



**Assured Guaranty Ltd. (AGO)
November 12, 2013
Q3 2013 Earnings Call**

**Robert Tucker
Managing Director, Corporate Communications
and Investor Relations**

Thank you operator.

Good morning and thank you for joining Assured Guaranty for our 3rd 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.

The presentation 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 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 ask question.

I will now turn the call over to Dominic.

Dominic Frederico
President and Chief Executive Officer

Thank you Robert, and thank you everyone for joining today's call.

I am pleased to say that we've concluded another quarter of successful execution of our strategic objectives. One of those objectives has been more efficient capital management, and in connection with that, today I can announce that we completed an important step to improve our ability to manage capital and risk within the Assured Guaranty group. Last week, our Board of Directors held its first quarterly meeting ever in the United Kingdom, where we have a longstanding business presence dating back to the 1980s. This event signifies that while AGL will continue to be a Bermuda company with its administrative and head office functions remaining in Bermuda, it is now, as evidenced by our recent board meeting, tax resident in the United Kingdom and will be subject to the applicable U.K. tax rules, including the benefits afforded by U.K. tax treaties. This is clearly an important step in our strategic planning and recognizes the continuing development and evolution of Assured Guaranty in addressing its future opportunities.

Turning to our other objectives, we completed another profitable quarter. Since our 2004 IPO, we have consistently produced positive operating earnings each quarter, a record that has held up through the worst of the financial crisis and through this quarter in 2013. We have achieved our solid results by consistently focusing on our strategic priorities, which include the alternative strategies we have used to offset the impact of the challenging market conditions for the last few years.

Regarding our capital improvement and loss mitigation strategies, during the quarter we agreed to terminate a billion dollars of net par outstanding on policies relating to seven transactions and we purchased over \$125 million of wrapped bonds at 60% of par. Both of these activities served to reduce risk, increase capital adequacy and mitigate future losses in the portfolio.

Our third quarter results also reflected two fourth quarter R&W settlements. The total pretax economic value, not accounting, of these two transactions was \$105 million and brings our total rep and warranty agreements to six for the year, including our Flagstar settlement. This is clearly a remarkable achievement and reflects, once again, our strategy and ongoing commitment to this critical area of loss mitigation.

Another positive development in our RMBS loss mitigation is that delinquency trends continue to improve in most of our second lien RMBS transactions. Some of the improvement in second liens is a result of our proactive servicing transfer activities and related specialized servicing strategy.

Regarding our core financial guaranty business, our broadly based financial guaranty strategy paid off in the third quarter as international infrastructure finance, structured finance and U.S. public finance all made simultaneous contributions to new business production for the first time this year.

In our international business, we executed two important transactions, the first new wrapped U.K. public-private partnership issues in the capital markets since the financial crisis began. These were a £102 million transaction to finance urban redevelopment in the vicinity of Leeds and a £63 million issue to finance the construction of student accommodation and associated facilities for the University of Edinburgh. These breakthroughs generated \$13 million in PVP and demonstrate the value of our guaranty in reviving the market for U.K. infrastructure bonds. We have a pipeline of similar transactions that we are hopeful will lead to the re-emergence of this important area in future quarters.

In structured finance during the quarter, we guaranteed \$273 million of notes backed by small-ticket equipment lease and loan contracts originated and serviced by LEAF Commercial Capital. Moody's assigned the insured portion of the transaction its highest ratings, P-1 for the short-term notes and Aaa for the medium-term notes. Moody's based these ratings, in part, on our financial guaranty and specifically cited the importance of our strong oversight capabilities to mitigate certain operational risks of the servicer.

During the quarter, our U.S. public finance PVP was significantly higher than in either of the first two quarters of this year, partially due to an increase in market yields during the third quarter. As we have said on prior calls, as interest rates increase and credit spreads widen, demand for

insurance generally improves, and that contributed to increased bond insurance penetration in third quarter 2013, compared to third quarter 2012.

Our profitable municipal secondary market business also made a significant contribution as we executed 289 secondary market transactions aggregating \$522 million in par insured during the quarter, the highest volume this year.

On our last call, I spoke about Municipal Assurance Corporation, or MAC, our new muni-only subsidiary, which opened for business in late July. We are pleased with the market's reception of MAC, which offers investors a new option for making insured investments in selected sectors of the U.S. municipal bond market. The first MAC-insured issue came to market just ten days after MAC's launch and by September 30, nine transactions had sold with MAC insurance, representing issuers in five different states.

