Assured Guaranty Ltd. (AGO)
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First Quarter 2016 Earnings Call

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Thank you operator. And thank you all for joining Assured Guaranty for our 2016 first quarter financial results conference call.

Today's presentation is made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995.

The presentation may contain forward-looking statements about our new business and credit outlooks, market conditions, credit spreads, financial ratings, loss reserves, financial results or other items that may affect our future results.

These statements are subject to change due to new information or future events. Therefore, you should not place undue reliance on them, as we do not undertake any obligation to publicly update or revise them, except as required by law.

If you are listening to a replay of this call, or if you are reading a transcript of the call, please note that our statements made today may have been updated since this call.

Please refer to the Investor Information section of our website for our recent presentations, SEC filings, most current financial filings, and for the risk factors.

In turning to the presentation, our speakers today are Dominic Frederico, President and Chief Executive Officer of Assured Guaranty Ltd., and Rob Bailenson, our Chief Financial Officer. After their remarks, we will open the call to your questions. As the webcast is not enabled for Q&A, please dial in to the call if you would like to a ask question.

I will now turn the call over to Dominic.

Dominic Frederico, President and Chief Executive Officer

Thank you, Robert, and welcome to everyone joining today's call.

Assured Guaranty is off to a strong start in 2016. Once again, we set new per-share records for operating shareholders' equity and adjusted book value.

In addition to strong first quarter results, we also continued executing our strategic objective to acquire legacy financial guaranty portfolios. In April, we announced the agreement for our AGC subsidiary to acquire the parent of the legacy financial guaranty insurer CIFG Assurance North America, whose insured portfolio had net par outstanding of $5.6 billion at December 31, 2015.

We expect to complete the transaction mid-2016 upon receipt of the necessary anti-trust and insurance regulatory approvals and satisfaction of customary closing conditions. Rob will further discuss this important achievement in his remarks.

In new business production, we saw our best start in four years, with $38 million of present value production, or PVP, in the first quarter. In our largest market, U.S. Public Finance, total PVP grew 138% over first quarter 2015 production, in a very challenging environment.

Although total municipal issuance declined 7.1% compared with first quarter 2015 issuance, insured volume declined by only 4.9%. Industry insurance penetration of 5.9% was modestly higher than the 5.7% in first quarter 2015.

During the first quarter of 2016, Assured Guaranty continued to lead the market in par insured, capturing 54% of all insured new-issue par. Our 198 primary-market transactions represented over $3 billion of insured par, compared with $3.4 billion in last year's first quarter. Notably, however, this year's pricing was far superior on both an absolute and risk-adjusted basis.

We continue to focus on protecting our long-term financial strength and profitability by maintaining disciplined credit selection and pricing. Across our first-quarter U.S. public finance business, the ratio of our municipal premium written to our par insured was more than twice what it was in first quarter 2015, while the average rating for bonds we insured in both periods was consistent at A- and the mix of bond sectors was very similar.

Equally important, our first quarter premium rate was approximately double that of our nearest competitor reflecting the superiority of our brand in the market.

During the quarter, we benefited from our ability to assist the larger transactions that typically interest institutional investors, insuring five new issues with insured par amounts exceeding $100 million each. That said, the bulk of our new business activity remains focused on reducing borrowing costs and facilitating market access for issuers of small and medium-sized bond issues. We guaranteed 163 new issues of $25 million or less during the quarter.

Our secondary market business was exceptionally strong in the first quarter, generating more than one-third of our U.S. public finance PVP in the quarter and approximately two-thirds of the secondary market PVP we wrote in all of 2015. The $359 million of secondary market par insured was more than twice the secondary market par we insured in the first quarter of last year and three times the amount in the fourth quarter of 2015. Our secondary business also reflected an improvement in risk pricing.

We believe there are further opportunities in our secondary market business, and we are working hard to support it. During the quarter, we began providing indicative pricing information on Bloomberg Terminals for thousands of issues we have pre-qualified for insurance. Bloomberg Terminals are on virtually all trading floors, and we are actively promoting this new service to the market. Additionally, we have for years maintained a searchable database of pre-qualified credits on our website at AssuredGuaranty.com, offered electronic purchases of bond insurance on the

TMC Bonds trading platform and, of course, provided quotes and sold insurance over the phone from our secondary market trading desk.

In Europe, we believe the infrastructure market is beginning to reemerge from the Great Recession. During the first quarter, we recorded $7 million of PVP from a transaction that did not increase our par outstanding because it was a restructuring of an existing exposure. We are optimistic about the pipeline of infrastructure transactions we could close in 2016. However, the international business typically comprises a small number of high-value transactions that have longer development periods and multiple counterparties, so the timing of closing transactions is often uncertain.

