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

11 September 2020

Prepared by Kate Angell, Independent Expert

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Section 1: Introduction

Background

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

1.2 I, Kate Angell, have been appointed by Assured Guaranty (Europe) plc ("AGE plc") to act as the Independent Expert for the proposed scheme ("Proposed Scheme") which relates to the transfer of certain policies from AGE plc to Assured Guaranty (Europe) SA ("AGE SA").

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

1.4 AGE plc is incorporated in the UK, authorised by the Prudential Regulation Authority ("PRA") and regulated by the PRA and the Financial Conduct Authority ("FCA"). AGE SA is domiciled in France and is authorised and regulated by the Autorité de Contrôle Prudentiel et de Résolution ("the ACPR"). AGM is incorporated in the US and is authorised and regulated by the New York State Department of Financial Services ("NYDFS").

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

1.6 It is intended that the Effective Date of the transaction will be 1 October 2020.

1.7 My opinions on the effect of the Proposed Scheme were set out in my Scheme Report dated 20 September 2019, based on the information that was available to me when I prepared the Scheme Report.

Purpose and Scope

1.8 The Scheme Report was based on audited financial information in respect of AGE plc as at 31 December 2018 and financial projections performed by AGE plc based on this information, and my Scheme Report was finalised on 20 September 2019.

1.9 As envisaged in paragraph 1.41 of my Scheme Report, the purpose of this supplementary Scheme Report (the "Supplementary Report") is to specify whether the conclusions set out in my Scheme Report have changed in light of the availability of updated financial information and any material issues that have arisen since the dates noted in the previous paragraph.

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

1.10 In both the Scheme Report and this Supplementary Report (together referred to as the “Scheme Reports”), I have considered the Proposed Scheme and its likely effects on the following groups of policyholders:

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

1.11 Since the Scheme Report was drafted AGE SA has written (or is expected to have written in advance of the Effective Date of the Proposed Scheme) seven policies. At the time of drafting the Scheme Report there were no policyholders of AGE SA. As a result, in addition to the Remaining Policyholders and the Transferring Policyholders, this Supplementary Report also looks at the impact of the Proposed Scheme on this third group of policyholders whose insurance policies are remaining with AGE SA (the “Existing Policyholders”).

1.12 For each group of policyholders, I have considered the likely effects of the Proposed Scheme on the following areas:

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

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

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

1.14 I have therefore made the following comparisons:

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

1.15 For each of the areas noted in paragraph 1.12 above I considered whether the Remaining Policyholders, the Transferring Policyholders and the Existing Policyholders would be materially adversely affected under the Proposed Scheme.

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

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

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

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

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

1.17 This Supplementary Report must be considered in conjunction with my Scheme Report. All abbreviations and technical terms in this Supplementary Report have the same meaning as in my Scheme Report.

Statement of independence

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

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

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

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

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

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

Terms of reference

1.24 In connection with my appointment as the Independent Expert for the Proposed Scheme there is an engagement letter dated 25 October 2018 in place between Towers Watson Limited and AGE plc. The terms of reference for my review of the Proposed Scheme were agreed by AGE plc and have been seen by the PRA and FCA.

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

1.26 In preparing the Scheme Reports I have taken account of the following:

- Part 35 of the Civil Procedure Rules;
- The Practice Direction supplement to Part 35 of the Civil Procedure Rules;
- The protocol for the instruction of experts to give evidence in civil claims drafted by the Civil Justice Council;
- The guidance in SUP18 of the FCA Handbook and the “PRA’s Statement of Policy: The PRA’s approach to insurance business transfers” which sets out guidance on the form of the Scheme Report; and
- The FCA guidance entitled “FG18/4: The FCA’s approach to the review of Part VII insurance business transfers” which was issued on 29 May 2018.

Professional guidance

1.27 I am required to comply with relevant technical actuarial standards (“TASs”) issued or adopted by the Financial Reporting Council (“FRC”) in the UK, and relevant actuarial practice standards (“APSs”) issued by the Institute and Faculty of Actuaries (“IFoA”) in the UK. The Scheme Reports when considered together are in compliance with the principles of all applicable TASs and APSs. In particular, the Scheme Reports have been prepared in accordance with:

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

Peer review

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

Distribution

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

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

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

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

Reliances

1.32 In carrying out my review and producing this Supplementary Report I have relied without independent verification upon the accuracy and completeness of the data and information provided to me, both in written and oral form. Where possible, I have reviewed the information provided for reasonableness and consistency with my knowledge of the insurance and reinsurance industry. I have also spoken with representatives of AGE plc to discuss in detail the information which they have provided to me in relation to the Proposed Scheme. I consider it is reasonable for me to rely on these individuals since they are PRA and FCA approved persons or are senior professionals employed by AGE plc. Reliance has been placed upon, but not limited to, the information detailed in Section 2.

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

- All of the items of data and information which have been provided to me by AGE plc for the purposes of the Scheme Report and this Supplementary Report are accurate and complete.
- There are no significant errors or omissions in the descriptions in the Scheme Report or this Supplementary Report of the business of AGE plc, AGE SA or of the Proposed Scheme.
- There are no other material items of data and information which have not been provided to me by AGE plc and which are likely to be relevant to the Scheme Report or this Supplementary Report.

1.34 Based on my review, I am satisfied that the information detailed in Section 2 represents an appropriate basis for the conclusions set out in this Supplementary Report and I consider that it is reasonable for me to rely on this information. There is no information which I requested from AGE plc which has not been provided to me.

1.35 When producing this Supplementary Report, I have also relied upon all of the information provided to me previously for the purposes of producing my Scheme Report.

1.36 A draft of this Supplementary Report has been made available to the PRA and FCA whose comments have been taken into account. The PRA (in consultation with the FCA) has approved the form of the Scheme Reports.

Limitations

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

1.38 This Supplementary Report is based on:

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

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

1.40 The Scheme Reports must not be construed as legal, investment or tax advice.

1.41 Figures in all tables in the Scheme Reports are subject to possible rounding differences.

Legal jurisdiction

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

Exchange rate

1.43 AGE plc's 31 December 2019 exchange rate of €1 = £0.8458 has been used in producing the financial information provided for this report.

Structure of this Supplementary Report

1.44 The structure of this Supplementary Report is as follows:

- Section 1 summarises the scope of my work as the Independent Expert, including the purpose of this Supplementary Report;
- Sections 2 to 7 describe the further information I have considered, and the analysis and judgements I have made in arriving at my findings;
- Section 8 contains my conclusions and Statement of Truth; and
- The Appendix contains a glossary of terms.

Section 2: Overview of Methodology

Approach

2.1 The Scheme Report was based on audited financial information in respect of AGE plc as at 31 December 2018 and financial projections performed by AGE plc based on this information, and my Scheme Report was finalised on 20 September 2019.

2.2 I have requested and received additional information to assist me in considering whether the conclusions set out in my Scheme Report have changed in light of the availability of updated financial information and any material issues that have arisen since the dates noted in the previous paragraph.

2.3 In this Supplementary Report I have addressed any statements or assumptions made in my Scheme Report which I consider are no longer correct or reasonable in light of the additional information provided to me for the purposes of this Supplementary Report.

2.4 This Supplementary Report is based on financial information in respect of AGE plc and AGE SA based on management accounts as at 31 December 2019 and financial projections performed by AGE plc based on this information.

2.5 In the subsequent sections of this Supplementary Report I cover the following areas:

- Section 3 – The background to the Proposed Scheme, including further details of the financial information provided and details of the Transferring Policies and Transferring Assets.
- Section 4 – The balance sheets for AGE plc and AGE SA as at Q4 2019, including a comparison with the projected balance sheets at Q2 2019 as included in my Scheme Report.
- Section 5 – The capital requirements for AGE plc and AGE SA as at Q4 2019 on both a regulatory basis and according to AGE plc's capital model, together with the available capital on the respective bases.
- Section 6 – The projected capital requirements for AGE plc and AGE SA over the period 2020 to 2022 and under a number of alternative scenarios, on both a regulatory basis and according to AGE plc's capital model, together with the available capital on the respective bases.
- Section 7 – Other considerations arising from the Proposed Scheme, including the impact of COVID-19 on my conclusions and the levels of service provided to policyholders.

2.6 Details of the additional information I have received to produce this Supplementary Report is set out below.

Additional information received

2.7 I have based my conclusions in this Supplementary Report on the following additional information received from AGE plc, together with information which was used in preparing my Scheme Report. The additional information I have received includes:

Documents relating to the Proposed Scheme

- Final documentation for the Proposed Scheme, as presented at the Directions Hearing.
- Full details of any responses received or objections raised by policyholders, or other potentially affected parties, on the Proposed Scheme.
- Details of the legal advice received on the French pledge arrangements being established.
- Information on the operational and financial impacts of COVID-19 on both AGE plc and AGE SA

Documents relating to AGE plc

- Updated details of the policies remaining in AGE plc.
- GAAP and Solvency II balance sheets as at Q4 2019 on both a No Scheme and Post Scheme basis, and a reconciliation between the GAAP and Solvency II balance sheets.
- Capital requirements as at Q4 2019 and projected capital requirements for the period 2020 to 2022 and under a number of alternative scenarios, on both a No Scheme and Post Scheme basis and on both a regulatory basis and according to AGE plc's capital model.
- Financial information as at Q1 2020.

Documents relating to AGE SA

- Details of the new policies written by AGE SA and updated details of the policies to be transferred to AGE SA.
- GAAP and Solvency II balance sheets as at Q4 2019 on both a No Scheme and Post Scheme basis, and a reconciliation between the GAAP and Solvency II balance sheets.
- Capital requirements as at Q4 2019 and projected capital requirements for the period 2020 to 2022 and under a number of alternative scenarios, on both a No Scheme and Post Scheme basis and on both a regulatory basis and according to AGE plc's capital model.

2.8 This information and various oral supplementary information have been provided by the management team of AGE plc.

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

2.10 I have received statements of data accuracy signed by Nicholas Proud, Chief Executive (SMF1) of AGE plc which confirm the accuracy and completeness of the information provided to me in performing my Independent Expert role, in order to produce both my Scheme Report and this Supplementary Report.

Section 3: Background

Structure of Proposed Scheme

3.1 I am not aware of any changes to the Scheme documentation or structure of the Proposed Scheme compared with those on which my Scheme Report was based.

Business developments

3.2 I am aware of the following business developments since the production of my Scheme Report:

- At the time of writing my Scheme Report, AGE SA was in the process of obtaining authorisation from the ACPR. For the purposes of the Scheme Report I assumed that this authorisation would be obtained from the ACPR and therefore that AGE SA would be authorised and regulated by the ACPR. The required authorisation from the ACPR was obtained on 2 January 2020.

- AGE SA has written (or is due to write in advance of the Effective Date of the Proposed Scheme) seven policies since it was authorised by the ACPR. At the time of drafting the Scheme Report there were no policyholders of AGE SA. Under the Proposed Scheme these policyholders will remain with AGE SA. As a result, this Supplementary Report also considers the impact of the Proposed Scheme on this third group of policyholders (the “Existing Policyholders”).

- As discussed in paragraph 9.69 of my Scheme Report, certain policies of AGE plc insure policyholders who are located outside the current EEA. Such policies are typically governed by the law of the location of the policyholder under which it may not be clear how a Part VII transfer is to be treated.

  At the time of my Scheme Report, AGE plc had 17 policyholders from outside the current EEA (i.e. the EEA including the UK). Of these policies, 15 were due to remain in AGE plc under the Proposed Scheme and therefore the problem around the potential recognition of the Part VII for these policyholders does not arise.

  The other two policyholders are located in Jersey and were planned to be transferred to AGE SA under the Proposed Scheme. To ensure that there were no issues with the recognition of the Proposed Scheme for these Transferring Policyholders the express agreement of the policyholders to the transfer was going to be obtained by AGE plc.

