

**BAM**

**BUILD AMERICA MUTUAL**

Quarterly Operating Supplement  
March 31, 2014

Build America Mutual Assurance Company  
Quarterly Operating Supplement  
March 31, 2014

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CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

The information contained in this report may contain "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included or referenced in this report which address activities, events or developments which Build America Mutual Assurance Company ("Build America" or "BAM") expects or anticipates will or may occur in the future are forward-looking statements. The words "will," "believe," "intend," "expect," "anticipate," "project," "estimate," "predict" and similar expressions are also intended to identify forward looking statements. These forward looking statements include, among others, statements with respect to Build America's:

- changes in U.S. statutory basis surplus or claims paying resources;
- business strategy;
- financial and operating targets or plans;
- incurred losses and the adequacy of its loss and loss adjustment expense reserves and related reinsurance;
- projections of revenues, income (or loss), earnings (or loss), dividends, market share or other financial forecasts;
- expansion and growth of its business and operations; and
- future capital expenditures.

These statements are based on certain assumptions and analyses made by Build America in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors believed to be appropriate in the circumstances. However, whether actual results and developments will conform with its expectations and predictions is subject to a number of risks and uncertainties that could cause actual results to differ materially from expectations, including:

- claims arising from catastrophic events, such as hurricanes, earthquakes, floods or terrorist attacks;
- the continued availability of capital and financing;
- general economic, market or business conditions;
- business opportunities (or lack thereof) that may be presented to it and pursued;
- competitive forces, including the conduct of other property and casualty insurers and reinsurers;
- changes in domestic or foreign laws or regulations, or their interpretation, applicable to Build America, its competitors or its clients;
- an economic downturn or other economic conditions adversely affecting its financial position;
- recorded loss reserves subsequently proving to have been inadequate;
- actions taken by ratings agencies from time to time, such as financial strength or credit ratings downgrades or placing ratings on negative watch; and
- other factors, most of which are beyond Build America's control.

Consequently, all of the forward looking statements made in this report are qualified by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by Build America will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on Build America or its business or operations. Build America assumes no obligation to update publicly any such forward looking statements, whether as a result of new information, future events or otherwise.

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Company Profile

Build America is a New York domiciled mutual financial guaranty insurance company. The Company was capitalized on July 17, 2012 and received its license to write financial guaranty insurance from the New York State Department of Financial Services (the "Department") and commenced operations on July 20, 2012. Build America is also licensed in the District of Columbia and the remaining 49 states. Build America's financial strength and counterparty credit ratings of 'AA/Stable Outlook' were reaffirmed by Standard & Poor's Ratings Services on August 13, 2013.

The first mutual bond insurance company, Build America is owned by and operated for the benefit of the cities, states and other municipal agencies—the municipal issuers—that use the Company's 'AA/Stable Outlook' rated financial guaranty to lower their cost of funding in the U.S. municipal market.

Build America's insured portfolio benefits from a first loss reinsurance treaty with HG Re Ltd. ("HG Re"), a Bermuda domiciled special purpose insurance company. Build America is HG Re's sole primary insurer, and HG Re currently does not assume risks from any other insurers or reinsurers. Under the terms of the first loss reinsurance treaty, HG Re assumes all of Build America's directly insured losses in an amount up to 15% of the par outstanding for each insured obligation. HG Re's obligations under the reinsurance agreement are secured by, and limited to the value of, assets held in trust, which are pledged for the benefit of Build America.

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Statutory Statements of Assets, Liabilities and Capital and Surplus

