Assured Guaranty

Bond Insurance

October 27, 2016

ASSURED GUARANTY® MUNICIPAL

MUNICIPAL ASSURANCE CORP.® AN ASSURED GUARANTY COMPANY

ASSURED GUARANTY® CORP.

What is Bond Insurance?

- **Bond Insurance (a.k.a. “financial guaranty insurance’) is a type of insurance whereby an insurance company guarantees “scheduled” payments of Principal and Interest (P&I) on a municipal bond in the event of a payment default by the issuer**
  - It is simply a guaranty that the holder of a municipal bond will receive scheduled P&I payments when due, even if the municipal issuer fails to make these payments. It is literally an insurance policy against an issuer’s payment default.
  - <u>Unconditional promise to pay</u>

- **For this protection, the insurance company collects a premium**
  - Premium is a measure of the perceived risk of failure of the issuer
  - Premium is a function of the interest savings realized (benefit share between Issuer & Insurer)

- **The insured bond takes on the rating of the bond insurance company**

- **Offered Products:**
  - Principal & Interest (P&I) Coverage
  - Surety Bonds in lieu of funded debt service reserve fund
  - Primary & Secondary Market Execution

Benefits of Bond Insurance

- **Bond Insurance benefits Investors by providing:**
  - Unconditional protection against issuer payment default
  - Mitigation of downgrade risk (bond rating does not fall below insurer's rating)
  - Relative price stability versus comparable uninsured issues in distress situations[1]
  - Enhanced market liquidity for secondary market trading[1]
  - Simplified risk assessment
  - Surveillance and, if necessary, remediation

- **Bond Insurance benefits Issuers by providing:**
  - A lower cost of capital
  - Broadened distribution (institutional & retail)
  - A simplified credit story for complex bond issues
  - Better capital market access for small, lesser known names
  - Greater certainty of execution

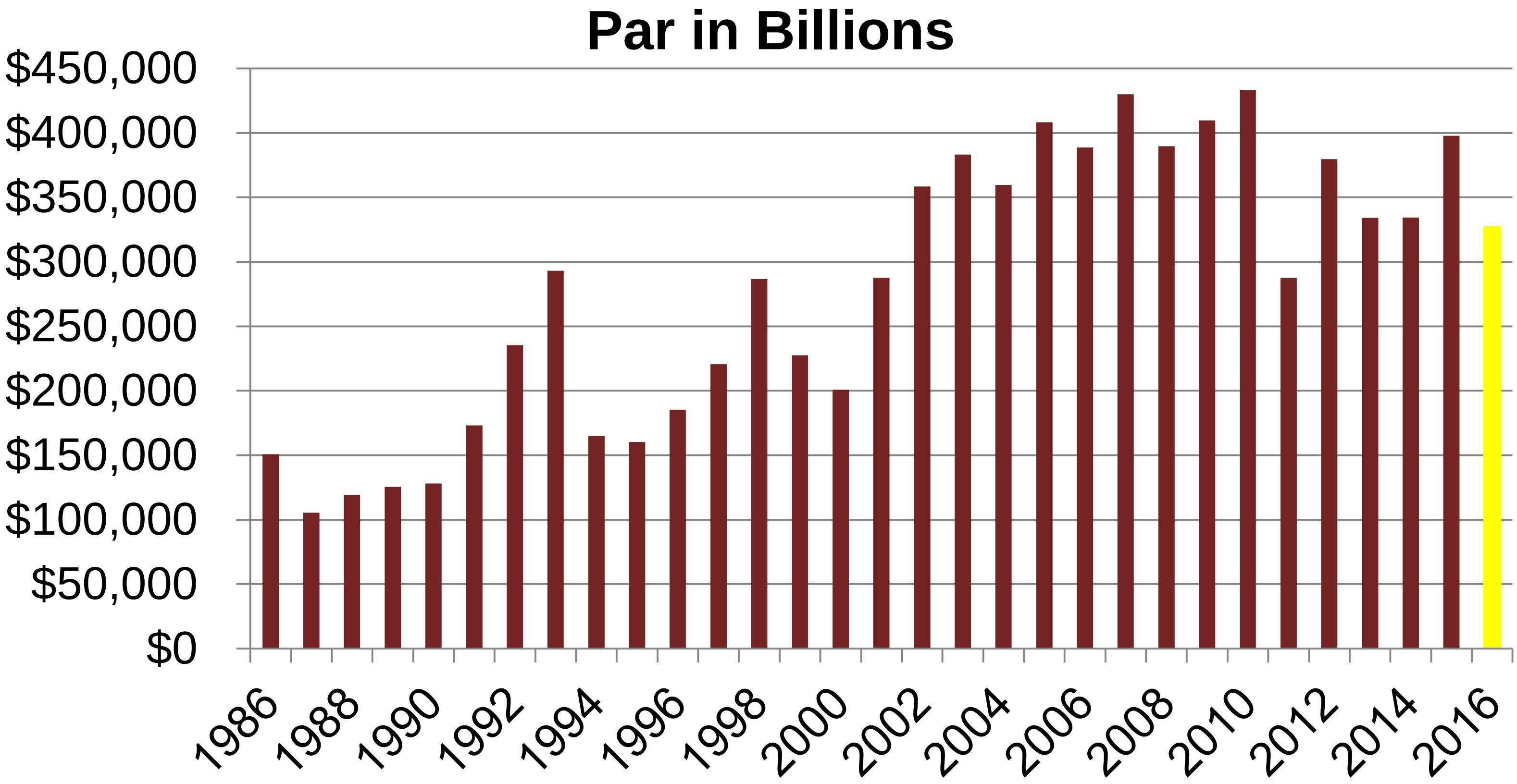
[1] Based on observation of past market performance. Past performance is not necessarily an indicator of future results.

