

Assured Guaranty Ltd. (AGO)
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First Quarter 2017 Earnings Call

Robert Tucker - Senior Managing Director, Corporate Communications and Investor Relations

Thank you operator. And thank you all for joining Assured Guaranty for our 2017 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 directly comparable to non-GAAP financial measures referenced in this presentation, along with the reconciliations between such GAAP and non-GAAP financial measures, in our Financial Supplement and Equity 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 began 2017 with a truly great first quarter. Non-GAAP operating shareholders' equity per share of \$52.51 and non-GAAP adjusted book value per share of

\$71.51 again reached new highs. Operating income of \$273 million for the quarter was more than double that of first quarter 2016, and the present value of new business production, or PVP, totaled \$99 million, the highest quarterly PVP since the fourth quarter of 2010.

Included in these impressive first quarter results is the impact of completing AGC's January 10 acquisition of MBIA-UK, now called Assured Guaranty (London). Rob will give you details on the income and balance sheet effects of this important acquisition, which reinforces our presence in the European infrastructure market and signals our continued commitment to that market while further diversifying our insured portfolio.

We have been the only guarantor to remain engaged in Europe, and that commitment has begun to produce meaningful returns. We are clearly seeing renewed demand for our guaranty in the U.K., which we attribute to greater market understanding of the value we have demonstrated, favorable interest rate conditions for refinancing infrastructure debt, and the benefits our guaranty provides for investors subject to Solvency II capital requirements.

In December of 2016 and the first quarter of 2017, we guaranteed three bond issues in the U.K. student accommodation sector alone, where our guaranty is extremely useful in creating long-term inflation-linked bonds. These bonds match project lives and attract insurance companies and pension funds looking to match their long-term liabilities.

Additionally, on March 31st, our U.K. office issued a guarantee for an oversubscribed, 261 million pound, 20-year Private Finance Initiative refinancing for St. James's Hospital in Leeds. This was our largest U.K. transaction since 2008.

Including additional transactions in the U.K. utility sector, international public finance transactions produced \$40 million of PVP in the first quarter of this year. This is more international production in one quarter than in any full year since 2008.

In the public U.S. municipal bond market, where new issue par volume sold was 10% below that of first quarter 2016, monolines insured 6% of total par issuance, including more than 28% of the new issue par sold by single-A issuers. Assured Guaranty increased its share of the total insured par sold to 57%, up from 54% in the first quarter of 2016. We continued to lead the industry by insuring nearly \$3 billion of par volume from more than 180 small, medium and large new issues sold in the quarter. Our par insured on new issues sold in the quarter was approximately 150% of the par insured by the next most active bond insurer.

Importantly, we continued to see increased demand for Assured Guaranty's insurance on larger municipal offerings. With an industry-leading \$12 billion in claims-paying resources, we have unparalleled ability to insure larger transactions without any single transaction representing material exposure relative to our claims-paying resources. During the first quarter, we were selected to insure more than \$100 million of par on each of five different public transactions. Now, we can't predict the timing of deals of this size, but I can tell you we have already exceeded that number in the second quarter.

Use of our municipal bond insurance on large deals is one sign of growing institutional appreciation of the benefits we offer. Another is the growth of our secondary market business. As more institutional investors recognized the value of our product over the last year, demand for our secondary market municipal bond insurance has grown significantly; the \$711 million of secondary market par we insured in the first quarter of this year was nearly double our secondary market volume in the first quarter a year ago.

In aggregate, our primary and secondary insured par sold totaled \$3.7 billion for the first quarter.

Municipal transactions closed in the period produced a strong \$52 million of PVP following the previous quarter's \$72 million. These consecutive quarters were our two best for municipal PVP in more than three years.

The third component of our new business engine, structured finance, produced \$7 million of PVP by closing transactions in the aviation finance sector and an insurance reserve financing. We have mandates in aviation and other asset sectors going forward, and continue to see opportunities to provide capital management solutions driven by regulatory and credit concerns.