| (in millions)                                     | (Unaudited)     |                   |
|---|-----------------|-------------------|
|   | March 31, 2014  | December 31, 2013 |
| <b>ADMITTED ASSETS</b>                            |                 |                   |
| Bonds   | \$ 443.4        | \$ 450.0          |
| Cash, Cash Equivalents and Short-term Investments | 33.0            | 33.6              |
| Total Cash and Invested Assets                    | \$ 476.4        | \$ 483.6          |
| Investment Income Due and Accrued                 | 2.1             | 2.7               |
| Other Assets                                      | 0.1             | 0.2               |
| Total Admitted Assets                             | <u>\$ 478.6</u> | <u>\$ 486.5</u>   |
| <b>LIABILITIES</b>                                |                 |                   |
| Unearned Premiums                                 | \$ 3.9          | \$ 3.0            |
| Ceded Reinsurance Premiums Payable                | -               | 2.0               |
| Mandatory Contingency Reserve                     | 1.7             | 1.1               |
| Accrued and Payable Expenses                      | 7.1             | 11.4              |
| Total Liabilities                                 | <u>\$ 12.7</u>  | <u>\$ 17.5</u>    |
| <b>CAPITAL AND SURPLUS</b>                        |                 |                   |
| Surplus Notes                                     | \$ 503.0        | \$ 503.0          |
| Member Surplus Contributions                      | 22.1            | 17.3              |
| Unassigned Funds - Deficit                        | (59.2)          | (51.3)            |
| Total Capital and Surplus                         | <u>\$ 465.9</u> | <u>\$ 469.0</u>   |
| Total Liabilities, Capital and Surplus            | <u>\$ 478.6</u> | <u>\$ 486.5</u>   |

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Claims Paying Resources and Leverage Statistics

| (in millions)   | March 31, 2014 | December 31, 2013 |
|---|----------------|-------------------|
| Policyholders' Surplus  | \$ 465.9       | \$ 469.0          |
| Contingency Reserve   | 1.7            | 1.1               |
| Qualified Statutory Capital   | \$ 467.6       | \$ 470.1          |
| First Loss Reinsurance Collateral Trusts <sup>(1)</sup>   | 110.9          | 105.4             |
| Total Hard Capital  | \$ 578.5       | \$ 575.5          |
| Unearned Premiums, Net of Reinsurance   | 3.9            | 3.0               |
| Loss and Loss Adjustment Expense Reserves   | -              | -                 |
| Present Value of Installment Gross Risk Premiums<br>and Member Surplus Contributions <sup>(2)</sup> | 0.9            | -                 |
| Claims Paying Resources   | \$ 583.3       | \$ 578.5          |
| <br><u>Gross Par Outstanding</u>  |                |                   |
| Investment Grade <sup>(3)</sup>   | \$ 6,015.1     | \$ 4,703.7        |
| Below Investment Grade ("BIG") <sup>(3)</sup>   | -              | -                 |
| Total   | \$ 6,015.1     | \$ 4,703.7        |

Leverage Statistics

|  |           |          |
|--|-----------|----------|
| Total Gross Par Outstanding<br>÷ Total Hard Capital                | 10.4x     | 8.2x     |
| BIG Gross Par Outstanding<br>÷ Total Hard Capital                  | -         | -        |
| <br>Total Gross Par Outstanding<br>÷ Total Claims Paying Resources | <br>10.3x | <br>8.1x |
| BIG Gross Par Outstanding<br>÷ Total Claims Paying Resources       | -         | -        |

<sup>(1)</sup> Reported at estimated fair value and excludes BAM surplus notes and related accrued interest.

<sup>(2)</sup> Represents the present value of future installment risk premiums, gross of reinsurance, and member surplus contributions, discounted at 3.5%.

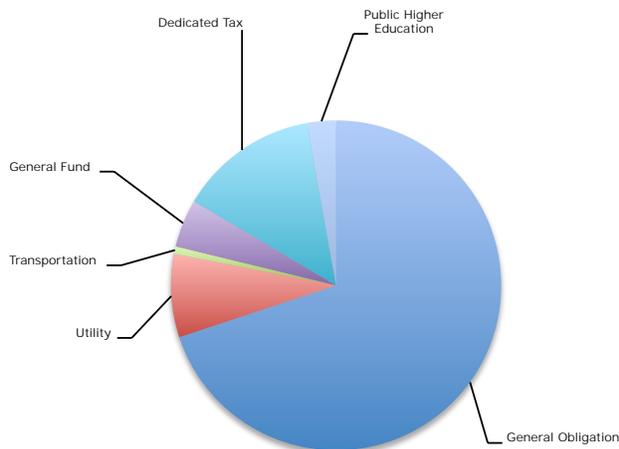
<sup>(3)</sup> Based on internal BAM ratings, which are provided in this Operating Supplement solely to indicate the underlying credit quality of guaranteed obligations based on the view of BAM. BAM credit ratings are subject to revision at any time and do not constitute investment advice.

