

30 June 2025



UNDERSTANDING **Assured Guaranty Financial Guarantees**

**ASSURED
GUARANTY®**

A STRONGER BOND

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For those unfamiliar with financial guarantees, here are answers to some common questions about the product. In this Note, “financial guarantee” refers to a financial guarantee issued by Assured Guaranty in accordance with its standard terms and conditions.

1. What is a “wrap”?

AGUK is a financial guarantee insurance company whose single line of business is to guarantee debt obligations. The guarantee is often referred to as a “wrap.” In the infrastructure market, AGUK provides such financial guarantees on a co-insurance basis with its U.S.-based parent AG, the largest insurance company in the Assured Guaranty Ltd. Group. Beneficiaries of the financial guarantee have recourse to both AGUK and AG under the terms of the standard form guarantee. The Assured Guaranty standard form guarantee **guarantees timely payment of scheduled principal and interest**, typically on senior debt. The guaranteed debt may be in the form of a **bond or loan**, listed or unlisted.

2. What protection does a financial guarantee provide and what are the benefits for beneficiaries?

At its most basic, Assured Guaranty’s financial guarantee provides credit protection to debt providers (investors in the bonds or banks providing a loan). If the issuer or borrower fails to pay all or part of scheduled principal and interest guaranteed under the financial guarantee, then the beneficiary of the financial guarantee (or ‘holder’) instead receives timely payment from Assured Guaranty under the terms of the financial guarantee.

There are a number of other potential benefits to Assured Guaranty’s financial guarantee for investors and banks:

- **Regulatory capital savings** – Assured Guaranty providing a financial guarantee may **uplift the rating** of the underlying bond/loan from, typically, the BBB category assigned to infrastructure assets to Assured Guaranty’s own ratings, being **AA with S&P and AA+ with Kroll**.
- **Expanded universe of potential lenders** – Assured Guaranty’s credit protection may enable certain lenders to access asset classes that they would not be able to invest in otherwise (*e.g.*, projects with construction and/or demand risks) and can therefore open up a universe of sponsors to investors and banks and vice versa.
- **Potentially enhanced market liquidity and transferability** – Assured Guaranty believes that the additional security and typical uplift in rating may improve the market liquidity of the debt instrument.
- **Single point of contact** – Assured Guaranty typically acts as the **controlling creditor** on transactions it insures at issuance (“primary guarantees”), exercising the voting rights in respect of any intercreditor decisions to be made by the investors/banks (other than express entrenched rights) and provides a **single point of contact** for sponsors. Assured Guaranty has a very active and experienced risk monitoring department to administer the decision-making required in respect of transactions.

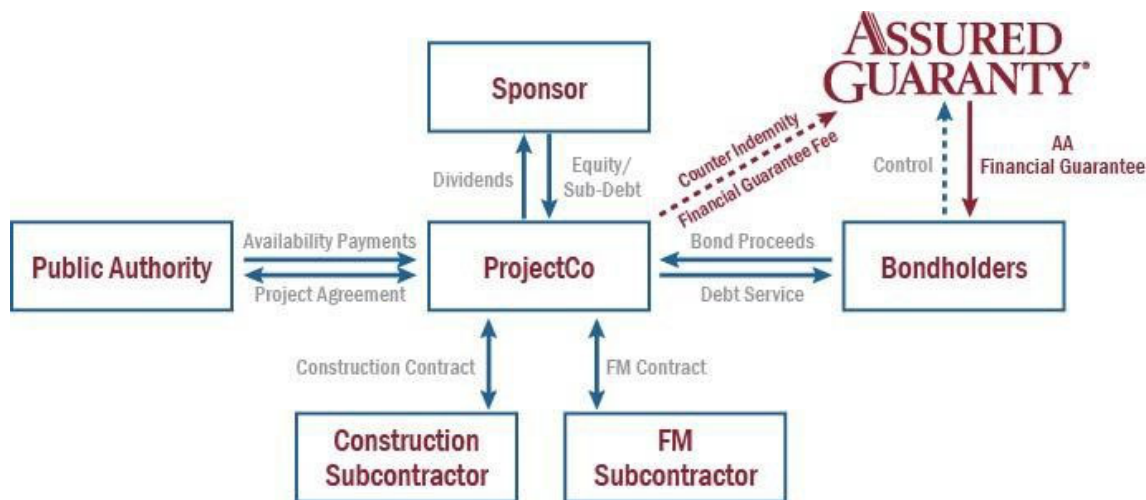
3. What are “primary” and “secondary” financial guarantees?