MAC has been making good progress in acquiring the state insurance licenses it did not have when we began operations. As of today, MAC is licensed in 41 states and the District of Columbia, with applications for all the remaining states under review by state regulators. MAC is rated AA+ stable by Kroll, which is the highest rating in the industry, and AA- stable at S&P.

Now I want to bring you up to date on some of the troubled credits in our portfolio. An important thing to remember about troubled municipal credits is that our liability is limited to payment of scheduled principal and interest as it comes due, and our policies do not permit acceleration of the bonds without our consent. With \$12 billion of consolidated claims-paying resources, and the roughly \$400 million of annual income from our investment portfolio, we have ample resources and liquidity to meet payment obligations if and when they arise. As always, investors who hold bonds insured by Assured Guaranty can be certain that they will continue to receive uninterrupted full and timely payment of scheduled principal and interest. And the payments we make clearly demonstrate the value of our insurance, which should help to support future demand for our guaranty.

In looking at the specific credits in our insured portfolio that have been in the news over the last few years, we are pleased with the recent progress towards resolution.

We have reached conditional settlements related to our insured exposures in Harrisburg, Pennsylvania; Jefferson County, Alabama; and Stockton,

California. In each case, there are still some moving parts that need to fall in place — such as successful execution of refundings, or bankruptcy court approval. As an example, last week voters in Stockton, California approved a tax measure that fulfills a critical condition of the Stockton agreement.

If these settlements occur - as we expect they will - we do not expect them to result in any additional losses beyond the reserves we have already booked as of September 30. Further, Assured Guaranty's participation in the debt restructuring plans of Jefferson County and Harrisburg – by agreeing to guarantee a portion of their prospective debt issues – underscores our unique ability to assist issuers in accessing the capital markets to help them achieve their financial objectives.

Now I'd like to discuss two issuers that have become more prominent recently – Detroit and Puerto Rico. As Detroit's bankruptcy case moves ahead, we remain willing to work with the Emergency Manager, public officials and other creditors to achieve a fair and equitable resolution. However, to protect our rights and enforce the city's statutory duties relating to the voter-approved GO ULT bonds, we were compelled to file a complaint in the US Bankruptcy Court last Friday.

As we said in a statement on our website in July, 85% of our Detroit exposure is secured by liens on special revenues of water and sewer systems that serve communities extending well beyond the city limits of Detroit, and both systems are cash flow positive. We also believe the GO ULT bonds are secured obligations of Detroit, and the express terms of the bond resolution and the voter approval of the bonds' tax revenues support this position. Our remaining exposure is in our reinsurance segment, and our liability there should parallel the settlement of the primary company.

As for Puerto Rico, all credits we insure are presently current on their debt payments, and none are eligible to file chapter 11 (or 9) bankruptcy. Further, we believe recent measures announced and actions taken by the current governor and his administration reflect a strong commitment to honor the debt obligations of the Commonwealth and its authorities, and to improve their financial stability. We continue following the situation closely and understand the market's need for a high level of transparency. I encourage you to read our Company Statement on Puerto Rico, which is posted on our website and provides extensive disclosure about our Puerto Rico exposures.

While we do not anticipate additional losses on any of the credits I just mentioned, it is important to realize that our financial strength has proven resilient in absorbing losses. Since the beginning of 2010, we have earned \$2.3 billion of operating income in spite of the challenging economic environment in both the housing market and municipal finance. These results clearly demonstrate the resiliency of our strong capital and earnings base, and its ability to absorb credit losses while maintaining high profitability.

In closing, I would like to discuss another strategic objective, the efficient management of capital. And, to that end, we continue to pursue our share repurchase plan. As of today, we had repurchased approximately \$264 million of the \$315 million total authorization. Further, in an affirmation of our commitment to manage capital efficiently, a new \$400 million share repurchase program was authorized yesterday to replace our existing program.

All of our share repurchases are made from AGL, the parent company, as funds become available to it. Our financial guaranty subsidiaries will pay dividends as funds become available, and while also remaining capitalized at levels consistent with their insured obligations and regulatory capital requirements, and while maintaining strong rating agency capital levels.

