

## SUMMARY OF SCHEME AND INDEPENDENT EXPERT'S REPORT

### Proposed transfer of certain insurance business of Assured Guaranty (Europe) plc to Assured Guaranty (Europe) SA

#### 1. OVERVIEW

- 1.1 It is proposed that certain insurance business of Assured Guaranty (Europe) plc ("**AGE plc**") (the "**Transferred Business**"), will be transferred to Assured Guaranty (Europe) SA ("**AGE SA**") under a scheme pursuant to Part VII of the Financial Services and Markets Act 2000 (the "**Act**") (the "**Proposal**") in order to ensure that EEA policies can continue to be administered following the UK's departure from the EU.
- 1.2 AGE plc is a public limited company incorporated in England. AGE plc is authorised by the Prudential Regulation Authority (the "**PRA**") to effect and carry out contracts of non-life insurance in the classes of credit, suretyship and miscellaneous financial loss in the United Kingdom ("**UK**") and is regulated by the PRA and the Financial Conduct Authority (the "**FCA**").
- 1.3 AGE SA is a *société anonyme* incorporated in France. AGE SA is an insurance company authorised by the *Autorité de Contrôle Prudentiel et de Résolution* to effect and carry out contracts of non-life insurance in the classes of credit, suretyship and miscellaneous financial loss in the UK and is regulated by the *Autorité de Contrôle Prudentiel et de Résolution*.
- 1.4 Under the terms of the proposal, certain of AGE plc's existing policies will be transferred to AGE SA. The terms of those contracts however will not otherwise be affected as a result of the transfers. Consequently, policyholders of AGE plc need to take no action in relation to claims or premiums.

#### 2. PROCESS

- 2.1 The Proposal will be effected under provisions contained in Part VII of, and Schedule 12 to, the Act. These provisions permit a business carried on by an insurance company in the UK to be transferred to another insurance company. The details of such a transfer must be set out in a scheme (the "**Scheme**"), which can only become effective with the sanction of the Court.
- 2.2 AGE plc made an application to the Court in respect of the Proposal by a Claim Form issued on 20 September 2019. The Court hearing is expected to take place on 24 January 2020. The application to the Court was accompanied by a report on the terms of the Scheme in a form approved by the PRA after consultation with the FCA and made by a person approved as an independent expert by the PRA after consultation with the FCA (the "**Independent Expert's Report**").
- 2.3 Any person (including an employee of AGE plc or AGE SA) who alleges that he or she might be adversely affected by the carrying out of the Scheme is entitled to object in writing or make oral representations or be heard by the Court at the Court hearing (either in person or by Counsel), as is the PRA and the FCA. Any person who wishes to object to the application in writing or make oral representations or appear in person or by Counsel at the Court hearing is requested (but is not obliged) to notify his or her objections as soon as possible to Hogan Lovells International LLP (the solicitors acting for AGE plc and AGE SA) at Atlantic House, Holborn Viaduct, London, EC1A 2FG (tel: +44(0) 20 7296 2000, fax: +44(0) 20 7296 2001), quoting reference C4/WH/TJG.

2.4 Subject to the granting of an order of the Court sanctioning the Scheme, the Scheme is expected to become effective in January 2020 (the "**Effective Date**").

### 3. **SUMMARY OF THE SCHEME**

#### 3.1 **Transfer of certain insurance business to AGE SA**

Under the Scheme certain insurance business of AGE plc will be transferred to AGE SA in accordance with the Scheme on the Effective Date (except as provided in paragraph 3.3 below). AGE SA will become the insurer in place of AGE plc under policies issued by AGE plc.

#### 3.2 **Litigation**

From the Effective Date any proceedings which are pending, current or contemplated by or against AGE plc in respect of the transferring business will be continued or (as the case may be) commenced by or against AGE SA.

#### 3.3 **Excluded policies**

If any policy that AGE plc is intending to transfer is excluded from the transfer for any reason by the order of the Court or by the agreement of AGE plc and AGE SA, then that policy will not be transferred to AGE SA. However, AGE plc and AGE SA have no reason to believe that any such policy will not be transferred.

### 4. **MODIFICATIONS OR ADDITIONS TO THE SCHEME**

The Scheme may not be modified or made subject to further provisions or conditions without the written consent of the PRA and the FCA. Any such modification would also need to be approved by the Court.