Who Uses Bond Insurance?

- **Primary Market**
  - Issuers (56,000+ municipal issuers)
  - Bankers/Underwriters (money center banks & regional dealers)
  - Financial Advisors
  - Bond insurance reduces the borrowing costs for the Issuer since investors are prepared to accept a lower interest rate in exchange for the credit enhancement/ protection provided by the bond insurance
  - In 2015 AGM/MAC insured approx 1000 new issue deals

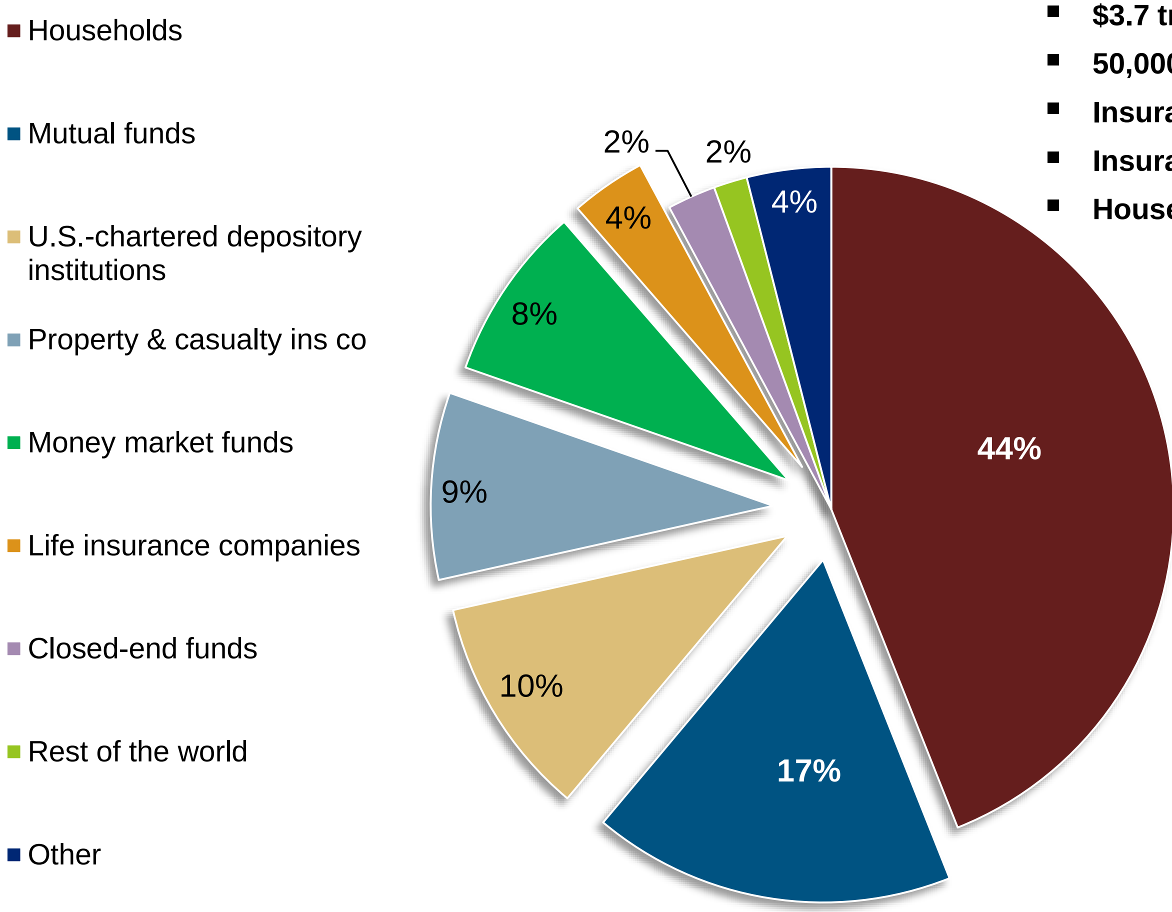
- **Secondary Market**
  - Traders/Salespeople
  - Institutional Investors
  - Retail Investors
  - A partial or full CUSIP may be insured in the “secondary market” to add insurance after the initial sale
  - In 2015 AGM/MAC insured approx 535 secondary market policies

