

BAM Mutual

Introduction to BAM

Privileged and Confidential

BAM's Mission

BAM is the only financial guaranty insurer
focused exclusively on the low-risk public finance sector

BAM serves investors with durable, transparent protection against default
while acting as an industry utility providing efficient funding and savings to issuers

BAM is the only mutual financial guaranty insurance company,
aligning its corporate goals with the interest of its member municipalities
and municipal market investors

About BAM

BAM is a financial guarantor providing financial guaranty insurance. Financial guaranty insurance is the promise to pay timely principal and interest on a bond or note if the primary obligor (the issuer of the debt) does not pay for any reason.

The guaranty is unconditional and irrevocable.

BENEFITS TO INVESTORS

- Rated AA/Stable by S&P Global Ratings
- The guaranty is irrevocable and unconditional – even in the case of fraud
- Timely payment of principal and interest – if the underlying obligor doesn't pay, BAM will
- The guaranty provides liquidity when selling the bond – due to the enhanced rating (BAM is almost always rated higher than the underlying bond) and, for smaller less frequent issuers, greater name recognition
- The guaranty provides rating downgrade protection if the underlying issuer rating is lowered
- The guaranty helps mitigate any impairment in the value of the investment in the event of credit deterioration of the underlying issuer
- Diligent credit analysis by BAM on every insured issue, including annual updates through BAM's Credit Profiles. Credit Profiles are three-page summaries that provide fundamental information about the underlying bonds as well as economic, demographic and financial information about the credit. These are located on BAM's website and are provided at no additional cost.
- Rigorous up-front review of issuers' pension and other post employment benefits (OPEB) liabilities
- In-depth review of the legal environment, the legal structure and the specific deal documentation
- Continuous active surveillance that monitors performance through the life of the deal and intervention by BAM, if necessary, with the underlying issuer to help prevent default
- Additional services provided by BAM include Credit Insights videos (in-depth video by a credit analyst describing key aspects of the bond issue) and BAM GreenStar Assessments

BAM's Rating and its Benefits



BAM is Rated AA/Stable by S&P Global Ratings

- BAM is the only active municipal-only bond insurer rated by S&P; our AA Stable rating is not susceptible to more volatile non-municipal sectors that require significant capital by S&P to maintain rating stability
- BAM's AA rating has been reaffirmed annually since our inception in 2012
- BAM's AA Stable rating enables a BAM-insured bond to pay a lower interest rate than one with a lower grade rating and reflects a lower level of risk
- BAM's AA Stable rating provides increased liquidity and name recognition for small and medium size issuers that the higher rating and more widely recognized name of BAM bring to the issue
- In each of S&P's reports on BAM, S&P highlights our experienced management team, strong market position, conservative underwriting standards, exceptional liquidity, and excellent capital adequacy (with a capital adequacy score of AAA)

Mutual Ownership Aligns the Interests of Policyholders and "Owners"

Our mutual structure is a significant improvement to the financial guaranty model

- Issuers "own" (are members of) the mutual company
- Alignment of interest between policyholders and "owners" of the company
- BAM only insures public finance issues, therefore our current members are, and will always be, public finance issuers
- Permits strong capital without pressure for earnings growth or IPO
- BAM covenants in each commitment it issues that it will not seek to convert to a stock insurance company

	MUTUAL COMPANY	STOCK COMPANY
Stakeholders:	Policyholders	**Shareholders** and policyholders
Core Focus:	**Capital accumulation** to maximize savings to issuers and safety to investors, utilizing fully collateralized reinsurance to protect BAM's core regulatory capital Delivering benefits of low cost capital to its "owners" (members) through savings on cost of issuance	**Return on equity** to maximize stock price, with a focus on quarterly earnings Delivering returns to shareholders, including dividends and share buy-backs
Filing Requirements:	Governed by the National Association of Insurance Commissioners ("NAIC")	Governed by the SEC, Financial Accounting Standards Board ("FASB")
Basis of Accounting:	U.S. Statutory[1] – Developed from a **policyholder's perspective** to measure a company's ability to pay claims	U.S. GAAP – Developed from a shareholder's perspective to measure earnings per share and return on equity

BAM

1. Statutory Accounting Principles are designed to assist state insurance departments in the regulation of the solvency of insurance companies. The ultimate objective of solvency regulation is to ensure that policyholder, contract holder and other legal obligations are met when they come due and that companies maintain capital and surplus at all times and in such forms as required by statute to provide a margin of safety. With the objective of solvency regulation, SAP focuses on the balance sheet, rather than the income statement, and emphasizes insurers' liquidity.