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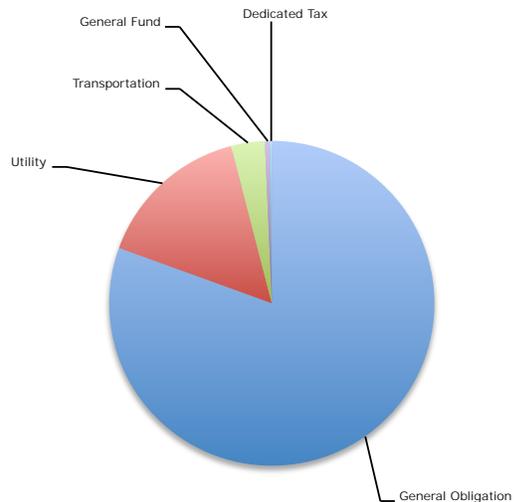
Business Production

| (in millions)   | Three Months Ended<br>March 31, 2014 | Three Months Ended<br>March 31, 2013 |
|---|--------------------------------------|--------------------------------------|
| <i>Gross Par Written</i>  |                                      |                                      |
| U.S. Public Finance - New Issue                                       |                                      |                                      |
| General Obligation  | \$ 772.7                             | \$ 530.4                             |
| Utility   | 108.1                                | 75.3                                 |
| General Fund  | 54.6                                 | -                                    |
| Dedicated Tax   | 181.3                                | -                                    |
| Public Higher Education   | 34.5                                 | -                                    |
| Total U.S. Public Finance - New Issue                                 | \$ 1,151.2                           | \$ 605.7                             |
| U.S. Public Finance - Secondary Market                                |                                      |                                      |
| General Obligation  | \$ 156.5                             | \$ 11.6                              |
| Transportation  | 9.8                                  | 22.6                                 |
| General Fund  | 8.0                                  | 3.6                                  |
| Utility   | 0.3                                  | 28.5                                 |
| Public Higher Education   | 3.1                                  | -                                    |
| Dedicated Tax   | 0.2                                  | 1.0                                  |
| Total U.S. Public Finance - Secondary Market                          | \$ 177.9                             | \$ 67.3                              |
| Total Gross Par Written   | \$ 1,329.1                           | \$ 673.0                             |
| <i>Gross Risk Premiums and Member Surplus Contributions Collected</i> |                                      |                                      |
| Gross Risk Premiums Written   | \$ 4.3                               | 2.0                                  |
| Member Surplus Contributions  | 4.8                                  | 3.5                                  |
| Total Gross Risk Premiums and Member Surplus Contributions Collected  | \$ 9.1                               | \$ 5.5                               |