In global markets, including the United States, new standards for banks' and insurance companies' capital requirements are generating potential opportunities for us. For example, through our structured finance team, we can provide financial guaranty solutions that assist banks and insurance companies in meeting capital requirements under Basel III and Solvency II, respectively. Additionally, we continue to evaluate structured finance opportunities in a wide range of asset classes, including consumer loans, CLOs, aviation, and other specialized areas. We expect to close a number of structured finance transactions this year.

Turning to our other strategic objectives, in our capital management program, share repurchases continued to produce positive results for shareholders in the first quarter of 2016, reflected in our record operating equity per share and adjusted book value per share.

Our fourth important strategy is loss mitigation. During the quarter, in addition to other loss mitigation activity, we purchased more than $60 million of below investment grade bonds that we had previously wrapped, at a 23% discount to par value.

On the public finance side, we are determined to protect our rights and to achieve the best possible outcome for our Puerto Rico exposures. We continue to assess the probability and potential severity of defaults on Puerto Rico credits and adjust our reserves accordingly based on current information. At the same time, we are working conscientiously with many parties to reach accords that eliminate or mitigate losses on our Puerto Rico exposures and set Puerto Rico on a solid path to economic recovery.

In mid-April, the House Natural Resources Committee released a draft of the "Puerto Rico Oversight, Management, and Economic Stability Act." While the proposed legislation contained critical positive provisions, like the creation of a federally established oversight board, it would also retroactively create an unprecedented restructuring mechanism. Its scope and cramdown provisions go well beyond what would be available under Chapter 9 and set a dangerous precedent that rewards fiscal mismanagement through irresponsible borrowing and spending with inadequate financial disclosure. Since the release of the draft bill, the U.S. Treasury Department has been pressuring Congress to modify the bill in ways that would further damage the legal rights of bondholders.

There is a lot of misclassification or mischaracterization regarding the legislative proposals on Puerto Rico. Let's be clear. When the U.S. administration and Puerto Rico refer to the legislation as granting restructuring authority, what they really mean is the ability to declare bankruptcy with the right to impair creditors non-consensually without regard to the secured or unsecured status of the creditors or the legally prescribed priority of payments or constitutional or contractual protections.

Additionally, it has been almost three months since the Chairman of the Senate Committee on Finance asked Puerto Rico to provide, among many things, reliable, audited information about the financial condition of Puerto Rico, its agencies and public pension systems. Yet, without producing that information, and with encouragement from the U.S. Treasury, Puerto Rico continues to argue that it is unable to honor its financial commitments and that it needs Federal legislation permitting a retroactive, unilateral repudiation of binding contracts, the rejection of payment priorities established in the Puerto Rico laws and constitution, and a path to non-consensual impairments of creditor rights. Without the requested information to analyze the problems, challenges or opportunities of Puerto Rico, how can anyone be certain that any proposed measures will address the economic and structural reforms that are necessary to improve Puerto Rico's economic future?

There are other misleading statements being made, purportedly on behalf of Puerto Rican citizens, in order to support the truly indefensible, proposed, illegal actions.

The House bill as currently drafted has been repeatedly defended as "not a taxpayer bailout." If we truly examine this statement, we find that the Merriam Webster dictionary defines "bailout" as the act of saving or rescuing something from money problems. That seems to absolutely fit the legislation requested by the Puerto Rican government.

As for the taxpayer portion of the misstatement, if the legislation provides Puerto Rico with the ability to force a non-consensual restructuring on investors, that is a cost that will be borne by predominantly U.S. taxpayers who own these municipal bonds or are investors in companies with exposure to Puerto Rico, including investors in bond insurers, like our shareholders. So although the U.S. government is not writing the check to directly Puerto Rico, it would be forcing U.S. taxpayers to take the loss in their investment or retirement accounts, which has the same troubling effect: that U.S. taxpayers are absorbing the cost of any bailout to the Puerto Rico government. So when you hear the term "not a taxpayer bailout," please recognize the true reality of the proposed drafted legislation.

Also, if the U.S. Treasury claims this is a humanitarian crisis that requires immediate legislative action to address it, that's fine, and there have been many ways in the past that the U.S. government has come to the aid of many people, but humanitarian aid should not involve the abrogation of contractual and Constitutional rights, the dishonoring of pledges and promises, and the violation of the rule of law, which are the foundation of the United States of America. Also, I find it inconceivable that in the same breath that Puerto Rico claims a humanitarian crisis, the Puerto Rico government still objects to federal oversight, although that same government's policies and practices caused this current purported humanitarian crisis.