Another way we increase our reservoir of future earnings is by reassuming previously ceded business. These transactions also generally produce commutation premiums that are immediately recognized as income. We increased both unearned premiums and income in the first quarter by executing a large reassumption of a diversified insured portfolio.

We continue to look for additional opportunities of this type, as well as terminations, wrapped bond purchases for loss mitigation purposes, attractive acquisition targets and strategic investments in financial firms whose business is compatible with ours.

Now to one of our favorite topics, Puerto Rico: There have been important developments since our last call. The best news is that, after agreeing to re-open negotiations over the Restructuring Support Agreement for PREPA, we came away with a modified agreement that allows for full implementation, is fair to the various parties and shows the Puerto Rico government and the Oversight Board that the consensually negotiated RSA construct provided the best way forward for PREPA.

Under the agreed modifications, our responsibilities are substantially similar to the previous version of the agreement: We will provide a surety to support a new issue of securitized bonds, extend the maturity on the relending bonds we purchased from PREPA in 2016 by five years, commit to purchase \$18 million of relending bonds in July of 2017 alongside other creditors, and provide \$120 million in principal payment deferrals in 2018 through 2023, which will be paid back over ten years. The coupons on these relendings and deferrals range from 7.5% to 9.5%. All of these amounts will be supported by a securitization structure with an automatic rate true-up segregated from PREPA's credit risk.

As we've said before, we favor a constructive approach to resolving Puerto Rico's difficulties as opposed to having costly and time consuming litigation that will further exacerbate Puerto Rico's

challenges. We believe the Oversight Board appointed under the federal PROMESA legislation should facilitate execution of the modified RSA under Title VI of PROMESA.

Unfortunately, neither Puerto Rico nor the board has shown a commitment to the law or to reaching other consensual agreements. On Wednesday of this week, the Commonwealth – with the prior approval of the Oversight Board - filed for protection under Title III of PROMESA – which is to say they filed for bankruptcy.

We promptly filed an adversary complaint seeking a declaratory judgment that Puerto Rico's certified Fiscal Plan violates various sections of PROMESA and the Contracts, Takings and Due Process Clauses of the U.S. Constitution. The complaint also asks the court to enjoin the Commonwealth and the Oversight Board from taking any action based on the illegal Fiscal Plan.

Among other things, the plan fails to meet the PROMESA requirement that it “respect the relative lawful priorities or lawful liens” established under the commonwealth's constitution, laws and agreements. Specifically, the plan violates the Commonwealth's Constitutional Debt Priority Provision, which provides that G.O. bonds have priority over all government expenses.

The plan does not distinguish between essential and non-essential public services. Instead, the plan presumes that all non-debt expenses are paid before any payments are made for debt service. The plan therefore provides approximately \$18 billion in average annual non-debt expenses and asks the creditors to believe that every last penny is necessary to maintain essential public services. PROMESA provides that a fiscal plan should ensure the funding of essential public services, but it is impossible for the Oversight Board to meet this standard without first determining what services are essential and what services are not. This approach leaves so little available for debt payments that a consensual resolution will not be possible.

Also, the plan as constructed undermines investors' confidence in Puerto Rico's commitment to paying debt and respecting creditors' rights, which can only defeat PROMESA's stated goal of restoring fiscal responsibility and returning the Commonwealth to the capital markets. The actions of the Oversight Board will not accomplish its mission, which we share, of long-term stability and economic growth for Puerto Rico. How could the board approve a plan that fails to respect the rule of law and continues to ignore the creditor protections provided under PROMESA, the Puerto Rico Constitution and the U.S. Constitution without incurring costly and time-consuming litigation?

Before I finish my comments, I must mention another favorite topic, Moody's, who has not agreed to our request that they withdraw AGC's rating, despite our terminating the rating agreement with Moody's in January 2017. We continue to pursue the matter with Moody's. Meanwhile, just last week, Moody's released a new credit opinion on AGC based again on subjective, non-quantifiable and elusive standards, such as its theoretical opinion about AGC's strategic position within our company. The Moody's rating tells an investor little if anything about AGC's ability to meet its insured obligations, its financial strength and its strategic position in the market.

