Assured Guaranty Ltd. (AGO)
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First Quarter 2018 Earnings Call

Robert Tucker
Senior Managing Director, Investor Relations and Corporate Communications

Thank you operator. And thank you all for joining Assured Guaranty for our 2018 first quarter financial results conference call.

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

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

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

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

Please refer to the Investor Information section of our website for our most recent presentations, 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 the reconciliations 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 had a successful first quarter in 2018. Measures of Assured Guaranty's value per share again reached record levels, including those for shareholders' equity, non-GAAP operating shareholders' equity, and non-GAAP adjusted book value. Non-GAAP operating income was a solid $155 million. Rob will provide more detail on this quarter's results later in the call.

Turning to production, the expected decline in overall U.S. municipal issuance materialized, with par volume declining 29% compared with market volume in the first quarter of last year. One cause of the reduction in issuance was a dramatic decline in refundings, due in part to last year's tax reform, which significantly impacts advance tax-exempt refundings.

Insured market volume, exhibiting similar results to the overall market, also declined about 30%, with Assured Guaranty still capturing the lion's share of bond insurance, guaranteeing 62% of insured par sold.

In the quarter we once again benefited from institutional investors' continued preference for Assured Guaranty insurance on larger transactions, as we were selected on ten different transactions to insure more than $50 million of par, including three where we insured more than $100 million of par.

Combining our primary and secondary market business, U.S. public finance par sold with our insurance exceeded $2.4 billion, and if not for one large, structured infrastructure financing in the first quarter of 2017, our first quarter 2018 PVP would have equaled the comparable result in last year's first quarter, despite a significant decline in our 2018 par insured. This reflects

our firm's pricing discipline in a market where issuance was low and price competition was aggressive.

Looking ahead, the Federal Reserve has indicated multiple fed fund rate increases this year and next, which should create more opportunities for us to add value to the obligations we insure. We believe issuers will have more incentive to use insurance to save on borrowing costs, not only because yields are higher, but also because credit spreads are likely to widen. Because our premium is based on total debt service, increases in rates should also result not only in greater demand, but in greater premium revenue as well.

Our international infrastructure business also performed well in the first quarter and has now produced PVP in ten consecutive quarters. This is impressive given the long gestation period for many transactions in this market. We believe it indicates growing interest in using our guaranty to enhance capital market access, reduce financing costs and transfer risk to meet regulatory capital requirements efficiently. During the quarter, we executed U.K. P3 and utility transactions in both the primary and secondary markets.

We also took an additional step that should help expand our infrastructure finance business. We acquired a minority interest in Rubicon Infrastructure Advisors, a full-service investment banking firm active in the global infrastructure sector. Rubicon has advised on over 70 mergers, acquisitions and capital raising assignments worth more than $30 billion over the past five years. We look forward to working with Rubicon to expand both of our companies' opportunities in global infrastructure finance. The transaction perfectly fits our alternative investment strategy – to diversify our revenue sources by investing in carefully selected, non-financial-guaranty businesses that operate in markets we understand and have risk profiles like our own.

In structured finance, where transaction flow fluctuates from quarter to quarter, we expect to close primary and secondary market transactions this year in a variety of sectors, including aviation, financial institutions and whole business securitizations. Already in the second quarter, we have provided $139 million of residual value insurance on three aircraft transactions.

Our persistent loss mitigation activities continued to show good results in the first quarter. In terms of loss development in U.S. public finance, we saw an

economic benefit, primarily because the State of Connecticut and its capital city, Hartford, reached an agreement for the state to backstop Hartford's bond obligations. We worked with various legislative and governmental officials to help develop possible solutions and urged both state and city public officials to agree on a solution that kept Hartford out of bankruptcy, protected the city's access to the capital market and prevented statewide contagion that would have lowered the perceived credit quality and raised the cost of borrowing for many Connecticut municipalities.