Assured Guaranty provides primary and secondary financial guarantees. A primary guarantee usually relates to a new debt issuance, whereas a secondary guarantee is usually applied to an existing transaction with an existing bond or loan outstanding.

An example of when a primary financial guarantee would be given is in respect of the debt issued for a new PPP project or by a utility. In a primary transaction, the beneficiary of the Assured Guaranty financial guarantee would typically be a trustee, holding the financial guarantee for the benefit of a number of bondholders or lenders.

The issuer or borrower will typically pay the financial guarantee fee in a primary transaction as it is part of its cost of funding. The protection that investors derive from the financial guarantee can allow them to offer better pricing to issuers/borrowers than would have been the case without the financial guarantee or, in some cases, can allow them to participate in a transaction that they would otherwise have to decline (for example, if the investor could not take construction risk without the financial guarantee).

The structure diagram below illustrates a transaction with a primary financial guarantee:



An example of when a secondary guarantee would be given is where a lender or investor is seeking credit protection in respect of an existing exposure that the lender or investor has on its books. In a secondary transaction, the ultimate beneficiary of the Assured Guaranty financial guarantee would be the lender or investor itself, and the lender or investor would pay Assured Guaranty's financial guarantee fee, as it is a protection that the bank or investor is buying for itself to mitigate credit risk or to derive regulatory capital savings in respect of those existing exposures, or for other reasons.

In Australia, Assured Guaranty could provide a secondary financial guarantee to an investor or a bank directly or via its Transferrable Custody Receipt programme (see question 29 for more details). In the case of the TCR, the beneficiary of the financial guarantee would be Citibank in London in order to provide a more tradable security for the investor.

In some circumstances, a secondary market financial guarantee can be applied straight after a new (unwrapped) issuance of a bond or loan (*i.e.*, even later the same day).

4. Does Assured Guaranty have a direct relationship with the issuer/Borrower?

In primary transactions, Assured Guaranty will typically have a direct relationship with the issuer or borrower. In a secondary transaction, Assured Guaranty typically deals with the lender or investor instead and may not have a direct relationship with the issuer or borrower.

5. How much does it cost?

The financial guarantee fee that Assured Guaranty requires in order to guarantee a specific transaction depends on a number of factors, including (a) the asset class (and associated risks), (b) its assessment of the cost of debt savings generated by the financial guarantee (*i.e.*, the difference between the wrapped debt and unwrapped debt coupons) and (c) the capital it needs to set aside against the exposure (which drives its return on equity for the transaction).

Assured Guaranty's fee is expressed as a percentage – *i.e.*, a certain amount of basis points per annum, typically with a portion payable upfront on a present value basis, with the remainder payable over time on interest payment dates.

6. Example Financial Guarantees

Example primary and secondary financial guarantees can be provided on request, but each financial guarantee requires tailoring to the specific circumstances of each transaction.

7. Does the wrapped instrument need a separate rating?

Underlying rating

In order for a transaction to qualify for Assured Guaranty's financial guarantee, the underlying debt needs to have an investment grade (at least BBB-) underlying rating with S&P. This is because S&P would otherwise apply a very high capital charge for the transaction in its assessment of Assured Guaranty's financial strength and, as a result, the economics of the transaction would likely not work for Assured Guaranty. Such S&P underlying rating can be public or private.

Insured rating

Assured Guaranty would expect that most of the beneficiaries of the financial guarantee would require the underlying debt guaranteed by the Assured Guaranty financial guarantee to have an insured rating from at least S&P. Such insured rating would reflect AGUK's and AG's own ratings (*e.g.*, AA stable with S&P).

All costs associated with the provision of underlying and insured ratings are expected to be borne by the Issuer (or by the beneficiary in the case of secondary financial guarantees).

