KBRA Rating: AA+

Outlook: Stable

Municipal Assurance Corp. (MAC)

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Executive Summary

Kroll Bond Rating Agency (KBRA) has affirmed the insurance financial strength rating of AA+, Stable Outlook, of Municipal Assurance Corp. (MAC). The rating is based on KBRA's **Financial Guaranty Rating Methodology** published on June 19, 2013.

In KBRA's opinion, the insurance financial strength of MAC continues to benefit from a lower risk insured portfolio supported by a more than adequate level of claims paying resources. MAC was formed in mid-2013 by Assured to offer investors a municipal-only financial guaranty product. It was designed at the outset with several favorable attributes. MAC was ceded a diverse portfolio of municipal risk from Assured Guaranty Municipal Corp. (AGM) and Assured Guaranty Corp. (AGC), two other subsidiaries of Assured Guaranty Ltd. (Assured or AGL). The ceded portfolio was selected to exclude below investment grade credits including high profile distressed municipal credits such as Puerto Rico and Detroit. In KBRA's opinion, the exclusion of these troubled credits from the MAC portfolio represented good foresight and reduces the uncertainty regarding future claims MAC may encounter. In addition, MAC was funded with a level of capital to support growth, it paid no ceding commission on the business it reinsured, and its operating platform is fully integrated with the management and operating systems of Assured. In KBRA's opinion, this strong foundation continues to support the rating.

To date, MAC's underwriting production has been below the original plan. The low interest rates and narrower credit spreads that have prevailed in the municipal market create a difficult environment for bond insurers to write business. These factors bear close scrutiny going forward, especially management's response to them. KBRA would have a negative view if management were to weaken its underwriting standards, shift the business written to riskier sectors, or otherwise significantly change MAC's business strategy in a manner that introduces more risk. [1]

As a major part of our analysis, KBRA determined a level of stress losses to be applied to MAC's insured portfolio. In developing these assumed stress cases, KBRA used a Monte Carlo analysis to develop stress case losses for MAC's entire insured portfolio. MAC's ability to pay these stress case claims, together with other expenses, was assessed in KBRA's Bond Insurer Financial Model. MAC met all stressed claims assumed and forecast expenses with a comfortable balance remaining.

Key Rating Strengths
• U.S. municipal only business plan with a substantial existing portfolio that provides a significant earnings stream
• Experienced management team and staff with deep expertise and broad industry contacts
• Very well developed systems for credit underwriting, surveillance and risk management
• Ability to pass KBRA stress case scenarios with a level of capital remaining that is more than adequate
Key Rating Concerns
• There is no corporate charter provision that restricts the company to its current mandate of insuring only lower risk municipal bonds
• General industry risks associated with low interest rates, narrow credit spreads, potential future competition, and an increased loss profile in the public finance market

[1] KBRA notes that the amount of new issue municipal bonds insured in the first six months of 2015 showed strong growth of 94% compared to the same period of the year prior although market share is still modest at 6.6% (Bond Buyer "**Assured Leads Insurer Comeback…**", July 15, 2015)

Rating Summary

A key element of KBRA's analysis of MAC is testing the company's ability to provide for all claims under conservative stress case assumptions. These stress case losses have been developed to reflect KBRA's best estimate of the level of losses that an entity rated AA+ should be able to cover so that an investor holding a bond insured by MAC would not suffer losses under these assumed conditions. These stress case losses are not meant to represent KBRA's forecast of losses.

KBRA's principal means to develop stress case losses is our Monte Carlo simulation model which was applied to MAC's insured portfolio. The model uses the assigned rating and sector of each insured credit to simulate default and severity performance over the remaining life of the portfolio. We generally used MAC's internal ratings in simulating default frequency but before doing so, KBRA sampled the ratings across the portfolio and found them to be appropriate. KBRA ratings were used on those credits that we rate or were internally assessed by KBRA.

