Assured Guaranty Ltd. (AGO)
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Fourth Quarter and Year-End 2018 Earnings Call

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Thank you operator. And thank you all for joining Assured Guaranty for our 2018 fourth quarter and year-end 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 another successful year in 2018, maintaining our strong financial position while creating more shareholder value and achieving important strategic goals that position the company for the long term. Among our headline accomplishments during the year:

- We increased our storehouse of unearned premiums, compared with year-end 2017, by increasing the present value of our new business production, or PVP, to the highest level in ten years. We generated PVP in each of our three financial guaranty businesses - U.S. public finance, international infrastructure finance, and structured finance – and also executed a significant reinsurance transaction, which together brought 2018 PVP to $663 million, a year-over-year increase of 129%.

- We grew the intrinsic value per share of the company, ending 2018 with a record non-GAAP adjusted book value per share of $86.06, an 11% increase over the previous year-end record set in 2017.

- Our shareholders' equity per share and non-GAAP operating shareholders' equity per share also reached their highest levels ever, at $63.23 and $61.17, respectively.

- We successfully executed our capital management program, meeting our target of repurchasing $500 million worth of common shares. Rob will give you details on that in a few minutes.

- We continued to deploy a portion of our substantial excess capital in order to diversify our revenue sources by investing in carefully selected, non-financial-guaranty businesses where we see synergies with our core competencies, a risk profile in line with ours, and high potential for attractive returns. An excellent example is the infrastructure-focused investment bank Rubicon Infrastructure Advisors, in which we acquired a minority interest during 2018. We look forward to working with Rubicon to expand both of our companies' opportunities in the global infrastructure sector.

- And we simplified our corporate structure by consolidating four European operating subsidiaries into a single, larger company with greater visibility in international markets.

Importantly, for the fourth consecutive year, we acquired or reinsured the insured portfolio of another legacy financial guarantor. In this case, our AGC subsidiary wrote reinsurance to assume, and will administer, substantially all of Syncora Guarantee Inc.'s insured portfolio, and AGM reassumed a book of business it had previously ceded to Syncora. As consideration, Syncora paid $363 million in cash and assigned $48 million of present value installment revenue to Assured Guaranty.

The Syncora transaction added approximately $12 billion of mainly public finance net par to our insured portfolio and $375 million of net unearned premiums to our balance sheet, increased non-GAAP adjusted book value by $247 million, or $2.25 per share, and added approximately $425 million to our claims-paying resources. This transaction contributed $391 million of our 2018 PVP.

We produced the other $272 million of PVP in a relatively adverse business environment. Interest rates remained low in 2018 by historical standards, although modestly higher than in the previous year, but credit spreads were virtually unchanged. New issuance in the U.S. public finance market declined sharply in response to tax law changes, particularly restrictions on advance refundings, while insurance penetration increased slightly but remained at approximately 6%.

Under these conditions, Assured Guaranty continued to lead the U.S. municipal bond insurance market with a 57% share of insured volume, including $500 million of taxable insured bonds issued by ProMedica Toledo Hospital.

Against an overall municipal issuance decline of 22%, our primary market business held its own, declining only 18% to $11 billion. When including our secondary market business, our direct U.S. municipal par volume sold exceeded $11.8 billion for 2018, with the Syncora transaction bringing total par insured on a sale date basis during 2018 to $19.4 billion.

However, par amounts do not tell the whole, or even the most important, part of the story. In U.S. public finance, we produced the most fourth-quarter and annual PVP since 2010. The $206 million of direct municipal PVP that we closed in full-year 2018 was 5% more than in 2017 despite the decrease in corresponding gross par written. To be clear, these figures exclude the significant PVP resulting from the Syncora reinsurance transaction.

Another important development was our expanded activity in the health care sector, where we insured three new issues that each involved more than $100 million of par insured and also wrote a number of secondary market policies.

