Maximizing Romania's Development Potential Through Financial Guarantees

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Why a “Monoline” Guarantor?

* Fund: Finite life with limited impact
* Guarantor: Financial institution with a perpetual life and unlimited impact
  * A guarantor can employ a prudent level of operating and debt leverage to multiply its developmental impact

The Monoline Value Proposition

- Single Product (Hence, “Monoline”)
  - Unconditional, irrevocable guarantee on principal and interest
- Credit Rating Substitution/Enhancement
  - Target Romanian sovereign rating (BBB- Global/AAA National Scale)
- Rigorous Risk Management
  - Zero-loss target
- Improved Bond Liquidity
  - Commoditized bonds advance secondary markets
- High Developmental Impact
  - 4-8x leverage (for a national player)

Monoline History

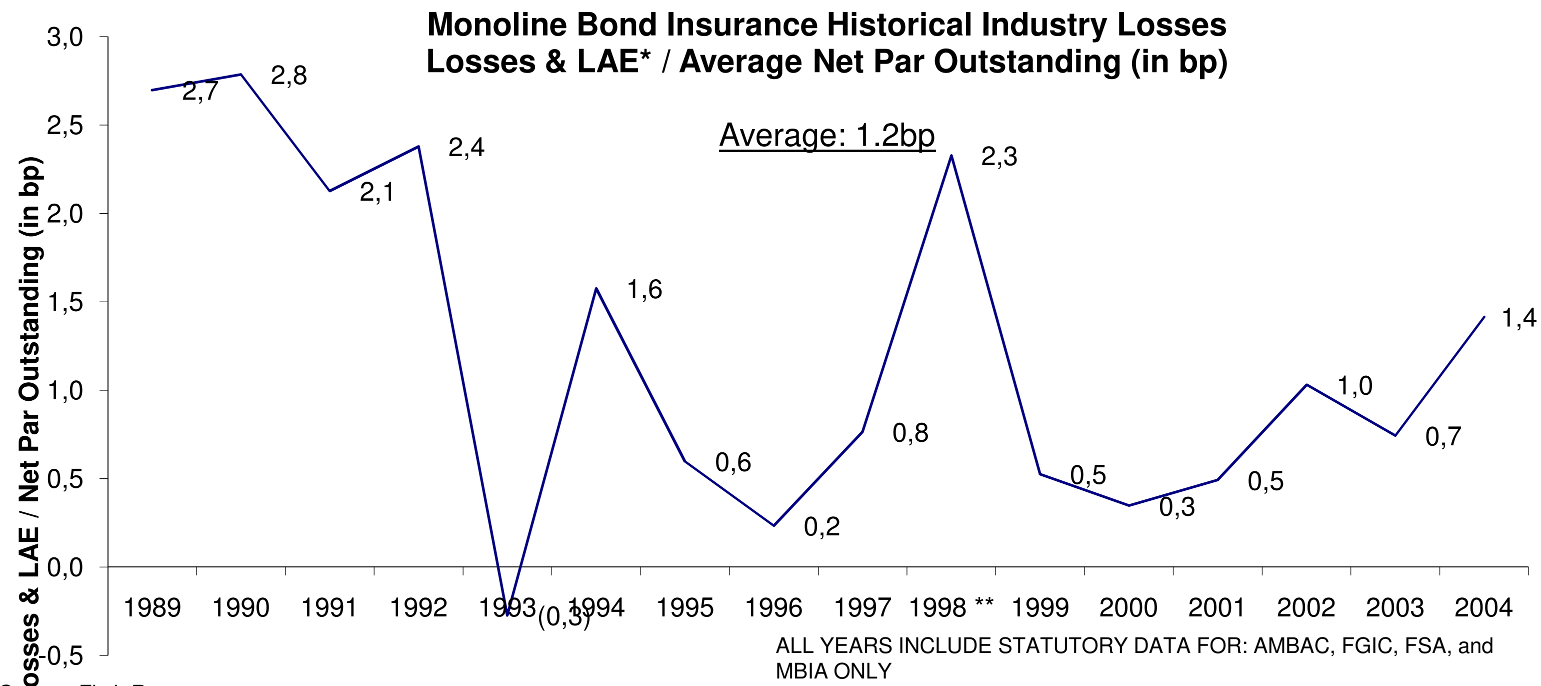
* Roots in US municipal infrastructure finance, since 1971

* 1990s expansion into
  1. Structured Finance
     * Initially MBS/ABS, later CDO's, which led to 2007-2008 crisis

  2. International
     * $1 Tn total, $42Bn in developing nations (9 bps losses)

Pre-global financial crisis, cumulative losses were ~3 bps

Monoline Loss History



Source: Fitch Reports

Key Elements of Monoline Success

1. Essentiality
2. Five – <u>and Only Five</u> -- Asset Classes:
   A. Infrastructure
   B. Sub-Sovereign Governments
   C. Utilities
   D. Securitizations (“Essential” Assets)
   E. “Future Flow” (bank remittances, commodity exports)
3. Rigorous Underwriting
   * No political influence
4. Proactive Surveillance and Remediation
5. Dual Regulation – National Insurance/Banking Regulator and Ratings Agency

The Global Financial Crisis and Monolines

* Conventional wisdom: The monoline business model failed
* A more accurate view: Monoline managements abandoned their core essentiality principle when they guaranteed CDOs of ABS and CDOs of CDOs. **The model worked; managements failed.**
* Absent the departure from the core model when monolines guaranteed CDOs, this was a solid 12% ROE/near zero loss business
    * ROEs for the emerging markets were over 20%

When banks fail, we don't abandon banks. Why abandon monolines?

Discipline is Required

- **Examples of projects a monoline could undertake:**
  - Physical Infrastructure – roads, renewable energy, ports, airports
  - Social infrastructure – health care, education, prisons
  - Municipal bonds for essential public works
  - Utility infrastructure financings
  - Securitization – home mortgages, auto loans
  - "Future Flow" -- Bank remittance and commodity export finance
- **Examples of transactions monolines should not undertake:**
  - Pure greenfield projects
  - Non essential projects (e.g., hotels, a local brewery, remittance deal for a minor bank, export deal for a product not critical to the nation)
  - Under-capitalized projects
  - Projects with weak sponsors

Getting Started – and Getting Connected

* Getting Started
  * The Government of Romania should formulate plans for a national guarantor
  * We can be of help
* Getting Connected
  * The impact of a guarantor can be maximized through reinsurance
  * Global Financial Assurance would be a source of such reinsurance, which could double the impact of its development investments

Thank You!

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