Assured Guaranty Ltd. (AGO)
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Fourth Quarter 2022 Earnings Call

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Thank you operator. And thank you all for joining Assured Guaranty for our Fourth Quarter and year end 2022 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. 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 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.

Assured Guaranty performed exceptionally well in a very volatile 2022.

- Our U.S. public finance, international infrastructure finance and global structured finance financial guaranty businesses combined to produce $375 million of total PVP in 2022, the fifth consecutive year in which new business production generated more than $350 million of PVP.

- We continued to lead the U.S. municipal bond insurance industry, with our share of new-issue insured par sold nearly equal to the previous year's record share of 60%.

- Our 364 trades in the secondary U.S. municipal bond market produced $3.3 billion of par insured, up 650% year-over-year and a par amount not seen in over a decade.

- During the year, we brought key measures of shareholder value per share to new year-end highs, even though shareholders' equity per share declined 8% to $85.80 due to unrealized losses in the investment portfolio. Topping the previous records set in 2021, adjusted operating shareholders' equity per share increased 6% to $93.92, and adjusted book value per share rose 9% to $141.98.

- We returned a total of $567 million to shareholders in share repurchases and dividends, which Rob will say more about. The share repurchases represented nearly 13% of our year-end 2021 shares outstanding.

- In addition, last week we declared a quarterly dividend of $0.28 per common share, which represents an increase of over 12% our previous quarterly dividend of $0.25 per common share and the twelfth consecutive year that our dividend has been increased.

- We reached settlement agreements for our exposures to the Commonwealth of Puerto Rico and to all but one of the defaulted Puerto Rico entities in our insured portfolio, which when combined with our normal Puerto Rico amortization, eliminated $2.2 billion of below-investment-grade net insured par outstanding. We also sold, or were paid off on, a portion of the securities we received in the settlements.

Our markets and the economic environment presented a new set of challenges during 2022, a year marked by inflation, rising interest rates, volatile financial and currency markets, uncertain economic trends and geopolitical stress. For example, the rapid rise of interest rates led to unrealized losses in our fixed income investment portfolio. It also caused refundings in the U.S. municipal market to decrease significantly, which is an

important reason that volume declined in both the overall primary market and its insured portion. For our non-U.S. business, the rapid strengthening of the U.S. dollar versus foreign currencies, especially U.K. pound sterling, reduced the dollar value of deferred premium revenue from foreign-denominated exposures, the earnings from amortization of those premiums, and the amount of PVP we could record in dollars for a given amount of new international business.

In the face of such headwinds, our $375 million of PVP was an impressive result, and it was well diversified across our public finance and structured finance markets.

Issuance of U.S. municipal bonds totaled $360 billion in 2022, down 21% from a record par amount of $457 billion in 2021. Refunding activity was particularly impacted by higher rates. Nevertheless, the bond insurance industry's penetration rate for the year reached 8% for the second consecutive year, which is well above pre-pandemic levels and indicates that investors and issuers who saw first-hand the value of bond insurance during the COVID crisis continue to see its benefits in an unpredictable world. It is encouraging then that, in the fourth quarter of 2022, bond insurance penetration reached 8.7%, the industry's highest fourth quarter penetration rate since 2008 and the third highest penetration rate of all quarters since 2009.

Assured Guaranty's production was the leading force behind the industry's performance in 2022, as we insured nearly 60% of new-issue insured par sold. We achieved a 70% market share for the fourth quarter of 2022. Additionally, as investors turned to the secondary market to make up for the comparative lack of new issue supply, the secondary market par we insured was 650% higher than in 2021. As interest rates surged upward and bond prices fell, our secondary market insurance was useful for investors seeking market liquidity and portfolio management flexibility. In the combined primary and secondary markets, we sold insurance on municipal par of $20 billion. Our combined U.S. public finance PVP totaled $257 million.

Our 2022 transactions included the Bond Buyer's Health Care Financing Deal of the Year, in which we insured both tax-exempt and taxable hospital revenue bonds issued for the University of Louisville Health. We insured $272 million, or about two-thirds of par issued in this transaction, whose proceeds are financing two major strategic projects.

This healthcare issue was one of the 31 issues launched in 2022 in which we insured at least $100 million of par. In one example, we insured all $608 million of tax-exempt Green Transmission Project Revenue Bonds that the Power Authority of the State of New York issued to support construction and improvement of transmission projects. In another, we insured $572 million of private activity bonds issued as part of the $1.8 billion public-private partnership (P3) financing to support the Pennsylvania Department of Transportation's rehabilitation, reconstruction and improvement of aging bridges.

