

# BAM

BUILD AMERICA MUTUAL

Quarterly Operating Supplement  
September 30, 2014

Build America Mutual Assurance Company  
Quarterly Operating Supplement  
September 30, 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', from Standard & Poor's Ratings Services, were reaffirmed on July 31, 2014. Build America is not licensed to write financial guaranty insurance in Puerto Rico or any other territory or possession of the United States and it has no exposure to debt issued in Puerto Rico or any other territory or possession of the United States.

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)	
	<u>September 30, 2014</u>	<u>December 31, 2013</u>
<b>ADMITTED ASSETS</b>		
Bonds	\$ 447.5	\$ 450.0
Cash, Cash Equivalents and Short-term Investments	36.8	33.6
Other Invested Assets	5.0	-
Total Cash and Invested Assets	<u>\$ 489.3</u>	<u>\$ 483.6</u>
Investment Income Due and Accrued	2.1	2.7
Receivable for securities sold	0.5	-
Other Assets	0.3	0.2
Total Admitted Assets	<u><u>\$ 492.2</u></u>	<u><u>\$ 486.5</u></u>
<b>LIABILITIES</b>		
Unearned Premiums	\$ 5.3	\$ 3.0
Ceded Reinsurance Premiums Payable	-	2.0
Mandatory Contingency Reserve	3.5	1.1
Payable for Securities Purchased	16.4	-
Accrued and Payable Expenses	12.8	11.4
Total Liabilities	<u>\$ 38.0</u>	<u>\$ 17.5</u>
<b>CAPITAL AND SURPLUS</b>		
Surplus Notes	\$ 503.0	\$ 503.0
Member Surplus Contributions	28.9	17.3
Unassigned Funds - Deficit	(77.7)	(51.3)
Total Capital and Surplus	<u>\$ 454.2</u>	<u>\$ 469.0</u>
Total Liabilities, Capital and Surplus	<u><u>\$ 492.2</u></u>	<u><u>\$ 486.5</u></u>

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Claims Paying Resources and Leverage Statistics

(in millions)	September 30, 2014	December 31, 2013
Policyholders' Surplus	\$ 454.2	\$ 469.0
Contingency Reserve	3.5	1.1
Qualified Statutory Capital	\$ 457.7	\$ 470.1
First Loss Reinsurance Collateral Trusts	116.9	105.4
Total Hard Capital	\$ 574.6	\$ 575.5
Unearned Premiums, Net of Reinsurance	5.3	3.0
Loss and Loss Adjustment Expense Reserves	-	-
Present Value of Installment Gross Risk Premiums and Member Surplus Contributions <sup>(1)</sup>	1.4	-
Claims Paying Resources	\$ 581.3	\$ 578.5
 <u>Gross Par Outstanding</u>		
Investment Grade <sup>(2)</sup>	\$ 9,963.6	\$ 4,703.7
Below Investment Grade ("BIG") <sup>(2)</sup>	-	-
Total	\$ 9,963.6	\$ 4,703.7
 <u>Leverage Statistics</u>		
Total Gross Par Outstanding ÷ Total Hard Capital	17.3x	8.2x
BIG Gross Par Outstanding ÷ Total Hard Capital	-	-
Total Gross Par Outstanding ÷ Total Claims Paying Resources	17.1x	8.1x
BIG Gross Par Outstanding ÷ Total Claims Paying Resources	-	-

<sup>(1)</sup> Represents the present value of future installment risk premiums, gross of reinsurance, and member surplus contributions, discounted at a risk-free rate.

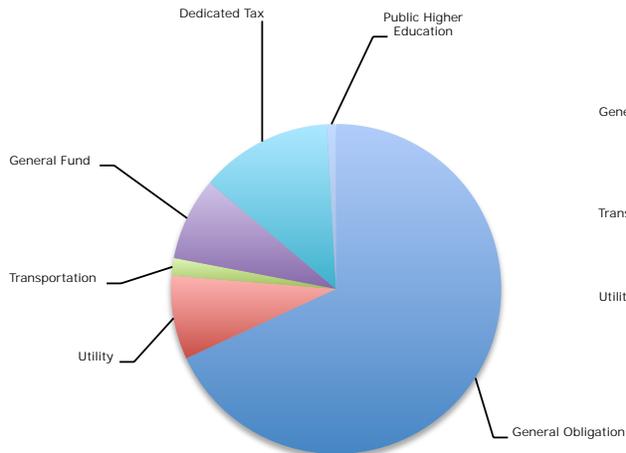
<sup>(2)</sup> Based on internal BAM ratings, which are provided in this Operating Supplement solely to indicate the underlying credit quality of guaranteed obligations based on the view of BAM. BAM credit ratings are subject to revision at any time and do not constitute investment advice.