In thinking about our loss reserves, we have a very rigorous process and follow accounting standards that require us to establish loss reserves based on probability-weighted scenario analyses. Depending on the size and nature of the exposure and the potential loss amount, we run the scenario models using either transaction-specific facts and inputs or macro-based inputs applied to each specific transaction. Currently, our transaction-specific loss scenario models generate 98% of our loss reserves. In Puerto Rico, for example, we model separate, transaction-specific scenarios for the Commonwealth and our individual public corporation exposures.

Speaking of Puerto Rico, the federal government has made billions in disaster relief funds available to the island, which will have a stimulating effect on the economy, as will property insurance proceeds to pay for damages sustained in the hurricane.

Additionally, earlier this month, the Oversight Board certified fiscal plans for the Commonwealth and a number of the public corporations. According to the recently certified fiscal plan, the Commonwealth's annual general fund revenue averages $8.4 billion over the next six years. Over the same period, the territory's estimated annual general obligation and Commonwealth-guaranteed debt service averages less than $1.4 billion, which indicates there are funds both for essential public services, which still need to be defined by the Puerto Rico government, and for the constitutionally guaranteed debt repayment. This demonstrates there should be an opportunity for a consensual settlement of the Commonwealth's debt should the Commonwealth desire such an outcome.

Through multiple iterations of the Commonwealth fiscal plan, the operating deficits found in the earlier versions have been eliminated, and a $6.7 billion general fund surplus is shown in the most recent certified plan before any funding for debt service. And this is probably a low estimate, as it reflects,

for example, six years of Medicaid expenses but only approximately two-and-a-half years of federal Medicaid funding. Also, by not distinguishing between essential and non-essential services, the plan assumes all expenses are senior in payment priority to any constitutionally protected bond indebtedness, including $1.5 billion in the plan for litigation and related expenses that could be avoided by working cooperatively with creditors and other stakeholders to reach a consensual settlement.

This treatment of Commonwealth debt also violates PROMESA, which requires that fiscal plans respect the contractual liens and constitutional debt payment priorities established under the Puerto Rican law prior to the enactment of PROMESA.

In a letter to the Oversight Board before the fiscal plan certification, Congressman Rob Bishop, the chairman of the House Natural Resources Committee, noted that the Oversight Board was misapplying PROMESA and undermining Congress's intent in enacting the PROMESA law. He criticized the Oversight Board for losing sight of their specific mandates to restore fiscal responsibility and capital market access. He also reiterated his frustration with the Oversight Board's lack of creditor engagement and its inability or unwillingness to reach consensual settlements, which PROMESA was explicitly written to encourage. And he expressed concern over increases in government expenses while the Commonwealth projects a population decline and claims to have inadequate financial resources for debt repayments. The Oversight Board has so far appeared to ignore these concerns. We think it is also inconceivable that the Oversight Board is approving fiscal plans in the absence of audited Commonwealth financials, which have not been produced since fiscal 2014. Without audited financial statements, how could the Oversight Board determine that the financial integrity of systems and accounting processes used to develop the underlying information and assumptions were adequate prior to certifying the plans?

We believe that Puerto Rico's recovery can succeed only with consensual settlements that honor the rule of law, make possible future capital market access and, most importantly, assure a sustainable economic future for the people of Puerto Rico. We remain willing and ready to negotiate settlements that achieve these goals. We have a long-term interest in Puerto Rico's success and can assist, as we have done with other financially distressed municipal issuers in the past, in solutions that address near-term liquidity and

capital market access. For us to do this, the governor and Oversight Board must be willing to engage in meaningful discussions rather than squander Puerto Rico taxpayers' time and money on futile litigation.