8. How long does credit approval usually take?

This very much depends on the complexity of the underlying transaction. Typically, AGUK and AG are able to achieve credit approval from around 6-8 weeks of receiving all of the relevant information for a new transaction. However, credit approvals may be achievable in a short time frame in the case of a straightforward credit.

9. How creditworthy is Assured Guaranty?

Assured Guaranty is the leading financial guarantee franchise with more than three decades of experience in the municipal, infrastructure and structured finance markets.

Its main financial guarantee entities in the Assured Guaranty Ltd. Group have strong financial strength ratings, as summarised below:

	Assured Guaranty Inc.
Operational Scope	Infrastructure & Public Finance
S&P	AA
Moody's	A1
KBRA	AA+

As of 30 June 2025, the Assured Guaranty group had:

- \$272.8 billion in guaranteed net par outstanding (US GAAP basis).
- Over \$10 billion of consolidated claims-paying resources (US statutory basis).¹

¹ Aggregate data for insurance subsidiaries within the Assured Guaranty Ltd. (AGL) group. Claims on each insurance subsidiary's guarantees are paid from that subsidiary's separate claims-paying resources. Details in the latest AGL Financial Supplement at assuredguaranty.com/agldata.

10. Is there any potential stigma associated with needing a wrap to raise funds?

No, we do not believe so. Assured Guaranty does not provide its financial guarantee to non-creditworthy entities. One benefit to investors of an Assured Guaranty financial guarantee is typically from the reduced capital requirement resulting from the ratings uplift to AA, and not from turning a “bad credit” into a “good credit.” The product provides credit enhancement rather than credit substitution. Furthermore, we believe many institutional investors are generally aware of Assured Guaranty’s strong credit ethos, which we believe can provide such investors additional comfort that the issuer or borrower is creditworthy in its own right.

11. What is it like dealing with Assured Guaranty after the close of the transaction?

A key advantage of a wrapped bond or loan from the issuer or borrower’s perspective is that they generally are required to deal with only one counterparty, rather than a disparate group of investors, for routine consents, waivers and amendments. We believe that Assured Guaranty has an excellent reputation for being a responsive, proactive and reasonable counterparty as controlling creditor on transactions.

12. Is it different/more onerous than other lenders?

When Assured Guaranty issues a financial guarantee, it takes on the credit risk that the underlying investor or lender would have been exposed to if it had not been the beneficiary of the financial guarantee. Therefore, Assured Guaranty undertakes the due diligence on the transaction that any similarly situated lender or investor typically would do. Assured Guaranty wants to understand how the transaction has been structured, the documents and the background circumstances of the project or whole business that it would be exposed to.

Typically, a lead manager leads the process throughout the development of a primary transaction, and Assured Guaranty’s comments on the finance and project documents are limited to provisions impacting Assured Guaranty as financial guarantors, the financial guarantees themselves and terms that would be material to any other underlying senior creditor.

13. Who educates investors on Assured Guaranty? Does the issuer have to do it for a primary transaction?

Assured Guaranty would typically participate in an investor roadshow, but only to discuss matters relating to Assured Guaranty’s guarantor financial strength, guarantees and creditor rights.

Assured Guaranty would provide the section of a public offering or disclosure document that sets out Assured Guaranty’s certain corporate information and its financial position and the terms of its financial guarantee.

14. What is Assured Guaranty’s exposure capacity for a new transaction?

Assured Guaranty is active in both primary and secondary markets with a typical transaction size ranging from \$75m up to \$1bn. Its financial guarantees can have very long tenors (e.g., Assured Guaranty recently guaranteed debt maturing in 45 years for a student accommodation project in the U.K.).

15. What sectors does Assured Guaranty cover/not cover?

Assured Guaranty’s scope is versatile and past projects include the following:

- Roads/Rail
- University Accommodation
- Regulated Utilities
- Hospitals/Healthcare
- Schools
- Social Housing
- Public Buildings
- Prisons
- Ports/Airports
- Solar

- Stadiums.

16. Does using a wrap take longer/add execution risk?

Using a financial guarantee does not typically introduce execution risk. Assured Guaranty can move quickly to execute transactions with its dedicated team of underwriting, credit and legal experts.

All transactions need to have an investment grade (at least BBB-) underlying rating with S&P (public or private rating) to qualify for the financial guarantee, so the execution process will include a timeline for the rating process to be achieved.

