Assured Guaranty Ltd. (AGO)
May 10, 2013
Q1 2013 Earnings Call

Management Discussion

Robert Tucker

Managing Director, Investor Relations and Corporate Communications

Thank you operator.

Good morning and thank you for joining Assured Guaranty for our first quarter 2013 financial results conference call.

Today's presentation is made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. It may contain forward-looking statements about our new business and credit outlooks, market conditions, credit spreads, financial ratings, loss reserves, financial results, future reps and warranty settlement agreements 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 the replay of this call, or if you are reading the 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 Limited, 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 CEO

Thank you Robert, and thank you all for joining Assured Guaranty for our first quarter 2013 earnings call.

Our first quarter operating income was $260 million, an increase of 266% over first quarter 2012. This is the highest quarterly operating income achieved in the history of our company, and it is a terrific start to 2013.

A significant contributor to the quarterly result relates to our residential mortgage backed securities insured portfolio, where I am pleased to report that Assured Guaranty and UBS reached an agreement regarding reimbursement for losses on three RMBS transactions.

Under the agreement, Assured Guaranty received an initial cash payment of $358 million. Additionally, as of the effective date of the agreement, UBS has agreed to reimburse Assured Guaranty for 85% of all future losses on these transactions, and to put in place a collateralized loss-sharing reinsurance arrangement by the third quarter of this year.

Including the UBS agreement and our Flagstar ruling, we have now significantly defeased our liability on approximately 55% of the remaining par outstanding of the troubled obligations in our legacy residential mortgage-backed insured portfolio. We are committed to pursuing our remaining RMBS rep and warranty claims either through negotiations or, if necessary, litigation, using the same processes and control procedures that have led to our extraordinarily successful results thus far.

Also, the environment for settlements continues to improve as another important ruling for the monoline industry came out in April, in which a New York State appellate division affirmed that a monoline need not establish links between the alleged borrower misrepresentations and the borrower's ability to repay their loan. This state ruling on causation reinforces the favorable federal ruling delivered in our Flagstar case.

Considering the significant number of rep and warranty settlements that have occurred, as well as the favorable court rulings regarding the rights of monolines to recover RMBS losses, it is surprising that certain counterparties like Credit Suisse appear not to have recognized any meaningful change in their reserves or disclosures.

Turning to another of our strategic objectives - efficient capital management - I'm happy to report that our $200 million dollar share repurchase program, authorized by the board in January, is moving forward. By the end of the first quarter, we had repurchased shares totaling approximately $39 million, and through May 6th, we've repurchased an additional $76 million. This represents a total of $115 million and over 5.6 million shares traded at an average cost of $20.29. In support of this program, the board this week supplemented the previous $200 million authorization in order to bring our currently available authorization back to approximately $200 million.

As new business has been substantially constrained by low interest rates, tight credit spreads and ratings volatility – our share buyback program is an effective and prudent way to manage and right-size our capital and to improve our valuation for our shareholders.

Another strategy that proved effective during the first quarter involved reaching agreements to terminate 10 additional policies totaling $1.6 billion of net par outstanding, while still collecting 100% of expected premiums – further adding to our capital position.

Moving on to new business production, during the first quarter nearly $1.2 billion par of new-issue public finance volume sold with our insurance, representing 129 primary-market transactions. In addition to this, in the secondary market, we wrote 148 municipal policies representing over $200 million of par.

Our total first quarter PVP was $18 million, which compares with $34 million of PVP during the first quarter of 2012 - after excluding the $22 million in PVP related to our assumption of Radian business a year ago. We obviously would have preferred to see stronger production, but given the particular challenges we are dealing with, we were not surprised by these results. Again, interest rates remain near historic lows and credit spreads remain tight.

As I have said before, we will continue to maintain our long-term focus, and will not compromise underwriting or pricing discipline to achieve higher production levels in the short-term. Because we have a large unearned premium reserve, we are under no pressure to chase market share. Overall, the average quality of our new business written in the first quarter remained in the single-A category, which is consistent with recent quarters.