### 5. **SUMMARY OF THE INDEPENDENT EXPERT'S REPORT**

The Independent Expert has provided a summary of her report, which is appended to this document.

### 6. **COPIES OF DOCUMENTS RELATING TO THE PROPOSAL**

Copies of the Independent Expert's Report and of this document are available on the following website: <http://assuredguaranty.com/static/brexit> and will also be provided, free of charge, by Hogan Lovells International LLP, solicitors for AGE plc and AGE SA, whose details are given in section 2.3 of this document.

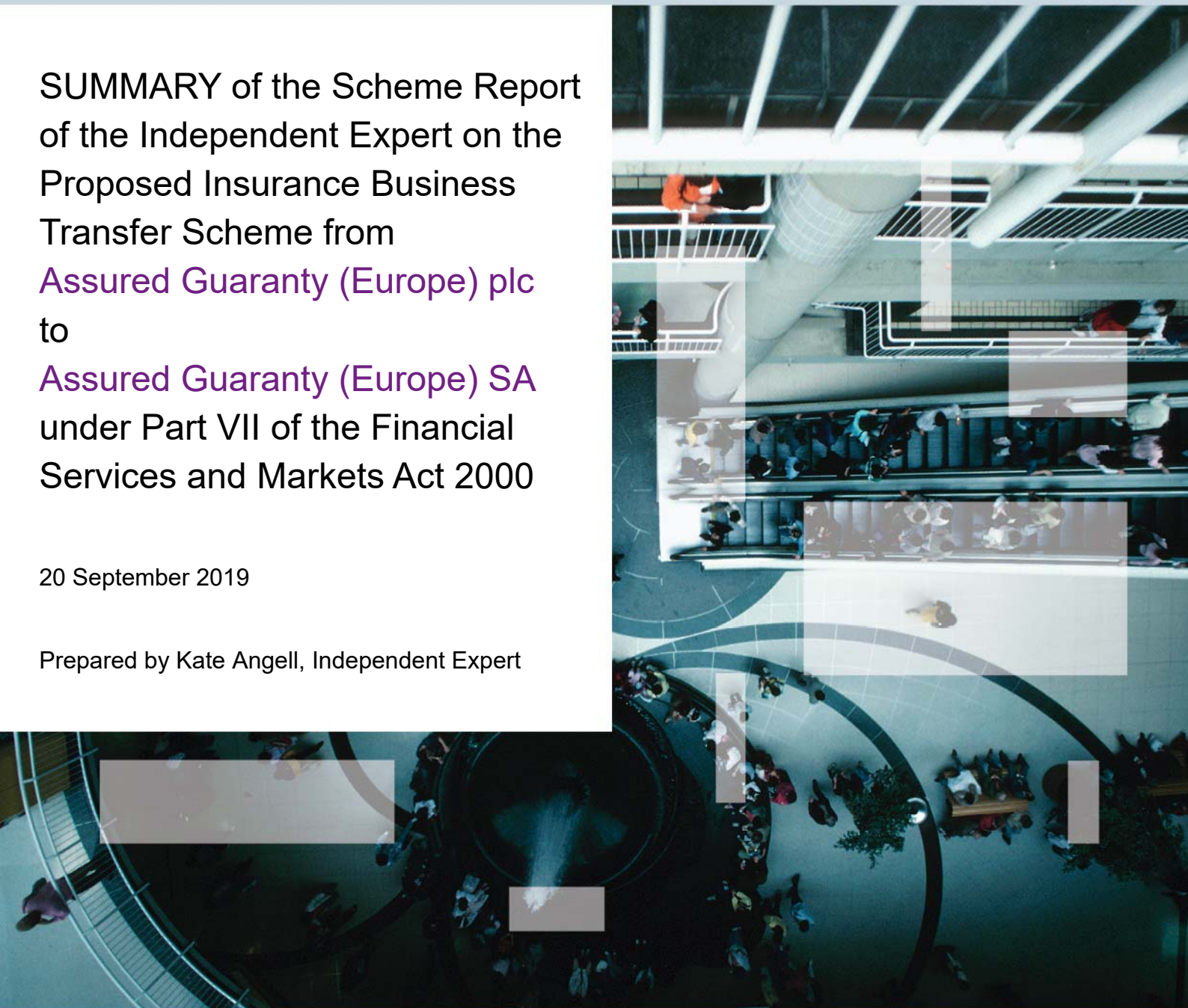
### 7. **SUPPLEMENTARY REPORT OF THE INDEPENDENT EXPERT**

The Independent Expert intends to prepare a supplementary report on the transfers shortly before the Court hearing in order to update the Independent Expert's Report. Copies of the supplementary report will be made available on the website named in paragraph 6 and free of charge from Hogan Lovells International LLP.