As increased federal spending provides impetus for large-scale infrastructure projects, this sector should present important opportunities for Assured Guaranty. We can bring not only our guaranty of timely principal and interest payments but also our financial strength and capacity to insure large project financings, as well as our years of experience underwriting infrastructure credits, including public-private partnerships.

Moreover, we continued to add value on credits with underlying ratings in the double-A category from one or both of S&P and Moody's, insuring 121 such double-A transactions, up from 109 last year, and totaling $2.7 billion of insured par.

Outside the United States, our public finance business has become a consistent performer, producing more than $60 million of PVP for six years in a row. In 2022, we wrote $68 million of PVP in this business, and that is after the negative impacts of converting foreign currencies to U.S. dollars. Among our notable accomplishments within non-US public finance were large secondary market transactions related to U.K. regulated utilities and a major airport. The pipeline of highly likely deals could lead to a strong first half of 2023. Our Paris subsidiary, which we opened in 2020 to serve Continental Europe more effectively, further grew its business originations in 2022.

In global structured finance, we wrote $50 million in PVP, which makes 2022 our second most productive year for direct structured finance activity since 2012. Providing institutions like banks and insurance companies tools to syndicate risk and optimize capital utilization continues to be an important focus for Assured Guaranty. During the year, we closed transactions in several sectors including insurance risk transfer, commercial real estate, CLOs and whole business securitization. Also during the year, we made further inroads into subscription finance, where we work with banks to help them provide credit to private equity style funds collateralized by investors' funding commitments.

Also during 2022, we further strengthened our high-quality, well-diversified insurance portfolio, and 2022 will be remembered as the year we finalized settlement agreements on our exposures to the bonds of the Commonwealth of Puerto Rico, its Public Buildings Authority, its Highways and Transportation Authority and certain of its other public corporations. Although the settlement terms varied by credit, overall we were compensated in the settlements with a mix of cash and securities, including some contingent value instruments that have upside potential based on the performance of the Puerto Rico economy. We have sold some of the securities we received and continue to do so as the market opportunities arise. Our last remaining unsettled defaulted Puerto Rico Exposure is the electric power authority PREPA, which we believe could be resolved this year.

Primarily as a result of substantially resolving our Puerto Rico par exposure, including $2 billion from the settlements plus $200 million from normal amortization, we have reduced the below-investment-grade portion of our net par outstanding to just 2.5%, the lowest level since we acquired AGM in 2009.

The rating agencies looked positively on our reduced exposure to Puerto Rico. Both S&P Global Ratings and Kroll Bond Rating Agency cited it in their affirmations during 2022 of our AA ratings at S&P and AA+ ratings at KBRA, both with stable outlooks.

In our asset management business, we are currently exploring strategic alternatives for this business to maximize value for our stakeholders. We are committed to our strategic

objective for this business and to investing in alternative investments and are seeking alternative accretive strategies to grow asset management-related earnings.

AssuredIM ended 2022 with $17.5 billion of assets under management, which was essentially flat to that of 2021. Third-party gross inflows were $1.4 billion and, as was typical for many asset managers, we were impacted by the challenging global economy and financial markets and the widening of CLO spreads following the invasion of the Ukraine, as well as the runoff of our legacy funds and certain other limitations during the year.

It is important to keep in mind that since acquiring AssuredIM just three years ago, we have made important and successful course corrections to its business strategies. We increased the fee-earning AUM of AssuredIM funds to $16.8 billion as of December 31, 2022 from only $8.0 billion on December 31, 2019. Additionally, in the wind-down funds, since the acquisition date, we reduced AUM from $5.5 billion to $182 million at year-end 2022.

In our view, 2022 was a remarkable year:

- We saw interest rates rise from a prolonged period of historic lows to a more traditionally normal – we believe sustainable – levels, giving us the potential to offer issuers even greater savings than we have in recent years, while originating more PVP.

- It became clear that the increased penetration of municipal bond insurance that began with the onset of COVID has been sustained, even with lower issuance. We believe this indicates more widespread understanding of our value proposition, which will support increasing demand for our product in a world economic stage showing no signs of becoming more stable.