KBRA's Monte Carlo simulation model runs a series of 100,000 paths where each path assesses the probability of future defaults for each credit in each year of its remaining life. If a credit defaults in a particular path, a severity assumption based upon its sector is applied against the amount of debt outstanding at that point in time and a present value loss amount is calculated. The model runs 100,000 paths to produce a broad distribution of results. We focus on the tail of this distribution to construct a stress analysis, particularly the 99.9% confidence level, or the level that is associated with a AAA rating.

The aggregate of all stress losses was $364 million on a future value basis which consisted of the aggregate annual losses KBRA developed from the tail distribution of the Monte Carlo simulation model. KBRA notes that this aggregate level of modeled stress losses, an important measure of portfolio risk, declined less than the overall portfolio total par value over the past year. MAC's total outstanding par insured decreased 18% since KBRA's last review of MAC's rating (1Q2014 compared to 1Q2015) while the aggregate stress losses declined only 5% over the same period. In KBRA's opinion this is largely the result of a slight decrease in the proportion of the portfolio in the higher rating categories and a small nominal increase in the below investment grade portion of the company's insured portfolio.

We assessed MAC's ability to meet these losses in the KBRA Bond Insurer Financial Model. The financial model begins with an asset base equal to MAC's claims paying resources according to KBRA's definition. These resources, plus interest earnings, must be sufficient to provide for the stress level claims and all other expenses as the company runs off over a 35 year period. MAC was able to pay all claims and expenses in full and on time under this scenario with a comfortable balance remaining.

Although the level of stress case losses that MAC was able to satisfy was derived from the 99.9% confidence level of the KBRA Monte Carlo simulation model (which equates to a AAA scenario), KBRA rates MAC AA+. The stress case analysis is just one factor among several that KBRA considers. As stated in KBRA's Financial Guaranty Rating Methodology, in the current environment KBRA is unlikely to assign a rating above AA+ to a financial guarantor, even if it is deemed capable of withstanding modeled expenses and claims at the AAA stress level. That said, as and when the industry demonstrates a track record of prudent underwriting and sustainable losses, KBRA can foresee a return to AAA levels for select companies.

Outlook: Stable

MAC's declining portfolio risk and improving leverage ratios provide a stable framework for the AA+ rating. Furthermore, KBRA's stress case loss analysis incorporates significant deterioration in MAC's portfolio from current performance which should contribute to stability if ultimate losses do not approach or exceed these modeled levels.

In KBRA's view, the following factors may contribute to a rating upgrade:

- Market factors that support consistent growth in claims-paying resources that include, for example, widening credit spreads, firmer pricing conditions, and improved and sustainable profitability.
- Further development of a low-risk insured portfolio with limited losses relative to claims-paying resources when subjected to KBRA's loss simulation and financial stress model.

In KBRA's view, the following factors may contribute to a rating downgrade:

- Market-wide increases in municipal default and severity rates and deterioration in the default and severity rates expected by KBRA within MAC's insured portfolio.
- Significant changes in MAC's senior management team or strategy.
- Levels of capital extraction that outpace the decrease in portfolio risk.
- Expansion of the company's risk appetite beyond the parameters stated in the current business plan and reflected in KBRA's rating assessment

Key Rating Determinants

Rating Determinant 1: Corporate Assessment

Background

MAC was founded in mid-2013 with $800 million of capital from Assured and was ceded a total portfolio of $103 billion from AGM and AGC. The portfolio was solely municipal risk and specifically excluded any exposure to Puerto Rico or Detroit. The ceded premium was $709 million for this portfolio and there was no ceding commission payable from MAC to the two ceding companies, AGM and AGC, further supporting the financial strength of MAC.

Corporate Governance

MAC's ultimate parent is Assured Guaranty Ltd., ("AGL" or "Assured"), and is one of six insurance companies operated by AGL. AGL is a Bermuda based holding company incorporated in 2003 that provides financial guaranty products through its subsidiaries to the U.S. and international public finance, infrastructure and structured finance markets.

The Board of Directors of AGL ("Board") oversees the governance framework of all of its subsidiaries including MAC. The AGL Board consists of 9 members following the retirement in May 2015 of Robin Munro Davies, former Chairman, and the resignation of Wilbur L. Ross in November 2014. Francisco Borges, who has been on the AGL Board since 2007, has been appointed the new Chairman. Except for the CEO who is a Board member, the Board considers all of the other directors to be independent according to the listing standards of the New York Stock Exchange.

