INDEPENDENT EXPERT REPORT OF PHILIP TIPPIN FIA

In the matters of

ASSURED GUARANTY (EUROPE) PLC

AND

ASSURED GUARANTY (UK) PLC

AND

CIFG EUROPE S.A.

AND

ASSURED GUARANTY (LONDON) PLC

AND IN THE MATTER OF PART VII OF THE FINANCIAL SERVICES AND MARKETS ACT 2000

IN THE HIGH COURT OF JUSTICE

DATED 8 JUNE 2018

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1 Introduction

Purpose of the report

1.1 Assured Guaranty (Europe) plc ('AGE') is a wholly owned direct subsidiary of Assured Guaranty Municipal Corp. ('AGM'), and writes financial guarantee insurance. The ultimate parent of both AGE and AGM is Assured Guaranty Ltd. ('Assured Guaranty'). In this report I will refer to the companies operated as subsidiaries of Assured Guaranty as the 'Assured Guaranty Group'.

1.2 Assured Guaranty Corp. ('AGC'), a member of the Assured Guaranty Group, established a financial guarantee insurance company in the United Kingdom in 2003, Assured Guaranty (UK) plc ('AGUK'). Through a number of acquisitions over recent years, the Assured Guaranty Group now includes four insurance companies based in Europe. These European companies are AGE, AGUK, CIFG Europe S.A. ('CIFG EU') and Assured Guaranty (London) plc ('AGLN'). AGE, AGUK and AGLN are based in the UK; CIFG EU is based in France. It has been proposed that AGUK and AGLN will transfer their entire insurance businesses to AGE under the provisions of Part VII of the Financial Services and Markets Act 2000 ('FSMA') under a scheme to be approved by the High Court of Justice, England ('the Court'). CIFG EU will transfer its insurance business to AGE under a French insurance portfolio transfer process, which requires the approval of the French insurance regulator. There is no requirement for an Independent Expert or court hearing under a French insurance portfolio transfer. I am required to consider the final position of the Transfer Companies (as defined in the last paragraph of this section 1.2), so I continue to discuss CIFG EU in this report.

The largest entity of the four companies involved is AGE which will be the 'Transferee'. AGE has its head office in the United Kingdom.

AGLN, AGUK and CIFG EU are direct subsidiaries of AGE. All companies involved in the transfers described in this report write solely non-life business.

The transfers are taking place in conjunction with the merger of AGLN, AGUK and CIFG EU into AGE through a cross-border merger ('CBM') process described in paragraph 1.14 below so that the transfers and the CBM occur as a single transaction, which is expected to take effect in November 2018. The CBM is intended to ensure the widest possible recognition of the transfer to AGE of all the assets and liabilities of AGLN, AGUK and CIFG EU. As a consequence of the CBM AGLN, AGUK and CIFG EU will each be dissolved without undergoing liquidation proceedings.

I refer to the transfers of insurance business of AGUK and AGLN as the 'Transfers'. I refer to the transfer of the insurance business of CIFG EU as the 'FIPT'. I refer to AGE, AGLN, AGUK and CIFG EU as the 'Transfer Companies'. I refer to AGLN, AGUK and CIFG EU as the 'Transferors'.

1.3 Under FSMA, a proposed transfer of (re)insurance business from one entity to another can only take place if it has been approved by the Court for the appropriate jurisdictions. As part of the approval process a report is required from an expert (the 'Independent Expert') to aid the relevant Court in their deliberations.

1.4 This report describes the proposed transfers and discusses their possible effects on the relevant policyholder groups, including effects on security and levels of service.

This report is organised into seven sections as follows:

Section 1 –The purpose of this report and the role of the Independent Expert.

Section 2 – Executive summary and conclusions.

Section 3 – Relevant background information on each of the Transfer Companies.

Section 4 – Setting out the effect of the Transfers on the Transfer Companies.

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Section 5 – Discussion of the potential impact of the Transfers on stakeholders.

Section 6 – Consideration of the appropriateness of the information provided to me which informs my opinion, including consideration of methodologies for calculations used in provision of data and scenarios following the Transfers taking effect that may affect policyholder security.

Section 7 – Summary of findings.

Independent Expert

1.5 I, Philip Tippin, am a partner in the actuarial practice of KPMG LLP ('KPMG'). I have been a Fellow of the Institute and Faculty of Actuaries for 19 years. My detailed curriculum vitae is included in Appendix 1.

1.6 I have been appointed by AGE to act as the Independent Expert in connection with the Transfers. My appointment was approved by the Prudential Regulation Authority ('PRA') in consultation with the Financial Conduct Authority ('FCA') on 17 March 2017.

1.7 To the best of my knowledge, information and belief, I have no conflicts of interest in connection with the parties involved in the proposed Transfers and I therefore consider myself able to act as an Independent Expert on this transaction.

1.8 I can confirm that I have no financial interest in the Transfer Companies, nor do I work for any entity belonging to Assured Guaranty. Neither I, nor any of my immediate team assisting me in producing this report, have carried out any work with the Transfer Companies or any of the wider Assured Guaranty Group companies over the last three years.

1.9 I can confirm that the contribution of Assured Guaranty and its subsidiaries to KPMG's global fee income has not exceeded 0.01% over the last three years.

1.10 The costs and expenses associated with my appointment as Independent Expert and the production of this report will be allocated between the Transfer Companies, AGM and AGC.

1.11 In reporting to the Court on the proposed Transfers my overriding duty is to the Court. This duty applies irrespective of any person or firm from whom I have been instructed or paid.

Proposed Transfers

1.12 The Transfer Companies are owned indirectly by Assured Guaranty, and the Transfers represent an internal reorganisation of Assured Guaranty's UK and European financial guarantee business.

It is proposed that the entire business of each of the Transferors including the insurance policies they have written will be transferred to AGE. This is intended to take effect on the date on which the CBM enters into effect (this being referred to in this Report as the 'Effective Date').

1.13 On 23 June 2016, the UK Government held a referendum which resulted in the electorate voting to leave the European Union ('EU'). The UK Government notified the EU of their intention to leave the EU on 29 March 2017. As a result of this, it is understood that the UK will cease to be part of the EU on or before 29 March 2019. Throughout this two year period there will be extended negotiations which will determine the ultimate impact of leaving the EU; this process will therefore extend until after the Effective Date of the Transfers. Nevertheless, I assume in my Report that should the UK's departure from the EU occur before the Effective Date, the UK will still follow the EU-wide prudential regulatory regime known as Solvency II, or an equivalent, going forward.

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1.14 Under the proposed terms of the Transfers, all assets and liabilities of AGLN and AGUK will transfer to AGE, and under the CBM (following approval of the French IPT) all assets and liabilities of CIFG EU will transfer to AGE. The CBM is intended to ensure the widest possible recognition of the transfer to AGE of all the assets and liabilities of AGLN, AGUK and CIFG EU. The ultimate goal is to bring AGE, AGLN, AGUK and CIFG EU into one entity through the mechanism of a CBM so that they can be managed collectively and centrally in an efficient, including tax efficient, manner. It is intended that the Transfers and the CBM will occur as a single transaction which will complete on the Effective Date. AGE will be the surviving company following the CBM and the Transferors will no longer exist.

The CBM will take place pursuant to Directive (EU) 2017/1132 of the European Parliament and of the Council of 16 June 2017, as implemented under UK regulations and the French commercial code, which allows companies from two or more EEA countries to merge so that the surviving company succeeds to the assets and liabilities of the absorbed companies (which cease to exist).

1.15 I note that it is also intended that, in the future, the reinsurance agreement between AGE and AGM be extended to cover the policies transferring in from AGLN, and also that a dividend be paid from AGE to AGM. I note however that these intentions have no fixed timeline at present and furthermore will be subject to separate approval by the PRA. As such I do not discuss these intentions further in this report or allow for them in my analysis.

1.16 The Transfers theoretically provide for the possibility of a limited number of policies not being transferred under the Transfers (‘excluded policies’) and provide for 100% reinsurance of the liabilities under the policies by AGE in this eventuality, however it is not expected that there will be any excluded policies.

There are three circumstances in which excluded policies could arise:

(1) An EEA regulator objects to the transfer of their local risks;

(2) The parties agree to exclude a policy before the final Court Hearing; and

(3) The Court decides to exclude a policy at the final Court Hearing.

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, the Transfer Companies have confirmed to me that they will engage with the PRA on this issue before proceeding with the Transfers, in order to obtain the PRA’s non-objection to the Transfer Companies’ proposed plan to address any excluded policies. For the remainder of this report I will assume that there are no excluded policies.

Scope

1.17 As Independent Expert, it is my duty to the Court to consider the impact of the Transfers on the policyholders of the companies participating in the Part VII Transfers, along with any other policyholders affected by the Transfers. In particular, it is my duty to consider the impact on their security and service levels for their benefit as set out in Appendix 2. In this instance, I have not identified any policyholders other than those of the Transfer Companies to be potentially affected. As the CBM is to occur in conjunction with the Transfers I consider the impact on policyholders on the basis that the CBM has completed.

1.18 This report does not consider any possible alternative arrangements to those referred to in sections 1.12 to 1.16. I am not aware of any other significant transaction relating to the Transfer Companies other than those set out in sections 1.12 to 1.16.

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Reliances

1.19 I understand that my role is to produce a report in a form approved by the PRA in consultation with the FCA for submission to the Court. Whilst I have been assisted by my team, the report is written in the first person singular and the opinions expressed are my own.

1.20 My work has been based on the data and other information made available to me by the Transfer Companies. A list of data and other information that I have considered is shown in Appendix 4.

I have not sought independent verification of data and information provided to me by the Transfer Companies, nor does my work constitute an audit of the financial and other information provided to me. Where indicated, I have reviewed the information provided for reasonableness and consistency and with the benefit of my experience this has not raised any concerns. I note that the information has been provided to me by members of the senior management of the Transfer Companies or by responsible senior professionals from the Transfer Companies' advisors.

Where possible I have obtained audited financial information, and have received reports from independent third parties. In any case I have considered the sources of all data I have received before placing any reliance on it, and have sought representations where I consider it appropriate.

I have met in person or conducted conference calls with representatives of the Transfer Companies to discuss the information provided to me and specific matters arising out of the considerations and analysis conducted. This includes the legal advisers to the Transfers, where appropriate.

Where significant pieces of information have been provided orally I have requested and received written confirmation.

Use and limitations

1.21 This report must be read in its entirety. Reading individual sections in isolation may be misleading.

1.22 Copies of this report will be sent to the relevant UK financial regulators: the PRA and the FCA. This report will be used in evidence in the applications submitted to the Court. It will also be made available to policyholders and other members of the public as required by the relevant legislation and will be made available on the Assured Guaranty website.

This report has been prepared under section 109 of FSMA in a form approved by the PRA on 7 June 2018 in consultation with the FCA.

This report is prepared solely in connection with, and for the purposes of, informing the Court, the PRA, the FCA, and policyholders of the Transfer Companies of my findings in respect of the impact of the Transfers on the security and service levels of policyholders and may only be relied on for this purpose. This report is subject to the terms and limitations, including limitation of liability, set out in my firm's engagement letter of 7 March 2017. An extract from this letter describing the scope of my work is contained in Appendix 2.

This report should not be regarded as suitable to be used or relied on by any party wishing to acquire any right to bring action against KPMG LLP in connection with any other use or reliance. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of this report to any other party, other than as defined in my firm's engagement letter referenced above.

1.23 In the normal course of conducting my role as Independent Expert, I have been provided with a significant and appropriate amount of information and data about the Transfer Companies' activities and performance. In forming my view as set out in this report, this

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information has served a necessary and vital contribution. Due to a combination of legal, regulatory and commercial sensitivities some of the information I have relied upon to reach my conclusions cannot be disclosed in a public report such as this. However I can confirm that appropriate detailed information has been provided to me to enable me to form the opinions I express to the Court in this report.

Professional guidance

1.24 This report has been prepared in accordance with the guidance set out in Part 35 of the Civil Procedure Rules and the accompanying practice direction, including the protocol/guidance for the instruction of experts to give evidence in civil claims (2014) issued by the Civil Justice Council.

This report also complies with the guidance for transfer reports set out in the Statement of Policy issued by the PRA in April 2015 entitled ‘The Prudential Regulation Authority’s Approach to Insurance Business Transfers’ and in Chapter 18 of the FCA Supervision Handbook, in particular, sections 18.2.31 to 18.2.41 inclusive, regarding the content and considerations of the report.

In preparing this report I have taken into account the requirements of the Technical Actuarial Standards (‘TASs’) issued by the Financial Reporting Council. The TAS Standards which apply to the work performed in preparing this report are Principles for Technical Actuarial Work and Insurance. In my opinion, there are no material departures from any of these TASs in my performance of this work and this report. I have also followed the guidance set out in APS X2: Review of Actuarial Work, and this report has been peer reviewed by the reviewer approved by the PRA and FCA in accordance with this guidance.

I understand that my duty in preparing my report is to help the Court on all matters within my expertise and that this duty overrides any obligations I have to those instructing me and/or paying my fee. I confirm that I have complied with this.

Terminology

1.25 In my discussion of the effects of the proposed Transfers on the Transfer Companies concerned, I use various technical terms. The definitions of these terms as used in this report are contained in the Glossary in Appendix 5.

1.26 I make reference throughout this report to financial items or events that are material or immaterial. I consider an event immaterial if the expected impact of the event is very small, such that it would not influence the decisions of a reader, either on its own or in conjunction with other immaterial events. This could be because the event has a very low probability of occurring, a very low financial impact if it did occur, or a combination of these. Similarly a financial item (such as an insurance claim reserve for a particular line of business) is immaterial if its value is very small in the context of the whole, and the probability of significant variability in the value of that item in the context of the whole is similarly small. Conversely material items and events would be of such a size that they could influence the decisions of a reader of this report, and where I have identified these I have considered them specifically in my discussion of the effects of the proposed Transfers.

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2 Executive summary and conclusions

Overview of the Transfers

2.1 This report considers the impact of the proposed transfers of the insurance business of the Transfer Companies. The transferring policyholders are business clients only. The only products offered are financial guarantees.

The Transfers and CBM are conditional upon the FIPT taking place. Therefore, throughout this report I assume that the intended FIPT of CIFG EU is also completed.

As a consequence of the CBM, the Transfers and the FIPT, the insurance obligations and the other assets and liabilities of AGUK, CIFG EU and AGLN will transfer to AGE. The existing policyholders of AGE are business clients only. The only policies offered to clients by AGE are financial guarantee cover.

The policies being transferred to AGE are financial guarantee policies; AGE has permission to write all the policies being transferred into it.

The Transfers are primarily a legal and financial reorganisation of financial guarantee businesses operating from the UK and France, aiming to gather simplification, diversification and efficiency gains throughout the businesses and in particular more effective management of capital.

2.2 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 insurance written by the Transfer Companies. Where I refer to "policyholders" 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.

2.3 A summary of this report is included in a circular that is being sent to all policyholders of the Transfer Companies, with limited exceptions, as part of the communication plan for the proposed Transfers. The proposed Transfers are being advertised in the London, Edinburgh and Belfast Gazettes, The Times, and The Financial Times, and the Independent Expert's report and other relevant documents are being made available on the Assured Guaranty website at the following location: *http://assuredguaranty.com/static/2018-combination*. I comment further on the communications in Appendix 7. I consider the proposed approach to communicating the Transfers to be appropriate, reasonable and proportionate.

2.4 Background of the Transfer Companies

AGE is a legal entity of Assured Guaranty and operates as a direct subsidiary of AGM.

AGUK, CIFG EU and AGLN are all direct subsidiaries of AGE, as shown in the structure chart below. I also show the positioning of AGC within the Assured Guaranty Group as this company will continue to provide significant reinsurance to policyholders of the Transfer Companies following the Transfers.