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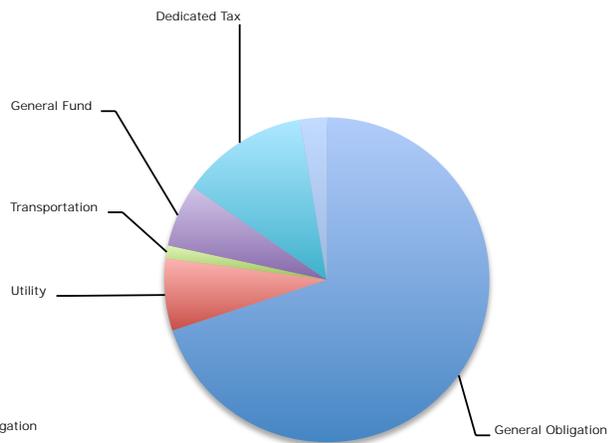
Business Production

(in millions)	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
<i>Gross Par Written</i>		
U.S. Public Finance - New Issue		
General Obligation	\$ 1,477.2	\$ 3,491.6
Utility	171.9	369.9
General Fund	178.3	317.9
Dedicated Tax	238.3	615.2
Public Higher Education	13.5	129.0
Transportation	37.8	55.9
Other Public Finance	-	-
Total U.S. Public Finance - New Issue	\$ 2,117.0	\$ 4,979.5
U.S. Public Finance - Secondary Market		
General Obligation	\$ 50.1	\$ 252.9
Transportation	0.6	13.2
General Fund	3.8	16.2
Utility	12.2	13.7
Public Higher Education	6.7	13.9
Dedicated Tax	52.7	64.0
Total U.S. Public Finance - Secondary Market	\$ 126.1	\$ 373.9
Total Gross Par Written	\$ 2,243.1	\$ 5,353.4
<i>Gross Risk Premiums and Member Surplus Contributions Collected</i>		
Gross Risk Premiums Written	\$ 4.0	10.7
Member Surplus Contributions	3.9	11.6
Total Gross Risk Premiums and Member Surplus Contributions Collected	\$ 7.9	\$ 22.3

Gross Par Written  
For the Three Months Ended September 30, 2014



Gross Par Written  
For the Nine Months Ended September 30, 2014

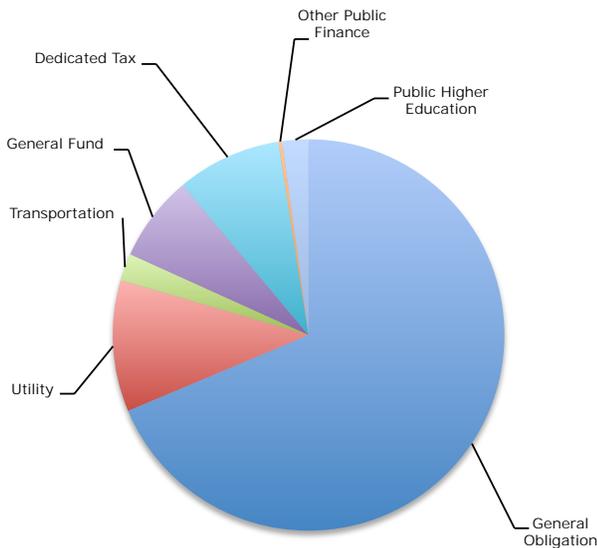


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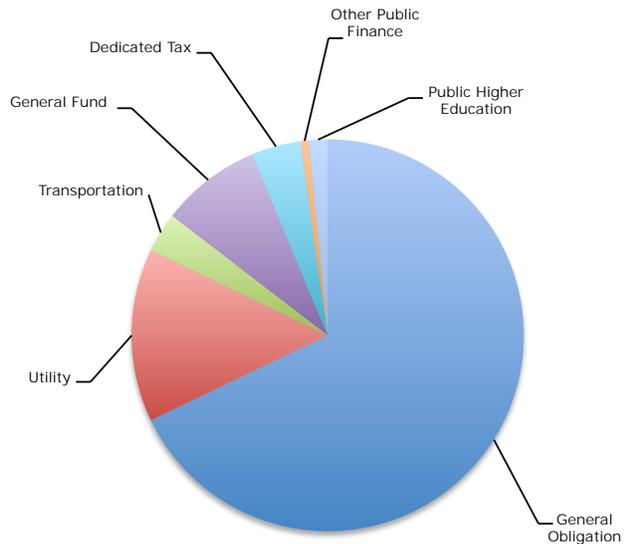
Gross Par Outstanding by Sector

