

BAM

BUILD AMERICA MUTUAL

Quarterly Operating Supplement
September 30, 2013

Build America Mutual Assurance Company

Quarterly Operating Supplement

September 30, 2013

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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. As of November 14, 2013, Build America was licensed in the District of Columbia and every state except Kentucky (where it can write business under certain conditions). 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)	
	September 30, 2013	December 31, 2012
ADMITTED ASSETS		
Bonds	\$ 467.9	\$ 467.1
Cash, Cash Equivalents and Short-term Investments	12.5	21.1
Total Cash and Invested Assets	<u>\$ 480.4</u>	<u>\$ 488.2</u>
Investment Income Due and Accrued	2.1	2.8
Other Assets	0.2	0.2
Total Admitted Assets	<u><u>\$ 482.7</u></u>	<u><u>\$ 491.2</u></u>
LIABILITIES		
Unearned Premiums	\$ 1.8	\$ -
Ceded Reinsurance Premiums Payable	0.6	-
Mandatory Contingency Reserve	0.6	-
Accrued and Payable Expenses	9.1	7.5
Total Liabilities	<u>\$ 12.1</u>	<u>\$ 7.5</u>
CAPITAL AND SURPLUS		
Surplus Notes	\$ 503.0	\$ 503.0
Member Surplus Contributions	11.7	0.3
Unassigned Funds - Deficit	(44.1)	(19.6)
Total Capital and Surplus	<u>\$ 470.6</u>	<u>\$ 483.7</u>
Total Liabilities, Capital and Surplus	<u><u>\$ 482.7</u></u>	<u><u>\$ 491.2</u></u>

Build America Mutual Assurance Company
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Claims Paying Resources and Leverage Statistics

(in millions)

<u>U.S. Statutory Basis</u>	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Policyholders' Surplus	\$ 470.6	\$ 483.7
Contingency Reserve	0.6	-
Qualified Statutory Capital	\$ 471.2	\$ 483.7
Unearned Premiums, Net of Reinsurance	1.8	-
Loss and Loss Adjustment Expense Reserves	-	-
First Loss Reinsurance Collateral Trusts ⁽¹⁾	103.1	100.3
Claims Paying Resources	\$ 576.1	\$ 584.0
<u>Gross Par Outstanding</u>		
Investment Grade ⁽²⁾	\$ 3,128.3	\$ 25.8
Below Investment Grade ("BIG") ⁽²⁾	-	-
Total	\$ 3,128.3	\$ 25.8
<u>Leverage Statistics</u>		
Total Gross Par Outstanding ÷ Total Claims Paying Resources	5.4x	n.m.
BIG Gross Par Outstanding ÷ Total Claims Paying Resources	-	-

⁽¹⁾ Excludes BAM surplus notes and related accrued interest.

⁽²⁾ 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)

Gross Par Written

U.S. Public Finance - New Issue

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
General Obligations	\$ 548.6	\$ 2,105.8
Utilities	131.5	423.8
General Funds	78.5	203.2
Public Higher Education	75.2	80.5
Dedicated Tax	78.8	78.8
Other Public Finance	-	30.5
Transportation	22.9	22.9
Total U.S. Public Finance - New Issue	\$ 935.5	\$ 2,945.5

U.S. Public Finance - Secondary Market

General Obligations	\$ 43.0	\$ 73.4
Transportation	27.1	52.2
Utilities	-	28.5
General Funds	9.1	14.5
Dedicated Tax	-	1.0
Public Higher Education	1.0	1.0
Total U.S. Public Finance - Secondary Market	\$ 80.2	\$ 170.6

Total Gross Par Written

Total Gross Par Written	\$ 1,015.7	\$ 3,116.1
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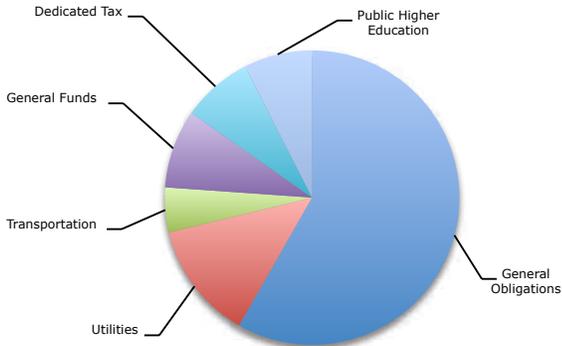
**Gross Risk Premiums and Member Surplus
Contributions Collected**

