Assured Guaranty Ltd. (AGO)

August 3, 2017

Second 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 second 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 the 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's second quarter of 2017 was another highly successful quarter. Non-GAAP operating shareholders' equity per share and non-GAAP adjusted book value per share attained record levels once again. Operating income reached $141 million and the present value of new business production, or PVP, totaled $70 million in the second quarter. Year-to-date through June 30th, our new business written, as measured by PVP, is 114% greater than for the first half of last year.

In the primary U.S. municipal bond market, par volume sold was 16% below that of the second quarter 2016 due to lower refunding volume; however insured volume was only down 7%. Monolines insured 7% of total par issuance, including more than 27% of the new issue par and 58% of the transactions sold by single-A issuers.

Assured Guaranty widened its lead by being selected to insure 62% of the insured par sold, up from 57% in the first quarter of 2017 and 53% versus the second quarter of 2016. We insured over a billion dollars more par than we did in the first quarter, for a 38% increase despite average 30-year AAA municipal interest rates that were lower in the second quarter than in the first, and credit spreads that narrowed to the tightest levels since last July. During the month of June, we insured 80% of the new-issue insured par, due partly to S&P placing our competitors on negative credit watch during that month. More on that in a moment.

Our second-quarter par volume also reflected increased demand for our insurance from institutional investors in large-scale transactions. We insured more than $100 million in each of seven primary-market transactions. These included one of the largest insured airport revenue transactions in years, in which we insured $256 million of par for the St. Louis Lambert Airport. For the first half, we insured a total of 12 $100-million-plus transactions, the most for a first half since 2011.

We supplemented our primary-market performance with another strong quarter in the secondary market. In total, for the first half, we insured more than $1.2 billion of secondary-market par, issuing 241 policies. That represents a 62% growth in secondary-market par insured versus the first half of last year. The number of our secondary-market policies written increased by only 3%, which means our secondary-market transactions are increasing in average size. In terms of secondary-market PVP, this is the second consecutive year in which our first-half production more than doubled that of the prior-year first half in that important market.

Our international infrastructure business continued to perform well on the heels of its outstanding first quarter. In the second quarter, we completed another UK university accommodation transaction, and, as part of the Eurotunnel debt refinancing, we demonstrated that our guarantee can be used on international transactions to assure liquidity for debt service payments that may be due long into the future. This application of a financial guarantee policy for debt service liquidity purposes has been used rarely, if ever, in the European market, and we believe it will be beneficial for a variety of potential future transactions.

In addition, we took an important step toward consolidating our European operations in June. Assured Guaranty Europe plc, or AGE, the AGM subsidiary that writes our new business in Europe, acquired our other three European subsidiaries from AGC. These include AGC's longtime UK subsidiary and the European subsidiaries we acquired from CIFG and MBIA. We plan to merge these three companies into AGE, subject to regulatory and judicial approvals. Upon the merger, obligations and bonds insured by those three companies will become insured obligations of AGE and, therefore, receive AGE's financial strength ratings. This will be particularly significant for holders of bonds guaranteed by the former MBIA-UK, which we renamed Assured Guaranty (London), because those bonds would be upgraded. Overall, we believe this combination of companies will give us a simplified, more easily understandable profile in the international market, while also reducing the operational cost associated with maintaining multiple companies. Additionally, the combined company's increased economic size and investor reach will enhance its visibility in the market.

Rounding out the second quarter production, our structured finance team executed 6 aircraft residual value transactions, and we see additional transaction flow in that space. We are also looking at opportunities in consumer and auto loan securitizations, whole business securitizations, insurance company reserve financings and other capital management solutions for financial institutions.

Coming back to the rating agency activity since our last call: In June, S&P publicly acknowledged Assured Guaranty's competitive superiority by placing our two active competitors on negative credit watch, saying that their competitive positions may be sufficiently weaker than ours to make greater rating differentiation appropriate. S&P also observed that Assured Guaranty was the only monoline participating in multiple financial guaranty markets, a source of diversification that S&P now properly deems a strategic advantage.

Somewhat surprisingly, in late June, S&P positively resolved the negative credit watch on one of those competitors by affirming its AA rating, thereby assigning that guarantor the same rating as Assured Guaranty, despite having previously recognized our greater share of par and premiums written, better pricing power and operating results and a more diversified product strategy.