Beyond Puerto Rico, we remain confident in the fundamental strength of our core U.S. public finance portfolio. By the way of illustration, over the course of the past 12 months, we have paid claims on only seven transactions, excluding Puerto Rico, out of more than 8,000 insured obligors. And over our entire history, we have insured approximately $850 billion of U.S. municipal bonds and incurred losses of less than $300 million – again, without Puerto Rico. This record of success reflects the value of our legal rights, the importance of capital market access to governmental issuers, the strength of the U.S. municipal market and our ability to add value and avoid material losses over a long period of time.

We continue to prove the strength and resilience of our business model by remaining profitable and sustaining our claims-paying resources while still paying billions in claims during the worst economic conditions in three-quarters of a century and also while repurchasing 44% of our shares outstanding since we began our share repurchase program. Year-to-date, we have repurchased 4.2 million shares at a cost of $151 million and have $197 million remaining in the current buyback authorization.

We now have a smaller amount of exposure than we had ten years ago, with less risk, but similar claims-paying resources and a high-quality, liquid investment portfolio that is producing more than $400 million a year in investment income. We are positioned to continue leading the financial guaranty industry and should be able to write more business as interest rates continue to rise. We are committed to maintaining our financial strength and strong credit ratings to protect our policyholders, as we prudently diversify our revenue sources and thoughtfully right-size our capital to assure appropriate shareholders' returns.

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.

Operating income was $155 million for the first quarter of 2018, compared with $273 million for the first quarter of 2017. First quarter 2017 results were higher primarily due to gains resulting from the execution of two significant transactions: the MBIA UK Acquisition and a commutation of previously ceded business.

We continued to execute on our strategic initiatives in 2018. The reinsurance agreement with Syncora, that we previously announced, is expected to result in recurring earnings over the remaining term of the assumed business, and an immediate benefit to ABV when we close. We have obtained the regulatory approvals required of us, and we understand that Syncora is in the process of obtaining the regulatory and third party approvals it needs for the transaction.

In the first quarter of 2018, net earned premiums were $145 million, compared with $164 million in the first quarter of 2017. The decrease was due primarily to lower scheduled net earned premiums due to the amortization of the insured portfolio, and lower refundings and terminations, which were $52 million in the first quarter of 2018, compared with $58 million in the first quarter of 2017. We expect to see the effects on the amount of refundings, due to the elimination of tax-exempt status for advance-refundings, in the coming quarters.

The impact of tax reform, combined with a release of tax reserves for uncertain tax positions resulting from the closing of an audit year, resulted in an effective tax rate of 9.6% in the first quarter of 2018, compared with 11% in the first quarter of 2017. If not for the MBIA UK non-taxable bargain purchase gain, the effective tax rate for the first quarter of 2017 would have been 13.4%.

Economic loss development during the first quarter of 2018 was a benefit of $24 million, which was primarily attributable to the improved outlook for the Company's Hartford, Connecticut exposure.

The expected loss for this exposure is calculated in the same manner as approximately 98% of our expected losses. As Dominic mentioned, these losses are based on detailed scenario modeling of transaction-specific factors, which incorporates a wide range of economic scenarios.

Also included in economic loss development is a benefit of $6 million due to increases in risk free rates used to discount losses.

During the first quarter of 2018, we repurchased 2.8 million shares for $98 million, at an average price of $35.20 per share. Since the beginning of 2013 and through March 31, 2018, we repurchased a total of 84 million shares. The cumulative impact of these repurchases have contributed approximately $12.83 per share to operating shareholders' equity, and approximately $21.87 to adjusted book value per share. We have continued repurchasing shares since March 31, bringing the current year-to-date share repurchases to $151 million or 4.2 million shares, representing 44% of the outstanding shares at the beginning of 2013.

As of April 30, 2018, we had $487 million in cash and investments available for liquidity needs and capital management activities at the holding companies.

The continued share repurchases have helped to drive non-GAAP operating shareholders' equity per share and adjusted book value per share to new records of $57.97 and $79.45, respectively.

