

Assured Guaranty Ltd. (AGO)
February 23, 2018
Fourth Quarter and Year-End 2017 Earnings Call

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Thank you operator. And thank you all for joining Assured Guaranty for our 2017 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 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.

In 2017, Assured Guaranty demonstrated once again that our long-term vision, well-conceived strategy and skilled execution can create impressive growth in the value of our company. We earned \$661 million in non-GAAP operating income, increased our non-GAAP adjusted book value to \$9 billion for the first time, further advanced our financial strength and broadened the scope of the company, all while paying substantial claims to protect insured bondholders.

Our 2017 accomplishments include:

- our greatest annual dollar increase in non-GAAP adjusted book value per share, which ended the year at a record \$77.74, up 17% from a year earlier
- a record year-end non-GAAP operating shareholders' equity per share of \$56.20, 13% higher than a year earlier
- the return to shareholders of \$571 million of excess capital through \$70 million in dividends and repurchases of 12.7 million common shares
- a 35% annual growth in the present value of new business production, or PVP, which reached \$289 million, the highest annual amount since 2010
- a widening of our leadership in the U.S. municipal bond insurance market, guaranteeing more than 58% of insured par sold
- the completion of our acquisition of the European arm of MBIA Insurance Corp., which generated \$57 million of after tax gain and increased non-GAAP adjusted book value by \$322 million at the acquisition date
- our first direct investment in an asset management firm, as part of our strategy to identify alternative investments that complement our existing financial guarantee business, provide accretive returns, and complement our core strengths
- and the continued success in loss mitigation efforts, one of our key strategies, including a major RMBS settlement in the fourth quarter for a pre-tax gain of \$105 million.

In new business production, we saw significant contributions from all three of our financial guaranty markets – U.S. public finance, international infrastructure finance and U.S. and international structured finance – and we increased overall PVP for the fourth consecutive year. We accomplished this in a year of continued low interest rates, exceptionally tight credit spreads, and disturbing headlines about the plight of the Puerto Rican people and the illegal behavior of the Puerto Rico Government and Oversight Board.

In the primary U.S. municipal bond market, we continued to lead the industry in terms of both par and the number of transactions insured. Issuers continued to increase their use of our insurance on larger deals, attaching AGM insurance to 23 new issues with \$100 million or more of AGM-insured par. We also led the industry in the number of smaller transactions, with AGM and MAC guaranteeing almost 400 bank-qualified issues.

Importantly, for the second consecutive year, PVP generated in the secondary market was in the vicinity of 30% of our total U.S. public finance PVP. In 2017, we insured approximately \$1.7 billion of secondary market par. When we count all of our 2017 U.S. public finance business, including transactions in both the primary and secondary markets, Assured Guaranty generated U.S. public finance PVP of \$196 million, a year-over-year increase of 22%.

On the international side, Assured Guaranty's performance was even more noteworthy during 2017. International infrastructure transactions generated \$66 million of PVP, \$14 million more

than in the previous two years combined. The transactions we closed show we have returned to being an important player in international infrastructure capital markets, particularly in the United Kingdom.

We closed three transactions in the U.K. student housing sector, where we see ongoing opportunities, and insured a £261 million refinancing for St. James's Hospital in Leeds, one of the largest teaching hospitals in Europe. We also issued a long-term financial guarantee that improves the debt service liquidity for bonds issued to refinance Eurotunnel, introducing to Europe an application of our guaranty that has the potential to enhance the long-term debt service liquidity for many other issuers. It's also interesting to note that in 2017 we insured two transactions located outside of the UK, which further reflects the recognition, value and acceptance of our guarantee in the European market.

Because international infrastructure transactions often take a long time to complete, transaction flows tend to be less regular and the timing of closings is not easy to predict. It is therefore encouraging that we have generated PVP in the international market for nine consecutive quarters. While we are still likely to see some volatility in international production, it is clear we have the value proposition and acceptance to succeed in this market.

In January 2017, we expanded our international presence by completing our acquisition of MBIA's European operating subsidiary, which we renamed Assured Guaranty (London). The acquisition added approximately \$12 billion of primarily European infrastructure and utility transactions to our insured portfolio. In time, we believe we can ultimately simplify our international corporate structure and enhance our market visibility by consolidating all of our European insurance subsidiaries under the brand name of AGM's U.K. subsidiary, Assured Guaranty Europe.

Our structured finance business was also productive in 2017, generating \$27 million of PVP in a variety of market sectors. It is important to note this figure excludes a significant amount of PVP that was generated from a municipal structured transaction that was executed by the Structured Finance group, but accounted for under the U.S. public finance sector. The aviation sector was also a focus, where we executed a number of residual value transactions on aviation equipment, and we also focused on capital management solutions for financial institutions, such as life insurance reserve financings and risk transfers for regulatory compliance.

Additionally, we wrote secondary market policies on some asset securitizations to demonstrate the value of our guarantees in the asset-backed market, where we do see additional opportunities in consumer loan, auto loan and whole business securitizations. This secondary-market program has stimulated interest in our guarantees in the primary asset-backed market.

