92 External reinsurance is provided by only one reinsurer. This external reinsurance covers five policies issued in respect of the same transaction and covering obligations of the same obligor. I understand that these five policies will all remain within AGE plc after the Proposed Scheme and that no further external reinsurance will be purchased in connection with the Proposed Scheme.

9.93 I am not aware of any reason why the Court would not sanction the transfer of the reinsurance. In addition, as all of the reinsurance being transferred is with companies in the Assured Guaranty Group, there is no real risk (as sometimes arises on Part VII transfers) of reinsurers seeking to avoid their obligations on the basis that the Court's order in respect of outwards reinsurance is not recognised under the governing law of the outwards reinsurance contract.

9.94 I therefore consider that it is reasonable to expect that the Court will agree to AGE plc's request to sanction the transfer of the outwards reinsurance assets and as such I have used this assumption when considering the security of policyholders' contractual rights.

9.95 In the unlikely event that the Court does not sanction the transfer of the outwards reinsurance, the Assured Guaranty Group has stated that it would put in place new reinsurance agreements on the same basis as those which were requested to be transferred. I consider this to be a

[1] EU27 refers to all of the current countries in the European Union, other than the UK.

robust second line of defence in the unlikely event that the Court does not sanction the transfer of the reinsurance.

Outwards reinsurers

9.96 The external reinsurance of AGE plc, which consists of reinsurance provided by only one reinsurer covering five policies issued in respect of the same transaction and covering obligations of the same obligor, will cover the same liabilities after the Proposed Scheme and the claims handling will be undertaken by the same team under the same policies and procedures both before and after the Proposed Scheme. AGE SA will have no external reinsurance. As such, I consider the transfer will have no material effect on the external reinsurers of the Transfer Companies.

Pension schemes

9.97 Neither of the Transfer Companies have any employees, with all services provided via Assured Guaranty (UK) Services Limited, a services company within the Assured Guaranty Group. Consequently, neither of the Transfer Companies have any ongoing pension obligations. Similarly, neither of the Transfer Companies have any obligations to legacy pension schemes.

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Section 10: Conclusions

10.1 I have considered the likely effects of the Proposed Scheme on the Remaining Policyholders and the Transferring Policyholders. In each case, I have considered the likely effects of the Proposed Scheme on the security of policyholders' contractual rights. I have also considered the likely effects of the Proposed Scheme on the other factors which may impact security or service levels to the affected policyholders.

10.2 I have also considered the likely effects of the Proposed Scheme on reinsurers whose contracts of reinsurance are to be transferred by the Proposed Scheme.

Security of policyholders remaining within AGE plc

10.3 It is my opinion that the Remaining Policyholders will not be materially adversely affected by the Proposed Scheme.

10.4 The Remaining Policyholders currently have policies with AGE plc, a company whose level of Solvency II Own Funds exceed the Solvency II Solvency Capital Requirement.

10.5 AGE plc also has a stochastic capital model which models risk on a "run-off to ultimate" basis and covers insurance risk and reinsurance credit risk, referred to as the ECM. Given the very long-term nature of its business AGE plc uses the long-term view of risk to inform business decisions, referred to as the ICA. The ICA is based on the ECM results for insurance risk and reinsurance credit risk and the Solvency II Standard Formula approach for market risk, operational risk and correlation assumptions to combine the risks. AGE plc also has sufficient Capital Resources to meet its ICA.

10.6 After the Proposed Scheme, the Remaining Policyholders will continue to have policies with AGE plc. As a result of the Proposed Scheme, the SCR coverage ratio will reduce for AGE plc, although it will remain well in excess of 100%. The ICA coverage ratio for AGE plc will increase as a result of the Proposed Scheme. As a result of the Proposed Scheme the probability of their insurer remaining solvent, based on the methods and assumptions underlying the ICA, is unchanged for the Remaining Policyholders.

10.7 As such, I consider that the security of the Remaining Policyholders' contractual rights is not materially disadvantaged by the Proposed Scheme.

Security of policyholders transferring from AGE plc to AGE SA

10.8 It is my opinion that the Transferring Policyholders will not be materially adversely affected by the Proposed Scheme.

10.9 The Transferring Policyholders currently have policies with AGE plc, a company whose level of Solvency II Own Funds exceed the Solvency II Solvency Capital Requirement, and whose Capital Resources exceed its ICA.