Across various sectors, we provided insurance on $100 million or more of par issued on 17 different transactions, something Assured Guaranty can do because of our large capital base, the excellent market liquidity of our insured bonds and our experience insuring large transactions, including public-private partnerships. Of course, in the vast majority of transactions we insured, we efficiently created savings for issuers of bonds in moderate and small insured par amounts. Our primary-market transactions averaged less than $19 million of insured par and included transactions as small as $1 million.

While U.S. public finance is the largest portion of our financial guaranty business, our international and structured finance activities have grown more important in recent years, and we are the only financial guarantor serving these markets, both of which continue to provide diversification of our revenue sources and risk profile.

Our international public finance operations generated PVP in each of the 13 consecutive quarters ended December 31, 2018, which is notable because of the long, and somewhat unpredictable, development periods for large-scale project financings. Excluding international transactions assumed from Syncora, international infrastructure finance produced $44 million of PVP in 2018. We were active primarily in the U.K., where we executed a number of regulated utility, social housings, university housings and other transactions. Additionally, for the first time since the financial crisis, we executed a significant transaction in Australia, guaranteeing a AUD$100 million bond issue largely to refinance existing facilities of the Port of Brisbane.

We also saw our efforts to develop new investor appetite bear fruit, as South Korean investors made significant investments in two of our wrapped infrastructure transactions.

Our worldwide structured finance business, apart from what we assumed from Syncora, contributed $22 million of PVP in 2018 from a range of transaction types, including aircraft residual value insurance and reinsurance, commercial real estate, diversified payment rights and secondary market wraps in the collateralized debt obligation and whole business asset-backed securities sectors. As we continue to establish our guaranty's trading value in the secondary ABS market, we expect to find primary market opportunities. We also have significant opportunities to provide capital management solutions for insurance companies and banks.

We are very comfortable with our new business prospects because we believe our financial strength has never been more appreciated. Since 2009, we have reduced our insured leverage by 59% based on the ratio of statutory net par exposure to claims-paying resources.

Rating agencies continued to acknowledge Assured Guaranty's financial strength by affirming our ratings, all with stable outlooks, during 2018. S&P affirmed its AA ratings for our operating subsidiaries. KBRA affirmed both MAC and AGM at AA+ and assigned the same AA+ rating to AGE. KBRA also affirmed AGC's AA rating. Moody's affirmed its A2 rating of AGM, which we believe inadequately reflects AGM's increased financial strength, and still declines to comply with our request to cease rating AGC.

Before affirming these stable ratings, all three rating agencies applied severe stress assumptions to our most significant group of below-investment-grade exposures, the Commonwealth of Puerto Rico and its corporations. The stable outlooks they assigned to our ratings indicate Assured Guaranty's ability to withstand their most dire stress scenarios, and those worst Puerto Rico loss assumptions modeled by the rating agencies have been made more improbable by recent positive developments, primarily in the Court of Appeals.

On February 12, 2019, one of the most contentious disputes concerning Puerto Rico's debt was resolved with the implementation of the plan of adjustment for the sales tax financing agency known as COFINA, which produced approximately $6 billion of debt relief for the island and settled almost 25% of Puerto Rico's total bonded debt outstanding. We paid off $273 million of subordinated COFINA sales tax revenue bonds in exchange for senior closed lien exchange bonds newly issued by COFINA. The exchange bonds that we and other subordinated bondholders received represent an implied initial recovery rate, including fees for parties to the COFINA Plan Support Agreement, of approximately 60%.

We also believe the senior COFINA bondholders' 93% recovery rate bodes well for our much larger exposure to the Commonwealth's general obligation bonds, which we believe have the highest priority claim to Puerto Rico's revenues. According to the Puerto Rico Constitution, all available resources must be applied to paying the G.O. bond debt before any other government expenses are paid. In other words, we believe the Puerto Rico constitution requires G.O. bondholders to receive 100% payment of their principal and interest before any other claim or expense is paid by the Commonwealth.