  AGE plc now has 14 policyholders from outside the current EEA (i.e. the EEA including the UK). However, all of these policies are now going to remain in AGE plc and hence the problem around the potential recognition of the Part VII does not arise for any of these policyholders.

- The Assured Guaranty Group has recently acquired an asset management company with the aim of insourcing more investment management and increasing the investment returns achieved across the Assured Guaranty Group. As a result, there may be changes to the investment strategy of companies within the Assured Guaranty Group in the future but the details of these are currently unknown and will not come to fruition until some time after the Proposed Scheme has been effected. In addition, any such changes are likely to impact both AGE plc and AGE SA. As a result, I consider that this development does not change my conclusions from my Scheme Report.

3.3 I am not aware of any other business developments which could impact the conclusions set out in my Scheme Report.

Basis of financial information

3.4 My Scheme Report was based on:

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

3.5 This Supplementary Report is based on financial information in respect of AGE plc and AGE SA based on management accounts as at 31 December 2019 and financial projections performed by AGE plc based on this information. The financial information provided additionally allows for the following which occurred subsequent to 31 December 2019:

- Changes to the rating of individual transactions, as set internally by AGE plc;
- Updates to the probability of default assumption for certain sub-sovereign exposures;
- Some minor adjustments to reduce the benefit of collateral for reinsurers and increase the LGD for AGM;
- The inclusion of the seven policies which have been written by AGE SA, or which are due to close in advance of the Effective Date of the Proposed Scheme; and
- The use of discount rates as at 31 May 2020, rather than as at 31 December 2019.

3.6 I consider the inclusion of the changes listed above to result in the financial information used for this report to be a more appropriate representation of AGE plc's and AGE SA's current and projected financial position.

3.7 The updated financial information included in this Supplementary Report is therefore impacted by the business developments noted in paragraph 3.2 above, the changes listed in paragraph 3.4 above and the normal business developments which have occurred over the period since the financial information included in my Scheme Report was produced. As a result, the following are the key elements which have resulted in changes in the financial information which is included in this Supplementary Report:

- The inclusion of the seven policies which have been written by AGE SA, or which are due to close in advance of the Effective Date of the Proposed Scheme.
- An initial capitalisation of €28 million within AGE SA to enable the seven policies to be written in advance of the Proposed Scheme.
- A change in the approach to allocating the policies between AGE plc and AGE SA under the Proposed Scheme, as discussed in paragraph 3.11 below. As a result, some underperforming contracts which were previously transferring to AGE SA under the Proposed Scheme are now remaining in AGE plc.
- The impact of a new policy which was written into AGE plc in December 2019. This policy is remaining in AGE plc under the Proposed Scheme and is very long dated. It therefore has a disproportionate impact on the expense allowance and risk margin calculation for AGE plc.

- The use of discount rates as at 31 May 2020, which are significantly lower than those used previously. This particularly impacts the expense allowance and risk margin calculation.

3.8 There have also been two changes to the methodology and approach which underlie the ICA since my Scheme Report, as described in paragraph 5.1 of this Supplementary Report.

Transferring Policies

Approach to allocating policies

3.9 The existing portfolio of AGE plc comprises 262 policies on risk.

3.10 The overall approach to allocating the policies between AGE plc and AGE SA under the Proposed Scheme is largely unchanged from that set out in my Scheme Report, which is summarised as follows:

- All policies where the policyholder is located in the “post Brexit EEA” (i.e. the current EEA excluding the UK) are to be transferred to AGE SA.

- There are two exceptions to this approach:

  - If a policy relates to a transaction which has more than one financial guarantee provided to different beneficiaries, where some beneficiaries are located in the UK or outside of the current EEA, and some are located in the post Brexit EEA.

  - If a policy relates to a transaction where AGE plc also guarantees the issuer’s obligations under an interest rate swap in addition to the bond, and the beneficiary of the financial guarantee in relation to the loan is located in the UK but the beneficiary of the interest rate swap guarantee is located in the post Brexit EEA.

3.11 At the time of my Scheme Report, AGE plc had decided that policies which fell under the above exceptions should be transferred to AGE SA. However, following further discussions with their policyholders and legal advisors, AGE plc has now decided that these policies are now going to remain in AGE plc and, where appropriate, be dealt with on a bespoke individual basis.

3.12 This approach results in 79 policies being transferred to AGE SA under the Proposed Scheme, with 183 policies remaining within AGE plc and, including the seven new AGE SA policies, a total of 86 policies being in AGE SA immediately after the Proposed Scheme. This is summarised in the table below, together with a comparison of the equivalent figures which were included in my Scheme Report.

Table 3.1: Portfolio composition

Numbers of policies	AGE plc No Scheme	AGE plc Post Scheme	Impact of Proposed Scheme	AGE SA No Scheme	AGE SA Post Scheme	Impact of Proposed Scheme
Updated figures						
UK policies	159	159	-	-	-	-
Post Brexit EEA policies	89	10	(79)	7	86	79
Policies outside the current EEA	14	14	-	-	-	-
Total number of policies	**262**	**183**	**(79)**	**7**	**86**	**79**
Figures in Scheme Report						
UK policies	156	148	(8)	-	8	8
Post Brexit EEA policies	89	9	(80)	-	80	80
Policies outside the current EEA	17	15	(2)	-	2	2
Total number of policies	**262**	**172**	**(90)**	**-**	**90**	**90**
Movements since Scheme Report						
UK policies	3	11		-	(8)	
Post Brexit EEA policies	-	1		7	6	
Policies outside the current EEA	(3)	(1)		-	(2)	
Total number of policies	**-**	**11**		**7**	**(4)**	

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

- Ten Remaining Policies where a policyholder is located in the post Brexit EEA; and
- No Transferring Policies where a policyholder is located in the UK or outside the current EEA.

3.14 I still consider that the approach to allocating policies to be reasonable for the following reasons:

- In respect of the ten Remaining Policies where a policyholder is located in the post Brexit EEA, as noted in paragraph 3.7 of my Scheme Report, I do not consider any possible alternative schemes or arrangements which might provide a more efficient or effective outcome.

  I have therefore not considered the impact on these ten Remaining Policyholders of them not being included in the Proposed Scheme and therefore not transferring from AGE plc to AGE SA.

  I therefore consider the approach to allocating policies to be reasonable given that, in this Supplementary Report, I have concluded that the Remaining Policyholders will not be materially adversely affected by the Proposed Scheme.

AGE plc and AGE SA Post Scheme portfolios

3.15 For my Scheme Report I considered the following information in order to compare the AGE plc and AGE SA Post Scheme portfolios:

- The number of risks in each of the AGE plc and AGE SA Post Scheme portfolios;
- The rating of each transaction as set internally by AGE plc;
- The par value of each transaction on both a gross and net basis, as provided by AGE plc as at 31 December 2019; and
- The composition of the transactions by sector.

3.16 My analysis was set out in paragraphs 5.34 to 5.39 of my Scheme Report and I concluded that, although I noted some differences between the proportion of insurance liabilities per rating and some differences between the material sectors being covered, I did not consider that the overall composition of the AGE plc and AGE SA Post Scheme portfolios could materially impact the Transferring or Remaining Policyholders. In addition, I noted that the allocation of policies between AGE plc and AGE SA is driven by the purpose of the Proposed Scheme.

3.17 Given the change in the overall approach to allocating the policies between AGE plc and AGE SA under the Proposed Scheme I have updated my analysis (as described in paragraphs 5.34 to 5.39 of my Scheme Report) and have reached the same conclusion, which is that I do not consider that the overall composition of the AGE plc and AGE SA Post Scheme portfolios could materially impact the Remaining Policyholders, Transferring Policyholders or Existing Policyholders.

Transferring Assets

3.18 At the time of preparing the Scheme Report the investments which are to be transferred from AGE plc to AGE SA as part of the Proposed Scheme had not yet been finalised. I have now been provided with further details on the Transferring Assets as follows:

- A mixture of investment assets will be liquidated by AGE plc and the proceeds will be transferred to AGE SA according to the arrangement described in paragraph 5.41 of the Scheme Report.
- All of the investment assets to be liquidated by AGE plc will be Sterling denominated and will comprise a mixture of different security types.
- The proceeds will be used by AGE SA to purchase a mixture of Euro and US$ denominated investment assets. The mix of currencies for the investment assets has been selected in order to protect the capital position of AGE SA – with the liabilities of AGE SA being denominated in Euro and a component of the future expense provision being US$ denominated.

3.19 AGE plc has confirmed that the investment portfolio of AGE plc after the investment assets have been liquidated, and the investment portfolio of AGE SA after the purchase of the investment assets has been made, will continue to meet the investments guidelines which are in place. These investment guidelines are identical for AGE plc and AGE SA, except with respect to currency denominations (such that where the currency constraints within the investment guidelines refer to GBP for AGE plc they refer to Euros for AGE SA).

3.20 As a result, AGE plc plans to achieve an asset portfolio for both AGE plc and AGE SA after the Proposed Scheme of similar composition to that of the current AGE plc portfolio. I therefore consider that the Proposed Scheme will not adversely impact the quality of the investments for either AGE plc or AGE SA.

Reinsurance protection

3.21 The reinsurance arrangements have been finalised and there have been no changes from the draft versions as described in my Scheme Report. The new policies written by AGE SA are covered by these reinsurance arrangements in respect of AGE SA.

3.22 The collateral amounts for each of AGE plc and AGE SA on both a No Scheme and Post Scheme basis have changed to reflect the movements in the underlying unearned premium reserve and premiums payable. The collateral amounts are shown in the table below.

Table 3.2: Collateral Amounts

All in £ 000's	AGE plc No Scheme	AGE plc Post Scheme	AGE plc Impact of Proposed Scheme	AGE SA No Scheme	AGE SA Post Scheme	AGE SA Impact of Proposed Scheme
Updated figures						
Collateral amount	198,772	143,069	(55,703)	6,045	77,242	71,197
Figures in Scheme Report						
Collateral amount	209,641	137,266	(72,375)	-	104,687	104,687
Movements since Scheme Report						
Collateral amount	(10,869)	5,803	16,672	6,045	(27,445)	(33,490)

3.23 The sum of the collateral amounts for AGE plc and AGE SA in the Post Scheme Position is greater than the sum of the collateral amounts for AGE plc and AGE SA in the No Scheme Position. This is due to the planned increase in reinsurance from AGM, as described in paragraph 5.60 of my Scheme Report.

French pledge arrangements

3.24 As set out in paragraphs 5.61 and 5.62 of my Scheme Report the current collateral arrangements in place for AGE plc (in respect of the reinsurance arrangements with AGM, AGC and AGRe) will be replicated to cover AGE SA, with the collateral held in three newly set up French pledges, as opposed to the US trust fund arrangements which are in place for AGE plc.

3.25 Under the existing US trust fund arrangements, AGE plc is protected in the event of a default by one of its group reinsurers by being able to withdraw assets from the US trust fund. Similarly, under the French pledges, in the event that one of its group reinsurers defaults, AGE SA will be entitled to withdraw assets from the pledged account.

3.26 I have been provided with the executed French pledge agreement for AGM together with some legal advice obtained by AGE plc and AGE SA. This legal advice confirms that the French pledge arrangements would be recognised under the insolvency law governing the insolvency of each of the relevant reinsurers (namely AGM, AGC and AGRe). I therefore consider that the French pledge arrangements will protect AGE SA as effectively as the current US trust fund arrangements protect AGE plc, and that the French pledge arrangements would work as described in both my Scheme Report and this Supplementary Report.

3.27 I am not an expert on trust fund arrangements but given my review of the legal advice obtained and my discussions with AGE plc I am satisfied with the explanations provided and do not consider it is necessary for me to obtain independent legal advice on this issue.

Target Capital Policy

3.28 At the time of drafting my Scheme report, AGE plc was in the early stages of putting in place a target capital policy, with the intention of potentially paying dividends in the future consistent with a defined capital risk appetite.