There is a need to fully understand the ramifications of any actions to be taken on U.S. taxpayers and the financial markets as a whole. If Puerto Rico continues to repudiate its financial responsibilities, where does its future lie? If the current Puerto Rico debt had originally been sold under the provision that there would be no protections whatsoever provided to investors, then the improvement in infrastructure and services in Puerto Rico and the current quality of life would have been dramatically curtailed if not eliminated. If the U.S. Congress and the Puerto Rican government want to make that stipulation for future debt offerings, then let the market determine the level of investor interest in investing in Puerto Rico's future development and growth.

And the harm is not limited to Puerto Rico. Other municipalities and state borrowers who face their own unique financial pressures may demand similar retroactive bankruptcy legislation to deal with their fiscal problems. Investors would be forced to price this potential risk into bond yields, and the cost of municipal finance would rise nationwide, once again creating a burden that would be forced on the U.S. taxpayer. This would have long-lasting implications for the $3.7 trillion U.S. municipal debt market.

And consider this further impact on U.S. taxpayers: Treasury and Puerto Rico proponents want Puerto Rico's pension liabilities paid in full. This could mean U.S. taxpayers who might have lost their own pensions in the bankruptcies of the Great Recession or who lost significant value in their retirement accounts would now be responsible to fully fund the pensions of the Puerto Rico government employees, despite the Commonwealth government's own choice to severely underfund those plans.

Clearly, a federally authorized non-consensual restructuring is not the answer. However, we agree with many that federal legislation is required to put Puerto Rico on the road to fiscal responsibility and recovery. It is imperative that the legislation include an empowered and uncompromised federal oversight board to ensure that the Commonwealth puts its fiscal house in order. The production of timely and audited financial statements, a full vetting of Puerto Rico's finances, and public disclosure of existing contracts and commitments are just the first steps to overhaul the Commonwealth's government that it requires. Only with these steps can the lax enforcement of laws, failure to collect taxes and revenues, and political favoritism that have created the current fiscal situation be properly addressed.

We look forward to working with all parties in a constructive fashion to support appropriate legislation that respects the rule of law, and we appreciate the difficulty of the situation and specifically appreciate the constructive efforts of Chairman Bishop and Speaker Ryan.

Looking ahead, Assured Guaranty is in a very strong financial position. Based on year-end 2014 statistics, we estimated that we had $1.9 billion of excess capital using S&P's AAA capital model. Our insured exposures have continued to amortize since then, and our estimate for year-end 2015 excess capital has increased by approximately $700 million to more than $2.6 billion.

Since December 2012, we have reduced our insured leverage by 45%, whether you look at the ratio of net par outstanding to statutory capital or net debt service outstanding to statutory capital.

Our current leverage of par to statutory capital is 46:1, which is about one-third of what some insurers maintained prior to the global financial crisis. So we are well prepared to grow when market conditions return to normal and are still able to execute capital management through share repurchases.

In that light, our industry's 59% penetration of the number of single-A primary-market transactions in the first quarter of 2016 is notable, and with 28% penetration of single-A par volume, there is a further opportunity to grow by insuring larger single-A deals more frequently.

Additionally, when interest rates rise, the number of eligible deals at various rating levels that will be able to benefit from our insurance will grow. We expect long term interest rates to rise gradually but the increases will accelerate as the Federal Reserve continues to increase short term rates.

If long-term municipal yields rise above 5%, this will increase the demand among retail investors for municipal bonds, and retail investors are a critical component in the demand for insured bonds.

Higher rates will help us not only in the U.S. public finance but also in structured finance and internationally. We are the only bond insurer with a diversified strategy − a strategy that removes the dependency on any one financial market.

We've found that our large and growing capital base, our broad market acceptance and the proven market liquidity of our insured bonds have allowed us to raise prices and still insure the most volume in the municipal bond industry.

As always, we intend to build our capital prudently, manage our business with a long-term focus and run our company profitably to the benefit of our policyholders and shareholders.

I will now turn the call over to Rob.

Robert Bailenson - Chief Financial Officer

Thank you, Dominic, and good morning to everyone on the call. In the first quarter of 2016, operating income was $113 million, compared with $140 million in the first quarter of 2015. This decrease was primarily due to higher loss expense, partially offset by higher net earned premiums and loss mitigation recoveries.