The Oversight Board is currently attempting to nullify approximately $6 billion of general obligation debt, including $369 million that we insure, claiming that these bonds were issued in excess of a constitutional debt limit, notwithstanding the Commonwealth's specific – and legal - representations to the contrary when the bonds were issued. We see no merit in that argument. Since one of the requirements of the Oversight Board is to restore capital market access, how does trying to repudiate previous debt issued and approved by the duly authorized Puerto Rico government help to accomplish this requirement? We continue to state that the actions of the Oversight Board are in violation of PROMESA, and this is just the latest example of many.

In another positive development, on February 15, 2019, the United States Court of Appeals for the First Circuit ruled in our favor, holding that the Oversight Board is unconstitutional because the appointments process mandated by PROMESA violates the Appointments Clause of the U.S. Constitution. The appeals court allowed 90 days for President Trump and the Senate to validate the defective appointments or reconstitute a new board in accordance with the appointments clause. It did not reverse any actions the current board has taken or invalidate any other provisions of PROMESA.

We view this decision as an opportunity to fulfill PROMESA's stated goals for Puerto Rico: achieving fiscal responsibility and regaining access to the capital markets. By improving transparency, fiscal governance and accountability, and by promoting consensual agreements between creditors and the government that respects creditors' rights, the new Oversight Board can provide a critical step towards swiftly resolving the debt restructuring process, achieving long-term economic growth and restoring capital market access – all of which are requirements the existing Oversight Board has failed to meet.

This is the fifth time the First Circuit has overturned a decision of the Title III Court. As we have publicly stated, the reversal of another Title III Court decision, this time regarding the way in which the Oversight Board members were appointed, continues to draw attention to an issue that has plagued PROMESA's overall operations – that is, inadequate adherence not just to PROMESA's own statutory requirements, but also to the rule of law in the United States. The unconstitutionally appointed original board members have failed to accomplish the Oversight Board's mission - to provide a method for Puerto Rico to achieve fiscal responsibility and access to the capital markets. The original board ignored its mandate to seek good faith consensual agreements with creditors before forcing the Commonwealth and most of its instrumentalities into PROMESA's bankruptcy-like Title III process. The hasty use of Title III has caused unnecessary delays and ongoing litigation for which their own approved fiscal plan currently dedicates $1.5 billion for legal and financial advisors, which could be used more effectively to support Puerto Rico's economic recovery.

The five overturned rulings of the Title III Court should be a signal to attorneys and consultants for the Government and the Oversight Board that rather than continue to repudiate valid legal obligations, attempt to invalidate lawful liens, and try to upend decades of efficient municipal finance history, the government parties should finally, in good faith, attempt to end adversarial and costly legal proceedings, and save the Commonwealth and its instrumentalities billions of dollars through consensual restructuring of debt and improved management.

Separately, after winning another case on appeal and continuing to press for constructive negotiations, we also maintain our efforts to have the Title III Court lift the automatic stay that has prevented us from exercising our right to the appointment of a competent receiver to take charge of the notoriously mismanaged electric utility, PREPA.

Assured Guaranty remains focused on the need for sustained vitality for the Puerto Rico economy. We have been involved in financing the island's infrastructure for many years and have insurance commitments that extend decades into the future. We support the Commonwealth's efforts to obtain equitable treatment under federal programs such as Medicaid and emergency relief. The island's economy has been performing well in recent months, and as we have demonstrated in a number of major municipal workouts, we have the ability to negotiate consensual agreements that both respect the rule of law and set the bond issuer on a path to economic recovery and access to the capital markets.

Looking at the bigger picture, our financial guaranty business is well positioned in all three of our core markets. We have consistently performed well by deploying capital strategically and responsibly and by strengthening our relationships with clients, investors, intermediaries and regulators. We recently produced a new advertising campaign whose theme, "A Stronger Bond," reflects not only the extra security our guaranty provides but also the importance we place on our relationships with the people we do business with, the communities we serve and our fellow employees.