During the year, S&P Global Ratings conducted its comprehensive annual review of Assured Guaranty and reaffirmed, once again, AA stable financial strength rating it assigns to our principal operating subsidiaries. Separately, Kroll Bond Rating Agency reaffirmed its AA+ stable rating for MAC, its AA stable rating for AGC and, in January 2018, its AA+ stable rating for AGM.

As for Moody's, we have long disputed their subjective methodology and their disregard for the quantifiable improvement in our financial strength. Given AGC's AA stable ratings from both S&P and Kroll Bond Rating Agency, we no longer consider a Moody's rating essential for AGC and asked Moody's to withdraw its AGC rating.

Our continued financial strength results from our fundamental credit discipline combined with continued execution of our alternative strategies. Over the ten years from 2008 to 2017, we have

maintained our total claims-paying resources at approximately \$12 billion, which is a remarkable achievement, considering that during that period we paid out more than \$7.1 billion, comprising \$4.4 billion in net claim payments to keep insured investors whole, over \$535 million in dividends to shareholders, and \$2.2 billion to repurchase 42% of the common shares outstanding at the beginning of our repurchase program in 2013.

Acquisition of legacy bond insurers or assuming their insured portfolios through reinsurance results in large and immediate increases to the size of our insured portfolio, which is equivalent to writing new policies in the same par amount. Such acquisitions add to the reserve of unearned premiums that set a predictable floor for each quarter's revenues. Just this month, we announced that we would reinsure substantially all of Syncora Inc.'s insured portfolio and commute a significant portion of the exposure we had previously ceded to Syncora. This transaction is expected to close by the end of the second quarter.

Our Alternative Investments group is also tasked with identifying and investing in other types of businesses where there is synergy with our core competencies, a risk profile in line with ours, and high potential for attractive returns.

One source of these opportunities is in the asset management field, and during 2017, we purchased a limited partnership in a fund that invests in the equity of private equity managers. We also purchased a minority interest in investment advisory Wasmer, Schroeder & Company, a highly regarded, independent investment advisory firm that is a great strategic fit. Assured Guaranty and Wasmer, Schroeder have complementary strengths in municipal credit analysis, and both have extensive relationships in the public finance market. We expect to support the continued growth of Wasmer, Schroeder as it seeks acquisitions of other fixed income asset management firms.

Our pursuit of acquisitions and alternative investments is one way we reduce our excess capital as our insured portfolio amortizes and our leverage ratios decline. We saw the ratio of our statutory net par outstanding to total claims-paying resources decline to 20:1 at year-end 2017 from 22:1 at the beginning of the year.

We are also committed to a capital management program focused on increasing shareholder value. In 2017, we met our stated goal of repurchasing \$500 million of shares annually to increase our value per share. To continue our capital management program, we need to upstream sufficient capital from our operating subsidiaries to our publicly traded holding company, while keeping a watchful eye on the appropriate capitalization for each of our insurance companies and also adhering to the dividend limitations set by the regulators.

In September, we rebalanced assets among our U.S. subsidiaries through MAC's repurchase of \$250 million of its own shares from its immediate holding company, which is jointly owned by AGM and AGC. The cash from the repurchase was distributed to AGM and AGC in proportion to their ownership, providing those companies with additional liquidity for upstreaming dividends or redeeming stock. Then, in the fourth quarter of 2017, we obtained permission from the Maryland Insurance Administration and the New York Department of Financial Services to redeem \$200 million of AGC stock and \$101 million of AGM stock, respectively. These purchases provide funds to the parent company that may ultimately be used for share repurchases or alternative investments.

Another key strategy is loss mitigation. We have been very successful over the years in obtaining recoveries for breaches of representations and warranties in RMBS transactions, and with the

significant settlement we concluded in the fourth quarter, concerns about our exposures in that sector are substantially behind us.

On the public finance side, we are focused on helping Puerto Rico set itself on a path to economic recovery and future access to the capital markets. After Hurricane Maria, we voluntarily withdrew without prejudice an adversary complaint we had filed to challenge the legality of the original Puerto Rico fiscal plan that the Oversight Board had certified. The Plan violated numerous provisions of PROMESA and the law and constitutions of both Puerto Rico and the United States. We withdrew the complaint to remove a distraction from the recovery effort and because it was clear the previously certified plan would have to be revised. In a common sense world, which is clearly absent in Puerto Rico, the need to revise the plan should have facilitated new collaboration between the federal Oversight Board, the Commonwealth and its creditors. Instead, the Revised Plan the government submitted not only squandered the opportunity to correct the flaws in the original plan, it actually exacerbated them.

After the Board demanded further revisions, there is now a *Revised Revised* Plan that still offers neither a path to economic revitalization and restoration of capital market access nor a credible basis for debt restructuring.