Total Municipal Issuance



- **Industry experts predict 2016 issuance will be lower than 2015**

Holders of Municipal Bonds



- **$3.7 trillion in outstanding municipal debt**
- **50,000+ Municipal Issuers**
- **Insurance provides credit protection**
- **Insurance simplifies this granular market**
- **Household/Retail segment is highly fragmented**

Source: Federal Reserve Board via The Bond Buyer.

History of Bond Insurance

- **Bond insurance started in 1971**
  - First policy issued by AMBAC
  - Others to follow:
    - MBIA (1973)
    - FGIC (1983)
    - FSA (1985)

- **In the late 1990’s, the early 2000’s and more recently a number of bond insurers emerged:**
  - ACA
  - Assured Guaranty (AGM & MAC)
  - Build America Mutual
  - Berkshire Hathaway
  - CIFG
  - Radian
  - XLCA/ Syncora

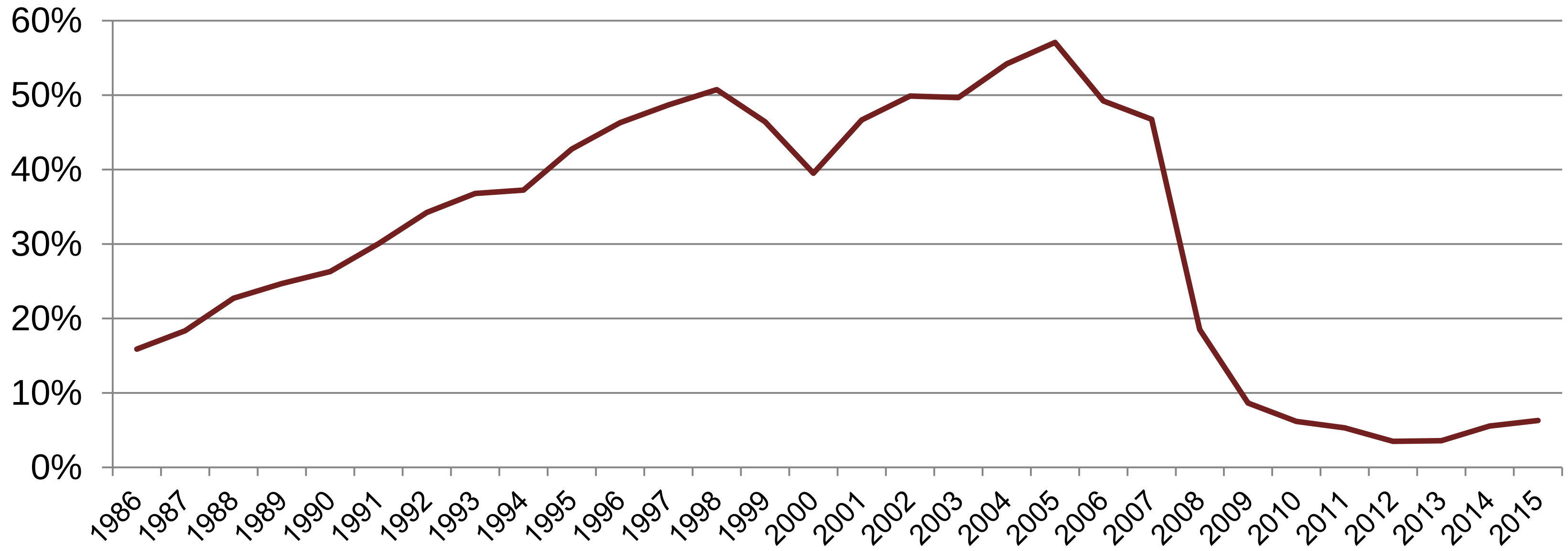
History of Bond Insurance

- **Most insurers began to insure residential mortgage backed securities (RMBS) and other structured finance products**
  - Growth in diversified writings occurred in the 2000-2006 timeframe
  - 2008 financial crisis
  - Certain insurers did not anticipate real estate collapse
  - Certain insurers began to take large losses in structured finance portfolios (RMBS, CDO, CMBS)
  - Resulted in downgrades

- **There were 8 or 9 insurers during the peak of insurance usage; Today there are only a few bond insurers actively issuing policies:**
  - Assured Guaranty (acquired FSA, Radian, and portions of CIFG)
    - AG has 2 operating platforms for Public Finance:
      - Assured Guaranty Municipal (AGM)
      - Municipal Assurance Corp. (MAC)