Further limiting new business production during the quarter was the uncertainty caused by Moody's pending rating action. We have historically experienced a natural market dislocation leading up to, and just following, a negative rating action. Our experience this time with Moody's appears to be no different. Following Moody's action, the market required time to adjust – and we believe this has now occurred. In April, for example, we insured approximately 30% more par than in the months of February and March combined.

Investors recognize our high capital levels, positive operating performance, robust and proven business model, and industry competitive advantages which include our proven financial flexibility, with our ability to go directly to both the debt and equity capital markets when necessary, as we did successfully – even during the worst years following the financial crisis – to grow our business by acquiring FSA and other reinsurance portfolios.

Other advantages we provide include our broad and diverse underwriting capabilities and our capacity to insure large transactions.

We are also the only active bond insurer with a proven record of commitment to bondholders. As holders of our insured Jefferson County, Harrisburg, and Stockton, bonds can attest - we continue to honor our promise of investment protection.

We've also demonstrated that we work constructively with distressed issuers to resolve problems reasonably if they do arise.

For example, on April 3, a forbearance and restructuring plan for Xenia Rural Water District, Iowa, was announced, which was mutually agreed by AGC, Xenia and the USDA Rural Development. Xenia is a $79 million par exposure, and the agreement provides for the full repayment to AGC of all claims previously paid to investors under AGC's bond insurance policy, while also providing Xenia additional time to repay those obligations. USDA Rural Development also agreed to restructure its outstanding loans with Xenia. These steps will help Xenia meet its future obligations and return to financial stability, as well as to meet the needs of the water system customers.

This is a good example of how we work in good faith with a distressed municipal debtor and other creditors to achieve solutions that fairly address the needs of all parties. The holders of the AGC-insured Xenia bonds continued to receive scheduled debt service payments throughout this process and now have the benefit of both a stronger underlying credit and our guaranty of timely payment.

This consensual, long-term financial solution stands in contrast to the impasse that has led us to court in the Stockton situation, where the city's blatantly unfair proposed treatment of the bond creditors' claims was presented during the pre-bankruptcy mediation.

Regarding other strategic objectives, we are pleased with our progress toward launching our new, muni-only insurance subsidiary, MAC. We have met with insurance regulators in New York and Maryland, as well as with rating agencies. Everything is moving ahead as we expected, and we look forward to having MAC up and running in the second half of the year.

We believe MAC will be an attractive alternative for certain investors and issuers and could contribute to creating a broader market for bond insurance.

We also continue to make progress in our efforts to improve overall capital management throughout our corporate structure. We have determined the strategic direction and the specific steps that must be taken. I am happy to report that good progress has been made and we are currently in the process of securing all necessary approvals. We hope to make an announcement in the next few months to clarify the modification and the resultant capital management flexibility this will provide.

To touch briefly on our other markets: In structured finance, we continue to work with large financial institutions to provide credit protection for selected assets. In the international markets, we are optimistic about our opportunities. Specifically, we are seeing more infrastructure project developers looking for capital market executions. We expect to close a number of UK infrastructure transactions this year including some this quarter.

Before closing, l would like to note recent changes to our board of directors. Our new Chairman is Robin Monro-Davies, the former chief executive officer of Fitch Ratings and a member of our board since 2005. I want to thank his predecessor Walter Scott, who has retired, for his years of effective leadership during very challenging times. Additionally, Simon Leathes, former vice chairman and managing director of Barclays Capital, has joined as an independent director.

Finally, I want to emphasize again that our business model and value proposition have been tested and proven through the most difficult economic period in generations. Today, our capacity and diversified capabilities; track record of meeting obligations while maintaining capital strength and positive operating performance; and the embedded earnings power of our four and a half billion net deferred premium reserve and almost $11 billion investment portfolio soundly position us to continue to lead our industry, protect our policyholders, reduce issuers' financing costs and reward our shareholders.

I will now turn the call over to call to Rob.