We joined other creditors in a February 14th public letter to the Oversight Board that outlined the current proposal's many deficiencies. I will mention a few today:

- The plan contradicts itself by assuming massive outward migration and a 20% population decline without substantial support and/or any government plans or strategies to stem the decline. It also makes contradictory projections about increases to healthcare costs and government expenses despite this projected falling population.
- It also fails to distinguish between essential and nonessential expenditures and contains no detailed program for a meaningful reduction in government spending.
- Incredibly, the plan does allocate hundreds of millions of dollars for litigation expenses and outsized advisor fees while providing no debt service, reflecting the government's determination to litigate rather than involve creditors and other stakeholders in developing a comprehensive, consensual solution.

Certifying such a plan is a disservice to the citizens of Puerto Rico, who will bear the cost of this litigation and lack of market access for years to come.

Additionally, no plan should be certified until all stakeholders know the government's true financial position. Puerto Rico must provide transparent disclosure of its audited 2015 and 2016 financial statements, the data underlying the government's assumptions, and timely and up-to-date information about all financial accounts available to the government. Four and a half months after Hurricane Maria, we still do not have reliable estimates of the cost of restoring normalcy to the island and the full amount of relief aid that will be available from the federal government, much less the long-term economic impact of the disaster.

All stakeholders should be focused cooperatively on the immediate recovery needs of Puerto Rico. A first step would be for the Oversight Board and the creditors of the Puerto Rico Electric Power Authority to agree on a well-qualified, experienced Receiver the court could approve to steer PREPA through its current emergency and away from the corruption, political meddling and general mismanagement that has led to such scandals as the infamous Whitefish contract, the

discovery of a warehouse full of restoration materials, and alleged bribes solicited by restoration workers. Talks of privatizing PREPA without involving its creditors is a non-starter and will only cause further disruptions to the reconstruction of PREPA and delay any real improvement in operations due to litigation that will result from ignoring creditors' legal rights.

If the Commonwealth and Oversight Board continue to ignore legal and constitutional rights of creditors and resist working constructively toward a consensual restructuring, costly litigation will continue for the foreseeable future. We expect that creditors will ultimately prevail in these avoidable courtroom disputes for a number of reasons, one of which is that the Puerto Rico constitution is crystal clear that G.O. bonds get paid first, and that clawbacks can only be used to pay debt service on Commonwealth debt and PROMESA requires that fiscal plans must respect constitutional priorities and contractual liens.

But, if the outcome attempts to retroactively treat creditors unfairly, the news will reverberate across the United States, undermining municipal bond investors' confidence in the terms of their contracts and in politicians' willingness to abide by the commitments they make or inherit. Advocates of repudiating the debt are either oblivious, ill-informed or vastly underestimate the far-reaching implications of actually doing so. Such blatant disregard for the rule of law would make it more expensive for municipalities throughout the United States to fund essential services and infrastructure.

This also applies to revenue bonds like those of the Highways and Transportation Authority. The Title III court has turned a blind eye to the legislative history, and the context and purpose of the special revenue provisions by failing to order the transportation agency to turn over revenues for debt service while the Title III case is pending. If this ruling is allowed to stand, it will call into question an important investor protection that is fundamental to the revenue bond market. We will be appealing that ruling.

The developments in Puerto Rico have demonstrated the value of our guaranty for both default protection and the support of insured bonds' market value. As we continue to defend our rights and convey our message unequivocally to all parties involved in the Puerto Rico negotiations, we know we have the capital and liquidity to continue the effort as long as necessary. We also have the confidence of knowing that our financial strength will continue to protect holders of Assured Guaranty insured bonds.

While Puerto Rico seeks to avoid paying its debt, other United States territories and municipalities have taken a different approach. For example, both Guam and the Virgin Islands have said they intend to fully repay their debt obligations and respect the rights of creditors and the rule of law. They serve as a current example of the prudent way a municipality or territory can deal with adversity, while understanding the importance of maintaining access to the capital markets in order to support their recovery, as well as their future growth and sustainability.

As we have seen with past municipal bankruptcies, working closely with creditors and tapping their expertise to help navigate complicated debt restructurings is the optimal path to emerging out of bankruptcy proceedings.

Looking toward the year ahead, we remain focused on our central objective, to build long-term value for our policyholders and shareholders.

Indications are that the Federal Reserve's rate-setting committee will continue to raise short-term rates gradually, notwithstanding recent stock market volatility. This should eventually push up

long-term rates, which has historically led to wider credit spreads and greater demand for bond insurance. This may take time, however, to really experience the benefit of increased demand for insurance.

Additionally, the new tax regime is likely to have mixed effects on the municipal bond market, potentially including reduced new issue volume and higher yields because of the reduced demand from institutional investors enjoying lower tax rates. Rob will speak in a moment about the more direct effects of tax reform on Assured Guaranty. A potential wild card is what effect, if any, proposed federal infrastructure legislation may have on the U.S. public finance business.

While we must be prepared for a potential decline in total U.S. public finance issuance in 2018, we believe the market is increasingly recognizing the value of our product. We have the additional advantage of a diversified strategy that includes international infrastructure finance and structured finance. In both of these markets, we are seeing growing recognition of our value proposition along with regulatory incentives to use our products to manage capital more efficiently. Additionally, our alternative investments strategy provides a separate avenue towards growth and positive results, and our capital management program will continue to benefit shareholders.