Gross Par Written  
For the three months ended March 31, 2014



Gross Par Written  
For the three months ended March 31, 2013

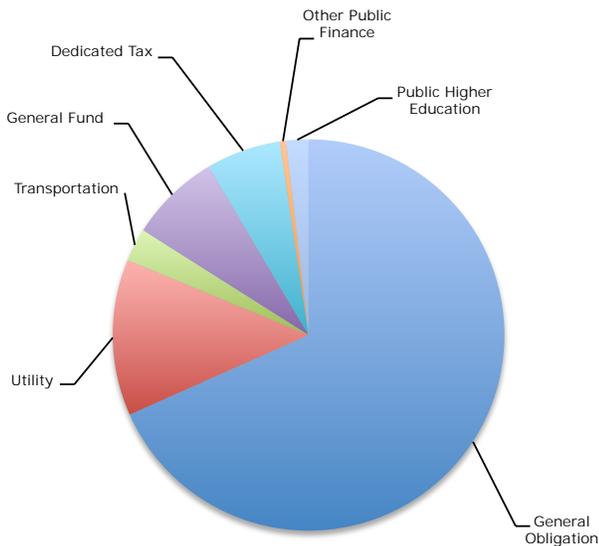


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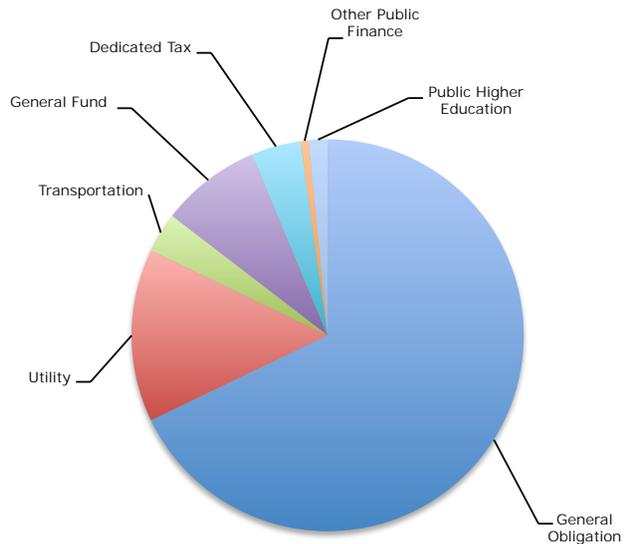
Gross Par Outstanding by Sector

| (in millions)                                | As of<br>March 31, 2014         | As of<br>December 31, 2013      |
|--|---------------------------------|---------------------------------|
| U.S. Public Finance - New Issue              |                                 |                                 |
| General Obligation                           | \$ 3,754.4                      | \$ 2,992.7                      |
| Utility                                      | 747.9                           | 642.7                           |
| General Fund                                 | 417.5                           | 363.6                           |
| Dedicated Tax                                | 369.6                           | 191.4                           |
| Public Higher Education                      | 107.0                           | 72.6                            |
| Transportation                               | 59.9                            | 59.9                            |
| Other Public Finance                         | 30.5                            | 30.4                            |
| Total U.S. Public Finance - New Issue        | <u>\$ 5,486.8</u>               | <u>\$ 4,353.3</u>               |
| U.S. Public Finance - Secondary Market       |                                 |                                 |
| General Obligation                           | \$ 355.6                        | \$ 199.1                        |
| Transportation                               | 104.9                           | 95.1                            |
| General Fund                                 | 33.0                            | 25.0                            |
| Utility                                      | 29.6                            | 29.2                            |
| Public Higher Education                      | 4.0                             | 1.0                             |
| Dedicated Tax                                | 1.2                             | 1.0                             |
| Total U.S. Public Finance - Secondary Market | <u>\$ 528.3</u>                 | <u>\$ 350.4</u>                 |
| <b>Total Gross Par Outstanding</b>           | <b><u><u>\$ 6,015.1</u></u></b> | <b><u><u>\$ 4,703.7</u></u></b> |

Gross Par Outstanding  
As of March 31, 2014



Gross Par Outstanding  
As of December 31, 2013

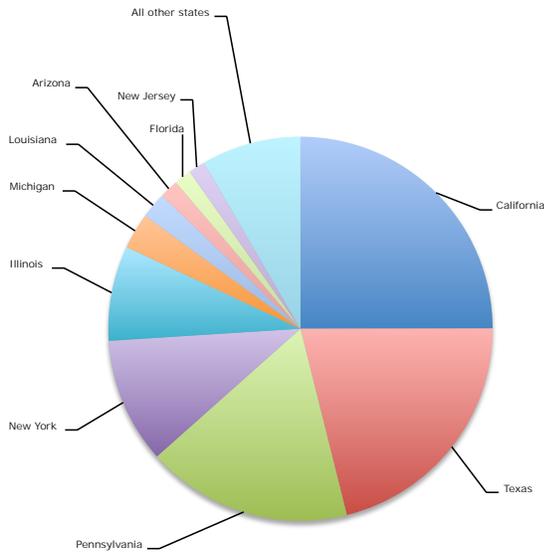


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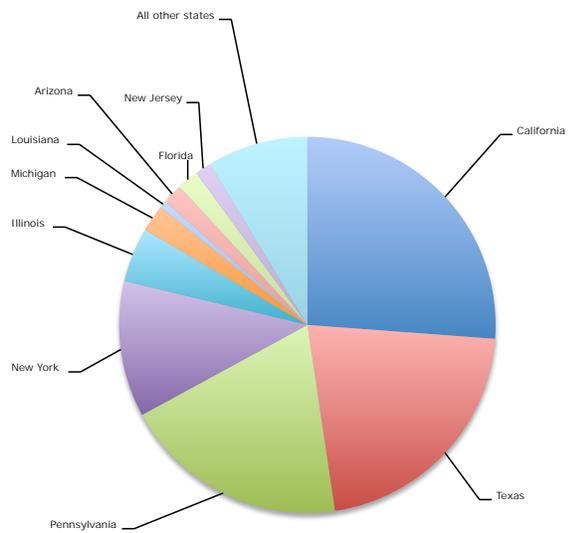
Gross Par Outstanding by State