10.10 After the Proposed Scheme, the Transferring Policyholders will have policies with AGE SA. Immediately after the Proposed Scheme, AGE SA is projected to have Solvency II Own Funds which exceed its Solvency II Solvency Capital Requirement and Capital Resources which exceed its ICA.

10.11 The value of the investment assets which are to be transferred from AGE plc to AGE SA as part of the Proposed Scheme has been determined such that AGE SA will exactly meet its target capital immediately after the Effective Date of the transaction. The target capital of AGE SA is still in the process of being determined but is likely to be specified in the form of maintaining a buffer above its SCR and ICA requirements. Hence, as a result of the Proposed Scheme, the SCR and ICA coverage ratios relevant for the Transferring Policyholders will reduce, although both will remain above 120% (and therefore well in excess of 100%).

10.12 This means that as a result of the Proposed Scheme the probability of their insurer remaining solvent, based on the methods and assumptions underlying the ICA, reduces for the Transferring Policyholders, although not by a material amount (by just under 0.3%, from 99.99% to 99.7%).

10.13 As such, I consider that the security of the Transferring Policyholders' contractual rights is not materially disadvantaged by the Proposed Scheme.

Effect of Brexit on the above conclusions

10.14 In the absence of the Proposed Scheme and in the event of a No-Deal Brexit, insurance regulators have put in place measures which provide some protection to the policyholders of AGE plc. However, I note that it is not clear how long these measures would apply for and therefore there is considerably uncertainty as to how long it will remain legal for AGE plc to continue to pay all future claims of EEA-based policies in all relevant EEA jurisdictions. This is particularly relevant for AGE plc due to the very long duration of its liabilities.

10.15 Therefore, in respect of a No-Deal Brexit, I consider that the Proposed Scheme would have no impact on the Remaining Policyholders and would be beneficial to the Transferring Policyholders since it would remove the uncertainty referred to in the previous paragraph.

Effect of stress scenarios on the above conclusions

10.16 I have tested the impact on my conclusions of plausible and extreme stress scenarios that AGE plc and AGE SA may experience. These stresses include:

- The inability to write new business after the Proposed Scheme;
- Default of the deals with the largest potential loss.
- Default of the deals with the largest exposure;
- Default of under-performing deals;
- The impact of unfavourable market conditions;
- Downgrade of all internally-rated exposures and reinsurers by two notches;
- Default of all affiliated reinsurers (AGM, AGC and AGRe); and
- Run-off expenses above projected levels.

10.17 I consider that my conclusions are resilient to these stresses but note that in the unlikely event of these stresses being realised ahead of the Proposed Scheme I would expect to address this in my Supplementary Report.

Other considerations

10.18 I consider that the Proposed Scheme will have no significant effect on the Remaining Policyholders and the Transferring Policyholders in respect of matters such as investment management, new business strategy, management, administration, claims handling, governance arrangements, expense levels and valuation bases in relation to how they may affect the security of policyholders' contractual rights and levels of service provided to policyholders.

10.19 I also consider that matters such as the cost and tax effects of the Proposed Scheme will have no significant effect on the security of policyholders' contractual rights.

10.20 I am satisfied that the proposed material to be presented to policyholders is appropriate and AGE plc's approach to communication with policyholders is appropriate, reasonable and proportionate.

External reinsurers

10.21 The external reinsurance of AGE plc consists of reinsurance provided by only one reinsurer covering five policies issued in respect of the same transaction and covering obligations of the same obligor. These five policies will all remain within AGE plc after the Proposed Scheme and no further external reinsurance will be purchased in connection with the Proposed Scheme. The external reinsurance of AGE plc will therefore cover the same liabilities for AGE plc after the Proposed Scheme and the claims handling will be undertaken by the same team under the same policies and procedures both before and after the Proposed Scheme. As such, I consider the transfer will have no material effect on the external reinsurers of AGE plc.

Interaction with regulators

10.22 I met with the PRA and FCA at an early stage to establish whether there were matters or issues which they wanted me to consider in this Scheme Report. A draft of this Scheme Report has been made available to the PRA, FCA and ACPR whose comments have been taken into account. The PRA (in consultation with the FCA) has approved the form of this Scheme Report.