17. Are there any ancillary costs?

In a primary transaction, issuers or borrowers typically will pay Assured Guaranty's due diligence costs (e.g., legal fees, cost of technical, insurance, demand adviser) and also the cost of rating the transaction. The bank or investor buying a secondary financial guarantee typically would pay these costs for a secondary transaction.

18. What documentation is involved and who are the parties? What does each additional document/party do?

In a primary transaction, the key financial guarantee documents will be (i) the financial guarantee itself, (ii) a reimbursement and indemnity agreement with the issuer or borrower and (iii) a financial guarantee fee letter. The financial guarantee itself exists so that if an issuer or borrower fails to pay scheduled principal and interest on time, then the holder of the financial guarantee, often a trustee or agent in a primary transaction, is able to claim against Assured Guaranty and receive payment from Assured Guaranty in time to make the payment to the holder on the originally scheduled payment date. The reimbursement and indemnity agreement sets out how Assured Guaranty reclaims amounts it has paid out from the issuer or the borrower. The financial guarantee fee letter sets out the agreement on the financial guarantee fee.

The parties to the financial guarantee will be Assured Guaranty and the beneficiary, often a trustee or agent in a primary transaction. The reimbursement and indemnity agreement will be between Assured Guaranty and the issuer or borrower because the issuer or borrower will be obligated to reimburse Assured Guaranty if Assured Guaranty has had to pay following issuer or borrower failure to pay the underlying guaranteed obligations. The fee letter also will be between Assured Guaranty and the issuer or borrower because the issuer or borrower will pay the financial guarantee fee.

In a secondary transaction, the key documents will be either (i) a secondary financial guarantee in favour of the investor or bank and (ii) the financial guarantee fee letter with the investor or bank or the TCR documents – please see question 29 for more details on the TCR.

19. Will there be additional parties versus a standard DCM/loan transaction?

The only additional party will be Assured Guaranty as the financial guarantor.

20. Can we use existing program documentation? NPA, EMTN, A\$MTN?

Amendments will be necessary to bring Assured Guaranty into the transaction, but Assured Guaranty can work with an issuer/borrower's own base documents.

21. Can we use a loan format?

Yes.

22. Does Assured Guaranty need covenants?

Assured Guaranty typically does not require a materially different covenant package from that required by any other similarly situated senior creditors.

23. Is there any change to roles that exist in an unwrapped transaction?

Not usually.

24. How is interest withholding tax dealt with?

Assured Guaranty believes that whether or not interest withholding tax is payable depends on the structuring of the underlying deal and is not attracted simply by introducing a financial guarantee into the transaction. This is a matter for issuers and arrangers to consider with their tax advisers, but Assured Guaranty's understanding is that these parties will typically seek to ensure that the debt on offer is offered to the market in a way that would mean that the transaction would be exempt from withholding tax. Assured Guaranty does not cover taxes as part of its financial guarantee coverage. Assured Guaranty does not provide tax advice and the parties are urged to consult with their own tax advisers regarding their specific situation.

25. Does the underlying instrument need to be: listed, in physical form, or set up in a clearing system?

Assured Guaranty does not require the underlying instrument to be listed or cleared. Or in physical form. For example, Assured Guaranty has wrapped registered bonds in the past.

26. What rights does Assured Guaranty have? Does it vote? Receive reports? How does it decide how to vote?

Assured Guaranty's funding solution typically provides a single point of contact (Assured Guaranty in its capacity as controlling creditor), with decision-making authority over a range of activities that could impact the underlying risk of the project.

This means that Assured Guaranty takes over the voting rights of the underlying investors or lenders and will therefore vote and receive reports and any other rights given to senior creditors in the transaction, but no more than any other lender or investor. Such decision-making authority is typically subject to a standard set of entrenched rights, retained by investors or lenders as applicable.

Assured Guaranty will decide how to vote depending on the prevailing circumstances of the project or business and the nature of the request that is being made at the time. It will do so on its own, based on its own interests as guarantor, without recourse to underlying investors or lenders as applicable.

27. If Assured Guaranty gets to vote for wrapped investors, how does that fit in with any existing creditor arrangements?