Robert Bailenson, Chief Financial Officer

Thank you Dominic, and good morning to everyone on the call.

As Dominic mentioned, this was the highest quarterly operating income in Assured Guaranty's history at 260 million dollars, or 1 dollar and 34 cents per share. It represents a significant increase over last year's first quarter operating income of 71 million dollars or 38 cents per share, due primarily to the settlement with UBS, and premium accelerations.

The financial statement impact of the UBS agreement was significant this quarter. On a pretax economic basis, it reduced our economic losses by $142 million, but, the timing of loss recognition in the income statement does not always correspond to the period in which losses or rep and warranty developments occur. This is because of our financial guaranty accounting model, which only allows losses that are in excess of unearned premiums, to flow through the income statement.

The first quarter 2013 benefit attributable to the UBS agreement that was recorded in operating income was 109 million dollars on a pretax basis, which equates to 71 million dollars or 36 cents per share, on an after tax basis. The remaining 33 million dollars in pretax benefit will reduce future loss expenses, which are currently embedded in unearned premiums. The UBS agreement increased adjusted book value by 48 cents per share.

Of the $1.4 billion total net rep and warranty benefit recorded, 1 billion is now collateralized or guaranteed, and covered by loss sharing arrangements or judgments. This leaves only 400 million dollars of rep and warranty benefit that is not yet covered under a contractual arrangement.

With respect to economic loss development, the UBS settlement was the primary component of the 98 million dollar positive development during the quarter. Included in first quarter 2013 operating income was a net benefit of 45 million dollars, compared with a loss expense of 247 million dollars in first quarter 2012. The first quarter of 2012 had a 189 million charge, or 137 million dollars on an after tax basis, related to Greek sovereign debt exposures, which we have fully settled.

On March 5, 2013, we commenced our share buyback program, purchasing 1.9 million shares at an average price of 20 dollars and 46 cents per share by March 31, 2013. These repurchases added 27 cents to adjusted book value per share and 11 cents to operating shareholders' equity per share as of March 31, 2013.

The other main driver of operating income in the first quarter was a 26% increase in net earned premiums, due primarily to premium accelerations, which were 113 million dollars on a pretax basis, compared with 37 million dollars in first quarter 2012. Premium accelerations in first quarter 2013 consisted of 61 million dollars of terminations, and 52 million dollars attributable to refundings of public finance transactions.

In addition to the immediate benefit to operating income, which was 64 million dollars or 33 cents per share after expenses and taxes, terminations and refundings have the added benefit of deleveraging our insured portfolio and increasing excess capital, as reflected in the 7% decline in the statutory "net-par-to-qualified-statutory-capital" ratio, which went from "84 to1" at the end of 2012, to "78 to1" at the end of first quarter 2013. As a point of reference, this ratio was "129 to 1" as of December 31, 2009.

While low interest rates provide an incentive for municipal obligors to refund existing bonds and thereby accelerate our premium earnings, the flip-side is that they lower reinvestment rates in our investment portfolio. This has caused a slight decline in net investment income, from 96 million dollars in the first quarter of 2012, to 94 million dollars in the first quarter of 2013. Offsetting the effect of low interest rates, loss mitigation bonds, which are typically purchased at a discount, produce relatively high yields without taking on any incremental risk.

The overall pre-tax book yield was 3.85% at March 31, 2013 compared with 3.96% at March 31, 2012. Excluding bonds purchased for loss mitigation purposes, pre-tax yield was 3.47% at March 31, 2013 compared with 3.57% at March 31, 2012.

Operating expenses were relatively flat, year over year. The first quarter of each year includes accelerated vesting expenses for long term incentive compensation awards that are granted at the beginning of each year. For each of the remaining quarters of 2013, I expect operating expenses to be between $50 and $55 million.

Interest expense is down 4 million dollars to 21 million dollars due to the redemption of the equity units in June of 2012.