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

Question and Answer

Operator

[Operator Instructions] Today's first question comes from Manal Metha of Sunesis Capital

Manal Metha

I was genuinely perplexed by Einhorn's melting ice cube analogy. So as exposures roll off, can you talk about the impact on organic capital

generation and your excess capital position? So in a period of low interest rates, doesn't it make more sense to reduce your book of business and organically generate capital? And so can you just address that point in Einhorn's presentation?

Dominic Frederico, Chairman, President & CEO

Well, we've seen over the past couple of years the high level of refundings has caused an accelerated amortization of the outstanding portfolio, coupling that with the low-interest rate market that impacts demand for our product. So the two are kind of the perfect storm in running the portfolio down to the lowest leverage we've had in the company's history. However, as we look at today with the rise of interest rates, with the continued increase in demand for the product, with us writing more business year-over-year and typically depending on the quarter-over-quarter, we see that there's going to be a balance, and it's either going to be later this year or sometime in the middle of next year where the portfolio will no longer amortize down because of the refundings washing through as well as the new demand and the increasing interest rates plus other special transactions like the Syncora reinsurance deal. So we expect to see the unearned premium reserve start to build up.

That still puts us in a position where we have to manage our excess capital. And as you know, we've got two strategies there. One, try to utilize the excess capital that's trapped within the operating companies and creating new opportunities from the diversification of our revenue sources; and number two, obviously we continue to manage the overall level of our capital down by repurchasing our shares, especially at the current accretive value that the shares currently represent.

So we see a balance coming. So that ultimately, we start to grow the franchise. We see the market where demand for the insurance product continues to increase and with any help either increasing interest rates that should become a very strong growth environment for us, and I said, we still have opportunities to create additional benefits through transactions like the Syncora reinsurance, and as we've said, the international market has continued to perk up and provide us great opportunities as well to grow the portfolio.

Operator

And our next question today comes from Bose George of KBW.

Bose George, Keefe, Bruyette, & Woods, Inc.

Actually, just in terms of the outlook for refunding activity in the market, does the first quarter number kind of reflect the new normal? Is that kind of the way to think about it?

Robert Bailenson, Chief Financial Officer

The refunded earned premium in the first quarter is not what we expect to continue over the next 3 quarters. We expect to feel the effects of those advanced refundings not being allowed under the new tax reform coming through within the second and third and fourth quarter. So we expect it to actually decrease.

Bose George

So the first quarter have some spillover basically from last year, is that what happened?

Robert Bailenson

I mean, you have to under the GAAP rules, you are required to see that you have contractual defeasance that has occurred. And you must get that support and see that there's been a legal defeasance and that yes, we had to find that support, and there was some holdover from previous year.

Dominic Frederico

Just remember, Bose, 2008 was still a very big underwriting year for the industry and for the insurance in general. So you're still going to get the benefit of that. Where we really expect to see a significant decline is in the out-years when you start looking at the writings in 2009, 2010, 2011 that will be subject to a 10-year call.

Bose George

Okay, great. And then actually just in terms of the new business, what was the market share this quarter?

Dominic Frederico

Overall, industry is in the 6% range for par, a lot higher for transactions. The interesting thing there, remember, and we always point this out because we believe that the market will return to a 50% penetration rate, but before, you say “whoa”, let's qualify that. Remember, we've eliminated about 50% of the market both from the standpoint of us being AA and therefore, providing no value to an AAA issuer as well as us not being in certain businesses like credit default swaps, RMBS securities.

So we really believe we were able to write 50% of the old marketplace, and we still believe penetration in the right interest-rate environment can get to 50%. So 50% of 50% gets you to an overall 25% market penetration. I think S&P put something out similar a couple of years back.

The other thing I'll point out is if you look at just the A-rated issuers, so where our insurers provides the most value today, over 50% of all A-rated transactions buy insurance. So to my view in a normalized interest rate world, that 50%, and we still write AA insurance business for AA issuers as well. So my view is that 50% will carry out into the other areas of BBB and AA to provide us an overall market penetration in that range, knowing that there are certain businesses that we can't write, certain businesses that have too tight capital charges for the rating agencies and our own, so we just can make the proper returns. But that statistic on the A-rated issuers I think is important to show that the value of the business still dictates or still could result in a 50% penetration rate.