Financial guaranty and credit derivative revenues were $198 million in the first quarter of 2016, compared with $171 million in the first quarter of 2015. This increase relates primarily to refundings and terminations, and earnings from the Radian Asset portfolio acquired on April 1st of last year. Accelerations of net earned premiums were $89 million in the first quarter of 2016 compared to $41 million in the first quarter of 2015.

Economic loss development in the first quarter of 2016 was $59 million, which reflects $99 million of loss development for the public finance sector, and a benefit of $40 million for the structured finance sector.

The $99 million loss development in the public finance sector was mainly driven by increases in loss reserves on various Puerto Rico credits. The $40 million benefit in the structured finance sector was comprised of $31 million in the RMBS sector, which includes the acceleration of claim payments as a means of mitigating losses on a number of Alt-A transactions, and $9 million in other structured finance, which includes the commutation of certain assumed student loan exposures. The effect of declining discount rates embedded in loss development in the first quarter of 2016 was a loss of $63 million, comprised of $39 million in the public finance sector, and $24 million in the structured finance sector. As I have said in the past, the loss development attributable to changes in the risk-free rates used to discount expected losses does not reflect credit deterioration.

Shareholder dividends, repurchases, debt service and operating expenses of the holding companies are supported by the dividend capacity of our insurance subsidiaries. We now have approximately $61 million in cash and investments at the Bermuda holding company and approximately $110 million at the US holding companies.

As previously reported, we exhausted our $400 million share repurchase program in February, and our board subsequently authorized a new $250 million program, of which $210 million remains available as of May 4th.

In the first quarter of 2016, share repurchases totaled $75 million, or 3 million shares, with an average purchase price of $24.69 per share.

Operating shareholders' equity per share at March 31, 2016 was $44.08, which is a new record. This is 16% higher than it would have been without the cumulative share repurchases since 2013.

Adjusted book value per share also reached a new record at $61.40 cents, which is 23% higher than it would have been without these share repurchases. These key metrics prove the highly accretive impact of our share repurchase program.

With respect to CIFG, the effect of this acquisition will be accretive to Assured Guaranty's earnings per share, operating shareholders' equity and adjusted book value. As of December 31, 2015, CIFG had an insured portfolio of $5.6 billion in net par, and approximately $637 million of consolidated statutory capital.

We are currently estimating that the transaction will increase AGC's statutory capital in 2016 by approximately $300 to $325 million, which will increase the excess capital Dominic discussed earlier.

Much like our previous acquisitions of FSA and Radian Asset Assurance, this acquisition will strengthen Assured Guaranty's franchise by adding a solid book of financial guaranty business and will also increase AGC's capital base and policyholders' surplus.

I'll now turn the call over to our operator, to give you the instructions for the Q&A period.

Question and Answer Session

Operator
(Operator Instructions) The first question comes from Chas Tyson with KBW.

Chas Tyson - Keefe, Bruyette & Woods, Inc. - Analyst
Hey guys, good morning. First are questions on Puerto Rico. It looks less and less likely that something is going to come through Congress or elsewhere before the July 1 payment dates, and more and more likely that Puerto Rico is willing to default on those. I was wondering if you could go through your exposures on July 1 and say which ones maybe are more likely or less likely to actually get paid by the Puerto Rico government, and then what is the plan on July 2 to recoup any potential defaults.

Dominic Frederico - Assured Guaranty Ltd. - President and CEO
Okay so, July 1, we have approximately -- I'm trying to look at the schedule as we speak. On the Commonwealth side, we have $196 million due on the debt service basis, obviously not par, as the predominant exposure we have to the general obligation. We have other exposures to PRASA, PREPA, and the transportation as well, that are due on July 1, but in looking at the sovereign itself for the general obligation, it's $196.467 million.

Rob Bailenson - Assured Guaranty Ltd. - CFO
In addition, you know, the PRHTA, on the highways and transportation, we are confident that they have a debt service reserve fund as well, to make that payment.

Dominic Frederico - Assured Guaranty Ltd. - President and CEO
And obviously, on PREPA, we have a restructuring agreement, which theoretically, if approved, will take care of that payment as well.

Chas Tyson - Keefe, Bruyette & Woods, Inc. - Analyst
Okay.

Dominic Frederico - Assured Guaranty Ltd. - President and CEO
Does that answer your questions?

Chas Tyson - Keefe, Bruyette & Woods, Inc. - Analyst
Yes, but may I follow-up on that? The plan for after -- if the GO payments aren't made or some other payments aren't made, recognizing that there's debt service for HTA, a separate agreement for PREPA, but if GO payments aren't made, what is the kind of plan for recouping and recovering that potential payment?