The effective tax rate on operating income was 25.8 percent for the first quarter of 2013 compared with 17.9 percent for the first quarter of 2012. The increase in effective tax rate is due to higher operating income in U.S. taxable jurisdictions. The effective tax rate on operating income varies from quarter to quarter due to the amount of income in different jurisdictions.

Due in large part to the positive outcome with UBS, and the success of our share repurchase program, adjusted book value per share increased to 47 dollars and 92 cents per share from 47 dollars and 17 cents per share as of December 31, 2012, and operating shareholders' equity hit an all time high of 31 dollars and 48 cents per share.

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

Question and Answer Section

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And the first question comes from Geoffrey Dunn from Dowling & Partners.

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Geoffrey M. Dunn
Analyst, Dowling & Partners

Q

Thank you. Good morning. A couple of questions. First, Rob. Did I hear right, you said $400 million of your remaining rep and warranty is not covered by risk sharing?

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Robert Bailenson
Chief Financial Officer, Assured Guaranty Ltd.

A

That's correct.

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Geoffrey M. Dunn
Analyst, Dowling & Partners

Q

Okay. And then, it looks like you guys have a systematic buyback in place, can you give any details behind that, any governing metrics?

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Dominic Frederico
President, Chief Executive Officer & Director, Assured Guaranty Ltd.

A

Well, as you've said before, Geoff, the first governing metric is, what cash is available in the Bermuda holding company that would be free capital to buy-back shares and typically we will create authorizations where we know that we have the free cash and the free capital available, so we can execute on any authorization that we put into the company. As we look at – as I mentioned in my conversation, other strategies to create even additional capital flexibility, we will alert you of the fact of the changes and then as the money becomes available and we believe we are still in an excess capital position, which we do believe, we will continue to authorize more share buybacks.

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Geoffrey M. Dunn
Analyst, Dowling & Partners

Q

Okay and what was the holdco balance at the quarter end?

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Robert Bailenson
Chief Financial Officer, Assured Guaranty Ltd.

A

Holdco balance is, well as of now, we have about $142 million in cash at the holding company.

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Geoffrey M. Dunn
Analyst, Dowling & Partners

Q

Okay. And then last, Dominic, can you talk to the competitive dynamic from Build America? Looks like they wrote a little over $800 million of business this quarter, par. What kind of competitive dynamic are you seeing in the marketplace? Are you going head-to-head with them and is there any impact on pricing?

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Dominic Frederico
President, Chief Executive Officer & Director
Assured Guaranty Ltd.

Well, I guess, I will be cute and say I don't believe there is a competitive dynamic. Obviously, they have begun writing business. I think as we look to the first quarter, as I talk typically, we will always experience some market dislocation relative to any ratings action or involvement in any given period of time. And we saw that again in the first quarter, when you get a rating that comes out publicly without much explanation. And as we saw in the Moody's case, when you go back to the credit scorecard and AGM is truly a Aa1 company per their own published metrics, which would put it as one of the highest rated companies in the world, and ultimately that message gets delivered, things typically revert back to a norm.

And as you look in April, we did more than double the business that they did in April, and I would expect that to continue. I don't see them as a long-term viable entity that could continue to be active in the marketplace relative to their shrinking capital base, continued operating losses in their U.S. regulated entity. So, we are very positive about our position in the market, expected to see a reaction, saw it. Obviously we're able to go back out, connect with our constituents, maintain our pricing discipline and market focus. And as we look forward, we do expect to see further competition without question and obviously we think we're very well positioned to be able to manage our way through that.

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Geoffrey M. Dunn
Analyst, Dowling & Partners
Q

Okay, thank you.

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

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Brian R. Meredith
Analyst, UBS Securities LLC
Q

Yes. Couple of questions. Good morning. First Dominic, I was hoping you could elaborate a little bit about your comments on fixing or changing the corporate structure to make it more conducive for the capital management and did the elimination of the $200 million standby line of credit at AG Re have anything to do with that?