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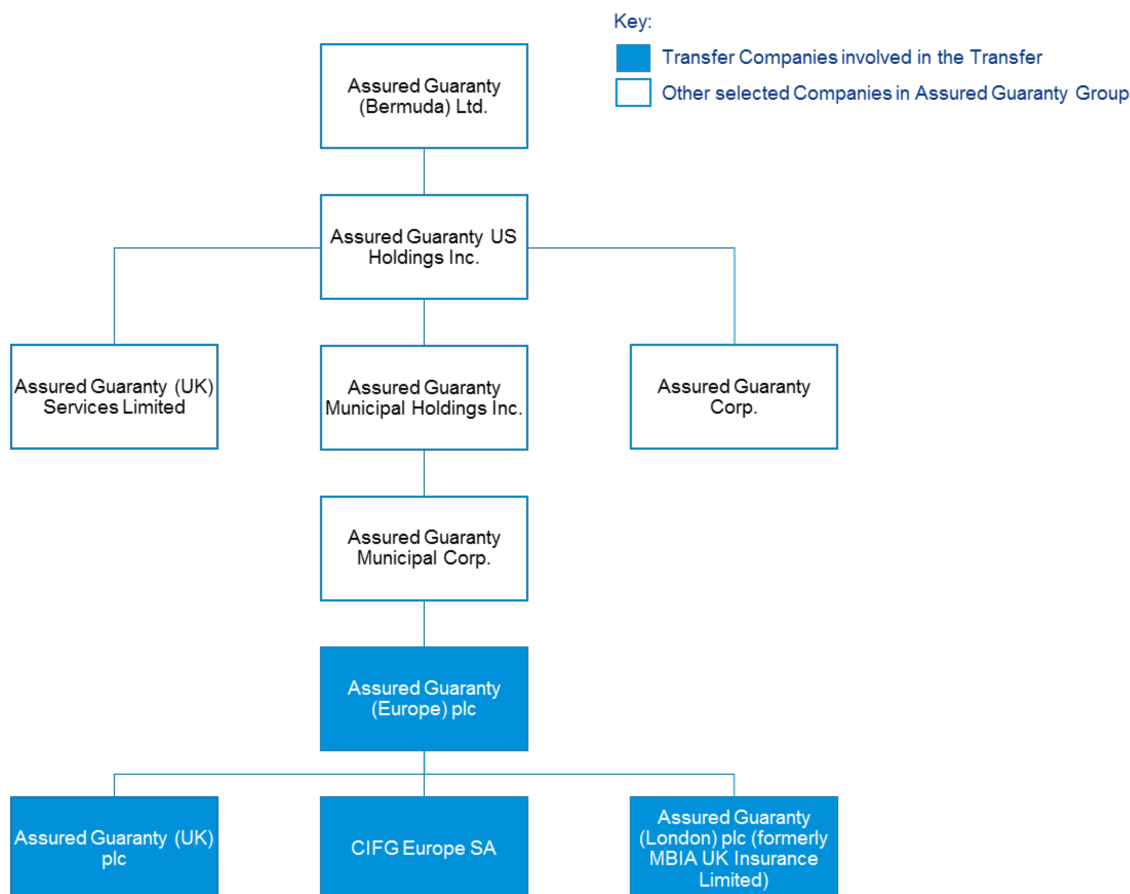

AGE and AGUK have credit ratings of AA from S&P. AGLN is rated BB from S&P. CIFG EU is unrated. For the avoidance of doubt, I have placed no reliance on the Transfer Companies' credit ratings in this report, but note this as it is a significant reason that policyholders choose to do business with Assured Guaranty's companies, and that in this regard, CIFG EU and AGLN policyholders will see a rise in the credit rating associated with their financial guarantee insurance policies if AGE maintains its current rating, which could be perceived by those policyholders as a benefit to them.

Purpose of the Transfers

2.5 The proposed Transfers constitute an internal reorganisation of the Transfer Companies, aiming to achieve simplification, diversification and efficiency gains throughout the businesses and in particular more efficient management of capital under the new (since January 2016) prudential regulatory regime known as Solvency II. I note that whilst CIFG EU is not participating in the Part VII Transfers, the FIPT and the CBM are taking place in conjunction with these, and therefore I consider the position of CIFG EU policyholders throughout this report as affected policyholders, and comment throughout on the position of CIFG EU before and after the proposed Transfers.

2.6 My approach to assessing the likely effects of the Transfers on policyholders is to:

— Understand the businesses of the entities affected by the Transfers; and

— Understand the effect of the Transfers on the assets and liabilities of the companies and businesses involved.

The above stages are contained in sections 3 and 4 of this report.

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Having identified the effects of the Transfers on the various companies and businesses, I then do the following in section 5:

- Identify the relevant groups of policyholders within each company;
- Consider the impact of the Transfers on the security of each group of policyholders and other stakeholders; and
- Consider other non-financial aspects of the impact of the Transfers (for example, policyholder service).

With regard to the last point, I note that the nature of the benefits provided through financial guarantees issued by the Transfer Companies are predetermined, as the cover simply provides for the payment of scheduled principal and interest when due. Additionally, I note that the Transfer Companies have waived their defences to payment, meaning that they will pay the claims properly presented and raise any disputes and rights to recoveries after they have paid a claim. Therefore, irrespective of whether the Transfers proceed or not, the value of the claims made by policyholders is unchanged. As a result, I have focused the remainder of this report on the relative security of policyholders' benefits.

I note that AGE operates in markets which may require market participants to maintain higher standards of financial security than the regulatory minimum in order to continue to access new business; as purchasers of financial guarantee insurance usually require strong credit ratings.

Given the levels of capital cover (both as a proportion of the regulatory minimum requirement, and the higher modelled capital requirement used by Assured Guaranty companies to manage their businesses) that are projected for AGE following the Transfers, I expect the chance that AGE would not be able to meet its respective future obligations in full to be remote after the Transfers. I therefore conclude that no existing, or transferring policyholder will suffer detriment to their security if the Transfers proceed. In coming to this conclusion I have considered both the results given by the Standard Formula (as defined in the fourth paragraph of section 3.31 below) and the ECM (as defined in the last paragraph of section 3.31 below), as this combination allows for the consideration of both the regulatory and the more conservative "life-time basis" views of capital.

2.7 Financial and economic information considered

In order to consider the effect of the proposed Transfers on each of the entities and groups of policyholders concerned, I have been provided with comparative information for each legal entity, including:

- Balance sheet information based on the most recently produced audited balance sheet figures as at 31 December 2017 for all entities;
- Estimates of the regulatory capital required for each entity as at 31 December 2017; and
- Internal management information provided over the course of preparing this report.

I will issue a supplemental report containing the most up-to-date financial information prior to the final hearing.

In forming my opinion, I have conducted a number of interviews with key personnel responsible for core functions in the Transfer Companies (a complete list of interviewees is provided in Appendix 6), and I have placed reliance on, amongst other information, estimates provided by the Transfer Companies of the capital required to be held by the Transfer Companies (such that the companies are able to fulfil their policyholder obligations in the event of an extreme event or scenario). I describe how I have used this information in performing my analysis in more detail in section 5.13. In order to satisfy myself that these estimates are an appropriate basis on which to form an opinion, I have considered:

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- The appropriateness of the methods used by the Transfer Companies to calculate the estimates of capital requirements; and
- The impact of a set of specific severe adverse events on each of the Transfer Companies pre- and post-Transfers in order to gain comfort that, at a high level, the capital estimates are reasonable.

The above stages are contained in section 6 of this report.

Key Assumptions

2.8 In conducting my analysis I have assumed the following:

- There will be no policyholders left in the Transferors after the Transfers, as all existing policyholders of the Transferors will become policyholders of AGE as a consequence of the Transfers. As discussed in 1.16, I assume there are no excluded policies.
- The Transfers are to be broadly tax neutral for all of the Transfer Companies.
- The same level of assets and liabilities will exist within AGE after the Transfers and the CBM as exist in the Transfer Companies in the aggregate before the Transfers (when valued on the same accounting basis before and after).
- AGE will continue to operate and has no current intention to cease underwriting or to carry out a further restructuring of its business, other than the transactions identified in section 1.15, as a consequence of the Transfers and CBM.
- In the unlikely event of the UK leaving the EU before the Effective Date, the UK will still follow the EU-wide prudential regulatory regime known as Solvency II, or an equivalent, going forward.

The above assumptions underlie the analysis and conclusions in my report. If these assumptions were to change my opinion may also change. At the time of writing my report the above assumptions are the current intentions for the Transfers and the Transfer Companies and I have received written representations from the Transfer Companies substantially similar to Appendix 3 confirming my understanding.

Findings

2.9 The findings of my report are summarised below. The detailed explanation behind these conclusions follows in the body of this report:

- I have identified four distinct policyholder groups relevant to the Transfers. These are:
  - i) Existing AGE policyholders;
  - ii) Transferring AGUK policyholders;
  - iii) Transferring AGLN policyholders; and
  - iv) Transferring CIFG EU policyholders.
- I have considered using other policyholder groupings within my report, however I have not identified any other materially different policyholder groups with which to split my grouping any differently from the above.
- With respect to the AGUK policyholders transferring to AGE, I do not expect any material adverse impact on policyholder security. There is a decrease in capital coverage ratio on the basis of their own internal capital model as a consequence of the Transfers (though an increase under the Standard Formula), but given the capital coverage ratio in AGE remains strong, combined with the resulting larger balance sheet and resulting larger pool of capital, I do not find this decrease to have an impact on AGUK policyholder security.
- With respect to the AGLN policyholders transferring to AGE, I do not expect any adverse impact on policyholder security, as the capital coverage ratios under their own internal capital model and under the Standard Formula show an increase as a result of the Transfers.
- With respect to the existing AGE policyholders, I do not expect any material adverse impact on policyholder security. There is a decrease in capital coverage ratio on the

basis of both their own internal capital model and the Standard Formula as a consequence of the Transfers, but given the resulting larger balance sheet, the still high capital coverage ratio, and the resulting larger pool of capital I do not find this to have a material impact on AGE policyholder security.

- With respect to the existing CIFG EU policyholders, I do not expect any material adverse impact on policyholder security. There is a decrease in capital coverage ratio on the basis of the Standard Formula as a consequence of the Transfers, though an increase on the basis of their own internal capital model. Given the capital coverage ratio in AGE remains strong, combined with the resulting larger balance sheet and resulting larger pool of capital, I do not find the result on a Standard Formula basis to have a material impact on CIFG EU policyholder security.
- In terms of regulator supervision, and the protections available to policyholders in the event of the failure to pay claims of one of the Transfer Companies, there is no change for policyholders of AGE, AGUK or AGLN. CIFG EU will change from being supervised by the ACPR to being supervised by the PRA and the FCA, but that transfer is under the FIPT and not in the scope of my Report. I do not identify any adverse effect on the policyholders by a change in prudential regulator due to the common prudential regulatory framework seen across the EU and the expectation the UK will continue to adopt a Solvency II equivalent regime after the Transfers.
- There will be no change in executive management, governance or risk committee structure, or capital management as a result of the Transfers. These services are already integrated within Assured Guaranty.
- There will be no change in the standards of service which the policyholders will receive as a consequence of the Transfers. The claims and policy administration for each of the companies is currently handled by personnel provided by Assured Guaranty (UK) Services Limited (‘AGSL’), a services company within the Assured Guaranty Group, and this will continue to be the case.

2.10 I have considered the Transfers and their likely effect on each of the policyholder groups. I have concluded that the risk of any policyholder being adversely affected by the proposed Transfers in both cases is sufficiently remote for it to be appropriate to proceed with the proposed Transfers as described in this report.

Expert’s declaration

2.11 I confirm that I have made clear which facts and matters referred to in this 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.

Philip Tippin
Fellow of the Institute of Actuaries
Partner, KPMG LLP

8 June 2018

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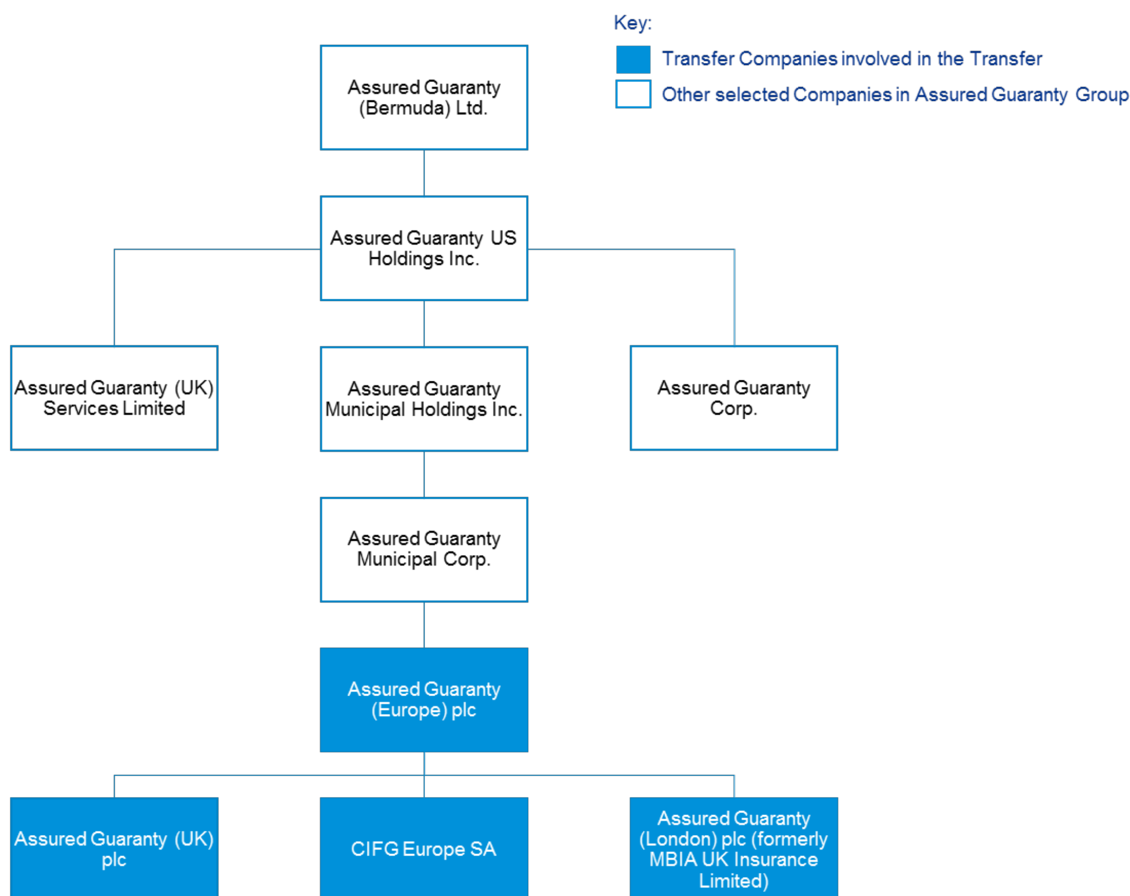
3 Background

Assured Guaranty (Europe) plc ('AGE')

3.1 AGE is the direct parent of the Transferors.

The chart below shows the intended structure of relevant entities in Assured Guaranty immediately before the Transfers.



3.2 AGE is authorised by the PRA, and regulated by the PRA and the FCA.

3.3 AGE cedes a small amount (on average 3%) of some policies to external reinsurers and a modest amount (on average 22%) to affiliates that had previously been external reinsurers prior to various acquisitions by the Assured Guaranty group and then cedes approximately 92% of the remaining portion to AGM (on average 73%), although this varies between policies. In addition to this quota share reinsurance, AGE has reinsurance and risk sharing arrangements which are discussed in more detail in sections 3.30 and 3.32.

3.4 The table below provides an overview of the annual financial performance of AGE from 31 December 2014 to 2017 on a UK GAAP basis.

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AGE (£000's)	2017	2016	2015	2014
Net Earned Premium	(13,552)	(355)	(329)	(491)
Profit/(Loss) after tax	**25,437**	**11,420**	**2,558**	**14,650**
Gross Insurance Liabilities	411,924	443,299	492,852	512,312
Other Liabilities	352,700	377,028	416,401	431,930
Total Liabilities	**764,624**	**820,327**	**909,253**	**944,242**
Reinsurance Assets	455,342	454,895	502,296	520,641
Financial Investments and Cash	220,374	206,222	193,276	196,362
Investments in group undertakings	322,880	-	-	-
Other Assets	319,864	364,729	407,780	418,742
Total Assets	**1,318,460**	**1,025,846**	**1,103,352**	**1,135,745**
Net Assets	**553,836**	**205,519**	**194,099**	**191,503**

Source: Financial Statements. UK GAAP

3.5 AGE's net earned premium has been negative for a number of years. The driver of the negative earned premium is a historical change in reinsurance arrangements. The previous reinsurance arrangements were commuted and the proceeds of the commutation fully earned in the year of commutation. A new reinsurance arrangement was then signed, meaning that the ceded UPR is now higher than the gross UPR. AGE holds significantly higher assets than liabilities; this net asset amount has also been quite stable and increasing over the period. The large increase in profit and decrease in net earned premium from 2016 to 2017 is due to further large commutations.

As expected, the majority of balances have remained stable from 2016 to 2017, with the only significant movement being the contribution of shares in the Transferring Companies from AGM. This contribution of shares was in the context of the intra-group change in control whereby AGLN, AGUK and CIFG EU became subsidiaries of AGE rather than AGC.

3.6 The table below provides an overview of the Solvency II balance sheet as at 31 December 2016 and 2017.

AGE (£000's)	Q4 2017	Q4 2016
Gross Solvency II Best Estimate Liabilities	(7,788)	(8,194)
Risk Margin	10,552	9,395
Other Liabilities	29,987	17,185
Total Liabilities	**32,751**	**18,386**
Reinsurance Assets	11,149	11,477
Investments and Cash	645,583	208,893
Other Assets	5,245	12,000
Total Assets	**661,977**	**232,370**
Net Assets	**629,225**	**213,984**

Source: Draft SII Balance Sheets

As with the UK GAAP balance sheet, the significant change in investment values is due to the contribution of the shares of the Transferring Companies from AGM to AGE. AGE is very well capitalised on a Solvency II basis. There are limited reinsurance assets since there are currently no reserved claims, though there is large reinsurance protection should a claim occur. The Technical Provisions are negative because the expected claims on current policies and operating expenses is less than the future expected premiums.