  - Build America Mutual (new entrant--entered the market in Fall 2012)
  - National PFG (successor company to MBIA)

History of Bond Insurance

- **<u>Insured Penetration</u>**
  - Insured penetration in the municipal market approached 60% across 8 or 9 triple 'A' providers
  - Insurable universe basically included all long term investment grade muni issuance
  - Post 2008 financial crisis, insurable universe reduced but the number of active providers also reduced

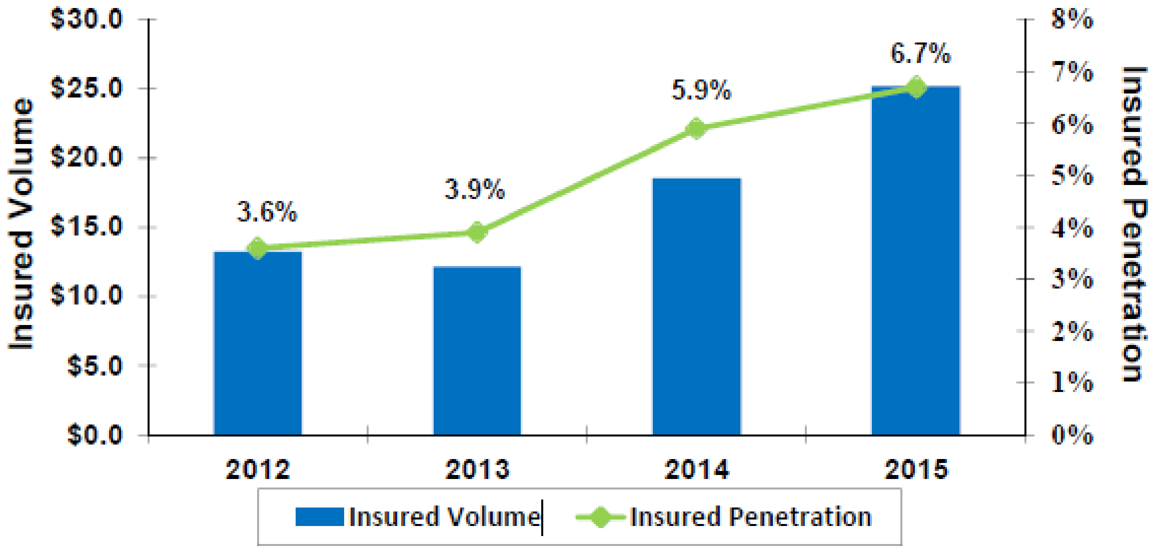


Bond Insurance Today

- **The low interest rate and spread environment continue to put pressure on insured penetration**
  - Low (i) challenges economics
  - Tight spreads restrict benefit of insurance
  - Assured Guaranty's stable earnings allow us to be selective & patient
  - Insured penetration for smaller deals remains solid

- **Assured Guaranty Business targets:**
  - Investment Grade Public & Project Finance
  - Approved sectors span a wide range of municipal bond types
  - Partials
  - Surety Bonds (attached & stand-alone)

Bond Insurance Penetration Continues to See Growth



- With $25.2 bn of insured municipal volume in 2015, insured market activity was up 36% from full year 2014 – far outpacing total market growth of 20%.
- 6.7% of all market volume and 15.6% of the total number of transactions, regardless of underlying rating, utilized insurance in 2015. This represents the highest penetration rate across both measures since 2009.
- With 1,880 insured transactions, 15.6% of all transactions utilized insurance. This also represents the highest such rate since 2009.