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

20 September 2019

Prepared by Kate Angell, Independent Expert





## Introduction

- 1.1 When a scheme for transferring insurance business from one company to another is put to the High Court of Justice in England and Wales (“Court”) for approval it has to be accompanied by a report on the terms of the scheme from an independent expert (the “Independent Expert”). The Independent Expert’s report (the “Scheme Report”) is a requirement under Part VII of the Financial Services and Markets Act 2000 (“FSMA”).
- 1.2 This document is a summary of the Scheme Report (the “Summary”) and the Scheme Report contains detailed information that is not shown in this Summary.
- 1.3 This Summary, and the Scheme Report, have been prepared on the instruction of Assured Guaranty (Europe) plc (“AGE plc”) for the benefit of the Court solely for the purposes of the FSMA requirements for Part VII transfers. I owe a duty to the Court to help the Court on matters within my expertise. This duty overrides any obligation to any person from whom I have received instructions or by whom I am paid.
- 1.4 This Summary, and the Scheme Report, may be distributed to policyholders and any other person entitled to receive a copy under applicable law or regulation.
- 1.5 This Summary and the Scheme Report may be relied on by the Court. Neither the Independent Expert nor Willis Towers Watson accepts any responsibility or liability to any third party in relation to the Scheme Report or the Summary. Any reliance placed by such third parties on the Scheme Report or the Summary is entirely at their own risk.
- 1.6 This Summary is subject to the same limitations as those set out in the Scheme Report and in the event of any real or perceived conflict between this Summary and the Scheme Report, the Scheme Report shall prevail.

## About the Independent Expert

- 1.7 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.
- 1.8 I consider that I have no conflict of interest or involvement, current or historical, with AGE plc, Assured Guaranty (Europe) SA (“AGE SA”) or any other Assured Guaranty group companies which would affect my suitability to act as the Independent Expert for the Proposed Scheme.
- 1.9 Willis Towers Watson, globally, has relationships with the Assured Guaranty group of companies. However, I do not consider that the nature and size of these involvements impact on my ability to act as Independent Expert for the Proposed Scheme. I have provided details of these relationships directly to the Prudential Regulation Authority (“PRA”) and the Financial Conduct Authority (“FCA”).
- 1.10 My appointment as the Independent Expert in connection with the Proposed Scheme has been approved by the PRA, in consultation with the FCA.

## The Proposed Scheme

- 1.11 The Proposed Scheme relates to the transfer of certain policies from AGE plc to AGE SA.
- 1.12 AGE plc and AGE SA are both wholly owned subsidiaries of Assured Guaranty Municipal Corp. (“AGM”) and are members of the group of companies ultimately owned by Assured Guaranty Ltd. in Bermuda (the “Assured Guaranty Group”).

- 1.13 AGE plc is incorporated in the UK, authorised by the PRA and regulated by the PRA and the FCA. AGE SA is domiciled in France and is in the process of obtaining authorisation from the Autorité de Contrôle Prudentiel et de Résolution (“the ACPR”). It is intended that AGE SA will be authorised and regulated by the ACPR. Assured Guaranty Municipal Corp. is incorporated in the US and is authorised and regulated by the New York State Department of Financial Services (“NYDFS”).
- 1.14 The policies to be transferred under the Proposed Scheme are 90 financial guarantee policies (the “Transferring Policies”). AGE plc only writes financial guarantee business and no other types of business are directly involved in the Proposed Scheme. The purpose of the Proposed Scheme is to enable the Assured Guaranty Group to continue providing financial guarantee insurance throughout the EEA after the UK leaves the EU and to carry out existing contracts of insurance with EEA based policyholders in respect of the Transferring Policies.