Our business model has proven successful for more than three decades. As we build on that success, we continually evaluate the environment and pursue new opportunities to put capital to work effectively. Assured Guaranty is in a very strong financial position, and we have the strategy and resources for continued success in protecting policyholders and creating value for shareholders.

I will now turn the call over to Rob.

Robert Bailenson
Chief Financial Officer

Thanks Dominic, and good morning to everyone on the call.

As Dominic mentioned, 2017 was another successful year where the execution of our strategic initiatives contributed to our key financial metrics, which I will highlight in a minute.

But first, I would like to comment on the impact to Assured Guaranty from the tax reform that was enacted in December. We believe that tax reform will be a net positive going forward as we expect non-GAAP operating income effective tax rate to decrease to approximately 14 to 16%, though the rate will vary, as it has in the past, due to the proportion of income in different tax jurisdictions in any given period.

From an adjusted book value perspective, the decrease in corporate tax rates from 35% to 21% was a benefit of approximately \$239 million, or \$2.06 per share, because ABV includes unearned premium reserve that is now reflected at a lower tax rate.

The immediate impact to non-GAAP operating income was an estimated charge of \$35 million in the fourth quarter of 2017 comprised of:

- a \$24 million charge due to the deemed repatriation of undistributed foreign earnings of our U.K. subsidiaries, and

- an \$11 million write down of net deferred tax assets attributable to the reduction of the corporate tax rate.

Please note: this differs from the GAAP charge of \$61 million, because it adjusts for the portion of deferred tax asset and liability write-downs that are related to non-GAAP adjustments, such as mark-to-market adjustments on CDS.

Operating income, including this tax reform charge, was \$91 million in the fourth quarter of 2017, compared with \$139 million for the fourth quarter of 2016. The fourth quarter of 2017 included lower net earned premiums, offset in part, by a benefit on an R&W settlement associated with a transaction that was part of the CIFG acquisition.

Economic loss development during the fourth quarter of 2017 was a loss of \$15 million, primarily related to Puerto Rico exposures that reflect the revised fiscal plan which inappropriately reduced the amount of debt service available to pay creditors. The increase was partially offset by a \$111 million benefit in U.S. RMBS attributable mainly to an R&W settlement. The change in risk free rates used to discount losses resulted in a benefit of \$3 million.

Net earned premiums and credit derivative revenues were \$185 million in the fourth quarter of 2017, compared with \$261 million in the fourth quarter of 2016. The decrease was due primarily to lower refundings and terminations, which were \$82 million in the fourth quarter of 2017, compared with \$137 million in the fourth quarter of 2016.

It should be noted that the tax reform act also includes provisions that repealed the tax treatment of advance refunding bonds, which may result in a lower volume of municipal obligation refundings in the future.

Turning to the full year, operating income was \$661 million and reflects the impact of other strategic initiatives undertaken in 2017 including:

- the commutation of reinsurance relating to three previously ceded portfolios, resulting in the reassumption of \$5.1 billion of par, and \$82 million of unearned premium reserve, generating a pretax commutation gain of \$328 million, or \$213 million after-tax, and
- the completion of the MBIA UK acquisition which not only increased our UPR but also resulted in an after tax gain of \$57 million and an increase in adjusted book value of \$322 million.

Throughout 2017, we significantly increased Puerto Rico losses as new developments emerged, which was the primary driver of the \$313 million economic loss development for the year. This was net of benefits from our loss mitigation strategies.

In terms of capital management activities, in 2017, the New York and Maryland regulators approved a total of \$301 million in AGC and AGM share repurchases. In 2017, AGM transferred \$101 million, and in 2018, AGC transferred \$200 million, to their respective U.S. parent holding companies in exchange for the shares held by the parent. This is the funding mechanism principally used to achieve our share repurchase objectives and it is what we had previously referred to as a special dividend.

As a result, as of January 31, 2018, we had cash and investments available for liquidity needs, capital management activities and other strategic opportunities of \$11 million at the Bermuda holding company, and \$505 million at the US holding companies.

During the fourth quarter of 2017, we repurchased 1.9 million shares for \$70 million, bringing full year 2017 repurchases to 12.7 million shares, or \$501 million, at an average price of \$39.57 per share. Since 2013 and through today, we have repurchased approximately 43% of the total shares that were outstanding at the start of our share repurchase initiative.

The cumulative impact of the repurchases from 2013 through the end of 2017 was a contribution of approximately \$11.80 per share to operating shareholders' equity, and over \$20 to adjusted book value per share.

Further commitment to our shareholders is reflected in the increase in our dividends to common shareholders. Our current dividend announcement of \$0.16 per share represents a 23% increase over 2016 dividends.

The Company's successful execution of its diversified strategy has led to new records for non-GAAP operating shareholders' equity per share and non-GAAP adjusted book value per share of \$56.20 and \$77.74, respectively, and leaves us in great position to pursue continued repurchases, alternative investments and/or acquisitions.

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] And our first questioner today will be Bose George with KBW.