The Board conducts its responsibilities through the operation of 6 committees: Audit, Compensation, Finance, Nominating and Governance, Risk Oversight, and Executive. The CEO sits only on the Executive Committee, a Board committee that meets in between Board meetings should matters arise for Board deliberation that should not be postponed until the next scheduled Board meeting. All of the members of the Audit, Compensation, Finance, Nominating and Governance and Risk Oversight committees are independent.

In KBRA's view, a Board level committee that focuses exclusively on risk such as the Risk Oversight Committee of the AGL Board is better positioned to maintain a high level of focus on this area, one that is critically important for a financial guaranty insurance company.

The roles of Chairman and Chief Executive Officer are separate. The Board members meet regularly without the presence of the CEO, which in KBRA's view contributes to the Board's independence.

The Board is responsible for defining the business strategy for the overall group of companies. This incorporates the business objectives for each of the operating companies. The Board meets quarterly to review progress towards meeting the stated objectives and for purposes of strategic planning. There are also separate sessions to discuss current or emerging issues that might impact the business.

MAC's Board of Directors consists of the six executive officers of Assured Guaranty plus MAC's treasurer, chief credit officer, and corporate attorney.

KBRA also reviewed Assured's public disclosure and the January 2015 report from the independent consultant engaged by the Compensation Committee of AGL's Board of Directors to confirm that compensation policies continue to be consistent with the Company's long-term objectives regarding risk. Based on a review of the company's incentive policies and enterprise risk assessment, the independent consultant found no material change in the company's overall risk profile or its compensation policies and concluded that, in its opinion, the company continues to maintain an appropriate balance between business risks and compensation programs. The company also complies with all SEC requirements regarding disclosure of its compensation risk assessment process.

Risk Management

The company has established a risk management framework under the supervision of the Board's Risk Oversight Committee (ROC). The Risk Management Department is responsible for the oversight of the framework under the supervision of the Chief Risk Officer (CRO) and the Portfolio Risk Management Committee (PRMC). The PRMC is a management level committee that includes the CEO, CRO, Chief Surveillance Officer, Chief Credit Officer, General Counsel, CFO, President of AG Re, and the Executive Officer.

The Risk Management Department is responsible for providing the PRMC with research and data used to establish, monitor and reassess policies and procedures on a regular basis. The Risk Department is also responsible for the execution of policies established by the PRMC. The PRMC meets at least four times a year to review the insured portfolio and market trends. All decisions made by the PRMC are reported to Assured Guaranty's Risk Oversight Committee. This ensures that representatives of Assured Guaranty's Board are adequately informed about risk positions and industry trends.

The Risk Management Department is responsible for preparing the annual corporate-wide risk appetite statement which incorporates MAC. The Board reviewed and approved the most recent risk appetite statement in May, 2015. The company continues to identify preservation of capital, maintenance of the highest possible financial strength ratings and consistent market access as key corporate objectives.

The Risk Management Department is also responsible for Enterprise Risk Management across Assured.

Surveillance

MAC's surveillance process is governed by the U.S Municipal Surveillance Policies & Procedure Manual that applies to all of the operating companies of AGL. Surveillance follows a set of priorities that determine how frequently credits are reviewed. Further, a credit review can also be triggered by an event impacting individual or regional exposures, such as a natural disaster, or an event affecting an entire sector such as a change in Federal law.

Written credit reports document the surveillance review. Individual credit reports and sector updates are presented to the Risk Management Committee for public finance at monthly meetings. The agenda for these meetings are generally centered on the surveillance group's compliance with its review schedule and on credit risk and sector risk reports. Any proposed internal credit rating changes would be discussed and determined through this committee process. Additional presentations are made by the surveillance group to the Risk Committee of the Board of Directors on a quarterly basis. KBRA views the internal reporting process as comprehensive and as providing a sufficient mechanism to inform senior management about the condition of the insured portfolio.

