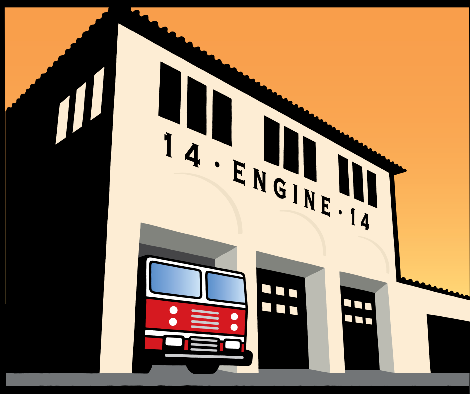
national public finance guarantee

"National's capital adequacy is extremely strong…"
Standard and Poor's Ratings Service — July 27, 2016



NATIONAL PUBLIC FINANCE GUARANTEE

Substantial Financial Strength Protecting Investors

Orange County, Jefferson County, San Bernardino, Stockton and Detroit are among the best known names in the municipal finance market largely as a result of their very high profile bankruptcies. In each case, some market participants predicted dire consequences for one or more bond insurers only to later realize that their fears were unfounded due to the strength of the insurers' balance sheets, the structure of their insured municipal exposures and their ability to remediate troubled credits.

As we illustrate herein, National has sufficient financial resources to handle potential claims, even those arising from very stressful theoretical loss scenarios.

National Has Significant Claims-Paying Resources

National has significant financial resources backing its insured exposures.

- The company's claims-paying resources totaled $4.6 billion as of March 31, 2017, supported by a high quality and liquid investment portfolio consisting primarily of highly rated bonds with an average rating of Double-A.

- National's capitalization currently exceeds S&P's capital adequacy requirement for a Triple-A rating by approximately $1.7 billion, in our estimation.

- At the same time, National's leverage ratios, as measured by gross par insured to statutory capital or claims-paying resources, have never been lower (lower is better).

As a bond insurer with a large, established insured portfolio National is continuing to generate additional capital as the insured portfolio amortizes.

While defaults among rated municipal issuers are relatively rare, they do occur, so National carefully manages its liquidity resources to ensure that it has sufficient cash available to meet potential claims even in stressful scenarios.

- Substantially all of National's insurance policies provide for the payment of the principal and interest owing on insured obligations when due if the issuer fails to make the required payment.

- National's obligation is not subject to acceleration except in its sole discretion, even if the underlying obligation is accelerated.

So if claims arise under its insurance policy, National is only required to pay debt service shortfalls as scheduled, thus reducing the potential for large unexpected cash needs. This allows National to efficiently manage its liquidity with a clear view of potential upcoming payments, which are generally due on semi-annual payment dates. In addition, given the long term maturity profile of municipal bonds, many payments aren't due and payable for decades. If National determines that there is a permanent loss in connection with a claim or expected claims, that loss is recognized on a net present value basis.

Not all claim payments made by National result in economic losses, however. As a matter of fact, in many cases National makes payments on guaranteed bonds and is ultimately made whole through reimbursement of principal in full and the payment of default interest. Of course this is not always the case, but over National's history (and that of its predecessor, MBIA) eventual recoveries have averaged slightly more than one-third of total claims paid.

National's Puerto Rico Exposure – Strong Embedded Protections

Puerto Rico's fiscal and economic crisis has been one of the public finance market's most closely followed issues over the past several years and will likely continue as such for the foreseeable future. With over $70 billion of debt outstanding (approximately $3.6 billion of which is insured by National as of March 31, 2017), many investors are concerned about the final outcome. Despite the Commonwealth's recent default, and while much uncertainty remains, National-insured Puerto Rico bondholders received their principal and interest payments in full and can be confident that National will continue to protect them in the future.

The insured bonds include provisions that place National on firm ground in any restructuring negotiations and reduce the likelihood of National incurring significant losses. While the recently enacted PROMESA legislation allows for debt restructuring, it also requires the newly created Federal Oversight Board to respect the lawful priorities of any debt being restructured.

- The General Obligation bonds, for example, benefit from clear and unambiguous language specifying that they are backed by the Commonwealth's full faith and credit. Further, Puerto Rico's Constitution requires that they be repaid prior to any other expenses of the Commonwealth.