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

Hey guys, good morning. First question is just on the capital return. On the last call, you guys noted, I think, about \$500 million expectation for 2018. With the redemptions here from AGM and AGC, you already have the special, so you're already kind of positioned for that. So just in terms of going forward, will the next special dividend request be for 2019? And then in terms of the pace of the buybacks, is it going to continue to be spread out over the year? Or could you do something accelerated over here?

Dominic Frederico, Chairman, CEO and President, Assured Guaranty

Well, as we've said, the \$500 million is an annual target, not necessarily going to be achieved in every 12 calendar months but over the flow of the period, that's what we hope to achieve. Number two, we'll always need the help of a special dividend request sometime in the year, because the operating dividend capacity of the subsidiaries will not be enough to reach that total. So each year and typically toward the end of the year, we put the request in towards the middle end, and then get approval at the end, and as I said before, we wanted to be kind of automatic with the regulators so that it's an amount that they are very comfortable as they look at the financial strength of the organization. However, we have other cash needs as well at the parent company, and we still continue to evaluate our alternative strategy program in terms of making other investments that will provide growth and accretive returns to the organization. So we have a goal, we have a methodology to achieve that goal, and we continue to execute our

strategies across all the various disciplines that we evaluate as we look to put the money to work.

Bose George

Okay, great. Thanks. And then switching over to the Syncora transaction. Can you give us some indication of the potential accretion from that?

Dominic Frederico

Well, the portfolio of risk that we were able to re-underwrite and accepted only the risks that met our underwriting standards at a price in value that is above current market availability. This will be a different effective transaction than other transactions we have done in that you'll earn the benefit, the accretion, over time. And therefore, in any given period, it just is a matter that we wrote new business at a better premium rate relative to the current rate. So it more comes in at a higher ROE per deal, as opposed to a specific accretion for a value of the transaction because of the nature of the earning and the timing.

Robert Bailenson, Chief Financial Officer, Assured Guaranty

I mean, it's going to be accretive to all of our measures. It depends when it closes as well. But on an annual basis, we think it'll increase earned premium to the extent of something between \$25 million and \$30 million because we're writing about \$360 million of premium. So it depends on when it closes, but I would use in the first year or full year it would be about \$25 million to \$30 million of earned premium.

Bose George

Okay, great. And actually just one more on the higher rate environment, can you sort of quantify the potential benefit to the investment portfolio from higher rates?

Dominic Frederico

Well, remember, we talked about it, I guess it goes back to third quarter of '16, where we've seen a run-up in rates and also the Trump effect last year in the election where we saw an immediate increased spike in demand. We always felt that a 50% rate improvement probably improves production opportunity by a percentage equal to that. But as you go up the scale, the relationship between increased opportunity against rate increases becomes geometric, not linear. So it's really hard to predict and, of course, with the tax reform potentially having other impacts on issuance, et cetera, and maybe on demand for municipal bonds, it's going to be harder to determine the exact value. All we can say is in the long run, increased interest rates benefit our company, benefits our insured portfolio, benefits our investment portfolio, and benefits the demand for the product.

Robert Bailenson

We also do see, to your question on investment portfolio. We see the increase in rates as a benefit. And also our duration of our portfolio is anywhere between 5 to 6 years. In addition to which, with tax reform there is an advantage to actually shifting to some taxable munis, which could also increase our investment portfolio and our total return in the investment portfolio.

Operator

And our next questioner today will be Michael Temple, a private investor.

Michael Temple, Private Investor

Good morning, gentleman, and congratulations. A series of quick questions, but I hope you can bear with me. Regarding the categorization of the Syncora transaction, when I take that face

amount, which I guess was approximately \$14 billion of insured, and if I simply give you credit for duplicating your 2017 production of roughly \$18 billion, again, giving you no growth for 2018 and measure that against your anticipated runoff of existing insured, I actually come up with a number for 2018, which for perhaps the first time since 2009, your book will not amortize, you'll actually show a modest uptick. Am I doing that calculation correctly if we assume that you do \$18 billion in production this year equal to what 2017 was?

Dominic Frederico

Yes, you are correct. And if you remember, in previous calls, we'd always refer to when we would hope to see the balance in the portfolio amortization, and we expected it around 2020. However, transactions like this as well as the recapture of reinsurance last year begin to build back the portfolio in addition to what normal production efforts in terms of the new business market, new issue market provides. So we've looked at the issue. We've tried to calculate our own balance to see when we start building back the unearned premium reserve, realizing that these transactions could have a significant impact on when that balance occurs. So hopefully, we're getting ahead of that balance period, which is a positive thing to start building up the earnings store of the company.

Michael Temple

And a follow up to that. So if we exclude the one time nature of the Syncora transaction, and again just look at the \$18 billion in face from last year, do you believe, I mean, I know you're loathe to give precise guidance, but do you believe with the trend in interest rates and perhaps more importantly, the going by the wayside of National now that they are no longer writing new business, the combination of higher anticipated rates and the fact that your market share might move markedly higher from the current 58%? Should we be optimistic that we will see that \$18 billion figure from last year improved upon going forward?

