SUPPLEMENTAL INDEPENDENT EXPERT REPORT OF PHILIP TIPPIN FIA

In the matters of

ASSURED GUARANTY (EUROPE) PLC
AND
ASSURED GUARANTY (UK) PLC
AND
CIFG EUROPE S.A.
AND
ASSURED GUARANTY (LONDON) PLC

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

IN THE HIGH COURT OF JUSTICE

DATED 4 OCTOBER 2018

Contents

1. Introduction

Purpose of the report

1.1 I have prepared an Independent Expert report addressed to the High Court of Justice, England and Wales ('the Court') dated 8 June 2018 ('the IE Report'). This describes the proposed transfers of the insurance and reinsurance business of Assured Guaranty (UK) plc ('AGUK'), CIFG Europe S.A ('CIFG EU'), and Assured Guaranty (London) plc ('AGLN') to Assured Guaranty (Europe) plc ('AGE') and details my consideration of the impact of the proposed transfers on the security and levels of service received by the policyholders of AGE, AGUK, CIFG EU and AGLN. I refer to the transfers of insurance and reinsurance business of AGUK, CIFG EU and AGLN as the 'Transfers'. I refer to AGE, AGUK, CIFG EU and AGLN as the 'Transfer Companies'.

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

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

1.3 This Supplemental Report provides an update to the conclusions I set out in the IE Report in the light of the further information available to me, including consideration of the revised plans for the reinsurance arrangements post-Transfers, the potential implications to the Transfer Companies of "Brexit", consideration of the trading performance of the Transfer Companies since 31 December 2017 and changes in the market environment in which they operate. I also have considered and reviewed the impact of the Transfer Companies' future intentions with respect to levels of capital, operations, structure and business mix. Additionally, this Report provides my opinion on the questions and other communications received from any of the Transfer Companies' policyholders.

Use and limitations

1.4 I understand that copies of my Supplemental Report will be made available to the Court, the PRA and the FCA (the relevant UK financial regulators), the Autorité de Controle Prudentiel ('ACPR') and the Boards of Directors of the Transfer Companies. It also will be made available to policyholders and other members of the public as required by the relevant legislation and will be made available on the Assured Guaranty website link *http://assuredguaranty.com/static/2018-combination* ahead of the final hearing, which is scheduled for 25 October 2018.

1.5 This Supplemental Report should be read in conjunction with the IE Report, as reading this Report in isolation may be misleading. All abbreviations and technical terms used in this Report have the same meaning as in the IE Report. For the avoidance of doubt, all limitations described in the IE Report including but not limited to those set out in sections 1.19 to 1.23, apply equally to this Supplemental Report. The glossary of terms and definitions used for this Supplemental Report can be found in Appendix 5 of the IE Report.

Professional Guidance

1.6 This Report has been prepared in accordance with the guidance set out in Part 35 of the Civil Procedure Rules and the accompanying practice direction, including the protocol/guidance for the instruction of experts to give evidence in civil claims (2014) issued by the Civil Justice Council. This Report also complies with the new FCA guidance issued in May 2018 entitled 'FG18/4: The FCA's approach to the review of Part VII insurance business transfers'.

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

1.7 In preparing this Report I have taken into account the requirements of the Technical Actuarial Standards ('TASs') issued by the Financial Reporting Council. The TAS Standards which apply to the work performed in preparing this Report are Principles for Technical Actuarial Work ('TAS 100') and Insurance ('TAS 200').In my opinion, there are no material departures from any of these TASs in my performance of this work and this Report. I also have also followed the guidance set out in APS X2: Review of Actuarial Work, and this Report has been peer reviewed by the reviewer approved by the PRA and FCA in accordance with this guidance.

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

Reliances

1.9 Whilst I have been assisted by my team, the Report is written in the first person singular and the opinions expressed are my own.

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

1.11 I have met in person or conducted conference calls with representatives of the Transfer Companies to discuss the information provided to me. This includes the legal advisers and the tax advisers to the Transfers, where appropriate. Where critical pieces of information have been provided orally, I have requested and received written confirmation.

A schedule of the additional information I have considered is listed in the Appendix.

