Puerto Rico in Perspective

August 10, 2015

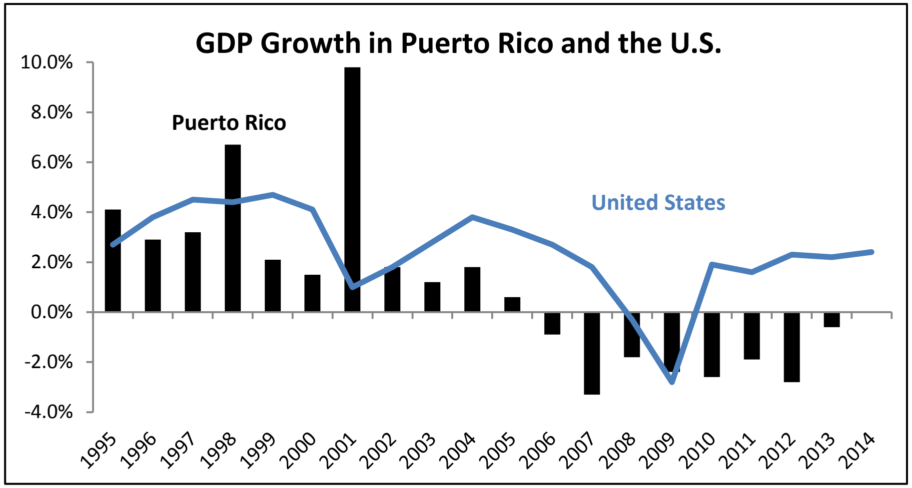
national
public finance
guarantee

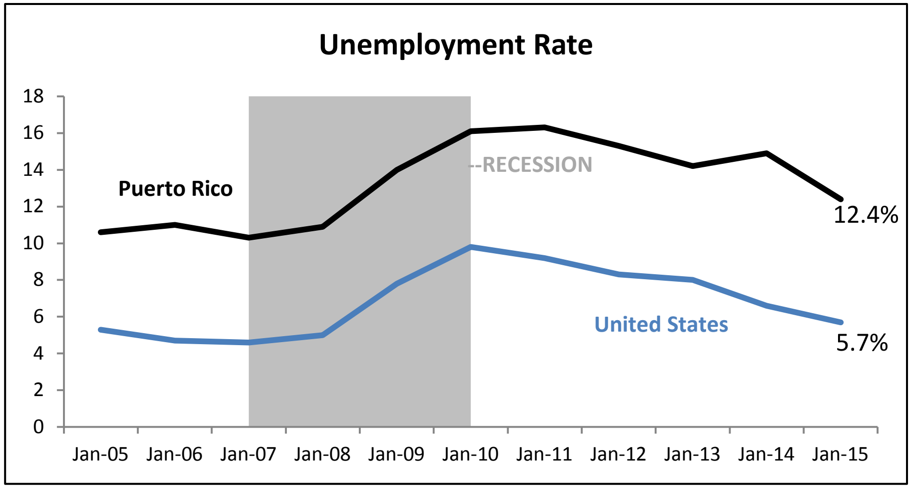
Table of Contents

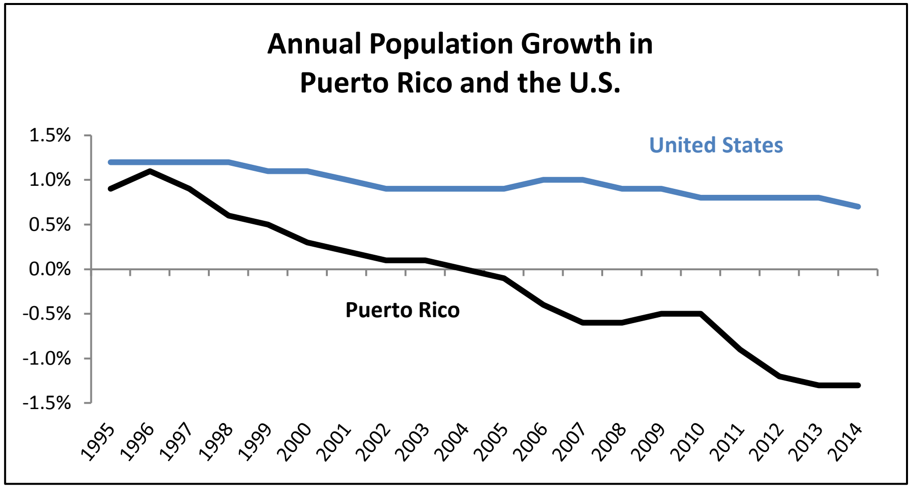
Executive Summary

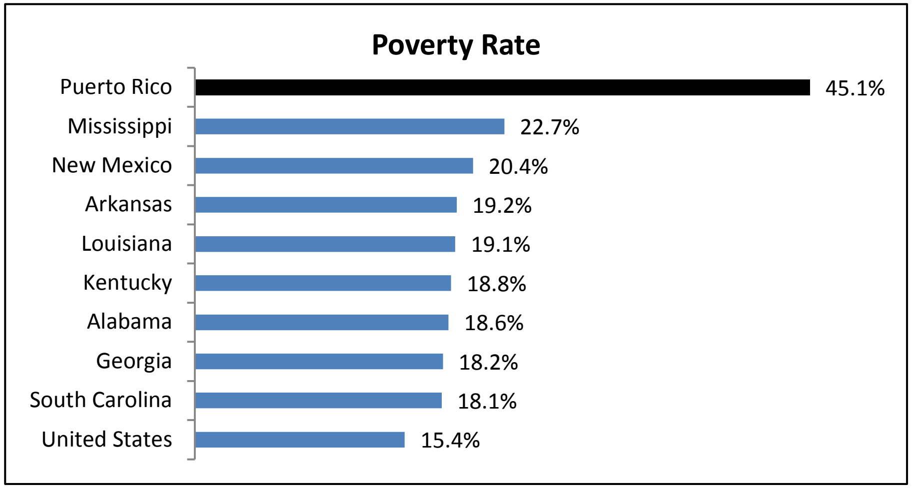
- Puerto Rico's financial difficulties are the result of a contracting economy following years of rapidly escalating debt to fund budget deficits
- In our view, the media's analysis of Puerto Rico's debt and its impact on monolines has been incomplete or limited. Common themes: too much debt, legacy monolines are overexposed to Puerto Rico, legacy monolines are expected to experience significant claims and losses
- We believe that PREPA's issues can be resolved quickly and consensually
- Chapter 9 is merely a process, and is not a solution for Puerto Rico's financial difficulties
- National's capital adequacy and liquidity are extremely strong and it is well-positioned to meet claims that might arise from its Puerto Rico exposures in a reasonably adverse scenario
  - National estimates it has over $1 billion of excess capital above the S&P Triple-A level
  - National has been generating capital as a result of substantial portfolio amortization and lower new business volume
  - National/MBIA has a 40-year history of paying all claims on time and in full