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Dominic Frederico
President, Chief Executive Officer & Director, Assured Guaranty Ltd.
A

The elimination of the line of credit had nothing to do with that. Brian, I'd like to be a lot more specific, but as you can appreciate in anything that we have to do with the myriad of regulations that we have sitting over the company, there are just too many authorities that needed to be contacted, presented to, and seek approvals to do what we want to do. As I said in my comments, we're very comfortable in our direction. We've committed to a direction. We've contacted all the necessary parties to seek the various levels of approvals and make the necessary changes.

Like for us for instance, there is a lot collapsing of our old corporate structure, so there are some subsidiaries that are no longer necessary. And we want to collapse them. They were subject to a reinsurance pooling arrangement

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

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Sean Robert Dargan
Analyst, Macquarie Capital (USA), Inc. Q

Thank you. Good morning. I realized that the amount of share repurchase you can do is tied to the amount of free cash at the Bermuda holdco and I realize you're working on some solutions for your corporate structure. But has anything changed in the dividend capacity of the operating companies?

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Robert Bailenson
Chief Financial Officer, Assured Guaranty Ltd. A

No, nothing has changed.

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Dominic Frederico
President, Chief Executive Officer & Director, Assured Guaranty Ltd. A

So the dividend capacity is, on an automatic basis, very formulaic. It's based on either earnings surplus or retained corporate stock. We disclosed those in the Q, so it's – in the K, rather, that are very clear and that just gives you your specified normal formulaic approach, and we've not used the full dividend capacity historically. And as we look to make these changes relative to structure and capital flexibility, you'll see us intentionally start to move up to, what I'll call, a more normal basis of what is the allowable amount of dividends to be moved around the subsidiaries.

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Sean Robert Dargan
Analyst, Macquarie Capital (USA), Inc.

Q

Okay, thanks. And is there a target we should think about in regard to the par outstanding to qualified statutory capital ratio?

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Dominic Frederico
President, Chief Executive Officer & Director, Assured Guaranty Ltd.

A

That's a good question. I think, Rob, gave you some statistics on that and really we show you that for a couple reasons. One, I think the market supports the leveraging as just a better way to contain volatility and provide more stability both to operating results and risk. Two, obviously it's an indication of further available capital. As we look to see what is an efficient statistic for us to try to manage to going forward, we believe somewhere in the 80 to 100 to 1 is proper and would allow company to maintain a reasonably strong return on capital, now of course we're in a period of very, very depressed new business production and, therefore, you're not adding back into the par outstanding significant amounts of new par insured in this very difficult market because of where interest rates are and spreads.

So we try to manage that pretty timely, so right now we're kind of in an excess position. We're trying to bring the capital down to bring the ratio up, hopefully at some time in the not-too-distant future, new business writings will also provide further leverage, but we still want to manage the company at a different level than has been done historically, and we believe that that provides a safer environment as I said more consistent, less volatility and will still result in a reasonably strong earnings pattern to the shareholder.

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Sean Robert Dargan
Analyst, Macquarie Capital (USA), Inc.

Q

Okay, great. Thank you.

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Dominic Frederico
President, Chief Executive Officer & Director, Assured Guaranty Ltd.

A

You're welcome.

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Operator: Thank you. And the last question comes from Jordan Hymowitz from Philadelphia Financial.

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Jordan Neil Hymowitz
Co-Founder, Philadelphia Financial Management of San Francisco LLC

Q

Hi, guys. Congratulations on a good quarter.

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Dominic Frederico
President, Chief Executive Officer & Director, Assured Guaranty Ltd.

A

Thank you.

....

Robert Bailenson
Chief Financial Officer, Assured Guaranty Ltd.

A

Thank you.

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Jordan Neil Hymowitz
Co-Founder, Philadelphia Financial Management of San Francisco LLC

Q

Quick question. Ambac recently came out of bankruptcy and is listing again and obviously they are not rating any new business at this point, but one of the negatives on Moody's is you have no competition. Well, now with them and possibly MBIA, you potentially have two new people in the business. So could that be one reason that Moody's might think about going back and reevaluating their opinions of the industry?