The current A3 stable Moody's rating fails to reflect the improvement in AGC's financial strength and insured portfolio since Moody's first incorrectly assigned that rating in January of 2013. The latest credit opinion acknowledges many improvements but the rating has not improved commensurately. From September 30, 2012 to December 31, 2016, AGC's qualified statutory capital increased by 55%, while its statutory net par insured outstanding decreased by 48%, and its leverage ratio of statutory net debt service to claims-paying resources improved from 37:1 to 19:1, clearly representative of a financially strong financial guarantor.

The plain fact is that each of our operating subsidiaries is rated in the double-A category at S&P Global Ratings and the Kroll Bond Rating Agency. Based on S&P's capital model as of year-end 2016, we estimate that our companywide excess capital to be approximately \$2.8 billion at the AAA level.

Clearly, with our excess capital increasing, we can continue our share buyback program to produce better shareholder returns while maintaining the high level of financial strength our policyholders enjoy and expect. Additionally, we expect to repurchase more common shares in 2017 than we did last year, closer to the \$500-million-plus levels of 2014 and 2015. Since January 1, we've repurchased shares totaling \$269 million, and as previously disclosed, our board authorized another \$300 million in February for share repurchases. We currently have \$280 million of authorization available.

As is evident in our earnings release, we are off to a very good start in 2017. We continue to lead the public finance insurance market while maintaining appropriate pricing levels relative to risk. With the Fed indicating that two more interest rate increases are likely, demand for our bond insurance should grow. In Europe, our infrastructure transactions are becoming larger, more frequent; and worldwide we have structured finance opportunities in many sectors. A number of potential acquisitions of legacy guarantors or their insured portfolios are still available, and we are the most logical purchaser.

We continue to look for opportunities in the alternative investment/asset management segment, and we see these opportunities...we are pleased at the opportunities and the diversity that they represent.

I'm looking forward to updating you each quarter.

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.

As Dominic mentioned, we had a great quarter. We recorded operating income of \$273 million in the first quarter of 2017, which represents a \$150 million increase over the \$123 million reported for first quarter 2016.

All of our key strategic initiatives - acquisitions, commutations, loss mitigation, capital management and new business production - contributed significantly to our success this quarter.

The MBIA UK acquisition was a key contributor to operating income for the quarter as well as the growth in adjusted book value. The acquisition generated approximately \$61 million of operating income, or 48 cents per share in the first quarter, which includes the bargain purchase gain as well as quarterly results, net of acquisition expenses.

The acquired portfolio consists predominantly of long-dated European infrastructure transactions, resulting in an increase of \$2.52 in adjusted book value per share, and drove ABV to another record of \$71.51 per share by the end of the quarter.

I would also like to note that the increase in net investment income in the first quarter of 2017 is attributable to a non-recurring amount of accretion related to the Zohar II Notes used to fund the MBIA UK acquisition.

With respect to commutations, in the first quarter we executed an agreement to reassume a previously ceded book of business, adding over \$1 billion in par to our insured portfolio. This book of business is comprised primarily of US and European public finance transactions. The commutation generated operating income of \$73 million on a pretax basis.

Partially offsetting these increases was a decline in net premiums earned due to lower refundings and terminations. Total accelerated net earned premiums were \$58 million in the first quarter of 2017, compared with \$89 million in the first quarter of 2016.

Operating loss and loss adjustment expenses in the first quarter of 2017 was \$41 million, and economic development was a loss of \$47 million, including \$11 million caused by the decrease in discount rates. The primary driver of loss development was an increase in expected losses for Puerto Rico, offset in part by a benefit attributable to the settlement of litigation related to two life reinsurance securitizations.