The Problem: Puerto Rico's Economy is Contracting









- Puerto Rico also suffers from low labor participation rate, 43% compared to 63% for the United States

Source: US Census, Bureau of Labor Statistics, World Bank

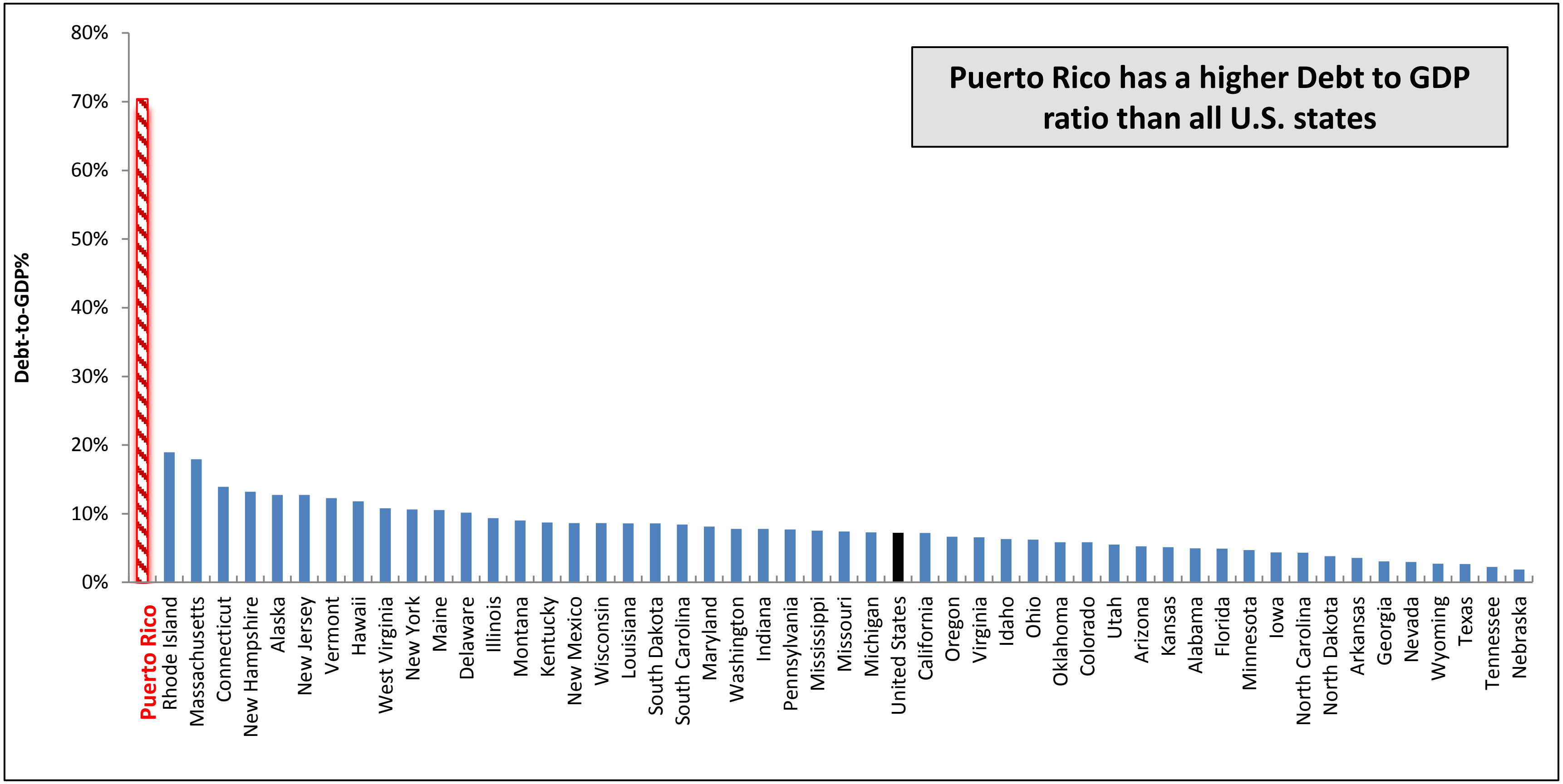
The Problem: Rapid Growth in Puerto Rico's Debt

Source: Government Development Bank; Debt outstanding as of fiscal year end; excludes accretion of interest on CABS

- By not addressing its economic issues and continuing to borrow, Puerto Rico exacerbated its fiscal and debt problems
- With a contracting economy, the substantial debt load now needs to be addressed

Focus on the Debt Level Oversimplifies the Issue

Typical News Story Debt Comparison - Wall Street Journal, June 29, 2015:

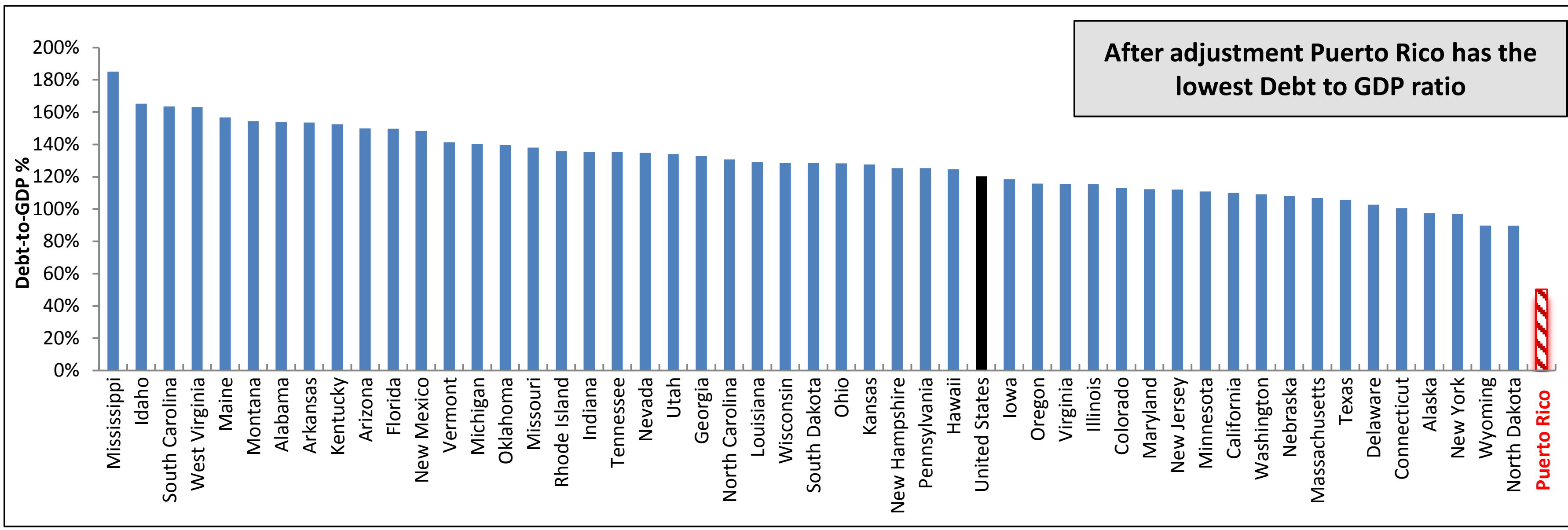


Sources: Government Development Bank, US Census, Bureau of Economic Analysis , World Bank

national public finance guarantee

We Believe the Analysis is Incomplete

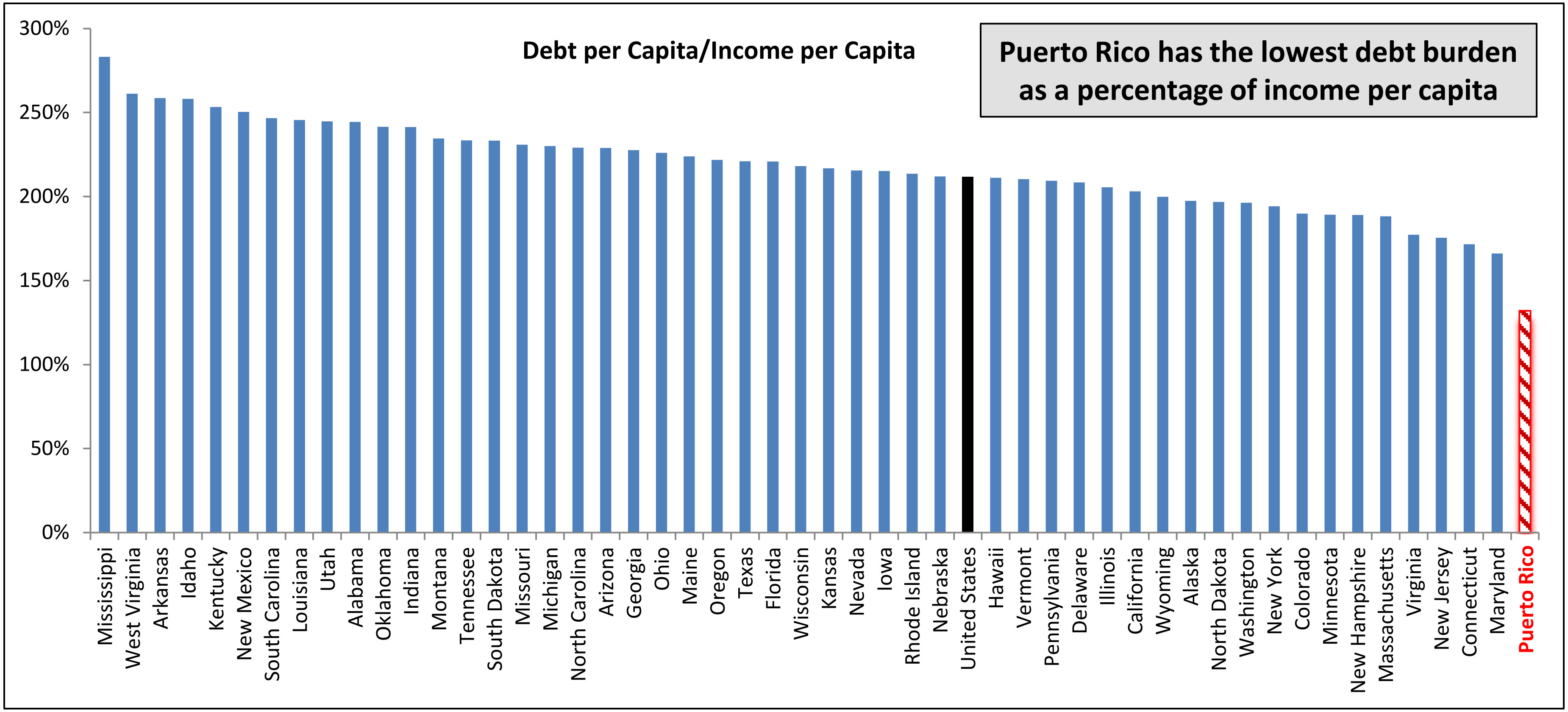
- The Puerto Rico government is highly centralized by comparison to U.S. states. Many functions typically provided by local communities or lower levels of government in the states are performed by the central government in Puerto Rico.
  - Public schools, Public safety, Utilities – electric (PREPA), water and sewer (PRASA)
- In order to adjust for the centralized nature of the Puerto Rican government, we believe one should either roll up related local debt in every state or eliminate similar debt in Puerto Rico. In our analysis below, we have chosen the conservative option of eliminating Puerto Rico's utility debt e.g. PREPA, PRASA, HTA
- Most Puerto Rico residents do not pay federal income taxes. To truly measure the debt burden on taxpayers one should adjust for the $17 trillion of Federal Debt. We multiplied the Federal Debt Per Capita by the population of each state and added that to each state's debt outstanding.