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Assured Guaranty (UK) plc ('AGUK')

3.7 AGUK has been in run-off since 2010. AGUK was placed into run-off by the Board of Directors following Assured Guaranty's acquisition of AGE. Since the business of AGUK duplicated that of AGE, and AGE had a larger portfolio of business, it was determined to place AGUK into run-off and to write new business through AGE. AGUK's portfolio of financial guarantees includes guarantees for public finance, infrastructure finance and structured finance obligations.

3.8 AGUK is authorised by the PRA, and regulated by the PRA and the FCA.

3.9 AGUK currently cedes 90% of the outstanding policies through a quota share reinsurance arrangement with AGC. In addition to this quota share reinsurance, AGUK has additional reinsurance and risk sharing arrangements which are discussed in more detail in sections 3.32 and 3.35.

3.10 The table below provides an overview of the annual financial performance of AGUK from 31 December 2014 to 2017 on a UK GAAP basis.

AGUK (£000's)	AGE basis 2017	AGE basis 2016	2017	2016	2015	2014
Net Earned Premium	N/A	N/A	115	112	181	153
Profit/(Loss) after tax	**N/A**	**N/A**	**10,998**	**3,788**	**(1,937)**	**1,675**
Gross Insurance Liabilities	43,831	179,332	19,347	126,856	129,481	102,816
Other Liabilities	54,811	41,466	29,848	9,004	6,840	7,186
Total Liabilities	**98,642**	**220,798**	**49,195**	**135,860**	**136,321**	**110,002**
Reinsurance Assets	39,449	161,399	17,469	114,227	116,589	92,590
Financial Investments and Cash	115,248	115,336	115,248	115,336	110,003	110,693
Other Assets	58,292	45,553	31,100	9,921	9,565	8,527
Total Assets	**212,989**	**322,288**	**163,817**	**239,484**	**236,157**	**211,810**
Net Assets	**114,347**	**101,490**	**114,622**	**103,624**	**99,836**	**101,808**

Source: Financial Statements and Board Pack. UK GAAP

AGUK reports based on different accounting policies to AGE. I have shown year-end 2016 and 2017 results restated to the same basis as AGE to allow easier comparison between the entities and with the consolidated balance sheet. The two key differences between AGE's and AGUK's accounting policies are (i) the calculation of UPR moved to include all premiums over the life of a policy rather than the shorter time horizon applied previously; and (ii) the discount rate applied changed to reflect the lower yield expected on assets after the Transfers. I discuss these changes in more detail below.

The AGE policy for premium recognition is that the whole expected premium is recognised as 'written' as the contract is underwritten. For single premium policies this will be the full amount of the premium. For policies with instalment premiums an assessment is taken as to how many such instalments are expected to be receivable (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 would be recognised as written. The UPR is then calculated as the proportion of the written premium that relates to future years of exposure, calculated on a time apportioned basis. The key change from AGUK is the recognition of more future years of premium as written (and therefore more unearned premium which counts as a gross insurance liability) than was the case under the old accounting basis.

With regard to discounting, the cashflows to which discounting is applied under the AGE policy are the outstanding claims reserves on defaulted transactions and the unexpired risk reserves on below investment grade credits that have not defaulted. The discount rate applied is taken based on the individual Transfer Company's investment portfolio and is selected to be the lower of the average return over the last five years and the last twelve months.

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AGUK's net assets have been relatively stable over the last number of years. The profitability of the business has been volatile over recent years, driven mainly due to reserve deteriorations on two contracts. Restating the balance sheets of 2016 and 2017 on AGE's accounting policy has caused an increase in both assets and liabilities leading to a net asset figure that is still relatively stable.

The only significant balance movements between 2016 and 2017 are the gross insurance liabilities and reinsurance assets. There are two main reasons behind these movements: firstly, AGUK purchased a holding of the distressed insured Orkney bonds, which were showing as a liability on its balance sheet and hence removed the related liability; and secondly, AGUK reached a legal settlement in respect of those distressed insurance bonds with the asset manager that was managing the assets that backed them. The Orkney bonds were backed by underlying assets that had substantially declined in value – the settlement reached has increased the assets available to back the Orkney bonds and service their debt (which is what AGUK insured). This therefore reduced the potential future claims liability on those bonds.

3.11 The table below provides an overview of the Solvency II balance sheet as at 31 December 2016 and 2017.

AGUK (£000's)	Q4 2017	Q4 2016
Gross Solvency II Best Estimate Liabilities	21,866	124,350
Risk Margin	4,454	12,881
Other Liabilities	9,572	7,108
Total Liabilities	**35,892**	**144,339**
Reinsurance Assets	- 7,601	106,729
Investments and Cash	116,327	116,681
Other Assets	11,047	6,671
Total Assets	**119,772**	**230,081**
Net Assets	**83,880**	**85,742**

Source: SII Balance Sheets

AGUK holds a significant surplus of assets over their liabilities on a Solvency II basis. Reinsurance assets cover about 85% of the gross best estimate technical provisions at Q4 2016, which reflects AGUK's significant reliance on collateralised reinsurance from AGC. The reinsurance assets at Q4 2017 are negative due to a large salvage recovery on the Orkney bonds, of which most has been ceded to AGC. AGUK's reinsurance arrangements are discussed further in section 3.33.

CIFG Europe S.A. ('CIFG EU')

3.12 CIFG EU was acquired by the Assured Guaranty Group in 2016 and has been in runoff since 2010.

3.13 CIFG EU is regulated by the Autorité de contrôle prudentiel et de résolution ("ACPR").

3.14 All of CIFG EU's policies are 100% reinsured to AGC, either through quota share arrangements or 100% Excess of Loss ('XoL') for which the attachment point has already been reached. Other risk sharing arrangements are discussed in more detail in sections 3.32 and 3.36.

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3.15 The table below provides an overview of the annual financial performance of CIFG EU from 31 December 2014 to 2017.

CIFG EU (€000's)	AGE UK GAAP basis					
	2017	2016	2017	2016	2015	2014
Net Earned Premium	N/A	N/A	352	2,240	18	1,475
Profit/(Loss) after tax	**N/A**	**N/A**	**(1,580)**	**(1,005)**	**427**	**1,369**
Gross Insurance Liabilities	4,940	6,500	20,366	18,910	32,115	40,156
Other Liabilities	5,536	5,745	1,643	3,989	1,820	3,295
Total Liabilities	**10,476**	**12,245**	**22,009**	**22,899**	**33,935**	**43,451**
Reinsurance Assets	1,112	1,672	17,741	16,013	28,368	36,466
Financial Investments and Cash	37,606	41,330	38,141	42,218	41,170	41,672
Other Assets	1,825	2,942	516	637	1,371	1,853
Total Assets	**40,542**	**45,943**	**56,397**	**58,868**	**70,909**	**79,991**
Net Assets	**30,066**	**33,698**	**34,388**	**35,968**	**36,974**	**36,540**

Source: Financial Statements. UK GAAP for 2016 and 2017 Balance Sheet, all else French Statutory

CIFG EU reports based on French Statutory accounting rather than UK GAAP. CIFG EU also is subject to the same accounting differences regarding UPR calculation and discounting as described for AGUK in section 3.10. Therefore, I have shown year-end 2016 and 2017 results restated to the same basis as AGE for ease of comparison between the entities and with the consolidated balance sheet.

CIFG EU's net assets have been relatively stable over the last several years, whilst the profits have been quite volatile since the acquisition by the Assured Guaranty Group; as the company is in runoff, the business held is decreasing, while the expenses allocated to the company are not yet reflective of this. As noted above, CIFG EU's accounting policy has slight differences from AGE's. Post-Transfers and FIPT, the combined entity will use AGE's accounting policy. Restating the balance sheets of 2016 and 2017 on AGE's accounting policy has caused a decrease in both assets and liabilities leading to a net asset figure that is still relatively stable.

3.16 The table below provides an overview of the Solvency II balance sheet as at 31 December 2016 and 2017.

CIFG EU (€000's)	Q4 2017	Q4 2016
Gross Solvency II Best Estimate Liabilities	22,105	16,651
Risk Margin	2,147	2,974
Other Liabilities	1,173	2,912
Total Liabilities	**25,424**	**22,537**
Reinsurance Assets	6,746	5,915
Investments and Cash	37,957	41,722
Other Assets	3,532	2,793
Total Assets	**48,235**	**50,430**
Net Assets	**22,811**	**27,892**

Source: Draft SII Balance Sheets

As can be seen, CIFG EU has a significant surplus of assets over its liabilities, and I note that a considerable portion of those assets are 'Investments and Cash'.

Assured Guaranty (London) plc ('AGLN') (formerly MBIA UK Insurance Limited)

3.17 AGC acquired MBIA UK Insurance Limited ('MBIA UK') in January 2017. MBIA UK subsequently changed its name to, and is now operating as, Assured Guaranty (London) plc.

3.18 AGLN is authorised by the PRA, and regulated by the PRA and the FCA.

3.19 AGLN cedes a small amount on a number of policies to AGC and/or Assured Guaranty Re Ltd. ('AG Re'), although the aggregate ceded portion is no larger than 5.4% on any

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policy. Risk sharing and reinsurance arrangements are discussed in more detail in sections 3.32 and 3.35.

3.20 The table below provides an overview of the annual financial performance of AGLN from 31 December 2014 to 2017. For 2016 and 2017 I show the financial information as displayed in the AGLN financial statements, and I also show the results restated such that they are on the same basis as the AGE results.

AGLN (£000's)	AGE basis 2017	AGE basis 2016	2017	Restated 2016	2015	2014
Net Earned Premium	N/A	N/A	23,474	17,977	15,756	18,794
Profit/(Loss) after tax	**N/A**	**N/A**	**18,723**	**21,543**	**3,624**	**28,408**
Gross Insurance Liabilities	298,469	327,179	270,976	292,893	425,330	479,898
Other Liabilities	18,778	27,677	17,947	26,775	13,774	21,533
Total Liabilities	**317,247**	**354,856**	**288,923**	**319,668**	**439,104**	**501,431**
Reinsurance Assets	5,675	6,217	5,238	5,678	8,698	9,807
Financial Investments and Cash	436,360	436,014	436,360	436,014	400,170	400,717
Other Assets	248,029	266,690	219,479	231,407	243,254	316,784
Total Assets	**690,064**	**708,921**	**661,077**	**673,099**	**652,122**	**727,308**
Net Assets	**372,817**	**354,065**	**372,154**	**353,431**	**213,018**	**225,877**

Source: Financial Statements. UK GAAP

At 1 January 2017 AGLN changed some of its accounting policies to be in line with those used for AGE. The key change to impact the accounts is that AGLN had previously taken a different approach to the earning of premium. By changing the premium earning policy to be in line with AGE, the earning of a significant portion of premium was in theory brought forward, though I note that the change was a retrospective one and so once happened, deemed to have always been in place. I note that some differences in accounting policy still remain; the key one being that AGLN discounts all premium-related balances. In accordance with UK GAAP, for the 2017 audited accounts, the 2016 position was restated to allow for retrospective application of the new accounting methodology. For avoidance of doubt, it is this restated information I show above. So in the table above the two right-hand columns show the numbers from the AGLN 2014 and 2015 accounts on their old accounting policy (before the change to premium earning profile) and the middle two columns show the AGLN 2017 and 2016 numbers on the new accounting policy.

In the two left-hand columns I have shown year-end 2016 and 2017 AGLN results restated to completely the same basis as AGE for ease of comparison between the entities and with the consolidated balance sheet in the rest of this report. Restating the 2017 balance sheet on AGE's accounting policy causes an increase in assets and liabilities due to the lack of discounting, however the net asset figure remains similar.

AGLN shows a stable level of earned premiums over the period considered, however the post-tax profit is more volatile. This volatility is caused by significant movements in gross insurance liabilities over the period. This insurance liability volatility was partly a result of management actions to improve the company's credit portfolio, and so is not expected to continue in the future. This gross insurance liability volatility has a large impact on the profit due to the limited ceding of risks.

3.21 The table below provides an overview of the Solvency II balance sheet as at 31 December 2016 and 2017.

AGLN (£000's)	Q4 2017	Q4 2016
Gross Solvency II Best Estimate Liabilities	(113,033)	(55,999)
Risk Margin	229,217	133,838
Other Liabilities	11,970	15,942
Total Liabilities	**128,155**	**93,780**
Reinsurance Assets	(2,266)	(3,149)
Investments and Cash	440,050	439,166
Other Assets	12,514	185
Total Assets	**450,299**	**436,202**
Net Assets	**322,143**	**342,422**

Source: Draft SII Balance Sheets

As can be seen, AGLN has larger net assets than the other Transfer Companies. This is due to the limited use of reinsurance in AGLN as discussed in section 3.35, which generates a higher capital requirement for AGLN currently.

Insurance business of the Transfer Companies

3.22 As a consequence of the Transfers and the FIPT, the insurance obligations and certain other assets and liabilities of the Transferors will transfer to AGE.

The table below shows comparative metrics for the Transfer Companies. Open claims information is provided in order to give an indication of the outstanding claim volumes transferring to AGE.

Transfer Companies' Business Profile as at 31 December 2017 (£000s)				
	AGE	**AGUK**	**CIFG EU**	**AGLN**
Gross Claims Outstanding	-	20,039	-	-
Net Claims Outstanding	-	2,004	-	-
Reserved credits (number of)	0	1	0	0
In-force Policies (number of)	157	7	14	66

Source: Assured Guaranty management and UK GAAP management accounts

Using the data at the latest date available (noted above) as an estimate, at the time of the Transfers it is forecast that there will be roughly 87 unexpired in-force policies transferring to AGE.

3.23 Business written by AGE

AGE's portfolio consists only of financial guarantee business, predominantly for infrastructure finance transactions, with limited exposure to mortgage backed securities, public finance projects and other structured finance transactions.

These types of liabilities are discussed in more detail in 3.28.

3.24 Business written by AGUK

AGUK no longer writes any new business, as it is in run-off. However it continues to show newly written premiums in its financial statements due to long-term transactions which were closed in prior periods.

AGUK has written only financial guarantee business, which include coverage of insurance securitisations, trust preferred securities and public finance projects such as utilities and hospitals amongst others.

These types of liabilities are discussed in more detail in 3.28.

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3.25 Business written by CIFG EU

CIFG EU no longer writes any new business, as it is in run-off. However, it continues to show newly written premiums in its financial statements due to long-term transactions which were closed in prior periods.

CIFG EU has written only financial guarantee business, which includes public finance projects such as utilities.

3.26 Business written by AGLN

AGLN no longer writes any new business, as it is in run-off. However, it continues to show newly written premiums in its financial statements due to long-term transactions which were closed in prior periods.

AGLN has written only financial guarantee business, which includes coverage of mortgage backed securities and public finance projects such as utilities, transportation and hospitals amongst others.

3.27 Financial guarantee insurance

The Transfer Companies have exposure only to financial guarantee business. Financial guarantee insurance is a product used to enhance the security of financial instruments such as bonds or other forms of indebtedness issued by a public authority, a company or special purpose entity, to the benefit of the holder of the financial instrument. In exchange for a premium paid either at the time of issue or in instalments over the life of the policy (or a combination thereof), financial guarantee insurance policies typically provide unconditional and irrevocable guarantees to the holder of an insured debt obligation of full and timely payment of insured principal and interest when due. In the event of a default under the debt obligation, which triggers payout under a financial guarantee, the insurer generally has recourse against the issuer and/or any related security or collateral (which is more common in the case of insured asset-backed obligations or other non-municipal debt) for amounts paid under the terms of the policy. In the case of municipal debt this may take the form of security over future tax receipts or special revenues (for example, toll road collections).

- There are a number of different types of obligations covered by financial guarantee insurance:
- Public finance projects may be financed by the issuance of securities. There is a wide variety of projects funded this way, including bridges, hospital and power plants. The issuer of the securities then pays principal and interest from the cashflows generated by the project or taxpayer funding.
- Mortgage backed securities are securities issued by special purpose vehicles to investors. The special purpose vehicle then uses the funds to purchase a large pool of assets such as mortgages or vehicle loans for example. The issuer of the securities then pays principal and interest to investors from the cashflows received from the loans.
- Insurance securitisation is also in the form of securities issued by special purpose vehicles to investors; these are set up by the insurer and typically take the form of offshore reinsurers. The cashflows from the securities would be based on the cashflows from the selected insurance policies, or parts of insurance policies, underlying them.
- Trust preferred securities are issued by trusts which have been set up by banks. They have characteristics of both equity and debt and are issued to gain capital, accounting and tax advantages.

The table below summarises the different types of underlying obligations guaranteed by each Transfer Company as at 31 December 2017.