Dominic Frederico

Well, we always try to incentivize our production people to achieve greater results year after year. Obviously, that's how we build a budget. That's how we build incentive opportunities in terms of compensation. We're performance based. So obviously, we expect the continued growth. And as I said, most of the work we've done over the past few years was rebuilding the reputation of the financial guaranty and especially in the international markets. And to your point, we believe the international markets probably represents a stronger growth opportunity at this point in time than domestic. And the other reason for that is there is this wild card out there called both the tax reform and the infrastructure bill, whatever that looks like when it gets passed. So those two things really will have an impact on demand. Kind of hard to determine exactly in which direction, as we said, with the lower rates, the need to buy municipal bonds becomes less.

However, on the individual side, the retail side, it becomes more because obviously the top rate didn't change much and a lot of individual exemptions or deductions were done away with. So it's hard at this point in time to make that call. Obviously, we expect to continue to build the infrastructure or the platform that we operate under. We're optimistic about our chances in all marketplaces because of our diversified strategy. We see positive trends in both interest rates and the acceptance of the products. So long answer to a short question, we expect our volumes to hopefully increase. But once again, there's enough factors out there that's going to still allow this to be a developing story as we see how certain things take hold through 2018. And of course we're going to look for other acquisition opportunities that will further benefit the portfolio to the extent that they become available.

Michael Temple

Okay. A couple of just quick ones. As you talk about your overseas growth, are there opportunities for your services in the Far East where, again, we famously keep hearing about the China: One Belt, One Road? I know that's more of a governmental initiative from them. But are there opportunities for you in the Far East? Or is that longer term something that we could look to? Or is it principally U.K. and Europe that you see your services being utilized?

Dominic Frederico

A couple of things. So obviously, we always look to benefit our franchise, make what I'll call complementary and strategic either acquisitions or investments that basically benefit both the entity that we're looking at as part of the diversified strategy as well as our core financial guaranty business. So that's as best as I can tell you without telling you more than I can tell you.

Number two, if you noticed, we've been dominant in the U.K. as our international platform. We've had operations before in other locations and just didn't see the long-term commitment, demand or the necessary market specifics to really foster our type of product. We were in Australia, for the sake of argument, but they really didn't have any long-term financing obligations. Everything was financed on a short-term basis. However, we do see changes in that market. As I said in my commentary, for the first time in my memory, we've done risks that are outside cited U.K. risks in this current year. We anticipate further increasing those operations or opportunities, as well as the strategic acquisitions, are things that we're considering that should also further our international platform. So our object is to make sure we continue to support financial guaranty, provide attractive investments that not only provide us growth and opportunity to expand our platform but also ties along with the Assured Guaranty, financial guaranty product as another way to access new markets.

Obviously, any environment we look at must have rule of law. We believe that the United States will continue to have rule of law, which is going to be critical in the Puerto Rico environment, and that's another part of how we have to look at expansion overseas. So yes, we look at international as a great platform, great opportunity. We are expanding out of the U.K. We have plans for further international growth tied to some other things that we're working on today. And obviously, that's in the hope of driving that franchise because of its value to us and the fact that in the financial guaranty space, we have no competitors in that marketplace.

Michael Temple

And then final question regarding Puerto Rico. Clearly, you and other creditors had to be heartened by Judge Swain's recent actions on the PREPA loan that Puerto Rico was seeking. I'm just curious if we should read into that, that you expect further observation of the rule of law from this judge in other matters that come before her? And any hint or detection that the Puerto Rican government has perhaps begun to realize that the scorched-earth tactics they've been taking are not being met with favor by this Court?

Dominic Frederico

Okay. I've got to be really careful here because you're getting me into a topic that boy I'd like to... Anyway, so I'm not heartened by anything Judge Swain does, so let me be very clear. They did not need the loan in PREPA. All they had to do was to collect their utility bills from principally municipal authorities to which the government had the ability and especially with the aid money coming in to support those authorities in paying their electric bills. If you paid your electrical bill, there is no need for cash in PREPA. Therefore, the loan is just another way of trying to prime creditors in which I do not accept, and we will litigate that issue specifically. This judge needs to

understand that she's in a position to reestablish rule of law, which is critical to the entire behavior of our financial markets.

Just imagine, at all of our businesses, if somehow retroactively all contractual rights can be taken away from you, the chaos that would ensue in the financial markets in the United States, and that's the exact path this judge is going down. So this is going to be a fight in court. We're going to appeal every decision and everything that the government puts in front of us. We believe relief will come when we get the first appeal heard, especially say on the transportation revenues. And hopefully, that happens in a very reasonable period of time. And when that first reversal comes back, then I think you'll see changes in behavior and a real commitment to getting this thing done and understanding where the creditors stand in the whole argument of consensual restructuring. So I am not happy at all.

Operator

And our next questioner will be David Einhorn with Greenlight.

David Einhorn, Greenlight Capital

Good morning guys. I've got a couple of questions on Puerto Rico. It sounds like there's a wide range of outcomes that are there. I know when you do your reserving, you have to look at different scenarios and probability-weight them. What do you see is the worst scenario and the best scenario and what probabilities do you assign, and how do you think about it from a reserving perspective?