We expect all of our financial guaranty businesses to perform well based on the increased recognition of our value proposition by investors and issuers and the regulatory incentives to manage capital more efficiently with the help of our guarantees. We will also continue to pursue appropriate alternative investment opportunities and to repurchase shares prudently. As we execute this diversified business strategy, Assured Guaranty will be guided, as always, by our top priorities: long-term financial strength to protect our policyholders and continued value creation for 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.

I am pleased to report a very strong fourth quarter. We generated operating income of $92 million, which compares favorably with $91 million in the fourth quarter of 2017.

Our net earned premiums were $125 million in the fourth quarter of 2018, versus $178 million in the fourth quarter of 2017. This includes premium accelerations of $28 million in the fourth quarter of 2018, compared with $82 million in the fourth quarter of 2017. We expected this lower refunding activity due to the elimination of the tax-exempt status of advance refunding bonds, as well as the reduction in the insured portfolio of bonds subject to a call provision.

With respect to losses, there was almost no net economic loss development in the fourth quarter of 2018. Improved performance of the underlying collateral in U.S. RMBS transactions resulted in a benefit of $17 million. However, expected losses increased on certain Puerto Rico and other structured finance exposures. The economic development attributable to changes in discount rates was a $2 million benefit for the quarter.

This quarter's results reflect the benefit of a lower effective tax rate. The effective tax rate on operating income in the fourth quarter of 2018 was 11.8%, compared with 48.4% in the fourth quarter of 2017. While fourth quarter 2018 reflects a lower tax rate in the U.S. of 21% versus 35% in the prior year, 2017 included a one-time expense of $35 million representing the implementation of the Tax Cuts and Jobs Act. Excluding the one-time provision related to the implementation of tax reform, the effective tax rate was 28.5% in 2017. As always, the effective tax rate fluctuates from period to period based on the proportion of income in different tax jurisdictions.

Moving on to the full year results - operating income was $482 million in 2018, compared with $661 million in 2017, which included gains from several large transactions.

2017 operating income benefited from $402 million in gains from the execution of strategic initiatives, particularly - reinsurance commutations, the MBIA-UK Acquisition and litigation and R&W settlements, while 2018 operating income was positively affected by the tax reform act I previously mentioned, and significantly lower loss expense than 2017.

On a full year basis, net earned premiums were down compared with 2017 due to lower premium accelerations, which were $159 million in 2018 compared with $286 million in 2017.

Turning to losses, we had a net economic benefit in 2018 of $5 million - made up of a benefit of $69 million due to improved performance of the underlying U.S. RMBS collateral and a benefit to our exposure to the City of Hartford, offset by increased reserves on certain Puerto Rico exposures. The economic development attributable to changes in discount rates was a benefit of $17 million in 2018.

During 2018, we returned $71 million in dividends to our shareholders, and this week the Board approved a 12.5% increase in our quarterly dividend to $0.18 per share and authorized additional share repurchases of $300 million, bringing our current outstanding authorization to $350 million.

In the fourth quarter of 2018, we repurchased 3.0 million shares for $120 million, bringing full year 2018 repurchases to 13.2 million shares, or $500 million. These shares were purchased at an average price of $37.76 per share for the year.

Year to date in 2019, we have purchased an additional 1.2 million shares for $48 million. Since January 2013, our successful capital management program has returned $2.8 billion to shareholders, resulting in a 49% reduction in total shares outstanding.

The contribution of the cumulative repurchases since the inception of the program is over $15 per share to operating shareholders' equity, and over $27 to adjusted book value per share.

We currently have over $200 million in cash and investments available for liquidity needs and capital management activities at the holding companies.

As Dominic mentioned, the continued share repurchases, along with the successful execution of strategic initiatives such as 2018's Syncora transaction, have helped to drive operating shareholders' equity per share and adjusted book value per share to new records of $61.17, and $86.06, respectively.