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Dominic Frederico
President, Chief Executive Officer & Director, Assured Guaranty Ltd.

A

Well, I think you need to talk to Moody's. Obviously, we've given up trying to predict their behavior since we haven't been very good at it. I think that market, I don't look at from the standpoint of competition necessarily. I think they're looking at what is the market opportunity and they are more interested in market penetration as opposed to the number of players. So, if you had five players but you still had 5% market penetration in terms of insured par or total issued par, I don't think it makes a difference. If you had five players and market penetration was 35%, I think maybe that should and could make a difference, but once again their standards have changed. Instead of our ratings being an insured financial strength rating, they tend to look to be an enterprise rating since you're looking at things like future market demand and market penetration which to me doesn't have anything to do with our ability to pay for all the obligations that we currently insure and theoretically have a responsibility to bondholders in the market. So they've left the space that I would believe is the space they should be in, but as I said to me it's more the market penetration issue than it is the number of players.

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Jordan Neil Hymowitz
Co-Founder, Philadelphia Financial Management of San Francisco LLC

Q

Thank you.

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Dominic Frederico
President, Chief Executive Officer & Director, Assured Guaranty Ltd.

A

You're welcome.

Operator: Thank you. And the next question comes from William Clark with KBW.

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William T. Clark
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Good morning. So some of the other inactive financial guaranty companies have also been having some success lately with rep and warranty recoveries. Just wondering if that has brought about any changes in either your appetite or the opportunities for having any transactions with the portfolios of those companies?

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Dominic Frederico
President, Chief Executive Officer & Director, Assured Guaranty Ltd.

A

Well as we've said in the past, we are very much interested as risk would allow and our risk appetite would give us the opportunity to acquire other portfolios or in effect consolidate the industry. Obviously, as settlements take place and as commutations of troubled exposures take place and therefore those exposures get eliminated, those portfolios become more attractive because they would theoretically have stronger and stronger creditwor thiness content. And to the extent that companies do not plan in getting back in the business, which I think the majority of them do not, and their ownership today is a different ownership than what we'd normally consider as an equity - based investor, then I think we will see and we will pursue actively our opportunities to in effect acquire those portfolios and consolidate the remaining exposures in the industry.

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William T. Clark
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Thanks.

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Operator: Thank you. [Operator Instructions] And our next question comes from Tom Claps with Susquehanna.

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Tom Claps
Analyst, Susquehanna Financial Group, LLLP

Q

Yes, thank you. I just had a quick question. Your December 31, 2012, equity presentation recognized a future net rep and warranty benefit of $843 million. And I'm just wondering if that $843 million figure accounted for both UBS cases that recently settled or was it only the UBS real estate securities case?

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Dominic Frederico
President, Chief Executive Officer & Director, Assured Guaranty Ltd.

A

Okay. So as of 2012, the number was more – and I could be off a little bit – but it was like $1.3 billion. And we would have disclosed at that time of the $1.3 billion or so, $500 million was under agreements either collateralized or loss sharing agreements. So we had about an $800 million, the number you are referring to, would be what Rob referred to as the unaccounted for or a balance that's not supported by collateralized either settlements, judgments, or reinsurance arrangements. So that's the we'll call unallocated piece, non-collateralized piece. That's the piece now that's down to $400 million with the UBS settlement and with the Flagstar judgment. So the total receivable still remains around $1.2 billion, $1.4 billion, but the amount of that that is now in effect secured or collateralized continues to increase as we get these settlements or judgments. And therefore, if you go back to say 2009, the entire balance was uncollateralized or not supported by agreements. It might have been say $1.2 billion at the time. Since then obviously we've made a significant amount of collections and settlements and to the extent that we still carry a receivable, which is really related to the reserves and some paid losses in our portfolio, the majority of that now becomes collateralized, and therefore is not an asset subject to much volatility or change.