Effective challenge to AGE plc

10.23 During my review, I have provided challenge to the data, information and analyses provided to me by AGE plc. For example:

- I have challenged AGE plc's calculation of the reserves, Solvency II SCR and ICA.
- I have specified stress scenarios for which AGE plc has investigated its capital position.
- I have specified the form of exhibits provided to me by AGE plc to allow me to assess the security of policyholders' contractual rights.

10.24 No limitations have been imposed on the scope of my work and the opinions in this Scheme Report about the Proposed Scheme are mine, based on the information provided to me and the answers given to any questions I have raised. There are no matters that I have not taken into account or evaluated in this Scheme Report that might, in my opinion, be relevant to policyholders' consideration of the Proposed Scheme.

Supplementary Report

10.25 My Independent Expert Scheme Report is based on audited financial information in respect of AGE plc as at 31 December 2018 and financial projections performed by AGE plc to Q2 2019 and from financial year 2019 through to 2022 in respect of AGE plc and AGE SA. I expect to produce a Supplementary Report based on updated financial projections to Q2 2019 and from 2019 through to 2022 in respect of AGE plc and AGE SA, which will take into account any significant changes and reflect the final portfolio of Transferring Policies.

10.26 At the time of my Supplementary Report I will also consider whether the ongoing investigation and planning which is being undertaken by AGE plc in respect of the Proposed Scheme will result in changes to the structure of the Proposed Scheme which requires my review. Such areas may include but are not limited to:

- AGE plc's asset allocation between AGE plc and AGE SA as a result of its asset allocation programme.
- The tax implications of the Proposed Scheme based on the external tax advice which is being obtained.
- Whether AGE SA has been authorised by the ACPR, and therefore whether AGE SA is authorised and regulated by the ACPR.
- Whether the express agreement to the transfer has been obtained from the two Transferring Policyholders who are located outside of the current EEA.
- Whether there are likely to be any excluded policies.

10.27 In my Supplementary Report I will also consider the impact on my conclusions if any of the stressed scenarios I have considered in Section 8 of this report have occurred.

Duty to the Court

10.28 As required by Part 35 of the UK Civil Procedure Rules, I hereby confirm that I understand my duty to the Court, I have complied with that duty and I will continue to comply with that duty.

Statement of truth

10.29 I confirm that I have made clear which facts and matters referred to in this Scheme Report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

K. Angell

Kate Angell
Independent Expert
Fellow of the Institute and Faculty of Actuaries

20 September 2019

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Appendix A: Glossary of Terms

ACPR	Autorité de Contrôle Prudentiel et de Résolution
AGC	Assured Guaranty Corp.
AGE plc	Assured Guaranty (Europe) plc
AGE plc legacy business	Business within AGE plc which was underwritten in 2008 and prior
AGE SA	Assured Guaranty (Europe) SA
AGM	Assured Guaranty Municipal Corp.
AGMH	Assured Guaranty Municipal Holdings Inc.
AGRe	Assured Guaranty Re Ltd.
Assured Guaranty Group	The group of companies ultimately owned by Assured Guaranty Ltd. in Bermuda
APS	Actuarial Practice Standards as issued by the IFoA
BIG	“Below investment grade” transactions which are under-performing
Brexit	The UK’s exit from the EU
Capital Resources	Shareholder’s Funds plus additional resources which are contractually available over the life of the liabilities included within the ECM
Court	The High Court of Justice in England and Wales
Coverage Ratio	The ratio of available capital to the capital required either on a regulatory (SCR) basis or the company’s own ICA basis
Diversification	The extent to which aggregate risk is less than the sum of the underlying individual risks
ECM	Economic Capital Model
Economic Capital Model	Assured Guaranty’s bespoke stochastic capital model which models risk on a “run-off to ultimate” basis and covers insurance risk and reinsurance credit risk. The Economic Capital Model is a proprietary model which is used throughout the Assured Guaranty Group but is not used for regulatory purposes and is not approved by the PRA
EEA	European Economic Area
Effective Date	The intended effective date of the Proposed Scheme, being 25 January 2020
EU	European Union
EU27	The current countries in the European Union, other than the UK