However, at the same time, S&P did downgrade the other competitor to single-A, which prompted that company to cease writing new business for the time being. This means we are the only active guarantor with stable double-A-category ratings from two different rating agencies, with a diversified business model, superior claims-paying ability and operating results, as well as having access to the capital markets.

S&P also affirmed its double-A financial strength ratings, with stable outlook, on all of Assured Guaranty's principal operating subsidiaries. S&P followed up in July with its full annual review, in which it cited our:

- very strong capital adequacy
- market leadership in terms of par insured and premiums written
- well-diversified underwriting strategy
- proven track record of credit discipline, and
- strong operating performance.

The S&P affirmation followed Kroll Bond Rating Agency's affirmation of AGM's double-A-plus stable rating last December, and last month, Kroll affirmed its double-A-plus stable rating on MAC.

As for Moody's, they published their semi-annual update on April 28th with no change in our ratings or outlooks. They have also notified us that they will not withdraw the AGC rating, as we requested. Moody's continues to impose an unfair and uninformative rating on AGC that is based primarily on subjective, qualitative factors that have little or no reflection on a guarantor's financial strength or ability to pay claims. Their rating also fails to reflect AGC's substantial leverage improvement since Moody's first applied its current rating in January 2013. Par exposure declined 51%, including a 42% decline in below investment grade exposure, while claims-paying resources were reasonably constant, going from $3.8 billion to $3.6 billion. And AGC has seen strong financial results since then, with operating earnings of $1.3 billion. So with exposures halved, below investment grade declining by a similar amount, and generating an income of $1.3 billion, how can Moody's not see a reason for changing the rating for AGC, and it becomes rather obvious why we requested them to drop the rating.

Regarding better rating agency behavior, all three rating agencies have previously said that our exposure to Puerto Rico credits is unlikely to result in a change to our ratings, even under severe loss assumptions. As I have previously noted, we estimate our year-end 2016 excess capital under the S&P capital adequacy model to be $2.8 billion, and our current investment portfolio annually generates income approximately equal to the average annual debt service due on all of our Puerto Rico credits over the next 10 years. In its recent annual review, S&P wrote that Assured Guaranty's current capital position could absorb losses of roughly $2.3 billion on our exposure to Puerto Rico issuers and, without accounting for any other factors, there would be no change in our capital adequacy or financial risk profile, which implies there should be no change in our rating.

We worked conscientiously over the last three years to help Puerto Rico right itself while two administrations have repeatedly ignored the law and placed short-term political considerations ahead of the long-term economic health of the Commonwealth and its citizens. Now, we are forced to take the necessary legal actions to restore all of our rights under the U.S. and Puerto Rico constitutions and laws, including PROMESA.

Puerto Rico's Financial Management and Oversight Board has compounded the Commonwealth's disregard for the rule of law by asserting its certification of a fiscal plan that fails to comply with PROMESA and by forcing most Puerto Rican debt into bankruptcy-like proceedings that Congress intended only as a last resort after every effort to reach negotiated settlements had been made.

Senators Cotton of Arkansas and Tillis of North Carolina wrote to Oversight Board Chairman Carrion on April the 7th about numerous non-compliance concerns, including "the Fiscal Plan's failure to comply with lawful priorities and liens established by Puerto Rico's Constitution, its failure to differentiate between non-essential and essential spending, its elevation of all non-debt spending above debt service, and its unexplained economic assumptions," as well as complaints that the Commonwealth and Oversight Board had not responded to creditors' attempts to initiate credit negotiations. Unsatisfied with the board's response, Senator Cotton followed up again that the fiscal plan's failure to respect relative lawful liens and priorities "creates a dangerous precedent" that "could badly destabilize the municipal bond market." As you know, we have been making a similar point for a long time. Senator Cotton also noted that, according to the Wall Street Journal, mutual fund investors nationwide stand to lose $5.4 billion as a result of what he called the board's "bizarre" interpretation of PROMESA.

He is right in that characterization. Under this fiscal plan, the government intends to maintain 100 percent of government employment and bonuses yet not pay secured creditors, contradicting the governor's claim that he will reduce the size of the island's bloated government. Approximately 25% of the non-farm workforce in Puerto Rico are government employees, compared with 15% for the United States, clearly an unsustainable total and a huge economic burden for the Puerto Rico economy.