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

QUESTION & ANSWER SESSION

Operator
[Operator Instructions] And the first questioner today will be Bose George with KBW.

Bose George, *Keefe, Bruyette, & Woods*
I'm actually looking to start with a question on the outlook for acquisitions and reinsurance. You've obviously done some very good transactions over the last few years. Can you just talk about the outlook there? And also, do you need resolution in Puerto Rico or more resolution before we can see more activity?

Dominic Frederico
Well, Bose, as you know, the – we've been obviously very high on the strategic initiatives to acquire or consolidate the rest of the financial guaranty market. And obviously, we've had tremendous success over the last number of years in that exact area. And as we get down to the remaining possible targets, obviously Puerto Rico does have a rather large impact on it. So to your question, from an acquisition point of view, I think Puerto Rico's resolution would significantly accelerate potentially the opportunity on both sides for a transaction to be consummated.

However, looking at the Syncora structure, we went with reinsurance, which allows us to provide them capital relief, provide liquidity while taking those risks off their exposure list that we can meet our current requirements relative to underwriting guidelines, overall limits, et cetera, while leaving back those other contentious exposure that at this point in time doesn't make sense for us to take or obviously we would charge too high of a value that would take away some of the benefits of a transaction.

So both answers apply. Yes, I think Puerto Rico does provide better opportunities. However, using the Syncora structure as the example, we can still go out and provide capital relief and, therefore, still acquire portfolios not through acquisition but through reinsurance.

Bose George
Oh, okay, that's helpful. And then actually just a couple on the income statement. The increase in operating expenses this quarter was – can you just discuss that and just talk about the run rate for that number?

Robert Bailenson
Well, the run rate on operating expenses should be similar to what we had last quarter. We had a couple of onetime expenses that we had in the fourth quarter that will not be repeated in the first quarter of this year.

Bose George
Oh, okay. And then actually, the $18 million, the realized losses in the – in GAAP earnings, is that just in the investment portfolio?

Robert Bailenson
I'm sorry. I didn't hear the question.

Bose George
The $18 million, the realized losses that you have in GAAP earnings, is that in the investment portfolio just?

Robert Bailenson
Yes, that's in the investment portfolio.

Bose George
Oh, okay. And then just one more. The foreign exchange losses that you called out, those are being pulled out for adjusted earnings, right?

Robert Bailenson
Yes, they're pulled back for adjusted earnings. Yes, they are.

Operator
[Operator Instructions] And the next question will be from Geoffrey Dunn with Dowling & Partners.

Geoffrey Dunn, *Dowling & Partners*
Rob, can you break out on the muni production, both par and PVP, the breakdown between primary and secondary?

Robert Bailenson
Yes, I'll get that in a moment.

Geoffrey Dunn
And then while you're digging for that, any update on the special dividend of the operations beyond the regular dividend capacity?

Dominic Frederico
I'll handle the special dividend, Geoff. So obviously, as you know, for us to continue to be able to achieve our $500 million of capital management projected, we need special dividend approval from New York and/or both –and/or Maryland. Obviously, we don't typically announce that until after we receive approval. So with us maintaining the same goal of $500 million, I think you can be fairly confident that we will release a – requesting a special dividend. And when we get the approval, we'll let you know.

Geoffrey Dunn
Is there any reason that didn't happen in Q4 like it has in the past?

Dominic Frederico
Well, remember, the timing of it really reflects our looking at our cash flow available for share repurchase. And to the extent we have enough money, we don't need to go back to the well. We want to keep this as a kind of an automatic venture with the regulators, so that when they get the request, they understand the purpose of it and we get through a very quick approval process. And as you see in 2018, we did meet the $500 million share repurchase target.

Robert Bailenson
And we also wanted to file our 10-K first, Geoff, so we could give the regulator all the information that they would need.

And your first question in public finance, primary was $74 million of PVP for the quarter, 2018. Secondary markets was $15 million. And for 2017, fourth quarter, we had $56 million in primary and $3 million in secondary. And for the full year of 2018, I don't know if you asked that question, we had $160 million of primary and $46 million in the secondary market.