The effective tax rate on operating income in the first quarter of 2017 was 11% in the aggregate, and 13% excluding the non-taxable bargain purchase gain. This compares with 22% in the first quarter of 2016. The decline in the effective tax rate compared with the first quarter of 2016 was attributable to the non-taxable bargain purchase gain in 2017 and the higher proportion of income in non-taxable jurisdictions in 2017 versus 2016.

The non-GAAP measures I am quoting today are based on the recently changed calculation of non-GAAP metrics. Last quarter we agreed with the SEC to change the calculation of our non-GAAP measures by including the effect of consolidating FG VIEs. Operating income for the first quarter 2017 includes an after tax gain of \$5 million, and the first quarter of 2016 was revised to now include an after tax gain of \$10 million related to FG VIE consolidation.

Please keep in mind that we continue to remove the effect of FG VIE consolidation in the internal core metrics that we use to assess financial performance. Under that calculation, we had \$216 million for the first quarter of 2017 and \$113 million for the first quarter of 2016.

I will now address our holding company liquidity and capital management activities. As of April 30, we had \$67 million in cash and investments at the Bermuda holding company and \$227 million at the US holding companies.

In the first quarter of 2017, we repurchased 5.4 million shares for \$216 million, at an average price of \$39.83 per share. As of May 4, 2017, cumulative share repurchases since January 2013 represent a 39% reduction in shares outstanding. These repurchases have contributed approximately \$9.83 per share to operating shareholders' equity, and \$16.97 to adjusted book value per share.

The MBIA UK acquisition, the commutation and reassumption of previously ceded business, our strong new business production in the first quarter, and the continuation of our share repurchase program reflect our continued success in executing our strategic initiatives.

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

Question and Answer Session

Operator

(Operator Instructions) It looks like our first questioner for today is Chas Tyson with KBW.

Chas Tyson - Keefe, Bruyette, & Woods, Inc.

Hey guys, good morning. So I'm wondering, now that we're in a new paradigm of Title III in Puerto Rico, if you think there's any advantage to try to strike a deal on the quicker side with some of your larger credits like the GOs and HTA, given extended litigation is likely to diminish the value of the island overall? Or if you could see this kind of being a longer-term battle, given you're trying to get back what you're owed and Puerto Rico didn't seem inclined to pay at the moment?

Dominic Frederico - Assured Guaranty Ltd. - CEO and President

Well, if I knew the answer to that question, I guess I'd be somewhere else in this world, but in general terms, one of the biggest issues we've had with Puerto Rico and I've got to be careful with what I say because I tend to get a little carried away, but we've always argued that we needed an adult in the room, and we kind of thought we were going to get there with the Oversight Board. And I guess, based on the actions we've seen today, obviously, that didn't happen. And the new governor, obviously, as disappointing if not more disappointing than the past governor, so you're 0 for 2.

Hopefully in Title III, with the now naming of a Federal Court appointed Judge, we will finally get an adult in the room. Because as we look at our position in the market, and our position vis-a-vis Puerto Rico, and we talk about things like constitutional protection, contractual liens, all the things that exist that are the foundation of everything we do in the financial markets - set up a contract and the rights given under that contract are not protected - what do we have left in our financial marketplace? And yet here we have an Oversight Board that was independently nominated and appointed, we've got a governor who spoke glowingly of working with the

markets to get to consensual deals and yet we have a fiscal plan that is absolutely an insult relative to the law, to our rights, to everything we would consider the basis to begin negotiations, so my way of looking at it, let's bring it on, let's get the lawyers in, let's get the court appointed and let's move this thing through because we are confident in our rights under this program, under the various exposures that we have for the Puerto Rico government. And if this is the way they want to go forward, we don't believe it's in the long-term interest of the citizens of Puerto Rico in terms of their being able to ever access the marketplace again, but at least now we're going to get an adult in the room.

Chas Tyson

Okay. And then on PREPA, are you guys viewing that as a done deal or do you think it's still in flux, given the Oversight Board had noted that they wanted to see rates come down in the later years? I know they noted it was on operating efficiencies and other measures not really applicable to creditors, but wondering that as well as the actions of Puerto Rico on other credits, I mean do they change your opinion of working with Puerto Rico in the PREPA deal?