In this fiscal plan, every expense is deemed essential except paying debt service. Yet as part of PROMESA, the government must be able to demonstrate the ability to access the capital markets. And who would lend to an entity that has exhibited this level of disregard for the law and creditor rights?

As I said on our last call, we filed an adversary complaint challenging the legality of the fiscal plan because it violates various sections of PROMESA and the Contracts, Takings and Due Process Clauses of the U.S. Constitution, and therefore should not be the basis for any plan of adjustment under the bankruptcy-like provisions of PROMESA's Title III.

Other members of Congress are equally astonished by the Oversight Board's defiance of the very law that created it. Congressman Bishop, chairman of the House Natural Resources Committee, questioned the Oversight Board for failing to approve the previously negotiated PREPA Restructuring Support Agreement even before the board outright rejected it at the end of June.

As he observed in a June 15th letter to the Oversight Board chairman, the board would be defying the intent of Congress if it did not certify the PREPA RSA under Title VI of PROMESA, which was intended to encourage consensual agreements on debt restructurings. Congressman Bishop wrote that "the decision to implement the RSA had already been made by Congress with the passage of PROMESA" and that "the Oversight Board's dilatory tactics run counter to the plain language of PROMESA." He wrote that subjecting the RSA to the fiscal plan was outside the scope of the Board's powers and a violation of PROMESA that could result in "severe, adverse effects for the island." This is from the chair of the house committee responsible for PROMESA, but the Oversight Board ignored his admonishment and continued to act illegally in violation of Puerto Rican and U.S. laws, including PROMESA.

The RSA has been arduously negotiated among numerous parties, beginning more than three years ago. During that period, Assured Guaranty and other creditors provided forbearance and hundreds of millions of dollars of liquidity to stave off a default by the electric utility. We and other creditors were willing to forgo our right to place PREPA into receivership in the interest of finding a solution that best served the needs of PREPA, Puerto Rico residents, the Commonwealth and the creditors. The success of that consensual resolution would have provided a roadmap that other Puerto Rican issuers could follow to avoid expensive and time-consuming litigation and help Puerto Rico regain access to the capital markets.

But now, by rejecting the RSA and forcing PREPA into Title III, the Oversight Board has recklessly squandered approximately $80 million spent by the Commonwealth and millions more spent by the PREPA creditors to successfully negotiate the RSA. Given this outcome, Puerto Rico and its citizens would have been better off if PREPA had been placed in receivership years ago, which would have removed the political interference and allowed it to focus on making the operational changes it so urgently needs – for example, by adjusting rates to levels that would allow PREPA to cover its debt and other expenses and modernize and right-size its operation. These are rate increases that PREPA is legally obligated to charge and collect – and that ratepayers can afford because their rates have declined significantly over the last few years.

From an average rate of approximately 26 cents per kilowatt hour in 2014, with a high of 29 cents in February of that year, the electricity rate charged by PREPA fell to an average of approximately 18 cents per kilowatt hour in 2016, with a low of 17 cents in March of 2016. This occurred because savings from lower fuel costs were passed directly through to consumers in the form of lower electricity rates, with no attempt to apply any portion of the savings to pay debt service, improve liquidity, or invest in the modernization of power generation and distribution. Additionally, beginning in 2015, a portion of the rate decline was attributable to relending arrangements agreed to by Assured Guaranty and other forbearing PREPA creditors, which enabled PREPA to defer bond payments and thereby effectively further subsidizing electricity rates. While there have been assertions that Puerto Rico has had high electricity rates, PREPA's rates were 25% below electricity rates charged by various utilities on other U.S. and Caribbean islands from 2008 to 2014.

We previously sought a judgment compelling the Oversight Board to certify the PREPA RSA for implementation under Title VI, as PROMESA required it to do so. The board has given us no choice but to also seek relief from the automatic stay to permit appointment of a receiver to ensure the lien provided to creditors as part of their collateral package produces net revenues sufficient to pay debt service. Additionally, PREPA is violating the special revenue protections of the bankruptcy code by failing to remit special revenue bond collateral for the timely payment of debt service.