2. Summary and overall conclusions

Approach

2.1 I have sought and received from the Transfer Companies additional information in order to consider whether any event or change in circumstances has occurred which would cause me to alter the conclusions expressed in the IE Report. The information I have requested has been selected based on my knowledge of developments in the general insurance industry and also from the wider economic environment which I consider likely to have a direct or indirect impact on the Transfer Companies. The areas I have considered include:

- Whether the analysis I performed in preparing the IE Report still points to the same conclusion given the most recent financial and economic information available.
- Any changes in the Transfer Companies' business.
- Potential operational and structural changes to the Transfer Companies and Assured Guaranty.
- Current issues in the insurance industry, including any changes in regulation, legal environment and litigation that could affect the Transfer Companies.
- Relevant communications received from policyholders relating to the proposed Transfers.
- Whether the key assumptions made in forming my conclusions (described in section 2.8 of the IE Report) still apply in practice.

Having received additional information I have then considered what impact, if any, this would have on the findings of the analysis I performed in order to form my opinion expressed in the IE Report.

Additional information considered

2.2 I have received information including but not limited to:

- Updated financial information including the trading performance of each Transfer Company in the six months to 30 June 2018.
- Updated capital requirements and available capital metrics under the Solvency II regime for the Transfer Companies.

I note that due to the time period in which this Report needed to be produced, the latest information available is at 30 June 2018, at which date companies are very rarely formally audited. I note consequently that this information is unaudited. I have discussed this information with senior management within the Transfer Companies, and where appropriate, requested additional information or written confirmation. A list of additional information received is contained in the Appendix to this Report.

Findings

2.3 The findings of my Report are summarised below.

Having considered the additional information requested from the Transfer Companies and developments occurring in the wider economic and insurance industry environment I find that:

- Both the economic and financial condition of the Transfer Companies as at 30 June 2018, being the most recent reviewed (though not audited) information available, is, for the purposes of analysing the impact of the Transfers on each affected policyholder group, substantially the same as that considered in the IE Report. I can thus identify no impact on the overall conclusion within the IE Report arising from such changes as have occurred.

- I have considered the results of updated scenario testing, which assesses the potential impact on the financial security of AGUK, CIFG EU and AGLN policyholders before and after their transfers to AGE. This analysis was carried out as at 30 June 2018 and is described in more detail in section 3.6. As a consequence of this additional testing I have not identified any changes to the findings set out in section 6 of the IE Report which would cause me to revise my opinion on the impact of the transfers on AGE, AGUK, CIFG EU, or AGLN policyholders.

- Since issuing my IE Report, there are no matters relevant to the Transfers arising from the nature of business underwritten by the Transfer Companies.

- I have considered the updated plans for the reinsurance arrangements post-Transfers and am comfortable that these do not change my conclusions on the Transfers from those in my IE Report.

- The managements of the Transfer Companies have confirmed to me that there has been no change in the intentions with regard to any of the operations, levels of capital or mix of business written by the Transfer Companies after the Transfers have completed. There also has been no change in the post-Transfers structure. As such I have not identified any intentions that would cause me to revise the conclusions of my analysis of the effects of the Transfers.

- Since issuing my Report, there are no further implications arising from the UK Government's response to the Brexit referendum that would cause me to revise my opinion in regard to the Transfers.

- I have reviewed summaries of the correspondence received from policyholders. No matters have been drawn to my attention as a result of communications received from policyholders or other relevant parties that would cause me to revise my analysis of the effects of the Transfers.

I will communicate to the Court in the event that material changes occur that require adjustments to my findings between the date of this Report and the final hearing.

Further detail on the reasoning supporting my findings above is contained in section 3 of this Report.

Conclusion

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

Philip Tippin

Fellow of the Institute and Faculty of Actuaries

Partner, KPMG LLP

4 October 2018

3. Further information considered

Quantum and type of business transferring

3.1 In sections 3.7 to 3.29 of the IE Report I consider the business that is proposed to transfer to AGE.

I have updated the tables in 3.22 of the IE Report to show the figures regarding the open claim volumes transferring to AGE. Reserve and in-force policy information is again provided for all Transfer Companies in order to give perspective on the size of the entities involved.