| (in millions)                      | As of<br>March 31, 2014 | % of<br>Total | As of<br>December 31, 2013 | % of<br>Total |
|------------------------------------|-------------------------|---------------|----------------------------|---------------|
| California                         | \$ 1,502.6              | 25.0%         | \$ 1,231.6                 | 26.2%         |
| Texas                              | 1,271.6                 | 21.1%         | 1,010.4                    | 21.5%         |
| Pennsylvania                       | 1,040.0                 | 17.3%         | 912.0                      | 19.4%         |
| New York                           | 636.4                   | 10.6%         | 550.1                      | 11.7%         |
| Illinois                           | 481.5                   | 8.0%          | 220.9                      | 4.7%          |
| Michigan                           | 181.7                   | 3.0%          | 110.4                      | 2.3%          |
| Louisiana                          | 131.6                   | 2.2%          | 28.1                       | 0.6%          |
| Arizona                            | 94.9                    | 1.6%          | 81.6                       | 1.7%          |
| Florida                            | 86.8                    | 1.4%          | 86.3                       | 1.8%          |
| New Jersey                         | 84.5                    | 1.4%          | 65.2                       | 1.4%          |
| Alabama                            | 76.1                    | 1.3%          | 70.1                       | 1.5%          |
| Indiana                            | 50.5                    | 0.8%          | 40.8                       | 0.9%          |
| Oklahoma                           | 48.9                    | 0.8%          | 48.9                       | 1.0%          |
| Wisconsin                          | 46.6                    | 0.8%          | 23.7                       | 0.5%          |
| Connecticut                        | 38.1                    | 0.6%          | 38.1                       | 0.8%          |
| Kansas                             | 36.5                    | 0.6%          | 30.7                       | 0.7%          |
| South Carolina                     | 34.6                    | 0.6%          | 12.0                       | 0.3%          |
| Ohio                               | 29.9                    | 0.5%          | 29.9                       | 0.6%          |
| Massachusetts                      | 29.5                    | 0.5%          | 29.5                       | 0.6%          |
| Colorado                           | 27.4                    | 0.5%          | 27.4                       | 0.6%          |
| New Mexico                         | 27.1                    | 0.5%          | 22.0                       | 0.5%          |
| Nevada                             | 17.1                    | 0.3%          | 16.6                       | 0.4%          |
| Mississippi                        | 15.3                    | 0.3%          | -                          | 0.0%          |
| Rhode Island                       | 10.6                    | 0.2%          | 8.4                        | 0.2%          |
| Washington                         | 6.8                     | 0.1%          | -                          | 0.0%          |
| Tennessee                          | 5.6                     | 0.1%          | 6.0                        | 0.1%          |
| Oregon                             | 2.9                     | 0.0%          | 3.0                        | 0.1%          |
| <b>Total Gross Par Outstanding</b> | <b>\$ 6,015.1</b>       | <b>100.0%</b> | <b>\$ 4,703.7</b>          | <b>100.0%</b> |