Dominic Frederico

Well, if we think about it, the PREPA deal has been approved so many times by so many different constituents, that really would indicate that it is a good way forward. It does, in effect, accomplish a lot of the goals that are necessary to, in effect, get the electric utility modernized, efficient and move forward on an economical basis relative to the cost of the citizens and to the businesses on the island.

Our indication is the board is leaning favorably towards it, but it seems like every time they take a step forward, someone puts a step backward. So as you point out, we have an automatic ratemaking mechanism, included within the RSA, yet they just passed a law that seems to want to try to bring back the ratemaking back to a governmental function and take it away from the automatic provision of the RSA once again, how does that happen? You got, as you said, one of the objectives is to achieve a certain kilowatt hour rate, but I think it's by 2023 or 2021, one of those years. And yet, obviously, the fiscal plan as presented does not achieve that rate. So they're going to say get that out of operating efficiencies, and that's fine, but here's a deal that resolves roughly \$9 billion of exposure, I think would be a positive relative to the market's view of Puerto Rico taking some level of responsibility.

The amazing thing is, these people created their own problem versus the people that they elected, the decisions they've made within government and by the people and yet, they want no responsibility for dealing with this issue, they're going to try to push it on other parties, as they have to take the responsibility for managing or correcting the problem. And that's just not how it works, so we're positive on the RSA. We're glad that we've got, once again an approved deal, subject to a couple of requirements, one thing a court certification because there's some outstanding challenges in the court; and two, the OMB signoff, or the Oversight Management Board, which we believe should be completed and then there's kind of kitchen work that has to be done that we expect this thing to finally be effective somewhere towards the end of this year. But we're optimistic that it gets done.

Chas Tyson

Okay. And then last one for me. I mean you guys have obviously created a lot of value on the M&A front, with the acquisitions that you've made. Do you think there's any possibility that there could be more incremental M&A to what you're thinking over the next couple of years as Puerto Rico drives some of these legacy financial guarantors that decide that maybe sticking in the business is not worth it anymore given what we're likely to go through there?

Dominic Frederico

Well, I think we believe that the market has always been open and beneficial to us for M&A activity. As we look at what's left in our industry in terms of the companies that either trade or don't trade, you start to rationalize would they be better off in a larger structure, would they be better off with a greater kind of financial protection behind them, especially as we now waded through some pretty difficult waters that could just extend out the amount of payments and the timing of payment reimbursement that they might benefit from the financial help that we could provide. Number two, we obviously expect the regulators to be interested in improving the position of policyholders or bondholders that have the guarantees, but we think that's interesting. And once again, they're not -- some of these companies are no longer trading. If they're going to be able to move forward, they're going to move forward in another capacity, and we can, obviously, be a great catalyst in getting them to move forward in that new direction whatever that may be. And once again, hanging over the head of all of this is tax reform, where there is truly corporate revision in tax rates that has a real dramatic impact from some of the valuations that I think some of the companies feel they are entitled to based on the size of the NOLs they're dragging around, this could have a rather dramatic impact which I think would further than that facilitate M&A activity because one of the big purposes or values will start to be significantly diminished. So we are always optimistic relative to our opportunities in the M&A area.

Obviously, we still have a number of companies left that are not trading in our marketplace, where we think we have very good solutions relative to addressing their needs and of course, we can provide liquidity and further support as the challenges that exist in the marketplace, predominantly, Puerto Rico, become a bigger issue potentially for them.

Chas Tyson

Okay, have those conversations increased at all over the last couple of months or so as Puerto Rico's gone down its path? Or is it similar to what the [inaudible]....

Dominic Frederico

Chas, how well do you know us, do you think we ever stop talking?

Chas Tyson

Probably not.

Dominic Frederico

OK. Thank you.

Operator

Our next questioner today is Erik Larson with 21st Century Investments.