	Transfer Companies' Business Profile (£ms; number of open claims and policies in units)	AGE	AGUK	CIFG EU	AGLN
31/12/2017	Gross Claims Outstanding	0	20	0	0
	Net Claims Outstanding	0	2	0	0
	Reserved credits (number of)	0	1	0	0
	In-force Policies (number of)	157	7	14	66
30/06/2018	Gross Claims Outstanding	0	22	0	0
	Net Claims Outstanding	0	2	0	0
	Reserved credits (number of)	0	1	0	0
	In-force Policies (number of)	153	7	13	66

Source: Assured Guaranty management and UK GAAP management accounts

The reserved credits transferring to AGE remain at 1, as at the time of the IE Report, and the amount of claims transferring remains similar to that shown in the IE Report.

The number of in force policies also remain substantially the same as those in the IE Report.

In section 3.28 of my IE Report I also consider the different types of underlying obligations guaranteed by each Transfer Company. I have updated this information in the table below:

	Number of credits of each type of Financial Guarantee insurance held	Public Finance	Insurance Securitisation	Collateralised Loan Obligations & Mortgage Backed Securities	Trust Preferred Securities
31/12/2017	AGUK	5	2	-	-
	AGE	152	-	5	-
	AGLN	64	-	2	-
	CIFG EU	11	-	2	1
30/06/2018	AGUK	5	2	-	-
	AGE	148	-	5	-
	AGLN	64	-	2	-
	CIFG EU	11	-	2	-

The spread of the different types of underlying obligations is similar to that at the time of the IE Report.

As such I see no need to reconsider any of my assumptions based on this updated information.

Trading performance of Transfer Companies to 30 June 2018

3.2 I have been provided with the financial results and updated GAAP and SII balance sheet information for each of the Transfer Companies to 30 June 2018. I have reviewed this information in order to identify if there has been a material change in the financial position of any of the Transfer Companies, and to satisfy myself that the financial information I have used in my consideration of the impact of the Transfers continues to be an appropriate basis on which to form an opinion. I note that the financial performance of the Transfer Companies over the six months to 30 June 2018 is consistent with my understanding of the claims experience of the respective businesses over that period, and no Transfer Company has reported a financial performance that would significantly affect the financial analysis I performed in preparing the IE Report.

I have considered the impact of the recent trading performance of the Transfer Companies and have identified no matters arising which would materially change the findings of the analysis that support the conclusions contained in the IE Report.

Post-Transfers balance sheets

3.3 In section 4.5 and 4.8 of the IE Report I considered the potential post-Transfers UK GAAP and Solvency II balance sheets for the Transfer Companies. These tables are shown below, updated as at 30 June 2018.

As I noted in my IE Report, as at 31 December 2017, the available capital for CIFG EU differs slightly from its respective net assets under Solvency II, as seen in the second table below. This is due to minor differences due to admissibility restrictions of certain assets in Eligible Own Funds.

I note that there was a late adjustment to AGE's SCR as at 31 December 2017 which was not captured in my IE Report, and as such AGE pre- and post-Transfers show an SCR higher than that in my IE Report of £0.5m and £0.9m respectively.

I also note that Assured Guaranty formally calculates its SCR annually, and as such the SCR as at 30 June 2018 is the same as at 31 December 2017, as seen in the tables below. I note however that for my analysis in section 3.4, Assured Guaranty have provided me with an SCR recalculated as at 30 June 2018 (though this is not actually used in the business).

UK GAAP:

	As At 31 December 2017					As At 30 June 2018				
UK GAAP Balance Sheet (£ms)	**AGE (pre-Transfers)**	**AGUK**	**CIFG EU**	**AGLN**	**AGE (post-Transfers)**	**AGE (pre-Transfers)**	**AGUK**	**CIFG EU**	**AGLN**	**AGE (post-Transfers)**
Assets										
Financial Investments	188	111	32	433	764	182	113	30	429	755
Cash	32	4	2	3	41	30	3	2	10	45
Reinsurer's Share of UPR	439	20	1	6	466	428	20	1	5	454
Reinsurer's Share of Claims	0	18	0	0	18	0	20	0	0	20
Reinsurer's Share of other TPs	16	1	0	0	18	15	1	0	0	16
Insurance Debtors	228	47	1	235	511	225	47	1	224	497
Deferred Tax	0	0	0	1	0	0	0	0	1	1
Deferred Acquisition Costs	25	0	0	6	32	25	0	0	6	31
Investments in group undertakings	323	0	0	0	0	323	0	0	0	0
Other Assets	67	11	0	5	84	64	10	0	6	81
Total Assets	1,319	213	36	690	1,934	1,292	215	35	682	1,900
Liabilities										
Unearned Premium Reserve	396	22	4	291	713	386	22	4	280	692
Outstanding claims	0	20	0	0	20	0	22	0	0	22
Other Technical Provisions	16	2	0	7	25	15	2	0	5	22
Reinsurance Creditors	213	42	0	5	261	209	43	0	5	256
Other Creditors	9	4	0	12	26	2	3	0	4	10
Deferred Reinsurance Commission	130	8	0	2	140	127	8	0	2	136
Other Liabilities	0	0	5	0	4	0	0	4	0	4
Total Liabilities	765	99	9	317	1,189	739	99	9	296	1,142
Net Assets	554	114	27	373	745	553	116	26	386	758