- The United States began to experience the impact of the bipartisan infrastructure act. It incentivizes municipalities to complement federal funding with their own investments, typically funded with bonds we can potentially insure, and it encourages public-private partnership financings, where we can add great value through our infrastructure finance experience, analytical and due diligence capabilities and financial strength.

- The success of our secondary market municipal bond business exemplified the growing awareness of the value and versatility of our bond insurance in volatile market conditions.

- Perhaps most importantly, we resolved most of our Puerto Rico exposure, demonstrating again the effectiveness of our loss mitigation strategies, our determination to act in the best interests of our stakeholders, our commitment to responsible engagement with our insured obligors, and the resilience of our business model.

As we enter 2023, we are off to a solid start in new business production. Looking forward, we are well positioned for growth in the years ahead, because we will do what we have always done – protect insured investors and shareholders through disciplined underwriting and risk management, produce savings and broaden opportunities for issuers, expand our markets, and actively and prudently manage our capital.

I will now turn the call over to Rob.

Robert Bailenson
Chief Financial Officer

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

Before I review this year's results, let me start by highlighting our achievements against our long-term strategic initiatives. In 2022:

- We had strong PVP of $375 million across all business lines, despite reduced primary market public finance issuance. This year's new business production adds to our deferred premium revenue, and substantially offsets scheduled amortization and refundings.

- The 2022 Puerto Rico Resolutions extinguished all but one of the defaulting Puerto Rico exposures and reduced total below-investment-grade par to only 2.5% of total net par outstanding – the lowest level since 2009. As part of the settlements with Puerto Rico, we received a combination of cash, recovery bonds and contingent value instruments. As of today, we have reduced our exposure to these securities by almost 60%, through sales or pay-downs.

- Also in 2022, we retired 8.8 million common shares, or 13% of the shares outstanding at the beginning of the year, which helped to boost adjusted book value to a new record of almost $142 per share. Share repurchases represented a $503 million return of capital to shareholders which is in addition to $64 million of declared dividends. For 2023, the Board approved an increase in the quarterly dividend rate to $.28 per share, up from $.25 per share in 2022.

- And finally, our asset management business maintained steady AUM of $17.5 billion – 96% of which is fee earning business. We look forward to pursuing accretive growth strategies in this business to increase net asset management-related earnings.

Turning to our annual results, on a full year basis, I am pleased to report 2022 adjusted operating income of $267 million, or $4.14 per share, which compares with $470 million, or $6.32 per share in 2021.

The insurance segment, which had adjusted operating income of $413 million in 2022, compared with $722 million in 2021, is the largest component of adjusted operating

income. The primary drivers of the year-over-year variance came from loss expense, and alternative investments.

Loss expense, which is a function of both economic development and amortization of deferred premium revenue, was $12 million in 2022, compared with a $221 million benefit in 2021. 2022 loss expense consisted mainly of public finance expense of $128 million, partially offset by a benefit in U.S. RMBS of $120 million.

Net economic development for 2022 was a benefit of $125 million primarily consisting of a $17 million loss for public finance transactions and a $143 million benefit for U.S. RMBS transactions as we continued to see improved performance, higher recoveries related to charge off loans, benefits from loss mitigation efforts, and the economic benefit associated with higher discount rates.

The difference between loss expense and net economic development for public finance transactions is mainly attributable to the acceleration of deferred premium revenue on extinguished Puerto Rico transactions.

Across all sectors, the impact of rising discount rates resulted in a benefit of $115 million in 2022.

The benefit of $221 million in last year's loss expense mainly consisted of a $155 million benefit for public finance transactions, which reflected the increased certainty of the outcome of 2022 Puerto Rico Resolutions, and an $84 million benefit for U.S. RMBS transactions.

With respect to Puerto Rico aside from PREPA, for which negotiations continue, there are no other unresolved defaulting Puerto Rico exposures in our insured portfolio. Our remaining insured net par exposure to HTA and GOs represents amounts owed to bondholders who did not receive accelerated debt service payments.

The other main driver of the year-over-year variance in the insurance segment adjusted operating income is the mark-to-market on alternative investments which was a loss of $51 million in 2022, compared with a gain of $144 million in 2021. These types of alternative investments result in more volatility in periodic income compared to our fixed-maturity investment portfolio, but on a cumulative basis, AssuredIM funds have pretax gains of $110 million from inception through December 31, 2022, representing a 9.4% annualized return. We remain committed to alternative investment strategies, where we expect returns in excess of those generated by the fixed maturity investment portfolio.