As we look toward 2014, we are confident that we can continue to manage our capital efficiently while generating profits and protecting the financial strength behind our guaranty. With MAC gaining traction and AGM as the leading municipal bond insurer; with the outlook for our international business much improved; and our strong capabilities in structured finance, we believe we are well positioned for future success.

I'll now turn the call over to Rob.

Robert Bailenson
Chief Financial Officer

Thank you, Dominic, and good morning to everyone on the call. I'd like to begin with the new 400 million dollar share repurchase authorization that Dominic just mentioned. We expect the repurchases to be made over time, at management's discretion, and subject to: the amount of free cash flow available at the holding company, market conditions, the Company's capital position, legal requirements and other factors.

The Company's current business plan calls for capital being available at AGL over the course of 2014. As of September 30, 2013, AGL had

- approximately 255 million dollars of unencumbered assets at AGRe, which has historically been the primary source of cash for the holding company, and
- cash and liquid investments at AGL and the US holding companies totaling 217 million dollars.

Turning to operating income -- in the third quarter of 2013, operating income was 117 million dollars. This brings our year-to-date operating income to 475 million dollars - a 35 percent increase over the nine month period ended September 30, 2012.

On a per-share-basis, operating income was 64 cents for the third quarter of 2013, and two dollars and 51 cents on a year-to-date basis.

While net earned premiums declined, we continued to recognize the positive effects of our loss mitigation efforts. This was reflected in our favorable economic loss development of 22 million dollars, which was due principally to –

- improved delinquency trends in the second lien exposures in the RMBS portfolio where we transferred servicing, and
- a higher R&W benefit attributable to recent developments with some of our counterparties.

However, some of this benefit was offset by

- loss development on certain first lien transactions, and
- developments with respect to municipal bankruptcies.

The decline in third quarter 2013 net earned premium was both due –

- the scheduled amortization of net par outstanding, and
- lower accelerations from refundings and terminations.

These vary from period to period and are a function of the interest rate environment and the timing of negotiated terminations with counterparties.

Total accelerations in the third quarter of 2013 were 40 million dollars. This consisted of 28 million dollars for refundings of public finance transactions, and 12 million dollars attributable to negotiated terminations. This compares to total accelerations of 73 million dollars in the third quarter of 2012.

This brings our year-to-date refundings and terminations to 214 million dollars, which represents a 20% increase over the comparable period in 2012.

Refunding and termination activity continues to deleverage the portfolio and strengthen our capital position.

The effective tax rate on operating income was 28.1 percent for the third quarter of 2013 compared with 22.5 percent for the third quarter of 2012. The increase was due to lower operating income in Assured Guaranty Re Ltd. compared with third quarter 2012. On a year to date basis, the effective tax rate on operating income was 27.2 percent, compared with 24.2 percent in 2012.

Adjusted book value per-share increased to 49 dollars and 55 cents, from 47 dollars and 17 cents at December 31, 2012, primarily due to share repurchases.

Operating shareholders' equity per share increased to a record 33 dollars and 15 cents, from 30 dollars and 5 cents at December 31, 2012, which also reflects the impact of share repurchases, as well as year-to-date operating income.

On a per share basis, our 2013 share buybacks added one dollar and 79 cents to adjusted book value, 76 cents to operating book value and 35 cents to GAAP book value. As of today, we repurchased 12.5 million shares, for 264 million dollars.

I will now provide some detail on the tax residency. After reviewing several options for improving the efficiency of our capital management, we decided that AGL would become tax resident in the United Kingdom, while still maintaining a head office in Bermuda.

This migration will not have an effect on AGL's effective tax rate on operating income from its subsidiaries. Those subsidiaries will continue to pay tax on all profits in either the U.S. or U.K., except for AGRe, which remains a Bermuda reinsurance company. Also, the migration will not have a material effect on operating expenses, because we already have operations in the U.K. with a fully functioning office.

As a result of the tax residency in the U.K., AGL will now be subject to the U.S./U.K. tax treaty, which provides a withholding tax rate for dividends from AGL's U.S. operating subsidiaries of between zero and 5 percent.

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

We will now begin the question-and-answer session. [Operator Instructions]
We have a question from Sean Dargan from Macquarie. Please go ahead.

Sean Dargan

Thank you and good morning. As we think about modeling out potential extraordinary dividends out of the operating companies. When I look at slide 31 on the equity presentation, as RMBS exposure runs off, where will we see the impact of that? So in other words, there should be more capital I assume on your statutory balance sheet? Does that show up in policy holder surplus or contingency reserve?