Dominic Frederico

Why don't we just invite you to our next reserve committee and you can sit there and look at all the detail? Obviously, we don't send that information out, however...

David Einhorn

When is that? I'd be happy to come.

[Laughter]

Dominic Frederico

I'll leave it up to my CFO to get the invitation out. But you have to understand, we react, remember, on GAAP we're required to do exactly as you described. We've got to basically define all possible scenarios and then probability weight them. Obviously, with each illegal behavior of the government and supported by the control board and the judge, we have to work that factor into our reserving model. The concern we have today is the continued push out of any possible recoveries. The more they put out plans that show no debt service, we have to then incorporate that into the potential scenarios that are in our model and therefore move probabilities accordingly.

That's why you see, regardless of our own personal feelings in terms of how this ultimately works out, the SEC and GAAP do not allow us that freedom to say, no, it's your view, not this analytical scenario model probability weighting. So because in the current quarter we had another fiscal plan and this one is even worse, zero debt service, we then have to accordingly change what is the basically payout or repayment scenarios that exist, and of course this becomes a present value game. And anytime there's movements in interest rates, it's going to affect the present value of, say, recoveries that are back-end weighted versus payments that are front-end weighted. So the reserve is going to change period to period based on news and

changing rates, and I think we've been very responsive to reflect all scenarios with a reasonable level of view in terms of possible outcomes.

Robert Bailenson

And when we do this analysis, we look at anything that happens within that quarter. If it's positive, then that would affect the positive scenario. We change the probability weight for that. If it's a negative, we would increase our more pessimistic scenario and increase the probability weight for that as well. We also analyze, do scenarios still make sense? And add scenarios if we think another scenario is appropriate.

David Einhorn

Great. So I mean, I understand the methodology, and I think that's really all you just spoke to. Can you describe what you think the worst scenario in your analysis is and what probability you assigned to that? And what you think the best is? Or how many scenarios there are, give some color to that?

Dominic Frederico

Yes. Understand, we are in rather intense negotiation. Disclosing any of that information I think really does influence or affect the position at the negotiating table. And therefore, it's never been public information and we don't anticipate making it public information. So I'm sorry.

David Einhorn

Let me ask one other question then. Can you talk about your internal rating system for Puerto Rico? You rate the GOs on your supplement CCC-. The bonds seemed to have defaulted, the regular rating agencies rate them D. What's the difference between your CCC- and a D? And if you move your own rating from CCC- to a D, would that impact your financial reporting?

Dominic Frederico

It would not impact our, well, I'll put it in a different way. It won't impact our reserves. When we do this, we'll call this a reserve off-model, so it is really not relying on the rating or the probability of that rating causing a default and therefore go into the standard severity by specific category class in municipal finance. This is an off-model reserve. So none of that has any impact. And obviously, we have to look at the entirety. Remember, we still believe in our legal claims here. So at the end of the day, although their behavior goes in one direction, we believe we have valid legal claims. And obviously, recoveries also affect, or our view of future recoveries, affect that overall comprehensive rating. But as I said, this is an off-reserve credit that is done on this other basis not using.... In the old days, we used to do ratings, probability of default and severity for the asset class, obviously we do take specific credits off-line off that model.

Robert Bailenson

These are specific models. They're not off-model. They're specific models that we have designed for Puerto Rico. What Dominic is describing is there are some below investment grade credits that would attract reserves through the scenario loss model, which takes frequency and severity of loss based on rating agency statistics. But with Puerto Rico, this would have no effect. We have discrete models that we've built for them.

Dominic Frederico

Right. They're in a position all by themselves as you can well imagine.

Operator

And our next questioner today is Geoffrey Dunn with Dowling & Partners.

Geoffrey Dunn, Dowling & Partners Securities, LLC

Thank you, good morning. Rob, I've got a couple to start with you. Just to be clear, the 505 at the U.S. hold co, that is after the 18 dividend from AGC?

Robert Bailenson

The 505, you're talking about what's sitting at the hold co?

Geoffrey Dunn

Yes, I just want to make sure.

Robert Bailenson

Yes, after we've sent the money up after what we call the special dividend has come up. All that money is now sitting at the holding company.

Geoffrey Dunn

Perfect. And then I wanted to ask you about refunded premiums. Obviously, there's been a big boost earnings and premium line over the last several years. 10-year anniversary to '08, the tax reform impact, can you talk a little bit about at least directionally? How do you think refunded premiums could trend versus what we've seen over the last few years? Are we set for a big correction going into '18 and '19?

Robert Bailenson

And Geoff, I mean, advance refundings were a significant portion of the refundings over the last number of years. And you're right, it will, I think it will have an effect in 2018. So we should see a drop over the year from 2017. How much? It's hard to say. But given that that came out in December and now municipalities cannot use advanced refundings in the tax exempt market, then we should see a drop. How much? It's too early to tell but directionally, it will be down.

Geoffrey Dunn

Okay. And then can you give a little bit more detail behind your 14% to 16% non-GAAP effective rate? What are some of the nuances that get you to that level?