Net earned premiums in the insurance segment increased 16% to $508 million in 2022, from $438 million in 2021. This includes accelerations due to refundings of $181 million in 2022, of which $133 million related to the extinguishment of certain Puerto Rico exposures, compared to $66 million in total refundings in 2021.

In the asset management segment, results improved year-over-year, with adjusted operating loss of $6 million in 2022, compared with adjusted operating loss of $19 million in 2021, as increasing fees from opportunity fund strategies that were initiated after our

acquisition of BlueMountain, outpaced lower fees from reduced AUM in the wind-down funds.

The corporate division adjusted operating loss was relatively consistent year-over-year, excluding the $138 million after-tax extinguishment of debt in 2021 that did not recur in 2022.

The effective tax rate on adjusted operating income was 9.2% in 2022 compared with 13.2% in 2021 and is a function of taxable income across jurisdictions and varies from period to period.

I also wanted to mention that the relative strength of the U.S. dollar against the British pound and Euro did not have a material effect on adjusted operating income. However, the movements in foreign exchange rates in 2022 did have a material effect on GAAP net income. These FX gains and losses also affect all of our non-GAAP book value metrics.

In terms of our capital management objectives, we repurchased 1.7 million shares for $100 million in the fourth quarter of 2022, bringing full year 2022 repurchases to $503 million at an average price of $56.79 per share. We were able to accomplish last year's share repurchase goal without a special dividend as a result of several other internal capital management initiatives we had undertaken in recent years.

Since the beginning of our repurchase program in 2013, we have returned $4.7 billion to shareholders under this program, resulting in a 73% reduction in our total shares outstanding.

As of now, the remaining authorization to repurchase shares is $201 million. The timing of share repurchases depends on the timing of dividend availability from the insurance subsidiaries, as well as assessments of other accretive strategic growth initiatives that may require holding company liquidity. This year, the dividend capacity of the insurance subsidiaries is weighted towards the second half of the year.

From a liquidity standpoint, the holding companies currently have cash and investments of approximately $121 million, of which $32 million resides in AGL. These funds are available for liquidity needs, or for use in the pursuit of our strategic initiatives to either expand our business or repurchase shares to manage our capital.

Continued share repurchases, along with our positive adjusted operating income, new business production, and favorable loss development have increased adjusted operating shareholders' equity per share and adjusted book value per share to new records of almost $94 and $142, respectively. While operating results vary from period to period, the consistent quarterly increases in these book value metrics reflect how the successful execution of our key strategic initiatives build shareholder value over the long term.

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

QUESTION & ANSWER SESSION

Operator
[Operator Instructions]
Our first question comes from Geoffrey Dunn from Dowling & Partners. Geoffrey, please go ahead.

Geoffrey Dunn, *Dowling & Partners*
Thanks. Good morning.

Dominic Frederico
Good morning, Geoff.

Geoffrey Dunn
Dominic, with respect to the asset management business, obviously, we've had market volatility that you can't project and interest rates. But I'm curious how this has evolved relative to your original expectations. And given where we are with respect to still not turning a profit, did you guys underestimate the importance of scale in this business or is this kind of progressing as you thought and you always were planning additional strategic initiatives to improve the growth here?

Dominic Frederico
Well, I'll answer that in two ways. I won't sit here and say, it's exactly as we thought because obviously, that's not quite the case. However, we do appreciate from the beginning that it's a scale business. And then we talked in our commentary, we continue to look at alternatives and how we can further develop scale and profitability.

As you see, we've narrowed the loss and with the -- added the returns that we've been able to create on the asset management -- on the portfolio side, we still think it's net-net positive to the organization. But like I said, we're not done. So as we continue to develop that business, get more scale and profitability, we continue to think this is a great strategic diversification for the company and a great opportunity to grow significantly non-financial guarantee earnings, which, of course, are really subject to very strong market conditions.

This is kind of a hedge against those market conditions because when the market is the most volatile, the Asset Management business typically does better. So we're thinking of it as revenue that's not risk related, revenue that we can build on. And we appreciate the scale business, so we continue to look at opportunities to increase that scale, and we're very confident in what the results we're going to achieve and how it fits into our strategic plan.

Geoffrey Dunn
Okay. And then as you think about capital management, you've had a $500 million target for buyback year in, year out for several years. And Rob, I did hear your comment about the dividend capacity, et cetera. But is that still a target as you think about '23, '24? And how do you weigh hitting that target against investments in additional asset management resources?