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Number of credits of each type of Financial Guarantee insurance held	Public Finance	Insurance Securitisation	Mortgage Backed Securities	Trust Preferred Securities
AGUK	5	2	-	-
AGE	152	-	5	-
AGLN	64	-	2	-
CIFG EU	11	-	2	1

Source: Assured Guaranty management and UK GAAP management accounts

3.28 Risks of financial guarantee business

The nature of financial guarantee insurance means that the policies are usually multi-year as they cover the credit risk on transactions for many years into the future. This makes the reserving and capital setting for these policies more difficult than for some other business lines, due to the increased uncertainty of selecting assumptions over a significant period of time. This may lead to greater volatility in the performance of the business.

Financial guarantee insurance can be exposed to significant correlations between the experiences on different policies. This is due to the possibility of widespread default of debtors in the event of severe recession or financial crisis. Many of the policies written by the Transfer Companies are in respect of issuers, which are public bodies or otherwise exposed to local or national governments; this may increase the impact of political risks on the business performance.

The Transfers do not lead to any of the Transfer Companies being exposed to any material key risks to which they are not already exposed.

Outwards reinsurance programmes

3.29 The Transfer Companies make limited use of reinsurance with reinsurance companies external to the Assured Guaranty Group. Prior to 2009, AGE typically ceded a portion of its business to external reinsurers including AGC, Assured Guaranty Reinsurance Overseas Ltd ('AGRO') and AG Re, which were unaffiliated with AGE prior to 2009. Following AGE's acquisition by the Assured Guaranty group in 2009, AGC, AGRO and AG Re became affiliates of AGE. On 1 February 2018 the final reinsurance policy to AGRO was terminated, so AGE no longer has counterparty exposure to AGRO. Measured by principal outstanding at 31 December 2017, AGE retains 2% of the business it originated in the 2009 and prior years. It reinsures 3% of such business with unaffiliated reinsurers and reinsures the following percentages of such business with affiliates: 73% to AGM, 18% to AG Re and 4% to AGC. Most of AGE's reinsurance of its 2009 and prior year business is on a quota share basis; a small portion of such reinsurance is first loss or excess of loss reinsurance.

Aside from the reinsurance on pre-2009 AGE policies, the Transfer Companies have no other reinsurance arrangements with companies external to the Assured Guaranty Group. However there are significant intragroup reinsurance arrangements which are discussed in 3.32 below.

Prudential capital requirements

3.30 The Transfer Companies are currently subject to a prudential capital regime which requires them to meet a solvency capital requirement calibrated to ensure that policyholders are secure at the 99.5% confidence level of potential future liability outcomes over a single year.

This is part of an EU wide regulatory regime for insurance companies known as 'Solvency II', which was introduced with effect from 1 January 2016.

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Other key requirements of this regime are as follows:

- Insurance entities must calculate their Solvency II capital requirement either using a complex set of rules specified in EU legislation (the 'Standard Formula'), or, subject to the approval of their regulator, using an internally developed economic capital model (an 'Internal Model'). In either case, the determinants of the solvency capital requirement relate to the nature of the risks within the regulated entity, including market related investment risk, insurance risk arising from new business or existing liabilities, and other business risks including credit risk and operational risk.
- To use the Internal Model method, entities must complete a lengthy approval process with the regulator.
- The Transfer Companies currently use the Standard Formula to calculate their respective SCR, though AGE and AGUK have gone some way towards the development of an internal model which estimates capital requirements that are materially similar to the Standard Formula estimate when considering a one-year time horizon, as per the Solvency II requirement. Prior to its acquisition by Assured Guaranty, AGLN used an approved internal model.
- Regulatory capital requirements are defined in terms of a Solvency Capital Requirement ('SCR') and a Minimum Capital Requirement ('MCR'). The requirements are calculated based on a complex formula based on the technical provisions, written premiums, reinsurance, deferred tax and administrative expenses.
- The method with which insurance entity balance sheets and the definition of capital are calculated for regulatory purposes is now based on largely economic measures of assets and liabilities, rather than accounting based measures.
- A range of minimum standards relating to insurance entity governance and disclosure have been introduced (known as 'Pillar II' and 'Pillar III'), including a requirement to perform and document an 'Own Risk and Solvency Assessment' or 'ORSA'.
- If an insurer's available resources fall below the SCR, then supervisors are required to take action with the aim of restoring the insurer's finances back to the level of the SCR as soon as possible. If, however, the financial situation of the insurer continues to deteriorate, then the level of supervisory intervention will be progressively intensified. The aim of this 'supervisory ladder' of intervention is to identify any ailing insurers before a serious threat to policyholders' interests is realised. If, despite supervisory intervention, the available resources of the insurer fall below the MCR, then 'ultimate supervisory action' will be triggered. This means that the insurer's liabilities could be transferred to another insurer, the licence of the insurer withdrawn, the insurer closed to new business and its in-force business liquidated.

I note that:

- I have reviewed the Solvency II Standard Formula calculations of the Transfer Companies to compare the relative difference in policyholder positions before and after the Transfers. The appropriateness of this approach and more detailed description of this analysis can be found in sections 5.12 to 5.14 below.
- The previous regulatory regime provided for the calculation of capital requirements for a company's risk until those risks are expired rather than over a one-year time horizon. The Transfer Companies believe that this is a more appropriate measure of capital given the multi-year nature of the policies written, and so use an internal capital model (referred to as the 'Economic Capital Model' or 'ECM') calibrated to the lifetime of the policies for internal management purposes. As this model considers all of the risks to the Transfer Companies to expiry it produces higher capital requirements than the Standard Formula assessment for each of the Transfer Companies.
- Given that the businesses are managed using the ECM, but also calculate the Standard Formula for regulatory purposes I have considered both of these measures in my analysis as to the impact of the Transfers on policyholder security.
- The results of the ECM are not in the public domain. Given that the Transfer Companies are part of a listed group I have not included the results of these calculations in this report, but discuss their relativities before and after the Transfers and the manner of

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their changes, before forming my conclusions. I have shown the results of the Standard Formula models as these are published.

— I have considered the stress tests which have been run on the ECM included within the ORSAs produced by each of the Transfer Companies in determining the stress-tests to apply when considering the policyholder security for each group in section 6 below.

Guarantees/risk sharing arrangements

There are significant intragroup reinsurance arrangements for the Transfer Companies. I have set out below the arrangements for each Transfer Company in turn. I have discussed the changes that will affect the policies of each Transfer Company in sections 4.14 – 4.17.

3.31 AGE

As discussed in section 3.30, AGE policies typically have a portion ceded to external reinsurers, or to internal reinsurers such as AGC or AG Re. For policies written in 2009 and after, none of the risk has been ceded to external reinsurers.

Of the amount not ceded pursuant to the arrangements described above, approximately 92% has been ceded to AGE's parent AGM via a quota share agreement. The particular amount ceded per transaction varies depending on the year that the relevant policy was written, and was determined according to a formula based on the relative capitalisation of AGE and AGM as determined each year.

In addition, AGE currently has an XoL contract with AGM which covers 100% of losses that are in excess of the difference between AGE's capital resources and 110% of AGE's most restrictive regulatory capital requirement. In effect, this means that the amount of any losses which will take AGE below 110% of this regulatory capital requirement will be paid by AGM.

AGM has provided collateral to support its obligations under the quota share and XoL reinsurance arrangements, so that in the unlikely event of the intragroup reinsurance default of AGM, the collateral will continue to protect policyholders.

There is also parental support in place in the form of a Net Worth Maintenance Agreement, which guarantees that if AGE's capital resources fall below 110% of the most restrictive regulatory capital requirement, then AGM will provide additional capital. This can be offset by any additional funds which are 'reasonably expected to be paid in due course' by AGM under the quota share or XoL contracts. This agreement includes a restriction that the contribution from AGM cannot exceed 35% of AGM's policyholders' surplus. Additionally, any contributions over a certain size require notice and/or approval of the New York Department for Financial Services.

3.32 AGUK

AGUK has a collateralised 90% quota share reinsurance contract with AGC for each of AGUK's 7 outstanding policies.

Additionally, AGC also provides AGUK with a collateralised XoL reinsurance that pays any claims and loss adjustment expenses in the event that AGUK's net worth has fallen below 110% of the PRA's most restrictive capital requirement.

AGC also has issued a second-to-pay financial guarantee to each of the holders of AGUK's financial guarantees, meaning that in the event that AGUK defaults on any claims from policyholders then AGC will pay the claim.

Finally, AGUK has parental support from AGC in the form of a Net Worth Maintenance Agreement, which is substantially the same as the agreement that AGE has with AGM, except without any of the restrictions on the amount that AGC can contribute.

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3.33 CIFG EU

CIFG EU has 2 outstanding policies which are 100% reinsured on a facultative basis by AGC. The remaining 12 policies are 100% reinsured by an XoL agreement with AGC, which has an attachment point which has already been reached. As a result of these agreements, all claims are 100% reinsured to AGC.

Additionally, AGC has issued a second-to-pay policy for each of CIFG EU's outstanding policies, meaning that in the event that CIFG EU defaults on any claims from policyholders then AGC will pay the claim instead.

Finally, CIFG EU has a letter of support from AGC which confirms that AGC will maintain statutory capital and surplus at all times in excess of €20 million.

3.34 AGLN

The reinsurance in place for AGLN is significantly more limited than for the other Transfer Companies.

For policies written between 1995 and 2003, there are small (less than 5.4%) quota share cessions on 28 policies to AGC as well as small (less than 2%) quota share cessions on seven policies to AG Re. AGC's and AG Re's combined quota share percentages do not exceed 5.4% on any one policy. There is no collateral in place on these reinsurance policies. There is no other internal or external reinsurance in place for AGLN policies.

There are currently no parental support arrangements in place for AGLN.

Pension Scheme Obligations

3.35 None of the Transfer Companies have any employees, with all services provided via AGSL, and consequently the companies have no on-going pension obligations. Similarly, none of the Transfer Companies have any obligations to legacy pension schemes.

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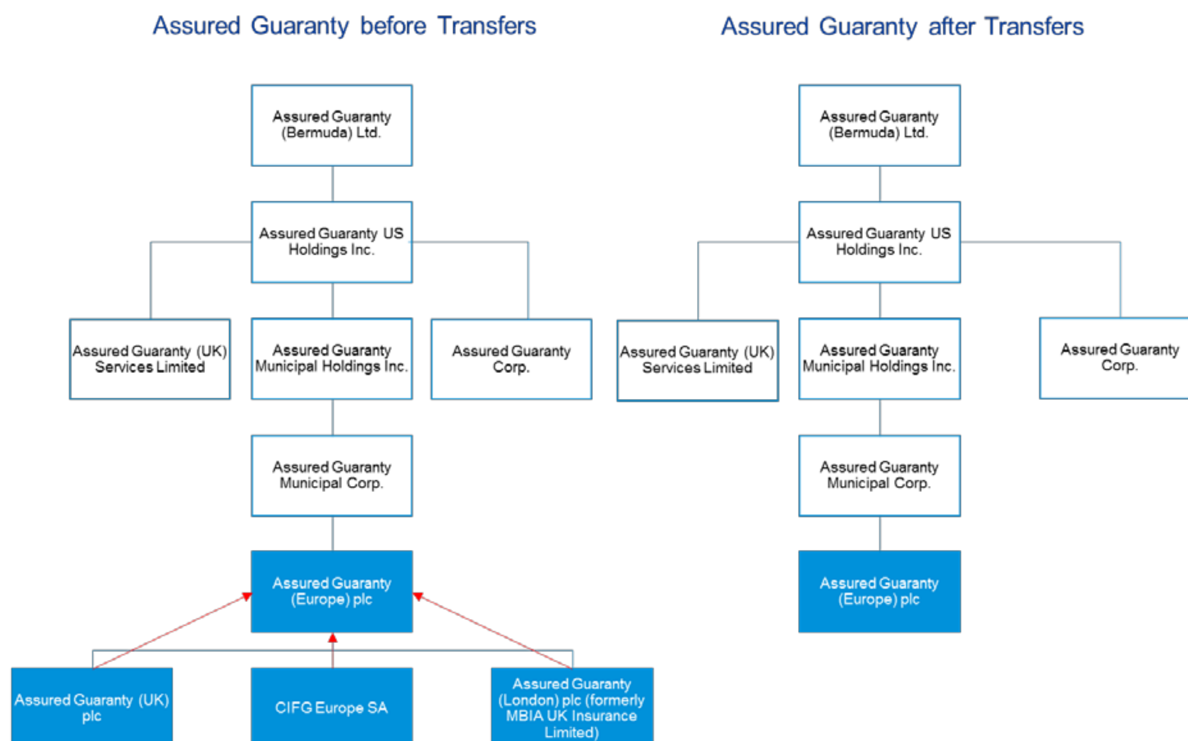
4 Effects of the Transfers

Effect of the Transfers on group structure

4.1 As a consequence of the Transfers the insurance obligations and the other assets and liabilities of the Transferors will transfer to AGE.

The structure charts below show the relevant entities in the group structure before and after the Transfers highlighting in blue which entities will retain insurance liabilities after the Transfers.



Effect of the Transfers on Transfer Company balance sheets

4.2 I have carried out my analyses based on figures as at 31 December 2017, for the purposes of this Report, however I will update the analyses to a date nearer the final hearing in a supplemental report when updated figures are available.

4.3 Note that I have opted to consider financial results as at 31 December 2017, and that where relevant I have used results restated to the same UK GAAP basis as AGE. This is to allow for the greatest comparability, and includes the impact of changes during 2017, such as the transfer of Orkney bonds to AGUK and the change of the ownership of the Transferees to AGE.

4.4 All of the companies' figures are reported on a UK GAAP basis and the Transfer Companies will implement a common accounting policy, that of AGE's, after the Transfers. AGLN has adopted AGE's premium earnings accounting policy in advance of the Transfers, with the exception of unwinding the discount on future instalment premiums, and 2016 figures for CIFG EU and AGUK have been restated using the AGE approach for the purposes of this Report.

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4.5 The table below illustrates the UK GAAP financial position of the Transfer Companies following the Transfers based on the financial position of the Transfer Companies at 31 December 2017, assuming that all assets and liabilities at that date were to transfer to AGE. I note that the pre-Transfers AGE figures are slightly different from those in the table in section 3.4 as they have been adjusted to reflect a discount rate representing the whole combined group's investment return (that is, one based on the combined portfolio of investments from AGE, AGUK, CIFG EU and AGLN, as opposed to just the AGE solo portfolio):

UK GAAP Balance Sheet As At 31 December 2017 £000s	AGE (pre-Transfers)	AGUK	CIFG EU	AGLN	AGE (post-Transfers)
Assets					
Financial Investments	188,273	111,107	31,654	433,275	764,309
Cash	32,101	4,141	1,755	3,085	41,082
Reinsurer's Share of UPR	439,346	19,988	884	5,640	465,858
Reinsurer's Share of Claims	-	18,035	-	-	18,035
Reinsurer's Share of other TPs	16,184	1,426	104	35	17,749
Insurance Debtors	227,886	46,678	1,259	234,971	510,794
Deferred Tax	10	12	-	1,221	-
Deferred Acquisition Costs	25,382	248	-	6,465	32,095
Investments in group undertakings	322,880	-	-	-	-
Other Assets	66,586	11,354	362	5,372	83,674
Total Assets	1,318,648	212,989	36,018	690,064	1,933,596
Liabilities					
Unearned Premium Reserve	395,683	22,208	4,285	291,160	713,336
Outstanding claims	-	20,039	-	-	20,039
Other Technical Provisions	16,433	1,584	104	7,309	25,430
Reinsurance Creditors	213,252	42,432	122	4,822	260,628
Other Creditors	9,309	4,196	-	12,065	25,570
Deferred Reinsurance Commission	129,960	7,995	152	1,752	139,859
Other Liabilities	178	188	4,644	139	3,906
Total Liabilities	764,815	98,642	9,307	317,247	1,188,768
Net Assets	553,833	114,347	26,711	372,817	744,828

Source: Financial statements. UK GAAP

Deferred reinsurance commission is the commission earned from affiliated and unaffiliated reinsurers on reinsurance premiums ceded. It is earned as the ceded premium is expensed.

4.6 There is an allowance in the post-Transfers AGE figures for the removal of deferred tax from the individual entities. This is removed from both the assets ("Deferred Tax" line) and liabilities ("Other Liabilities" line).