Dominic Frederico

Well, remember as RMBS capital runs off, you won't see more capital per se, you'll see more excess capital as we look at our requirements – I mean principally how the rating agency does...so line capital doesn't go up, but the fact that we should have greater capital adequacy because those exposures either run off or become subject to settlement should reduce the capital charges that we see from Moody's and S&P. Therefore, that would create additional excess capital. Our dividend is always going to be limited to the statutory rules regarding the amount of dividends that can be paid from the operating companies to the holding company. And therefore then from the holding company to the parent company, that's excluding any extraordinary dividends, and as Rob said we'll look at our dividends based on a lot of things, at the moment including working conditions, capital adequacy as respect to those bond holders and rating agencies. So that's going to be a fluid process.

Sean Dargan

All right, got it. Thank you. As you – I presume you'll ask for extraordinary dividends at some point, can you just walk us through how that conversation goes? I mean I assume Benjamin Lawsky reads the reports about Puerto Rico, and perhaps regulators are nervous about allowing

capital to leave their regulated entities when there might be claims to be paid further down the line? Can you just tell us how you're approaching those negotiations?

Dominic Frederico

Well, anything where you go in and ask for something that's not a part of the normal operations, I'll give you an example. Last year we went in and asked for the release of contingency reserves. So as a part of that, we make an application relative to the subject matter. We send it to the applicable people at the department that handle Assured Guaranty; they typically come back with a host of questions. They normally call for a meeting. We go in. Make our presentation at the meeting. They follow with a few more questions. And then, they ultimately make the decision based on the merit of the facts and all the information that was provided to them. So anything that we regard in any capacity with further contingency reserve releases excess extraordinary dividends, they will go through that same process.

Sean Dargan

All right. Thank you.

Dominic Frederico

You're welcome.

Operator

Our next question is from Bill Clark from KBW. Please go ahead, sir.

William Clark

Hi there. Just one question. So you successfully mitigated some of the tax impact on the U.S. subs up to the Bermuda Holding Company. Did that cause any kind of impact on the tax that would be applicable to dividends from the Bermuda Reinsurance Company up to the holding company, which used to be at zero percent or is that still expected to be at zero?

Robert Bailenson

There's no impact on Bermuda's dividend up to AGL. It will be zero.

William Clark

Okay. Thank you.

Operator

Our next question is from Geoffrey Dunn from Dowling & Partners. Please go ahead.

Geoffrey Dunn

Thanks, good morning. Dominic, I think I'm going to be more specific here. Based on how things stand today, and the runoff and rating agency assessments, in 2014, do you think you could maximize your regular dividends and do you think it's warranted to request a special?

Dominic Frederico

Geoff, as you know, part of our challenge of strategic management is we have two areas that we have to look to relative to our capital adequacy, right? Obviously, that which is available to us relative to capital returns from our existing statutory rules and regulations; and then two, what is required to be held relative to us maintaining the highest ratings that are available to us which is still the goal of the company. You know that the second or the latter part is a moving target. And as we get very comfortable on where the target exists and as we see the benefits that we believe has been significant improvement in the portfolio, and I will point you to our below investment grade credits that are now sub \$20 billion. In the old days, BIG credits were anywhere between 1% and 3% of the portfolio. We're getting closer to almost normalcy and we hope in 2014 with further improvement RMBS and a few more of our loss-sharing deals as well as to continue to runoff of the structure, we'll get to that level. And there's some big credit changes in BIG that we see happening in the fourth quarter. Obviously, there's Stockton, Harrisburg, Jeffco, all come out of BIG, and there are some other terminations that we've done that we haven't announced. We just have a material impact once again. That to me is the more relevant factor. We've got to really be able to tell the market and convince the market that we are absolutely strong, financially stable, can maintain ratings, can be available to provide additional guarantees, and then use that as the assessment of the capital when and where we see fit.

Geoffrey Dunn

Okay. And then just a couple of points of clarification.

Rob, did you indicate \$217 million of the holdco as of third quarter?

Robert Bailenson

That was a combination of the U.S. holdco and the Bermuda holding company as well, Geoff.

Geoffrey Dunn

All right. What is specifically in Bermuda?

Robert Bailenson

\$255 million in Bermuda and the difference is in the holding company.