Dominic Frederico
Well, see that's a good question of the day, right? So we consider what is the most accretive transactions we can do. And historically, where the stock was very, very low, obviously, buyback of stock was the most accretive transaction we can execute at the time. As we look today, we're evaluating other alternatives that have even a better accretion to the company, and we'd like to start going into a growth mode instead of a continued wind-down mode, and we see the opportunities to accelerate and to capitalize on that.

So we weigh each of the alternatives each time we look at the buyback. The capital management is still a strong part of our strategic objectives. Obviously, this year, our dividend capacity is back-end loaded. So therefore, you're going to see more activity in the latter half of the year than the prior -- in the beginning part of the year.

And if you think back, Geoff, if you go back three years, we've had unique, what I'll call, episodic transaction that really supported the buyback capability, the debt we took on, the collapsing of MAC, starting of the French subsidiary and the dividend capacity that created. So we've had episodic events that allowed us to continue to get to the targeted number without a special dividend.

As you look at this year and say, okay, even if I look at operating dividend capacity, I'm going to still need a special dividend somewhere along the line. And we think that's really relevant and possible this year because a couple of things happened. One we think Puerto Rico by and large will be put to bed, and therefore, that will give the regulator a real pause for relief. Finally, that's not an issue for the company. Even though it's never been an economic issue, yet the headline risk is there.

Two, we've got our five-year audit being completed which will also clear the decks, and we've had very positive audit results in the past. I expect another positive audit this year. When we clear those two things, I think then it gives us a real opportunity to go back to the regulator to start to move positively for the issues of special dividends, which would enhance buyback capabilities.

Geoffrey Dunn
Okay. And then, just last question. In terms of how you think about accretion, obviously, you get the immediate benefit from buyback, whereas if we say you acquire an Asset Management platform that can play out over several years. I mean, how do you balance the two where you may get a better boost to the economic value creation over several years from an asset management investment versus buyback?

Dominic Frederico
Okay. Without tipping too much of a hand here, we're looking at opportunities that we will have a lot quicker accretion opportunity, a lot quicker accretion effect on the organization. So we do actually look at both. Obviously, one builds a longer-term business, but we're still saying I still need results in the short term. This is not an invest and watch it root -- come into fruition in five years. I'm a more immediate guide these days. So we're going to have more immediate impacts of the things that we do.

Geoffrey Dunn
All right. Thanks.

Dominic Frederico
Thanks, Geoff.

Operator
Thank you. Our next question comes from Brian Meredith from UBS. Brian, please go ahead.

Brian Meredith, *UBS*
Yeah. Thanks. So just a couple of quick ones here. First one, just following on the capital management question. Rob, I think I get my math about $240 million of kind of capacity that you'd have for share buyback this year, if you just take the dividends without special, less holding company kind of obligations. I'm not sure if that's right. So is that about the number you're thinking about that you've got the capacity for? And then do you need to have PREPA resolved, do you think to get the special dividend? Is that a kind of a requirement do you think?

Dominic Frederico
I'll answer the latter half for Rob. So I don’t think, we need PREPA resolve -- a resolution to get a special dividend request to the state. I think if you go back in time, we had special dividends in '16, '17, '18 and '19. All those are right in the heart of the Puerto Rico situation when we had right $5.8 billion of outstanding. So I think with just PREPA left on the schedule, and of course, our track record for being adequately reserved speaks for itself, I don't think that's an issue to be very honest with you, Brian. I think the audit is more an issue for us today, just to clear that deck.

Brian Meredith
Perfect.

Robert Bailenson
And Brian, if you look at our equity presentation on Page 11, you could see that our dividend limitation for AGM and AGC is about $311 million if you -- without having a special dividend. And if you look at the holding company obligations, which would be expenses plus dividends about $194 million. So that gives us roughly $120 million something of available to buy back stock without other transactions that we can generate internally. We are looking at dividend money back from the UK. That's something that we're looking to do based upon their capital management policy as well. So these are all things that we're looking to achieve this year to enhance that dividend capacity.

Brian Meredith
Got you. I was assuming you did that to...

Dominic Frederico
Yeah, exactly. If you look at the entire organization...

Robert Bailenson
Well, AG Re, if look at AG Re, you see it's at zero on that page and that's because it still has no dividend capacity because the surplus is negative effectively. But its capital, you can actually ask the regulator for 25% of its capital with permission. However, you also have to look at its unencumbered assets as well at AG Re.