Sources: Government Development Bank, US Census, Bureau of Economic Analysis , World Bank, Treasury

We Believe the Analysis is Incomplete - Continued

The final step in developing a more appropriate analysis is to compare the debt levels adjusted by income levels. To adjust for income levels we compared debt per capita (including Federal debt for the states) to income per capita (Debt Per Capita / Income Per Capita)



Source: Government Development Bank, US Census, Bureau of Economic Analysis , World Bank, Treasury

PREPA Can Meet its Obligations

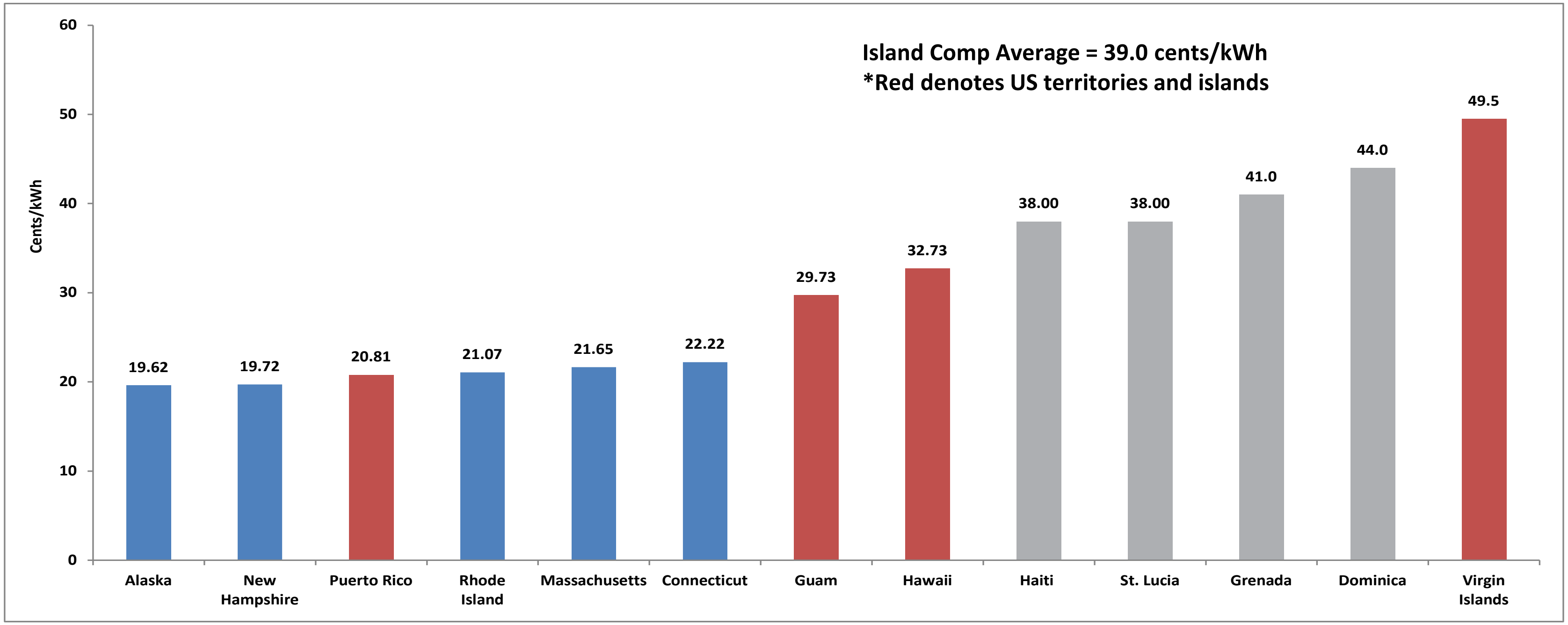
- **We believe PREPA's issues can be resolved quickly**
  - PREPA has failed to set the base rate at a level sufficient to cover its operating expenses and debt service as it is legally and contractually obligated to do. PREPA could raise its base rate by a modest amount immediately, and consumers would still pay less than they did six months ago, because fuel costs are down significantly
  - PREPA's business plan identifies $200 million - $400 million annual operational improvements (receivables, labor, fuel procurement, etc.) that have not yet been implemented

- **PREPA's current problems are long-standing and came about through:**
  - **Operational and Management Failures**
    - Numerous staffing and operational inefficiencies including non-payment by both residential and government customers and failure to collect past-due receivables
    - Outsized workforce including significant numbers of politically appointed employees
    - Politically appointed Board that must cater to continuously shifting political priorities
  - **Mismanagement of Capital**
    - Failing to attract and deploy new capital to modernize its generation fleet, PREPA continually directed capital towards deficits caused by stagnant rates, operational inefficiencies and poor management