Geoffrey Dunn

Okay. So \$255 million is what's in AG Re, right, that's available?

Robert Bailenson

I'm sorry. \$255 million in AG Re, you're talking about that? Hold on one second.

Geoffrey Dunn

Yeah. What's that limited right now?

Robert Bailenson

It's \$130 million at AG U.S. holdings and about \$32 million at AGL.

Geoffrey Dunn

And then last question, for muni development in the quarter, was that a true-up related to the Stockton settlement or can you give us any detail on what specific credits drove the addition?

Dominic Frederico

The addition to expected loss to be paid?

Geoffrey Dunn

Correct.

Dominic Frederico

Yeah, well, this took me a while so let me see if I could take a stab at it and then I'll give it to Rob. So remember, we book reserves as we see credits experience trouble and there's a probability of loss which goes into our loss reserve model. Those reserves that are held and because of the way GAAP works, and we're trying to give you these economic schedules that really give you a good indication of where loss activity is, we then post subrogation in certain areas like we did in the residential mortgage area. So we take the benefit of what we think our proceeds are going to be received back from us. The increase in the expected losses to be paid has nothing to do with the increased losses. It had everything to do with the subrogation

that we had carried as a credit. We actually received bonds, so they're now over in our investment portfolio. So it's really the removal of the credit or the negative loss reserve in the total expected losses to be paid that caused the increase. There were some additions to reserves related to the bankruptcies as we look at our LAE and some other issues to make sure we believe those things are booked at an ultimate level based on current circumstances. But the big number is the fact that the subrogation actually got realized in the form of bonds.

Geoffrey Dunn

All right, I'm going to have to follow up on this one.

Dominic Frederico

It's not easy. It's not intuitive, it's really the fact that the negative subrogation we actually receive the bonds.

Robert Bailenson

As you receive the bonds, you have more expected loss –

Dominic Frederico

So you debit out that credit, the credit in the reserve, right? And that's why the reserve goes up.

Geoffrey Dunn

All right, thanks.

Operator

Our next question comes from Brian Meredith from UBS. Please go ahead.

Brian Meredith

Yeah. Good morning. Couple of questions for you all. The first one just curious, of the \$217 million of liquidity that you have at the holding companies, how much do you kind of want to keep at the holding companies for liquidity purposes, like interest and that kind of stuff. Is there kind of general rule that you think about Rob and Dominic?

Robert Bailenson

Yeah. We generally keep a six-month cushion for our interest cost at the U.S. holding company and about two quarters of equity dividend at the ultimate parent holding company.

Dominic Frederico

That's the holding companies. Remember that the operating subs we have to, for the sake of argument in AG Re, keep a further cushion because of mark-to-market movement that would affect the collateralization of their – or the assets in the collateral account. So remember as interest rates move, we either have to post more or have some relief of so there's another cushion in there to protect that, as well as any posting notices we get on the reinsurance in the Bermuda company from the ceding companies as they post reserves. So Bermuda, AG Re has all the higher, another level of redundancy of free assets just in light of the fact that market movement and collateral posting requirements.

Brian Meredith

And then second one. Dominic, I'm just curious, now that most of this RMBS is kind of behind you, you've got maybe some more put backs and stuff. If you look forward here, operating return equity, what do you think kind of the run rate operating ROE of the company is at this point?

Dominic Frederico

Well, I think that's a multi-pronged question, right, Brian? Obviously, with new regulation kind of being posted around the world and the related increase in capital requirements, I think the paradigm for returns in the financial services business is different, right?

And I would say the benchmark today might be 10%, no longer 15%, and especially the yields in the portfolio putting further pressure on that. Our goal is to achieve that, but obviously we've got to look at it over a longer horizon because, as you know, we know, we've talked about it a lot of times, we are in this excess capital position. And we've always said, as an efficient manager of capital to the extent that we've can't justify a return on it then it has to be used in the best way that benefit our shareholders. But it's not going to be solved overnight but obviously we've made a lot of improvement or a lot of advancement in being able to further realize exactly what we have to do from a process point of view, from a strategic point of view, in delivering that level of return to our shareholders.

Brian Meredith

Okay. So basically you said that your point is, if you can get to the optimum capital levels, it's 10%?

Dominic Frederico

Right, capital base. We've got to get to the right leverage base and the right capital base.

