Assured Guaranty Ltd. (AGO)
August 8, 2025
Second Quarter 2025 Earnings Call

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Thank you operator. And thank you all for joining Assured Guaranty for our Second Quarter 2025 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.

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If you are listening to a 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 most recent presentations and SEC filings, most current financial filings, and for the risk factors.

This presentation also includes references to non-GAAP financial measures.

We present the GAAP financial measures most directly comparable to the non-GAAP financial measures referenced in this presentation, along with a reconciliation between such GAAP and non-GAAP financial measures, in our current Financial Supplement and Equity Investor Presentation, which are on our website at AssuredGuaranty.com.

Turning to the presentation, our speakers today are Dominic Frederico, President and Chief Executive Officer of Assured Guaranty Ltd., Rob Bailenson, our Chief Operating Officer, and Ben Rosenblum, 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 ask a 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.

We continued to build value for Assured Guaranty's shareholders and policyholders during the second quarter and first six months of 2025. Adjusted book value per share of $176.95 and adjusted operating shareholders' equity per share of $120.11 both reached record highs at the end of the second quarter. Adjusted operating income per share was $4.21 and $1.01 for the first half and second quarter, respectively.

Ben will provide more details later about our financial results.

U.S. municipal issuance remained strong in the first half of 2025. Through June 30th, the par amount of U.S. municipal issuance was 17% ahead of last year's record pace. We insured 64% of the insured par sold in the primary market during the first half of 2025. This indicates that the market recognizes the strength of our guaranty and value proposition.

One of our strategic priorities in 2025 was to increase our production in insuring U.S. municipal bonds in the secondary market. We wrote nearly $900 million of secondary market policies in the first half, including over $500 million in the second quarter. Our first half secondary par was 150 percent of the total amount of secondary par we insured in all of 2024. And, as I have mentioned in the past, we receive significantly higher premiums on our secondary market policies.

Overall, our U.S. public finance originations in the first two quarters were of unusually high credit quality and produced $74 million of PVP. Rob will provide more details on our high-quality business mix in a few minutes. With the addition of non-U.S. public finance and global structured finance, six-month PVP totaled $103 million.

In capital management, we remain committed to our share repurchase program, with a target this year of $500 million. So far this year, as of August 6, 2025, the Company had repurchased $296 million of common shares, representing 6.8% of the shares that were outstanding on December 31, 2024. And in August, our board authorized the repurchase of an additional $300 million of its common shares.

We are also pleased to announce that in July a $250 million stock redemption – or special dividend – by our U.S Insurance subsidiary, was approved by our Maryland regulator.

Over the years, we have repeatedly proven the strength and resilience of our business model. Reflecting this, on June 30th, S&P Global Ratings affirmed Assured Guaranty's AA financial strength ratings with a stable outlook, citing our very strong competitive position, excellent capital and earnings, well-diversified global underwriting strategy and exceptional liquidity.

Additionally, last week, KBRA affirmed Assured Guaranty's AA+ financial strength ratings with a stable outlook, citing substantial claims-paying resources, strong risk management, leadership position in the financial guaranty market, high-quality insured portfolio, and conservative investment approach, among other factors.

We believe we are now on a growth trajectory in both the U.S. and non-U.S. markets. In 2022, after a long period of reducing our insurance exposure, the amount of our new business each year began to exceed what was amortizing in our insurance portfolio. That began the current trend of increasing the size of the insured portfolio. We intend to continue our leadership position in U.S. municipal bond insurance while further expanding and diversifying our global infrastructure and structured finance reach.

I will now turn the call over to Rob to discuss in detail our production results.

Robert Bailenson
Chief Operating Officer

Thank you, Dominic.

Assured Guaranty led the municipal bond insurance industry in par insured during the first half of 2025, capturing 64% of the insured par sold. We insured $14.1 billion of new issue par sold, 30% more than during the same period last year.

As Dominic discussed, in the secondary market we insured an additional $900 million of par at much higher premiums rates. In aggregate, during the first half of 2025, our primary and secondary insured municipal par totaled approximately $15 billion.

We also significantly increased the number of primary-market transactions we executed, guaranteeing 474 new issues during the first half, 44% more than in the period last year.

For second-quarter 2025, our new-issue insured par sold of $9.5 billion was up 32% year-over-year, while the total insured portion of the market was up by 21%. Our deal count for the quarter was up 41%.

