

NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION

Audit Committee Charter

Purpose of the Audit Committee

The Audit Committee is appointed by the Board of Directors of National (the “Company”) to assist the Board of Directors in monitoring:

1. The integrity of the financial statements of the Company and of other material financial disclosures made by the Company;
2. The performance of the Company’s internal audit function and independent auditor;
3. The Company’s compliance policies and procedures and its compliance with legal and regulatory requirements; and
4. The performance of the Company’s operational risk management function.

In addition, the Audit Committee shall prepare the report of the Audit Committee required to be delivered to the Company’s Board of Directors.

While the Audit Committee has the responsibilities and powers set forth in this Charter, the function of the Audit Committee is oversight. The management of the Company is responsible for the preparation, presentation and integrity of the Company’s financial statements. Management and the Company’s internal audit department are responsible for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditor is responsible for planning and carrying out proper annual audits and quarterly reviews of the Company’s financial statements.

In fulfilling their responsibilities under this Charter, it is recognized that the members of the Audit Committee are not full-time employees of the Company and, accordingly, it is not the duty or responsibility of the Committee or its individual members to conduct auditing or accounting reviews or procedures, to determine that the Company’s financial statements are fairly presented in accordance with GAAP, or to certify the Company’s financial statements or the independent auditor’s work. Nor is it the duty of the Audit Committee to assure compliance with legal and regulatory requirements. Each member of the Audit Committee shall be entitled to rely on the information, opinions, reports or statements, including financial statements and other financial data prepared or presented by officers or employees of the Company, its legal

counsel, independent accountants or other persons with professional or expert competence.

Committee Composition, Membership and Voting

The Audit Committee shall consist of at least four members, each of whom shall be, as determined by the Board of Directors, qualified to perform the functions of an audit committee member.

No director may serve as a member of the Audit Committee if he or she serves on the audit committee of more than two public companies, unless the Board of Directors determines that such simultaneous service would not impair the ability of such director to effectively serve on the Audit Committee. Members of the Audit Committee shall serve at the pleasure of the Board of Directors and for such terms as the Board of Directors shall determine.

Any action requiring approval by the Audit Committee shall require the approval of a majority of the members attending the meeting at which such action is considered, or if such action is taken by written consent, by a majority of the members of the Committee.

Committee Meetings, Reports and Authority

The Audit Committee shall meet as often as it determines, but not less frequently than quarterly. The minimum meeting quorum is three members present in person, by video or by phone. In the course of performing its functions, the Audit Committee shall make regular reports to the Board of Directors.

To perform its functions, the Audit Committee shall have the authority, to the extent it deems necessary or advisable: (1) to retain independent legal, accounting or other advisors to advise the Audit Committee; and (2) to receive appropriate funds, as determined by the Audit Committee, from the Company for payment of compensation to the outside legal, accounting or other advisors retained by the Audit Committee. The Company also needs to provide funds for (1) compensation to accounting firms, and (2) ordinary administrative expenses of the Committee. The Audit Committee may request any officer or employee of the Company or the Company's outside counsel, independent auditor or other advisers to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee and to provide such information as the Audit Committee may deem necessary or reasonable.

The Audit Committee may form and delegate authority to subcommittees consisting of one or more members of the Committee, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such

subcommittee to grant pre-approvals shall be presented to the full Audit Committee at its next scheduled meeting.

The Audit Committee is responsible for the oversight of the work of the independent auditor, including the resolution of any disagreements between management and the independent auditor regarding financial reporting. The independent auditor will report directly to the Audit Committee.

In performing its functions, the Audit Committee shall undertake those tasks and responsibilities that, in its judgment, would most effectively contribute to and implement the purposes of the Audit Committee. The following functions are some of the common recurring activities of the Committee in carrying out its oversight responsibility.

1. *Financial Statements and Disclosure Matters*

- a. Review and discuss with management and the independent auditor the Company's annual audited financial statements and the report of the independent auditor, as well as any major issues regarding accounting principles or financial statement presentations and any major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of significant control deficiencies and/or material weaknesses. As part of this review, the Audit Committee will also review the Company's loss reserves, loss reserve methodology, and the credits on the Company's classified list. Portfolio Surveillance will report to the Committee any new reserves or changes to existing reserves in excess of \$10 million.
- b. Review any analysis prepared by management or the independent auditor of significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any analysis of the effect of alternative GAAP methods on the Company's financial statements and a description of any transactions as to which management obtained Statement on Auditing Standards No. 50 letters.
- c. Review with management and the independent auditor the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the Company's financial statements.
- d. Review with management and the independent auditor the Company's quarterly financial statements, including the results of the independent auditor's review of the quarterly financial statements.
- e. Review the type and presentation of information to be included in the Company's earnings and other material press releases related to accounting or financial matters (paying particular attention to any use of "pro forma," or

“adjusted” non-GAAP, information), and review financial information and earnings guidance delivered to analysts and rating agencies.

- f. Review significant changes in the Company’s selection or application of auditing and accounting principles and practices, including those suggested by the internal auditor or management. Ensure that the Company maintains Audit and Accounting Policy manuals that contain appropriate accounting principles, policies and practices.