There is a similar situation at the Highways and Transportation Authority. We've therefore sought a judgment that would halt, and reverse, the diversion of special revenues pledged as collateral for the HTA bonds to other Commonwealth expenses. Under the HTA bond resolution, HTA pledged its special revenues as a security for the payment of the HTA bonds subject only to a valid claim of clawback under Puerto Rico law. A valid claim of clawback is triggered only if there has been first an application of all available resources to pay the GO bonds' debt service and there is still a shortfall in the GO bond payments. To date, the Commonwealth has not satisfied the preconditions to a valid clawback. In addition, even assuming the preconditions for a valid clawback had been met, making the constitutionally protected GO payments is the only legal use of clawed back funds – they cannot be used to pay any other expenses.

Sadly for Puerto Rico, its illegal behavior has caused many other creditors to press their cases in court. Elected and appointed Puerto Rican officials, abetted by the Oversight Board, continue to disregard the law and constitutions of Puerto Rico and the United States and indentured pledges. Further, the governor's oath of office included his pledge to "preserve and defend the Constitution of the United States and the Constitution and laws of the Commonwealth of Puerto Rico…" What should we conclude at this point about his integrity and honesty related to his oath of office in light of his behavior - behavior that will subject Puerto Rico to a multitude of judicial proceedings that will further waste precious time and resources and distract the island from developing plans and strategies to right-size the government and grow the economy.

With every new violation of the law, the Commonwealth and the Oversight Board further destroy their credibility, making the possibility of future access to the capital markets, let alone statehood, increasingly remote.

With our thirty years of reliable strength and performance, we are the premier financial guarantor. Today, we remain the insurer of choice in U.S. public finance, our international business has solid traction, and we have a broad range of opportunities in structured finance. We have more than enough capital to support these financial guaranty businesses and plan to deploy a portion of the excess capital in alternative investments that benefit from our core competencies and credit expertise and have the risk profiles in line with ours. And we will continue returning our excess capital to shareholders through dividends and share repurchases. As we pursue these strategies, our foremost priority will be as it always has been – to protect our policyholders with uncompromised financial strength and reward our shareholders.

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.

Our key financial metrics continue to demonstrate the success of our key strategic initiatives over the past several years. Through acquisitions, reassumptions of previously ceded business, loss mitigation efforts and common share repurchases, we have:

- built up our future stream of premium earnings
- reduced losses, and
- increased per-share results.

In the second quarter of 2017, operating income increased to $141 million, from $136 million reported for the second quarter of 2016. As I stated in previous quarters, we revised our calculation of non-GAAP metrics in the fourth quarter of 2016, and therefore these amounts now reflect the inclusion of gains and losses related to the effect of consolidating FG VIEs. However, for our internal core metrics that we use to assess financial performance, we continue to remove these gains and losses.

Economic loss development during the second quarter of 2017 was a loss of $47 million, which was primarily due to an increase in reserves for certain Puerto Rico exposures, partially offset by a benefit in US RMBS due to lower redefault assumptions on modified loans. Economic loss development for the quarter includes a $23 million loss attributable to the decrease in risk-free rates.

On a quarter over quarter comparison, loss expense declined 30% to $64 million. This was mainly because we had a larger reserve addition on Puerto Rico credits in second quarter 2016 compared with second quarter of 2017.

This quarter, one of the main drivers of the increase in operating income was a $37 million dollar tax benefit related to the release of reserves for uncertain tax positions following the close of an IRS audit. This, along with higher income in non-taxable jurisdictions reduced the effective tax rate on operating income for the second quarter of 2017 to a negative 7%. That compares with a 27% effective tax rate in the second quarter of 2016.

Net premium earnings and credit derivative revenues declined compared with the second quarter of 2016. This was due to lower refundings and terminations, which were $60 million in the second quarter of 2017, compared with $136 million in the second quarter of 2016. Scheduled premiums were consistent with second quarter 2016 as recent acquisitions and commutations of previously ceded business offset declines due to the amortization of the existing portfolio.

In terms of our holding company liquidity and capital management activities, we had $27 million in cash and investments at the Bermuda holding company, and $115 million at the US holding companies as of July 31st, 2017.

In the second quarter of 2017, we repurchased 3.5 million shares for $135 million, at an average price of $39.05. As of August 2, 2017, cumulative share repurchases since January 2013 represent a 40% reduction in shares outstanding, and we have $168 million of authorization remaining. These repurchases have contributed approximately $10.79 per share to operating shareholders' equity, and $18.23 to adjusted book value per share.