4.7 I note that the figures above allow for Unearned Premium Reserve and related items on an undiscounted basis.

4.8 The table below illustrates the Solvency II financial position of the Transfer Companies following the Transfers based on the Solvency II balance sheet of the Transfer Companies at 31 December 2017, assuming that all assets and liabilities at that date had transferred:

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As at 31 December 2017 (£000's)	AGE (pre-Transfers)	AGUK	CIFG EU	AGLN	AGE (post-Transfers)
Assets					
Investments and Cash	645,583	116,327	33,721	440,050	813,185
Government Bonds	136,471	48,936	17,094	309,244	511,745
Corporate Bonds	54,515	20,272	12,932	127,371	215,091
Collateralised Securities	-	42,977	1,939	350	45,266
Collective Investment Undertakings	18,501	2,428	-	-	20,929
Cash and cash equivalents	13,600	1,713	1,756	3,085	20,154
Holdings in related undertakings	422,495	-	-	-	-
Reinsurer's Share of Provisions	11,149	(7,601)	5,993	(2,266)	7,274
Other Assets	5,245	11,047	3,138	12,514	31,513
Total Assets	661,977	119,772	42,852	450,299	851,972
Liabilities					
Gross Solvency II Best Estimate Liabilities	(7,788)	21,866	19,638	(113,033)	(79,317)
Risk Margin	10,552	4,454	1,907	229,217	246,131
Reinsurance Payables	4,753	5,123	4	6	9,886
Other Liabilities	25,234	4,450	1,038	11,964	27,555
Total Liabilities	32,751	35,892	22,587	128,155	204,256
Net Asset Surplus	629,225	83,880	20,265	322,143	647,717

Source: SII Balance Sheets

4.9 Note that the AGE asset labelled "holdings in related undertakings" is extinguished as part of the Transfers, because this represents the value of shares of the Transferring Companies that AGE holds.

Cost and tax impact of the Transfers

4.10 I have received confirmation from the management of the Transfer Companies that no significant tax liabilities will be realised as the result of the Transfers and CBM, following advice from independent advisers.

I understand that most costs associated with the Transfers will be incurred whether or not the Transfers proceed, as the majority of these costs relate to activities occurring prior to the sanction hearing (for example, with respect to legal fees and policyholder communications). Therefore I identify no significant additional costs arising from the implementation of the Transfers. The Transfer Companies, AGM, and AGC will meet these costs in any case.

Outwards reinsurance

4.11 As stated in section 3.30 the Transfer Companies make limited use of reinsurance with companies external to the Assured Guaranty Group. However, for policies written by AGE prior to 2009, there is typically a portion ceded to reinsurers external to the Assured Guaranty Group.

In a Part VII transfer where outwards reinsurance is being transferred, there is a risk that non-group reinsurers of the Transfer Companies whose contracts are not governed by English Law may not recognise the Transfers and decline payment of future reinsurance recoveries. However, reinsurance policies originally purchased by AGE will not be transferring, and so there is no such risk for these protections. The Assured Guaranty Companies have confirmed that they will recognise the Transfers in any case.

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There are no non-group reinsurance arrangements in place for AGUK, CIFG EU and AGLN.

Dividends and capital structure

4.12 Any surplus assets in the Transferors, being assets in excess of the transfer of reserves, will be passed to AGE as part of the CBM. As AGE already owns the Transferors, their value is already recognised as an asset on its balance sheet. However, as a consequence of the Transfers the total assets of AGE that are immediately available to pay claims will increase to reflect the combined resources of the Transfer Companies. Using AGE's ECM basis, this will result in an increase in both available and excess capital for AGE after the Transfers.

Guarantees/risk sharing arrangements

4.13 The current intragroup reinsurance arrangements have been discussed above in sections 3.32 – 3.35. Below I discuss the changes that will be made to these as a result of the Transfers. For the avoidance of doubt, I note that when considering the security of the Transfer Companies, I have not taken credit in my analysis for any additional collateral over and above that already posted, thus taking a prudent view. I also note that the Transfer Companies' ECM does not allow for the possibility of the posting of additional collateral in a stress scenario.

4.14 AGE

All of the reinsurance and parental support arrangements for current AGE policyholders will remain in place after the Transfers. Although there will be no changes to the contracts themselves, there will be a significantly higher number of policies that will be covered by the XoL contract and AGM parental support. The current AGE collateral policy with AGM will be expanded to cover the transferring policies and to apply to both AGC and AGM. The methodology for the amount of collateral that must be posted will also be updated. This is currently a formula based on the ECM capital requirement and the claims exposure to intragroup reinsurance. It will move to a formula based on a percentage of UK GAAP ceded premium and reserves. I note that this methodology has been discussed with the PRA and the New York State Department of Financial Services and the Maryland Insurance Administration.

4.15 AGUK

AGC's 90% quota share coverage that is in place with AGUK will be continued for AGE for the transferring policies, including the collateral arrangements which cover this, for which the methodology will be updated as described above.

The XoL reinsurance cover that AGUK currently has with AGC will be terminated and the transferring policies will instead be covered by the substantially similar agreement that AGE currently has in place with AGM. Therefore the only difference will be the counterparty to the reinsurance contract. I have investigated the relative merits of these two counterparties and discuss my conclusions in section 4.18.

The second-to-pay financial guarantee that AGUK policyholders have from AGC will be unaffected by the Transfers.

Finally, the Net Worth Maintenance Agreement that AGUK has with AGC will be terminated as the policies will instead be covered by the similar Net Worth Maintenance Agreement that AGE currently has with AGM.

4.16 CIFG EU

The facultative policies that CIFG EU has with AGC, which provide 100% cover to two policies, will be continued for AGE following the Transfers. Similarly, the 100% XoL reinsurance which covers the remaining 12 policies will also continue for AGE after the Transfers.

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The second-to-pay policy between CIFG EU policyholders and AGC will also be unaffected by the Transfers.

As part of the Transfers, the letter of support from AGC will be terminated and replaced by AGE's Net Worth Maintenance Agreement and XoL reinsurance agreement from AGM. The AGE/AGM Net Worth Maintenance Agreement will provide stronger support than AGC's existing letter of support for CIFG EU in that the latter only obligates AGC to maintain CIFG EU's statutory capital and surplus in excess of €20 million, regardless of whether such an amount is viewed as adequate by regulatory authorities overseeing CIFG EU, while the former requires AGM to maintain the capital resources of AGE (which will include the legacy CIFG EU business following the FIPT) at level that is at least 110% of AGE's most restrictive regulatory capital requirement in the UK.

4.17 AGLN

All the current quota share arrangements for AGLN policyholders, which are minimal, will remain in place as a result of the Transfers.

In addition, after the Transfers the AGLN policyholders will also be covered by both the XoL and the Net Worth Maintenance Agreements that AGE currently has in place with AGM.

4.18 Relative security of AGC and AGM

As discussed above, the Transfer Companies currently have a number of intra-group reinsurance and parental support arrangements for which the counterparty will be changing from AGC to AGM. I have been provided with output from the ECM for AGC based on the current AGC capital resources and requirements; as well as output from the ECM for AGM, which includes allowance for the expected capital impact of the Transfers. Since these results are not in the public domain I have not detailed them here. However, I can comment that the ratio of available capital to the capital requirement under the ECM is very high (materially more than double) for both AGM and AGC. As a result of this analysis I can conclude that policyholders of the Transferors are not materially negatively impacted by the change in counterparty for some reinsurance arrangements from AGC to AGM.

Non-financial effect of the Transfers

4.19 I consider here the areas that a policyholder may have considered in their decision to buy a policy with one of the Transfer Companies and have reasonable expectations with regard to service levels on an ongoing basis. In particular I have considered the executive management (in that it sets the tone and culture for engagement) and the regulatory protections that a policyholder benefits from.

4.20 Management teams

The same executive management currently administers the financial guarantee portfolios of each of AGE, AGUK and AGLN. The executive management for these companies following the Transfers will not change. Similarly all three companies have the same non-executive directors, except that AGLN currently has an additional non-executive director. It is intended that this individual be invited to join the Board of AGE post-Transfers, such that the governance arrangements for policyholders of AGE, AGUK, and AGLN will be at least as strong after the Transfers as they are before.

CIFG EU is a French company and therefore currently has a different management and governance structure to the other Transfer Companies. It is currently managed by a Management Board and a Supervisory Board, the members of each of these Boards are executives within the Assured Guaranty Group. Following the FIPT, the portfolio of CIFG EU policies will be managed as part of AGE, meaning that the Board will include a number of non-executive directors. In any case the management and governance of CIFG EU is not changed by the Part VII Transfers that I am considering here.

4.21 Contractual arrangements

The Transfers are to have no impact on contractual terms to insurance policies, other than changing the party to the contract from the Transferor in question to AGE. In addition, I understand that the Transfers are intended to have no impact on contractual terms and arrangements with third parties, other than changing the party to the contract from the Transferor in question to AGE.

For non-EEA policyholders of the UK firms, there should not be any additional issues bringing claims as a result of the Transfers. Each policy of AGUK and AGLN is transferring from a UK company to another UK company under English law. I am not required to give an opinion on the impact of the FIPT on the non-EEA policyholders of CIFG EU.

I understand that there will be no change to policy administration as a result of the Transfers. This is currently handled by personnel provided by AGSL, and this will continue to be the case after the Transfers.

4.22 Regulatory arrangements

AGE, AGUK and AGLN's primary regulators are currently the PRA and the FCA, so there will be no supervisory change for them as a result of the Transfers. CIFG EU is currently regulated by ACPR, but under the same Solvency II regime that applies across all European Union countries. As a result the prudential supervisory regime for CIFG EU policyholders will not be changing, even though the actual regulator will. Conduct regulation will not change as this depends on a policyholder's host state.

4.23 Implications of Brexit and Article 50

On 23 June 2016, the UK held a nationwide referendum which asked the electorate whether they wanted the UK to remain part of or to leave the EU. The referendum resulted in a majority vote to leave the EU, a situation commonly referred to as "Brexit", and the consequences of this vote are still uncertain. The UK formally served notice under Article 50 of the Lisbon Treaty on 29th March 2017 and now enters a negotiation period of up to two years to negotiate on the terms of their exit from the EU.

At the time of this Report there remains much political and economic uncertainty within the UK. Whilst there are many potential consequences (including the stock market and foreign exchange market instability witnessed during June and July of 2016), the one with the most potential to affect the business models of the Transfer Companies is the risk that UK insurance businesses would lose their "passporting rights" to do business across the European single market (and that European insurance businesses could lose their right to trade in the UK).

It is unlikely to be clear what the ultimate position on "passporting" will be before the effective date of these proposed Transfers. However, in the cases of AGE, AGUK, and AGLN each business is currently based in the UK and has at least one EU policyholder. This means that each of these three businesses will have to deal with any issues that emerge around passporting irrespective of whether or not the Part VII Transfers proceed. The transfer of CIFG EU is being carried out under the FIPT, and the Part VII Transfers do not affect the passporting rights of CIFG EU either before or after their completion.

5 Potential impact of Transfers on stakeholders

Overview of analysis performed

5.1 In considering the impact of the proposed Transfers on the security of policyholders, I have considered both the impact of the Transfers on the financial resources available to support policyholders and also a number of non-financial impacts such as how a customer's experience may change as a result of the Transfers. In doing this I have followed a five step approach as outlined below:

(i) I have considered the specific circumstances of each policyholder group.

(ii) I have considered the management and governance framework in place and the future intentions and strategies adopted by Assured Guaranty with respect to the Transfer Companies.

(iii) I have compared the amount of financial resources available to meet policyholder claims in the event the Transfers proceed with the financial resources available if the Transfers do not proceed. I have made this comparison using three alternative measures of financial strength, and considered the change in both the absolute level of financial resources and the change in the ratio of financial resources available to existing liabilities and to insured exposure before and after the Transfers.

(iv) I have compared the position of policyholders before and after the Transfers under a variety of stressed scenarios to consider the ability of the Transfer Companies to deal with adverse scenarios.

(v) Having considered the change in capital available and the potential change in the risks to which the policyholder groups may be exposed, I have performed any further analysis I consider necessary to form an opinion.

My approach to considering the effect of the Transfers on service levels experienced by policyholders has been to determine if a change in service arrangements would occur if the Transfers were to proceed, and to compare any changes with the arrangements that would be in place were the Transfers not to take place.

Identification of policyholder groups

5.2 Policyholder characteristics

I have identified a number of policyholder characteristics that would influence the magnitude of the Transfers' impact on policyholder security. The policyholder characteristics that I have considered include:

— The original Transfer Company that the insurance policy was issued by.

— The nature of the regulatory regime and other policyholder protections which apply before and after the Transfers to different groups of policyholders.

— The length of time that policyholders are likely to continue to receive benefits under the terms of their policies. The time horizon is dependent upon the term of the underlying financial instrument covered under the insurance policy.

— The nature of the business that has issued the securities covered by the policy, as the risk of default will depend on the nature of the business of the issuer and any protection in place to support the issuer.

— The ability of policyholders to access the financial resources of each Transfer Company in the event of them entering administration, rehabilitation or insolvency and how this changes as a result of the Transfers.

— The extent to which policyholders can call upon other mechanisms that protect their financial security, such as intra group support arrangements, and the extent to which capital can be transferred between the Transfer Companies.

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5.3 Reasoning for policyholder groupings

In selecting appropriate groupings of policyholders for my analysis I have considered the following:

- The reinsurance arrangements differ between each of the Transfer Companies, although within each company all policies benefit from substantially similar (if not identical) coverage to each other.
- The policies written by all of the Transfer Companies are of a similar nature, all being financial guarantee insurance. This means that the risk characteristics of the policies themselves are unlikely to affect the impact of the Transfers on the policyholders.
- All policies underwritten by each of the Transfer Companies are direct insurance policies (as opposed to reinsurance of another insurer). In the event of any of the Transfer Companies getting into financial difficulties each direct policyholder ranks equally as a creditor under UK and European Union laws. As such there is no need to further distinguish between subsets of policyholders within any one Transfer Company as a result of the potential risk of getting into financial difficulties in the future.

5.4 Policyholder groupings chosen

Based on my analysis of policyholder characteristics and the fact that there is no practical change in administration or regulation as a result of the Transfers I have identified the following four major policyholder groups affected by the Transfers. These are:

- Current AGE policyholders;
- Existing AGUK policyholders that are transferring to AGE;
- Existing CIFG EU policyholders that will have transferred to AGE under the FIPT; and
- Existing AGLN policyholders that are transferring to AGE.

Future intentions of AGE

5.5 The Transfers are intended to enable Assured Guaranty to manage capital more effectively, gain further diversification effects, and to achieve financial savings through the elimination of costs associated with the duplication of operations within the Transfer Companies. Both regulatory capital requirements and costs have increased as a consequence of the introduction of the new European Solvency II regulatory regime, which was effective from 1 January 2016.

There is no current intention to discontinue or deregister the operations of AGE.

Given the above I identify no adverse impact on policyholders arising from the intentions or motives of Assured Guaranty in proposing the Transfers.

Governance and management framework

5.6 Management framework

There will be no changes to the management framework for AGE, AGUK and AGLN.

A consequence of the Transfers will be a reduction in the quantity of financial and regulatory reporting required due to the elimination of these requirements for the Transferors, and routine changes required to align financial and regulatory reporting of the transferred business in AGE.

CIFG EU policyholders transfer under the FIPT and not the Transfers so there is no change in management for them as a consequence of the Transfers.

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5.7 Governance framework

Each of AGUK, AGE and AGLN have the same governance structure and board of directors, except that AGLN has one additional non-executive director. CIFG EU policyholders transfer under the FIPT and not the Transfers so there is no change in governance for them as a consequence of the Transfers. Therefore there will be no material change in governance framework for any policyholder as a consequence of the Transfers.

Claims and policy administration

5.8 Claims and policy administration

The claims and policy administration for each of the Transfer Companies is currently undertaken by personnel provided by AGSL. After the Transfers this will continue to be the case.

Therefore there will be no anticipated impact on policyholders with regard to claims administration.

Impact of changes in regulatory regime and jurisdiction

5.9 Change in regulatory regime and jurisdiction

As noted in section 4.22, there is no material change to any of the regulatory arrangements for AGE, AGUK and AGLN as a result of the Transfers. Therefore I do not identify any adverse impact caused by changes in the regulatory regime on any group of policyholders as a consequence of the Transfers.

CIFG EU policyholders do see a change in regulators from the ACPR to the PRA and FCA, but as a consequence of the FIPT and not the Transfers. As I note in section 4.22, the Solvency II regime applies equally in the UK and France, so there should be no impact on the prudential regulatory environment for CIFG EU policyholders in any case, and conduct regulation does not change.

Financial and economic information considered

5.10 Consideration of the nature of assets available to meet policyholder obligations

In assessing the impact of the Transfers, I have considered the nature of assets within each Transfer Company before and after the Transfers occur. None of the Transfer Companies hold any equities. The assets of each Transfer Company can be classified into three broad categories.

- Investments and cash – Financial investments held by the Transfer Companies are predominantly held in cash and bonds.
- Reinsurance share of provisions – Subject to the specific terms of the relevant reinsurance contracts, reinsurance assets have the capacity to absorb losses arising from the underlying reinsured insurance liabilities, thereby reducing financial risk. The nature and level of utilisation of such arrangements is in line with my expectations for all Transfer Companies.
- Other assets – Other balance sheet assets include sundry assets arising in the normal course of business such as tax assets, accounts receivable from intermediaries and suppliers, and intercompany balances due from other members of the Assured Guaranty Group largely arising as a consequence of recharges of expenses between group companies. These balances are in line with my expectations for a business of this nature.