Source: SDC database

Insurance League Tables

Insurance 2016 YTD through 3/18/16

	Par (mm)	% of Ins Par	# Deals	% of Ins Deals
AGM	$2,439.3	52.5%	146	40.1%
MAC	$111.4	2.4%	20	5.5%
Assured	**$2,550.7**	**54.9%**	**166**	**45.6%**
BAM	$1,979.1	42.6%	186	51.1%
National	$115.9	2.5%	12	3.3%
Total	**$4,645.7**	**100.0%**	**364**	**100.0%**

- **Assured Guaranty *increased* its market share from 2014 insuring more than 60% of all insured volume in 2015.**
- **Assured Guaranty wrapped more bonds and transactions than any other insurer in 2015. In fact, Assured Guaranty's volume is $5.1 bn of par and 138 transactions more than the other two active insurers *combined*.**

Source: SDC Platinum

Ratings of Insurers

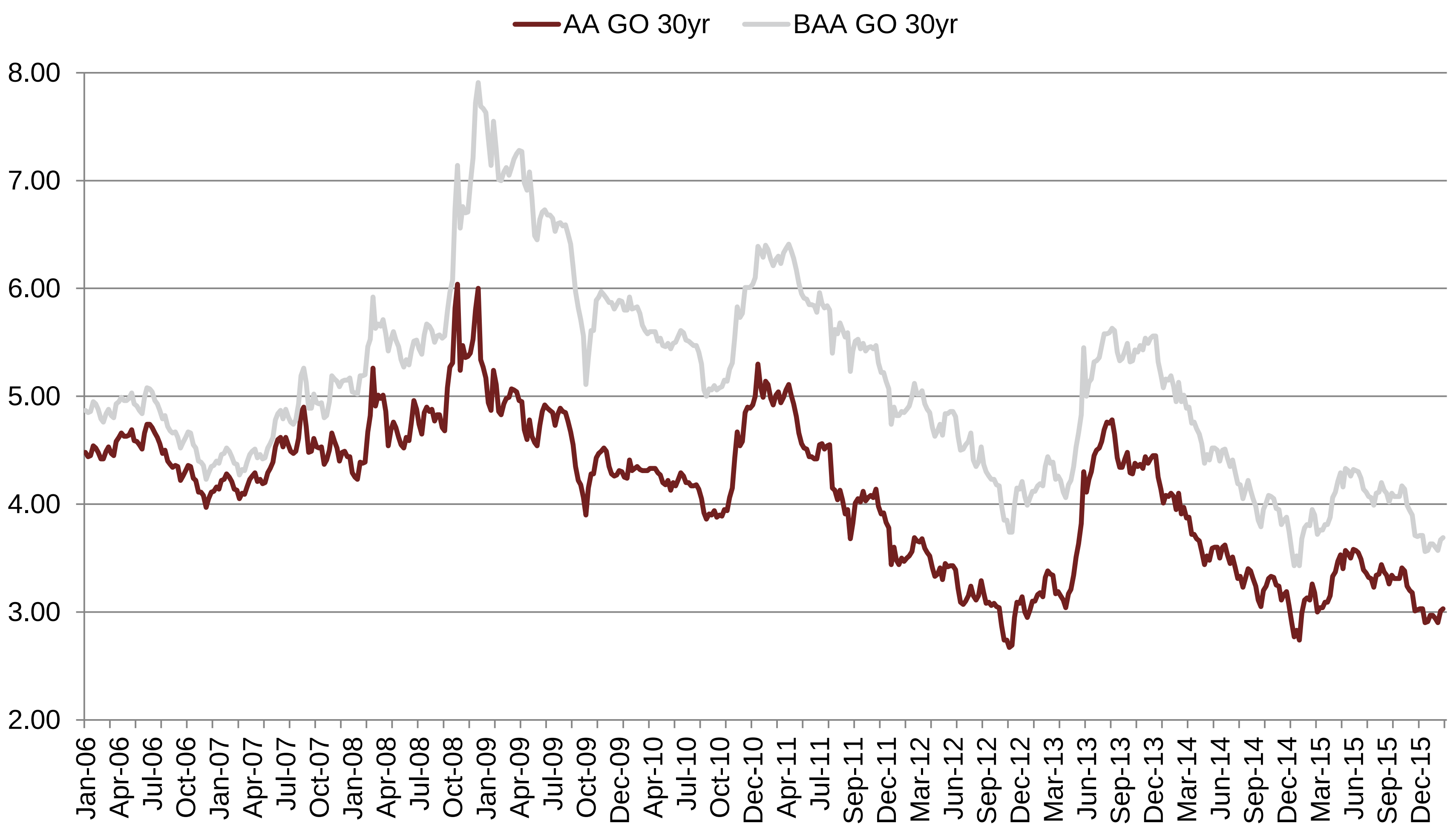
	Insurer	Moody's		S&P		Fitch	
		Rating	Outlook	Rating	Outlook	Rating	Outlook
2)	ACA	Not Rated	--	NR	--	WD	--
3)	Ambac	WR	--	NR	--	WD	--
4)	Assured Gty (AGC)	A3	NEG	AA	STABLE	WD	--
5)	BAM	Not Rated	--	AA	STABLE	Not Rated	--
6)	BHAC	Aa1	STABLE	AA+ *-	--	Not Rated	--
7)	CIFG	WR	--	NR	--	WD	--
8)	FGIC	WR	--	NR	--	WD	--
9)	AGM	A2	STABLE	AA	STABLE	WD	--
10)	NATL	A3	NEG	AA-	STABLE	WD	--
11)	MAC	Not Rated	--	AA	STABLE	Not Rated	--
12)	Radian	WR	--	NR	--	WD	--
13)	XLCA (Syncora)	WR	--	NR	--	WD	--