3.29 The target capital policy has now been put in place and is specified in the form of maintaining a buffer above its SCR and ICA requirements. The target capital is specified as maintaining a capital surplus in excess of the ICA and SCR requirements such that there is no more than a x% chance that AGE plc will breach either its ICA or SCR capital requirements. The capital surplus is calculated using the ICA model either on a lifetime basis (when added to the ICA capital requirement) or on a 1-year basis (when added to the SCR).

3.30 In addition, the total capital held is subject to a minimum floor of a percentage of the SCR.

3.31 The target capital policy also includes an upper limit, above which the company is required to seek to redeploy capital, either via the payment of a dividend or deployment into new business activities. The upper limit is set as double the buffer above its SCR and ICA requirements, as described in paragraph 3.29 above, subject to a floor of a percentage of the SCR.

3.32 I understand that AGE SA has put in place a policy which is materially similar to AGE plc’s.

3.33 The value of the investment assets which are to be transferred from AGE plc to AGE SA as part of the Proposed Scheme has been determined such that AGE SA will meet its target capital immediately after the Effective Date of the transaction.

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Section 4: Balance Sheets

4.1 In this section I set out my review of the UK GAAP and Solvency II balance sheets of AGE plc and AGE SA, immediately before and after the Proposed Scheme. I consider the projected balance sheets over the period up to 2022 in Section 6 of this Supplementary Report.

Impact of the Proposed Scheme on the UK GAAP Balance sheets

4.2 The table below shows the balance sheets for AGE plc and AGE SA on a UK GAAP basis as at Q4 2019 immediately before and after application of the Proposed Scheme, along with the position from my Scheme Report and the differences between them.

4.3 As noted in paragraph 3.4 the financial information included in my Scheme Report was projected to Q2 2019, based on actual financial information as at 31 December 2018.

Table 4.1: UK GAAP balance sheets on a No Scheme and Post Scheme basis

All in £ 000's	AGE plc No Scheme	AGE plc Post Scheme	AGE plc Impact of Proposed Scheme	AGE SA No Scheme	AGE SA Post Scheme	AGE SA Impact of Proposed Scheme
Updated figures (as at Q4 2019)						
Assets						
Investments	809,967	706,032	(103,935)	21,021	92,941	71,920
Reinsurers' share of technical provisions	427,409	348,069	(79,340)	39,885	153,927	114,042
Debtors	565,570	515,437	(50,133)	47,921	101,653	53,732
Other assets including cash	16,373	16,373	-	5,010	5,010	-
Prepayments and accrued income	35,813	31,218	(4,595)	16	4,611	4,595
Total assets	**1,855,132**	**1,617,129**	**(238,003)**	**113,853**	**358,142**	**244,289**
Liabilities						
Technical provisions	710,059	607,021	(103,038)	44,317	147,355	103,038
Creditors	244,308	220,706	(23,602)	33,997	73,774	39,777
Accruals and deferred income	119,708	97,261	(22,447)	11,966	44,823	32,857
Total liabilities	**1,074,075**	**924,988**	**(149,087)**	**90,280**	**265,952**	**175,672**
Total Shareholders' Funds	**781,057**	**692,141**	**(88,916)**	**23,573**	**92,190**	**68,617**
Figures in Scheme Report (as at Q2 2019)						
Assets						
Investments	801,777	709,288	(92,489)	-	-	-
Reinsurers' share of technical provisions	452,474	338,159	(114,315)	-	186,708	186,708
Debtors	542,502	448,937	(93,565)	-	105,242	105,242
Other assets including cash	16,693	16,693	-	-	68,349	68,349
Prepayments and accrued income	36,639	30,694	(5,945)	-	5,916	5,916
Total assets	**1,850,085**	**1,543,771**	**(306,314)**	**-**	**366,215**	**366,215**
Liabilities						
Technical provisions	690,422	531,072	(159,350)	-	158,821	158,821
Creditors	255,037	211,678	(43,359)	-	84,074	84,074
Accruals and deferred income	125,364	94,845	(30,519)	-	51,320	51,320
Total liabilities	**1,070,823**	**837,595**	**(233,228)**	**-**	**294,215**	**294,215**
Total Shareholders' Funds	**779,262**	**706,176**	**(73,086)**	**-**	**72,000**	**72,000**
Movements since Scheme Report						
Assets						
Investments	8,190	(3,256)	(11,446)	21,021	92,941	71,920
Reinsurers' share of technical provisions	(25,065)	9,910	34,975	39,885	(32,781)	(72,666)
Debtors	23,068	66,500	43,432	47,921	(3,589)	(51,510)
Other assets including cash	(320)	(320)	-	5,010	(63,339)	(68,349)
Prepayments and accrued income	(826)	524	1,350	16	(1,305)	(1,321)
Total assets	**5,047**	**73,358**	**68,311**	**113,853**	**(8,073)**	**(121,926)**
Liabilities						
Technical provisions	19,637	75,949	56,312	44,317	(11,466)	(55,783)
Creditors	(10,729)	9,028	19,757	33,997	(10,300)	(44,297)
Accruals and deferred income	(5,656)	2,416	8,072	11,966	(6,497)	(18,463)
Total liabilities	**3,252**	**87,393**	**84,141**	**90,280**	**(28,263)**	**(118,543)**
Total Shareholders' Funds	**1,795**	**(14,035)**	**(15,830)**	**23,573**	**20,190**	**(3,383)**

4.4 The sum of the overall balance sheets for AGE plc and AGE SA on a Post Scheme basis is broadly equivalent to that for AGE plc and AGE SA on a No Scheme basis. The key difference arises due to the planned increase in reinsurance from AGM, as described in paragraph 5.60 of my Scheme Report.

4.5 Since my Scheme Report was drafted, the balance sheets for AGE plc and AGE SA have been revised to reflect the changes highlighted in paragraph 3.7 of this report, including the reduction in the number of Transferring Policies. For AGE SA the changes also include allowing for the new policies written prior to the Effective Date and the impact of the injection of initial funds of €28 million from AGM in order to capitalise AGE SA, which increases the Shareholders' Funds for AGE SA on a No Scheme basis.

4.6 The value of the investment assets which are to be transferred from AGE plc to AGE SA as part of the Proposed Scheme has been determined such that AGE SA will meet its target capital immediately after the Effective Date of the transaction. The target capital has been set based on maintaining a buffer above its SCR and ICA requirements, as described in paragraph 3.29 of this Supplementary Report, with the SCR coverage ratio being significantly in excess of the minimum floor specified in the target capital policy. On a Post Scheme basis the increase in the Shareholders' Funds for AGE SA, compared with those set out in my Scheme Report, is driven by the adverse impact of the reduction in discount rates and the changes to the methodology and approach which underlie the ICA, which are described in paragraph 5.1 of this Supplementary Report.

4.7 The Proposed Scheme results in a reduction in Shareholders' Funds of £88.9 million for AGE plc and an increase in Shareholders' Funds of £68.6 million for AGE SA. Hence, overall there is a reduction in Shareholders' Funds of £20.3 million as a result of the Proposed Scheme. As noted in paragraph 4.5 above, AGM made an injection of initial funds in order to capitalise AGE SA. This was in part satisfaction of AGM's obligation to capitalise AGE SA under the Framework Agreement. As AGE plc has not made an equivalent payment in part satisfaction of its equivalent obligation to pay AGM a dividend under the Framework Agreement, the amount of AGE plc's dividend to AGM at the Effective Date is going to exceed AGM's further capital injection into AGE SA at the Effective Date by a materially similar balancing amount. This results in an overall reduction in Shareholders' Funds as a result of the Proposed Scheme when just looking at the position immediately before and after the Effective Date as shown in the table above.

4.8 In respect of the Transferring Assets it is now assumed that some investments are held by AGE SA (with a corresponding reduction in the cash balance). This is as expected as explained in paragraphs 6.7 and 6.8 of my Scheme Report.

4.9 There are no other material movements in the balance sheet items since my Scheme Report.

4.10 The table below shows the technical provisions for AGE plc and AGE SA on a UK GAAP basis as at Q4 2019 immediately before and after application of the Proposed Scheme, along with the Q2 2019 position and the difference between them.

Table 4.2: UK GAAP technical provisions on a No Scheme and Post Scheme basis

All in £ 000's	AGE plc No Scheme	AGE plc Post Scheme	AGE plc Impact of Proposed Scheme	AGE SA No Scheme	AGE SA Post Scheme	AGE SA Impact of Proposed Scheme
Updated figures (as at Q4 2019)						
Gross unearned premium reserve	670,141	571,666	(98,475)	44,317	142,792	98,475
Gross unexpired risk reserve	9,394	4,831	(4,563)	-	4,563	4,563
Gross claims outstanding reserve	30,524	30,524	-	-	-	-
Total gross technical provisions	**710,059**	**607,021**	**(103,038)**	**44,317**	**147,355**	**103,038**
Figures in Scheme Report (as at Q2 2019)						
Gross unearned premium reserve	646,946	503,740	(143,206)	-	142,677	142,677
Gross unexpired risk reserve	16,246	102	(16,144)	-	16,144	16,144
Gross claims outstanding reserve	27,230	27,230	-	-	-	-
Total gross technical provisions	**690,422**	**531,072**	**(159,350)**	**-**	**158,821**	**158,821**
Movements since Scheme Report						
Gross unearned premium reserve	23,195	67,926	44,731	44,317	115	(44,202)
Gross unexpired risk reserve	(6,852)	4,729	11,581	-	(11,581)	(11,581)
Gross claims outstanding reserve	3,294	3,294	-	-	-	-
Total gross technical provisions	**19,637**	**75,949**	**56,312**	**44,317**	**(11,466)**	**(55,783)**

4.11 The majority of the gross technical provisions relate to the unearned premium reserve. This has seen some movements since the Scheme Report (beyond that which would have been expected purely due to the passage of time) as a result of policies either expiring or being terminated, together with the addition of some newly written policies to the portfolio, including the new policies in AGE SA.

4.12 The unexpired risk reserve relates to the under-performing transactions (referred to as “Below Investment Grade” or “BIG” deals) on which AGE plc expects to incur a loss. This has reduced since the Scheme Report as a result of an upgrade to the rating for some of the BIG policies.

4.13 There has been a reduction in the proportion of BIG policies which are transferring to AGE SA under the Proposed Scheme, due to the change in the approach to allocating the policies between AGE plc and AGE SA.

4.14 The reserve for claims outstanding relates to the “Ballantyne” adversely-performing policy which has increased since the Scheme Report to reflect the restructuring of this transaction, as explained in paragraph 9.5 of the Scheme Report.

Impact of the Proposed Scheme on the Solvency II Balance sheets

4.15 The table below shows the balance sheets for AGE plc and AGE SA on a Solvency II basis as at Q4 2019 immediately before and after application of the Proposed Scheme, along with the Q2 2019 position and the difference between them.