Brian Meredith

Got you. Okay, excellent. Thanks.

Operator

Your next question is from Parker Lewis from Hayman Capital. Please go ahead.

Brandon Osman

Yes. Thank you for your time this morning. This is actually Brandon Osman from Hayman Capital. But we were just hoping to get a little more detail on how a potential downgrade of Puerto Rico might impact the timing of share repurchases, if at all?

Dominic Frederico

Good question. If you would go back, I don't know how many weeks, and time tends to fly in this place, but S&P put out a little blurb on Puerto Rico, basically saying they believe it was a non-event for the financial guarantors. And as you work through some numbers, for both us and the other guarantors in the industry to say if it is downgraded, what is the capital cost and therefore the capital cost was not going to be significant, therefore it shouldn't have any impact on the ratings so following that same logic, it shouldn't have any impact on our share buyback.

Brandon Osman

Okay.

Dominic Frederico

And I would refer to the S&P article because it does a pretty good job of laying it out for each of us.

Brandon Osman

Okay, thank you.

Dominic Frederico

You're welcome.

Operator

Our next question is from Larry Vitale from Moore Capital. Please go ahead.

Larry Vitale

Thanks. Good morning, gentlemen. I have a few questions. The unencumbered assets fell from, was it, \$280 million at July 31 to \$255 million now at the end of September? Can you walk us through why those would've gone down?

Robert Bailenson

Well, remember, Larry, the function of what's required to be held from AGC and AGM and also for other reinsurers like Ambac and FGIC, in addition to which, we've also paid dividends from that company up to the holding company to pay for our equity dividend. So those are the primary drivers why it would go down.

Larry Vitale

Okay, and the last quarter I believe it was you talked about the agreement you reached with both Maryland and New York to take back contingency reserves? And presumably that was going to free up more unencumbered assets at AG Re if I understood correctly? Can you just bring us up to date on where all that stands?

Robert Bailenson

Well, it did free up unencumbered assets at AG Re. We did that last quarter. And we expect in July, or the end of June of this year to have another \$200 – roughly I think around \$250 million freed up as the second part of that recapture. And then the last part of that recapture will be freed up in the next June in 2015.

Larry Vitale

So June of 2014, 250 gets freed up and then June of 2015 another 250?

Robert Bailenson

No. June of 2015 is going to be at AG Re – first, another thing that you should know is that AG Re is no longer required to post additional contingency reserve. And in the – in 2015, the amount that we've recapture is approximately \$81 million.

Larry Vitale

Okay. So that's just the stub?

Robert Bailenson

Yes. And all of that is hard wired. It's just – it's been approved by the regulator. They just want to relook at it every June.

Larry Vitale

Great, okay.

Dominic Frederico

I remember when they gave us the agreement that conceptually they agreed with the release conceptually and they also agree to no longer constitute the contingency reserves in Bermuda. They set the release schedule on a three-year schedule they released 50% of it upfront, another two-sixth and then one-sixth?

Robert Bailenson

No it was one-third, one-half and one-sixth.

Dominic Frederico

Okay. I had the right percentages in the wrong order: one-third, one-half, one-sixth over the three years but we have to go to them and request their previously agreed amount release in, as Rob said, July of next year and July after – the July of next year is the big one and we believe without anything extraordinary happening, that approval should be given. And then in 2015, we get the remaining six.

Larry Vitale

Okay, all right. That's very helpful. One other question, did the changes to the way you guys define below investment grade this quarter and, you lay it out, it's pretty clear and that resulted in what was it about \$1.5 billion in lower below investment grade exposure. Did that free up capital on the S&P model?

Dominic Frederico

No, because remember that's our rating, not their rating. Their rating is going to be based, exactly as we said, on their depression model and whatever the ratings that S&P have. Obviously, what's more important to their rating is the runoff of the structured and these continued rep and warranty settlements.

Robert Bailenson

And the terminations have a significant impact.

Larry Vitale

Great, okay. And then finally – and this is just a formality, but I want to hear you guys say it. Presumably, the IRS and HM revenue in the UK, and the tax authority in Bermuda, all those tax authorities are okay with your re-domiciling of your tax residency?

Dominic Frederico

Larry, we've gone through I think a very, very complete process. We talked to the regulators in all jurisdictions to get agreement. We've spent a lot of time with the HMRC in the UK. Obviously, we feel very comfortable with the positions that we've taken.