Dominic Frederico - Assured Guaranty Ltd. - President and CEO
We will follow our legal rights to the recovery of those payments. Obviously as we look at how we set reserves, our reserves have to consider all possible scenarios, as well as potential timing, in terms of recovery. Let's separate the payment from the reserving at this point in time, and if there is a default and if there is a non-payment we will then exercise our legal rights to ensure that we recover the payment.

Chas Tyson - Keefe, Bruyette & Woods, Inc. - Analyst
Okay, and then, on the GO creditor proposal you joined, is there an estimate that you have of kind of what the recovery of that is, versus what your GO exposure is, at this point? Is that implicit in your reserving at this point?

Dominic Frederico - Assured Guaranty Ltd. - President and CEO
There have been many different scenarios that have been proposed. None have been agreed. Therefore, at this point in time, I can't really speak to a specific negotiated or hopefully agreed-upon settlement on the general obligation side, but as I said, in our reserving methodology, we have to consider all possible scenarios and probability weight them, and we consider all current factors as we evaluate those scenarios and apply the probability. You can be assured that our reserving is up to date with every fact and information that we know today.

Chas Tyson - Keefe, Bruyette & Woods, Inc. - Analyst
Okay. Last question is on the CIFG acquisition, for future potential acquisitions. Can you talk about the rationale for buying those companies into AGC, as opposed to AGM, considering I think the dividend limitation of AGM is on the stat cap? If you increase the statutory capital by $300 million to $325 million, that would increase the potential dividend upstreaming to the HoldCo?

Rob Bailenson - Assured Guaranty Ltd. - CFO
The rationale for putting CIFG in AGC is that it has a significant structured finance portfolio, and we have said in the past that AGM is going to be the primary writer for our public finance transactions, and AGC will be the primary writer for our structured finance transactions. In addition to which, consolidating CIFG within AGC increases the amount of invested assets that AGC has, which increases its investment income. Right now, as you know, the limiting factor on dividends at AGC is investment income, not statutory surplus. The benefit is greater by putting it in with AGC, and it also is consistent with our strategy.

Chas Tyson - Keefe, Bruyette & Woods, Inc. - Analyst
Okay. Thanks very much, guys.

Operator
Thank you. And the next question comes from Sean Dargan with Macquarie.

Sean Dargan - Macquarie Research - Analyst
Thanks, good morning. I want to follow-up on the CIFG acquisition. I think Dominic, ahead of the closing of the Radian Asset deal, you gave some sort of framework of how to think of accretion to adjusted book value. Robert did say that this would be accretive to EPS, operating book, and adjusted book. Just wondering if you could help us think about what the accretion, putting aside any reserve noise in the second quarter, but what kind of accretion we can expect to see on June 30, if this deal closes within this quarter?

Rob Bailenson - Assured Guaranty Ltd. - CFO
Sean, it's Rob. We are still evaluating, once we close, you have to actually fair value all the assets and liabilities. There will be an adjustment to their books. It's hard to say exactly what the number will be. We are confident it’s gonna be accretive. We know it will be accretive. You should also look at the -- think about the metrics. We are buying a company that had approximately $730 million of assets for $450 million, there's about $280 million of additional assets on $5.6 billion of exposure. There are other benefits that we are getting with this transaction, purchasing this transaction. So there are different tax attributes and other things that we are getting. When you look at that, you could look at that and assume that’s going be an increase to your adjusted book value. When you look at operating book value, operating EPS, you have to wait for us to fair value the transaction on the date of close, because the numbers will move, based on those -- based on fair valuing that UPR.

Sean Dargan - Macquarie Research - Analyst
Okay. Now, if I recall correctly for Radian Asset, because of the purchase GAAP adjustments, that a lot of the benefits showed up in UPR, and therefore the impact to adjusted book was greater than it was to the operating book?

Rob Bailenson - Assured Guaranty Ltd. - CFO
That's correct. That's correct, Sean.

Sean Dargan - Macquarie Research - Analyst
The $300 million of stat capital, did I hear you say, Rob, that that will, should we think of that as all being additive to that excess capital estimate of $2.6 billion?

Rob Bailenson - Assured Guaranty Ltd. - CFO
I said it was additive to the AGC statutory capital. The transaction itself, we expect, as we run our model with S&P, to be accretive as well, and we expect that number to be somewhere in the $200 million to $250 million range.