- **PREPA's capital structure is sustainable if accompanied by needed operational improvements**
  - Creditors have been forbearing for a year
  - Creditors have demonstrated willingness to provide liquidity and time necessary to complete a restructuring
  - Several credible offers have been made to provide PREPA the capital needed to modernize its plants

PREPA's Electric Rates Are Not the Problem

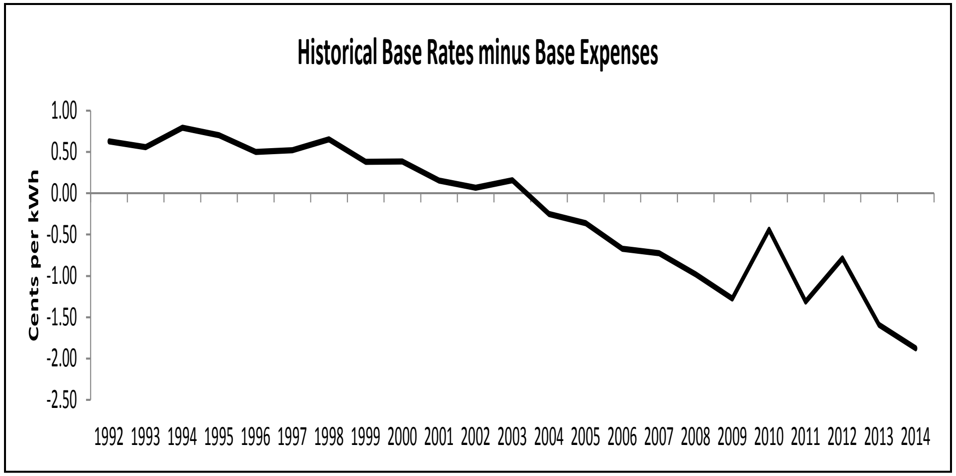
- A common complaint and suggested cause of Puerto Rico's economic difficulties are claims that electric rates are too high
- Evidence suggests this is not true
  - Current rates in Puerto Rico are below those of certain states in the U.S.
  - Puerto Rico electric rates are consistently below those of other islands
- Capacity exists to adopt rates sufficient to meet operating expenses and debt obligations without causing undue hardship to ratepayers

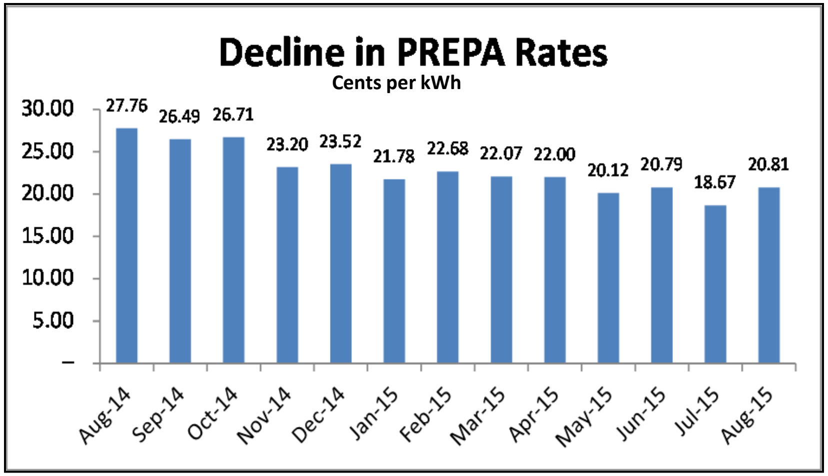


Sources: Island electricity rates per PA Consulting, Houlihan Lokey analysis, public filings and 2015 Platts Energy Conference. Mainland U.S. April 2015 residential electricity per U.S. Energy Information Administration. Puerto Rico August 2015 rate per Chief Restructuring Officer/Alix Partners.

Failure to Adjust Base Rate

- In direct contravention of its legal and contractual obligations, PREPA has failed to set the base rate at a level sufficient to cover all operating expenses and debt service even in the face of large oil price declines
  - **The base rate has not been adjusted since 1989** and has failed to cover total operating expenses and debt service for over ten years
  - As PREPA's operating expenses continue to increase, the need to increase the base rate has become even more paramount
- Meanwhile, PREPA's all-in rates have declined by nearly 7 cents per kWh over the past year, which from September 2014 to August 2015 has resulted in over $750 million of foregone revenue





(1) Source: Historical Bond Offering Documents. Expenses and Debt Service to be Covered by Base Rate equal to non-fuel related operating expenses plus debt service divided by total energy sales. It does not include any bank debt service if applicable in any given year.

Chapter 9 is a Process, Not a Solution

"*What we are proposing is that those public corporations and municipalities in Puerto Rico be given the same access to Chapter 9 as any similar entities in the United States*"

Senator Richard Blumenthal, July 15, 2015

- Chapter 9 will not solve the Commonwealth's debt related or economic problems:
  - Chapter 9 would not provide a solution for GO or other Commonwealth debt because the Commonwealth, like the states, would not be covered
  - Although Chapter 9 would be statutorily available for public corporations, eligibility would be subject to challenge and much of the debt in the three major public corporations is special revenue debt which has protections under Chapter 9
  - Chapter 9 does not avoid litigation or guarantee a streamlined process. The only certainty is that Chapter 9 takes a long time and is very expensive. Detroit paid $178 million in advisor and legal fees in just 18 months.
  - Chapter 9 does not impose the operational solutions that are necessary to rehabilitate the island's public corporations
- The Commonwealth specifically excluded the municipalities, COFINA and GDB from its own Recovery Act, thereby acknowledging that bankruptcy relief would not be helpful or necessary for these entities