First-half results reflected an unusual operating environment. The ratings of new issues in the first half of this year were more weighted toward higher quality and therefore lower average premium rates than has typically been the case.

These higher quality credits also tend to moderate our overall risk profile and result in lower rating agency capital charges. Our guaranty adds value to high quality bonds because it can further enhance credit quality, reduce borrowing costs, mitigate the impact of downgrade and headline risk, improve market liquidity, and potentially stabilize market value.

During the first half of 2025, we issued over 100 policies totaling $5 billion of double-A par, some of which were in the secondary market. These are issues with underlying ratings in the double-A category by S&P or Moody's. For municipal transactions we closed in the first half of 2025, such double-A credits represented 32% of our insured par. This represents a 50% increase over the percentage of double-A business we insured in each of the previous three years.

During the second quarter, we issued 54 primary and secondary market policies, totaling $3.3 billion of double-A credits.

The composition of our business mix in the second quarter of 2025 was more heavily weighted towards double-A credits than last year's second quarter, where we also had two large, high-premium transactions that significantly boosted that quarter's PVP.

This year we have also insured a number of transactions with insured par amounts of $100 million or more. Institutional investors are large buyers of these transactions, and they continue to value our guaranty on them. In the first half of 2025, we guaranteed par of at least $100 million on 27 transactions for a total of $6.7 billion of insured par sold.

Of that, during the second quarter, we guaranteed 19 transactions totaling $5.2 billion of insured par sold. The insured par amounts of some of these larger transactions included $1 billion for the Dormitory Authority of the State of New York; $844 million, in aggregate for two issues, for the Downtown Revitalization Public Infrastructure District in Utah; $411 million for Allegheny County Airport in Pennsylvania; and $361 million for Meritus Health, issued by the Maryland Health and Higher Educational Facilities Authority.

In our other markets, non-U.S. public finance contributed $14 million in PVP for the first half of 2025. Second quarter 2025 transactions included one primary and several secondary infrastructure transactions in the U.K. Additionally, in Europe, we issued a guaranty for Spain's A-127 Aragon Regional roadway – our first post-financial crisis P3 transaction in Spain. And a guaranty for XpFibre, the largest independent fiber-to-home operator in France, which is our first primary transaction in French infrastructure since we opened our Paris office. The nature of this business, which includes large transactions with significant lead times, result in less predictable quarterly production results.

Structured finance contributed $15 million in PVP for the first half of 2025. Within structured finance, results were primarily attributable to subscription finance and pooled corporate transactions.

Subscription finance transactions are typically short duration, so their PVP earns significantly faster than the PVP generated by our other business segments. Further, based on our experience with these deals, there is an expectation that many of the transactions will extend, or renew at maturity, generating additional PVP that was not recognized at the time of closing. Since 2021, we have seen growth in this product line year-over-year, and we expect this growth to continue in the coming years.

Looking at the third quarter, we are off to a good start, insuring approximately $2.8 billion in par closed in the month of July. This includes $600 million of par for the New Terminal One at New York's JFK Airport. With over $10 billion in claims-paying resources, we are well equipped to support projects of this scale. We are also in the process of closing another substantial transaction in Australia, as a follow up to the transaction we insured in 2024.

In closing, we believe we are well positioned for the second half of the year. As Dominic indicated earlier, the U.S. municipal market is seeing high issuance, with some forecasts projecting that municipal issuance in 2025 could surpass 2024's record of $500 billion. Total market volume had already reached $278 billion by June 30th.

We see many attractive opportunities in global infrastructure and structured finance, and we have confidence in our strategy and a commitment to succeed.

I will now turn it over to Ben to discuss our financial results further.

Benjamin Rosenblum
Chief Financial Officer

Thank you, Dominic and Rob, and good morning.

Second quarter 2025 adjusted operating income was $50 million, or $1.01 per share, which compares with adjusted operating income of $80 million, or $1.44 per share in second quarter 2024.

The key revenue drivers – net earned premiums and net investment income on the available-for-sale portfolio – were both up in second quarter 2025 compared with the second quarter of 2024, which reflects the earnings power of each of these predictable streams of core earnings.

Net earned premiums and credit derivative revenues increased by $5 million primarily due to earnings on new large transactions and supplemental premiums written in 2024. Our deferred premium revenue, which is our future store-of-earnings, was $3.9 billion.

Net investment income on the available-for-sale fixed-maturity and short-term investment portfolio increased $8 million in the second quarter of 2025. There were a few notable changes in the composition of the available-for-sale investment portfolio compared with the second quarter of 2024 that contributed to the increase in net investment income.