FCA	The Financial Conduct Authority, one of the insurance industry regulators in the UK (the other being the PRA)
FoE	Freedom of Establishment, the ability of EU insurers to establish branches in member states of the EU
FoS	Freedom of Services, the ability of EU insurers to sell insurance products into any other EU member state
Framework Agreement	Contract under English law between AGE plc, AGM and AGE SA which covers, among other things, the transfer of assets and liabilities directly from AGE plc to AGE SA, the payment of the dividend from AGE plc to AGM, and the provision of funds by AGM to AGE SA in return for AGE SA issuing shares to AGM
FRC	The Financial Reporting Council, the UK's independent regulator responsible for promoting high quality corporate governance and reporting. The FRC sets standards for corporate reporting, audit and actuarial practice and monitor and enforce accounting and auditing standards
French GAAP	Generally Accepted Accounting Practice in France, called the Plan Comptable Général ("PCG"), is the body of accounting standards and other guidance published by the Autorité des Normes Comptables ("ANC")
French pledge	An arrangement governed by French law under which one party places assets in an account of a credit institution who holds the assets under the terms of an agreement in favour of a beneficiary. For the purposes of this Scheme Report the party placing the assets is either AGM, AGC or AG Re and the beneficiary is AGE SA, with AGE SA being entitled to withdraw assets from the account in the event of the relevant reinsurer defaulting
FSCS	The Financial Services Compensation Scheme, the UK's statutory compensation scheme which compensates customers of authorised financial services firms in the event that the company is unable pay claims against it
FSMA	The Financial Services and Markets Act 2000, an Act of Parliament to make provision for the regulation of financial services which details the legal basis for the transfer of an insurance business in the UK
GAAP	Generally Accepted Accounting Principles
ICA	Individual Capital Assessment
IFoA	Institute and Faculty of Actuaries, a professional body which represents and regulates actuaries in the United Kingdom
IFRS	International Financial Reporting Standards
Individual Capital Assessment	AGE plc's own capital assessment which is used to inform business decisions. It is based on the ECM results for insurance risk and reinsurance credit risk and the Standard Formula approach for market risk, operational risk and correlation assumptions to combine the risks

Internal Model	An entity-specific, risk-based model approved by the regulator to be used by insurers to calculate their Solvency Capital Requirement under Solvency II
Net Worth Maintenance agreement	The agreement covering AGE plc the purpose of which is to preserve the solvency capital ratio of AGE plc in the case of non-insurance losses
No-Deal Brexit	The scenario in which UK insurance firms lose their passporting (FoS and FoE) rights immediately upon Brexit, rather than at the end of a transition period
No Scheme Position	The position if there were no Proposed Scheme
NWM	Net Worth Maintenance agreement
NYDFS	New York State Department of Financial Services, the domestic regulator of AGM
Own Funds	The level of available capital as measured under Solvency II rules
Part VII	Part VII of the FSMA
Post Scheme Position	The position should the Proposed Scheme proceed
PRA	The Prudential Regulation Authority, one of the insurance industry regulators in the UK (alongside the FCA)
Proposed Scheme	The proposed transfer from AGE plc to AGE SA as described in this Scheme Report
QS	Quota-share reinsurance
Reinsurance	This is where an insurance company purchases insurance from a reinsurer
Remaining Policies	The insurance policies which are to be remain with AGE plc under the Proposed Scheme
Remaining Policyholders	The policyholders of AGE plc, whose insurance policies will remain with AGE plc under the Proposed Scheme. As explained in paragraph 5.20, where I refer to “policyholders” in this report I mean the party to each insurance contract, typically a financial institution acting as trustee or custodian for the benefit of bondholders. I note that in their role as the fiduciary agents of the investors I consider the interests of policyholders to be aligned with the investors who benefit economically from the guarantees provided by the Transfer Companies, and do not distinguish between them for the purposes of this report
Residential Mortgage Backed Securities	Obligations backed by closed-end first lien mortgage loans on residential properties
RMBS	Residential Mortgage Backed Securities