99) Ratings Definitions (RATD)

Legend: Upgrade / Downgrade / Neutral / Initial / Not Rated

IMRS screen on Bloomberg, as of 10/16/2015

MMD Yields/Spreads



Examples of Insured Added Value

Wayne County Airport Authority, MI
Detroit Metropolitan Airport
Airport Revenue Bonds, Series 2015D
Series D Par: $213,330,000 (AGM Par Insured: $40,015,000)
Underlying Ratings: A/A2 (S&P/Moody's)
Lead Underwriter: Citigroup
Sale Date: 9/22/2015, Select Maturities:

Maturity Date	CUSIP	Par Amount	Coupon (%)	Yield (%)*	Spread vs. MMD (bps)	Credit Enhancement
12/1/2032	944514SS8	$10,015,000	5.000	3.650	92	AGM
12/1/2040	944514SY5	$20,000,000	5.000	3.860	82	AGM
12/1/2040	944514SW9	$38,390,000	5.000	4.000	96	Uninsured
12/1/2045	944514SZ2	$10,000,000	5.000	3.930	82	AGM
12/1/2045	944514SX7	$73,400,000	5.000	4.070	96	Uninsured

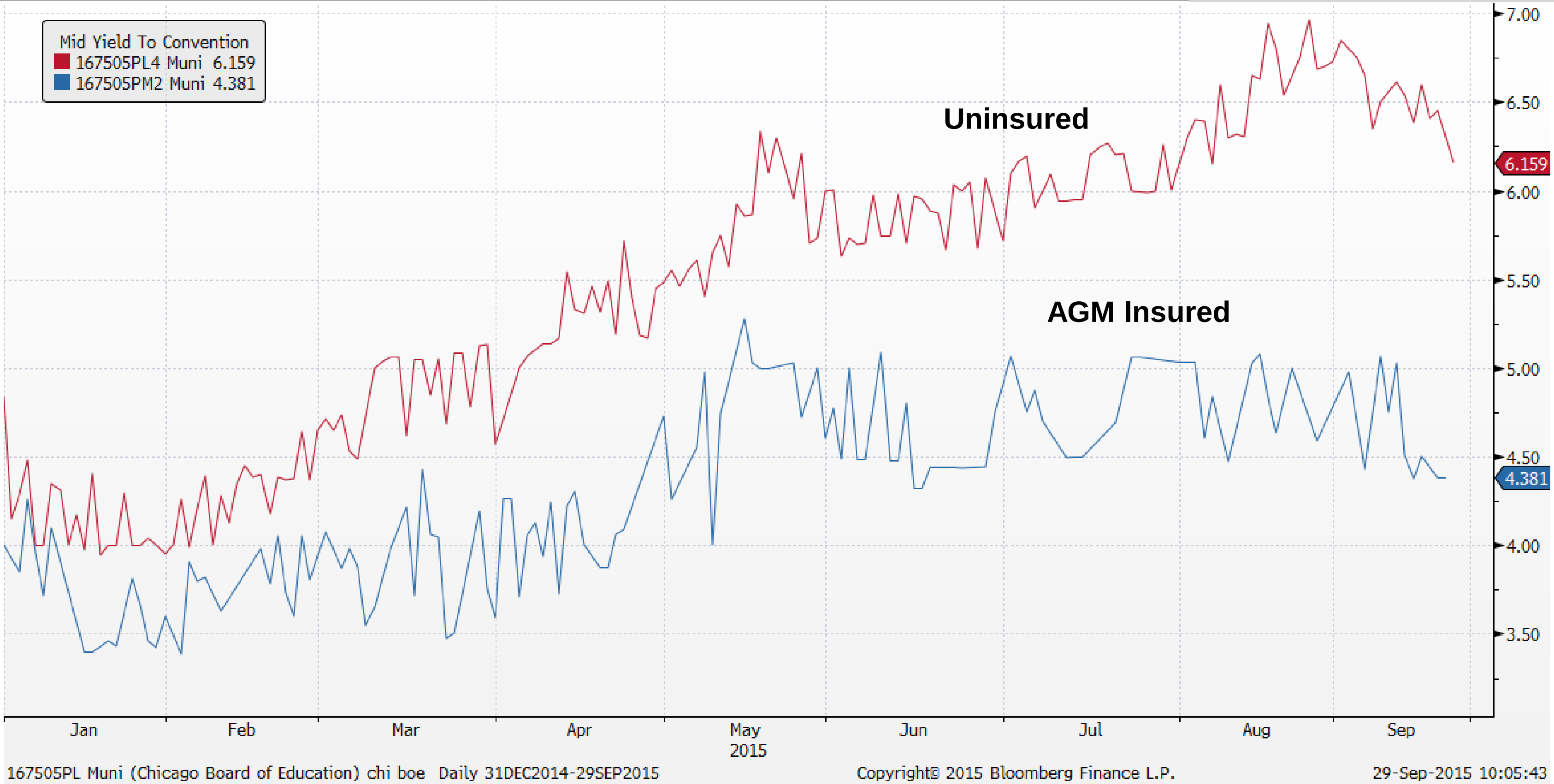
14 bps+ spread savings through insurance

Metropolitan Pier and Exposition Authority, IL
McCormick Place Expansion Project Bonds, Series 2015A
Deal Par: $219,654,550 (AGM Par Insured: $9,288,300)