Table 4.3: Solvency II balance sheets on a No Scheme and Post Scheme basis

All in £ 000's	AGE plc No Scheme	AGE plc Post Scheme	AGE plc Impact of Proposed Scheme	AGE SA No Scheme	AGE SA Post Scheme	AGE SA Impact of Proposed Scheme
Updated figures (as at Q4 2019)						
Assets						
Deferred tax assets	31,333	26,026	(5,307)	10	10	-
Investments	816,321	712,386	(103,935)	21,021	92,957	71,936
Reinsurance recoverables	(68,762)	(82,899)	(14,137)	(16,070)	(189)	15,882
Cash and cash equivalents	15,000	15,000	-	5,000	5,000	-
Total assets	**793,892**	**670,513**	**(123,379)**	**9,961**	**97,779**	**87,818**
Liabilities						
Best estimate	(145,034)	(161,283)	(16,249)	(13,902)	27,659	41,561
Risk margin	306,333	262,206	(44,127)	6,491	12,924	6,433
Payables (trade, not insurance)	1,836	1,836	-	-	-	-
Total liabilities	**163,135**	**102,759**	**(60,376)**	**(7,411)**	**40,583**	**47,994**
Own Funds	**630,757**	**567,754**	**(63,003)**	**17,372**	**57,196**	**39,824**
Tier 1 assets	*599,424*	*541,728*	*(57,696)*	*17,362*	*57,186*	*39,824*
Tier 3 assets	*31,333*	*26,026*	*(5,307)*	*10*	*10*	*-*
Figures in Scheme Report (as at Q2 2019)						
Assets						
Deferred tax assets	17,168	17,726	558	-	-	-
Investments	809,329	716,840	(92,489)	-	-	-
Reinsurance recoverables	(37,640)	(55,030)	(17,390)	-	17,685	17,685
Cash and cash equivalents	15,000	15,000	-	-	68,348	68,348
Total assets	**803,857**	**694,536**	**(109,321)**	**-**	**86,033**	**86,033**
Liabilities						
Best estimate	(104,382)	(117,323)	(12,941)	-	40,641	40,641
Risk margin	212,796	186,417	(26,379)	-	13,197	13,197
Payables (trade, not insurance)	1,027	1,027	-	-	-	-
Total liabilities	**109,441**	**70,121**	**(39,320)**	**-**	**53,838**	**53,838**
Own Funds	**694,416**	**624,415**	**(70,001)**	**-**	**32,195**	**32,195**
Tier 1 assets	*677,248*	*606,689*	*(70,559)*	*-*	*32,195*	*32,195*
Tier 3 assets	*17,168*	*17,726*	*558*	*-*	*-*	*-*
Movements since Scheme Report						
Assets						
Deferred tax assets	14,165	8,300	(5,865)	10	10	-
Investments	6,992	(4,454)	(11,446)	21,021	92,957	71,936
Reinsurance recoverables	(31,122)	(27,869)	3,253	(16,070)	(17,874)	(1,803)
Cash and cash equivalents	-	-	-	5,000	(63,348)	(68,348)
Total assets	**(9,965)**	**(24,023)**	**(14,058)**	**9,961**	**11,746**	**1,785**
Liabilities						
Best estimate	(40,652)	(43,960)	(3,308)	(13,902)	(12,982)	920
Risk margin	93,537	75,789	(17,748)	6,491	(273)	(6,764)
Payables (trade, not insurance)	809	809	-	-	-	-
Total liabilities	**53,694**	**32,638**	**(21,056)**	**(7,411)**	**(13,255)**	**(5,844)**
Own Funds	**(63,659)**	**(56,661)**	**6,998**	**17,372**	**25,001**	**7,629**
Tier 1 assets	*(77,824)*	*(64,961)*	*12,863*	*17,362*	*24,991*	*7,629*
Tier 3 assets	*14,165*	*8,300*	*(5,865)*	*10*	*10*	*-*

4.16 The sum of the overall balance sheets for AGE plc and AGE SA on a Solvency II Post Scheme basis is broadly equivalent to that for AGE plc and AGE SA on a No Scheme basis. As discussed in my Scheme Report the key differences are:

- The impact of the planned increase in reinsurance from AGM;

- An increase in the overall best estimate when moving to the Post Scheme basis, which is driven by an increase in the allowance for expenses which is incorporated; and
- A reduction in the overall risk margin when moving to the Post Scheme basis.

4.17 In respect of the impact of the Proposed Scheme on the gross best estimate liabilities, the best estimate liabilities for the Transferring Business within AGE plc amount to £16.249 million. However, the increase in the best estimate liabilities for the Transferring Business within AGE SA amounts to £41.561 million. Both of these figures can be seen in Table 4.3 above. The difference between the two figures – of £25.312 million – is driven by the increase in the allowance for expenses which is incorporated by AGE SA compared with AGE plc, as noted in the previous paragraph. This increase reflects the requirement under Solvency II to reserve for expenses for the full run-off period of the incepted policies and the incremental run-off costs for operating two separate legal entities after the Proposed Scheme (resulting in higher expenses being forecast by AGE SA than those forecast by AGE plc for the equivalent business).

4.18 The Proposed Scheme results in a reduction in Solvency II Own Funds of £63.0 million for AGE plc and an increase in Solvency II Own Funds of £39.8 million for AGE SA. Hence, overall there is a reduction in Solvency II Own Funds of £23.2 million as a result of the Proposed Scheme. This is comparable to the reduction in Shareholders' Funds on a UK GAAP basis of £20.3 million as a result of the Proposed Scheme, as discussed in paragraph 4.7. However, on a Solvency II basis the individual movements in assets and liabilities as a result of the Proposed Scheme are materially different to the individual movements in the assets and liabilities on a UK GAAP basis. In addition to the reasons discussed in the previous two paragraphs this is also driven by the alternative treatments of the amounts for 'creditors arising out of reinsurance operations' and 'deferred reinsurance commission' which on a UK GAAP basis are held as liabilities on the balance sheet but on a Solvency II basis are netted off the reinsurance recoverable amount held on the asset side of the balance sheet.

UK GAAP to Solvency II

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

Table 4.4: Movement in Own Funds from UK GAAP to Solvency II basis

All in £ 000's	AGE plc No Scheme	AGE plc Post Scheme	AGE SA No Scheme	AGE SA Post Scheme
UK GAAP Shareholders' Funds	781,057	692,141	23,573	92,190
Solvency II Own Funds	630,757	567,754	17,372	57,196
Movement	**(150,300)**	**(124,387)**	**(6,201)**	**(34,994)**

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

Table 4.5: Movement in Own Funds from UK GAAP to Solvency II basis

All in £ 000's	AGE plc No Scheme	AGE plc Post Scheme	AGE SA No Scheme	AGE SA Post Scheme
Movement from UK GAAP reserves to Solvency II Technical Provisions, which comprises of:	(268,673)	(219,601)	(18,166)	(75,206)
Movement in best estimate reserves	37,660	42,605	(11,675)	(62,282)
Inclusion of risk margin	(306,333)	(262,206)	(6,491)	(12,924)
Removal of deferred acquisition costs and deferred reinsurance commissions	89,339	71,487	11,965	40,212
Increase in deferred tax asset	30,596	25,289	-	-
Other adjustments	(1,562)	(1,562)	-	-
Total movement	**(150,300)**	**(124,387)**	**(6,201)**	**(34,994)**

4.21 The above movements are driven by the reasons set out in my Scheme Report and are largely comparable in magnitude, although I note that the magnitude of the movements in the best estimate reserves and risk margin have increased. This is driven by the reduction in the discount rates used as discussed in paragraph 3.7 of this report.

4.22 In addition, I note that for AGE SA, there is an increase in the Solvency II Technical Provisions compared with the UK GAAP reserves and, therefore, a reduction in Own Funds when moving from a UK GAAP to Solvency II basis on both a No Scheme and Post Scheme basis.

- On a No Scheme basis this is driven by the high expense loading for AGE SA compared with the unearned premium (and therefore also compared with the profit in the unearned premium, the removal of which would usually drive a reduction in the Solvency II Technical Provisions compared with the UK GAAP reserves).

- On a Post Scheme basis the increase in the Solvency II Technical Provisions compared with the UK GAAP reserves is driven by the reasons set out in paragraph 6.25 of my Scheme Report, namely as a result of AGE SA's inward premium receivable being less than the outward reinsurance premium payable, reflecting the current fair value of premium that AGE SA will be paying AGM in connection with certain of the AGE plc legacy business for which AGM will be providing 90% quota share reinsurance.

Premiums and claims reserving

4.23 I understand that there have been no changes to the premiums and claims reserving processes since my Scheme Report.

Investments

4.24 As noted in paragraph 3.19, the investment guidelines are largely identical for AGE plc and AGE SA. There have been no material changes to the investment strategy of either AGE plc or AGE SA since my Scheme Report, although the maximum allocation of investments in corporate bonds has been increased to enable the companies to take advantage of the current market conditions.

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Section 5: Capital Requirements

Changes to capital models

5.1 I understand that there have been two changes to the methodology and approach which underlie the ICA since my Scheme Report. These are as follows:

- The operational risk charge included in the ICA was previously assessed based on the Solvency II Standard Formula specification. Since my Scheme Report was drafted the operational risk allowance has been reviewed and is now assessed using a bespoke approach rather than the Standard Formula specification as AGE plc felt that the allowance for operational risk included in the Standard Formula was too low. This change has therefore resulted in an increase in the ICA.

- The approach to calculating the ICA coverage ratios has been amended. At the time of my Scheme Report, the ICA coverage ratios were calculated based on the available "Capital Resources" and the ICA amount calculated. At that time, the Capital Resources were calculated by taking the Shareholder's Funds on a UK GAAP basis and including the additional resources which are contractually available over the life of the liabilities included within the ECM (consistent with the time period considered by the ECM). The additional resources included were:

  - Unearned portion of upfront premiums and ceding commissions;

  - Present value of future instalment premiums and future ceding commissions; and

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

  This approach has now been amended such that the expense provision is now deducted from the Capital Resources amount rather than being included in the ICA amount. This change in approach makes the calculated ICA coverage ratios more consistent with the Solvency II approach.

5.2 The changes to the Solvency II Standard Formula are discussed in paragraph 5.5 below.

5.3 These changes to the ICA and Standard Formula do not affect my view on the appropriateness of the capital models as set out in paragraphs 7.45 of my Scheme Report.

Coverage ratios on Solvency II basis

5.4 The table below shows the Standard Formula SCR results as at Q4 2019, immediately before and after application of the Proposed Scheme, along with the results projected as at Q2 2019 and the difference between them.

5.5 Since my Scheme Report was drafted the proposed changes to the Standard Formula have now been agreed by the European Parliament and Council and published in Commission Delegated Regulation (EU) 2019/981. The figures in the table below (and unless otherwise stated any other Standard Formula numbers in this Supplementary Report) are shown on the revised basis and therefore incorporate these recent changes (including those which did not come into effect until 1 January 2020).

Table 5.1: Solvency II capital requirements

All in £ 000's	AGE plc No Scheme	AGE plc Post Scheme	AGE plc Impact of Proposed Scheme	AGE SA No Scheme	AGE SA Post Scheme	AGE SA Impact of Proposed Scheme
Updated figures						
Standard Formula SCR	336,643	322,296	(14,347)	8,569	17,754	9,185
Solvency II Own Funds	630,757	567,754	(63,003)	17,372	57,196	39,824
SCR Coverage Ratio	187%	176%	-11%	203%	322%	119%
Figures in Scheme Report						
Standard Formula SCR	305,189	285,565	(19,624)	-	16,999	16,999
Solvency II Own Funds	694,416	624,415	(70,001)	-	32,195	32,195
SCR Coverage Ratio	228%	219%	-9%	-	189%	189%
Movements since Scheme Report						
Standard Formula SCR	31,454	36,731	5,277	8,569	755	(7,814)
Solvency II Own Funds	(63,659)	(56,661)	6,998	17,372	25,001	7,629
SCR Coverage Ratio	-41%	-43%	-2%	203%	133%	-70%

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

5.7 In terms of the coverage ratios, the SCR coverage ratio decreases for the Remaining Policyholders as a result of the Proposed Scheme (from 187% to 176%) although it remains well above 100%.

5.8 The SCR coverage ratio increases for both the Transferring Policyholders (from 187% to 322%) and the Existing Policyholders (from 203% to 322%) as a result of the Proposed Scheme. The much higher SCR coverage ratio for AGE SA after the Proposed Scheme is driven by the increase in the assets held on a Post Scheme basis. The increase in the assets held by AGE SA on a Post Scheme basis, which has been determined such that AGE SA will meet its target capital immediately after the Effective Date of the transaction, is driven by the adverse impact of the reduction in discount rates and the changes to the methodology and approach which underlie the ICA, as described in paragraph 5.1 above.