- First, certain CLO equity tranche investments were reclassified to the available-for-sale fixed-maturity portfolio from a CLO fund whose change in net asset value (or NAV) was previously reported in adjusted operating income. Net investment income in second quarter of 2025 included $9 million related to these CLO equity tranches, whereas in the prior year, the change in the NAV of the CLO fund was $3 million.
- And second, net investment income on the externally managed portfolio increased by $6 million as our managers reinvested into some higher yielding assets.
- However, the average balance of our short-term investment portfolio declined, as did short-term interest rates, resulting in an offsetting decrease of $10 million in net investment income.

In addition to the CLO equity tranches in the available-for-sale portfolio, we also have other alternative investments whose changes in NAV are reported in adjusted operating income. Earnings from this portfolio tend to be more volatile than the fixed-maturity portfolio. In the second quarter of 2025, the change in NAV from these alternative investments was $5 million, compared with $15 million in the second quarter of 2024. On an inception-to-date basis as of June 30, 2025, our aggregate alternative investments have generated an annualized internal rate of return of 13%, substantially greater than the returns on the fixed-maturity portfolio.

Changes in the fair value of trading securities, which mainly consists of Puerto Rico contingent value instruments, also tends to be volatile. In the second quarter of 2025, the change in fair value of trading securities was a $2 million gain, compared with a $17 million gain in the second quarter of 2024.

The changes in fair value of alternative investments and trading securities are two of the three primary drivers of the decrease in adjusted operating income in second quarter 2025 compared with second quarter 2024. The last notable component of the variance is an increase of $27 million in the insurance segment loss expense. In the second quarter of 2025, loss expense was primarily attributable to additional reserves on certain U.K. regulated utility and U.S. municipal revenue exposures.

Loss expense is a function of both economic loss development and the amortization of deferred premium revenue. In the second quarter of 2025, economic loss development was $36 million, mainly due to certain healthcare, U.K. regulated utility and municipal revenue exposures.

Breaking down the main contributors of our second quarter results:

- The insurance segment contributed $76 million, and;
- The asset management segment contributed $4 million.

- These segment earnings were offset in part by the Corporate division's adjusted operating loss of $29 million in the second quarter of 2025, which is down from a $35 million loss in the prior year.

On the capital management front, we repurchased 1.5 million shares for $131 million, at an average price of $85.03 per share, and also returned $19 million in dividends to our shareholders in the second quarter of 2025. Including our Board's most recent $300 million share repurchase authorization, our current remaining authorization is $356 million.

In terms of our current holding company liquidity position, we have cash and investments of $157 million, of which $60 million resides in AGL.

Share repurchases, along with adjusted operating income and new business production, collectively contributed to new records for adjusted operating shareholders' equity per share of over $120, and adjusted book value per share of almost $177.

While adjusted operating income varies from period-to-period, the consistent quarterly increases in these book value metrics reflect the value of our key strategic initiatives, which build shareholder value over the long term.

Since the end of the quarter, we had two very positive developments which demonstrate the successful execution of several of our key strategic initiatives:

- First, after many years of negotiation and hard work, our largest loss mitigation security with a carrying value of $408 million as of June 30, 2025, was paid down using the proceeds from the liquidation of the trust assets. This outcome showcases our multi-faceted approach to loss mitigation, combining a vigorous legal defense and financial flexibility. We reached a positive resolution after pursuing our legal rights, allocating capital to repurchase most of the outstanding exposure at a discount, and remaining patient while the collateral value recovered. There will be little impact on the third quarter income for this final resolution, however, on an inception-to-date basis, we received over $100 million more in recoveries than we paid out which resulted in a positive lifetime internal rate of return of 2.7% for this troubled exposure.

- The second development, as Dominic mentioned, was that the Maryland Insurance Administration approved the redemption by the Company's U.S. Insurance subsidiary, Assured Guaranty Inc., of $250 million of its shares of common stock. Assured Guaranty Inc. expects to redeem such shares in exchange for cash and alternative investments in the third quarter of 2025. Proceeds from the stock redemption will flow into our U.S. holding companies and will be available for strategic initiatives including share repurchases.

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

Question & Answer Session

Operator
[Operator Instructions]
Our first question comes from Marissa Lobo with UBS.

Marissa Lobo, *UBS*
I was hoping for more color on how a lower interest rate environment impacts the opportunity set for AGO, both in primary and secondary public finance?