(in millions)	As of September 30, 2014	As of December 31, 2013
U.S. Public Finance - New Issue		
General Obligation	\$ 6,390.1	\$ 2,992.7
Utility	1,038.7	642.7
General Fund	673.4	363.6
Dedicated Tax	790.3	191.4
Public Higher Education	200.9	72.6
Transportation	115.7	59.9
Other Public Finance	30.5	30.4
Total U.S. Public Finance - New Issue	<u>\$ 9,239.6</u>	<u>\$ 4,353.3</u>
U.S. Public Finance - Secondary Market		
General Obligation	\$ 451.8	\$ 199.1
Transportation	108.2	95.1
General Fund	35.0	25.0
Utility	42.9	29.2
Public Higher Education	14.9	1.0
Dedicated Tax	71.2	1.0
Total U.S. Public Finance - Secondary Market	<u>\$ 724.0</u>	<u>\$ 350.4</u>
<b>Total Gross Par Outstanding</b>	<b><u>\$ 9,963.6</u></b>	<b><u>\$ 4,703.7</u></b>

Gross Par Outstanding  
As of September 30, 2014



Gross Par Outstanding  
As of December 31, 2013

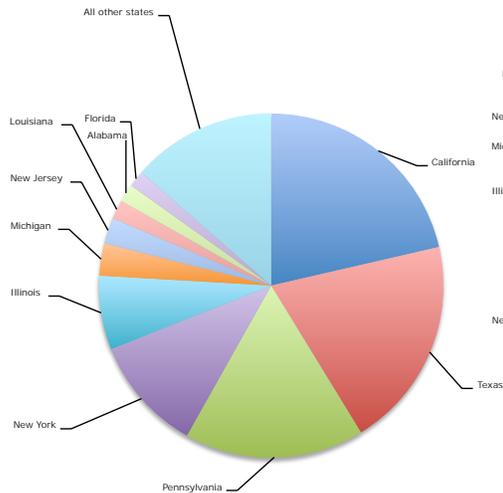


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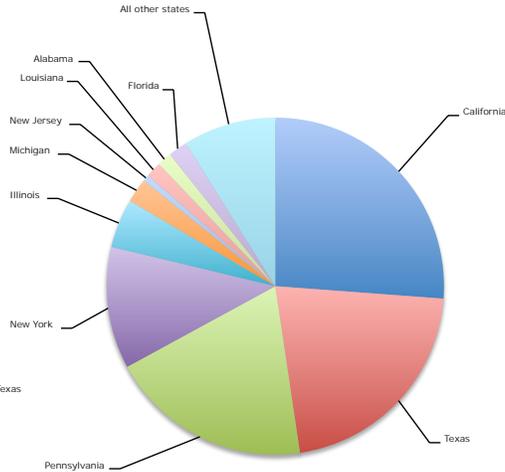
Gross Par Outstanding by State

(in millions)	As of September 30, 2014	% of Total	As of December 31, 2013	% of Total
California	\$ 2,131.8	21.4%	\$ 1,231.6	26.2%
Texas	1,981.0	19.9%	1,010.4	21.5%
Pennsylvania	1,679.9	16.9%	912.0	19.4%
New York	1,080.2	10.8%	550.1	11.7%
Illinois	692.4	6.9%	220.9	4.7%
Michigan	302.9	3.0%	110.4	2.3%
New Jersey	242.0	2.4%	28.1	0.6%
Louisiana	178.0	1.8%	70.1	1.5%
Alabama	168.6	1.7%	65.2	1.4%
Florida	153.2	1.5%	86.3	1.8%
Ohio	141.8	1.4%	81.6	1.7%
Arizona	133.7	1.3%	29.9	0.6%
Kansas	116.4	1.2%	-	0.0%
Indiana	113.3	1.1%	40.8	0.9%
Iowa	112.6	1.1%	23.7	0.5%
Wisconsin	95.1	1.0%	30.7	0.7%
Connecticut	77.5	0.8%	48.9	1.0%
South Carolina	60.0	0.6%	27.4	0.6%
Mississippi	56.5	0.6%	38.1	0.8%
Georgia	54.6	0.5%	12.0	0.3%
Oklahoma	53.4	0.5%	-	0.0%
New Mexico	40.6	0.4%	29.5	0.6%
Colorado	40.4	0.4%	6.0	0.1%
Minnesota	38.2	0.4%	22.0	0.5%
Washington	31.2	0.3%	-	0.0%
Massachusetts	29.0	0.3%	16.6	0.4%
Tennessee	25.4	0.3%	-	0.0%
Arkansas	24.8	0.2%	-	0.0%
Kentucky	20.6	0.2%	8.4	0.2%
Virginia	16.8	0.2%	-	0.0%
Hawaii	16.3	0.2%	-	0.0%
Nevada	15.8	0.2%	-	0.0%
Missouri	12.0	0.1%	-	0.0%
Rhode Island	10.6	0.1%	-	0.0%
South Dakota	7.6	0.1%	-	0.0%
North Carolina	6.4	0.1%	-	0.0%
Oregon	3.0	0.0%	3.0	0.1%
<b>Total Gross Par Outstanding</b>	<b>\$ 9,963.6</b>	<b>100.0%</b>	<b>\$ 4,703.7</b>	<b>100.0%</b>