Dominic Frederico
Brian, I don't lose sight of the fact that we did take outstanding shares from 194 million down to 59 million. So you're like little children that want more for your allowance. We've given you a pretty good allowance over these last couple of years. So your allowance might be a little bit reduced. But at the end of the day, you look at the success and the track record.

Robert Bailenson
That's perfect.

Brian Meredith
Okay. Excellent. And then, Rob, I think you kind of walked through it pretty well, but maybe just a little bit more on the loss in the quarter in the Insurance segment. What was the rationale behind having to increase reserves related to Puerto Rico exposures?

Robert Bailenson
Well, the -- what was the rationale? The rationale was we look at all information that happens within the quarter, what's public. And you then evaluate your scenarios and you see if you have to change your weights on those scenarios or add additional scenarios. And obviously, there was an announcement where another -- one of our competitors or one of our -- where another financial guarantor entered into an agreement with Puerto Rico and we evaluated that agreement, and we adjusted our scenarios accordingly.

Dominic Frederico
Remember, Brian, that's GAAP, right? At the end of the day, if you asked me, what my feelings are, my feelings are fairly positive on where we're going to get to on PREPA, especially with the current hearings going on relative to non-recourse and the lien, I think the arguments there are pretty strong.

I don't think Judge Swain wants to reverse the entire history of municipal revenue bonds. So I'm confident or at least somewhat confident that we're going to have a pretty good hearing relative to the confirmation of the plan relative to those two issues, and that could turn this thing on a dime as you can well appreciate.

So our reserves are what we have to do relative to GAAP. We're expecting public information that's out there, which was the MBIA settlement. And at the end of the day, that has become one of the factors included in our conditional analysis of possible scenarios and therefore, it gets the waiting and therefore, you get a reserve.

Brian Meredith
Makes sense. Thanks. And then last question, just curious, if we think about the kind of macroeconomic outlook this year, it looks like there's a chance of recession. How does that necessarily play into your business profile as you look forward? Should we see a slowdown potentially in PVP if that happens? Does it matter? How should we think about that?

Dominic Frederico
Well, as I'm getting older and older and older and longer in the tooth here, at the end of the day, I think I've suffered three recessions over my tenure. So each of them have not had a material impact on the company. The only thing that really concerns us is really the market volume for municipal bonds. Obviously, since we're such a large municipal bond insured player, the activity in that space, obviously has a direct effect.

But even last year, with volumes down 20%, we still had a solid positive growth in PVP, and we still continue to see those opportunities. And as we are still a diversified platform of structured finance and international, as we talked a little bit on the call, the start in the first quarter, we didn't give you a number, but there is a significant start in 2023 for those two businesses. So we're, a, optimistic that rates will stay higher and longer, which gets us more premium dollars.

As you know, we get paid on debt service. Two, it creates more opportunity to save issuers money, so there'll be more searching for insurance. Volume might be down, but we think we can compensate for that for the higher premium and then the two diversified markets of international infrastructure and international public finance that really then supports the overall organization.

So we're still looking at our goal of continuing to grow the public finance and the overall financial guarantee business. And at the same time, as we talked about, we'll get accretive opportunities to grow volume and size and capacity in the Asset Management business as well.

Brian Meredith
Great. It's helpful. Thank you.

Dominic Frederico
Thanks, Brian.

Robert Bailenson
Thank you.

Operator
Thank you. Our next question comes from Tommy McJoynt from KBW. Tommy, please go ahead.

Tommy McJoynt, *KBW*
Hey. Good morning, guys. Thanks for taking my questions.

Dominic Frederico
Good morning, Tom.

Tommy McJoynt
Going back a bit on the capital side. It's obviously very formulaic on regular dividend capacity but when we think about the special dividend, it's obviously by nature not formulaic. But what are the factors that get weighed when you think about kind of the size of a potential dividend or special dividend as you have those conversations with regulators?

Dominic Frederico
Well, as we've always said, we've got good relationships with our regulators. Why? Because we've done basically everything right. We've never caused them with [indiscernible] of concern. We want to make sure any request for special dividend does the exact same thing. So you say reach for the stars, but I don't want the regulator to sit there and say, well, that's aggressive, right?