Dominic Frederico
The lower interest rate environment, as we said, we get paid on principal and interest, so a lower interest rate environment will obviously, depress premium volume in terms of what we would calculate as our rate against. So the basis of the premium calculation would go down. It would affect our insurance portfolio, which is obviously made of mostly fixed-income securities. So that would also affect book value of that – in terms of the secondary market, I don't think you had any impact whatsoever.

And as we said, strategically, we've looked at the secondary market as kind of the ballast in today's marketplace where there are low rates and tight spreads. The secondary market gives us an opportunity to balance that out with higher rated, higher performance or higher ROE business. So as I said, I think it will affect the portfolio, will affect the premium calculation going forward, depending on the size of the decrease in the interest rates.

Robert Bailenson
Yes, but if rates – remember also, if spreads widen out, even if rates go down, then you're still going to get – you're going to calculate a higher premium.

Dominic Frederico
Well, on the positive side, if rates go down, you're going to probably have more issuers in the market as well because people take advantage of the low interest rates to in effect accomplish some borrowings that they've probably been holding off of because of the volatility in the market, because of tariff, no tariff, political, no political. So we got to make sure that, that straightens out as well. But if they're low enough, you'll see a lot more issuers come to market.

Robert Bailenson
You'll also see more BBB and A-rated issuers come to market at lower with lower interest rates.

Dominic Frederico
And it could affect our earned premium in a positive way because of refunding. So there is some good news and some bad news with the lower interest rate environment.

Marissa Lobo
That's helpful. And just moving on to the loss expense and increase in big exposures. Could you speak a little bit about the increase in the big exposure to the non-U.S. and also how you see the process timeline playing out for Thames Water here?

Dominic Frederico
So this is something we've discussed at length in the company and also to you over the quarter. So what we're responsible to do from the standpoint of evaluating credits is do an independent evaluation of what we would rate the credit. And the rating is kind of severe. So if you look at a Brightline, we're at the top tier of the basically capital stack. The ability to get to us in terms of a loss situation is pretty remote.

But once the underlying credit has trouble making cash flow or making operating expenses, you downgrade the stack but the stack is protected at the top very, very well. So you're looking at it, the below investment-grade credit that, quite honestly, if you're the top $2 billion of $7 billion, you really have no exposure. But that's not the way the rules work. When it comes time to the loss reserves, you've got the same problem. Low investment grade credit is going to attract the loss reserve. Loss reserves are calculated based on a scenario analysis and a probability weighting.

The majority, and I mean the significant majority of our credits that goes into our calculation of either reserves or below-investment grade do not pay losses. So it's an accounting concept. We actually tried to get a statistic for you that how many lower reserves that we put up or you never paid a loss on, and it's the majority of the cases, the strong majority of the cases. Ben, do you want to add anything to that?

Benjamin Rosenblum
I think that sums it up. I think in many cases, I think in many cases, we put up losses, and this is true certainly in the health care sector in the U.S. where we put up many losses over the years and we downgraded a credit this quarter, Westchester Medical Center, but I can't even think of the last time we paid out a loss in the U.S. health care sector. It is probably the Bayon Hospital 20-some-odd years ago. So –

Dominic Frederico
Assured didn’t.

Benjamin Rosenblum
Well, FSA did it. But at the end of the day, we do have a very strong surveillance team that works on the health care front. They're very good at their job. They get in there and work out the credit, downgrade it and then we work through the problem.

Dominic John Frederico
And your question was on Thames so let's go back to that for a second. So remember, as we said, we're in the opco, not the holdco. The problem there is capital expenditures,

not operating expenses or operating ability to cover debt service. We're very well protected in terms of the legal structure. And as you've seen in the current environment, we’ve put up a plan with the rest of the creditors relative to refinancing, which is the only plan available. We're very comfortable with our position in the plan, what it means to us as a company. So hopefully, that will continue at its pace, get approved and then put into effect, we'll be able to cure the credit. The joke I make internally, and I'll put it out here over some criticism is that even in Puerto Rico's case, they paid the water bill. So I'm assuming the U.K. government will do the same.

Operator
[Operator Instructions]
Our next question comes from Tommy McJoynt with KBW.

Tommy McJoynt, *KBW*
This is a timely call following the announcement just a few days ago that 5 of the 7 members of the Puerto Rico Oversight Board were dismissed by the President. Can you walk through your understanding of what happens from here in terms of nominations or new appointments to that Board, if they have to go through approval process? And then this, in any way, delays the overall restructuring procedures just as new members get up to speed?