- The COFINA or sales tax bonds are protected by a securitization structure and backed by a dedicated Sales & Use Tax revenue stream with cash going to a collection agent for the benefit of the bondholders.

National is already a party to a restructuring agreement with PREPA that, upon closing, will provide immediate cash flow relief to PREPA while resulting in no loss to National and no change in the payments due on the insured bonds. This restructuring agreement covers 30% of National's total Puerto Rico exposure and underscores the benefit of National's dedicated surveillance and remediation teams. Their efforts often reduce or eliminate losses through early identification of and intervention in distressed credits. They also protect bondholders' rights during restructuring negotiations, as in the past some issuers have initially proposed large haircuts to outstanding debt, leading to media articles and market speculation concerning the possibility of large losses for bond insurers. However, in the face of organized pushback by National's remediation team and others, the ultimate outcome has rarely resembled the initial proposal.

Positive Rating Agency Commentary

S&P Global Ratings (S&P) and the Kroll Bond Rating Agency (KBRA) have each examined National's ability to withstand very stressful theoretical loss scenarios related to its Puerto Rico exposures and ultimately reached favorable conclusions:

- In a recent report which described S&P's stress analysis of all National's Puerto Rico exposure, the rating agency noted that, "Despite the stress experienced by various insured issuers in Puerto Rico, S&P Global Ratings' view is that…National Public Finance Guarantee Corp. (National) generally maintain(s) a sufficient level of capital adequacy to sustain such actual or theoretical losses, with no change in our rating." The report also noted that, "National's capital positions could absorb all losses up to a 35% loss scenario and, without accounting for any other factors, there would be

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no change in National's capital adequacy score or financial risk profile. A loss severity of approximately 45% on all issuers would pressure National's capital adequacy score and possibly our financial strength rating." "If we were to exclude the PREPA exposure from our analysis, National's capital could absorb losses assumed in the 45% loss scenario."

- Similarly, KBRA noted that it developed stress losses for National's insured portfolio based upon assumptions that are consistent with a AA+ insurance financial strength rating. KBRA's total stress losses were over $3.2 billion (future value) across a 35-year period, which included stress case losses of up to $1.8 billion (future value, non-discounted basis) on National's exposure to Puerto Rico (which totaled $3.8 billion of net par insured at year end 2015). National satisfied all claims in full and on time in the KBRA stress case scenario with a comfortable capital balance remaining.

Conclusion

National maintains substantial financial resources to ensure that it honors its obligations to insured bondholders even in highly stressful scenarios. National encourages investors to explore its Insured Portfolio. The portfolio listing includes individual CUSIPS, allowing investors to obtain additional information on each credit from the Electronic Municipal Market Access (EMMA) database maintained by the Municipal Securities Rulemaking Board (MSRB). National also publishes a "Selected Exposures" disclosure, which provides additional detailed principal repayment and debt service schedules for certain credits that are of interest to the market. This information is consistent with National's efforts to operate transparently and provides investors with the tools necessary to examine National's entire portfolio and reach their own conclusions regarding credits under stress and potential claims on National's policies.

National's Financial Strength

- $4.6 billion in claims-paying resources
- capital estimated at more than $1.7 billion in excess of S&P AAA requirement
- high quality and liquid investment portfolio
- strongest operating leverage in its history
- generating additional capital as existing portfolio amortizes
- passed both S&P and KBRA Puerto Rico stress loss scenarios with no anticipated change in rating

Embedded Protections

- PROMESA legislation respects the lawful priorities of debt being restructured
- GO bonds are backed by the Commonwealth's full faith and credit and Constitutional priority
- COFINA bonds are backed by a dedicated revenue stream available to the PR Government only after debt service requirements on the bonds have been deducted
- National is already a party to a restructuring agreement with PREPA that should it be consummated will result in cash flow relief to PREPA, no loss on National's exposure and no change in the payments due on the underlying insured bonds

Liquidity

- National is only required to pay debt service shortfalls as scheduled, reducing the potential for large unexpected cash needs
- National's insurance policy is not typically subject to acceleration, even if the underlying obligation is accelerated
- National has a clear view of potential upcoming payments, which are generally due on semi-annual payment dates
- Many payments due are far into the future

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To learn more about building stronger bonds with insurance from National, visit **www.nationalpfg.com**

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