Business Strategy

MAC insures U.S. municipal bonds in lower risk sectors and focuses on bank qualified, midsize and smaller transactions. In the sectors MAC serves, municipal issuers and/or their advisors may request an insurance policy from either MAC or AGM and according to management they will be offered a policy from each company in many cases. Such transactions are reviewed and approved by the same U.S. Public Finance Credit Committee and the insurance is offered on the same terms for either MAC or AGM.

Rating Determinant 2: Insured Portfolio and Modeling Analysis

Insured Portfolio

MAC's insured portfolio has a total of $77.2 billion in gross statutory par outstanding as of March 31, 2015. The insured portfolio includes a range of public finance sectors and continues to present favorable credit characteristics similar to those at the last portfolio review. Gross par outstanding has decreased 17.7% since March 31, 2014, mostly as a result of scheduled debt maturities and bond refunding activity. The additional exposure underwritten by MAC since last review, a total of $812 million gross par, was not substantial enough to alter this decline in total exposure.[2] The new par insured was mostly within the general obligation sector. For MAC's purpose, gross par is equivalent to net par as MAC does not cede any par to reinsurers.

Rating Distribution

In MAC's total portfolio, 90.2% of statutory par exposures have internal credit ratings that are within the single-A category or higher. More specifically, as of March 31, 2015, 58.1% of statutory par falls within the single-A rating category, 30.1% falls within the double-A rating category, and 2.0% falls within the triple-A rating category. A total of 9.7% of insured par falls within the triple-B category and only 0.1% of insured par have internal ratings within the double-B category. The double-B rated exposure represents credits that were internally downgraded subsequent to the initial reinsurance cession to MAC. The insured portfolio's weighted internal rating is A-plus. As noted above, the portfolio does not contain any exposure

[2] Municipal Assurance Corp. Financial Supplement for March 31, 2015, December 31, 2014, and March 31, 2014.

to the Commonwealth of Puerto Rico or any of its bond issuing entities. Overall, the rating distribution has changed little from the year prior despite the almost 18% reduction in par outstanding.

As a result of internal downgrades, as mentioned above, statutory par exposure within the double-B category has increased over 40% as of March 31, 2015, from KBRA's last review. However, internal ratings of double-B overall still only reflect 0.1% of total statutory insured par.

MAC Insured Portfolio Rating Distribution

	March 31, 2015	March 31, 2014
Internal Rating Category	% of Gross Par Oustanding	% of Gross Par Oustanding
AAA	2.0%	2.4%
AA	30.1%	32.7%
A	58.1%	56.1%
BBB	9.7%	8.7%
BB	0.1%	0.1%

Sector Distribution

More than half of the insured portfolio, or 57.3% of statutory gross par, falls within the general obligation sector. The municipal utility revenue and the tax-supported sectors account for 16.8% and 15.2% of gross par, respectively. Education/university and transportation revenue sectors account for 4.5% and 4.3%, respectively, of gross par. The remaining balance of the portfolio falls within the other public finance and housing revenue sectors, representing 1.2% and 0.8% of gross par outstanding, respectively. As with the portfolio's rating distribution noted above, the sector distribution has changed little compared to the year prior despite the almost 18% reduction in par. The gross par run-off has been consistent across each sector.

MAC Insured Portfolio Sector Types

	March 31, 2015	March 31, 2014
Sector	% of Gross Par Outstanding	% of Gross Par Outstanding
General Obligation	57.3%	57.6%
Municipal Utility Revenue	16.8%	16.5%
Tax-supported	15.2%	15.4%
Education/University	4.5%	4.3%
Transportation Revenue	4.3%	4.1%
Other Public Finance	1.2%	1.1%
Housing Revenue	0.8%	0.9%

State and Single Risk Distribution

The top five exposures by state total $35.4 billion and represent 45.9% of statutory gross par outstanding. The largest geographic exposure is to credits within the State of California which represents 16.0% of insured par. Texas, Pennsylvania, Illinois, and New York make up the remaining top 5 geographic exposures by state which represent 9.9%, 8.2%. 5.9% and 5.8%, respectively, of statutory insured par.