So we want to keep managing it on a very systematic, periodic basis of how we look at capital management, but also now as we look at growth opportunities. So I think we'll be measured in our approach. Obviously, we appreciate the regulator has a job to do, and we want to make sure we fit within those spectrums that they've established. I think we've been a good soldier in that regard, and we will continue to do that.

So as we look to 2023, obviously, this is the year we think that it's back to get an opportunity to look at special dividends because of all the issues we've talked about, Puerto Rico, the audit, et cetera., but we'll be measured in our approach. We like to look at this thing over a long-term basis. It's not a short term. We're not looking for instant gratification. We're looking for the long-term buildup of value for both shareholders and new business opportunities.

Tommy McJoynt
And do you have a time point for when you think the five-year audit is going to be completed?

Robert Bailenson
Yes, I believe it should be completed by the end of the summer.

Tommy McJoynt
Okay. And so just based on your comments about the dividend capacity being weighted to the second half of the year, is that to mean that buybacks will be -- remain close to pause, close to zero for the first half of the year or just kind of a scale-down version?

Dominic Frederico
We'll be back-end loaded, as we said.

Tommy McJoynt
Okay. And then my last question, you guys in the past have given that kind of estimate for the capital in excess of what would be needed for a AAA rating from S&P. Have you guys run the numbers on what it looks like as of year-end '22?

Dominic Frederico
Of course, we ran the numbers. It's $1.8 billion for year-end 2022.

Tommy McJoynt
So flat year-over-year, got it. Thanks, guys.

Dominic Frederico
You're welcome.

Operator
Thank you. Our final question comes from Giuliano Bologna from Compass Point. Giuliano, please go ahead.

Giuliano Bologna, *Compass Point*
Good morning. One of the questions I was curious about -- digging into a little bit was I think muni par issuance was the lowest on a dollar basis since 1Q of '18, if I'm not mistaken. But you guys were obviously able to dial up your gross par written. I'm curious, if you think about the market on a go-forward basis, how large could the opportunity be assuming the rates remain elevated and there's opportunities for that business? I'm curious how much would you grow that? And then what could that mean from kind of a capital deployment perspective?

Dominic Frederico
Well, I think the opportunity is significant. Remember, I think for us, it's more about rates than it is about volume because we can still make up volume in the other areas like secondary markets and the international and the infrastructure businesses that allow us or structure finance businesses that allows write other businesses in this kind of marketplace. So we're very optimistic because of rates predominantly, and of course, spreads tend to come with rates, so that helps.

We're also looking at the fact that if you look at penetration rates, and I always look at this every year, our penetration rates for the BBB and the A insurers are significant. On a transactional basis, it's over like 70% or like the BBB and I think it's well over 50% for the single As. So that market gets thick as rates go up as well. So that gives us even more opportunity.

So although volume could be down substantially, I still think we're going to see opportunity because of where the rates are and who the borrowers are going to be. The nice thing about municipal finance is, you can't really shut it off. It's a spigot that's got to run, right? The municipalities need to finance themselves. And they can hold them off for a period of time as they're concerned about rate volatility or the ability to access the market, but over the long haul, there is a given level of volume that's got to come to the market, and that's where the opportunity is.

So for us, as long as rates stay high, and it appears that rates are going to stay higher for longer, which is great for us. I think the market opportunity then presents itself for a very strong continued premium growth.

Giuliano Bologna
That's great. And then thinking – this may be jumping ahead. In terms of dividend capacity for this year. But I'm curious around AGUS, if there's any funds to be in on some of the income and how that kind of counts towards your investment income on this year, which will flow into '24 dividend capacity if that would be a benefit to kind of keep things moving.

Dominic Frederico
Yeah. We've got other strategic objectives that we need to meet, so I would hold off on that. Obviously, income is income for us. No matter where it arises from and whether we can get the ability to move the cash around. It's more important that we look at AGUS holdings as the cash opportunity to get to the AGL holding company, and that's going to be based on management fees and profitability in the Asset Management business.

Remember, some of the assets in AGUS are kind of illiquid. They're going to be sucking funds for a little bit of period of time. So the ability to actually create cash out of that versus earnings. Right now, we look at it as an earnings play, cash will materialize as you start to sell some of those assets when they come to maturity within the funds. That's a longer period of time.

Giuliano Bologna
That's great. I appreciate it. Thank you very much and I'll jump back to the queue.

Dominic Frederico
You're welcome. Thank you.

Operator
Thank you. 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.