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
We will now begin the question-and-answer session. [Operator Instructions] And our first question comes from Brian Meredith of UBS. Please go ahead.

Brian Meredith
Yes, thanks. Dominic, I was hoping you could talk a little bit more about the market environment, post the downgrades. Are you seeing the same type of market share that you were getting? I assume Build America is getting a little bit more. And then also what are customers saying about the fact that now there's just going to be two bond insurers going forward?

Dominic Frederico
Okay. Well, post downgrades, remember, we went one for two. So S&P is batting .500 gets them into the hall of fame on that batting average, but obviously leaves the competitor in the market place. As you realized, Brian, the amount of business that was written by the former company National on the MBIA platform didn't have a significant impact on the marketplace relative to the amount of par or number of transactions. So their downgrade, albeit taking a competitor out, not a significant competitor relative to the overall market position.

The reinstatement of BAM'S rating obviously then puts them back in the market as an active writer, and principally the market has been serviced by two active writers. I don't expect any change in that environment. And if you really looked at the MBIA business, as we've said in the past, in some cases those credits would not meet our underwriting standards - therefore, that would not present an opportunity for Assured. Or it's well below our pricing criteria. In either case then, it doesn't represent a significant upside to our business written or market opportunities.

However, having said that, you can see, based on a number of factors, the penetration, the single-A issuers, the amount of $100 million plus deals that we are able to execute today, our demand continues to increase irrespective of the competitive environment. And as we continue to position Assured as obviously strong and stable, huge critical mass, great market reach, and service mentality, we believe that and that alone will still dictate Assured as the premier guarantor in the industry, and look for a great continued positive development of business opportunity. And as you all know, if we can get any help whatsoever from interest rate rise that stays permanent and is sustainable, that would even further our opportunities in the U.S. public finance market. And remember, in our other two competitive marketplaces, we have no competition. We've had a great year in the international marketplace. We have a nice pipeline of further opportunities. We're clearly demonstrating our competitiveness in that marketplace. And people now recognize the size and strength and service mentality of our organization. And in the same token, our structured finance people continue to look for new ways to provide our underwriting discipline and risk profile to other asset classes that have created opportunity for them. So, in one market, we see competition. We still think we are the preferred insurer in that marketplace - and the other two markets we have no competition and see further increase in opportunity, and they're having a very strong calendar year in terms of production.

Brian Meredith
Great. And then, Dominic, I'm curious, so there's still a couple of large runoff blocks out there, just kind of - in general terms, can you say what are the kind of constraints right now preventing from those transactions happening? Is it the owners of that business? Is it talks about value business? Is it regulatory constraints? Regulators just not letting blocks go? What are the kind of biggest constraints in those deals happening right now?

Dominic Frederico
I'll start rating…I'll rank them from the top. So first and foremost is complexity of their capital structure. So if they have unpaid claim obligations, if they have surplus notes, if they have preferred stock. You know, if we had a single equity holder, it makes it easier to negotiate a transaction obviously. So, number one is the structure. Number two is the portfolio. Are we comfortable with the credits? Do the credits meet our risk profile? And is there enough money left relative to a discounted purchase price to, in effect, provide what we think is an adequate risk premium relative to those exposures? So typically, you know, credit quality becomes an issue; third, you hate to say it, but some of these guys do like to survive, and therefore, there's a little reluctance in an acquisition because obviously with the Assured size, financial strength and spread of services, we typically will not have incremental large expenses from many acquisitions. Therefore, it is kind of threatening to a selling organization as to what happens to their employees.

So, I think those three factors tend to indicate…but I would say it's the first two that probably create the greatest hurdle to transactions. That doesn't mean, however, Brian, as you well know, we are fairly aggressive in our desire to consolidate the industry, because I think we think it's a positive, right, we get to upgrade those bondholders to the Assured Guaranty rating, which is a huge benefit, it establishes that sustainability, credibility, consistent financial strength application to those holders, and therefore we think it furthers the business valuation proposition and attractiveness to other buyers of an Assured product. So, we like to get that going. Of course we do make some money when we do those transactions.

Brian Meredith
Yes.

Dominic Frederico
But as I said, it's got to be equity structure, it's got to be the risk profile, and then we work our way around the rest of the issues that we face.