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

Coverage ratios on ICA basis

5.10 AGE plc has also calculated its ICA as at Q4 2019 immediately before and after the application of the Proposed Scheme. The results of the ICA (and ECM) are not in the public domain and therefore I have not included the results of these calculations in this report. I instead discuss their relativities before and after the Proposed Scheme and the manner of their changes.

5.11 As expected, the ICA for AGE plc and AGE SA combined after the Proposed Scheme is lower than the combined figure for AGE plc and AGE SA before the Proposed Scheme, due to the additional reinsurance that the AGE plc legacy business will benefit from when transferring to AGE SA.

5.12 The application of the Proposed Scheme results in a marginal increase in the ICA coverage ratio for AGE plc.

5.13 The ICA coverage ratio for AGE SA decreases as a result of the Proposed Scheme and is lower than that for AGE plc both before and after the Proposed Scheme. Hence the ICA coverage ratio for both the Transferring Policyholders and the Existing Policyholders is weakened by the Proposed Scheme.

5.14 As noted in paragraph 3.33, the value of the investment assets which are to be transferred from AGE plc to AGE SA as part of the Proposed Scheme has been determined such that AGE SA will meet its target capital immediately after the Effective Date of the transaction. As a result, AGE SA will meet its target capital immediately after the Proposed Scheme.

5.15 Hence, although the ICA coverage ratio for the Transferring Policyholders and the Existing Policyholders is weakened by the Proposed Scheme, AGE SA meets its target capital immediately after the Proposed Scheme and AGE SA's ICA coverage ratio remains above 120% (and therefore well above 100%) after the Proposed Scheme, with a surplus of capital.

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

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

Probability of insolvency

5.18 I also considered the impact of the Proposed Scheme on the probability of insolvency for both AGE plc and AGE SA in my Scheme Report, and the probabilities of insolvency are materially unchanged since then. As a result, based on the methods and assumptions underlying the ICA, the probability of AGE plc remaining solvent on a No Scheme basis is 99.99% over the lifetime of the existing policies. This probability remains unchanged after the Proposed Scheme. As a result, based on the methods and assumptions underlying the ICA, there is no change in the probability of their insurer remaining solvent for the Remaining Policyholders as a result of the Proposed Scheme.

5.19 For AGE SA, based on the methods and assumptions underlying the ICA, the probability of remaining solvent over the lifetime of the existing policies is 99.7% on both a No Scheme and Post Scheme basis. Based on the methods and assumptions underlying the ICA, there is therefore no change in the probability of their insurer remaining solvent for the Existing Policyholders as a result of the Proposed Scheme

5.20 For the Transferring Policyholders, there is a reduction in the probability of their insurer remaining solvent of just under 0.3% (from 99.99% to 99.7%), which in my opinion is not a material reduction. In addition, these probabilities do not make allowance for any recoveries under the NWM agreement. Although I have not relied on this agreement in order to reach my conclusions, I consider that it provides valuable additional protection to the Transferring Policyholders on both a No Scheme and Post Scheme basis.

Conclusions

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

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

5.23 After the Proposed Scheme, the Transferring Policyholders and the Existing Policyholders will have policies with AGE SA. As a result of the Proposed Scheme the SCR coverage ratio will increase for the Transferring Policyholders and the Existing Policyholders. Immediately after the Proposed Scheme, AGE SA is projected to have Capital Resources which exceed its ICA, however the ICA coverage ratio for the Transferring Policyholders and the Existing Policyholders is weakened by the Proposed Scheme.

5.24 The value of the investment assets which are to be transferred from AGE plc to AGE SA as part of the Proposed Scheme has been determined such that AGE SA will meet its target capital immediately after the Effective Date of the transaction. As a result, AGE SA will meet its target capital immediately after the Proposed Scheme. Hence, although the ICA coverage ratio for the Transferring Policyholders and the Existing Policyholders is weakened by the Proposed Scheme, AGE SA will meet its target capital immediately after the Proposed Scheme and AGE SA's ICA coverage ratio will remain above 120% (and therefore well above 100%) after the Proposed Scheme, with a surplus of capital.

5.25 This means that for AGE SA, based on the methods and assumptions underlying the ICA, the probability of remaining solvent over the lifetime of the existing policies is 99.7% on both a No Scheme and a Post Scheme basis. As a result, based on the methods and assumptions underlying the ICA, there is therefore no change in the probability of their insurer remaining solvent for the Existing Policyholders. For the Transferring Policyholders, based on the methods and assumptions underlying the ICA, there is therefore a reduction in the probability of their insurer remaining solvent of just under 0.3% (from 99.99% to 99.7%), which in my opinion is not a material reduction. In addition, these probabilities do not make allowance for any recoveries under the NWM agreement. Although I have not relied on this agreement in order to reach my conclusions, I consider that it provides valuable additional protection to the Transferring Policyholders on both a No Scheme and Post Scheme basis.

5.26 Based on the information set out above, my conclusions therefore remain unchanged from those set out in paragraph 7.51 of my Scheme Report. Consequently, I consider that the security of the Remaining Policyholders and the Transferring Policyholders will not be materially adversely affected immediately after the Proposed Scheme. In addition, I consider that the security of the Existing Policyholders will not be materially adversely affected immediately after the Proposed Scheme.

Section 6: Projections and scenarios

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

6.2 As noted in paragraph 8.2 of the Scheme Report, the capital projections and scenarios set out in the Scheme Report did not reflect the portfolio of Transferring Policies as set out in Table 5.3 of the Scheme Report due to a late update to the Transferring Policies. This is no longer relevant, and the capital projections and scenarios set out in this Supplementary Report reflect the final portfolio of Transferring Policies as set out in Table 3.1 of this Supplementary Report.

UK GAAP Balance sheet projection

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

Table 6.1: Projected Shareholders' Funds

All in £000's	Q4 2019	2020	2021	2022
AGE plc - No Scheme				
Shareholders' Funds	781,057	797,405	816,469	836,144
AGE plc - Post Scheme				
Shareholders' Funds	692,141	708,917	727,021	745,288
AGE SA - No Scheme				
Shareholders' Funds	23,573	18,810	14,416	10,362
AGE SA - Post Scheme				
Shareholders' Funds	92,190	88,002	84,021	80,329

6.4 The projected Shareholders' Funds all show a materially similar pattern of development over the period shown as was seen in my Scheme Report and described in paragraphs 8.8 and 8.9 of that report. In particular I note that the Shareholders' Funds for AGE SA are expected to reduce over the period, driven by the high expense base given the premium volume. AGE SA is not expected to be profitable until the projected new business volumes become sufficient to support the expense base.

6.5 AGE plc is projected to have a lower expense ratio and to be profitable over the projected period considered. However, given the long-term nature of the policies underwritten and the SCR / ICA coverage ratios (as discussed below) I do not consider that this short-term unprofitability of AGE SA materially adversely affects the security of the Transferring Policyholders.

Projected SCR coverage ratios

6.6 The table below shows the impact of the Proposed Scheme on key Solvency II metrics for the Transfer Companies from Q4 2019 to year-end 2022. The projections set out in the table below are on a post-tax basis, make no allowance for any dividend payments and include the estimated costs of the Proposed Scheme.

Table 6.2: Key projected Solvency II metrics

All in £000's	Q4 2019	2020	2021	2022
AGE plc – No Scheme				
Solvency II Own Funds	630,757	644,725	676,486	682,778
SCR	336,643	337,853	309,257	310,799
SCR coverage ratios	187%	191%	219%	220%
AGE plc – Post Scheme				
Solvency II Own Funds	567,754	579,369	609,294	615,861
SCR	322,296	321,018	290,808	290,486
SCR coverage ratios	176%	180%	210%	212%
AGE SA – No Scheme				
Solvency II Own Funds	17,372	11,520	2,915	(6,570)
SCR	8,569	8,299	9,394	10,724
SCR coverage ratios	203%	139%	31%	-61%
AGE SA – Post Scheme				
Solvency II Own Funds	57,196	51,058	55,644	59,631
SCR	17,754	17,311	16,300	16,322
SCR coverage ratios	322%	295%	341%	365%

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

6.8 The projected Solvency II Own Funds for AGE plc (in both the No Scheme and Post Scheme Position) increase over time as the result of planned profitable new business. The SCR is projected to reduce from 2020 due to the expiry of some existing business. Together these changes lead to an overall increasing trend from Q4 2019 in the SCR coverage ratio.

6.9 For AGE SA, negative cashflows are projected until the volume of new business becomes sufficient to offset the expense base. Profitable new business leads to an increase in Solvency II Own Funds, as the profit is recognised upfront under the Solvency II regulations.

6.10 The interaction of these changes results in the projected Own Funds for AGE SA on a No Scheme basis becoming negative, while the SCR increases due to planned new business. As a result, the SCR coverage ratios for AGE SA on a No Scheme basis are projected to decrease significantly over the period.

6.11 For AGE SA on a Post Scheme basis, overall the Solvency II Own Funds marginally increase over the whole period considered and the SCR is set to reduce over time, due to the expiry of some existing business. Overall, there is an increasing trend in the SCR coverage ratio over time following the Proposed Scheme.

Projected ICA coverage ratios

6.12 I have also considered the impact of the Proposed Scheme on the ICA coverage ratios for AGE plc and AGE SA.

6.13 As for my Scheme Report, the ICA coverage ratios move in a broadly similar direction to those on a Solvency II basis, with the ICA coverage ratios projected to increase from Q4 2019 to year-end 2022 for AGE plc on a No Scheme basis and for both AGE plc and AGE SA on a Post Scheme basis. The ICA coverage ratios for AGE SA on a No Scheme basis are projected to decrease significantly over the period.

6.14 The Proposed Scheme will result in ICA coverage ratios remaining above 120% (and therefore well above 100%) for both AGE SA and AGE plc on a Post Scheme basis from Q4 2019 to year-end 2022.

Impact of changes to the Standard Formula SCR

6.15 The changes to the Standard Formula have now been implemented as noted in paragraph 5.5 of this Supplementary Report and therefore this scenario is no longer relevant.

Scenarios

Impact of no new business

6.16 The table below has been produced on the same basis as Table 6.1 above, however the projections do not allow for any new business after the Effective Date of the Proposed Scheme. I have also considered the impact of the same scenario on the projected metrics on an ICA basis.

Table 6.3: Key projected Solvency II metrics: No new business

All in £000's	Q4 2019	2020	2021	2022
AGE plc – No Scheme				
Solvency II Own Funds	631,050	643,831	673,699	675,586
SCR	336,643	331,037	296,322	292,300
Solvency II coverage ratio	187%	194%	227%	231%
AGE plc – Post Scheme				
Solvency II Own Funds	566,563	575,946	602,770	604,714
SCR	322,296	317,571	283,226	279,102
Solvency II coverage ratio	176%	181%	213%	217%
AGE SA – No Scheme				
Solvency II Own Funds	17,372	11,524	5,642	(749)
SCR	8,569	8,319	7,799	7,532
Solvency II coverage ratio	203%	139%	72%	-10%
AGE SA – Post Scheme				
Solvency II Own Funds	57,197	51,577	47,093	42,208
SCR	17,754	17,138	15,855	14,682
Solvency II coverage ratio	322%	301%	297%	287%

6.17 The no new business scenario gives similar results to the same scenario set out in my Scheme Report, with the interaction of the changes in the projected Own Funds and SCR resulting in projected increasing SCR coverage ratios for AGE plc on both a No Scheme and Post Scheme basis.

6.18 For AGE SA on both a No Scheme and Post Scheme basis, the interaction results in the SCR coverage ratio being projected to reduce over the period to 2022, although on a Post Scheme basis it remains significantly in excess of the minimum regulatory requirement for the period considered.

6.19 On an ICA basis, the interaction of the changes in the projected Capital Resources and ICA results in a similar trend for the ICA coverage ratios for AGE plc – with the ICA coverage ratios for AGE plc projected to increase over the period to 2022 on both a No Scheme and Post Scheme basis.