Erik Larson – 21st Century Investments

Ok, thank you. Great quarter guys, going forward in 2017, do you feel that you are -- that the earnings per share, the GAAP earnings per share, that you got this quarter will be similar or greater in the future quarters of 2017?

Dominic Frederico

Well, let me see how long the fuse is to that bomb. Obviously, we don't give a forecast or indications of future quarterly income. I got my General Counsel ready to fly across the table, if I answer the question. But understand, the quarter benefited from a couple of unusual transactions, specifically the acquisition of MBIA U.K. and the recapture of the ceded portfolio. Obviously, we continue to look at our ceded business as opportunities to recapture good portfolios with good premium and then continue to build up our earnings store. We can continue to look for M&A opportunities as we just talked about. We just can't say what the timing of that is. So we're out in that market every day on both sides, acquisitions and recaptures, but timing is kind of elusive. We were fortunate this quarter to be able to complete or execute on two, and we'd like to, hope to, execute on more, but I can't give you any certainty as to when that's going to happen.

Erik Larson

Ok, thanks a lot guys.

Dominic Frederico

You're welcome.

Operator

(Operator Instructions) And our next questioner today is Michael Temple with -- he's a private investor.

Michael Temple

Good morning and congratulations on a very nice first quarter. Two quick questions. Now that Title III has been triggered, and I appreciate your comments that it's still a very fluid situation, but now that Title III has been triggered, can you perhaps walk us through how the provisioning or further provisioning may have to be addressed in terms of what you're obligated to do in terms of reporting probabilistic losses?

Dominic Frederico

So, we have to report losses under the requirements of U.S. GAAP. And U.S. GAAP has its own set of rules and methodology, which we follow. Basically, U.S. GAAP requires that we come up

with a variety of scenarios based on all the possible outcomes from our exposures and then lay upon that, our interpretation of kind of news and activity against those exposures, both legally and non-legally, and we then have to assess probabilities against the scenarios. So as we looked at the quarter, we already felt that the approved fiscal plan was kind of a negative news factor. And therefore, from that alone, we would have the look at the probabilities of scenarios. Scenarios don't change much, because you know good loss, a medium loss and a big loss type of analysis. So with the fiscal plan, illegal as it is, was approved, that would create negative news, then we would have to then consider the scenario probability.

The filing of the Title III had no real impact because once you filed the fiscal plan, all of us had assumed that title III was the next thing coming. So that in and of itself was not much of an entity. So what happens now? While they filed Title III, however, we believe and of course we filed yesterday, a motion that says that Title III filing is not allowed or illegal because of a lot of issues relative to the fiscal plan. The one thing, I guess, that may not be that apparent through all the mediation prior to the negotiation of any sort of a consensual restructuring, most of the creditors in the room didn't want to talk about any possible mediation or outcome because they want to talk about the fiscal plan and the government and the board kept saying the fiscal plan is not subject to further negotiation or discussion. And the ridiculousness of this is, you know, there is this takings clause in the U.S. Constitution that says you can't take away a legal right unless you pay for it and yet, they created a law that basically says we're going to put out a plan that you can't -- even if the plan takes away your legal rights -- you legally can't challenge the plan, well that's like a double take away of our legal rights, which okay, let's play the game and let's go to court and let's see what happens because I don't believe that's allowable under any jurisdiction, let alone with these folks think they're going to be able to accomplish.

So the challenges have to go through relative to title III. If they can survive the challenges or the judge decides to stay that. And remember, in title III, this bankruptcy, we don't lose our legal rights, our legal rights are just stayed. Which means we have every legal right, whatever they do, whatever the outcome is, to pursue our just causes and our proper treatment that we believe is absolutely required under various laws and under various constitutions. So once again, it's frustrating, but it's not something that's going to change our view of what we believe is the right outcome, and the only outcomes are going to be allowable under law to get this thing reviewed. So title III, if it goes, continues down the path, they're going to then suggest a fiscal plan or a creditor resolution part of the title III that would have to be certified by a court, certified by the board and then, of course, we come back with our legal challenges at that time, if they already have not been met earlier through the challenges of the title III process itself. But as I said earlier in my remarks, you cannot ignore the laws of our land, the laws of their land, the contractual liens, the contractual rights that we have embedded in these programs that have worked over the history of time, like in the revenue sector. We have revenue bonds out there, yet you're stealing the tolls from the transportation, you can't do that. It's never ever been allowed and therefore for them to even attempt that. This whole issue of every service is an essential service. If you really believe that's going to get you a lot of opportunity in the court of law, go right ahead. So frustrating, as I said, I want an adult in the room. I'm kind of tired of playing with people that don't seem to care about that, and let's move the process along but the