Run-off	Describes the status of an insurance or reinsurance business when it does not accept new business (including policy renewals). The liabilities will gradually reduce over time, or run-off, as the company settles and pays the claims to the policyholders
Scheme Report	Independent Expert's Scheme Report on the Proposed Scheme
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report, a report required under Solvency II which is publicly available, contains information on the company's solvency and financial condition and is designed to be used by policyholders, shareholders and other stakeholders
Shareholders' Funds	The level of available capital as measured under relevant accounting rules
Solvency II	An EU directive aimed at harmonising the EU insurance regulation and enhancing consumer protection. The directive applies to all EU-domiciled insurance and reinsurance companies and was implemented on 1 January 2016
Solvency Capital Requirement	The level of capital required to be held by an insurer under the Solvency II regime. If the actual level of capital of an insurer comes close to or falls below this level then the regulator may intervene in or impose restrictions on the day-to-day running of the company
Standard Formula	A non-entity-specific, risk-based mathematical formula used by insurers to calculate their Solvency Capital Requirement under Solvency II
Summary	The summary of the Scheme Report
SUP18	Chapter 18, in relation to Transfers of Business, of the Supervision manual in the FCA Handbook
TAS	Technical Actuarial Standards, as issued by the FRC
Technical Provisions	Technical provisions represent the amount that an insurer requires to fulfil its insurance obligations and settle all expected commitments to policyholders and other beneficiaries arising over the lifetime of the insurer's portfolio of insurance contracts
Transfer Companies	AGE plc and AGE SA together
Transferring Assets	The assets which are to be transferred from AGE plc to AGE SA as part of the Proposed Scheme
Transferring Policies	The insurance policies which are to be transferred from AGE plc to AGE SA as part of the Proposed Scheme

Transferring Policyholders	The policyholders of AGE plc, whose insurance policies are transferring from AGE plc to AGE SA under the Proposed Scheme. As explained in paragraph 5.20, where I refer to “policyholders” in this report I mean the party to each insurance contract, typically a financial institution acting as trustee or custodian for the benefit of bondholders. I note that in their role as the fiduciary agents of the investors I consider the interests of policyholders to be aligned with the investors who benefit economically from the guarantees provided by the Transfer Companies, and do not distinguish between them for the purposes of this report
TWL	Towers Watson Limited, which is part of Willis Towers Watson
UK GAAP	Generally Accepted Accounting Practice in the UK, is the body of accounting standards and other guidance published by the UK Accounting Standards Board (ASB)
UK Law	The laws of England and Wales, Scotland and Northern Ireland
Underwriting Year	The grouping of claims relating to policies that incepted in the same 12-month period irrespective of when the claims actually occur or when the claims are reported. Also known as policy year
Unearned Premium Reserve	The reserve held to cover the portion of written premium that represents the unearned portion of the insurance contracts as at a given point in time
US trust fund	An arrangement under which one party places assets in an account of a credit institution who holds the assets under the terms of an agreement in favour of a beneficiary. For the purposes of this Scheme Report the party placing the assets is either AGM, AGC or AG Re and the beneficiary is AGE SA, with AGE SA being entitled to withdraw assets from the account in the event of the relevant reinsurer defaulting
Value-at-Risk	A statistical technique used to measure and quantify the level of financial risk within a firm or investment portfolio over a specific time frame
XoL Cover	The aggregate excess of loss reinsurance across the entire portfolio of AGE plc, the purpose of which is to preserve the solvency capital ratio of AGE plc

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Appendix B: Curriculum Vitae

Relevant experience / specialisation

Kate has over 20 years' experience in non-life actuarial work and has been involved in the provision of all aspects of actuarial advice to non-life insurers, having gained broad experience of the general insurance sector in a variety of roles. Kate joined Willis Towers Watson's general insurance team in January 2009, and is a Senior Director within Willis Towers Watson's Insurance Consulting and Technology division.

Kate's wide-ranging experience throughout the insurance and reinsurance industry includes: dynamic actuarial and financial modelling, including capital assessment projects; valuations of liabilities; assistance with meeting the requirements of Solvency II; pricing assignments; review and design of reinsurance programmes; exit strategies; independent expert and expert witness assignments; and due diligence for acquisitions. Kate has worked extensively in the London Market, UK and Europe, providing advice to (re)insurance companies, Lloyd's syndicates, government entities, corporations and captives.

Kate regularly leads reserve reviews for (re)insurance companies, captives and Lloyd's syndicates, covering both ongoing business and business in run-off. These reserve reviews have covered a variety of lines of business including APH liabilities, accident & health, aviation, cargo, construction, contingency, creditor, d&o, employer's liability, energy, e&o, legal expenses, liability business, marine, medical malpractice insurance, motor (both personal and commercial), political risks / trade credit, professional liability, property, public liability, travel and warranty. Kate's experience includes providing Statements of Actuarial Opinions for both Lloyd's syndicates and Irish non-life insurance companies.