I do not identify any matter arising from balance sheet assets held by the Transfer Companies that would cause me to perform specific further additional analysis.

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5.11 Valuation of insurance liabilities

The processes and methodology used in the valuation of insurance liabilities is already consistent across the Transfer Companies, and there are no plans to change this as a result of the Transfers. There is in fact only one credit currently reserved for across the four companies.

Consideration of capital and risk

5.12 Measures of capital

In considering regulatory capital requirements, I have considered the value of each Transfer Company's net assets compared with the risk that each Transfer Company is exposed to by reference to the Standard Formula SCR for each company. This is the only public measure which is available for all Transfer Companies and as such is a consistent comparison. I have reviewed the Standard Formula estimates as at 31 December 2017 for AGE, AGUK, CIFG EU and AGLN for comparison purposes.

These estimates compare in principle the value of each legal entity's economic resources with the Transfer Companies' estimates of the amount of capital required to ensure that policyholders are secure at the 99.5% confidence level under the Solvency II regime. The risks considered in these estimates include:

- The ultimate potential insurance liabilities;
- Potential losses from investments;
- Potential losses arising from new underwriting exposure over the following year;
- Potential losses arising from the failure of third parties to which each legal entity has exposure; and
- Potential losses arising from operational risks.

None of the Transfer Companies have chosen to use an Internal Model for setting the SCR under Solvency II at present. AGE was a substantial way through the approval process to use an Internal Model, but this was terminated due to the expectation of limited modelling benefits as the Internal Model gave a materially similar capital requirement to the Standard Formula. AGLN previously used an Internal Model but no longer does.

The Standard Formula or a Solvency II internal model is calibrated to a one year measure of risk, meaning that it intends to capture the scenarios expected to occur in the next year. However, the majority of policies written by the Transfer Companies are multi-year, meaning that the level of risk over the term of the contracts may not be fully captured by the model.

Notwithstanding that the risk profiles of the Transfer Companies are not going to be perfectly captured through use of the Standard Formula, I believe that the Standard Formula appropriately demonstrates the relative change in policyholder security before and after the Transfers to support my opinion within this report, and furthermore does so consistently across the Transfer Companies.

Whilst I have not performed any detailed verification of the calculations performed by the Transfer Companies using the Standard Formula, I note that the results of these calculations were audited in 2016 as part of the audit of the Solvency and Financial Condition Report ('SFCR') and have not changed materially for 2017. Therefore, I am comfortable relying on these calculations for my work.

I have also considered the results generated from the Transfer Companies' ECM, as these allow a different view on the capital requirements of the Transfer Companies and allows for more tailored modelling of the impact of stress scenarios. A key difference between the ECM and the Standard Formula SCR is that the ECM models the capital requirements until the expiry of all of the policies written by the Transfer Companies, rather than just over a one-year period. As the policies provided by the Transfer Companies have long durations, the ECM produces a more demanding set of capital

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requirements than the Standard Formula approach, albeit compared with a correspondingly different calculation of economic capital resources rather than a Solvency II balance sheet which is discussed below. The ECM also models credit and counterparty default risks together rather than estimating them separately with the Standard Formula; the nature of the Transfer Companies' business means that credit and counterparty default risks are quite correlated, and the ECM therefore provides more insight into the real underlying capital requirements for the Transfer Companies. Given these differences I have repeated each of my calculations carried out on the Standard Formula measures on the ECM modelled results as well, and considered both in forming my conclusions.

The capital resources under the ECM and Standard Formula bases differ in a few ways. Firstly, since the ECM accounts for all risk until the run-off of all policies, it does not require a risk margin to be deducted from the ECM capital resource because there would be no incremental risk beyond the ECM horizon, unlike Solvency II, which has only a one year horizon. Also, under Solvency II expected losses and expenses are included within the technical provisions and so reduce the capital resources to cover the capital requirement, whereas under the ECM the expected losses and expenses instead act to increase the capital requirement rather than decreasing the capital resources. Whilst these bases are both internally consistent, I have separately conducted analysis where I have compared the ECM capital requirements with the Solvency II capital resources to test whether this difference in basis would impact my opinion. This did not show any results that disagreed with the analysis I have undertaken on each of the bases, and so I do not consider this further in my report.

I have not performed a detailed verification of the calculations performed by the Transfer Companies using the ECM. However, the Transfer Companies have performed a number of stress tests using the ECM and I have considered these results in the context of the base scenario to gain comfort that the calculation approach is reasonable. I also note that the ECM has been subject to external validation and that I have reviewed the report on this validation as part of my analysis.

I discuss the results of this stress-testing analysis in sections 6.5 to 6.7.

Impact of Transfers on capital available to policyholders

5.13 Change in Solvency II capital cover ratios

The table below summarises the Solvency II balance sheet assets and liabilities for the Transfer Companies before and after the Transfers as shown in section 4.7.

As above, please note that net assets refer to assets net of liabilities, and net SII Technical Provisions refers to Technical Provisions net of reinsurance. Reinsurance assets are included within total assets.

As at 31 December 2017 (£000's)	AGE (pre-Transfers)	AGUK	CIFG EU	AGLN	AGE (post-Transfers)
Net assets (as detailed in table 4.6)	629,225	83,880	20,265	322,143	647,717
Total Assets	661,977	119,772	42,852	450,299	851,972
Net Best Estimate SII liabilities	(18,936)	29,467	13,645	(110,767)	(86,591)
Risk margin	10,552	4,454	1,907	229,217	246,131
Total Liabilities	32,751	35,892	22,587	128,155	204,256

Source: Draft SII Balance Sheets

I consider the impact of the Transfers in terms of the ratio of available capital to the capital requirement ("Capital Cover Ratio") calculated by reference to the Standard Formula, in the table below:

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As at 31 December 2017 (£000's)	AGE (pre-Transfers)	AGUK	CIFG EU	AGLN	AGE (post-Transfers)
Required capital (SCR)	112,175	54,899	6,749	288,802	316,317
Available capital (Eligible Own Funds)	629,225	83,880	18,281	322,143	647,717
Capital Cover	561%	153%	271%	112%	205%

Source: Assured Guaranty Management

I note that the available capital for CIFG EU differs slightly from its respective net assets under Solvency II, as seen in the first table in this section. This is due to minor differences due to admissibility restrictions of certain assets in Eligible Own Funds.

I note further that under the Standard Formula calculation, both the SCR and the Eligible Own Funds contain an allowance for subsidiaries, which affects AGE. The Eligible Own Funds contains an allowance for the capital resources of the subsidiaries, assuming that AGE's subsidiaries would be able to step in to help their parent if necessary, and the additional risk associated with the ownership of these subsidiaries increases the SCR required. For the avoidance of doubt, these allowances are included in the above figures.

I have considered the SCR for all companies, and the view of the Transfer Companies on how the combined SCR may have looked if the Transfers had taken place for 31 December 2017.

Below I note my observations on the above table:

— Prior to the Transfers, the Standard Formula Capital Cover Ratios for the policyholders of all the Transfer Companies are materially in excess of 100%, indicating the Transfer Companies comfortably meet the Standard Formula SCR and AGE, AGUK and CIFG EU are very well capitalised;

— After the Transfers, AGE will have a Standard Formula Capital Cover Ratio materially greater than 100%, indicating the probability that policyholder benefits may not be paid remains remote for existing policyholders;

— As a result of the Transfers, AGE, and CIFG EU policyholders see a material decrease in their Standard Formula Capital Cover Ratio. However, the Capital Cover Ratio is still significantly in excess of 100% and these policyholders will have the benefit of greater diversification of the underlying credits (which reduces the AGE post-Transfers capital requirement by £35m and is included in the above figures) and larger pool of capital. Policyholders of AGUK and AGLN see an increase in their Standard Formula Capital Cover Ratio.

5.14 Change in ECM capital cover ratios

I also note below my observations of the capital impact of the Transfers based on the information produced from the ECM. The data and detailed analysis supporting this is not included within this report since they are not in the public domain:

— As noted in 5.12 above, the ECM based capital calculations are typically more appropriate than under the Standard Formula.

— The recent contribution of shares in the Transferors to AGE has caused a large increase in the capital charge as calculated by the Standard Formula, however on the ECM the shares have simply been excluded from the capital resources thus implicitly assuming a stress that takes the value of these shares to zero. Prior to the transfer of shares the ECM produced a higher capital requirement than the Standard Formula.

— For AGUK, the purchase of Orkney bonds reduced the capital required in respect of insurance risk on the ECM, however due to the definition of the stresses under the Standard Formula this caused a minimal change to the insurance risk SCR. In fact, the purchase of the bonds has significantly increased the spread risk charge under the Standard Formula since these are low rated bonds. Prior to this purchase the ECM produced a higher capital requirement than the Standard Formula.

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- The available capital in the ECM calculation is also higher than under Standard Formula because certain items included as liabilities in the Solvency II balance sheet (such as expected future losses on unearned business and projected future operational expenses) are included in the capital requirements instead for the ECM calculation. The ECM also does not include a risk margin, which is included as a liability under Solvency II.
- The ECM can be used to produce capital requirements at different levels of probability of meeting policyholder obligations. The Standard Formula considers a 1 in 200 year event equivalent probability. Under the ECM calculation each of the Transfer Companies is capitalised to a level in excess of the ECM 1 in 1000 year estimates. After the Transfers AGE would have capital at just over one and a half times the ECM 1 in 1000 year estimate.
- CIFG EU and AGLN policyholders will see an increase in their Capital Cover Ratios as a result of the Transfers.
- AGE and AGUK policyholders see a decrease in their Capital Cover Ratio as a result of the Transfers. AGE and AGUK hold more capital than required by regulation, with AGE holding significantly more than required, and after the Transfers the capital held will still be considerably higher than regulation requires. Given both this and the resulting larger balance sheet and resulting larger pool of capital I do not find this to have an impact on AGE or AGUK policyholder security.

Given the above, I identify no material adverse change in the economic position of, or capital protection available to, any of the main groups of policyholders.

Impact on existing reinsurers

5.15 Outwards reinsurance arrangements

Reinsurance assets along with the liabilities associated with them will transfer under the Transfers with the reinsured party's name changing from the respective Transferor to AGE. As discussed in section 4.11, all reinsurance with external counterparties will not be impacted by the Transfers since they only exist with AGE (and so will not need to transfer anywhere). Therefore, I am comfortable that the risk of non-recognition is not one that changes my opinion, as explained in section 4.11.

As discussed in 4.14-4.17, the intragroup reinsurances will change as follows:

- The current AGE policies will continue to be protected by the reinsurance and parental support arrangements currently in place with AGM;
- The transferring AGUK policies will continue to benefit from AGE having the intragroup quota share in place with AGC, and will have the intragroup XoL and Net Worth Maintenance arrangements continued however these will now be with AGM (as opposed to AGC);
- The transferring AGLN policies will continue to benefit from AGE having all current quota share arrangements in place, and intragroup XoL with AGM. AGLN will also be covered by AGE's XoL and Net Worth Maintenance agreement with AGM, which is new for this group of policyholders.

The above intragroup arrangements will be collateralised to varying degrees, and within my consideration of the security of the policyholders, I have considered the potential impact of availability of collateral whether the Transfers were to occur or not. I note that in forming my conclusions as to how policyholder groups are affected by the Transfers I have not allowed for any credit for the Net Worth Maintenance agreements with AGM, as there are some conditions and limits on the timing and amount of any payment under these agreements. So my conclusions do not depend on the effectiveness or otherwise of these agreements.

The Transfers have no further effect on the coverage provided by current or historic reinsurers, creating neither an increase nor decrease in the exposure of reinsurers. This

will mean existing non-group reinsurers of AGE will not be liable for the transferred liabilities.

Given the above, I identify no material adverse impact to any policyholders or reinsurers of the Transfer Companies from the Transfers due to reinsurance arrangements.

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6 Methodology, stress and scenario analysis

Overview

6.1 In performing my analysis of the impact of the proposed Transfers, I have considered estimates prepared by the Transfer Companies of the maximum losses each of the Transfer Companies would face at certain confidence levels. In order to satisfy myself that these estimates are an appropriate basis on which to form an opinion, I have performed further analysis in three main areas:

- Modelling approach – I have considered the methods used by the Transfer Companies to calculate the estimate of insured losses at differing levels of confidence, allowing me to have confidence that the results of the model prepared by the Transfer Companies are based on appropriate assumptions and capture the relevant aspects of each Transfer Company's risk.
- Analysis of sensitivity of the model estimates to alternative assumptions – I have considered how sensitive my opinion is to variations in the underlying assumptions used by the Transfer Companies, and whether the reasoning behind my opinion would be different using alternative assumptions.
- Stress test analysis – I have considered the impact of a set of specific severe adverse events on each of the Transfer Companies, allowing me to gain comfort at a high level that the economic loss estimates used in my analysis are meaningful when compared with real world loss assumptions.

Loss modelling approach

6.2 Modelling approach

In finding the most suitable metric for assessing and comparing the capital required for each entity, I had to consider the methods that each entity used as its estimate of capital required. Each of AGE, AGUK and CIFG EU uses the Standard Formula to calculate their respective SCR (the required regulatory capital amount) and uses an ECM internally to manage their respective businesses. AGLN previously used an internal model but has reverted to the Standard Formula to calculate its SCR following the approval of the PRA on 7 April 2017 and uses the same ECM as AGE, AGUK and CIFG EU internally to manage its business. Given that each of the Transfer Companies manages its business using the ECM rather than the lower regulatory capital requirements, I have used as my first consideration of capital requirements the ECM estimate for each entity. This measure is calculated on an almost identical basis for all four Transfer Companies.

A broad spectrum of risks is considered within the ECM estimate including:

- Risk arising from financial guarantee business, for example, significant credit defaults or deterioration in the valuation of insurance liabilities.
- Market risk, for example, the risk that investment returns are not as high as anticipated.
- Counterparty default risk, for example, the risk that a bond or reinsurance counterparty becomes insolvent and cannot honour its obligations. Given the significant intragroup reinsurance arrangements the model also covers group risk in this way.
- Operational risk, for example, the risk that there is a failure in underwriting controls.

The range of risks considered by each Transfer Company is determined by each Transfer Company and is intended to reflect the inherent risk within the activities of each entity. They are consistent with those required under the Solvency II guidelines as well. In each case senior management is closely involved in the calculation of required capital. For each entity, the results require approval from the respective board.

I consider the processes which have been adopted by each of the Transfer Companies in calculating this ECM estimate to be consistent with industry practice for insurance

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businesses of the size and complexity of the Transfer Companies. I am therefore comfortable that these processes are appropriate in nature and scope.

Stress test analysis

6.3 I have considered a variety of severe adverse scenarios that could have a material impact on the financial security of policyholders. I have performed this analysis in order to:

- Quantify the impact of a stress event on the capital positions of the Transfer Companies and hence policyholder security; and
- Satisfy myself that the required capital estimates produced by the respective entities on the basis of their ECM calculations, together with the resulting Capital Cover Ratios, are reasonable when compared with the impact of a combination of specific adverse events.

The estimates of capital required from the ECM calculation prepared by the Transfer Companies are intended to represent the full range of realistic economic risks that each Transfer Company could experience, and represents a more complete consideration of business risk than an analysis of specific stress events. However, such estimates are based on multiple modelling assumptions which rely on expert judgement. By contrast my consideration of specific adverse stresses provides qualitative information on the security of policyholders in a single defined scenario. Such specific severe adverse scenario testing does not rely on expert judgements regarding the frequency and range of uncertainty, and provides an alternative source of information from which I can gain insight into the levels of security of policyholders.

I note that the output from the Transfer Companies' capital models (in their varying levels of sophistication) is consistent with the results of my analysis of specific severe adverse stresses.

6.4 I have considered a variety of potential severe adverse circumstances or extreme events that could affect the Transfer Companies, all of which represent stresses that fall outside the normal course of business. In selecting the scenarios to model, I have considered:

- Current developments occurring in the insurance markets in which each Transfer Company operates.
- The typical risks faced by an insurance business.
- My overall understanding of each Transfer Company including its portfolio mix, structure and business model.
- The key risks identified by each Transfer Company in its estimates of required economic capital from its ORSA.
- The scenarios identified by each Transfer Company as part of its normal risk management processes.

I have considered each stress by assuming the outcomes of what might happen given each scenario, looking at how this would affect the entities both individually and post-Transfers based on their business and coverage, and consequently how this would affect each of their capital. I have then compared the lower capital position that would be in effect should each scenario (in isolation) happen to the capital requirements of each Transfer Company.

As discussed in section 5.12, the capital requirements under the Solvency II regime are based on policyholders being secure at the 99.5% confidence level. Given that policyholders of financial guarantee products look for even stronger levels of security, I further considered the Transfer Companies' capital levels against a capital requirement based on a 99.9% confidence level of security. I note that in the tests below, I have not allowed for the posting of any additional collateral (which would be triggered by the first two stresses considered below) which adds an extra layer of prudence.