Alternatives to Chapter 9

- Congress can assist Puerto Rico without amending the Bankruptcy Code or providing a bail out; there are a number of meaningful measures that could address some of the island's economic problems without the delay, expense and litigation that would occur in Chapter 9 proceedings:
  - Create a Fiscal Oversight Board to provide impartial oversight and governance and prudent management in the development and implementation of a plan to emerge from the current crisis
  - Assist in comprehensive tax reform, including the capture of "shadow" economic activity and the transition to a VAT system while protecting the rights of sales tax bond creditors
  - Provide potential DoE loans on vital PREPA capital projects and EPA waivers on timeline for MATS compliance
  - Consider other proposals including waiver or adjustment of U.S. minimum wage standards; waiver from Jones Act restrictions; confirm and extend Act 154 excise tax credits and rum subsidy; revise welfare/entitlement system to make employment more attractive
- Each of the Puerto Rico issuers has a different debt profile and should be addressed separately, taking into account their individual capital structure, revenue sources and operational needs. A consensual approach is best.

National's Exposure to Puerto Rico Debt

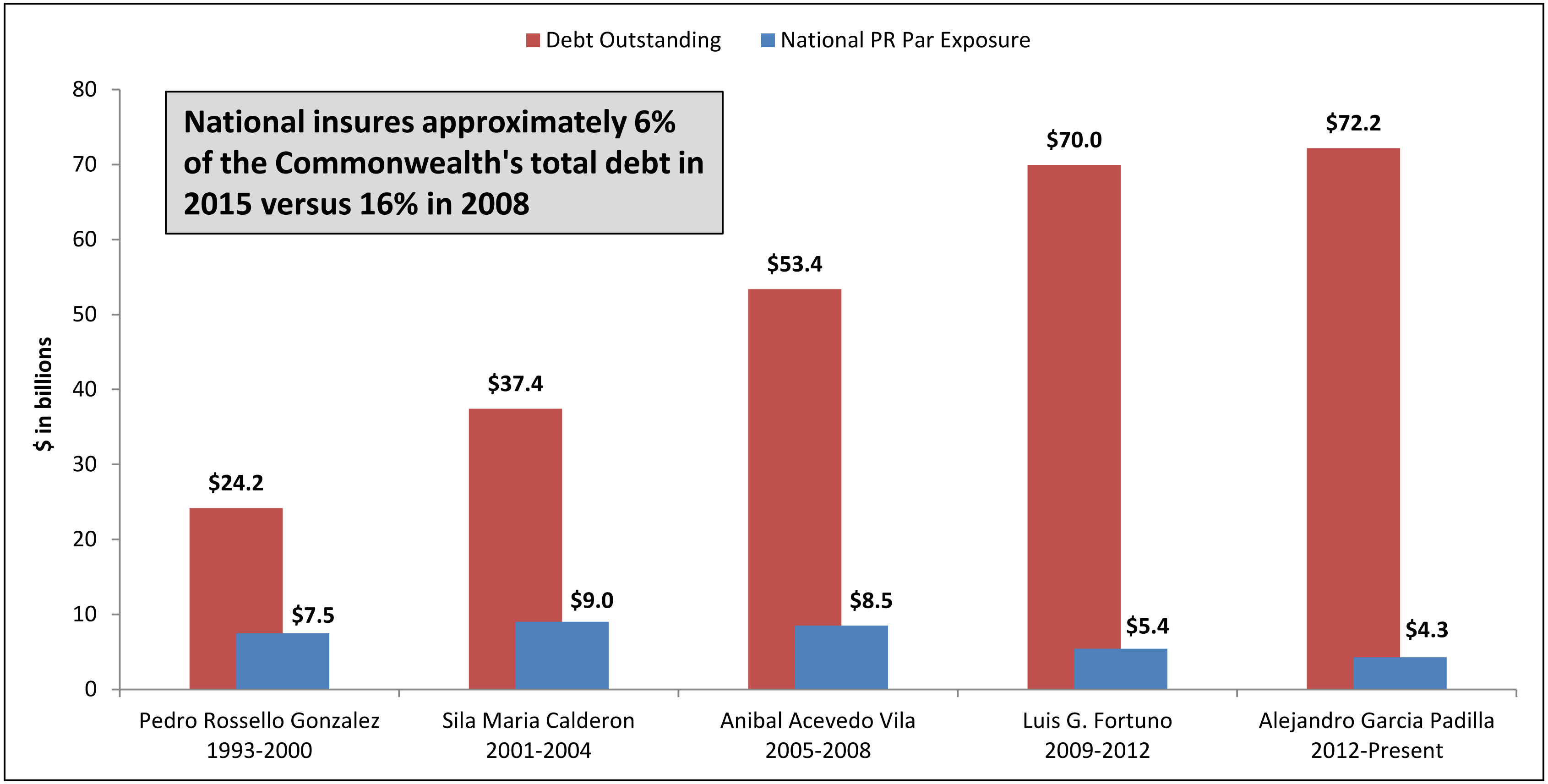
Gross Par Exposure* as of 7/2/15 ($ in millions)	
Puerto Rico Electric Power Authority	$1,354
PR Commonwealth GO	$985
PR Highway and Transportation Authority: 1998 Resolution Bonds**	$784
Puerto Rico Sales Tax Financing Corporation (COFINA)	$684
PR Government Development Bank GO	$267
PR Highway and Transportation Authority: 1968 Resolution Bonds	$87
University of Puerto Rico	$89
Inter American University of Puerto Rico Inc.	$28
PR Industrial Development Company	$13
Total	$4,290

*Exposure amounts exclude interest accretion on capital appreciation bonds (CABs); Total Puerto Rico exposure including interest accretion on CABs as of 7/2/2015 is approximately $4,692 million. Complete debt service schedule information is available at: http://www.nationalpfg.com/pdf/SelectedExposure/SelectedExposures.pdf

**Exposure includes $155 million of PRHTA bonds that were bought back by the Issuer who has agreed they must be cancelled in accordance with the Indenture.