The 50 largest exposures in MAC's portfolio total $5.5 billion and represent 7.1% of total statutory gross par insured. Further, the 10 largest exposures total $1.3 billion and represent 1.7% of total insured par.

These percentages are low in comparison to the other insured portfolios KBRA rates. KBRA views these characteristics positively because as it reflects a portfolio that is diverse without any significant geographic or single risk concentrations.

Monte Carlo Simulation Model

KBRA uses a Monte Carlo simulation model to stress the MAC insured portfolio and quantify an appropriate level of stress case claims. KBRA views this as the most appropriate approach for modeling loss expectations for the large, diverse portfolios typical of the financial guaranty industry.

The model uses the assigned rating and sector of each insured credit to simulate default and severity performance over the remaining life of the portfolio. We generally used MAC's internal ratings but before doing so, KBRA reviewed the ratings for a select number of credits and found them to be generally consistent with our assessment. We also reviewed the ratings for all those credits that are below investment grade. KBRA ratings were used on those credits that are independently rated by KBRA or have been internally assessed in some other context.

As stated in KBRA's **Financial Guaranty Rating Methodology**, the default probabilities applied by KBRA are scaled off of corporate default data. In scaling down municipal default rates from corporate default rates, KBRA is reflecting a view that municipal default rates across most sectors are likely to be higher than historic municipal experience, but unlikely to reach corporate default levels over the foreseeable future.

The Monte Carlo model runs a series of 100,000 paths where each path assesses the probability of future defaults for each credit in each year of its remaining life. If a credit defaults, a severity assumption based upon its sector is applied against the amount of debt outstanding at that point in time and a loss amount is calculated. The model runs 100,000 paths to produce a broad distribution of results. We focus on the tail of this distribution to construct a stress analysis. For MAC, the aggregate of all annual loss payments at the 99.9% confidence level, or that level associated with a AAA rating, was $364 million over the life of the portfolio on a future value basis compared to nearly $1.5 billion of claims paying resources. The total in stress loss payments of $364 million is a 5% decrease from the previous year.

The total loss amounts produced by the Monte Carlo model also incorporates, in KBRA's opinion, conservative assumptions for refunding activity in MAC's insured portfolio.

Financial Model

KBRA assesses the ability of a financial guarantor to pay stress case claims in a financial model. The model uses MAC's Claims Paying Resources (defined in the "Claims Paying Resources" section below) as the beginning base of assets. These assets earn interest at rates adjusted downward by KBRA from the company's current yield levels. There are no future installment premiums incorporated in the financial model reflecting MAC's municipal exposure and the predominance of upfront premiums. KBRA also assumes that MAC fully repays the surplus note according to its terms that is held by AGM and matures in July 2033.

The model assesses the ability of the company with these defined resources to pay annual stress losses and other expected operating expenses through the 35 year forecast period. For MAC, the stress losses (on a future value basis) were the sum of the aggregate annual losses generated in the loss profile KBRA developed from the tail distribution of the Monte Carlo simulation model of $364 million. The company is assumed by KBRA to go into run off immediately and expenses begin to decline after year 5.

MAC is able to pay all claims and other expenses in this analysis with a comfortable amount of assets remaining at the end of the 35 year forecast period. In KBRA's opinion, this result is consistent with a rating of AA+, Stable Outlook.

Rating Determinant 3: Claims-Paying Resources and Financial Profile

Investments

The investment portfolio continues to be conservatively managed. Shown below is a portfolio analysis of Municipal Assurance Holdings Inc. as presented in its Financial Supplement of March 31, 2015. The current pre-tax book yield is 2.7%. The largest asset class concentration is in municipal bonds which consisted of 85% of the entire investment pool. The average rating is AA. The average duration is 5.1 years, lower than the March 31, 2014 which was 5.7 years. The portfolio increased in market value and exceeded book value by $67 million as of March 31, 2015.