Larry Vitale

Okay, all right. Great. Thank you very much.

Operator

Our next question is from Josh Bederman from Pyrrho Capital. Please go ahead.

Josh Bederman

Hi, guys. Just one quick one. Any update on anything with Credit Suisse?

Dominic Frederico

As hard as it is to believe, Josh, and thanks for asking that on the call with us, we now say we're up to six settlements this year in rep and warranties and you can imagine it's getting a lot easier conversation to have. Our phone has still not rung from our friends at Credit Suisse. And especially relative to the re-filing of our complaint to include fraud now. And if you had noticed the nature of these beasts, the monolines have done a lot of the work in terms of the research, investigation, and following, the litigation. And the government comes in and basically reads our litigation complaints and then files the same one except they're the government, so they get a lot faster answer.

We think this surprises us that we're still not engaged in an active negotiation. I think the fraud re-filing of the complaint, if that was me it would get my attention because I think these things are going in a very one way and obviously, it's in our favor. But to the extent we're – we have six done this year which is – even surprises me from the standpoint and objective we set at the beginning of the year. They're not one of them.

Josh Bederman

So what's the next kind of step in this process? Is the government reading your complaints, like, what do we kind of expect to happen next?

Dominic Frederico

Well, we've gone to DEFCON 4, so we're ready to fire. We filed the fraud complaint. Obviously, that's going to take its course through the court system. It's New York State Court, so we can expect a couple of birthdays before we finally get into the courtroom.

But obviously, we're in great position vis-à-vis the financial strength of the company, capital adequacy, continued settlements, improvement in the RMBS experience. And I want to point out, a lot of that is based on our whole strategy around special servicing and special servicing agreements, it had a tremendous impact in the current quarter as we see real improvement on the second lien risk that we transferred to our special servicer. So once again, give us some credit for being able to pick ways that we can continue to benefit this company while the market still stays pretty cold relative to financial guarantee, related more to interest rates and economic activity. So we're seeing all sorts of benefits coming out of this thing. Anyway – so I think we're looking at other things that are also very positive in that regard and we think that these things are resolving themselves. And as you can see even in the general market, there has been more cases brought, more settlements achieved. So I think this is an area that will continue to provide benefit to us.

Josh Bederman

Okay. Thank you.

Dominic Frederico

You're welcome.

Operator

We have a follow-up question from Larry Vitale from Moore Capital. Please go ahead, sir.

Larry Vitale

Thanks. I just wanted to ask you guys to comment on your exposure and what you think might happen in Chicago. I guess they got downgraded the other day by Fitch I think it was. And also Illinois more broadly and then if you can just comment even more broadly than that on how you see muni

risks developing over the next couple of years. Because that seems to be what the market is focused on, right or wrong.

Dominic Frederico

Well, I'm glad you put the right or wrong out there, Larry. By the way, you pay for your second set of questions, so we'll be sending you a bill.

As we look at Chicago, Chicago is very different than Detroit. You look at the economic activity in the city and one of the things that we look at very closely is population. And if you look at the population in Chicago, it continues to increase, not decrease. So the taxable base continues to improve. Obviously, Chicago, much like a lot of other municipalities, still have that one big issue that needs to be addressed which is the ongoing burden that the defined benefit and retirement-type programs, the defined benefit pensions and retirement programs vis-à-vis medical, continue to create a huge responsibility relative to the municipality and that has to be addressed. It has to be addressed in Chicago. It has to be addressed in Illinois. And obviously, it's more of a political not an economic problem and therefore it's got to be solved through that process. We can only take comfort in the things that we see. Number one, the majority of our Chicago exposures are to individual entities, and not specifically related to the general obligations of the city.

Number two, as we looked at Stockton, Harrisburg and Jefferson County, and Stockton probably the best case relative to pension obligations, there is a way forward, there is a way to work through these things. The nice thing is these are long-term problems and therefore have the ability to be addressed if you have rational minds sitting at the table that are looking to create a solution. So we are more bullish on Chicago economically. Obviously, a very big concern relative to pension obligations, and we think that's part of the problem that exists not only there but in other places. And we believe that those things ultimately get solved.

Larry Vitale

I hope you're right. Thanks.

Operator

This will conclude our question-and-answer session. I would like to turn the conference back over to management for any closing remarks.

Robert S. 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

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