The existing intercreditor arrangements (if any) typically will not be disturbed. Assured Guaranty takes over the voting rights of any investors or lenders who are beneficiaries of its financial guarantee.

28. What happens if Assured Guaranty doesn't vote?

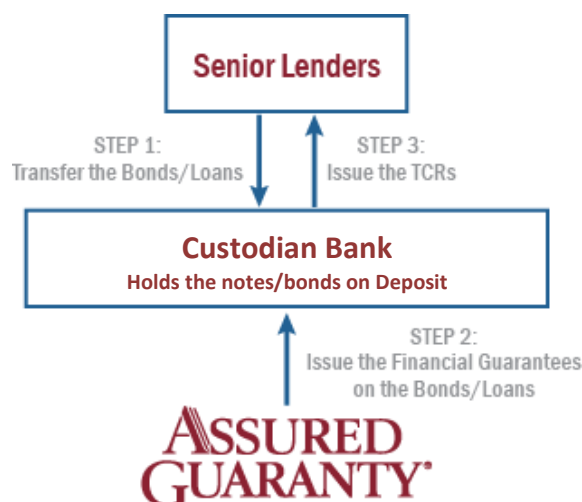
Assured Guaranty will typically vote on any matters that it is entitled to vote on, as it has a dedicated staff monitoring transactions that are subject to its outstanding financial guarantees and as guarantor, has an underlying interest in the repayment by the issuer or the Borrower and in the transaction succeeding. The underlying transaction documents contain voting procedures that govern what happens should Assured Guaranty (exceptionally) not vote, so the consequences would vary from transaction to transaction.

29. What is a TCR? How does it work, who is involved, why is it different?

Assured Guaranty can provide insurance to investors/banks on notes/bonds that they have already purchased in the primary market through a repackaging structure, which it refers to as a Transferable Custody Receipt (TCR) programme. This structure works as follows:

- The investor/bank transfers (deposits) the underlying securities (typically rated in the BBB category) to a custodian, Citibank London, which holds the bond in a custody account.
- Immediately following such transfer, AGUK and AG each issue a financial guarantee to the custodian bank covering their respective portion (based on the co-insurance structure) of the timely payment of principal and interest on the underlying bond or loan.
- Upon receipt of both the underlying bond or loan and the financial guarantees, the custodian bank issues a TCR to the investor/bank. The TCR is a separate transferrable instrument, which bears the rating of AGUK and AG (AA from S&P)

A structure diagram of a TCR transaction is below:



The main advantages of the TCR structure (compared to a secondary guarantee) are:

- Efficient way for the investor/bank to benefit from the AA S&P rating of AGUK and AG and therefore optimise regulatory capital savings.
- The TCR is a fully tradable instrument (with an ISIN number), so the guarantee follows the underlying instrument upon a sale.

Additionally, depending on the location of the beneficiary or the risk being covered, regulatory requirements may make the TCR the preferred method of attaching the Assured Guaranty financial guarantee to an obligation.

Assured Guaranty has executed many TCR transactions since Q1 2017:

- In the regulated utility (UK and Scandinavia), UK airport, Australian port and UK PFI sectors.
- Both for institutional investors and banks.
- Assured Guaranty believes Solvency II and Basel regulations have been a key driver for these transactions.

30. Who pays for any legal work required?

Assured Guaranty's legal fees are typically paid for by the issuer/borrower in a primary transaction and by the bank/investor in a secondary transaction.

31. Who pays for any rating costs?

Rating costs are typically paid for by the issuer/borrower in a primary transaction and by the bank/investor in a secondary transaction.

32. Is the policy different from the policies provided by other insurers?

Assured Guaranty is a financial guarantee insurance company providing a single line of business, financial guarantee insurance. Financial guarantee insurance is not to be confused with similar-sounding products provided by some other insurance companies, typically called “non-payment insurance.” Assured Guaranty’s financial guarantee is **unconditional and irrevocable**, providing **timely** principal & interest coverage to bondholders or lenders for the **full duration** of the debt instrument, which are important attributes typical competing insurance products do not possess. In addition, Assured Guaranty can and does guarantee debt for long tenors – for example, it has guaranteed debt maturing in 45 years for a student accommodation project.