Source: Management information and UK GAAP accounts

Solvency II:

	As At 31 December 2017					As At 30 June 2018				
Solvency II Balance Sheet (£ms)	**AGE (pre-Transfers)**	**AGUK**	**CIFG EU**	**AGLN**	**AGE (post-Transfers)**	**AGE (pre-Transfers)**	**AGUK**	**CIFG EU**	**AGLN**	**AGE (post-Transfers)**
Assets										
Investments and Cash	646	116	34	440	813	650	117	33	444	807
Government Bonds	136	49	17	309	512	130	48	17	301	496
Corporate Bonds	55	20	13	127	215	54	19	11	133	217
Collateralised Securities	0	43	2	0	45	0	46	3	0	49
Collective Investment Undertakings	19	2	0	0	21	13	2	0	0	16
Cash and cash equivalents	14	2	2	3	20	17	1	2	10	30
Holdings in related undertakings	422	0	0	0	0	436	0	0	0	0
Reinsurer's Share of Provisions	11	(8)	6	(2)	7	(3)	(7)	6	(2)	(7)
Other Assets	5	11	3	13	32	1	6	0	11	19
Total Assets	662	120	43	450	852	648	115	39	452	819
Liabilities										
Gross Solvency II Best Estimate Liabilities	(8)	22	20	(113)	(79)	(26)	22	19	(108)	(94)
Risk Margin	11	4	2	229	246	11	4	2	218	235
Reinsurance Payables	5	5	0	0	10	0	5	0	0	5
Other Liabilities	25	4	1	12	28	21	3	2	4	11
Total Liabilities	33	36	23	128	204	6	34	22	113	157
Net Asset Surplus	629	84	20	322	648	642	81	16	339	662
Admissibility restrictions on assets	0	0	2	0	0	0	0	0	0	0
Available capital (Eligible Own Funds)	629	84	18	322	648	642	81	16	339	662
Required capital (SCR)	113	55	7	289	317	113	55	7	289	317
Capital Cover Ratio	559%	153%	271%	112%	204%	570%	148%	246%	117%	209%

Source: SII Balance Sheets and management information

The updated positions are consistent with my understanding of any changes to the financial and economic circumstances of the Transfer Companies over the six month period. Both of these tables show consistent implications for the policyholders affected by the Transfers to those discussed in the IE Report.

As such I see no need to revise any of my conclusions based on this additional information.

Consideration of capital cover ratio

3.4 In addition to the Solvency II balance sheets (in the previous section) I also considered the impact of the Transfers in terms of the consequent Solvency II capital cover ratio.

I have received an update of the SCR applicable under the Standard Formula as at 30 June 2018 (from the 31 December 2017 SCR data used in the IE Report) and compared this new information with that used in my original analysis in order to identify if my conclusions in the IE Report would change. I note that as Assured Guaranty formally calculate their SCR annually, this is a notional figure that is not in the public domain and as such is not shown in this Report.

I have also received an update of the available and required capital as at 30 June 2018 under the ECM.

The Standard Formula capital cover ratios both pre- and post-Transfers (which act as a proxy for implied probability of policyholder deficiency) are similar to those I considered when preparing the IE Report. This is the case when using the 31 December 2017 SCR (as seen in the table in section 3.3) or when using the notional 30 June 2018 SCR (as described in section 3.3 above).

My observations remain the same as in section 5.13 of the IE Report, in that:

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

- After the Transfers, AGE will have a Standard Formula capital cover ratio materially greater than 100%, indicating the probability that policyholder benefits may not be paid remains remote for existing policyholders;

- As a result of the Transfers, AGE, and CIFG EU policyholders see a decrease in their Standard Formula capital cover ratio. However, the capital cover ratio is still significantly in excess of 100% and these policyholders will have the benefit of greater diversification of the underlying credits and larger pool of capital.