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Whilst these stresses do not represent an exhaustive list of all adverse events that could impact the Transfer Companies, they include those risks I consider most material and relevant to my analysis. I note that the Transfer Companies perform such stress testing as part of their business as usual risk management processes as expected under Solvency II. Taking the base financial projections provided by the Transfer Companies as a starting point, the severe adverse scenarios I have considered include:

- Default of the largest single exposure for each company.
- Default of the largest single exposure for each company with a stressed loss given default assumption.
- Default of all reinsurance providers within the Assured Guaranty Group.

6.5 Default of the largest single potential loss

In this scenario, the potential loss is defined as the outstanding par amount on an exposure multiplied by the base assumption of loss given default (‘LGD’).

AGLN sees a moderate capital coverage reduction pre-Transfers under this scenario, whereas the impact on AGE, CIFG EU and AGUK pre-Transfers is less material. Post-Transfers AGE maintains a high capital coverage ratio, and the comparative shift in ECM capital coverage for each entity post-Transfers is the same as that described in section 5.14. This stress does not lead to any change in my conclusions.

6.6 Default of the largest single potential exposure with a stressed LGD assumption

This scenario is similar to that shown above, except the assumed LGD is increased to 100%, and the stress is applied to the largest exposure rather than the largest identified potential loss. This has the effect of testing the impact on the Transfer Companies in a particularly stressed situation, such that the default of the exposure is more significant than expected. It also allows me to understand the sensitivity of the default scenario to the assumed LGD.

The impact of this event is broadly similar to the default scenario shown above, except the Capital Cover Ratios fall further for each of the companies except CIFG EU; CIFG EU sees the same effect as for the first scenario due to the reinsurance it holds with AGC. AGLN would require capital injections to meet its ECM capital requirements after such a stress event. AGE post-Transfers would still comfortably meet its ECM capital requirement even after such a stress. As such this stress modelling does not lead to any change in my conclusions.

6.7 Default of all affiliated reinsurers

In this scenario, it is assumed that all reinsurers within the Assured Guaranty Group default on their obligations to the Transfer Companies. The reinsurers that are assumed to default are AGC, AGM, AG Re and AGRO.

There are significant reinsurance relationships between the companies in the Assured Guaranty Group, as well as exposure to similar risks. Therefore, although it is assumed that the likelihood of default of any one reinsurer is extremely limited, there is likely to be a correlation between the default of one reinsurer and the default of all. In the unlikely event of this scenario, the recovery allowed for from the intragroup reinsurance is limited to the collateral in place for these reinsurance arrangements. This is because in the event of an insolvency reinsured policyholders would rank below non-reinsured policyholders in their entitlement to collect from the assets of the reinsurer. As a result in this stress scenario I assume that there is nothing left available once direct policyholders are paid, other than the collateral already provided.

This scenario would not trigger the posting of additional collateral, as the mechanism is not affected by reinsurer solvency. However, in the event of reinsurance default such that no recovery beyond the posted collateral can be made, the companies can also elect to cancel the reinsurances. In these cases the assets of the Transfer Companies would be

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increased by the amounts held as liabilities to be paid to reinsurers – the ceded unearned premium reserve and the future reinsurance premium payable. These amounts, coupled with the collateral available, provide additional security for payment of any future claims.

The default imagined in this stress test has material consequences for CIFG EU and AGE both pre, and post-Transfers. Before the Transfers CIFG EU would fail to meet its capital requirements under the ECM under this scenario, even allowing for cancellation of covers to increase the asset position. AGE would see a material drop in capital cover ratio, but would remain able to meet their ECM capital requirements. AGLN would be largely unaffected as it has no material reinsurance protection at present (which is why it struggles with the previous stress test) and AGUK would see no impact due to the high level of collateral posted (due to their holding of a reserved credit) that would be available to them. After the Transfers, and allowing for management actions to cancel covers, the combined AGE would meet the ECM calculated capital requirement.

Such a default has almost no effect on AGLN pre-Transfers, since AGLN currently only cedes small amounts to reinsurers. However, whilst AGLN policyholders will be impacted by reinsurer default after the Transfers, the post-Transfers AGE capital cover is still comfortably above 100% under the ECM model.

As such this stress modelling does not lead to any change in my conclusions.

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7 Summary of findings

Summary of changes in circumstances of transferring AGUK policyholders

7.1 From a capital perspective, AGUK policyholders see an increase in the Capital Cover Ratio as a result of the Transfers as calculated using the Standard Formula though a decrease using the ECM. Given the capital coverage ratio in AGE remains strong following the Transfers, combined with the resulting larger balance sheet and resulting larger pool of capital, I do not find this to have an impact on AGUK policyholder security.

7.2 The structure of the reinsurance arrangements in place in respect of AGUK policyholders will not change as a result of the Transfers. However, on both the XoL policy and the Net Worth Maintenance Agreement, the counterparty will change from AGC to AGM. I do not believe that this will have any adverse impact on the security of policyholders.

7.3 I do not identify any adverse effect arising from the Transfers in relation to the management of the business (in terms of policy administration, corporate governance or other non-financial impacts) for any AGUK policyholders transferring to AGE.

7.4 There will be no change in the regulatory environment affecting AGUK policyholders; AGUK policies will continue to be in an environment regulated by the PRA and FCA. The expectation is that the UK will continue to adopt a Solvency II equivalent regime in the event of leaving the EU before the Transfers, however, even if it does not, this would impact AGUK policies regardless of the Transfers.

7.5 I do not identify any risk of the Transfers making it more difficult for a policyholder outside the EEA to bring a claim under a policy from AGUK, and therefore expect that any question of the enforceability of the Transfers outside of the EEA does not materially adversely impact AGUK policyholders transferring to AGE under the Transfers.

7.6 I do not identify any material change in any of the non-financial areas for AGUK policyholders as a result of the Transfers.

7.7 As a result of the above observations I do not identify any material adverse effect on any of the policyholders whose policies are transferring out of AGUK to AGE under the Transfers.

Summary of changes in circumstances of transferring CIFG EU policyholders

7.8 A key assumption is that the FIPT has occurred, as the Transfers are conditional on this. It is outside my scope to consider non-financial changes for CIFG EU policyholders as this would be under the remit of the FIPT. However, changes in policyholder security for CIFG EU as a direct consequence of the Transfers happening are within my scope as they represent a group of potentially affected policyholders.

7.9 From a capital perspective, CIFG EU policyholders see a decrease in the Capital Cover Ratio as a result of the Transfers as calculated using the Standard Formula. However, as calculated using the ECM, they see an increase as a result of the Transfers. Given the capital coverage ratio in AGE remains strong following the Transfers, combined with the resulting larger balance sheet and resulting larger pool of capital, I do not find the Standard Formula outcome to have an impact on CIFG EU policyholder security.

7.10 The structure of the reinsurance arrangements with AGC in respect of CIFG EU policyholders will continue to protect AGE in respect of those policyholders. Also, the letter of support from AGC will be replaced by the Net Worth Maintenance agreement from AGM with stronger terms and CIFG EU policyholders will be covered by an additional XoL policy from AGM. I believe that this will improve the security for policyholders as the XoL policy will provide additional protection.

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7.11 As a result of the above observations I do not identify any material adverse effect on any of the policyholders whose policies are transferring out of CIFG EU to AGE under the Transfers with regards to policyholder security.

Summary of changes in circumstances of transferring AGLN policyholders

7.12 From a capital perspective, AGLN policyholders will see a significant increase in their Capital Coverage Ratio as a result of the Transfers on both the bases of the Standard Formula and of their ECM.

7.13 After the Transfers, AGLN will be covered by AGE's Net Worth Maintenance agreement and XoL policy with AGM. I believe that this will improve the security for policyholders as the XoL policy and Net Worth Maintenance agreement will provide additional protection.

7.14 I do not identify any adverse effect arising from the Transfers in relation to the management of the business (in terms of policy administration, corporate governance or other non-financial impacts) for any AGLN policyholders transferring to AGE.

7.15 There will be no change in the regulatory environment affecting AGLN policyholders; AGLN policies will continue to be in an environment regulated by the PRA and FCA. The expectation is that the UK will continue to adopt a Solvency II equivalent regime in the event of leaving the EU before the Transfers, however, even if it does not, this would impact AGLN policies regardless of the Transfers.

7.16 I do not identify any risk of the Transfers making it more difficult for a policyholder outside the EEA to bring a claim under a policy from AGLN, and therefore expect that any question of the enforceability of the Transfers outside of the EEA does not materially adversely impact AGLN policyholders transferring to AGE under the Transfers.

7.17 I do not identify any material change in any of the non-financial areas for AGLN policyholders as a result of the Transfers.

7.18 As a result of the above observations I do not identify any material adverse effect on any of the policyholders whose policies are transferring out of AGLN to AGE under the Transfers.

Summary of changes in circumstances of existing AGE policyholders

7.19 From a capital perspective, AGE policyholders see a decrease in their Capital Coverage Ratio as a result of the Transfers on both the bases of the Standard Formula and of their ECM. AGE holds substantially more capital than required by regulation, and after the Transfers and subsequent decrease the capital held will still be considerably higher than regulation requires. Given both this and the resulting larger balance sheet and resulting larger pool of capital I do not find this to have an impact on AGE policyholder security.

7.20 AGE will see no changes to its existing reinsurance arrangements, except that there will be a larger number of policies covered by its current support agreements with AGM. I do not consider that this will have an impact on the current policyholders of AGE.

7.21 I do not identify any adverse effect arising from the Transfers in relation to the management of the business (in terms of policy administration, corporate governance or other non-financial impacts) for AGE policyholders.

7.22 The Transfers will not have any impact on the regulatory environment affecting AGE policyholders.

7.23 I do not identify any material change in any of the non-financial areas for AGE policyholders as a result of the Transfers.

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7.24 As a result of the above observations I do not identify any material adverse effect on any of the policyholders of AGE as a result of the Transfers.

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Appendix 1 Curriculum Vitae of the Independent Expert

Philip Tippin is a non-life actuarial partner in KPMG.

Philip Tippin has been an actuarial services partner since 2004. He joined in 2001 and has led KPMG's general insurance actuarial business for much of his time with the firm. He has worked on a number of previous Part VII transactions over this period. Philip qualified as a Fellow of the Institute of Actuaries in 1998 with Watson Wyatt, having specialised in general insurance actuarial work since the start of his career.

Prior to joining KPMG Philip also worked as a consultant with Deloitte, and spent several years as a syndicate actuary in the Lloyd's Market with Venton (latterly Alleghany) Underwriting.

Experience

Philip has a wide range of experience in finance, insurance and reinsurance, covering both retail and wholesale markets, as well as having performed engagements looking at financial guarantee products. He has assisted clients in reserving, pricing, risk management, underwriting control, capital management and strategic consulting projects. His experience includes substantial exposure to UK and US law and regulation as they apply to insurance. Examples of recent assignments include:

— Acting as Independent Expert in general insurance Part VII business transfers.
— Undertaking the formal role of Scheme Actuary for a large number of Schemes of Arrangement, for both insolvent and solvent companies.
— Negotiation of commutations with policyholders and cedants on behalf of businesses in run-off.
— Expert witness appointment in the United States, covering reinsurance, reserving and pricing of specialist products, providing advice through the lifecycle of the case.
— Acting as independent expert for complex liability valuation determinations.
— Estimation of claim emergence and quantification of liabilities from environmental disasters in the United States.
— Gap analyses and development of implementation plans for Solvency II for large insurance groups.
— Review of credit risk liability models.
— Capital model design and review.
— Providing actuarial due diligence reporting for a number of major London Market acquisitions.
— Strategic reviews of business models for insurance risk management for providers and buyers of insurance.
— Providing statements of actuarial opinion for Lloyd's syndicates, including provision of opinions for US trust funds.
— Technical pricing of retail and commercial insurance products.
— Providing support to the audit of major UK and international insurance groups.

Professional & Educational

Philip is a Fellow of the Institute and Faculty of Actuaries (FIA). He holds a Practising Certificate to act as a Syndicate Actuary at Lloyd's, and has previously held a similar certificate to act for insurance and reinsurance entities in Ireland. He acted as an examiner and senior examiner for the general insurance papers of the Institute and Faculty of Actuaries exams for six years until 2005.

He holds an MA in Mathematics and Philosophy from the University of Oxford.

Appendix 2 Extract from Letter of Engagement

‘Scope of the Independent Expert’s work – UK Transfers

My role as Independent Expert will be to consider and to report to the Court on the proposed Transfer from the perspectives of the policyholders of the Transferors and Transferee, and to give a reasoned opinion on the likely effects of the Transfer on the policyholders of the Transferors and Transferee including whether any of their interests could be in any way (either directly or indirectly) adversely affected by any of the Transfer. Under the regulators’ guidance, the Report must comply ‘with the applicable rules on expert evidence’. My understanding therefore is that the PRA expects an independent expert to prepare a report in accordance with Part 35 of the Civil Procedure Rules 1998 (‘CPR’), the relevant Practice Direction and the protocol for the Instruction of Experts to give evidence in Civil Claims, to the extent relevant (‘the Requirements’). I will therefore conduct my work as if the Requirements apply. In particular, I will owe an overriding duty to the Court to assist the Court and to give the Court independent expert evidence on the Transfer.

For each Transfer, I expect that my work will include the following tasks in order for me to form my opinion:

- Reviewing existing company documentation, as set out in Appendix 1 to this letter;
- Reviewing the documentation for the Scheme and, if necessary, suggesting amended drafting in order to eliminate any concerns;
- Reviewing the Transfer, considering the effect on policyholders of the Transferor and Transferee, covering their contractual rights, benefit security, and benefit expectations;
- Reviewing any changes to reinsurance arrangements in connection with the Transfers;
- Reviewing the effects of the Transfers on the risks and policyholders remaining within the Transferor and the resources of that company to meet those risks;
- Reviewing the effects of the Transfers on the risks within both Transferee and the resources of each entity to meet those risks;
- Reviewing comparative solvency levels before and after the proposed transfers;
- Liaising and raising issues and questions as necessary with the appropriate persons at the Transferors and Transferee;
- Liaising and raising issues and questions as necessary with your advisers, including tax and legal advisers;
- Such other tasks as you, I or the PRA and/or FCA consider reasonably necessary for the proper discharge of my role as independent expert.

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Appendix 3 Specimen Letters of Representation

Mr. Philip Tippin
KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

7 June 2018

Dear Mr Tippin,

Independent Expert Appointment – Part VII Transfer

I, Nicholas Proud, am a Director of Assured Guaranty (Europe) plc, Assured Guaranty (London) plc and Assured Guaranty (UK) plc, and Chairman of the Management Board of CIFG Europe S.A. This letter relates to the proposed transfer of insurance business currently carried on by Assured Guaranty (London) plc ("AGLN") and Assured Guaranty (UK) plc ("AGUK") (together, "the Transferors") into Assured Guaranty (Europe) plc ("AGE" and/or "the Transferee") ("the Transfers"). This letter also relates to the proposed transfer of insurance business currently carried on by CIFG Europe S.A. into AGE in so far as it relates to the Transfers. I have been authorised by the board of directors of the Transferors and the Transferee ("the Transfer Companies") to give the representations set out in this letter on behalf of each such company, which are given to the extent that each such company exercises control over the insurance business which is the subject of the Transfers both before and after the Transfers come into effect. In this capacity I have reviewed the final version of the report produced by the Independent Expert ("the Report").

In respect of the Transfers, I can confirm that:

1. The data and information provided to you as Independent Expert was prepared by PRA approved persons, other members of the senior management of the Transfer Companies or responsible senior professionals from the Transfer Companies' advisors.

2. I have disclosed all the information that in my opinion is relevant to the Independent Expert when forming a view as to whether policyholders are adversely affected by the proposed Transfers, including but not limited to discussions or disputes with regulatory authorities and key reinsurance and commercial counterparties.

3. To the best of my knowledge and belief, the Report accurately and fairly reflects my understanding of the details of the proposed Transfer and the facts relied upon in the Report are true and accurate, and that there are no material inaccuracies or omissions in the description of either of the Transfer Companies' business and practices (including details of specific credits) or in any statements attributed directly or indirectly to any of the Transfer Companies.

4. I will keep the Independent Expert apprised of all matters and issues, up to the date of the Court hearings, which, in my opinion, may be relevant to the Independent Expert in opining on the proposed Transfers. These matters include, but are not limited to, Court documents and supporting materials, full details of any changes between draft versions previously provided to me and final

Assured Guaranty (Europe) plc | Assured Guaranty (UK) plc | Assured Guaranty (London) plc

11th floor
6 Bevis Marks
London EC3A 7BA
United Kingdom

main +44 (0) 20 7562 1900
fax +44 (0) 20 7562 1901

info@agltd.com

AssuredGuaranty.com

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versions of these documents and full details of any differences between the data and information underlying such draft and final documents.