(Amounts may not add due to rounding)

Rapid Growth in Total Puerto Rico Debt Corresponds with Decline in National's Par Exposure

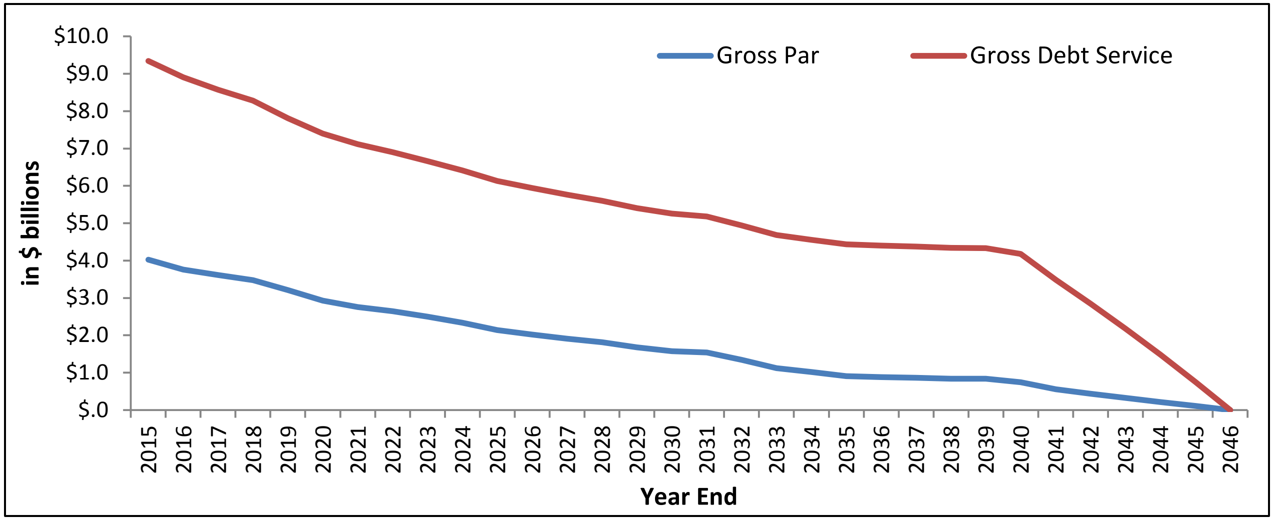


Source: Government Development Bank

Puerto Rico debt outstanding as of FY year end 2000, 2004, 2008, 2012 and 3/31/15; National Par Exposure as of year end 2000, 2004, 2008, 2012 and 7/2/15

Outstanding debt and exposure amounts exclude interest accretion on capital appreciation bonds (CABs)

National's Puerto Rico Exposure Run-off



National's capital position is expected to continue to grow as its insured portfolio declines; runoff is expected to outpace current levels of new business

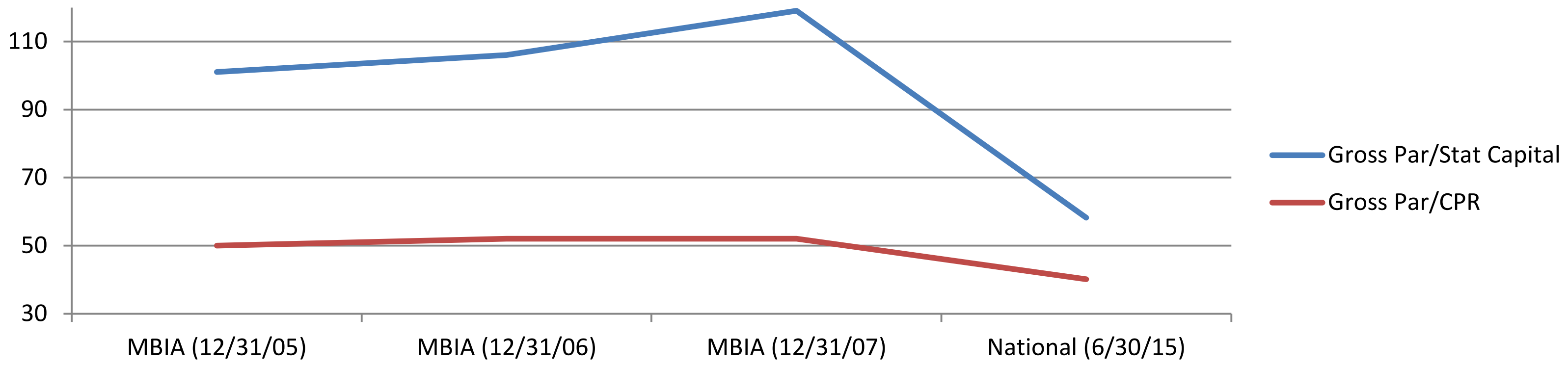
Credits	Gross Par % Runoff - 5 years	Gross Par % Runoff - 10 years	Gross Par % Runoff - 15 years	Final Maturity Year
Government Development Bank	100.0%	N/A	N/A	2015
PR Commonwealth GO	41.9%	71.1%	99.8%	2031
Puerto Rico Electric Power Authority	31.9%	64.6%	77.4%	2035
Puerto Rico Highway and Transportation Authority	11.4%	16.4%	29.6%	2042
Puerto Rico Sales Tax Financing Corporation	0.0%	0.0%	0.0%	2046
University of Puerto Rico System	16.2%	55.4%	77.8%	2033
Puerto Rico Industrial Development Company	100.0%	N/A	N/A	2016
Inter American University of Puerto Rico	26.4%	59.3%	100.0%	2029
Total	29.3%	48.7%	63.1%	2046