Geoffrey Dunn
And do you have the par breakdown for the quarter?

Robert Bailenson
Yes. For the par, for primary, we have – it's $4.2 billion for primary. So secondary is $342 million. And last year, it was $4.3 billion and $97 million in secondary.

Geoffrey Dunn
All right. And then moving more to the legal side. How do you think that the recent ruling on the Oversight Board plays out? Are there board members replaced? Or is this more just light a fire under them to start being more proactive with their mission statement? And then also, as part of that, what does that court ruling mean, do you believe, for the current effort by the Oversight Board to nullify the $6 billion of GOs?

Dominic Frederico
Well, I think they're different questions. So in terms of what happens with the board, your guess is as good as ours. Obviously, the board also had an issue relative to its normal 3-year term expiration in August anyway. So whether it's May or August, that board would have to be either reappointed or replaced at some point in time in the current year. And obviously, with a stack of litigation that's now waiting in the courts in terms of appeals, I don't think anything would be under their auspices finalized unless they start to move significantly back towards the rule of law to resolve some of these open disputes and open cases in the courts. So whether they get reaffirmed, replaced, that's obviously up to the President and the Senate, and we're obviously very interested in how that ultimately plays out. But the time frame is fairly tight, so we'll see what happens.

As you said, and if you go back to Congressman Bishop's letter to the Control Board, they have failed in every aspect in following the law as it was passed by the House and the Senate, PROMESA in terms of their responsibilities of the board. So for us, their replacement, obviously, is very, very much appreciated because of the fact we've had virtually no cooperation from them anyway, including this attempted repudiation of $6 billion of debt. And if you go back to the history of law in this area, you would conclude that it's a very hard climb for them to even get any positive momentum to even accept that. I mean, when – there's a lot of case law that says if a government basically states that the debt is legal, valid and meets all their tests, if they try to repudiate it in the future because they're the ones that have stated it and the bond investor obviously relied on the government's own assertions, therefore the bond is – the debt is still valid regardless of whether it violated some clause at that point in time. Because the government's the only one that could have determined that and since they affirm positively that it didn't, then it's hard to go back and repudiate. Plus, from the standpoint of just creditor behavior, you don't go back to say, I'm going to go look for the opportunity to once again be able to access the marketplace for credit in the future if you provide kind of – these kind of behaviors.

So at the end of the day, we don't believe the validity of the $6 billion repudiation. Worse, we look back at our records and you had bond counsel, you had the government making certifications, et cetera. So once again, that seems to be another folly, but it just shows the continued illegal acts of the board and how they have not followed the responsibility that they have under PROMESA.

So getting back to the replacement, for us it couldn't happen sooner, and then we are very much looking forward to August anyway. So this kind of falls in that same general footsteps. And now the way the Appointment Clause works, as you know, the President has to nominate the people for the position and the Senate has to confirm them. If you'll remember, the old board was kind of a hodgepodge of both Senate and Congress and President, and everybody kind of added one from column B and one from column C. Now you're at least going to have a focused appointment that theoretically should respect rule of law and provide creditors a more balanced approach to how these restructures are going to be done.

Geoffrey Dunn
Okay. If I can sneak one more in. From a just broad and legal framework, do 5 overturned rulings of the Title III Court, does that have any implication for Judge Swain overseeing this process? Is there any precedent for changing judges? Or what does that mean for Judge Swain's future in this whole thing?

Dominic Frederico
Geoff, I'm not an attorney, but I play one on TV. And I've asked that question a million times to a lot of what I'll call very experienced legal professionals, and they say being overturned is obviously a very strong statement back to the judge. I can’t imagine what being overturned 5 times means.

Operator
And our next questioner, too, will be Brian Meredith with UBS.