challenges to Title 3, if there is a title III plan that comes out, we'll challenge that as well. And if you think about this, you can't put a deal on the table that respects no creditor's rights and believe you're going to get access to the market. And if that's one of the requirements of PROMESA, how do you get there from the where you started? So once again, this is kind of sad, it's gotta to kind of take this course of action, yet, at the end of the day, we stand fully capable, and we'll definitely defend our right to the fullest extent possible.

Michael Temple

Just a couple quick follow-ups. Do you believe that that the other public debt process HTA, can be settled outside of title III, much like PREPA? Or just too hard to quantify whether or not consensual restructuring a la PREPA, are still possible?

Dominic Frederico - Assured Guaranty Ltd. - Deputy Chairman, CEO and President

We believe all the debt could be settled outside Title III. We believe that there would be a consensual resolution to everything out there. And if you really think about the ones you are referring to, for instance PRASA other than the current fiscal plan that really highlights the need for capital improvements, having nothing to do with debt service and they created a deficit based on capital needs. Okay, great, but there's a rate increase planned for PRASA, you know PRASA at this point in time should really not even be in the consideration, but once again, you can resolve that debt very quickly and move forward. Things like MFA, you know the one that gets taxing authorities from the localities. So once again, that's paid its bills, so that really shouldn't be a part of any process. Transportation is the one that's got the issue of the clawback. But, if once again, if you really say you got to pay GOs first, once you pay GOs, you have no right to clawback any of your transportation's revenue and transportation becomes okay, so we see a path forward so we can get substantial resolution without ever using title III, and we believe the title III is no one's best interest but more importantly, not in Puerto Rico's best interest. And to have the board authorized that, how does that get you anywhere other than a long, very costly and time-consuming litigation that will exhaust the current governor's term as well as the term of the Oversight Board depending on how long they want to be stuck in this situation. They brought this on themselves, and they're going to have to deal with the consequences, of what we consider an illegal act.

Michael Temple

Okay. And then one final question, not Puerto Rico related.

Dominic Frederico

Here we go.

Michael Temple

But you're probably not going to be happy with me for asking it, but I want to ask it anyway. When do you think the –the gag order, maybe I'm using the wrong phrase, by the silent period regarding the terms of your settlement with JPMorgan investment management regarding the Orkney suit might be publicly disclosed?

Dominic Frederico

My, general counsel said never, so I'm going to follow the strong advice and say never. But you're going to be able to look at kind of the implications, just follow the bouncing ball through our financing financial disclosures. I think we're incredibly transparent in terms of where reserves sit in the company, so that you can figure that out, below investment grade exposures, you can figure that out. Obviously we didn't really highlight the change in reserve levels, but Rob kind of indicated a net reserve number...

Robert Bailenson – CFO, Assured Guaranty

I did say that was that -- that caused a benefit to our reserves in the quarter.

Michael Temple

Ok, I'll be sure to go through those filings more carefully and try to discern the benefit.

Operator

Our next question for today is Geoffrey Dunn with Dowling & Partners.

Geoffrey Dunn - Dowling & Partners Securities, LLC

Obviously, we're in new territory with a title III, so I'm in kind of an unknown or ignorant of how we move forward. How does this -- how do you think title III could differ from like a Detroit bankruptcy process? Or is there really no difference here?