Underlying Rating: BBB+ (S&P)
Lead Underwriter: Citigroup
Sale Date: 9/16/2015, Select Maturities:

Maturity Date	CUSIP	Par Amount	Coupon (%)	Yield (%)*	Spread vs. MMD (bps)	Credit Enhancement
12/15/2052	592250BN3	$9,288,300	0.000	5.500	225	AGM
12/15/2052	592250BN7	$13,841,250	0.000	6.000	275	Uninsured

50 bps of spread savings on this BBB+ credit

Insurance Preserves the Value
Case Study – Chicago Board of Education



- **Trade history for Chicago BOE 5's of 42**
- **167505PM2 (AGM insured) vs. 167505PL4 (Uninsured)**
- **Spread between the uninsured and insured issues has widened from about 35bps to 178bps YTD**

Source: Bloomberg. As of 9/29/2015

Assured Guaranty

$15.1 bn
FY 2015 NEW ISSUE INSURED PAR

1,009
FY 2015 NEW ISSUE INSURED TRANSACTIONS

$12.3 bn
CLAIMS PAYING ABILITY (12/31/15)

$699 mm
FULL YEAR 2015 OPERATING INCOME

$11.2 bn
INVESTMENT PORTFOLIO (12/31/15)

≈ $500 mm
AVG. DAILY TRADING VALUE OF OUR INSURED BONDS

Note: The figures above are presented on an AGL consolidated basis.