## Scope of review

- 1.15 I have considered the likely effects of the Proposed Scheme on the following groups of affected policyholders:
- Those policyholders of AGE plc whose insurance policies are remaining with AGE plc (the “Remaining Policyholders”); and
  - Those policyholders of AGE plc whose insurance policies are transferring to AGE SA (the “Transferring Policyholders”).
- 1.16 As AGE SA has been established for the purpose of receiving the Transferring Policyholders there will be no policyholders of AGE SA before the Proposed Scheme and hence I have not carried out any assessment on policyholders in AGE SA before the Proposed Scheme.
- 1.17 In performing my review, I considered each of the following areas:
- The security of policyholders’ contractual rights, including the likelihood and potential effects of the insolvency of the insurer;
  - Matters such as investment management, new business strategy, management, administration, claims handling, governance arrangements, expense levels and valuation bases in relation to how they may affect the security of policyholders’ contractual rights and levels of service provided to policyholders; and
  - Matters such as cost and tax effects of the Proposed Scheme, in relation to how they may affect the security of policyholders’ contractual rights.
- 1.18 For each of the above areas I considered whether the Remaining Policyholders and the Transferring Policyholders would be materially adversely affected under the Proposed Scheme.
- When considering the security of policyholders’ contractual rights I have considered an outcome to be materially adverse if it raises the likelihood of insurer failure above a 1 in 200 year likelihood (a 0.5<sup>th</sup> percentile level of risk), which is the likelihood imposed by regulatory requirements, and I have considered outcomes under two bases:
    - Outcomes over a one-year time horizon. This is the basis on which the regulatory capital for the Transfer Companies will be set.
    - Outcomes on a “run-off to ultimate” basis. The “run-off to ultimate” basis represents the amount of capital required to fully run-off all liabilities, rather than the emergence of risk over a one-year time frame. Given the long policy terms of the liabilities of the



Transfer Companies, this is the basis which is used to inform business decisions and which AGE plc refer to internally as the ICA.

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

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

## Findings of the Independent Expert

### *Security of policyholders remaining within AGE plc*

- 1.20 It is my opinion that the Remaining Policyholders will not be materially adversely affected by the Proposed Scheme.
- 1.21 The Remaining Policyholders currently have policies with AGE plc, a company whose level of Solvency II Own Funds exceed the Solvency II Solvency Capital Requirement.
- 1.22 AGE plc has a stochastic capital model, referred to as the Economic Capital Model (or “ECM”), which is a proprietary model that is not used for regulatory purposes and is not approved by the PRA. The ECM models risk on a “run-off to ultimate” basis and covers insurance risk and reinsurance credit risk. Given the very long-term nature of its business AGE plc uses the long-term view of risk to inform business decisions, referred to internally with AGE plc as the Individual Capital Assessment (or “ICA”). The ICA is based on the ECM results for insurance risk and reinsurance credit risk and the Solvency II Standard Formula approach for market risk, operational risk and correlation assumptions to combine the risks. AGE plc also has sufficient Capital Resources to meet its ICA.
- 1.23 After the Proposed Scheme, the Remaining Policyholders will continue to have policies with AGE plc. Immediately after the Proposed Scheme, the SCR coverage ratio will reduce for AGE plc, although it will remain well in excess of 100%. The ICA coverage ratio for AGE plc will increase as a result of the Proposed Scheme. As a result of the Proposed Scheme the probability of their insurer remaining solvent, based on the methods and assumptions underlying the ICA, is unchanged for the Remaining Policyholders.
- 1.24 As such, I consider that the security of the Remaining Policyholders’ contractual rights is not materially disadvantaged by the Proposed Scheme.

### *Security of policyholders transferring from AGE plc to AGE SA*

- 1.25 It is my opinion that the Transferring Policyholders will not be materially adversely affected by the Proposed Scheme.
- 1.26 The Transferring Policyholders currently have policies with AGE plc, a company whose level of Solvency II Own Funds exceed the Solvency II Solvency Capital Requirement, and whose Capital Resources exceed its ICA.
- 1.27 After the Proposed Scheme, the Transferring Policyholders will have policies with AGE SA. Immediately after the Proposed Scheme, AGE SA is projected to have Solvency II Own Funds which exceed its Solvency II Solvency Capital Requirement and Capital Resources which exceed its ICA.