Gross Par Outstanding by State  
 As of March 31, 2014



Gross Par Outstanding by State  
 As of December 31, 2013

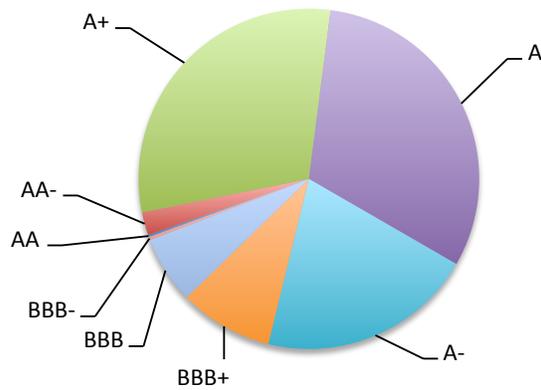


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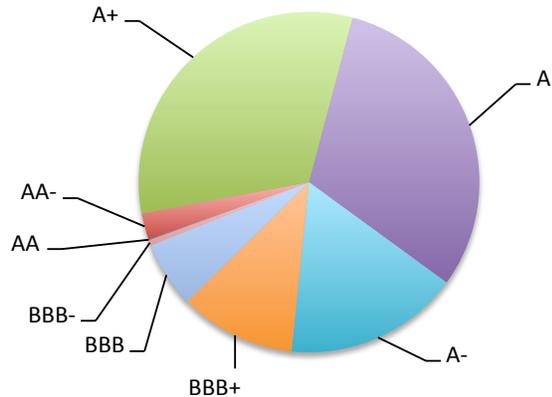
Rating Distribution of Gross Par Outstanding<sup>(1)</sup>

| (in millions)                      | Percentage of Gross<br>Par Outstanding as of<br>March 31, 2014 | Percentage of Gross<br>Par Outstanding as of<br>December 31, 2013 |
|------------------------------------|--|---|
| AA                                 | 0.2%   | 0.1%  |
| AA-                                | 2.2%   | 2.5%  |
| A+                                 | 30.2%  | 32.1%   |
| A                                  | 31.3%  | 30.9%   |
| A-                                 | 20.5%  | 16.6%   |
| BBB+                               | 8.9%   | 11.0%   |
| BBB                                | 6.4%   | 6.3%  |
| BBB-                               | 0.3%   | 0.5%  |
| BIG                                | - %  | - %   |
| <b>Total Gross Par Outstanding</b> | <b>100.0%</b>  | <b>100.0%</b>   |
| <b>Weighted Average Rating</b>     | <b>A</b>   | <b>A</b>  |

Rating Distribution of Gross Par  
Outstanding<sup>(1)</sup>  
As of March 31, 2014



Rating Distribution of Gross Par  
Outstanding<sup>(1)</sup>  
As of December 31, 2013



<sup>(1)</sup> Based on internal BAM ratings, which are provided in this Operating Supplement solely to indicate the underlying credit quality of guaranteed obligations based on the view of BAM. BAM credit ratings are subject to revision at any time and do not constitute investment advice.

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Contractual Amortization of Gross Par Outstanding<sup>(1)</sup>

| (in millions)                      | <u>Contractual<br/>Par<br/>Amortization</u> | <u>Ending<br/>Gross Par<br/>Outstanding</u> |
|------------------------------------|---|---|
| As of March 31, 2014:              |   | \$ 6,015.1                                  |
| April 1, 2014 to December 31, 2014 | \$ 128.9                                    | 5,886.2                                     |
| Year 2015                          | 187.9                                       | 5,698.3                                     |
| Year 2016                          | 215.4                                       | 5,482.9                                     |
| Year 2017                          | 234.5                                       | 5,248.4                                     |
| Year 2018                          | <u>248.0</u>                                | 5,000.4                                     |
| Subtotal                           | 1,014.7                                     |   |
| Years 2019 to 2023                 | 1,395.2                                     | 3,605.2                                     |
| Years 2024 to 2028                 | 1,281.5                                     | 2,323.7                                     |
| Years 2029 to 2033                 | 1,058.4                                     | 1,265.3                                     |
| Year 2034 and thereafter           | <u>1,265.3</u>                              | -   |
| Total                              | <u><u>\$ 6,015.1</u></u>                    |   |

<sup>(1)</sup> Depicts contractual amortization of existing guaranteed portfolio (principal only) and assumes no unscheduled, advance refundings as of March 31, 2014.

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Top 25 U.S. Public Finance Exposures