Gross Risk Premiums Written	\$ 2.9	\$ 8.2
Member Surplus Contributions	3.5	11.5

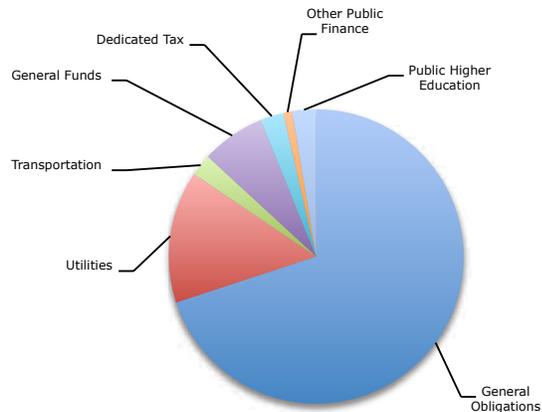
**Total Gross Risk Premiums and Member
Surplus Contributions Collected**

Total Gross Risk Premiums and Member Surplus Contributions Collected	\$ 6.4	\$ 19.7
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**Gross Par Written
For the three months ended September 30, 2013**



**Gross Par Written
For the nine months ended September 30, 2013**



Build America Mutual Assurance Company

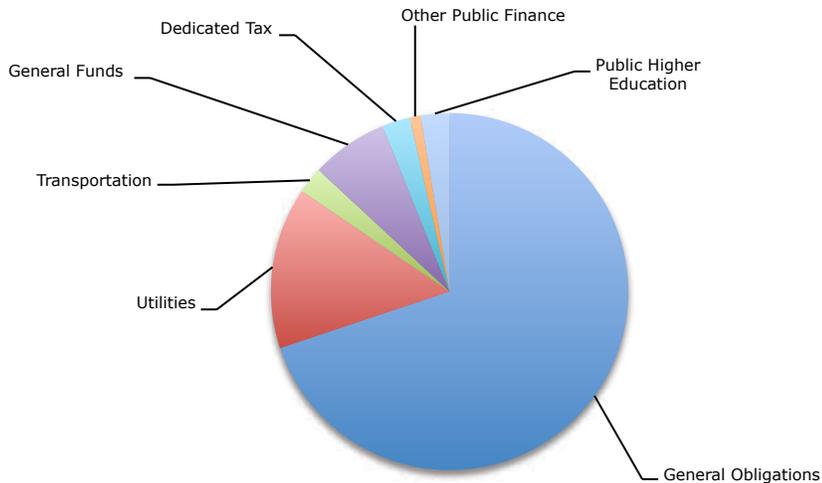
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Gross Par Outstanding by Sector

(in millions)	As of
	September 30, 2013
U.S. Public Finance - New Issue	
General Obligations	\$ 2,112.2
Utilities	429.6
General Funds	203.2
Public Higher Education	80.5
Dedicated Tax	78.8
Other Public Finance	30.5
Transportation	22.9
Total U.S. Public Finance - New Issue	<u>\$ 2,957.7</u>
U.S. Public Finance - Secondary Market	
General Obligations	\$ 73.4
Transportation	52.2
Utilities	28.5
General Funds	14.5
Dedicated Tax	1.0
Public Higher Education	1.0
Total U.S. Public Finance - Secondary Market	<u>\$ 170.6</u>
Total Gross Par Outstanding	<u>\$ 3,128.3</u>

**Gross Par Outstanding
As of September 30, 2013**



Build America Mutual Assurance Company

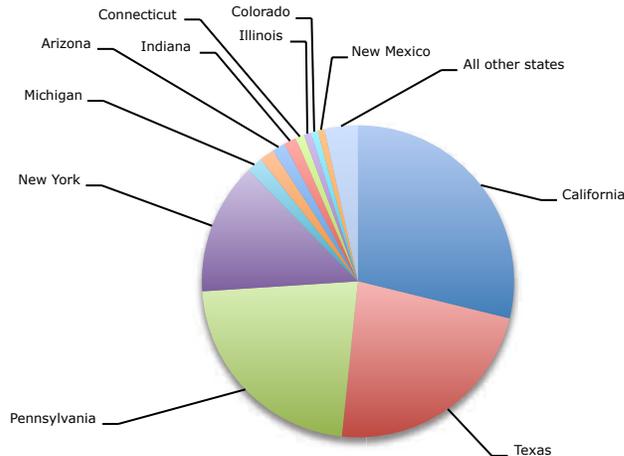
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Gross Par Outstanding by State