Brian Meredith
Got you. Thank you.

Dominic Frederico
You are welcome.

Operator
Our next question comes from Geoffrey Dunn of Dowling & Partners. Please go ahead.

Geoffrey Dunn
Thanks. Good morning guys.

Dominic Frederico
Hi, Jeff.

Geoffrey Dunn
Rob, can you talk a little bit about…to expenses? You know, obviously bouncing around a little bit here…How should we think about the back half of the year and into '18?

Robert Bailenson
Well, I mean there was a drop in expenses quarter-over-quarter from last year to this quarter -- this quarter mainly due to a reduction in rent expense. This quarter [last year], we moved offices, so we had two rents we were paying as well as we had to accelerate leasehold improvements. That was primarily the drop from second quarter last year to second quarter of this year. I would tell you that the run rate I would look at is somewhere in the mid $50 million range. So, I would say that's quite…

Geoffrey Dunn
Per quarter?

Robert Bailenson
Per quarter.

Geoffrey Dunn
All right. And then, also can you disclose the actual secondary par and PVP in the second quarter?

Dominic Frederico
Hang on a second. I think it was in my speech, right, so…

Geoffrey Dunn
Yes, I think you gave the first half?

Dominic Frederico
Yes, first half we did 1.2 billion, 241 policies of 50%. They are looking for it as we speak.

Rob Bailenson
Yes, secondary?

Dominic Frederico
Yes, secondary market.

Robert Bailenson
So, the secondary market was… par was $512 million, almost $513 million of par, and premium… no, that's it. PVP -- did you say PVP?

Geoffrey Dunn
Yes.

Robert Bailenson
PVP is about 13.4 million.

Geoffrey Dunn
All right. And then, Dominic, can you talk a little bit more about what's going on with the U.K., obviously you are seeing a lot of traction, its looks like every month we are getting announcement about another deal. What is generating the traction, kind of all of a sudden, over the last year, and probably more importantly what's the potential pent-up demand for, either the similar transactions or off-shoots of those types of deals, within a reasonable timeframe, call it a year or two? You know, how quickly is that market truly developing right now?

Dominic Frederico
Well, you know, we have a discussion on international quite frequently. I should really let Mr. Bailenson answer the question; he has been the largest, loudest proponent of our international company and personnel here. International is a funny business, right, these are long generating or gestation transactions, very lumpy deal flow. It's not a flow business, but remember, I am going to caution this, if you go back pre-2005, international represented about 25% to 40% of a $5 billion premium marketplace. It was hugely significant, but in those days principally by very large deals like whole business securitization, et cetera.

As we said in the past, because of the Great Recession, because of the impact of our… some of our other competitors, you know, there was a real lack of confidence in what a financial guarantee policy really meant in the international marketplace, and specifically U.K. We spent years rebuilding the credibility of our marketplace and our product here, and especially going around and soliciting and generating investor support. We now believe we have that, and the recent activity shows that we can place large deals in the market and get institutional investors to buy that paper. That is the most critical part of how this has to work for us to continue to maintain, you know, kind of an active presence here in the international markets and generate deal flow. We are now competitive relative to what is the overall total pricing on these infrastructure products with banks and other insurance companies. I have got people scribbling really fast, okay.

Number two, there is a decent pipeline of refinancing opportunities. So in addition to new projects, which you can imagine, based on all the noise over here for Brexit et cetera, are getting a little slower in the approval process, there is tremendous opportunity in the refinancing markets. So, A, we have rebuilt credibility. B, we now have a mechanism that is competitive in the financial markets to finance these type of projects, three, we have always felt we had the most elegant solution - we can match term against term. So, you can match the assets' life with what the debt life will be - very different than a financial institution or a bank. As I said, our pricing is now pretty much on par with the market, and last but not least, as regulations affect both insurance companies and banks for holding these types of assets we are now more elegant because we broadly distribute that exposure into the marketplace through the securities.

So, we really look at it that our time has come and we built the marketplace back. Consolidating our companies here actually produces a very large financially recognizable, let alone credible, company here, which will be a big company in the UK. All these things really matter. However, that doesn't mean we can declare victory that quickly; this is still a lumpy market. We have actually had a long talk with our operations here, and we had our board meeting as, you know, this week, and we really think we need to look at the international, specifically the U.K., operation on kind of a three year rolling average budget, that kind of take out, because I will tell you, some of the deals we closed this year that look great in terms of recorded PVP are really deals that we thought we'd close last year.