MAC Investment Portfolio composition					
$ Millions			**---Book Yields---**		
SECTOR	**Amortized cost**	**% of portfolio**	**Pre-tax**	**After-tax**	**Fair Value**
State and Political Subdivisions	$1,062	72%	2.71%	2.55%	$1,109
Insured State and Political Subdivision	$187	13%	3.21%	3.04%	200
U.S Treasury Securities	$17	1%	2.24%	1.45%	18
U.S Agency Obligations	$9	1%	1.25%	0.81%	9
Corporate Securities	$95	6%	2.79%	1.82%	99
RMBS	$21	1%	3.01%	1.96%	22
CMBS	$25	2%	2.77%	1.80%	26
Asset-backed securities	$25	2%	1.13%	0.73%	25
Total Fixed Maturities	**1,441**	**98%**	**2.74%**	**2.49%**	**1,508**
Short term investments and cash	$25	2%	0.03%	0.02%	25
Grand Total	**$1,466**	**100%**	**2.70%**	**2.45%**	**$1,533**

The average internal credit rating for these investments is AA.

Claims-Paying Resources

KBRA defines claims paying resources (CPR) as the sum of policyholder surplus, contingency reserve, loss and loss adjustment reserve and unearned premium reserves. These accounts are statutorily defined and KBRA uses this amount as the beginning asset base in our financial model for a conservative starting point. As of March 31, 2015, MAC's claims paying resources totaled $1.49 billion which consisted of $617 million in statutory policyholder surplus, $311 million in contingency reserves and $558 million of unearned premium reserve. Total claims paying resources have been steady and leverage (net par outstanding/claims paying resources) has been declining since the company was founded in July of 2013.

Select MAC Statutory Balance Sheet Data				
$ Thousands	**1Q2015**	**1Q2014**	**2014**	**2013**
Claims paying resources:				
Unearned premium reserves	$558,307	$648,449	$591,806	$670,694
Loss & LAE reserves	$0	$0	$0	$0
Contingency reserve	$311,462	$330,040	$300,067	$319,432
Policyholder surplus	$617,544	$513,327	$611,534	$514,392
Total claims paying resources (KBRA definition)	**$1,487,313**	**$1,491,815**	**$1,503,407**	**$1,504,518**
Net statutory par outstanding (NPO)	$77,249,000	$93,866,000	$82,322,000	$96,141,000
Claims paying resources (KBRA definition)	$1,487,313	$1,491,815	$1,503,407	$1,504,518
Leverage: NPO/Claims paying resources	52x	63x	55x	64x

Source: Municipal Assurance Holdings Inc. financial supplements

Balance Sheet

MAC's balance sheet although well positioned to support the current business needs and existing portfolio, reflects the company's limited history of new business activity. KBRA notes that the loss reserves are $0. This is a positive reflection on portfolio quality although we would not expect this figure to remain at zero over the mid to long term.

Investment income due and accrued was flat from the prior year. Net deferred tax assets as of December 31, 2014 were $17.2 million but only $10.5 million were admitted under SSAP 3 No. 101 which provides a methodology for admitting deferred tax assets specific to financial guarantors. Net deferred tax asset increased by 37% to $10.5 million at year end 2014 from $7.6 million the previous year.

Unearned premium reserves of $558.3 million decreased by 14% in the first quarter of 2015 compared to the first quarter of 2014. This decrease was due to the scheduled amortization of the existing portfolio plus refundings. When comparing the full year 2014 to the full year 2013, unearned premium reserves decreased by 12%. The decline in the unearned premium reserves is a function of the net written premiums less the earned premium which reflects MAC's limited direct written business thus far.