As of 6/30/2015

National’s Financial Strength

Lower Leverage Post Financial Crisis

	National (6/30/15)	MBIA (12/31/07)
Gross Par Outstanding ($ in billions)	$195	$762
U.S. Public Finance	100%	60%
Statutory Capital ($ in millions)	$3,341	$6,382
Claims Paying Resources ($ in millions)	$4,851	$14,559
Gross Par/Statutory Capital (lower is better)	58:1	119:1
Gross Par/Claims Paying Resources (lower is better)	40:1	52:1



National’s leverage, with a 100% municipal-only portfolio, is lower than pre-crisis Triple–A rated MBIA

national public finance guarantee

National's Claims Paying Capacity

- National maintains significant financial flexibility and capital strength to withstand a variety of stressful loss scenarios
- National estimates it has more than $1 billion in excess capital over the S&P Triple-A level
- The Triple-A capital level is the amount of capital required to withstand Great Depression-type losses in S&P's model
- From a liquidity standpoint, principal and interest payments under National's guarantee are only payable when originally due on bonds; payments cannot be accelerated under National's guarantee without National's consent
- Additional financial flexibility resides in National's earnings stream and highly liquid investment portfolio

Rating Agency Quotes

- S&P - June 29, 2015
  - "National's capital adequacy is extremely strong"
  - "The outlook is stable reflecting National's very strong capital adequacy and prospective strong competitive position"
  - "there would be no change in National's capital adequacy score if there were a default by multiple Puerto Rico issuers over a one, two or three year time period"
- KBRA - May 12, 2015
  - "National benefits from a seasoned management team with extensive experience in the financial guaranty market and in credit risk management"
  - "KBRA's financial model test results conclude that the claims paying resources held by National can cover both annual operating expenses and annual insured portfolio loss assumptions at the AAA level"
- Moody's - May 29, 2015
  - "Substantial claims-paying resources"
  - "ability to generate earnings absent new business flow is a powerful characteristic of the business model"

Other Considerations

- Transparency of National’s Insured Portfolio
  - Pre-crisis monoline portfolios were not transparent so investors had a difficult task assessing risk
  - National's total insured portfolio is listed on its website, reporting both par and total debt service exposure; for certain credits, including Puerto Rico, annual amortization of debt service is reported
- Predictable debt service payments
  - Vast majority of National's insured credits have defined debt service schedules
  - Structured finance exposures often had shorter weighted-average lives and less predictable payment streams that increased the potential for large, unexpected claims
  - Some structured finance exposures could be subject to accelerated payments in certain circumstances. National’s exposure, including that to Puerto Rico, is not subject to acceleration without National’s consent
- Insurers often realize better recovery rates in muni defaults and Chapter 9 than forecasted by market participants
  - City of Detroit initially proposed $0.10 on the dollar, but National ultimately received $0.74 on Unlimited Tax General Obligation debt
  - Overall loss in Detroit was less than 1% of National’s total Detroit-related exposure
- Ongoing Capital Generation
  - Capital generation through portfolio amortization is significant. During 2014, National's insured portfolio amortization totaled $55 billion, increasing National’s excess capital by $500 million relative to S&P’s Triple-A requirement

Conclusion

- Puerto Rico's persistent funding of budget deficits with new debt has exacerbated a strained economy in need of reform and growth
- The individual debt burden for Puerto Ricans is not as dire as is often portrayed in the media when the Commonwealth's total debt is adjusted for (a) public authority debt issuance; and (b) federal debt allocable to individual states
- PREPA's electricity rates compare favorably to other island economies as well as many U.S. states - capacity exists to adopt rates sufficient to meet operating expenses and debt obligations without causing undue hardship to ratepayers
- Chapter 9 is proposed by some as a solution for Puerto Rico's problems. We believe Chapter 9 represents a process – not a solution. A consensual process is best for all parties
- A prompt, sensible resolution of PREPA will help bring market stability throughout the Commonwealth, instill confidence in capital markets and lay the foundation for subsequent restructurings across the island
- National is well-positioned to meet claims that might arise from its Puerto Rico exposures in an adverse scenario

Safe Harbor Disclosure

This presentation includes statements that are not historical or current facts and are “forward-looking statements” made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words “believe”, “anticipate”, “project”, “plan”, “expect”, “estimate”, “intend”, “will likely result”, “looking forward”, or “will continue” and similar expressions identify forward-looking statements. Readers are cautioned that these statements are not guarantees of future performance or events. There are a variety of factors, many of which are beyond the control of National Public Finance Guarantee Corporation (“National”), that could affect the outcome of any events described herein or the operations, performance, business strategy and results of National and could cause its actual results to differ materially from the expectations and objectives expressed in any forward-looking statements. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements which speak only as of the date they are made. National and MBIA Inc. do not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements are made. Information on National should be read in conjunction with, and is qualified in its entirety by, the information filed by its parent company MBIA Inc. with the U.S. Securities and Exchange Commission on Forms 10-K, 10-Q and 8-K, in particular with respect to risk factors associated with National.

This presentation also includes statements of the opinion and belief of National’s management which may be forward-looking statements subject to the preceding cautionary disclosure. Unless otherwise indicated herein, the basis for each statement of opinion or belief of National’s management in this presentation is the relevant industry or subject matter experience and views of certain members of National’s management and their analysis of available information. Accordingly, National cautions readers not to place undue reliance on any such statements, because like all statements of opinion or belief they are not statements of fact and may prove to be incorrect. We undertake no obligation to publicly correct or update any statement of opinion or belief if National later becomes aware that such statement of opinion or belief was not or is not then accurate. In addition, readers are cautioned that each statement of opinion or belief may be further qualified by disclosures set forth elsewhere in this report or in other disclosures by National.

All financial information is presented in accordance with statutory accounting principles, unless noted otherwise.

national
public finance
guarantee