And there are some deals that are popping up on the calendar that would typically take 12 to 18 months, that might close in six, based on the demand of the specific investor or, in this case, the issuer. So, the timing is the toughest part here. We think it's a good market, we think it's an active market, we think we have got tremendous opportunity, we think we are competitive. That necessarily doesn't mean this becomes flow, but we think it will be a significant generator to overall production results for the company and, as I said, it does differentiate us from everybody else in our marketplace.

Geoffrey Dunn
Okay. Thank you.

Dominic Frederico
You are welcome.

Operator
[Operator Instructions] Our next question comes from Kevin Mead of Reorg Research. Please go ahead.

Kevin Mead
Hi, thanks for taking my call. Yesterday's 8-K filing includes a footnote indicating that Assured has paid claims on Puerto Rico's COFINA bonds. Can you maybe discuss when and why those claims payments were made?

Dominic Frederico
Why those claims payments were made? Because they didn't make the necessary debt service requirement and our, you know, guaranty is unconditional. So, if the government doesn't pay, we pay. As you know, we do disclose our exposure to each Puerto Rico entity. The COFINA for us represents one of our smaller exposures, I think it was a $6 million payment or something, very small. Obviously, it's frustrating because as, you know, the COFINA revenue was there and the government just decided not to pay the bonds. But once again, litigation is something for the future. Currently, we have to recognize and uphold our guarantee and pay the claims, and whatever the claim is. COFINA does have seniors and juniors as part of their credit waterfall. We're on the junior side and, as you know, there is an argument going on in litigation now. So, that's how we paid that amount of claims.

Kevin Mead
Okay. Thanks.

Dominic Frederico
You are welcome.

Operator
[Operator Instructions] And next we have a follow-up question from Geoffrey Dunn of Dowling & Partners. Please go ahead.

Geoffrey Dunn
Yes, sorry, since nobody else had anything; a couple of more questions. Rob, first, what was the impact from the discount rate change this quarter?

Robert Bailenson
$23 million.

Dominic Frederico
Negative.

Robert Bailenson
Negative.

Geoffrey Dunn
And then, can you update us on any incremental developments quarter-over-quarter on the alternative investment initiatives?

Dominic Frederico
Well, as we said, we think, you know, we think it's a smart move for us to diversify and use the trapped capital that's in our operating companies to further increase not only returns that might be available in our own portfolio, but also to start to create a different business model that would take some of our capital and put it under a fee-based, you know, revenue approach as opposed to our risk-based revenue approach. We continue to go through a very detailed diligence process and we continue to work through opportunities, and, as we said, we set out requirements for any acquisition in this area to be financially accretive, to be core competency accretive and to be socially accretive.

We continue to walk down those paths and look at opportunities and as we get closer to someone meeting all three criteria, we will then make a decision, we will communicate that decision to you in the market, and we hope that you'll be as excited as we are about those opportunities and what it means to provide a growth engine to Assured beyond financial guarantee, to provide a different revenue stream to Assured that kind of looks at preserving capital, and it's really about enhancing return. To obviously generate better returns within our own investment portfolio. So, as we look at Assured in total, as you well know, we look at what is accretive, what is the most accretive transaction we can do in this company; what is going to move the valuation of our company forward, which typically means increasing book value, adjusted book value, or earnings per share. And that's how we're looking at the alternative investment.

And I would love to tell you we're getting close, but we have typically been pretty close on a number of occasions that we just can't pull the trigger because of a certain amount of factors. In some cases, we lose the deals competitively in the market because we are not willing to pay as much as what is being demanded. We had an opportunity currently where there was a list of demands put on by the company that we are looking to be a participant in, if not acquirer of, and we walked away, because it wouldn't meet our other requirements, of being socially accretive in that case, because they wouldn't give us kind of a say at the table, and that's not how we're going to structure this area. And as I said, for us, I think it's a necessary and really opportunistic diversification strategy for the company that is necessary.

Geoffrey Dunn
Okay, thank you.

Dominic Frederico
You are welcome.

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

Robert Tucker
Thank you, Operator, and thank you all for joining us on today's call. If you have additional questions, please feel free to give us a call. Thank you very much.