- Policyholders of AGUK and AGLN see an increase in their Standard Formula capital cover ratio.

I also note below my observations of the capital impact of the Transfers based on the information produced from the ECM.

The capital cover ratios under the ECM are also similar to those at the time of my IE Report, and in fact are all slightly higher. The data and analysis supporting this is not included within this report since they are not in the public domain; my observations are the same as in section 5.14 of the IE Report:

- CIFG EU and AGLN policyholders will see an increase in their capital cover ratios as a result of the Transfers.

- AGE and AGUK policyholders see a decrease in their capital cover ratio as a result of the Transfers. AGE and AGUK hold more capital than required by regulation, with AGE holding significantly more than required, and after the Transfers the capital held will still be considerably higher than regulation requires. Given both this and the resulting larger balance sheet and resulting larger pool of capital I do not find this to have an impact on AGE or AGUK policyholder security.

As such I see no reason to revise my previous conclusions based on this updated information.

Market developments

3.5 No material market developments have occurred since the date of the IE Report. As a result, I do not consider that market developments change my conclusion on the impact of the Transfers on the levels of security of each affected policyholder group from that expressed in the IE Report.

Exposure of the Transfer Companies to potential severe adverse stresses

3.6 I have confirmed with management of the Transfer Companies that the severe adverse stresses used in section 6 of the IE Report are still appropriate as stresses for the Transfer Companies, however I have considered them against the updated solvency capital positions (as at 30 June 2018) for each of the Transfer Companies pre- and post-Transfers.

The impact of the stress test results at 30 June 2018 are similar to those at the time of my IE Report.

At the time of my IE Report, excepting one stress for CIFG EU and one stress for AGLN, each Transfer Company would be expected to meet its existing policyholder obligations in full, both before and after the Transfers. This is also the case as at 30 June 2018.

Given the above, I see no reason to revise my previous conclusions based on this updated information.

Future intentions of Assured Guaranty

3.7 Based on my discussions with the managements of the Transfer Companies, and as supported in subsequent written communications, I understand that the future intentions of Assured Guaranty with respect to levels of capital, operations, structure and business mix remain consistent with those documented in Section 4 of the IE Report, except the following:

As part of their Brexit business contingency planning, AGE is considering different options for addressing the impact of Brexit. One of those options is to undertake a further Part VII transfer of AGE's insurance business located in EU member states (excluding the UK) from AGE to a new company set up in a non-UK EU state.

If AGE were to go ahead with a further Part VII transfer, it would not be completed until March 2019 (at the earliest).

This is substantially later than the Transfers, and furthermore would be subject to a similar Part VII Court process before it could be completed. As such, I do not consider this any further here, as the Court will have another opportunity to consider the impact of any proposed transfer in the future.

I also note that a new independent Non-Executive Director is expected to be appointed to the Boards of AGE, AGLN and AGUK in September 2018.

I have identified no adverse impacts to policyholders arising from intentions or motives of the Transfer Companies in proposing the Transfers which would materially change the findings of the analysis which support the conclusions contained in the IE Report.

Intragroup Reinsurance Changes

3.8 In sections 4.14 – 4.17 and section 5.15 of the IE Report, I discussed the changes to the intragroup reinsurance that would occur as a result of the Transfers. A summary of these changes is as follows:

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

These intragroup reinsurance arrangements will be collateralised to varying degrees.

Since the IE Report, Assured Guaranty has commissioned independent advice on the wordings of the new reinsurance agreements in order to ensure that they best meet AGE's needs. This has resulted in some further changes to the wordings from those originally proposed and discussed in the IE Report. I have seen the independent report and reviewed its contents.

The additional changes are intended to harmonise certain provisions within the reinsurance agreements over the Assured Guaranty Group and to align them more closely with recognised industry good practice. They do not affect the main intent or effect of the reinsurance agreements, and indeed, do not affect their economic terms, except in the case of one alteration that I discuss in the first numbered point below. The updates are largely small yet positive changes that do not cause me to revise the conclusions set out in my IE Report, and therefore, I do not discuss these further here. Included in these changes are ensuring that the contracts are all subject to English law, clarifying premium and indemnity terms where these were potentially unclear, and standardising and specifying acceptable assets for the collateral funds.