Bose George

Great. And then do you just have the breakout for share with you versus BAM this quarter?

Dominic Frederico

I think I said we were 62 on par versus their 38, and there's no other writers in the business.

Operator

And our next question today comes from Joshua Esterov of Credit Sights.

Joshua Esterov

To stay on that question asked just a little bit earlier. Can you discuss how the amortization of the insured portfolio and declining revenues translate on a statutory accounting side and your ability to distribute funds from opco to holdco for the foreseeable future?

Dominic Frederico

Well, remember, as the portfolio amortizes, that we've proven over the past number of years, and if you just look at things like our excess capital for the S&P calculation, that number has grown each year even in spite of the fact of our significant capital return due to share repurchase, meaning the amortization of the portfolio creates excess capital.

As any management team, we have to look at that excess capital position and figure out what are the best uses and sources that we can provide for that excess capital. Obviously, because carrying it around would just impact our ultimate returns. By and large, we’ve paid attention to the capital management, to the share buyback and the return of capital to shareholders. We look for opportunities to diversify in fee-based businesses to get out of the risk-based capital allocation, and we will continue that process.

So the amortization as we said, we think it kind of stops at the end of this year or early next year because of the bounce in the lower level of refundings, which has caused most of the accelerated amortization of the portfolio. It still frees up capital. We still have to find out good sources and uses for that capital, which predominantly has been share buyback at this point in time. And, as I said, for the trapped capital in the operating subsidiaries, we're still looking at opportunities to put that capital to work through our diversification strategy.

Robert Bailenson

And also you asked about how much can be sent up from the insurance companies, that's all limited by investment income for AGM and AGC, and we also disclose how much is available to set up the holding companies from AG REs in our equity supplement.

Joshua Esterov

Thank you very much for the color. I really appreciate it.

Operator

And our next question today comes from Michael Temple, a private investor.

Michael Temple

Good morning, gentleman, and congratulations on a good quarter. Three quick questions. Regarding the difference between book value and unadjusted book value, my understanding is that the difference basically is almost entirely the unearned premiums that you have sitting in the account. Given that you have that money and are just waiting to recognize the revenue at the appropriate times, I wonder if you could speak to why do you think it is the market doesn't give more credit to the solidity, if that's the proper word, of the nature of that unadjusted book of value?

Dominic Frederico

Okay, let me answer that one first? Okay, so if you go back in the history of time, right, prior to the financial crisis, companies in our industry did sell for adjusted book value recognizing exactly that fact.

I think the financial crisis and what had happened to some of our former competitors, kind of shook some of that confidence as well as some of their activities since that point in time. However, we believe that is a good, solid measurement. And remember, as you said the adjusted book value recognizes the unearned premium reserve, which is cash that you're holding anyway. So it is your money. So therefore, the earnings are fairly certain minus taxes that you would pay on that, right? But what it doesn't include is any investment income from that unearned premium reserve, which is also offset by assets on the other side. So we think it's actually a low approximation of the true intrinsic value of the company, and hopefully, if we continue to right the ship, push up demand, get into the penetration levels that we talked about and show growth, remember, we've been managing it in a very no-growth environment. I think once we get to a growth environment, which hopefully we see sometime later this year or next year, right size our capital and do some minor diversification, I think you can start to see valuations approximate that level.

Robert Bailenson

Just also to clarify, the adjusted book value nets out, as Dominic said, taxes but also nets out any embedded losses embedded with that UPR as well as any deferred acquisition costs.