Kate's extensive Solvency II experience has been gained from assisting clients across a number of areas. Her experience includes assessing capital requirements according to the SCR / MCR Standard Formula, undertaking Technical Provisions calculations, calculation of Undertaking Specific Parameters, assisting clients with ORSA submissions (including assessing the appropriateness of the Standard Formula and considering risks which are not included within the Standard Formula), providing assistance with the Pillar 3 requirements under Solvency II (including completion of the QRTs), assisting clients to fulfil the requirements of the Actuarial Function (including with respect to the required underwriting and reinsurance opinions) and providing training on Solvency II. Kate has acted as an outsourced Chief Actuary (SIMF 20) under the PRA's SIMR, and also acts as the Head of the Actuarial Function for Irish insurance companies under the Central Bank of Ireland's PCF regime.

Kate has been involved in a number of insurance business transfers, for both business in run-off and live business, covering a variety of lines of business and including business transferring within the UK and overseas. Kate has spoken on the topic of insurance business transfers at a number of conferences, together with writing articles on the subject and drafting new education material for the Institute of Actuaries on the topic of "Exit Strategies". She was also a member of an Institute of Actuaries Working Party on the topic of business transfers.

Kate's other experience includes reviews of capital models for ICA purposes; undertaking an independent review of a reinsurance premium calculation; assessment of fair value amounts in connection with a reinsurance commutation; undertaking due diligence exercises in connection with M&A transactions; and acting as an expert witness, including giving testimony in court.

Prior to joining Willis Towers Watson, Kate has worked as a consultant, as Syndicate Actuary for a Lloyd's Syndicate, for a (re)insurance broker and as an actuary at GE's financial services division.

Education and Credentials

Kate qualified as a Fellow of the Institute of Actuaries in 1998. She is also a Fellow of the Society of Actuaries in Ireland and an Associate of the Chartered Insurance Institute. She holds the required practising certificates for the purpose of providing Statements of Actuarial Opinion relating to Lloyd's syndicates, and to perform the Chief Actuary function in accordance with the PRA's requirements in the UK.

Kate has previously been a member of the Institute and Faculty of Actuaries' General Insurance Board and the cross-practice Professional Affairs and Consultation Committee.

Appendix C: Information Considered

For the purposes of this Scheme Report I have reviewed various items of data and information, including the following:

Documents relating to the Proposed Scheme

- Draft Scheme Document
- Detail of the proposed approach for communication to policyholders
- Details of trust funds, guarantees and reinsurance impacted by the Proposed Scheme
- Analysis of the difference in conduct regimes in the EU by Hogan Lovells

Documents relating to AGE plc

- Audited Financial Statement Report and accounts at year-end 2018, audited externally by PwC
- Reserves at year-end 2018
- Reserve committee internal memos and exhibits at year-end 2018
- Actuarial Function Report at year-end 2017 and year-end 2018
- Own Risk and Solvency Assessment reports as at Q4 2017 and Q3 2018
- SFCR reports at year-end 2017 and 2018
- Economic Capital Model documentation including internal and external reviews
- Standard Formula inputs and calculations
- Rating reports for AGE plc and the Assured Guaranty Group companies
- Details of the policies remaining in AGE plc (including outstanding par amount, domicile of the policyholder, and expected maturity date)
- Financial projections under several scenarios
- Reconciliation between the Solvency II and GAAP balance sheets
- The existing reinsurance arrangements with AGRe, AGC and AGM
- The existing NWM agreement with AGM

Documents relating to AGE SA

- Details of the policies to be transferred (including outstanding par amount, domicile of the policyholder, and expected maturity date)
- Financial projections under several scenarios

- Proposed governance structure
- Analysis of insolvency rules under French law by Hogan Lovells
- Explanation of the differences between the UK GAAP and French GAAP and estimation of the impact of these
- Reconciliation between the Solvency II and GAAP balance sheets
- The draft reinsurance arrangements with AGRe, AGC and AGM
- The draft NWM agreement with AGM

This information and various other information (included information provided verbally) has been provided by the management team of AGE plc.

I have relied upon the accuracy and completeness of the data and information provided without independent verification. However, I have reviewed the data and information for general consistency and overall reasonableness, and based on my wider experience this gives me no cause for concern.

I have received a statement of data accuracy signed by Nicholas Proud, Chief Executive (SMF1) of AGE plc which confirms the accuracy and completeness of the information provided to me in performing my Independent Expert role.