Questions & Answers

Assured Guaranty
Contacts

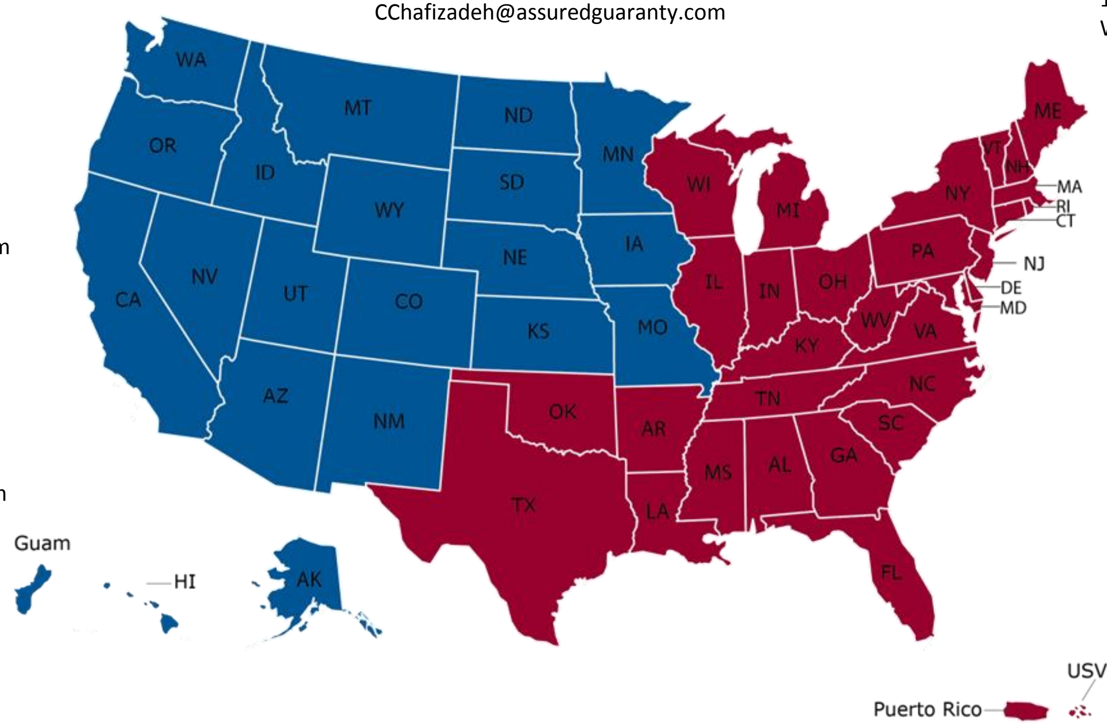
William J. Hogan
Senior Managing Director
Head of Public Finance
1 212 408 6006
BHogan@assuredguaranty.com

Chris Chafizadeh
Managing Director
Municipal Markets
1 212 339 0832
CChafizadeh@assuredguaranty.com

William O'Keefe
Senior Advisor
Municipal Markets
1 212 339-3451
WOKeefe@assuredguaranty.com

Western Region
Jason Kissane
Managing Director
1 415 995-8023
JKissane@assuredguaranty.com

Project Finance
Lorne Potash
Managing Director
1 212 261 5579
LPotash@assuredguaranty.com



Eastern Region
James Binette
Managing Director
1 212 408 6005
JBinette@assuredguaranty.com

Procurement@assuredguaranty.com

New Business Origination
John Hallacy
Managing Director
1 212 339 0862
JHallacy@assuredguaranty.com

Secondary Markets
Richard Cassata
Managing Director
1 212 408 6067
RCassata@assuredguaranty.com

Marketing
Bernard Bailey
Managing Director
1 212 261 5528
BBailey@assuredguaranty.com

George Mulry
Managing Director
1 212 261 5597
GMulry@assuredguaranty.com

Pricing
Jason Falzon
Managing Director
1 212 408 6036
JFalzon@assuredguaranty.com

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    - "AGM" means AGM Consolidated excluding MAC Holdings and MAC.
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  - Ratings on Assured Guaranty's insured portfolio and on bonds purchased pursuant to our loss mitigation or risk management strategies are our internal credit ratings. Internal credit ratings are expressed on a ratings scale similar to that used by the rating agencies and are generally reflective of an approach similar to that employed by the rating agencies, except that the Company's credit ratings focus on future performance, rather than lifetime performance. Exposures rated below investment grade are designated "BIG".
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