Gross Par Outstanding by State  
As of September 30, 2014



Gross Par Outstanding by State  
As of December 31, 2013

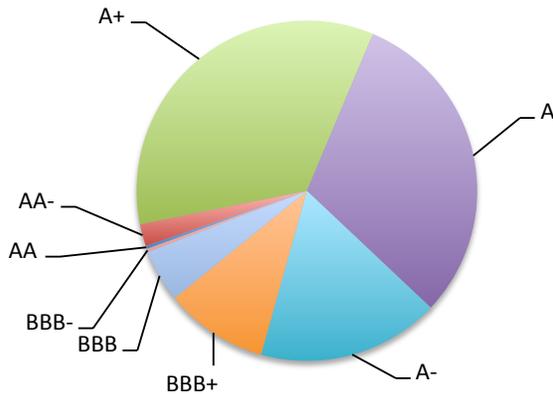


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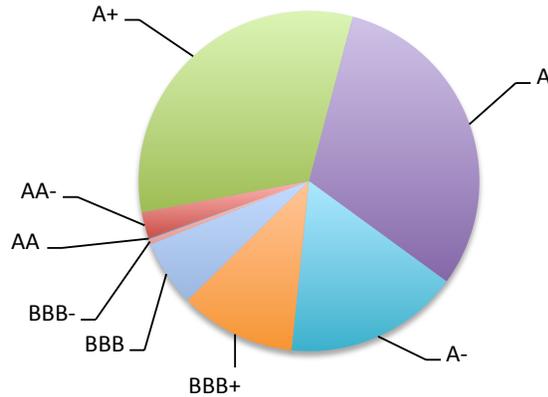
Rating Distribution of Gross Par Outstanding<sup>(1)</sup>

(in millions)	Percentage of Gross Par Outstanding as of September 30, 2014	Percentage of Gross Par Outstanding as of December 31, 2013
AA	0.3%	0.1%
AA-	2.1%	2.5%
A+	34.5%	32.1%
A	30.7%	30.9%
A-	17.3%	16.6%
BBB+	9.8%	11.0%
BBB	5.0%	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 September 30, 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 Par Amortization</u>	<u>Ending Gross Par Outstanding</u>
As of June 30, 2014:		\$ 9,963.6
July 1, 2014 to December 31, 2014	\$ 76.5	9,887.1
Year 2015	298.9	9,588.2
Year 2016	365.7	9,222.5
Year 2017	419.2	8,803.3
Year 2018	450.1	8,353.2
Subtotal	<u>1,610.4</u>	
Years 2019 to 2023	2,429.8	5,923.4
Years 2024 to 2028	2,267.1	3,656.3
Years 2029 to 2033	1,814.1	1,842.2
Year 2034 and thereafter	1,842.2	-
Total	<u><u>\$ 9,963.6</u></u>	

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

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Top 25 U.S. Public Finance Exposures

(in millions)