Select MAC Statutory Balance Sheet Data				
$ Thousands	**1Q2015**	**1Q2014**	**2014**	**2013**
Bonds	$1,442,953	$1,446,210	$1,440,226	$1,452,180
Stocks	$0.00	$0.00	$0.00	$0.00
Total Investments	**$1,442,953**	**$1,446,210**	**$1,440,226**	**$1,452,180**
Cash & short term investments	$24,927	$23,760	$28,752	$24,076
Other assets	$15,000	$15,000	$15,000	$15,000
Total cash and invested assets	**$1,484,418**	**$1,485,324**	**$1,483,978**	**$1,491,257**
Investment income due and accrued	$18,868	$18,686	$17,014	$17,093
Deferred tax assets	$10,068	$7,725	$10,528	$7,658
Total Assets	**$1,513,438**	**$1,512,036**	**$1,519,754**	**$1,516,209**
Loss and LAE Reserves	$0.00	$0.00	$0.00	$0.00
Unearned Premium Reserve	$558,307	$648,449	$591,806	$670,694
Provisions For Reinsurance	$6,068	$6,074	$0	$0
Aggregate write-in for liabilities	$311,471	$330,057	$300,068	$319,434
Total Liabilities	**$895,894**	**$998,709**	**$908,219**	**$1,001,817**
Common capital stock	$15,000	$15,000	$15,000	$15,000
Surplus Notes	$400,000	$400,000	$400,000	$400,000
Gross paid-in and contributed surplus	$373,670	$361,695	$373,670	$361,695
Unassigned Funds	($171,127)	($263,369)	($177,136)	($262,303)
Total Surplus	**$617,544**	**$513,327**	**$611,534**	**$514,392**
% cash & short term assets	1.68%	1.60%	1.94%	1.61%
% in fixed income	97.21%	97.37%	97.05%	97.38%
Net Investment Yield	2.52%	2.54%	2.07%	2.29%
Claims paying resources:				
Unearned premium reserves	$558,307	$648,449	$591,806	$670,694
Loss & LAE reserves	$0	$0	$0	$0
Contingency reserve	$311,462	$330,040	$300,067	$319,432
Policyholder surplus	$617,544	$513,327	$611,534	$514,392
Total claims paying resources (KBRA definition)	**$1,487,313**	**$1,491,815**	**$1,503,407**	**$1,504,518**

Source: MAC statutory filings
Net investment yield was annualized for the 1Q 2015 and 1Q 2014.

Income Statement

The income statement reflects the large reinsurance cession upon the company's formation in 2013 followed by lower writings of premium since that time. In first quarter 2015, direct premium written was only $583 thousand which is netted against premiums ceded under the XOL reinsurance facility (described below) to produce a negative $7.4 million of net premiums written for the quarter (see table below). Compared to the period ending December 31, 2014, direct premiums written were $2.4 million but resulted in negative $5.0 million of net premiums written due to over $8 million ceded to non-affiliates.

Lower business volume and the initial reinsurance cessions explain the very wide variation in the expense ratio and combined ratio when comparing results in 2013 to 1Q 2015.

The combined ratio is the same as the expense ratio reflecting the absence of any loss expenses. Underwriting expenses in the first quarter of 2015 were $4.39 million, which was a decrease of 32% from first quarter of 2014 and consisted of advertising, surveys, rent, salary, legal and travel. Return on surplus (annualized) in first quarter 2015 was 20.2% pre-tax and 15.6% after tax. This level of profitability also reflects the significant reinsurance cession to start the company's operations.

Select MAC Statutory Income Data				
$ Thousands	**1Q2015**	**1Q2014**	**2014**	**2013**
Net Premiums Written	($7,432)	($7,144)	($5,001)	$709,935
Net premiums earned	$26,067	$15,101	$73,887	$39,241
Loss & loss adjustment expenses	$0.00	$0.00	$0.00	$0.00
Other underwriting expenses	$4,389	$5,795	$19,037	$12,447
Total losses & operating expenses	$4,389	$5,795	$19,037	$12,447
Net underwriting gain (loss)	$21,677	$9,306	$54,850	$26,794
Net investment gain (loss)	$9,364	$9,453	$30,768	$17,910
Earnings Before Taxes	$31,041	$18,760	$85,630	$44,705
Net Income	$23,925	$15,383	$74,762	$25,746
Expense ratio (op. exp. / Net. Prem. Written)	-59.06%	-81.11%	-380.64%	1.75%
Loss ratio (L&LAE / Net Prem. Earned)	0.00%	0.00%	0.00%	0.00%
Combined ratio	-59.06%	-81.11%	-380.64%	1.75%
Return on Surplus (ROS) Pre-tax basis *	20.20%	14.60%	15.21%	15.12%
Return on Surplus (ROS) After-tax basis *	15.57%	11.97%	13.28%	8.71%