Dominic Frederico

Well, I think you're going to have a different judge standing over with the proceeding, this judge gets nominated from Judge Roberts, the Chief Justice of the Supreme Court, so theoretically, not a bankruptcy judge, it's a federal judge hopefully that's for us better in that this is someone that is really steeped in constitutional law and since we have a big constitutional claim here, it's a -- remember, title III has never been done.

This is kind of the oddball answer to what they felt was the best compromise to look at Puerto Rico debt liabilities or restructuring. But if you think of it broader terms, as I said, we have constitutional rights that seem to have been not only ignored, stepped on, violated, which we don't believe exists. And if you think about it in the financial markets, you can't say here is the way that we're going to allow the market -- these people to participate in the market. These are the rules that govern how that market performs, and now, we just going to take away you rights, change the way, the rules for the market performs, we don't believe that and we think having a constitutional judge is really positive. And once again, he'll then have to consider all the challenges, so we have the first challenge in relative to the legality of the Title III, I'm sure we're going to be joined by a whole host of other people because when you do something as egregious as what they've done in fiscal plan, you've now alienated every creditor. You really believe that's the way forward to get the access to the market, then I have no idea what book they're reading from, but obviously, it's not a book that I feel is of much value and once again, you take bad advice, you're going to have bad outcomes, that's the way it is, so this judge who is federal, will be able to challenge us first than to the extent that any sort of negotiations take

place where there is a plan put forth, you would then have to validate or certify the plan as will the board and then ultimately issue a judgment, depends on how that comes out.

As you can see, this just launched around into a very long series, much like any other bankruptcy that there are challenges. And although people point to previous bankruptcies in the municipal space, remember, this is not done under those walls it's done it very different way, number one and number two, we still have all of our legal rights relative to the challenges. And although you might have liked the outcomes in other places, specifically Detroit, they were never legally challenged, and the only people that challenged were the pensioners and they lost their challenge, but none of the major creditors challenged those agreements. And in Puerto Rico's case, I think you're going to have every major creditor challenge every aspect of everything they're trying to do. And if this is how the governor and the oversight board wants to believe that they're going to help change Puerto Rico and bring it back to financial and economic stability, and let it get on the path of growth, wow. I mean if you look at the fiscal plan, here's an amazing thing. Over 10 years, revenues actually fall for the government, So how can this board be there to efficient, make the government more efficient, to look at ways of growing its economy and then you certify the fiscal plan, where revenues in year 10 are less than revenues in year 1, yet expect to grow an annual rate of 6%. And this is smart people certifying the plan. I'm sorry, I must have gone to the wrong school of budgeting, I must have missed that class that says I can drop revenue with this great oversight board controlling all the activities and a new Governor that really came in with a pro-growth, pro-efficient government plan, and yet my revenues are less in year 10 then they are in year 1, that's -- any of us are run a company like that, if I gave my board a budget that said guess what guys, 10 years from now I'm going to be spending a lot more money and have a lot less revenue, I'm sure they would congratulate me, and say we wanted you to lock into a 10-year contract, the absurdity of this is mind boggling. I'm going to get on another one of my rants if I am not careful but this is just, I mean this is like fundamental finance 101, and these guys, obviously, failed the course. And last time I checked, there's a professor on this board. I think you should know better.

Geoffrey Dunn I think you answered my next question, so this federal judge is going to rule over everything, so the complaint you just submitted has to go through this judge, it will go through the same judge?

Dominic Frederico

Yes.

Geoffrey Dunn

All right. (inaudible) everything's going to follow through this guy, and not having 1 court say 1 thing, another court say, another guy, this is just the 1 guy we deal with?

Dominic Frederico

No, well, this is part of the Title III; you now have to go through Title III, in terms of all your legal challenges which funnels through a single court, a single judge.

Operator

And this will conclude our question-and-answer session. I would like to turn the conference back over to Robert Tucker for any 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.

Operator

Ladies and gentlemen, the conference has now concluded. Thank you all for attending today's presentation and you many now disconnect.