(in millions)

| Obligor  | Rating <sup>(1)</sup> | Gross Par<br>Outstanding |
|--|-----------------------|--------------------------|
| Chicago, City of, IL (Cook County)   | A-                    | \$ 93.0                  |
| Chicago Board of Education, IL (Cook County)   | A-                    | 90.0                     |
| Twin Rivers USD, CA, (Sacramento & Placer Counties)  | A+                    | 78.4                     |
| Sweetwater Union High School District Public Financing Authority, CA, (San Diego County)                       | A                     | 72.1                     |
| Plum Borough SD, PA (Allegheny County)   | A+                    | 67.4                     |
| Livonia Public School SD, MI (Wayne County)  | A                     | 65.0                     |
| Allegheny County Sanitary Authority, PA, (Allegheny County), Sewer Revenue                                     | A                     | 64.8                     |
| Road District No. 1, LA, (St Landry County), Sales Tax - Local   | A-                    | 62.5                     |
| Roosevelt UFSD, NY (Nassau County)   | A+                    | 59.4                     |
| Tehachapi Valley Healthcare District, CA (Kern County)   | A                     | 57.9                     |
| Texas Southern University System, TX (state-wide)  | BBB                   | 54.8                     |
| Sacramento City USD, CA (Sacramento County)  | A                     | 54.2                     |
| Hesperia USD, CA (San Bernardino County)   | A-                    | 52.7                     |
| Polk County, FL, (Polk County), Combined Water & Sewer   | AA-                   | 51.1                     |
| Bell County WCID No. 1, TX, (Bell County), Water   | A                     | 50.1                     |
| Springfield School District No. 186, IL, (Sangamon County)   | A-                    | 47.6                     |
| Nassau County, NY (Nassau County)  | A-                    | 47.0                     |
| Palmdale SD, CA (Los Angeles County)   | A                     | 45.2                     |
| Niagara Falls Public Water Authority, NY (Niagara County), Water   | A-                    | 44.5                     |
| Westminster SD, CA, (Orange County)  | AA-                   | 43.3                     |
| Poway USD CFD No. 2, 4, 6, 8B, 9, 10, 12, 13, 14, 15, CA, (San Diego County), Special Assessment - Established | BBB                   | 40.0                     |
| Val Verde USD, CA (Riverside County)   | A                     | 39.1                     |
| Tulare County Board of Education, CA (Tulare County)   | A+                    | 39.0                     |
| Santa Cruz County Redevelopment Successor Agency, CA (Santa Cruz County) Tax Increment                         | A                     | 38.9                     |
| Coachella Valley USD, CA, (Riverside County)   | A-                    | 38.1                     |
| Total - Top 25 U.S. Public Finance Exposures   |                       | <u>\$ 1,396.1</u>        |

<sup>(1)</sup> Based on internal BAM ratings, which are provided in this Operating Supplement solely to indicate the underlying credit quality of guaranteed obligations based on the view of BAM. BAM credit ratings are any time and do not constitute investment advice.

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Fixed Income Investment Portfolio  
(in millions)

| Investment Category                        | Fair Value      | Amortized Cost  | U.S. Statutory Basis Yield <sup>(1)</sup> | Actual U.S. Statutory Basis Investment Income For the Three Months Ended March 31, 2014 | Annualized U.S. Statutory Basis Investment Income For the Twelve Months Ended December 31, 2014 |
|--|-----------------|-----------------|---|---|---|
| Long-term Investments                      |                 |                 |   |   |   |
| Corporate Obligations                      | \$ 290.3        | \$ 294.0        | 1.34%                                     | \$ 0.9  | \$ 3.6  |
| U.S. Agency Obligations - MBS              | 80.6            | 81.9            | 2.42%                                     | 0.5   | 2.0   |
| U.S. Agency Obligations - Non-MBS          | 52.4            | 52.5            | 0.68%                                     | 0.1   | 0.4   |
| U.S. Government Obligations                | 14.8            | 15.0            | 0.60%                                     | 0.1   | 0.4   |
| Total Long-term investments                | 438.1           | 443.4           | 1.16%                                     | 1.6   | 6.4   |
| Short-term Investments                     | 20.0            | 20.0            | 0.19%                                     | 0.0   | 0.0   |
| Total Investments                          | <u>\$ 458.1</u> | <u>\$ 463.4</u> | <u>1.13%</u>                              | <u>\$ 1.6</u>   | <u>\$ 6.5</u>   |
| Investment Expenses                        |                 |                 |   | 0.2   | 0.9   |
| U.S. Statutory-basis Net Investment Income |                 |                 |   | <u>\$ 1.4</u>   | <u>\$ 5.6</u>   |