I detail below two of the updates which require further consideration:

1. Certain CIFG EU policies that are currently covered by XoL reinsurance with AGC will be covered instead by 100% Quota Share reinsurance with AGC post-Transfers, in order to simplify administration in this area.

   In terms of liability for claims, the change does not alter anything for CIFG EU; under the current XoL reinsurance arrangement, AGC is currently liable for 100% of CIFG EU's claims on these policies due to exhaustion of an aggregate deductible, and will be liable for 100% of CIFG EU's claims under the Quota Share agreement following the Transfers.

   This change does slightly alter the premiums CIFG EU (and therefore AGE post-Transfers) would be liable for; currently CIFG EU is paying a percentage of the policies' future gross premiums plus a quarterly fee based on the following: a measure derived from Standard & Poor's rating of the underlying bonds, the sector in which they sit and the type of bond they are. After the change to Quota Share it will be paying 100% of the policies' future premiums to AGC. This results in an increase in payments to AGC which decreases the capital that will be available in AGE post-Transfers by c$3million. I note, for avoidance of doubt, that the tables earlier in my Report show AGE post-Transfers without the effect of this decrease.

   I have assessed how my capital and stress test analysis would be altered by this c$3million decrease, and I am comfortable that this does not change any of my previous conclusions. I also note that the change can benefit AGE in the sense that it will remove the volatility stemming from the amount of the future quarterly fee; if the obligations insured by the covered policies were to deteriorate in the future, the fall in their Standard & Poor's rating would have resulted in an increase in the quarterly fee.

2. The triggers under which AGE can terminate the reinsurance it holds from AGC and AGM (and AG Re) have been clarified and harmonised to the extent consistent with the parties' existing rights. As part of this process, an additional trigger has been added enabling (but not requiring) AGE to terminate the reinsurance should the reinsurer in question fail to maintain its required collateral or seek to terminate such collateral. The updated wording also clarifies that the termination payment the reinsurer would owe to AGE upon AGE's termination of the agreement is based on the reinsurer's assumed share of AGE's UK GAAP liabilities.

   There has also been a change specific to the AGUK business currently ceded to AGC; in respect of these policies, the relevant credit rating threshold that AGC must maintain to avoid AGE obtaining a right (but not an obligation) to terminate the reinsurance will be an "A" rating from Standard & Poor's; currently the threshold is "AA-" from Standard & Poor's or "Aa3" from Moody's. This change benefits AGC and makes it slightly more difficult for AGE to use its right to cancel the reinsurance.

   Nevertheless, I note that AGE still holds a right to cancel long before AGC would approach insolvency. Furthermore, AGC will be collateralising all of its reinsurance arrangements with AGE post-Transfers, which was not the case when the current rating triggers were first established, and as noted above there is also the added collateral trigger that can be applied.

   I therefore find this change in credit rating threshold to have an immaterial impact on the reinsurance contract, and as such do not find that it impacts any of my previous conclusions.

3.9 I also note that as shown in the tables in section 3.1 above, AGUK holds two insurance securitisation credits which are considered likely to be impaired in the future. One of these credits is the holding of the Orkney bonds, which I discuss in my IE Report; the details of the other are not in the public domain so I do not name it here. Post-Transfers, these credits will be held by AGE, and as a result of this there will be a larger number of policyholders exposed to the potential impairment of the credits.

These two credits are reinsured by AGC, and have been substantially (entirely, in the case of the Orkney bonds) provided for by purchasing the underlying insured bonds and holding them as collateral against the exposures, so ensuring that any future claim payment would effectively become an internal transfer of funds with the claim payment restoring the lost principal or interest on the bonds. This ensures that for as long as the purchased bonds are held in the collateral fund there is effectively no remaining exposure to default of either of these credits. Following the proposed changes to the reinsurance contract wordings discussed above, the only practical scenario in which the bonds could be removed from the collateral fund (which would result in any future claim payment no longer simply resulting in an internal transfer of funds) is if AGC were to become insolvent and an administrator were to succeed in taking control of some or all of the bonds.