2. *Oversight of the Company’s Relationship with its Independent Auditor*

- a. Have responsibility and authority for the oversight of the work of each accounting firm engaged by the Company and its subsidiaries for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attest services for the Company, and each such accounting firm shall report directly to the Committee.
- b. Obtain and review, at least annually, a report by the independent auditor describing: (1) such auditor’s internal quality control procedures; and (2) material issues, if any, raised in its most recent internal quality control or peer review or by any inquiry or investigation by governmental or professional authorities within the previous five years and the steps taken to deal with such issues.
- c. Have authority to approve the retention of the independent auditor for any audit, internal control or permitted nonaudit service outside the scope of the independent auditors current responsibilities, and pre-approve the terms and fee arrangements for such services.
- d. Obtain and review, at least annually, a report from the independent auditor regarding such auditor’s independence and all relationships between the independent auditor and the Company, discuss such report with the auditor, consider whether the provision of non-audit services is compatible with maintaining the auditor’s independence and, if deemed necessary by the Audit Committee, recommend that the Board of Directors take appropriate action to satisfy itself of the independence of the auditor.
- e. Review with the independent auditor any significant consultation the engagement team had with its national office speaking directly to the independent auditor’s national office, if necessary.
- f. Meet with independent auditor prior to the audit to review the scope, planning and staffing of the audit, acknowledging that it is the auditor’s responsibility to plan the scope, nature and timing of work to support its audit opinion.

- g. Discuss with the independent auditor (out of the presence of management if appropriate) the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit.
- h. Review with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports that raise material issues regarding the Company's financial statements or accounting policies.
- i. Maintain procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- j. Review with the independent auditor any problems or difficulties the auditor may have encountered, any management or internal control letter provided by the auditor and management's response. Such review should include any difficulties encountered during the course of the audit work, including any restrictions on the scope of activities or access to required information, and any significant disagreements with management. The review should also include a discussion of the responsibilities, budget and staffing of the Company's Internal Audit Department.

3. *Performance of the Company's internal audit function*

- a. Review the reports of the Company's internal auditor and management's response thereto.
- b. Review and approve the Company's internal Audit Plan annually to ensure that it identifies and addresses major areas of risk. Changes to the Audit plan must also be reviewed and approved by the Audit Committee.
- c. Review the effectiveness of the Company's internal audit function and assess its compliance with the Institute of Internal Auditors' International Standards for the Professional Practices of Internal Auditing.
- d. Review and approve the Internal Audit financial budget including all internal and external costs. Make appropriate inquiries of management and the CAE to determine whether there are inappropriate scope or resource limitations.
- e. Understand how the internal auditor reviews the internal controls of the Company and review activities and organizational structure and performance of the Company's Internal Audit Department. Receive communications from the CAE on the internal audit activity's performance relative to its plan and

other matters. Review the CAE's performance in coordination with the Company's management. Meet as appropriate, separately in executive session with the independent auditor, the Chief Financial Officer and the senior internal auditing executive.

4. Compliance with Legal and Regulatory Requirements

- a. Review with the Company's General Counsel and Chief Compliance Officer the Company's compliance with legal and regulatory requirements and any legal or regulatory matter that could have a material impact on the Company's financial statements, the Company's compliance policies and any material reports or inquiries received from regulators or government agencies.
- b. Obtain periodic reports from General Counsel or Chief Compliance Officer with respect to the Company's compliance with applicable legal requirements and the Company's code of ethical conduct, including disclosure of insider and affiliated party transactions.
- c. Review the Company's Enterprise Compliance Risk policies and procedures. Enterprise Compliance Risk is the risk of (i) civil or criminal liability or the imposition of any other legal or regulatory sanction by a court or regulatory agency on the Company or any of its subsidiaries, and any related financial loss or liability; and (ii) disruption of the Company's business operations or damage to the Company's reputation or relationship with rating agencies, regulators, clients or shareholders resulting from a failure to comply with applicable laws and regulations, internal compliance policies and procedures or from the failure to maintain and adhere to ethical business standards and practices.
- d. Conduct special investigations as may be deemed advisable by the Audit Committee or the Board and engage special legal, accounting or other advisors to help advise the Audit Committee in connection with such investigations. The results of these investigations are to be reported to the full Board.
- e. Review the material findings of examinations conducted by any regulatory agencies and report the results of such findings to the full Board.

5. Performance of the Company's Operational Risk Management function

- a. Review the Company's Operational Risk management reports.
- b. Review the Company's Enterprise Operational Risk plan annually to ensure that it identifies and addresses major areas of operational risk. Enterprise

Operational Risk is the risk of direct or indirect financial loss or liability, a material disruption of the Company's business operations or damage to the Company's reputation or relationship with the rating agencies, its regulators, its clients or its shareholders resulting from inadequate or failed internal processes, people, and systems or from external events. Operational risk includes those risks which are embedded in the processes and procedures the company uses to execute its business objectives and strategies. At a threshold level, however, it does not include credit, market, liquidity or insurance risks, though an operational failure could result in a loss in any one of these areas.

6. Other Responsibilities

- a. Meet separately in executive session with any officer or employee of the Company or the Company's outside counsel as appropriate to fulfill the Audit Committee's responsibilities.
- b. Review all intercompany guarantees and other material intercompany and related party transactions involving National or any of its subsidiaries not falling within established investment policies and written guidelines or in the ordinary course of business.
- c. Review the Company's Antifraud Plan annually, including the identification of potential fraud risk, fraud protection and fraud detection methods.
- d. Review and discuss with the CEO and CFO the procedures undertaken in connection with the evaluation of the Company's disclosure controls and procedures and internal controls.
- e. Undertake and review with the Board of Directors an annual performance evaluation of the Audit Committee, which shall compare the performance of the Audit Committee with the requirements of this Charter and set forth the goals and objectives of the Audit Committee for the upcoming year. The performance evaluation by the Audit Committee shall be conducted in such manner as the Board deems appropriate.
- f. Review the adequacy of this Charter at least annually and make any recommended changes to the Board of Directors for consideration and approval.

Perform such other duties as may be delegated to the Audit Committee by the Board or as may be consistent with this Charter or the Company's By-Laws.

Approved: April 23, 2013