(in millions)	As of September 30, 2013	% of Total
California	\$ 902.0	28.8%
Texas	714.1	22.8%
Pennsylvania	698.1	22.3%
New York	426.8	13.6%
Michigan	51.9	1.7%
New Jersey	48.2	1.5%
Arizona	42.2	1.3%
Indiana	40.8	1.3%
Connecticut	28.1	0.9%
Illinois	23.1	0.7%
Colorado	23.0	0.7%
New Mexico	22.0	0.7%
Kansas	19.1	0.6%
Wisconsin	17.7	0.6%
Alabama	16.8	0.5%
Nevada	15.5	0.5%
Louisiana	12.8	0.4%
Oklahoma	12.0	0.4%
Massachusetts	6.1	0.2%
Tennessee	6.0	0.2%
South Carolina	2.0	0.1%
Total Gross Par Outstanding	\$ 3,128.3	100.0%

**Gross Par Outstanding by State
As of September 30, 2013**



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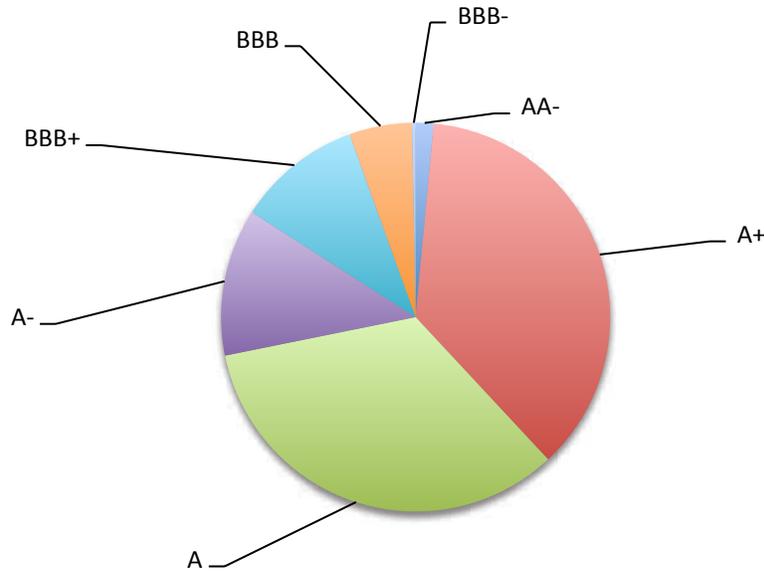
September 30, 2013

Rating Distribution of Gross Par Outstanding⁽¹⁾

(in millions)	Percentage of Gross Par Outstanding as of September 30, 2013
AA-	1.1%
A+	25.9%
A	35.4%
A-	16.7%
BBB +	11.6%
BBB	7.0%
BBB-	2.3%
BIG	- %
Total Gross Par Outstanding	100.0%

Weighted Average Rating A

**Rating Distribution of Gross Par Outstanding⁽¹⁾
As of September 30, 2013**



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Contractual Amortization of Gross Par Outstanding⁽¹⁾

(in millions)	<u>Contractual Par Amortization</u>	<u>Ending Gross Par Outstanding</u>
As of September 30, 2013:		\$ 3,128.3
4th Quarter 2013	\$ 15.8	3,112.5
Year 2014	86.4	3,026.1
Year 2015	105.6	2,920.5
Year 2016	120.6	2,799.9
Year 2017	124.9	2,675.0
Subtotal	<u>453.3</u>	
Years 2018 to 2022	690.7	1,984.3
Years 2023 to 2027	703.7	1,280.6
Years 2028 to 2032	597.2	683.4
Year 2033 and thereafter	683.4	-
Total	<u><u>\$ 3,128.3</u></u>	

⁽¹⁾ Depicts contractual amortization of existing guaranteed portfolio (principal only) and assumes no unscheduled, advance refundings as of September 30, 2013.

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Top 25 U.S. Public Finance Exposures

(in millions)