Michael Temple

All right. Thank you for that. Second question, and again, I mean, this more in the spirit of a conversation, not argumentative. Clearly, you've done yeoman's work in capital allocation via the share buyback. As most of us who follow you are quite aware, it's been a compound annual return of capital well in excess of 12%, 13% for the last 4 or 5 years. My question is this: any thought perhaps to perhaps allocating a portion of that roughly $500 million of annual buyback to perhaps just a special actual dividend in the hope or expectation that shareholders might want to have something that has a current yield of actual cash that exceeds the current common stock dividend while perhaps still allowing for accretive buybacks?

Dominic Frederico

We've had this discussion among ourselves for the beginning of time once we began the buyback process or policy, and your point is well made in terms of is there a benefit by doing an acceleration of the buyback or is there a benefit by having a consistent, steady reduction of capital over time? Obviously, the latter is a safer way to proceed because, obviously, it allows you to react to unforeseen circumstances. The former, obviously, provides the more accelerated benefit. Our decision to date, and we still continue to believe that, is the long drawn out $500 million a year is prudent. It's done the right things as we see it relative to both fixed-income investors as well as equity investors. Everyone's been rewarded with the maintenance of our strong ratings as well as the continued appreciation of our stock.

So we believe that's the case and the course that we want to take. Obviously, we do reconsider it at many points in time as you're well aware to get to our $500 million or share buyback annually, we still have to request special dividends from the regulators, which we've done in the last 2 years. And in both years, we've been granted those special dividend requests. So that's our anticipation going forward, and we try to accelerate a larger share buyback, remember, that would force us to then go back to the regulators to

ask for a higher annual special dividend, and we like the comfort level that they have in the company, the confidence they have, kind of under this slow and steady management that we provided for capital. I think it provides them great assurance, and I think that allows us to accomplish the goals that we need to accomplish in the company.

Robert Bailenson

And when we look at share buyback vs. dividend, we actually -- we see where the share price is today, how accretive the transaction is, we still believe share repurchases are much more accretive transactions than one time special dividend. In addition to which, we do look at our dividends -- our dividend increase every year, and we look at that and look at dividend payout ratios with respect to our peer groups, and we make sure that we're in line with that as well.

Michael Temple

So let me just rephrase the question. So if $500 million is the annual pot that you can direct towards share buyback, I guess, the more direct question is have you had or would you consider having conversations with your shareholders, meeting shareholders, might they want to see $100 million or $200 million of that share buyback be diverted to a cash dividend and then the remaining for share buyback, or do you simply believe the market doesn't really want to see a one-time annual special dividend that could boost the physical cash payout back to shareholders perhaps as high as 5%, 7% and the other 7-odd percent goes to share buyback?

Dominic Frederico

Yes. So two things: one, we work for the shareholders. So we listen to our shareholders very closely. We make it a point to go out and visit our largest shareholders and any shareholders that want to see us, we more than welcome them to come in and have a conversation. If we're traveling into their specific city, we'll go see them. So we're very open and transparent organization, and number two, as Rob said, the current stock buyback is the most accretive transaction versus a special dividend. And as I said, we do solicit our shareholders input on what they would rather see: dividend or buyback. They would rather see us continue to build the long-term intrinsic

value of the company and the stock through this protracted, consistent share buyback policy.

Michael Temple

Fair enough. And then final question. We all know that Puerto Rico is #1, #2, #3 concerns in the marketplace regarding Assured. I want to pivot away from that and ask is there enough maturity to your U.K., European business that you can demonstrate the sort of tangible book value or value of that franchise? Because it would seem to me that with the discount that the stock trades and has constantly traded at, now that you have a significantly new business that you're grooming, is that mature enough for you to be able to demonstrate that it has X billion or $100 million worth of capitalization? Or is it just too early in the process to be able to demonstrate to the marketplace what you think a fair value of that franchise may be worth at this time?