Obligor	Rating <sup>(1)</sup>	Gross Par Outstanding
Illinois, State of, IL (State-Wide)	A-	\$ 94.4
Chicago, City of, IL (Cook County)	A-	93.0
Chicago Board of Education, IL (Cook County)	A-	90.0
Sweetwater Union HSD, CA (San Diego County)	A+	82.3
Oyster Bay, Town of, NY (Nassau County)	BBB+	82.0
Twin Rivers USD, CA, (Sacramento & Placer Counties)	A+	77.5
Spring ISD, TX (Harris County)	A+	76.9
New Jersey Transportation Trust Fund Authority, System & Program Bonds, NJ (*State-Wide (NJ)), Gas Tax - State	A	69.1
Sweetwater Union High School District Public Financing Authority, CA (San Diego County)	A	67.9
Bethlehem, City of, PA (Lehigh and Northampton Counties)	BBB+	67.8
Genesee, County of, MI (Genesee County), Water	A	65.3
Livonia Public School SD, MI (Wayne County)	A	65.0
Allegheny County Sanitary Authority, PA, (Allegheny County), Sewer Revenue	A	64.8
Plum Borough SD, PA (Allegheny County)	A+	64.7
Road District No. 1, LA, (St Landry County), Sales Tax - Local	A-	62.5
Des Moines Independent CSD, IA, (Polk and Warren Counties), Sales Tax - State	A	61.9
Coachella Valley USD, CA, (Riverside County)	A-	59.9
Roosevelt UFSD, NY (Nassau County), NY (Nassau County)	A+	59.4
Tehachapi Valley Healthcare District, CA (Kern County)	A	57.9
Sacramento City USD, CA (Sacramento County)	A	55.0
Texas Southern University System, TX (state-wide)	BBB	54.8
Hesperia USD, CA (San Bernardino County)	A-	52.7
Harrisburg SD, PA (Dauphin County)	A+	51.5
Polk County, FL, (Polk County), Combined Water & Sewer	AA-	51.1
Jasper, City of, AL (Walker County)	A	50.8
Total - Top 25 U.S. Public Finance Exposures		<u>\$ 1,678.2</u>

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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 Nine Months Ended September 30, 2014	Annualized U.S. Statutory Basis Investment Income For the Twelve Months Ended December 31, 2014
Long-term Investments					
Corporate Obligations	\$ 286.3	\$ 288.4	1.33%	\$ 2.9	\$ 3.9
U.S. Agency Obligations - MBS	88.9	89.3	2.20%	1.3	1.7
U.S. Agency Obligations - Non-MBS	52.3	52.3	0.68%	0.3	0.4
U.S. Government Obligations	4.9	5.0	0.57%	0.1	0.1
Municipal Obligations	12.5	12.5	2.37%	-	-
Subtotal Long-term investments	\$ 444.9	\$ 447.5	1.35%	\$ 4.6	\$ 6.1
Short-term Investments	-	-	0.12%	0.1	0.1
Subtotal Long-term and Short-term Investments	\$ 444.9	\$ 447.5	1.35%	\$ 4.7	\$ 6.3
Cash Equivalents	32.8	32.8			
Total	\$ 477.7	\$ 480.3			
Investment Expenses				0.5	0.7
U.S. Statutory-basis Net Investment Income				\$ 4.2	\$ 5.6

Rating Distribution of Fixed Income Investment Portfolio  
As of September 30, 2014

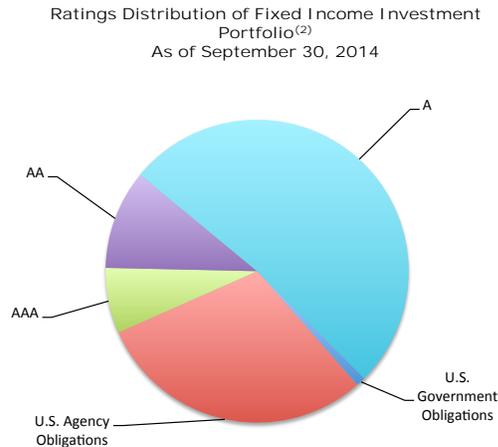
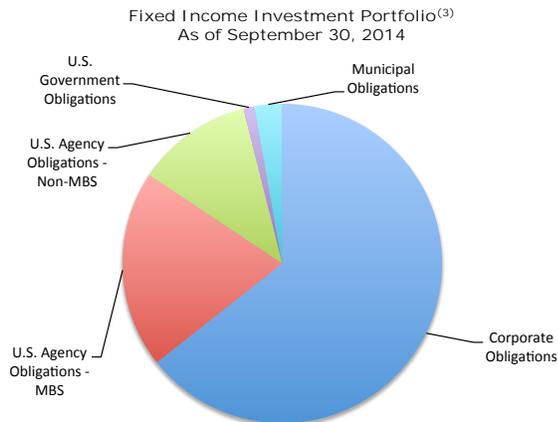
Rating <sup>(2)</sup>	Fair Value	As a % of Investment Portfolio
U.S. Government Obligations	\$ 4.9	1.0%
U.S. Agency Obligations	141.2	29.5%
Cash Equivalents	32.8	6.9%
AAA	5.7	1.2%
AA	50.1	10.5%
A	243.0	50.9%
BBB	-	-
Below Investment Grade	-	-
Not Rated	-	-
Total	\$ 477.7	100.0%

Weighted Average Rating

AA-

Duration of Fixed Income Investment Portfolio

2.76 years



(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, 2014.

(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 fair value.

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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 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**

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