6.20 For AGE SA on a No Scheme basis the ICA coverage ratios are projected to decrease over the period to 2022. For AGE SA on a Post Scheme basis the ICA coverage ratios are projected to remain largely flat over the period to 2022.

Other Scenarios

6.21 AGE plc has re-run a selection of the stress scenarios which were produced for the Scheme Report. I instructed AGE plc which stress scenarios to re-run, and these were selected as the most material stresses which were most likely to affect the conclusions set out in my Scheme Report.

6.22 I note that none of the scenarios which were produced for my Scheme Report have occurred since I prepared the Scheme Report and I do not consider that a material positive correlation has arisen between the likelihoods of these scenarios occurring.

6.23 AGE plc has re-run the following stress scenarios as at Q4 2019 for AGE plc on a Post Scheme basis:

- Default of the individual deal with the largest potential loss; and
- Default of the individual deal with the largest exposure.

6.24 AGE plc has re-run the following stress scenarios as at Q4 2019 for AGE SA, again on a Post Scheme basis:

- Default of the individual deal with the largest potential loss;
- Default of the individual deal with the largest exposure;
- Default by all BIG exposures;
- Default by Spain sub-sovereign;
- Downgrade of all the internally-rated exposures and reinsurers by two notches; and
- Default by all affiliated reinsurers.

Conclusions for Remaining Policyholders

6.25 On a Post Scheme basis, the SCR coverage ratios for AGE plc fall below 120% for both of the re-run stressed scenarios but remain in excess of 100%. On an ICA basis, the coverage ratios for AGE plc remain above 120% (and therefore well above 100%) for all of the scenarios which have been re-run, with a surplus of capital.

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

Conclusions for Transferring and Existing Policyholders

6.27 After the Proposed Scheme, on a Solvency II basis AGE SA has a higher initial coverage ratio than AGE plc before any of the stresses are assumed to occur. For AGE SA the SCR coverage ratio remains above 100% for all of the stressed scenarios which have been re-run.

6.28 On an ICA basis, after the Proposed Scheme AGE SA has a lower initial coverage ratio than both AGE plc and AGE SA before any of the stresses are assumed to occur and the coverage ratios for AGE SA fall below 100% for all of the re-run stressed scenarios. The impact of the scenarios on AGE SA is more extreme than those considered for my Scheme Report due to the change in approach to allocating policies between AGE plc and AGE SA. As a result of this change in approach fewer underperforming contracts are now being transferred to AGE SA. Consequently, the amount of collateral for AGE SA, as set out in Table 3.2 of this report, has reduced compared with that which was allowed for within my Scheme Report. This reduction in collateral results in the impact of the scenarios being more extreme as there is less collateral to draw upon in the stressed scenarios.

6.29 Although the ICA coverage ratios for AGE SA fall below 100% for all of the stressed scenarios on a Post Scheme basis I would note the following:

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

- As noted in paragraph 8.30 of my Scheme Report, the results make no allowance for the additional collateral that would need to be placed by the reinsurer following the stress event. Additional collateral would be available for all of the scenarios other than the scenario where all reinsurers have defaulted. Incorporating allowance for this additional collateral would result in the ICA coverage ratios for AGE SA Post Scheme which are greater than 100% for all of the scenarios except for:

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

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

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

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

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

- On a SCR basis, the coverage ratio for AGE SA would be in excess of 100% for all of the scenarios.

- On an ICA basis (and allowing for the additional collateral that would need to be placed by the reinsurer following the stress event), the coverage ratio for AGE SA would be in excess of 100% for all of the scenarios except those which have an estimated probability below

0.5% (over both a one-year timeframe and the lifetime of the portfolio of insurance contracts).

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

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

Section 7: Other Considerations

7.1 In this section, I discuss other considerations arising from the Proposed Scheme. In this section I have focussed on those aspects where I am aware that there have been developments since my Scheme Report.

Impact of Covid-19

7.2 Subsequent to 31 December 2019, it has become evident that COVID-19[1], an issue which developed rapidly and which continues to develop, is likely to have significant short-term effects on global economic activity and create extensive social disruption. Longer term socio-economic implications and the impact on the assets and liabilities of insurance companies remain uncertain.

7.3 This Supplementary Report is based on financial information as at 31 December 2019 but with some allowance for subsequent developments, as described in paragraph 3.5, and therefore some allowance for the implications of COVID-19 are incorporated into the financial information on which this Supplementary Report is based. In this section I consider further potential impacts of COVID-19 on my conclusions – firstly due to operational impacts and secondly as a result of the financial impacts of the pandemic. I consider the impact on the communication of the Proposed Scheme (including the ability of potentially affected parties to make representations to the Court in writing or in person) in the paragraphs on policyholder communication further on in this section.

Operational impacts

7.4 As set out from paragraph 9.18 of my Scheme Report, AGE plc currently has in place service agreements with a UK service company and a US service company, both of which are within the Assured Guaranty Group. Under these service agreements the relevant service companies make available to AGE plc insurance, reinsurance and such other services, including actuarial, marketing, underwriting, claims handling, surveillance, legal, corporate secretarial, information technology, human resources, accounting, tax, financial reporting and investment planning services. AGE SA has equivalent service agreements in place with the same service companies.

7.5 As a result, all of the key services provided to policyholders will be unaffected by the Proposed Scheme and will be undertaken by the same individuals, and in line with the same policies and procedures, both before and after the Proposed Scheme. This includes claims handling, administration and investment management.

7.6 In addition, I note that there have been minimal operational impacts arising from COVID-19 for both AGE plc and AGE SA. In particular, the whole of the Assured Guaranty Group successfully moved to working remotely from the end of March 2020 with minimal impact on the day-to-day operations of the business and there were no implications on the timing of financial and regulatory reporting for year-end 2019, including the provisions of the regular audit opinions, as a result of COVID-19.

7.7 In respect of the operational impacts of COVID-19, I therefore consider that the Proposed Scheme will have no material impact on the Remaining Policyholders, the Transferring Policyholders and the Existing Policyholders.

[1] The coronavirus outbreak named as COVID–19 by the World Health Organisation on 11 February 2020.

7.8 In addition, I note that there are no operational impacts of COVID-19 which will impact the ability of either AGE plc or AGE SA to effect the Proposed Scheme.

Financial impacts

7.9 The implications of COVID-19 were treated as a non-adjusting event after the reporting date by AGE plc as at 31 December 2019 and there were no implications on the timing of financial and regulatory reporting, including the provisions of the regular audit opinions, as a result of COVID-19.

7.10 Subsequent to the year-end, AGE plc has undertaken an assessment of the impact of COVID-19. Based on this assessment there has been no impact on the reserves of AGE plc or AGE SA, since on this base case scenario no losses are anticipated to arise as a result of COVID-19. The base case scenario assumes a 3-month lock-down period across Europe, then a rapid recovery to pre-crisis levels. Under this basis no claims are expected, including no liquidity claims (where any claim amounts paid are expected to be subsequently recovered).

7.11 The assumptions underlying the base case scenario were originally set in May 2020, during the relatively early stages of the development of COVID-19. However, I note that the more extreme scenarios considered below (as described in paragraph 7.19) also result in no losses to either AGE plc or AGE SA. While some liquidity claims are expected under these more extreme scenarios such liquidity claims result in a limited impact on a best estimate basis given that both the claims and related recoveries are recognised, and the impact of discounting is immaterial given the current very low interest rate environment. Hence, in my opinion it is reasonable for AGE plc to still assume no impact on the reserves of both AGE plc and AGE SA as a result of COVID-19.

7.12 AGE plc has, in addition, considered further the impact on the liquidity of AGE plc (covering all of the existing business of AGE plc – both the Remaining Policies and the Transferring Policies) and of the solvency requirements of both AGE plc and AGE SA. I have reviewed and discussed the scenarios set out below in relation to COVID-19 with AGE plc and consider the scenarios to be appropriate for both AGE plc and AGE SA. I did not, therefore, consider it necessary to consider any additional scenarios.

7.13 The scenarios considered below in relation to COVID-19 have not been considered in combination with any other stresses, specifically any of the scenarios considered from paragraph 6.21 of this Supplementary Report. As noted in Section 6, I consider the scenarios considered from paragraph 6.21 of this Supplementary Report to be extreme and the probability of each of them occurring individually over a one-year period is typically below 0.5%. As noted below, I also consider the scenarios considered in relation to COVID-19 to be extreme. I have therefore not considered the impact of any of the scenarios occurring simultaneously since, given that each scenario individually is extreme, I would view more than one scenario occurring simultaneously to be an extremely remote event which is unlikely to be plausible.

7.14 I have, however, considered the results of the scenarios below which assess the potential impact on the solvency of AGE plc and AGE SA both with and without allowance for the additional collateral that would need to be placed by reinsurers following the stress events.

Liquidity impacts

7.15 When considering the potential liquidity impact of COVID-19, AGE plc has produced two scenarios for each sector considered to be higher risk. For each sector the two scenarios produced were as follows:

- A scenario which results in a “first claim break even”, being the least extreme scenario which would result in AGE plc paying a claim but where this would result purely in a liquidity claim, with any claim amounts paid expected to be subsequently recovered; and

- A more extreme scenario which results in a “first loss break even”, being the least extreme scenario which would result in AGE plc facing an actual loss, where claim amounts paid would not be expected to be subsequently recovered.

7.16 The sectors for which stress scenarios were produced include universities, toll roads, construction and UK local authorities.

7.17 AGE plc considers both scenarios to be extreme and since the scenarios were first produced there has been an improvement in the outlook for the higher risk sectors.

7.18 I have been provided with the assumptions underlying each scenario and based on these assumptions, and my discussions with AGE plc, I consider the likelihood of the scenarios materialising to be extremely unlikely, particularly the more extreme “first loss break even” scenarios. In addition, I note that should any of the “first claim break even” scenarios materialise this will have a limited impact given that any claim amounts paid would expect to be recovered and that any such liquidity claim is not likely to have a material impact given the current very low interest rate environment.

Solvency impacts

7.19 AGE plc has also produced some scenarios to assess the potential impact on the solvency of both AGE plc and AGE SA. These scenarios have been produced on both a Solvency II and ICA basis, and for both AGE plc and AGE SA on both a No Scheme and Post Scheme basis. These scenarios – referred to as a “stress” scenario and a “severe stress” scenario – assess the solvency impact of potential future ratings downgrades for demand exposed sectors and sub-sovereign debt based on the following:

- The “stress” scenario is based on the assumption of a 6-month lock-down period across Europe, followed by a rapid recovery to pre-crisis levels.

- The “severe stress” assumes a 9 to 12 month lock-down period across Europe, followed by a slower recovery (impacting air, road and rail traffic, and student numbers).

7.20 Both the “stress” and “severe stress” scenarios result in no losses to either AGE plc or AGE SA but do result in some liquidity claims, where claim amounts paid are then expected to be subsequently recovered. The resulting SCR coverage ratios for both stress scenarios are set out in the table below.

Table 7.1: COVID-19 Potential impact on SCR ratios

SCR Coverage ratios	AGE plc No Scheme	AGE plc Post Scheme	AGE SA No Scheme	AGE SA Post Scheme
Q4 2019 base case	187%	176%	203%	322%
COVID-19 Stress	186%	176%	198%	317%
COVID-19 Severe stress	182%	174%	194%	307%

7.21 The impact of the modelled stress scenarios on the SCR coverage ratios is limited for AGE plc and AGE SA on both a No Scheme and Post Scheme basis. I note that the impact of the modelled stresses is marginally greater for AGE SA although the SCR coverage ratios in all scenarios remains significantly in excess of 100%.