Dominic Frederico

Well, if you remember through, and I don't know how long you've been a shareholder, but part of our conversation over the past number of years has been first, an effort to rebuild the international franchise because it was done some significant damage by the meltdown of our former competitors and how they treated the international business. We believe we've done all that work, and we're seeing the fruits of that labor as we talked about on the call, the last 6 quarters being able to book reasonably significant international production, and we're very optimistic about its future. We further invested vertically in the infrastructure operations through the Rubicon Advisors investment.

So we really do have a very optimistic view. Obviously, we're looking to expand geographically the international franchise. We see opportunities both in Australia as well on the continent of Europe, and we hope to complete some of those opportunities or bring them to fruition this year. So we think the international franchise is of significant value. Number two, we're the only people there. Remember, everybody abandoned the international markets. So when it comes to access to the capital markets through insurance, we're the only company that provides that today. So that's a very good situation.

We have about a $30 billion portfolio of international business. So that's growing. We are doing a restructuring of international. If you remember,

we've done a lot of acquisitions, and we now have 4 different companies that sit over there. We'd like to combine them into one to get capital efficiency, which will then give us a better opportunity to prove to the market what the value of that organization is and provide some more statistics on a standalone basis to further defend the value or defend an increase in the value of the Assured franchise and the Assured stock.

Michael Temple

All right, thank you very much for your time, and I'll go back into the queue.

Operator

[Operator Instructions] Today's next question comes from Geoffrey Dunn of Dowling & Partners.

Geoffrey Dunn, Dowling & Partners Securities, LLC

Rob, you gave the consolidated holding company balance. Can you break it up between the Bermuda co. and the U.S. holdco, please?

Robert Bailenson

Yes. It's about $25 million in the Bermuda holdco, and the rest of it is sitting at the U.S. holding company.

Geoffrey Dunn
All right. And then, Dominic...

Robert Bailenson

But they're both available, Geoff. It's both available to be used for share repurchases. We just move that up when we need to.

Geoffrey Dunn

Right. Dominic, one of the challenges right now and it's always been the case with credits in the past is until you actually get resolution, it's a he said, she said thing in the market as everybody debates the outcome. And it makes the stock more event driven. Is there any time line or dates or events that are

in the process that you can make us aware of in terms of how either Judge Swain is progressing or PROMESA may or may not be progressing and how this thing actually moves forward versus kind of, I guess, we're kind of the languishing state we're currently in.

Dominic Frederico

Okay, well, I'm going to give you a long answer. So first…

Geoffrey Dunn
(Laughing) I was afraid of the question. So…

Dominic Frederico

Yes, well, you've given me a great opportunity, so I appreciate it, Geoff, as always. So let's step back. So number one, we are event driven. So we've gone back and done a lot of analysis as you typically would expect us to. So let's look at our below investment-grade since that seems to be an area of contention. If you look at below-investment grade and the best we were able to do is go back to March of 2012, and we started with a below-investment grade of about $4 billion. I'm going to give you round numbers. Since that time, since March 31, 2012, we added $3 billion of new below-investment grade - all event driven. So we had a pot of $7 billion of below-investment grade. On that pot of $7 billion, $5.7 billion of it was resolved without a payment. So we treat things when we expect there's a probability of a loss, we get into kind of hyper surveillance and hyper intervention. And on that basis of that work, we were able to defuse or defease 83% round numbers, these are for credits above $50 million. So, obviously, small credits really don't matter when you're talking $7 billion. So, by and large, in the main and of these, so 83% were resolved no payment. We still have 16% remaining in the portfolio in terms of below-investment grade, and we paid $116 million of claims.

That's a claims ratio of 1.6. So the below-investment grade we agree. We're event driven. Credit headlines hit the press. Whoops, there we go, and things react. Yet the majority, and I'm talking significant majority, do not result in a claim. Number two, I gave you a statistic earlier in my conversation. We said we went back and looked at all the public finance we've ever insured, and it's over $850 billion and yet we paid claims for under $300 million. It gives a par to ultimate loss ratio of 3,000:1. When you think about our leverage today

of 40:1 or 35:1, it kind of pales in comparison to the true claim ratio that you would theoretically require to be just based on claims. So I agree, event driven but understand events typically lead to resolution. Why? Because 99% of those issuers have to concern themselves with market access going forward, right? As well as our legal rights and legal protections that are embedded in these deals. So therefore, there are the results of you need to think about although I agree we're event driven.