Sean Dargan - Macquarie Research - Analyst
Great. One big picture question. If we think about your net par outstanding exposure in Puerto Rico of roughly $5 billion, would the correct way to think about it, if you picked an a cumulative loss of say 20%, I'm just throwing out a number, and that would imply $1 billion pretax, we should tax-adjust that number and then compare it to what we think your reserves held for Puerto Rico are? Is that a quick way to get it at reserve--

Rob Bailenson - Assured Guaranty Ltd. - CFO
Remember, reserves are pretax. Those are pretax numbers. So, if you think there is going to be a 20% chance of a default, you take that number and compare it to what you believe our reserves would be, and then you would tax effect both of those numbers.

Sean Dargan - Macquarie Research - Analyst
Okay. All right. Okay. Great, thank you.

Operator
Thank you. And the next question comes from Brett Gibson from JPMorgan.

Brett Gibson - JPMorgan - Analyst
Great. Thanks gentlemen for taking my question. I want to address the acquisition environment. Dominic, can you talk about if you see any additional opportunities in the market today? And, then, related, how are regulators looking at putting additional risk under the same umbrella? Is that something that you are concerned about, or not as much?

Dominic Frederico - Assured Guaranty Ltd. - President and CEO
Okay, so, I will try to take them in order. So do I see further opportunities for acquisitions? The answer is absolutely yes. If you really think about the status of the former competitors in the marketplace, they are typically owned by banks and financial institutions. They really don't have any desire to re-enter the business, nor have the ability to, because of a loss of ratings, and kind of market confidence. They are basically sitting on a fixed income portfolio, and do they believe they have better things to do with the funds if we can make them available currently. Therein lies the opportunity to basically negotiate these contracts at a discount to the capital, and get a very nice return on the par assumed. As Rob points out, the $5.6 billion, we are getting paid roughly $300 million for it, compare that to what we wrote last year for the entire year versus the premium

booked, and you can see the valuation there. And as I have always said, if someone is going to sell us a dollar of capital for $0.60 to $0.70 and we are comfortable with the credit risk in the portfolio, that is a great transaction for us to continue to seek out and try to negotiate. And obviously, as we have said many times in the past, it's one of our key strategy objectives. We try to have correspondence and conversations with everybody in the marketplace. Once again, to also try to help them succeed in what their objectives are. If their goal is to try to utilize their NOLs, they are going to have to get into profitable businesses that allow them to start to utilize the NOLs. And if your capital is trapped and subject to very strict regulation, you are not going to be able to enter into those additional businesses, you're not able to write any new business. So the transaction benefits both parties, both the existing holders of those companies' securities, as well as ourselves. Your last question in terms of how the regulators look at it, they look at these things very favorably, because if you think about it, their biggest concern is the protection of the bondholder, because they are regulating the insurance companies who are writing insurance for the bondholder. You now basically have a significant increase in valuation and credit protection, because you are taking a company that is either low rated or not rated, and putting it into a double-A company. So from a regulator point of view, they are very, very pleased. And of course, if you look at Assured Guaranty's status with all the regulators to which we are responsible to, I would think you would find a very positive environment because all Assured has done is meet every requirement they have ever put in front of us, paid every claim that's ever been presented to us, and continued to increase the financial strength and stability of our organization, which in effect increases the stability of the entire financial guaranty market, since we are the largest player in the marketplace.

Brett Gibson - JPMorgan - Analyst
Great, thanks for the answer. And then last question, related to the distressed CLO in your investment portfolio now. Given that we are approaching a maturity here in the next few months, do you have a need to do anything strategically with that, or is that something you just sit back and wait to see what happens on? Thanks.

Dominic Frederico - Assured Guaranty Ltd. - President and CEO
I think if you’re referring to ZOHAR, I think you would look at us and say we have done everything strategically already, in that A) we're a second-to-pay exposure on that troubled operation and we have other -- what I will call loss mitigation strategies that have already been effected. Are you referring to ZOHAR?

Brett Gibson - JPMorgan - Analyst
Yes, that's right.

Dominic Frederico - Assured Guaranty Ltd. - President and CEO
Okay. So, understand we have a swap on the counterparty - that was part of the acquisition of Radian - and we have also purchased some of the bonds.

Brett Gibson - JPMorgan - Analyst
Thank you very much.

Operator
Thank you. And the next question comes from Brian Meredith with UBS.

Brian Meredith - UBS - Analyst
Just a couple of quick numbers questions here, most of my stuff has been answered. First one, Rob, dividend limitations at AG Re declined, is that just from the dividends that you took out during the quarter?