Dominic Frederico
Well, let's look at the facts from the rear. So number one, nothing could delay restructuring or a kind of consensual deal than the existing Board was doing in terms of their execution. Remember, we had signed 3 previous deals, which they reneged on every time. So it couldn't go any slower. So any change of that's got to be an improvement, Tommy. So at the end of the day, I'm optimistic that this sort of turns out to be a positive, not a negative.

Number two, what ultimately happens, I think is still up for discussion relative to who's got legal right to do what. Remember how the original Board was constituted. Each side got to put a couple on, the President got to put somebody on. Will they follow that path? I have no idea. So it's still up in the open. It's still whether they're going to contest the dismissals. But as I said, to me, it can only improve. It can't go in an adverse way. So I think we can reach a deal potentially.

Tommy McJoynt
Yes, we'll stay tuned on that. How much contingent value instruments from earlier Puerto Rico restructurings do you guys still hold? And as I understand it, those have been performing very well, and that's just reflective of sales tax receipts coming in above budget.

As we see that happen, can we think of PREPA's ability to repay and the ultimate recovery there as also potentially coming in better, just thinking about economic activity driving sales tax receipts and then also potentially leading to more electric utilization. Is there a correlation there that we can think of?

Dominic Frederico
Let me answer your first question. So we have about $117 million remaining from the previous contingent value securities. And as you said, they performed very well. That's why we held back unless it doesn't meet our internal return thresholds we would sell, but they do. So we hold, we expect them to continue to improve. So as the market presents opportunity, we'll execute accordingly. We don't have a liquidity situation or position to have to worry about holding the securities. So at the end of the day, it's positive for the company.

Number two, depending on what we ultimately resolve PREPA with, will there be contingent securities? I don't know. But like you said, as they tend to undervalue them, they're not a bad investment to take as part of a settlement because they typically outperform.

We believe PREPA has the ability to repay its debt. And as you can see, the growth in the administrative expense claim continues to significantly increase, which represents a significant portion of the debt that was owed, which is kind of funny. In this case, we thought we'd have to prove that there's money there or they have to prove to us that there isn't money there.

So I think it's a very different situation than it was in the past. With the change in the Board members potentially and this administrative claim, I think things are getting very positive from the standpoint of PREPA's ability to settle our dispute and get to a consensual agreement.

Operator
Our next question comes from Geoffrey Dunn with Dowling and Partners. Please go ahead.

Geoffrey Dunn, *Dowling & Partners*
I saw Westchester Medical was added to your BIG list. I know it's only one notch below-investment grade, but can you talk a little bit about what occurred there relative to first quarter and second quarter that brought it down to the BIG level?

Benjamin Rosenblum
Yes. I think we're constantly evaluating our credits. As I mentioned, we have a really good surveillance team led by Holly Horn. And she looked at it we looked at it. And we saw the liquidity was not where we like for our standards. Additionally, when you look at what's coming out of Washington, there may be some headwinds from Medicaid and Medicare patients out there. And as a result, as a forward-looking basis, we decided we would downgrade it. We do not believe this is going to be a big problem. We generally, as I mentioned, work out our health care credits, but you got to take prudent measures and put up the ratings that you think makes sense at the time.

Dominic Frederico
This is a critical facility, very important to the state, very important to the local environment. But as Ben points out, we have a process where we look at credits, we look at the future, we look at the cash flow situation, the available management team margins that are being pressurized and take the decisions we think are necessary relative to managing the credit.

Benjamin Rosenblum
We generally have a very positive view on the turnaround possibilities there, and we're looking forward to working with them to turn it around.

Dominic Frederico
I think as Ben talked about in our history of health care credits, they performed very, very well because they aren't operating exposure that can easily be amended versus political situations that are a little tougher to handle. This is not one of those. We are recognizing the facts of what it means relative to Medicare, Medicaid, and cash flows and the demand. Remember, they're bringing on a new facility, which always has its problems in terms of operations. But just being forewarned is forearmed. That's kind of our process in surveillance.

Operator
This concludes the question-and-answer session. I would now like to turn the conference back over to our host, Robert Tucker, for closing remarks.

Robert Tucker
Thank you, operator. 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.

Operator
This concludes today's conference call. Thank you all for attending. You may now disconnect your lines. Have a great day.