I have therefore considered the situation regarding these two bonds should AGC become insolvent. I note firstly that AGE has confirmed that the value of the collateral including the two bonds is substantially greater than the termination payment that would become payable in this circumstance. The amount of the termination payment should therefore be able to be paid to AGE out of the collateral funds in the event of AGC entering administration. This amount is calculated as the sum of: (i) all of AGC's assumed unearned premium (net of ceding commission and net of AGE's reinsurance premium payable to AGC), (ii) all of AGC's assumed loss and loss expense reserves, and (iii) all of AGC's assumed unexpired risk reserves, with each such amount being calculated on a UK GAAP basis. By receiving an amount equal to the termination payment, AGE would therefore receive sufficient resources to be able to establish its own Technical Provisions (on a UK GAAP basis) in relation to these exposures with additional funds to cover unexpired risks and unearned premium as well, except in the event AGC's administrator, at the time of payment, succeeds in removing the two bond holdings from the collateral and denying AGC's claim against a sufficient amount of the bonds' market value to be paid its termination amount in full.

I also note in my IE Report that one of the stress scenarios I look at involves the default of all affiliated reinsurers and that AGE post-Transfers would still be able to meet its liabilities under this stress. This is still the case for the updated stress tests as at Q2 2018, including after the changes to the intragroup reinsurance arrangements. Therefore, I see no reason connected to this situation that would cause me to revise the conclusions in my IE Report.

Implications of "Brexit" Referendum

3.10 In section 4.17 of the IE Report, I discussed the implications of the Brexit referendum, as far as was known at the time of the Report. Since that time, there has been no material new information on the potential consequences of Brexit on the Transfer Companies. My comments in the IE Report on the subject therefore remain valid at the date of this Supplemental Report.

Assured Guaranty management continue to monitor the situation and refine their contingency planning. As I note in the above section, AGE is evaluating whether to undertake another Part VII transfer as part of their Brexit planning.

Policyholder and other communications

3.11 I understand from Assured Guaranty that the proposed policyholder communication as set out in my IE Report has gone ahead as expected.

Assured Guaranty have provided me with the weekly logs detailing the numbers of policyholders responding with queries, objections, complaints, or otherwise, and also the number of returned mailings. I have received further information on the nature and content of the policyholder correspondence where necessary.

As of 21 September 2018, from a total of 119 mailings, 6 mailings have been returned as undelivered though these have been since resent.

Also as of 21 September 2018, I can confirm that there have been no policyholder objections or complaints.

I have not identified any matter that would cause me to perform additional analysis or lead me to revise the conclusion set out in my IE Report and this Supplemental Report.

4. Overall conclusions

4.1 Having updated my financial analyses, and having considered the other matters set out above, I can confirm that all of the overall conclusions that I reached in Section 7 of the IE Report remain unchanged. Hence, in my opinion I do not identify any material adverse effect on any of the groups of policyholders of any of the Transfer Companies as a result of the proposed Transfers.

Appendix – List of additional information provided for Supplemental Report

Financial Information

AGE, AGUK, CIFG, and AGLN's unaudited accounts and Solvency II balance sheets as at 30 June 2018

Proforma balance sheet and other financial information based on 30 June 2018 data – post-Transfers

AGE, AGUK, CIFG, and AGLN's QRT forms as at 30 June 2018

Structure and Company Information

Confirmation of company structure

Confirmation that there are no changes to details of current and post-Transfers Board(s) and governance arrangements

Significant Risk Sharing Arrangements

Copies of the updated reinsurance agreements and further details on the reasons for, and implications of, the changes

Independent report on proposed reinsurance wordings

Scheme Information

Final Scheme Documents

Listing of policies to be transferred

Confirmation of no material shift to costs of implementing the scheme nor changes to who will be meeting those costs

Confirmation of no changes in the effect of the Transfers on existing administration and asset management contracts

Confirmation of no material shift to tax impact arising as a result of the Transfers since the IE Report

Final communications plan

Updated policy and claim overview

Weekly policyholder communication logs and more detailed information on the responses where relevant

Capital and Risk Management

Updated capital requirements and available capital figures under Solvency II for the Transfer Companies pre- and post-Transfers

Confirmation of no material losses occurring in the interim period Q4 2017 to Q2 2018

Updates to the impact of the stresses on the business as set out in section 6 of the IE Report

Other information considered

Further discussions with key staff in the executive team, together with emails confirming statements and information provided verbally in these meetings that I have relied upon