Brian Meredith, *UBS*
Dominic, I was curious, with the backup in interest rates since the end of third quarter, what's your kind of view or any updated views on when you would potentially see your new business exceed the runoff of the unearned premium book?

Dominic Frederico
Well, remember, we had this issue relative to the amortization of the portfolio that – so 2 things are going to really start to see new business and growth, right? One is either the market really starts to provide greater opportunity for insured transactions and, therefore, production goes up, premium goes up, par insured goes up.

Or conversely, the amortization of the existing portfolio slows down to where it's now normalized amortization, and, therefore, new business written should replace the old business that runs off. As you know, in the last 5 to 6 years, we've had incredible accelerated amortization through refundings, through our own commutations, through our own decisions, so that the portfolio has been artificially impacted by our behavior and the market's behavior relative to the existing book of business and how fast it amortized. We're now seeing that slowdown. As Rob mentioned in his talk, refundings are virtually slowing down. And if you look at the year, it's now subject to calls. There are a lot smaller production than in the prior years that were subject to calls.

So we think the rapid amortization slows down, and, therefore, new business has been picking up. As we talked about, we had our best year since 2010 in public finance. We're seeing more opportunities in the international infrastructure market. We're making smart strategic investments to vertically integrate that specific area and opportunity. So we're seeing the grassroots of new business production growing. And therefore, we think there is going to be an inflection point probably somewhere either later this year or next year where we finally get the runoff of the portfolio to be slower than the new business development. Therefore, we should just start to show positive trends.

Now remember, this year, we did finish the year with greater unearned premium reserve than the prior year. So we did add to the store, although it didn't really show up in the par because we are getting paid more for our risk. If you divide par and the premium, and so the premium rate's higher by about 1/3 year-over-year. So we're getting paid more for our muffler. We just don't get that many opportunities in a low interest rate environment.

And as you can see, every time there's been a positive move in interest rates, there's been some global concern over economic activity that makes central banks kind of throttle back on the pace of the increases. So do we ever get to that really hot interest rate market of, say, a 4.5% 10-year Treasury or so? And – but at the end of the day, it's hard to see clearly through to that.

However, as I said, with the slowdown and rapid amortization in continued growth in our new business prospects, we believe that there will be a positive movement somewhere in either '20 – end of '19 or early '20. And of course, any of these acquisition transactions that we can possibly make would obviously have a significant impact on that as well.

Brian Meredith
Right. Right, right. And then – and just to follow up, you said – my other question was, what's driving that increased pricing that you're seeing or increased premium per dollar par?

Dominic Frederico
Well, remember, we are the only kid in town.

Brian Meredith
Okay. So is it your efforts or the securities that you're doing?

Dominic Frederico
Pardon me?

Brian Meredith
Like I said, is it basically just your pricing or is it the type of transactions you're writing that's required that are...

Dominic Frederico
Oh, it’s a combination of both. Remember, let's not kid ourselves. Mix of business has huge impact. And as we talked about, the influx of health care this year, obviously that carries a lot higher premium rate. So yes, that will also benefit. So mix of business is as important as the pricing. But remember, we always talked about, and especially when we talk to the rating agencies, if you look at pricing in 2005 versus pricing in 2018, the 2018 pricing is a lot stronger. And once again, you had 8 people trying to fight for a piece of food back then. Today, especially when you get to the larger transactions of the more sophisticated issuers, there's basically us. So we don't have that same level of someone bidding a 20% use of the savings between a wrapped and the unwrapped price. Now on average, we get between 50% and 60% of the difference between the wrapped and the unwrapped price. So it is a different pricing market without question. But also, mix of business has an impact as well.

Brian Meredith
Right. Is it - can I also assume then that the return on kind of required capital per transaction has actually gotten better this year than last year?