5. In particular, the facts stated below are true and accurate to the best of my knowledge and belief:
   - The existing and planned intragroup arrangements with Assured Guaranty Municipal Corp, Assured Guaranty Corp. and Assured Guaranty Re Ltd. will be honoured post Transfers;
   - There will be no policyholders left in the Transferring Companies after the Transfers, as all existing policyholders of the Transferring Companies, will become policyholders of AGE as a consequence of the Transfers;
   - The Transfers are to be broadly tax neutral for all of the Transfer Companies;
   - The financial position as stated in the audited accounts for the year ended 31 December 2016 gives a true and fair view of the Transfer Companies affairs at that date;
   - Other financial projections you have used to prepare the Report have been prepared in good faith by persons with appropriate knowledge and experience on a reasonable basis and based on reasonable assumptions;
   - After the Transfers, the same level of assets and liabilities will exist within AGE after the Transfers and the cross-border merger as exist in the Transfer Companies in the aggregate before the Transfers (when valued on the same accounting basis before and after); and
   - AGE will continue to operate and has no current intentions to cease underwriting or carry out a further restructuring of their business as a consequence of the Transfers, other than that of the planned cross-border merger.

Yours sincerely

Nicholas Proud
For and on behalf of Assured Guaranty (Europe) plc,
Assured Guaranty (London) plc and Assured Guaranty (UK) plc

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Appendix 4 List of Information provided

Financial Information

AGE, AGLN, AGUK and CIFG EU regulatory returns for the prior 4 years

AGE, AGLN, AGUK and CIFG EU insurance company accounts for the prior 4 years including a post-Transfers AGE estimate

AGE financial statements for Q4 2017

AGLN, AGUK and CIFG EU financial statements restated to methodology consistent with AGE as at year end 2016 and 2017

Board paper on impact of accounting changes to AGLN

Structure and Company Information

Company organisation charts

AGE, AGLN, AGUK and CIFG EU lists of credits

Significant Risk Sharing Arrangements & Material Counterparties

Internal memo on reinsurance arrangements – “Internal and External Reinsurance of the UK and French Operating Subsidiaries of Assured Guaranty Ltd.”

Internal reinsurance, collateral and support relationship paper – “Bus Combo and Reinsurance Slides”

Existing Excess of Loss and Quota Share reinsurance contracts between AGUK and AGC

Existing Letter of support and collateral agreement for CIFG EU

Existing Excess of Loss and Quota Share reinsurance contract and subsequent amendments between AGE and AGM

Relevant amendments to reinsurance agreements

Capital and Risk Management

Standard Formula and ICA estimates for AGE, AGLN, AGUK and CIFG EU pre- and post-Transfers, with accompanying methodology and documentation, as at 31 December 2016 and 31 December 2017

Risk appetite statements for AGE, AGLN and AGUK

2016 ORSA (excerpts) for AGE, AGLN, AGUK and CIFG EU

2017 Statutory Solvency II balance sheets for AGE, AGLN, AGUK and CIFG EU including a post-Transfers AGE estimate

2017 Solvency II balance sheet for AGLN adjusted to same basis as AGE

Further information on collateral pre- and post- Transfers including calculations and internal methodology as at Q4 2016 and Q4 2017

Stress testing documentation for AGE, AGLN, AGUK and CIFG EU.

External validation report on ECM

Other Information considered

Discussions with key staff within executive team. Numerous e-mails and confirming statements and information provided verbally during these meetings

Appendix 5 Glossary of terms and definitions

Adverse impact – A negative change of any size

Approved persons regime – Regulation that the PRA applies to regulated firms which is designed to ensure senior management is appropriately experienced and qualified.

Asset – Generally, any item of property whether tangible or intangible, that has financial or monetary value.

Assured Guaranty Group – the group of companies that operate directly and indirectly as subsidiaries of Assured Guaranty Ltd.

Assured Guaranty (Europe) plc (‘AGE’) – This is the parent group of all the entities in the Transfers

Assured Guaranty (London) plc (‘AGLN’) – One of the Transferors, which is a subsidiary of AGE

Assured Guaranty (UK) plc (‘AGUK’) – One of the Transferors, which is a subsidiary of AGE

Capital – Defined as total assets less total liabilities as measured using either an economic method of valuation, PRA mandated valuation rules or Statutory Accounting principles, as indicated by the accompanying text.

CIFG Europe S.A. (‘CIFG EU’) – One of the Transferors, which is a subsidiary of AGE.

Claims Reserves – Funds to be set aside for the future payment of incurred claims that have not yet been settled, and hence are classified as liabilities on the company’s balance sheet.

CPR – Civil Procedure Rules 1998.

Cross-border merger (‘CBM’) – A cross-border merger under Directive (EU) 2017/1132 of the European Parliament and of the Council of 16 June 2017 (as implemented under the laws of individual EEA states) allows companies from two or more EEA countries to merge so that the surviving company succeeds to the assets and liabilities of the absorbed companies (which cease to exist).

The Court – The High Court of Justice of England and Wales.

Credit risk – The risk of financial loss resulting from changes in the value of assets due to actual default or perception of the risk of default in the future. The term is commonly used to describe the risk that the market value of a financial investment such as a bond will fall due to an increase in the perceived likelihood of default, for example, due to an opinion issued by a credit rating agency, but would also cover the risk of non-payment of reinsurance recoveries or broker balances.

Earned Premium – See ‘Premium’.

ECM – Economic Capital Model, this is a model that is used internally by the Transfer Companies and other companies in the Assured Guaranty Group to calculate capital requirements. The output will differ from the capital requirements under Solvency II, however the model may be more flexible to analyse specific scenarios and is also parameterised to capture the specific risks of a given company.

Economic basis – A method of measuring the value of assets and liabilities using market consistent valuation techniques including reflecting the time value of money on cashflows occurring in the future, and excluding ‘prudent’ valuation margins included in estimates of the valuation of insurance liabilities. In this report the word ‘economic’ is used to represent the closest representation to the real value of the assets or liabilities in question, disregarding the effect of accounting or regulatory measurement rules.

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Effective Date – The date and time on which the Transfers takes effect.

FIA – Fellow of the Institute and Faculty of Actuaries.

Financial Conduct Authority – The Financial Services Authority was reorganised into two separate regulatory agencies during 2013. The successor organisations are the Prudential Regulation Authority and the Financial Conduct Authority. The Financial Conduct Authority focuses on the regulation of conduct by retail and wholesale financial services firms.

FSMA – The Financial Services and Markets Act 2000, the legislation which under Part VII governs the transfers of insurance business between insurance undertakings.

French Insurance Portfolio Transfer ('FIPT') – The process for the approval by the French insurance regulator of the transfer of the policies of CIFG EU to AGE.

Gross – Excluding the effect of reinsurance arrangements. For example, 'gross insurance liabilities' refers to insurance liabilities before taking into account any offsetting of reinsurance assets.

Holding company – A holding company is a company established for the sole or main purpose of holding shares in subsidiary companies.

ICA – Individual Capital Assessment. An insurance company's own assessment of the capital it needs for regulatory purposes in order to mitigate the risks to which it is exposed and that could otherwise cause it to be unable to meet its liabilities as they fall due.

Independent Expert – The person appointed to report on the terms of the Transfers pursuant to section 109 of FSMA, or any successor appointed to report on the same and whose appointment is approved by the PRA in consultation with the FCA. The Independent Expert's primary duty lies with the Court, and the opinions of the expert are developed independently of the sponsoring Transfer Companies and the PRA.

Insolvency – The condition of having more liabilities than assets which might be available to pay them, even if the assets were mortgaged or sold.

Insured exposure – The maximum probable loss to the insurer.

Insurance reserves – The estimated value of future claims costs recorded in the balance sheet of an insurance company, also referred to as the 'value of insurance liabilities'.

Jurisdiction – The concept that a court or government authority or regulator may exercise control over a person or property because of the location of the property, the activities of a person within a geographic area, or a person's request for assistance from that authority, thereby voluntarily subjecting themselves to jurisdiction.

KPMG – KPMG LLP, a UK limited liability partnership, is a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity.

Liability – A claim against the assets, or legal obligations of a person or organisation, arising out of past or current transactions or actions.

Material adverse impact – A negative change that is considered to have a material impact on policyholders. A material impact is one that could cause a policyholder to take a different view on the future performance of their policy. When considering policyholder security these would include changes to the assets or liabilities of the company such that there was a shift in the probability of a policyholder's claim being paid substantially larger than that which would be observed through the day-to-day fluctuation of the value of assets in a Transfer Company's investment portfolio, or from the reporting of a particularly large but not extreme claim to the Transfer Company's liabilities. In terms of non-financial impacts, an assessment of materiality is more subjective, but as an example a change in claims handling process that added a few hours to the customer response time is probably not material, but if it added a few days then it could be, depending on the type of claim.

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Net – Including the effect of reinsurance arrangements. For example, 'net insurance liabilities' refers to insurance liabilities after deducting any offsetting reinsurance assets from the gross insurance liabilities.

Parameter/Parameterised – A numerical input which affects the result of a calculation.

Part VII Transfer – A court process for transferring insurance business, ranging from single contracts to an entire portfolio, to another insurer. The insurers involved can either be in the same insurance/reinsurance group or from different corporate groups. For companies to achieve a successful transfer, they must appoint an Independent Expert who considers the impact of the proposed transfer on the various groups of affected policyholders and submits a report to the Court.

Policyholder obligation – The contractual obligation of an insurer to its policyholders.

Policyholder security – The degree of certainty that policyholders have that an insurer will have the financial resources available to meet its policyholder obligations.

Premium – The amount of money received by an insurer in return for providing an insurance policy providing protection to an insured against the financial consequences of a specified set of potential events. Premium can be measured gross or net of reinsurance, meaning before or after the deduction of any associated reinsurance premiums paid by the insurer. Premium is measured on a 'written' basis, meaning all premiums receivable on policies commencing within a given period, or is measured on an 'earned basis', meaning the amount of premium attributable to the accounting period based on some allocation of the premium across the period during which the underlying policy is exposed to risk.

Prudential Regulation Authority – The Financial Services Authority was reorganised into two separate regulatory agencies during 2013. The successor organisations are the Prudential Regulation Authority and the Financial Conduct Authority. The Prudential Regulation Authority is part of the Bank of England and carries out the prudential regulation of financial firms, including banks, investment banks, building societies and insurance companies.

Quota Share – A form of reinsurance in which a fixed proportion of covered claims is paid by the reinsurer in exchange for a fixed proportion of the subject premium.

Reinsurance – An insurance contract between one insurer (the reinsurer) and another insurer (the cedant) to indemnify against losses of the cedant on one or more contracts issued by the cedant in exchange for a consideration (the premium). Reinsurance is 'insurance for insurers', allowing insurers to share potential insurance losses with a reinsurer and hence reduce their own risk. Similar to insurance policies, reinsurance policies are written to cover specific pre-agreed risks and eventualities, as detailed in the reinsurance contract.

The Report – the report produced by the Independent Expert.

Reserves – See 'Claims Reserves'.

Solvency II – The EU's revision of insurance regulation designed to improve consumer protection, modernise supervision, deepen market integration and increase the international competitiveness of European insurers, which came into effect from 1 January 2016. Under this new system insurers are required to take into account a wide variety of different types of risk to which they are exposed and to demonstrate they manage those risks effectively. The new system has introduced more sophisticated solvency requirements for all EU insurers, in order to guarantee that they have sufficient capital to withstand adverse events (for example, floods or investment market crises).

Stressed scenario – Consideration of the impact (current and prospective) of a particular defined set of alternative assumptions or outcomes that are adverse. Consideration is given to the effect on the insurance company assets, liabilities and operations of a defined adverse scenario.

Subsidiary – An enterprise controlled by another (called the parent) through the ownership of greater than 50 percent of its voting stock.

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Surplus – An insurance undertaking typically holds assets of greater value than its contractual liabilities. The difference between these two amounts is often described as the surplus assets, and is usually compared against the amounts of regulatory capital that the undertaking is required to hold.

TASs – Technical Actuarial Standards issued by the Financial Reporting Council.

The Transfers – In the context of this report, I mean the proposal that AGUK and AGLN will transfer their insurance business to AGE under the provisions of Part VII of the Financial Services and Markets Act 2000.

The Transfer Companies – Assured Guaranty (Europe) plc ('AGE'), Assured Guaranty (UK) plc ('AGUK'), CIFG Europe S.A. ('CIFG EU') and Assured Guaranty (London) plc ('AGLN').

Transfers Regulations – The FSMA (Control of Business Transfers) (Requirements on Applicants)Regulations 2001 (SI 2001/ 3625) (as amended).

Transferring policyholders – Includes policyholders of AGUK, CIFG EU and AGLN for which any liability or contingent liability remains unsatisfied or outstanding at the Effective Date.

Underwriting – In general insurance, this is the process of consideration of an insurance risk. This includes assessing the appropriate premium, together with the terms and conditions of the cover as well as assessing the risk in the context of the other risks in the portfolio.

Well capitalised – Having capital resources comfortably in excess of the regulatory requirement; in this case I use it when the ratio is over 125%.

Written premium – See 'Premium'.

Very well capitalised – Having capital resources comfortably in excess of the regulatory requirement, in this case I use it when the ratio is over 200%.

XoL – XoL or 'Excess of Loss' is a form of reinsurance where the reinsurer pays claims that exceed a certain loss size up to a pre-agreed limit in exchange for a premium. This form of reinsurance protects against individual large losses.

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Appendix 6 List of interviews carried out

Name	Business Unit	Position
Howard Albert	Group	Chief Risk Officer
Daniel Barroll	Group	Enterprise Risk Management
Tanzid Begh	AGE, AGLN and AGUK	Financial Controller
Ruth Cove	Group	Deputy General Counsel – International; General Counsel and Chief Compliance Officer AGE, AGLN and AGUK
William Duffy	Group	Deputy General Counsel – Corporate and Regulatory
Sandali Harvey	AGE, AGLN and AGUK	Company Secretary; Paralegal and Compliance Officer
Don Paston	Group	Treasurer
Nick Proud	AGE, AGLN and AGUK	Chief Executive Officer
Ben Rosenblum	Group	Chief Actuary
Michael Winch	AGE, AGLN and AGUK	Chief Surveillance Officer

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Appendix 7 Details of proposed policyholder communication (summarised from Witness Statements)

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

(a) the period of insurance is continuing; or

(b) a claim has been made and is outstanding; or

(c) a sum, payment or benefit is contingently due, payable or to be provided

in each case where the contact information of that policyholder are held by the Transfer Company in question

For the majority of the policies issued by the Transfer Companies, the policyholder is defined as being one person: a bond trustee, lender or loan agent. In these cases, it is proposed that the relevant Transfer Company will send a Policyholder Statement and Summary to the bond trustee, lender or loan agent (as the case may be).

There are some policies issued by a Transfer Company 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 the relevant Transfer Company will send a Policyholder Statement and Summary to each successor or additional Policyholder that has been notified to the Transfer Company

AGLN's business includes 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 AGLN 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 AGLN which has become a Policyholder through syndication of the loan. It is also proposed that the initial bank concerned will be requested by AGLN to forward a copy of the Policyholder Statement and Summary to all other banks to whom the loan has been syndicated.

AGLN's business also includes a small number of policies where the policyholder is defined under the policy as meaning the holders of bonds. Where:

(a) AGLN maintains a register of bond holders in respect of these policies, it is proposed that AGLN will send a copy of the Policyholder Statement and Summary to each person registered as a bond holder on the register of bond holders which it maintains in respect of these policies;

(b) The bond trustee itself maintains a register of bond holders, it is proposed that AGLN 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 bond holders registered as bond holders in the bond trustee's register of bond holders; and

(c) Neither AGLN nor the bond trustee maintains a register of bond holders, it is proposed that AGLN will request the bond trustee to make a notification through the clearing system of the bond concerned in order to notify bond holders in the market.

I believe the policyholder communication plans to be fair given the nature of the guarantees provided by the Transfer Companies.

A detailed letter and a copy of the summary of this Report will also be sent to each external reinsurer of AGLN and AGUK whose name and address appear in the computerised records of AGLN and AGUK respectively.

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Wider communication

The Transfers Regulations contain provisions for notice of the proposed Transfers to be advertised in the London, Belfast and Edinburgh gazettes, The Times and The Financial Times. AGLN has a small number of insurance risks situated outside of the UK (namely, in Austria, France, Germany, Luxembourg and Ireland) and AGUK has a small number of insurance risks situated outside of the UK (namely Ireland) but subject to the Court's approval, notice of the proposed Transfers will not be published in these EEA states as these are not considered to have a significant number of policyholders.

The policyholders of these EEA states will receive the individual notifications (as described above), and/or be able to access the information on the Assured Guaranty website.

Both a full copy and the summary of this Report will be posted on the Assured Guaranty group website at the following location: *http://assuredguaranty.com/static/2018-combination*.

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