Now we talk about Puerto Rico. What's interesting in Puerto Rico is in the last month, you’ve had 3 people that have never mentioned the word “creditor” or “debtor” actually mention us. You had Carrion in his speech say that we have priorities or protections against the pensions, which was the first time he ever recognized the fact that we have legal rights. You had Jaresko mention the fact that she wanted to start to get involved with creditor "negotiations," and you had the head of the AFAA make the same comment.

So whether there is a sea change happening or not, at least now, we have at least 3 people recognizing the fact that there are these people out there called creditors, they’re not this anonymous group of carpetbaggers but real people with real legal rights that ultimately get back to individuals that are typically U.S. citizens, U.S. taxpayers and U.S. voters. So there is no “the loss falls upon this body of people that will make no difference”. Wrong answer, wrong answer, wrong answer and oh, by the way, we have legal rights. So you're seeing that. Number two, or three or whatever you've got a fiscal plan that now actually shows a surplus, and we know the surplus is understated because it doesn't count Medicaid reimbursement from the federal government.

It's nice to put 6 years' worth of Medicaid expenses and only 2.5 years of reimbursement. By definition, that's about a $6 billion delta in that fiscal plan, add that to the $6.7 billion of surplus they show and oh, my goodness, it seems like you could pay most of the debt service or at least get a consensual deal structured and move forward. So I'm optimistic that A people are talking about credit. B, there is surplus; C, we know that it's understated; D, there is no audited financials so who knows what the real numbers are, and we still have our strong legal rights, which were further highlighted by Congressman Bishop's letter to the control board. That said basically you’re violating the law. He would be the first witness we would call in any further legal activity on this thing.

Getting back to the real case, you still have the Aurelius suit that Swain has not ruled on, you've got the COFINA versus Commonwealth that has not been ruled on, and you have our appeal of the treatment of the transportation revenues that we believe should be heard sometime this year. I think any of those things have a dramatic impact on what happens with Puerto Rico. So A, I'm optimistic on the surplus. I'm optimistic that it's understated. I'm optimistic that people are talking about creditors for the first time ever in recognizing there's something going to debt service, and I believe our days in court are going to be rewarded somewhere during this year.

Geoffrey Dunn

With respect to the Medicare delta, obviously–Medicaid, I'm sorry. PROMESA certified the fiscal plan. So what is the mechanism that calls them out and gets that into the fiscal plan or does that not matter? It really matters when you go in front of Swain and actually, get this all negotiated and washed out?

Dominic Frederico

Yes, it only matters when you go in front of Swain or Bishop decides the whole Congressional hearing and brings the control board in and specifically puts them on the stand and say, "Okay, tell us why you project things 6 years forward, but you don't project anything for Medicaid after 2.5 years."

Geoffrey Dunn

Okay. And you do think there's a possibility that some of these, I guess, pending court items could actually be heard before the end of '18?

Dominic Frederico

I don't know how you get to a certification or an approval of a planned restructuring without having those cases heard, right? At the end of the day, everything will be subject to whatever the outcome of litigation is. At this point, would litigation that you know already exists, let alone the litigation that would be filed based on any adverse decisions in those fiscal plans or plan of adjustment.

Operator

This concludes our question-and-answer session. I'd like to turn the conference back over to Robert Tucker for any closing remarks.

Robert Tucker, Senior Managing Director, Investor Relations & Corporate Communications

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

And thank you, sir. Today's conference has now concluded. Thank you all for attending today's presentation. You may now disconnect, and have a wonderful day.