Dominic Frederico
Of course. And remember, we always have a – we do a calculation by deal of return on the deal. So we have our own thresholds of what we're looking for. Obviously, our models hold capital to legal final. Of course, under the municipal business that you get a high level of refundings, typically you get to cash that capital in literally no worse than half the time you would normally think to hold it. So the returns are always going to be fairly beneficial. I mean, in the international markets, the returns in that market have always been really strong. And of course, in that market, there is nobody else left to provide a wrap solution. So when we look at the overall balance of our book and especially as international and structured write bigger pieces than they have in the past, that drives up the overall ROE on the new business that we write.

Operator
And our next questioner today will be Bose George with KBW.

Bose George
Yes, I've got a follow-up on Puerto Rico. Can you just talk about your thoughts about any potential consensual restructuring at PREPA?

Dominic Frederico
Well, we've had a deal on the table for PREPA for how long. We had a deal that was approved by 2 governors, by the utility commission, by everybody. And then all of a sudden, the Control Board stepped under which they had no right to under the laws of PROMESA. All prior agreements were supposed to be grandfathered in. Once again, this is another indication of the rather horrific behavior of the Control Board. So back to the earlier question about their replacement, once again it's a good idea since they have not followed the law at all.

So we think that there's a deal out there to be done. There's tons of negotiation going on, as you can well imagine. I think the COFINA deal that paid 93% to the seniors bodes really well for the Commonwealth general obligation because the Commonwealth general obligation has the strongest legal claim. And once again, if you're going to agree to give $0.93 to the COFINA seniors, what are you going to give to Commonwealth general obligation guys?

PREPA is just another subsidiary of that, but PREPA seems to be easier to solve because it's, in effect, separate public entity that has its own revenue base, et cetera. Obviously, it's been mismanaged to incredible proportion and continues to enter into these weird contracts with small companies that just got initiated yet they get the contract to do something on behalf of PREPA. We need to get that receiver in. We're going to be back in the courts, I think it's in May, to put our request for receivership in there. I think that's going to be a real accelerant to a settlement because I think the last thing they're going to want is have us behind the door. So I think things can happen very quickly. And I think with this last overturn, that's another indication that the rule of law is going to be applied by the courts, and that's got to be very concerning.

And remember, there's still another decision to come out of the appellate on the clawback of the transportation revenues. If that gets reversed as well, I think this creates a very open environment that really does signal very strongly back to the Puerto Rican government and the Control Board that games are over, you need to start paying your bills.

And the most insulting part of all this, no matter what fiscal plan they come out with, with how much surplus that's available, there is no debt service ever provided in the fiscal plan, and I think that's just an absolute disgrace, mismanagement, call it anything you like. I think that's absolutely pathetically behavior of the Control Board, the judge and the Commonwealth and how they've looked at this thing. They're just playing a game to try to get the best deal they can in the market, and thank God we're not willing to play any games. We're more than happy to stay with the courts and have our rule of law upheld.

Bose George
Okay, that's helpful. And again, just – so let me just throw in one more. The S&P has proposed revisions to the kind of criteria for analyzing capital adequacy for the bond insurers. Anything in there that – to call out that might be interesting?

Dominic Frederico
There's a whole lot of things to call out that are interesting, Bose. But I'm just not going to go to that level of detail until we get further clarification that it will go through. But as you know, that's an attempt to bring the financial guaranty industry more in line with the rest of the insurance companies that they rate. And therefore, some of the changes and guidelines, if you read it, are, I think, very beneficial to us as a financial guarantor and not the least of which is the capital credit for assets held on balance sheet. So in the past, as you know, anything below A was 100% capital charge. And yet, it really made no sense when you think about a BBB security that S&P would have as its own probability of default, say, under 2%. We took 100% capital charge on it. That made no sense. So obviously, as you look at those revised investment guideline capital charges, that alone would allow Assured Guaranty to more, on a diversified basis, manage its investment portfolio across a lot of rating categories that would allow us to boost significantly the return of the portfolio. And at $10-plus billion, that's a pretty good opportunity for us to create income.

Operator
And this concludes our question-and-answer session. I would now 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 very much.

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