Robert Bailenson

It's really based on the fact that AGE Re is obviously in a 0 tax rate here in Bermuda, and U.S. operating entities, U.S. income is taxed at 35% previously, now comes down to 21%. When we run our models and we look at the mix of income, we said okay, U.S. income is going to be at 21%. How much income is going to come from AGE Re.? And I wanted to give some guidance as to what we expect this year between 14% and 16%. But obviously, that could change if the mix of business changes and more business is actually in Bermuda, if more earnings are in Bermuda. If more is in Bermuda, that number will go at the lower end of that range. And obviously, if more is in the U.S., it would tend higher between the higher end of the range of 16%, so that was the main difference.

Geoffrey Dunn

I get the mix side. I guess, I'm wondering how the beat plays into this at all.

Robert Bailenson

The beat?

Geoffrey Murray Dunn

Yes.

Robert Bailenson

Well, the base erosion, it obviously can be an issue to the extent that we cede a significant amount of business to Bermuda. And that would obviously, that's a minimum tax. And at this point, we don't see that being an issue for our business plan with 2018. But we will closely monitor that. And as if, in fact, it would become an issue, we could also adjust how much we cede to Bermuda.

Dominic Frederico

Remember, Geoff, we had a 35% statutory going in, in the past years. And our effective has always been in the 20s, vacillating between low 20s and mid to upper 20s because of the use of tax exempts in the U.S. That's why we're looking at 21 now in the U.S. and say, okay, somewhere in the teens, we should be once again, using tax-exempt securities in the United States.

Robert Bailenson

That's also based on our own forecast and our business plan.

Geoffrey Dunn

No, I get that. I just want to make sure there's no curveballs.

Robert Bailenson

And look, Geoff, before we go and I just want to answer another question I was asked earlier. I just got some information. I mean, we think that the Syncora transaction would be an increase roughly about \$0.35 to book value per share and adjusted book value, we expect it to be about \$2.42 per share accretive to the company. That's our expectation.

Dominic Frederico

Depending on when it closes.

Robert Bailenson

Depending on when it closes.

Geoffrey Dunn

Dominic, last question. I think the expectation was for the fiscal plan for Puerto Rico towards the end of December and then the OB to look at it by February. What is going on with the Oversight Board right now with respect to reviewing that plan? Has there been any formal pushback or requested revisions? What's the update on that front?

Dominic Frederico

Well, obviously, with the letter that all creditors, basically most of the creditors, signed on the 14th of February to the Oversight Board, I don't -- I think you can conclude that there are no creditors that are accepting the plan as currently filed and therefore, they're trying to put a lot of pressure on the Oversight Board to basically start to get this thing back to some reasonable level of adherence to PROMESA. You saw Bishop has written a letter as well, Congressman Bishop, who obviously drafted the current law has stated saying that there's got to be creditor involvement. You've got to go back and respect the Constitution priorities and contractual liens. So I think there's coming in from all sides now a more unified basis.

You can always look at this and say, Well, it's one creditor I'm arguing against. Therefore, how much noise do I have to pay attention to? Now, they have to understand basically, you have all the creditors. You can win a battle against one. It's a little hard to win a battle against 50. And I think they're starting to see momentum building up on that side. Number two, you've got to remember the Oversight Board only has 18 more months in their terms. So do we believe there's going to be anything really concrete to accomplish, especially the access to the marketplace? Therefore, this could be a waiting game. Swain seems to be making decisions that are kind of delaying the obvious, basically hiding behind Title III, saying Title III prohibits me from forcing them to pay those revenues over to you. Okay, fine. That only lasts for so long until we get it in an appellate court. So I think there's a lot of momentum pushing back finally, that we've got a unified position by the creditors. I think every inch of behavior of both the government and the Oversight Board has been illegal and ultimately has to be corrected. Obviously, we're going to have rule of law. As I said, contractual rights. If you could imagine, our financial markets, all contractual rights are retroactively taken away. We then have no longer a financial system in the United States. We have pure chaos. That's exactly what Puerto Rico wants to do.

And once again, we did call the distinction between Guam and the Virgin Islands and Puerto Rico. Like I said, when the hurricane hit Houston, did the Houston mayor immediately get on television and say, I'm not going to be pay any of my debt? Absolutely not. Why do we think it's applicable here in Puerto Rico? And if any congressman or senator wants to forgive Puerto Rico's debt, then fine. Do it through the U.S. government. Don't put in a basically an invisible tax on U.S. citizens and voters and taxpayers that happen to own those bonds, let alone the companies that insured them. This is ridiculous, and so it needs to be held accountable for.

Geoffrey Dunn, Dowling & Partners Securities, LLC

Okay, thank you.

Operator

And it looks to be no further questions at this time, so this will conclude our question-and-answer session. I would now like to turn the conference back over to Robert Tucker for any closing remarks.

Robert S. Tucker, Senior Managing Director, IR & Corporate Communications, Assured Guaranty

Thank you, operator. I'd like to thank everyone for joining us on today's call. If you have additional questions, please feel free to give us a call. Thank you very much.

Operator

And the conference is now concluded. Thank you for attending today's presentation. You may now disconnect.