7.22 The same comments apply to the impact on the ICA coverage ratios, although these are impacted to a greater extent than the SCR coverage ratios. On an ICA basis, after the Proposed Scheme AGE SA has a lower coverage ratio under the "base case" than both AGE plc (on a No Scheme and Post Scheme basis) and AGE SA (on a No Scheme basis). In addition AGE SA is impacted to a greater extent by the modelled stresses on an ICA basis, particularly on a Post Scheme basis. As a result, the ICA coverage ratio for AGE SA falls to below 100% on a Post Scheme basis under the "severe stress" scenario. This is driven by the greater exposure of AGE SA to European sub-sovereign debt after the Proposed Scheme.

7.23 Although the ICA coverage ratio for AGE SA falls below 100% for the "severe stress" scenario on a Post Scheme basis I would note the following:

- I consider that this scenario is extreme.
- AGE SA would not be insolvent under this scenario, having an excess of assets over liabilities and would be close to meeting its own capital requirement as assessed on an ICA basis. In addition on a SCR basis the coverage ratio for AGE SA would remain in excess of 100%.
- The results of the scenarios make no allowance for the additional collateral that reinsurers would be obliged to place following the stress event.
- The results of the scenarios make no allowance for any recoveries under the NWM Agreement. Although I have not relied on this agreement in order to reach my conclusions below, I note that it would provide additional protection to policyholders in this scenario.

7.24 If allowance is incorporated for the additional collateral that would need to be placed by reinsurers following the stress events then both AGE plc and AGE SA would continue to meet their target capital under both the "stress" and "severe stress" scenarios. The target capital is described from paragraph 3.28 of this Supplementary Report and is specified in the form of maintaining a buffer above both SCR and ICA requirements. Under this basis, in terms of the percentage reduction in the ICA coverage ratio, AGE SA is impacted to a greater extent than AGE plc under the "stress" scenario but both AGE plc and AGE SA are impacted to a materially similar extent under the "severe stress" scenario.

7.25 There is a risk that the reinsurers (namely AGRe, AGC and AGM) are unable to post the additional collateral assumed as these reinsurers may also potentially be affected by the impacts of COVID-19. AGE plc has shared information with me which considers the impact of an extreme scenario arising as a result of COVID-19 on these reinsurers and compares the additional capital each reinsurer would need to hold under this scenario according to Assured Guaranty's Economic Capital Model ("ECM") in comparison to their total available capital. This information demonstrates that should either of the scenarios described above materialise then the reinsurers would be expected to be able to withstand a similarly extreme scenario and still post the additional collateral required by AGE plc and AGE SA.

Conclusions

7.26 As set out above, I note that:

- There has been no impact on the reserves of AGE plc or AGE SA as a result of COVID-19, since on the base case scenario no losses are anticipated to arise.
- I consider that the likelihood of the scenarios materialising which would result in a liquidity claim or actual loss arising from the existing business of AGE plc to be extremely unlikely. In addition, I note that any liquidity claims will have a limited impact given that any claim amounts paid would expect to be recovered.

- The potential impact on the solvency of both AGE plc and AGE SA has been assessed by considering a "stress" scenario and "severe stress" scenario. If allowance is incorporated for the additional collateral that reinsurers would be obliged to place following the stress events, then AGE SA would be impacted to a greater extent than AGE plc under the "stress" scenario but both AGE plc and AGE SA would be impacted to a materially similar extent under the "severe stress" scenario. Both AGE plc and AGE SA would continue to meet their target capital under both of these scenarios.

7.27 In respect of the financial impacts of COVID-19, I therefore consider that the Remaining Policyholders, the Transferring Policyholders and the Existing Policyholders will not be materially adversely affected by the Proposed Scheme.

Impact of Brexit

7.28 In paragraph 9.12 of my Scheme Report I noted that the purpose of the Proposed Scheme is to enable the Assured Guaranty Group to continue providing financial guarantee insurance throughout the EEA after Brexit and to carry out existing contracts of insurance with EEA based policyholders in respect of the Transferring Policies. In the absence of the Proposed Scheme and in the event of the UK losing its passporting rights as a result of Brexit there would be material concerns over the ability of AGE plc to settle claims in line with regulatory rules, service existing EEA based policyholders and underwrite new EEA based policies.

7.29 In my Scheme Report I therefore considered the impact of a No-Deal Brexit (where the UK leaves the EU without a deal and which will result in EEA passporting rights for UK insurers ending immediately) and concluded that, in respect of a No-Deal Brexit, the Proposed Scheme would have no impact on the Remaining Policyholders and would be beneficial to the Transferring Policyholders since it would remove the uncertainty as to how long it will remain legal for AGE plc to continue to pay all future claims of EEA-based policies in all relevant EEA jurisdictions.

7.30 Since my Scheme Report was drafted, the UK left the EU on 31 January 2020 in accordance with the "Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community" dated 19 October 2019 (the "Withdrawal Agreement").

7.31 The Withdrawal Agreement includes a transition period which started on 31 January 2020 and ends on 31 December 2020. During the transition period the UK will no longer be a member of the EU but will continue to be subject to EU rules and remain a member of the single market and customs union. During the transition period the EEA passporting rights for UK insurers will therefore continue.

7.32 The transition period allows the UK to continue its current relationship with the EU while the terms on which the UK will trade with the EU after the end of the transition period can be negotiated. This may result in rules and/or reciprocal arrangements that either replicate, or are broadly equivalent to, existing passporting rights being established that would result in the security of policyholders not being directly affected by the UK leaving the EU.

7.33 If no such terms can be agreed before the end of the transition period then there would effectively be a "No-Deal Brexit" with effect from that date, with EEA passporting rights for UK insurers ending immediately.

7.34 As a result, should the Proposed Scheme not proceed, there would be considerable uncertainty as to how long it would remain legal for AGE plc to continue to pay all future claims of EEA-based policies in all relevant EEA jurisdictions. This is particularly relevant for AGE plc given the long-term nature of AGE plc's business, with policy durations typically ranging from 20 to 45 years.

7.35 The Remaining Policyholders will be insured by AGE plc both before and after the Proposed Scheme and the Existing Policyholders will be insured by AGE SA both before and after the Proposed Scheme. In respect of Brexit, I therefore consider that whether or not the Proposed Scheme proceeds would have no impact on either the Remaining Policyholders or the Existing Policyholders.

7.36 However, in respect of Brexit, I consider that the Proposed Scheme would be beneficial to the Transferring Policyholders since it would remove the uncertainty referred to in paragraph 7.34 above.

Policyholder communication

Individual policyholder communication

7.37 The proposed approach to policyholder communication was set out in paragraphs 9.55 to 9.60 of my Scheme Report. I have received confirmation that policyholders were notified in accordance with this approach on 4 October 2019.

7.38 I understand that a total of 78 letters were issued by AGE plc. Of these 78 letters, 11 “return to sender” responses were received although, of these, only one letter was not successfully resent using alternative contact information.

7.39 Given the time that has elapsed since these notifications were sent, AGE plc sent an additional notification to these policyholders between 4 September 2020 and 11 September 2020 (by email or in one case by courier) to confirm the new date of the Sanction Hearing and to confirm that any further details will be posted on the webpage.

Wider communication

7.40 I have received confirmation that advertisements were placed in the following publications on either 4 October 2019 or 10 December 2019:

- The London, Belfast and Edinburgh Gazettes;
- The Financial Times and The Times; and
- The Irish Times, the Irish Independent and the Irish Gazette.

7.41 In addition, both a full copy and the summary of my Scheme Report were posted on the Assured Guaranty Group website.

7.42 In accordance with paragraph 9.64 of my Scheme Report, a detailed letter and a copy of the summary of my Scheme Report was sent to each reinsurer of AGE plc who reinsures Transferring Policies and whose name and address appear in the computerised database of AGE plc. The three intra-group reinsurers (AGRe, AGC and AGM) were contacted in this way on 4 October 2019.

7.43 Finally, I note that since my Scheme Report was drafted the planned date of the Sanction Hearing and the planned effective date of the Proposed Scheme (which were 24 January 2020 and 25 January 2020 respectively) have been significantly delayed. AGE plc has agreed to notify policyholders of the new date of the Sanction Hearing through the website link which was signposted to policyholders as part of the notification process as the place where any changes to the hearing date would appear.

7.44 This website will also be updated to provide details of how any policyholders, or other interested parties, can attend the hearing given that, as a result of COVID-19, the Sanction Hearing is likely to be held remotely (via phone or videolink) rather than in person.

Conclusions on policyholder communication

7.45 As set out above, the policyholder notification process has been implemented as envisaged in my Scheme Report and all but one of the letters sent by AGE plc have been successfully delivered.

7.46 As set out in paragraph 9.65 of my Scheme Report I reviewed a draft of the Policyholder Statement and Summary to be provided to policyholders and I considered that the level of information it contained was appropriate and its presentation was clear, fair and not misleading. I considered that the Policyholder Statement and Summary would allow policyholders to form their own view on the Proposed Scheme and know how to access additional information as required. I understand that no changes were made to the draft Policyholder Statement and Summary which I reviewed.

7.47 There have been minimal operational impacts arising from COVID-19 for both AGE plc and AGE SA. As a result, and given the timing of when the policyholder notifications were sent to policyholders, I am satisfied that there have been no material impacts on the policyholder notification process as a result of COVID-19.

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

Policyholder responses and objections

7.49 As at 27 August 2020, AGE plc has received responses from two policyholders, and other interested parties, in relation to the Part VII. These responses concern general enquiries relating to the Proposed Scheme and requests for further information.

7.50 None of the responses received change my conclusions from my Scheme Report or have impacted the conclusions set out in this Supplementary Report.

7.51 I have also been informed that, as at 27 August 2020, no objections have been received to the Proposed Scheme.

7.52 There have been minimal operational impacts as a result of COVID-19 for both AGE SA and AGE plc. Hence, I do not believe that there are any operational impacts which would have affected the ability of policyholders to contact AGE plc or AGE SA to raise an objection in connection with the Proposed Scheme.

Tax implications

7.53 At the time of preparing the Scheme Report, AGE plc was in the process of obtaining formal external tax advice to confirm that any tax implications of the Proposed Scheme will be immaterial. This tax advice has now been obtained and has confirmed the following:

- No additional UK tax will be due in respect of the Proposed Scheme given that the Transferring Assets are expected to be outside the scope of UK VAT and stamp duty; and AGE plc will not recognise an accounting gain as a result of the Proposed Scheme and therefore there is expected be no additional UK corporation tax due as a result of the Proposed Scheme.

- The Proposed Scheme is expected to be outside the scope of French VAT. The sale of the assets transferred to AGE SA under the Proposed Scheme will be subject to French transfer tax. However, with the fair value of assets transferred estimated to be €1 (given the arrangement for the transfer of assets as described in paragraph 5.41 of the Scheme Report) the tax liability for AGE SA under French transfer tax should be negligible.

- In respect of the ongoing AGE SA operations, VAT will be due on services supplied to AGE SA by both the UK and US service companies within the Assured Guaranty Group. This has been accrued for within the financial projections. The provision of services will also be subject to international transfer pricing requirements and recharges will incorporate appropriate mark-ups to accommodate these requirements. There will be no corporation tax paid by AGE SA over the projection period as it is forecast to be loss making.

7.54 As a result, I understand from AGE plc that:

- Any tax implications of the Proposed Scheme will be immaterial; and

- The impact of VAT due on services for the ongoing AGE SA operations have been incorporated in the financial projections provided and therefore my considerations and conclusions as set out in this Supplementary Report incorporate the impact of this tax.

7.55 As a result, the tax implications of the Proposed Scheme do not have any impact on my conclusions.

7.56 I am not a tax expert but given my discussions with AGE plc I am satisfied with the explanations provided and do not consider it is necessary for me to obtain independent expert advice on this issue.

Section 8: Conclusions

8.1 In my Scheme Report dated 20 September 2019 I considered the likely effects of the Proposed Scheme on the Remaining Policyholders and the Transferring Policyholders. In each case, I considered the likely effects of the Proposed Scheme on the security of policyholders' contractual rights. I also considered the likely effects of the Proposed Scheme on the other factors which may impact security or service levels to the affected policyholders.