Source: MAC statutory filings

** Return on Surplus was annualized for the 1Q 2015 by multiplying the pre-tax earnings by 4.*

Dividends

MAC's ability to pay dividends is subject to limitations imposed by New York insurance law, which provides that a New York financial guaranty insurer generally may not pay a dividend except out of the portion of the insurer's earned surplus that represents the net earnings, gains or profits which that insurer has not otherwise utilized. Additionally, without regulatory approval, a New York financial guaranty insurer may not pay dividends in aggregate during any 12-month period in excess of the lesser of 10% of its surplus and 100% of its adjusted net investment income for such 12-month period. MAC reported a negative earned surplus in its most recent financial statement which currently precludes the payment of ordinary dividends.

Reinsurance

MAC, jointly with AGM and AGC, has entered into an aggregate excess of loss reinsurance facility with a number of reinsurers rated AA- or higher or who have posted collateral. The facility attaches when the group's combined net losses exceed $1.5 billion in aggregate on U.S. public finance exposure insured or reinsured as of September 30, 2013 and rated investment grade as of December 31, 2013 and it covers $450 million of the next $500 million of losses on a pro rata basis, while MAC, AGM, and AGC jointly retain the remaining $50 million. MAC, AGM and AGC have jointly paid $19 million of premiums through the period ending December 31, 2015. The reinsurance agreement terminates on January 1, 2016 unless the Assured subsidiaries decide to extend it. Because of its joint nature and the potential for losses at AGM or AGC to limit the support available for MAC, this facility is not incorporated in KBRA's analysis of MAC's rating.

MAC Holdco

Municipal Assurance Holdings Inc., (MAC HoldCo) is an intermediate holding company of AGM and AGC. Both AGM and AGC are indirect subsidiaries of AGL, a Bermuda based holding company. MAC HoldCo was capitalized entirely from common shares issued to AGM (60.7%) and AGC (39.3%). MAC HoldCo in turn, capitalized MAC, a regulated financial guaranty operating subsidiary, by purchasing a $300 million surplus note issued by MAC with no stated maturity and $400 million of MAC's common shares. The operating expenses of MAC HoldCo are limited but the funding of these expenses is dependent upon support of AGM and AGC. KBRA believes AGM and AGC will continue to support the operating and capital needs of the MAC

Holdco operations. At this time, there is no debt associated with the Holding Company capital structure and KBRA does not expect MAC HoldCo to issue debt in the near term.

MAC Holdco consolidated Shareholder's equity was reported at $890 million as of March 31, 2015, up 13% from $774 million as of March 31, 2014. KBRA notes that as a regulated financial guaranty company, dividends from the operating subsidiary are subordinate to policyholder claims and are subject to regulatory restrictions. As stated in the dividends section of this report, a New York financial guaranty insurer is required to maintain a specific amount of surplus before a permissible dividend is issued and we do not expect MAC to upstream dividends to MAC Holdco in the foreseeable future because we understand it does not currently meet the regulatory requirements to pay ordinary dividends to MAC HoldCo. KBRA has affirmed an issuer rating of AA, Stable Outlook, to MAC HoldCo. This is one notch below the operating company rating level, which reflects the structural subordination of cash flows to the MAC HoldCo. Any changes to the capital structure or business profile of MAC HoldCo will be considered a rating factor that could affect the MAC HoldCo rating.

Conclusion

MAC's AA+ rating, Stable Outlook, is a function of the conservative features built into the company's foundation. It was started with a portfolio of diverse municipal risk that specifically excluded distressed credits such as Puerto Rico and Detroit. These factors continue to provide high quality protection to MAC's insured policy holders.

KBRA has affirmed an issuer rating of AA, Stable Outlook, to MAC HoldCo. This is one notch below the operating company rating level, which reflects the structural subordination of cash flows to the MAC HoldCo.