- 1.28 The value of the investment assets which are to be transferred from AGE plc to AGE SA as part of the Proposed Scheme has been determined such that AGE SA will exactly meet its target capital immediately after the Effective Date of the transaction. The target capital of AGE SA is still in the process of being determined but is likely to be specified in the form of maintaining a buffer above its SCR and ICA requirements. Hence, immediately after the Proposed Scheme, the SCR and ICA coverage ratios relevant for the Transferring Policyholders will reduce, although both will remain above 120% (and therefore well in excess of 100%).
- 1.29 This means that as a result of the Proposed Scheme the probability of their insurer remaining solvent, based on the methods and assumptions underlying the ICA, reduces for the Transferring Policyholders, although not by a material amount (by just under 0.3%, from 99.99% to 99.7%).
- 1.30 As such, I consider that the security of the Transferring Policyholders' contractual rights is not materially disadvantaged by the Proposed Scheme.

### ***Effect of Brexit on the above conclusions***

- 1.31 In the absence of the Proposed Scheme and in the event of the UK leaving the EU ("Brexit") without a deal (a "No-Deal Brexit"), insurance regulators have put in place measures which provide some protection to the policyholders of AGE plc. However, I note that it is not clear how long these measures would apply for and therefore there is considerably uncertainty as to how long it will remain legal for AGE plc to continue to pay all future claims of EEA-based policies in all relevant EEA jurisdictions. This is particularly relevant for AGE plc due to the very long duration of its liabilities.
- 1.32 Therefore, in respect of a No-Deal Brexit, I consider that the Proposed Scheme would have no impact on the policyholders remaining in AGE plc and would be beneficial to the policyholders transferring from AGE plc to AGE SA since it would remove the uncertainty referred to in the previous paragraph.

### ***Effect of stress scenarios on the above conclusions***

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

### ***Other considerations***

- 1.34 I consider that the Proposed Scheme will have no significant effect on the policyholders remaining in AGE plc and the policyholders transferring from AGE plc to AGE SA in respect of matters such as investment management, new business strategy, management, administration, claims handling, governance arrangements, expense levels and valuation bases in relation to how they may affect the security of policyholders' contractual rights and levels of service provided to policyholders.
- 1.35 I also consider that matters such as the cost and tax effects of the Proposed Scheme will have no significant effect on the security of the contractual rights of policyholders, either those remaining in AGE plc or those transferring from AGE plc to AGE SA.
- 1.36 I am satisfied that the proposed material to be presented to policyholders and AGE plc's approach to communication with policyholders (including with respect to its scope) is appropriate, reasonable and proportionate.



### **Internal reinsurance**

- 1.37 Companies within the Assured Guaranty Group make substantial use of internal reinsurance (defined as reinsurance which is provided by other companies within the Assured Guaranty Group). Under the Proposed Scheme the existing internal reinsurance in respect of the Remaining Policies will remain with AGE plc and the existing internal reinsurance in respect of the Transferring Policies will be transferred to AGE SA. Some additional internal reinsurance will also be put in place in respect of the AGE plc legacy business which is transferring to AGE SA. As a result, after the Proposed Scheme, AGE SA will benefit from a higher level of reinsurance protection, but also have a greater exposure to reinsurance recoveries than AGE plc, although the terms of the collateral requirements ensure a commensurate increase in the collateral available to AGE SA.
- 1.38 This additional reinsurance protection, increased exposure to reinsurance credit risk and the benefit of the additional collateral is reflected in the Solvency Capital Requirement and ICA calculations I have considered. In addition, the stress scenarios I have considered include two scenarios which reflect stresses in relation to this internal reinsurance.
- 1.39 Based on the summary set out in paragraph 1.37 above, and my consideration of the impact of the Proposed Scheme on the Solvency Capital Requirement, ICA calculations and stress scenarios, I conclude that with regards to the internal reinsurance there is no material adverse impact on either the Remaining Policyholders or the Transferring Policyholders as a result of the Proposed Scheme.

### **External reinsurers**

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

### **Supplementary Report**

- 1.41 This Summary, and the Scheme Report, are based on audited financial information in respect of AGE plc as at 31 December 2018 and financial projections performed by AGE plc based on this information. I expect to produce a Supplementary Report based on updated financial projections, which will take into account any significant changes.
- 1.42 At the time of my Supplementary Report I will also consider whether the ongoing investigation and planning which is being undertaken by AGE plc in respect of the Proposed Scheme will result in changes to the structure of the Proposed Scheme which requires my review.



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**20 September 2019**

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