Rob Bailenson - Assured Guaranty Ltd. - CFO
Yes, that's correct.

Brian Meredith - UBS - Analyst
Okay. Excellent. Then secondly, I know it's a smaller amount, but I'm just curious. The $48 million of Puerto Rico exposure that CIFG had, where was that? What credits?

Rob Bailenson - Assured Guaranty Ltd. - CFO
They were transportation bonds.

Brian Meredith - UBS - Analyst
Transportation bonds. Great. That's all I had. Thank you.

Operator
Thank you. And the next question comes from Jordan Hymowitz with Philadelphia Financial. (Call Lost) (Operator Instructions) The next question is from Geoffrey Dunn with Dowling & Partners.

Geoffrey Dunn - Dowling & Partners Securities - Analyst
Dominic, can you -- in no way is this meant to be a softball question. It's more confusion about the different rules they're putting in place in Puerto Rico. They previously put in a clawback ability, now they have moratorium ability. What are your abilities to -- can they keep clawing back money out of HTA, and still not pay on the GO front?

Dominic Frederico - Assured Guaranty Ltd. - President and CEO
Well, you would think that the only reason why you would effect the clawback is if you understand how the clawback provision works in their constitution – is only to really pay debt service on the general obligation bonds. It would seem to be contradictory to do the clawback and then not pay the GO. Obviously, we are in litigation relative to the legality of the clawback, because we don't think they have proven the fact that there is insufficient funds within the government coffers to pay the debt service on the GO. Hopefully that gets heard. Like you said, the moratorium makes absolutely no sense relative to the fact that you are clawing back the taxes from the transportation.

Geoffrey Dunn - Dowling & Partners Securities - Analyst
Is there anything specific that says that if they do claw back, they have to use it for the GO or other Commonwealth debt?

Dominic Frederico - Assured Guaranty Ltd. - President and CEO
That's the prime condition to invoke a clawback, is because the revenues are no longer adequate to pay the debt service on the general obligation. So, that's' exactly right. So, if they are using it to pay operating expenses, that is not part of the requirements for clawback. That's why we are in litigation, that's why we are very comfortable in terms of the potential success of that litigation, regardless of the other means that they are attempting to take at this point in time. As I said in my remarks, basically, we are violating legal, constitutional, contractual, you want to name it, I think they are committing every possible discrepancy or faux pas you can, in the actions that they are taking.

Geoffrey Dunn - Dowling & Partners Securities - Analyst
Okay. And then on PREPA, the rate request has been submitted to the Commission. Is there any kind of timeline involved there, and what are the subsequent steps?

Dominic Frederico - Assured Guaranty Ltd. - President and CEO
Well, that timeline has been kicked so many times down the road, it's not even funny. We understand that. Can we understand why the timeline is taking the timeline that it is? Well, you can only conclude one of two things, Geoff, either they are looking for legislation that might come out and provide some other tools in terms of how they address that exposure or that debt, or two, the Supreme Court comes out with a decision relative to the legality of the Recovery Act. However, we believe if you think about it in the real completeness of the situation, you have now dealt consensually with $9 billion part of a $70 billion debt problem, that has been agreed by your consultant, by your Board of the utility, by your Senate and Congress, signed by your governor, accepted by your creditors, and it solves your problem relative to Cap Ex that you need to have available to you, to continue the conversion to liquid natural gas. It's hard for me to say even if those other things go in whatever direction they go, that you wouldn't still take the deal, because the deal makes a whole lot of sense and as I said, deals consensually with $9 billion that allows further access to the market for the electric utility.

Geoffrey Dunn - Dowling & Partners Securities - Analyst
Okay. Last question, last couple of years, you bought over $500 million of stock per year. Given your comments on capital as of year-end 2015, but also, all the noise from Puerto Rico, how would you weight the prospect of being able to maintain that pace in 2016?

Dominic Frederico - Assured Guaranty Ltd. - President and CEO
It's one of our objectives to maintain that pace. Obviously, it's not fully within our control because we’re going to require the assistance or the approval of either Maryland or New York or both in creating and approving a special dividend, if we want to maintain that volume, and that volume is one of our objectives. As you now heard, the significant amount of excess capital, I would hope to believe that there is a number of a special dividend that would be acceptable to all parties, irrespective of Puerto Rico's condition, either now or middle of the year. However, let's appreciate the fact that we now do have two significant dates staring us right in the face, and to do something premature, due to the legislature coming out with some proposed legislation or the Supreme Court coming out with a decision relative to the Recovery Act, I think those things are in the immediate future. Therefore, let's not be silly and get over our skis, and let's take advantage of what it is. And we still have enough volume and ability to continue to be effective in terms of the volume of stock buyback or capital management that we are able to do.