Underwriting Guidelines and Surveillance

Underwriting Guidelines are Conservative and the Insured Portfolio is Continually Monitored

BAM's underwriting guidelines focus on issuers of essential purpose bonds that have historically shown low default risk and low severity of loss given default

BAM's Surveillance team actively reviews the insured portfolio and communicates important current and emerging issues company-wide through reports and blogs

BAM Insurable Sectors:



General Obligation (States, Counties, Cities, School Districts, Special Districts, Community College Districts)



General Fund, Non Ad Valorem and Appropriation



Water, Sewer & Solid Waste Utility Revenue (little or no exposure to landfills or mass burn facilities)



Higher Education



Healthcare



Special Tax Secured (Income, Ad Valorem, Sales, Excise, Gas, Public Service, Income, Motor Vehicle)



Electric & Gas Utility Revenue (retail and wholesale)



Transportation (Airports, Toll Roads and Bridge Systems, Parking Systems, Mass Transit, Ports)



Special Assessment, Mello Roos & Tax Increment Financing, Hotel Tax

BAM Surveillance Activity:

- Surveillance continually monitors the insured portfolio for all continuing disclosure, issuer-related news and public rating changes
- At least annually, Surveillance reviews each insured credit for changes in credit quality and updates the BAM rating accordingly
- Surveillance utilizes data from a variety of resources as part of the credit review
- Surveillance compiles quarterly reports that are reviewed by Surveillance Committee, including:
  - Geographic, sector, and rating distribution charts
  - BAM Rating change recommendations
  - Public ratings changes
  - Watchlist and below investment grade credits
  - Loss reserve activity
  - Amendment, waiver and consent activity
- Surveillance completes in-depth reviews of various sectors on a rotating basis and provides blog updates on sectors and current developments
- Surveillance framework includes various stress testing and a review of correlated risks

BAM Credit Profiles

BAM CREDIT PROFILES

BAM's transparency and disclosures are best in class

BAM Credit Profiles make the municipal market more transparent and efficient and provide an excellent compliance tool for market participants such as bank qualified investors

- Specific users of BAM Credit Profiles include:
  - Bank investors, who want a standardized-format credit summary they can use to perform due diligence and satisfy OCC/FDIC portfolio monitoring requirements for credit research that is independent from the rating agencies
  - Broker-dealer sales and trading desks and retail liaisons, who need to deliver key disclosure information in conjunction with secondary-market bond sales
  - Retail financial advisors, who use BAM Credit Profiles to illustrate the credit characteristics of a bond investment for their clients
  - Market analysts examining BAM's credit, who use BAM Credit Profiles to confirm that BAM maintains the lowest-risk insured portfolio in the industry

- BAM Credit Profiles can be used to:
  - Resolve uncertainty about an issuer's 15c2-12 compliance status
    - BAM's surveillance staff acts proactively to notify issuers when their disclosures are late or misfiled
  - Eliminate the time-consuming process of locating key data within CAFR PDF documents
  - Avoid inefficient EMMA searches that fail to highlight the most recent or relevant disclosure information
    - Users can also bypass the search engine completely by registering for email alerts every time a relevant BAM Credit Profile is updated

BAM Credit Profiles: *Key Benefits*

- ✓ Standardized Format
- ✓ Sector-Specific Templates that highlight the most relevant data
- ✓ Updated annually
- ✓ Available for free

BAM Credit Profiles can be downloaded by anyone and can be used as a resource/analytical tool to compare credits inside and outside of BAM's portfolio

BAM's GreenStar

BAM GreenStar bonds are U.S. municipal bonds sold to finance infrastructure that aligns with international standards for green bonds. The BAM GreenStar Assessment is an independent review of a bond issue's purpose and includes ongoing surveillance and reporting on the construction status of the eligible project to maximize secondary liquidity.

An initial BAM GreenStar evaluation is performed for every transaction submitted for insurance. Bonds issued for projects that are directly related to the following areas can be eligible for the BAM GreenStar designation:

- Renewable Energy
- Energy Efficiency Upgrades
- Pollution Prevention and Control
- Environmentally Sustainable Management of Living Natural Resources and Land Use
- Terrestrial and Aquatic Biodiversity Conservation
- Clean Transportation
- Sustainable Water and Wastewater Management
- Climate Change Adaptation and Mitigation
- Green Buildings

- Every BAM GreenStar bond comes with a BAM Credit Profile that includes information on how the bond issue's use of proceeds maps to global standards, including the International Capital Markets Association's Green Bond Principles and the United Nations' Sustainable Development Goals
- BAM GreenStar standards are aligned with industry standards for green bonds
- BAM is an Approved Verifier for Certified Climate Bonds
- BAM is a Registered Observer of the International Capital Markets Association's Green Bond Principles

Climate Bonds Approved Verifier

The Green Bond Principles

www.buildamerica.com/greenstar