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Tom Claps
Analyst, Susquehanna Financial Group, LLLP

Q

Thank you for that. And then one quick follow-up. So in Flagstar, obviously it was a total victory for Assured, recovering approximately 100% of the paid claims in that case. So with respect to the UBS settlement, I know you guys in your complaint were seeking about $308 million in paid claims under the real estate securities case. So is it safe to assume that this settlement covered approximately 100% as well of those paid claims, so looking forward it gives investors some view as to what these other settlements could come in at?

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Dominic Frederico
President, Chief Executive Officer & Director, Assured Guaranty Ltd.

A

Well, the settlement for UBS specifically relates to a payment on past paid losses and 85% risk sharing of future losses. So they pay 85% of future losses, not 100%.

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Tom Claps
Analyst, Susquehanna Financial Group, LLLP

Q

Okay. Thank you very much.

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Dominic Frederico
President, Chief Executive Officer & Director, Assured Guaranty Ltd.

A

And understand we do that because obviously it avoids court, it avoids appeal process, it gets us immediate cash up front, further securitizes our asset, so we make that judgment as to what kind of a discount we would accept to move forward and just get that issue behind us.

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Tom Claps

Analyst, Susquehanna Financial Group, LLLP

Q

But for the paid claims, it seems that that did come in at a full number in terms of the $308 million being fully covered of paid, not future claims, correct?

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Dominic Frederico

President, Chief Executive Officer & Director, Assured Guaranty Ltd.

A

No, it does not. There was a discount on the paid claims as well.

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Tom Claps

Analyst, Susquehanna Financial Group, LLLP

Q

Okay. Thank you.

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Dominic Frederico

President, Chief Executive Officer & Director, Assured Guaranty Ltd.

A

You're welcome.

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Operator: Thank you. And the next question comes from Jonathan Carmel from Carmel Asset Management.

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Jonathan Carmel

Analyst, Carmel Asset Management LLC

Q

Good morning. Question for you on your reinsurance recapture. It seems like you recaptured from most at least something, but you still have a lot of exposure to the former RAM Re. I believe you are their only major counterparty left. Why not simply just buy the company?

Seriously, and there are liabilities there that you could leave outstanding and it could be a huge benefit. It would also allow you to maybe move some capital around, get it in the right place so you can pay it out.

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Dominic Frederico
President, Chief Executive Officer & Director, Assured Guaranty Ltd.

A

Yes. We are not laughing because we don't think it's a reasonable request. Obviously, if you think about Assured and how we continue to develop alternative strategies and execute those strategies to continue to move up, net worth, operating book value, adjusted book value, hopefully, you'd give us some credit that we have looked at that exhaustively. We are constantly in negations or at least in exploratory discussions with everyone that we still have on our reinsurance portfolio list, as looking for further opportunities. As we mentioned last year, it was a great way to enhance what we saw was failing or falling production in the active new money markets. We were able to bring in roughly $200 million of recaptured reinsurance to support roughly $200 million of new business production. So we had basically a $400-million year.

Obviously, in 2013 we are faced with the same challenges in the new business market. And, therefore, you can be pretty assured that we're still out there, aggressively looking at the opportunity. But understand, as you look to further recaptures, you've got to appreciate some of the risks in there do have some teeth to them and we have to make sure that we have protected ourselves against any adverse development on those risks that have some iss ues with it and, therefore, it becomes a little bit more elongated of a negotiation process. But we fully appreciate the opportunity that the former RAM, or it's called Overseas something or other these days. The former RAM would present to us and at one point in time we actually did consider a potential acquisition and still to this day would probably have a desire to recapture some part of that portfolio.

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Jonathan Carmel
Analyst, Carmel Asset Management LLC

Q

Thanks.

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Operator: Thank you. [Operator instructions] All right, as there are no more questions at the present time, I would like to turn the call back over to management for any closing remarks.

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Robert S. Tucker
Managing Director, Investor Relations & Corporate Communications, Assured Guaranty Ltd.

Thank you, operator, and I'd 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.

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