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

8.3 In this Supplementary Report I have considered whether any of the conclusions set out in my Scheme Report have changed in light of the availability of updated financial information and any material issues that have arisen since the dates noted in paragraph 1.8.

Summary

8.4 As set out below, my opinions on the Proposed Scheme are unchanged from those set out in my Scheme Report, which are as follows:

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

8.5 In addition, I consider that the Existing Policyholders will not be materially adversely affected by the Proposed Scheme.

Security of policyholders remaining within AGE plc

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

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

8.8 AGE plc also has a stochastic capital model which models risk on a "run-off to ultimate" basis. Given the very long-term nature of its business AGE plc uses the long-term view of risk to inform business decisions, referred to as the ICA. AGE plc also has sufficient Capital Resources to meet its ICA.

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

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

Security of policyholders transferring from AGE plc to AGE SA

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

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

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

8.14 As a result of the Proposed Scheme the SCR coverage ratio will increase for the Transferring Policyholders.

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

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

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

Security of policyholders remaining in AGE SA

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

8.19 AGE SA before the Proposed Scheme has a level of Solvency II Own Funds that exceeds the Solvency II Solvency Capital Requirement, and a level of Capital Resources that exceeds its ICA.

8.20 Immediately after the Proposed Scheme, AGE SA is projected to have Solvency II Own Funds which exceed its Solvency II Solvency Capital Requirement and Capital Resources which exceed its ICA.

8.21 As a result of the Proposed Scheme the SCR coverage ratio will increase for the Existing Policyholders.

8.22 The value of the investment assets which are to be transferred from AGE plc to AGE SA as part of the Proposed Scheme has been determined such that AGE SA will meet its target capital immediately after the Effective Date of the transaction. As a result, AGE SA will meet its target capital immediately after the Proposed Scheme. The target capital of AGE SA is specified in the form of maintaining a buffer above its SCR and ICA requirements. Hence, as a result of the Proposed Scheme, the ICA coverage ratio relevant for the Existing

Policyholders will reduce, although it will remain above 120% (and therefore well in excess of 100%).

8.23 This means that as a result of the Proposed Scheme the probability of their insurer remaining solvent, based on the methods and assumptions underlying the ICA, remains unchanged for the Existing Policyholders.

8.24 As such, I consider that the security of the Existing AGE SA Policyholders' contractual rights is not materially disadvantaged by the Proposed Scheme.

Effect of Covid-19 on the above conclusions

8.25 Subsequent to 31 December 2019, it has become evident that COVID-19, an issue which developed rapidly and which continues to develop, is likely to have significant short-term effects on global economic activity and create extensive social disruption. Longer term socio-economic implications and the impact on the assets and liabilities of insurance companies remain uncertain.

8.26 This Supplementary Report is based on financial information as at 31 December 2019 but with some allowance for subsequent developments, as described in paragraph 3.5, and therefore some allowance for the implications of COVID-19 are incorporated into the financial information on which this Supplementary Report is based. I have, however, considered further potential impacts of COVID-19 on my conclusions – firstly due to operational impacts and secondly as a result of the financial impacts of the pandemic.

8.27 In respect of the operational impacts of COVID-19, for the reasons set out in this Supplementary Report, I consider that the Proposed Scheme will have no material impact on the Remaining Policyholders, the Transferring Policyholders and the Existing Policyholders.

8.28 In respect of the financial impacts of COVID-19, for the reasons set out in this Supplementary Report, I consider that the Remaining Policyholders, the Transferring Policyholders and the Existing Policyholders will not be materially adversely affected by the Proposed Scheme.

8.29 In addition, I note that there are no operational impacts of COVID-19 which will impact the ability of either AGE plc or AGE SA to effect the Proposed Scheme.

Effect of Brexit on the above conclusions

8.30 It continues to remain unclear what form the UK's future relationship with the remaining EU members will take after the transition period ends on 31 December 2020.

8.31 In the absence of the Proposed Scheme therefore there would be considerable uncertainty as to how long after the transition period ends it would remain legal for AGE plc to continue to pay all future claims of EEA-based policies in all relevant EEA jurisdictions. This is particularly relevant for AGE plc given the long-term nature of AGE plc's business, with policy durations typically ranging from 20 to 45 years.

8.32 Therefore, in respect of Brexit, I consider that the Proposed Scheme would have no impact on either the Remaining Policyholders or Existing Policyholders and would be beneficial to the Transferring Policyholders since it would remove the uncertainty referred to in the previous paragraph.

Effect of stress scenarios on the above conclusions

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

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

8.34 I consider that my conclusions remain resilient to these stresses.

Other considerations

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

8.36 For the reasons set out in paragraph 9.80 of my Scheme Report, which remain unchanged, I also consider that the cost of the Proposed Scheme will have no significant effect on the security of policyholders' contractual rights.

8.37 For the reasons set out from paragraph 7.53 of this Supplementary Report, I consider that the tax effects of the Proposed Scheme will have no significant effect on the security of policyholders' contractual rights.

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

8.39 I have received details of all queries and objections which have been raised in relation to the Proposed Scheme. No objections have been received and none of the queries raised change my conclusions from my Scheme Report.

External reinsurers

8.40 As discussed in paragraph 9.96 of my Scheme Report, the external reinsurance of AGE plc consists of reinsurance provided by only one reinsurer covering five policies issued in respect of the same transaction and covering obligations of the same obligor. These five policies will all remain within AGE plc after the Proposed Scheme and no further external reinsurance will be purchased in connection with the Proposed Scheme. The external reinsurance of AGE plc will therefore cover the same liabilities for AGE plc after the Proposed Scheme and the claims handling will be undertaken by the same team under the same policies and procedures both before and after the Proposed Scheme. As such, I consider the transfer will have no material effect on the external reinsurers of AGE plc.

Interaction with regulators

8.41 A draft of this Supplementary Report has been made available to the PRA and FCA whose comments have been taken into account. The PRA (in consultation with the FCA) has approved the form of the Scheme Reports.

Duty to the High Court

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

Statement of truth

8.43 I confirm that insofar as the facts stated in my Supplementary Report are within my own knowledge I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.

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

11 September 2020

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Appendix A: Glossary of Terms

ACPR	Autorité de Contrôle Prudentiel et de Résolution
AGC	Assured Guaranty Corp.
AGE plc	Assured Guaranty (Europe) plc
AGE plc legacy business	Business within AGE plc which was underwritten in 2008 and prior
AGE SA	Assured Guaranty (Europe) SA
AGM	Assured Guaranty Municipal Corp.
AGMH	Assured Guaranty Municipal Holdings Inc.
AGRe	Assured Guaranty Re Ltd.
Assured Guaranty Group	The group of companies ultimately owned by Assured Guaranty Ltd. in Bermuda
APS	Actuarial Practice Standards as issued by the IFoA
BIG	"Below investment grade" transactions which are under-performing
Brexit	The UK's exit from the EU
Capital Resources	Shareholder's Funds plus additional resources which are contractually available over the life of the liabilities included within the ECM
Court	The High Court of Justice in England and Wales
Coverage Ratio	The ratio of available capital to the capital required either on a regulatory (SCR) basis or the company's own ICA basis
Diversification	The extent to which aggregate risk is less than the sum of the underlying individual risks
ECM	Economic Capital Model
Economic Capital Model	Assured Guaranty's bespoke stochastic capital model which models risk on a "run-off to ultimate" basis and covers insurance risk and reinsurance credit risk. The Economic Capital Model is a proprietary model which is used throughout the Assured Guaranty Group but is not used for regulatory purposes and is not approved by the PRA
EEA	European Economic Area
Effective Date	The intended effective date of the Proposed Scheme, being 1 October 2020
EU	European Union
EU27	The current countries in the European Union, other than the UK

Existing Policyholders	The policyholders of AGE SA, whose insurance policies will remain with AGE SA under the Proposed Scheme. As explained in paragraph 5.20 of the Scheme Report, where I refer to "policyholders" in this report I mean the party to each insurance contract, typically a financial institution acting as trustee or custodian for the benefit of bondholders. I note that in their role as the fiduciary agents of the investors I consider the interests of policyholders to be aligned with the investors who benefit economically from the guarantees provided by the Transfer Companies, and do not distinguish between them for the purposes of this report
FCA	The Financial Conduct Authority, one of the insurance industry regulators in the UK (the other being the PRA)
FoE	Freedom of Establishment, the ability of EU insurers to establish branches in member states of the EU
FoS	Freedom of Services, the ability of EU insurers to sell insurance products into any other EU member state
Framework Agreement	Contract under English law between AGE plc, AGM and AGE SA which covers, among other things, the transfer of assets and liabilities directly from AGE plc to AGE SA, the payment of the dividend from AGE plc to AGM, and the provision of funds by AGM to AGE SA in return for AGE SA issuing shares to AGM
FRC	The Financial Reporting Council, the UK's independent regulator responsible for promoting high quality corporate governance and reporting. The FRC sets standards for corporate reporting, audit and actuarial practice and monitor and enforce accounting and auditing standards
French GAAP	Generally Accepted Accounting Practice in France, called the Plan Comptable Général ("PCG"), is the body of accounting standards and other guidance published by the Autorité des Normes Comptables ("ANC")
French pledge	An arrangement governed by French law under which one party places assets in an account of a credit institution who holds the assets under the terms of an agreement in favour of a beneficiary. For the purposes of this Scheme Report the party placing the assets is either AGM, AGC or AGRe and the beneficiary is AGE SA, with AGE SA being entitled to withdraw assets from the account in the event of the relevant reinsurer defaulting
FSCS	The Financial Services Compensation Scheme, the UK's statutory compensation scheme which compensates customers of authorised financial services firms in the event that the company is unable pay claims against it
FSMA	The Financial Services and Markets Act 2000, an Act of Parliament to make provision for the regulation of financial services which details the legal basis for the transfer of an insurance business in the UK
GAAP	Generally Accepted Accounting Principles

ICA	Individual Capital Assessment
IFoA	Institute and Faculty of Actuaries, a professional body which represents and regulates actuaries in the United Kingdom
IFRS	International Financial Reporting Standards
Individual Capital Assessment	AGE plc's own capital assessment which is used to inform business decisions. It is based on the ECM results for insurance risk and reinsurance credit risk and the Standard Formula approach for market risk, operational risk and correlation assumptions to combine the risks
Internal Model	An entity-specific, risk-based model approved by the regulator to be used by insurers to calculate their Solvency Capital Requirement under Solvency II
Net Worth Maintenance agreement	The agreement covering AGE plc the purpose of which is to preserve the solvency capital ratio of AGE plc in the case of non-insurance losses
No-Deal Brexit	The scenario in which UK insurance firms lose their passporting (FoS and FoE) rights immediately upon Brexit, rather than at the end of a transition period
No Scheme Position	The position if there were no Proposed Scheme
NWM	Net Worth Maintenance agreement
Own Funds	The level of available capital as measured under Solvency II rules
Part VII	Part VII of the FSMA
Post Scheme Position	The position should the Proposed Scheme proceed
PRA	The Prudential Regulation Authority, one of the insurance industry regulators in the UK (alongside the FCA)
Proposed Scheme	The proposed transfer from AGE plc to AGE SA as described in this Scheme Report
Reinsurance	This is where an insurance company purchases insurance from a reinsurer
Remaining Policies	The insurance policies which are to be remain with AGE plc under the Proposed Scheme
Remaining Policyholders	The policyholders of AGE plc, whose insurance policies will remain with AGE plc under the Proposed Scheme. As explained in paragraph 5.20 of the Scheme Report, where I refer to "policyholders" in this report I mean the party to each insurance contract, typically a financial institution acting as trustee or custodian for the benefit of bondholders. I note that in their role as the fiduciary agents of the investors I consider the interests of policyholders to be aligned with the investors who benefit economically from the

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

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