Rating Distribution of Fixed Income Investment Portfolio  
As of March 31, 2014

| Rating <sup>(2)</sup>       | Fair Value      | As a % of Investment Portfolio |
|-----------------------------|-----------------|--------------------------------|
| U.S. Government Obligations | \$ 34.8         | 7.6%                           |
| U.S. Agency Obligations     | 133.0           | 29.0%                          |
| AAA                         | -               | -                              |
| AA                          | 41.0            | 9.0%                           |
| A                           | 249.3           | 54.4%                          |
| BBB                         | -               | -                              |
| Below Investment Grade      | -               | -                              |
| Not Rated                   | -               | -                              |
| Total                       | <u>\$ 458.1</u> | <u>100.0%</u>                  |

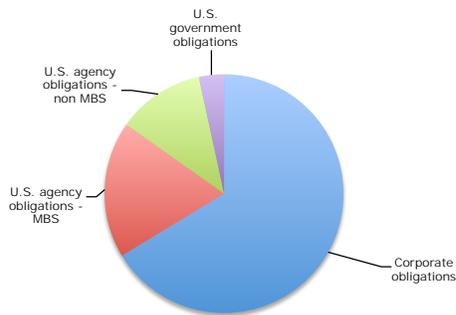
Weighted Average Rating

AA-

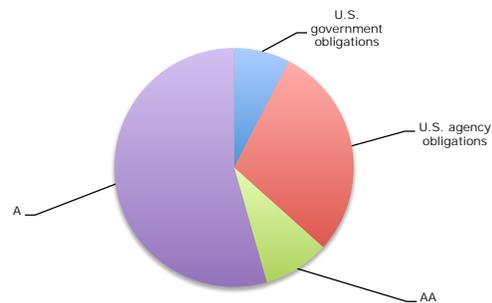
Duration of Fixed Income Investment Portfolio

3.02 years

Fixed Income Investment Portfolio<sup>(3)</sup>  
As of March 31, 2014



Rating Distribution of Fixed Income Investment Portfolio<sup>(2)</sup>  
As of March 31, 2014



<sup>(1)</sup> Represents the annualized ratio of U.S. Statutory basis investment income (gross of investment expenses) to the weighted average U.S. Statutory basis invested asset balance for the three months ended March 31, 2014.

<sup>(2)</sup> Ratings are based on the lower of Standard & Poor's or Moody's rating. Rating distribution is calculated based on fair value.

<sup>(3)</sup> Based on amortized cost.

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March 31, 2014

Glossary

*Contingency reserve* – a mandatory reserve required by New York State Insurance Law and the insurance laws of the other states in which BAM is licensed. The mandatory contingency reserve is a liability established to protect policyholders against the effect of adverse economic developments or cycles or other unforeseen circumstances.

*First loss reinsurance collateral trusts* – trusts established by HG Re for the benefit of BAM, which are secured by high quality collateral and are available to fund reinsurance claims.

*Gross par written* – the principal amount of obligations insured during the period, excluding the effect of the first loss reinsurance treaty with HG Re.

*New issue* – a bond for which a BAM insurance policy was purchased by the issuer prior to the bond's issuance. New issue bonds are issued and sold in the market with BAM insurance protection in place.

*Secondary market* – a bond that was initially issued in the market without a BAM insurance policy for which a BAM insurance policy was subsequently purchased by the owner of that bond.

*Gross risk premiums written* – a fee charged by BAM to insure the contractual principal and interest of a bond.

*Member surplus contribution* – a fee charged by BAM for the bond issuer to become a member of BAM.

*Gross par outstanding* – amount of remaining future contractual bond principal insured by BAM.



**BAM**<sup>SM</sup>

**BUILD AMERICA MUTUAL  
ASSURANCE COMPANY**

**CORPORATE HEADQUARTERS**

200 Liberty Street, 27th Floor  
New York, New York 10281

212.235.2500

800.993.1500

**WEST REGION**

101 California Street, 29th Floor  
San Francisco, California 94111

415.858.1000

**FOR MORE INFORMATION CONTACT:**

Richard G. Holzinger

Head of Investor Relations

Office: 212.235.2518

Cell: 203.305.8817

[rholzinger@buildamerica.com](mailto:rholzinger@buildamerica.com)

Michael Stanton

Head of Strategy and Communications

Office: 212.235.2575

Cell: 917.838.3548

[mstanton@buildamerica.com](mailto:mstanton@buildamerica.com)