Geoffrey Dunn - Dowling & Partners Securities - Analyst
Okay. Thank you.

Operator
Thank you. Next we have a question from Jordan Hymowitz from Philadelphia Financial.

Jordan Hymowitz - Philadelphia Financial - Analyst
Hey guys, sorry about the confusion before. First I have a request. It's like 4:30 in the morning on the West Coast. As an eight-year shareholder, can we do the call a little bit later, please?

Dominic Frederico - Assured Guaranty Ltd. - President and CEO
It’s all Mr. Bailenson. I'm just drug along for the ride.

Jordan Hymowitz - Philadelphia Financial - Analyst
First question is, can we talk a little bit more about the opportunities that are presenting themselves with skin in the game, and other capital issues that you touched on in your talk? It would seem to me increasingly that there is new options that no one would have thought about two years ago, for growth in your business. Maybe you could discuss the one or two that is most promising?

Dominic Frederico - Assured Guaranty Ltd. - President and CEO
I would still say the most promising in terms of really getting very substantial amounts quickly is acquisitions. As we just showed you, we bought $5.6 billion round numbers of par for $300 million round numbers of cash. That is always a good deal, it's a better deal than you can see in the active market. Look back over the last three years, in terms of par insured and PVP written, and it's cash on the barrel head, so it's a very significant transaction. It's an opportunity that is still presenting itself to us, and we feel very confident in our ability to continue to execute in that area. In terms of the business environment, while you saw that in the last three quarters, we have been able to significantly move up the rate on our existing business. You could say that is in response to credit concerns in the market, of which we are still very selective from an underwriting point of view, is it in concerns about these current issues, where we are looking to change substantially on a retroactive basis, legal rights. Understand that once again factors into our underwriting expectation and acceptance of risk. Is it going to cross more borders and more opportunities? Municipal issuance is down, so at least that doesn't quite create it, so if I really said significant, I look at two factors. One, the international market. As we said, we are reasonably optimistic that we are going to have a good international year. The interesting thing about Assured is we are the only player left in the international markets from a financial guarantor perspective. That gives us great opportunity, and we are basically the only shop in town that has been able to maintain its ratings, maintain its regulatory authority to write business. Number two, this whole issue that we have talked about for a couple of years, however the effective dates continue to be postponed, are around Solvency II and Basel 3, that significantly increase the capital charges at financial institutions relative to the certain structured assets that they currently have on their books. We are getting two benefits from that. One, we are having a lot of requests for potential further terminations, because the financial institutions want to have the right to sell these securities, and most of these trades, there is a requirement to hold. So, you are actually, for them to start to clear the balance sheet, they are going to need to get some freedom to do that. They need to get us to release the deal, therefore the negotiating terminations. Number two, to the extent they like the asset, and then they want us to insure it, so they can improve its credit quality and therefore lower its capital charges. We think that is a significant opportunity in the business today. So, if I had to point to two, I would say international and our structured finance area relative to these capital arbitrage deals, and of course, more importantly, acquisitions.

Jordan Hymowitz - Philadelphia Financial - Analyst
Might there be something in CMBS business as well, as skin in the game starts to go there towards year-end?

Dominic Frederico - Assured Guaranty Ltd. - President and CEO
Not so much CMBS. But remember, under the securitization rules, you've got these mandatory retentions, and they can go across a lot of borders of assets. Right now, we are really concentrating on the CLO market, because that's a market that performed very well in the recession, a market that we know well in terms of having many, many years and significant billions of experience in it, and yet because of the requirements of the retention, we see a great opportunity in that regard, both from an asset management point of view as potentially an investor, as well as an insurer point of view.

Jordan Hymowitz - Philadelphia Financial - Analyst
Okay. Thank you very much.

Operator
Next we have a follow-up question from Geoffrey Dunn with Dowling & Partners.

Geoffrey Dunn - Dowling & Partners Securities - Analyst
My follow-up was answered. Thanks.

Dominic Frederico - Assured Guaranty Ltd. - President and CEO
I was going to say, Geoff, we charge you for the second time.

Operator
We do have no more questions at the present time, so I would like to return the call to management for any closing comments.

Robert Tucker - Assured Guaranty Ltd. - Head of IR
Thank you, operator. I would like to thank everyone for joining us on today's call. If you have additional questions, please feel free to give us a call. Thank you very much.

Operator
Thank you. The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.