Obligor	Rating⁽¹⁾	Gross Par Outstanding	% of Total Gross Par Outstanding
Plum Borough SD, PA (Allegheny County)	A+	\$ 67.4	2.2%
Texas Southern University System, TX (state-wide)	BBB	62.4	2.0%
Roosevelt UFSD, NY (Nassau County)	A+	59.4	1.9%
Tehachapi Valley Healthcare District, CA (Kern County)	A	58.1	1.9%
Hesperia USD, CA (San Bernardino County)	A-	52.7	1.7%
Palmdale SD, CA (Los Angeles County)	A	45.2	1.4%
Niagara Falls Public Water Authority, NY (Niagara County), Water	A-	44.5	1.4%
Val Verde USD, CA (Riverside County)	A	39.1	1.2%
Tulare County Board of Education, CA (Tulare County)	A+	39.0	1.2%
Nassau County, NY (Nassau County)	A-	38.1	1.2%
Westlands Water District, CA (Fresno County And Kings County), Water	A+	37.6	1.2%
Temecula Valley USD, CA (Riverside County)	A	35.0	1.1%
Clovis, City of, CA (Fresno County), Water	A	31.8	1.0%
Sutter Butte Flood Control Agency, CA (Sutter and Butte Counties), Other Fee	A+	30.4	1.0%
Rosedale-Rio Bravo Water Storage District, CA (Kern County), Water	A	29.6	0.9%
Clarksville, Town of, IN (Clark County) Sewer	A	27.8	0.9%
Central Texas Turnpike System	BBB+	27.1	0.9%
Natomas USD, CA (Sacramento County)	BBB+	27.0	0.9%
Greene Township Municipal Authority, PA (Franklin County), Sewer	A	26.9	0.9%
Santa Maria-Bonita SD, CA (Santa Barbara County)	A	25.9	0.8%
Paterson, City of, NJ (Passaic County)	A+	25.3	0.8%
Woodland Hills SD, PA (Allegheny County)	A+	24.5	0.8%
Economy Borough Municipal Authority, PA (Beaver County), Sewer	A+	23.1	0.7%
North Harris County Regional Water Authority, TX (Harris County), Water	A	23.1	0.7%
Bowles Metropolitan District, CO (Jefferson County and Denver County)	A-	23.0	0.7%
Total - Top 25 U.S. Public Finance Exposures		\$ 924.0	29.5%

⁽¹⁾ 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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Fixed Income Investment Portfolio
 (in millions)

Investment Category	Fair Value	Amortized Cost	U.S. Statutory Basis Yield ⁽¹⁾	Actual	Annualized U.S.
				U.S. Statutory Basis Investment Income For the Nine Months Ended September 30, 2013	Statutory Basis Investment Income For the Nine Months Ended September 30, 2013
Long-term Investments					
Corporate Obligations	\$ 285.3	\$ 290.8	1.33%	\$ 2.8	\$ 3.7
U.S. Agency Obligations - MBS	88.1	89.4	0.92%	0.6	0.8
U.S. Agency Obligations - Non-MBS	52.5	52.7	0.67%	0.3	0.4
U.S. Government Obligations	34.9	35.0	0.33%	0.1	0.1
Total Long-term Investments	<u>\$ 460.8</u>	<u>\$ 467.9</u>	<u>1.10%</u>	<u>\$ 3.8</u>	<u>\$ 5.0</u>
Investment Expenses				0.5	0.8
U.S. Statutory-basis Net Investment Income				<u>\$ 3.3</u>	<u>\$ 4.2</u>

Rating Distribution of Fixed Income Investment Portfolio
 As of September 30, 2013

Rating ⁽²⁾	Fair Value	As a % of Investment Portfolio
U.S. Government Obligations	\$ 34.9	7.6%
U.S. Agency Obligations	140.6	30.5%
AAA	-	- %
AA	41.9	9.1%
A	243.4	52.8%
BBB	-	- %
Below Investment Grade	-	- %
Not Rated	-	- %
Total	<u>\$ 460.8</u>	<u>100.0%</u>

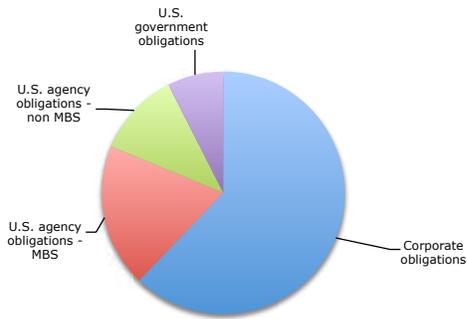
Weighted Average Rating

AA-

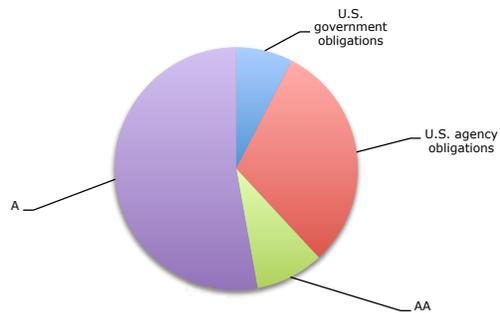
Duration of Fixed Income Investment Portfolio

3.30 years

Fixed Income Investment Portfolio⁽³⁾
 As of September, 2013



Rating Distribution of Fixed Income Investment Portfolio⁽²⁾
 As of September 30, 2013



⁽¹⁾ 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 nine months ended September 30, 2013.

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

⁽³⁾ Based on amortized cost.

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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 financial guaranty insurance for which a BAM insurance 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.



BAMSM

**BUILD AMERICA MUTUAL
ASSURANCE COMPANY**

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