

Build America Mutual Assurance Company

**Statutory Financial Statements and Schedules
For the Period from July 17, 2012 (date of capitalization)
through December 31, 2012
(With Independent Auditor's Report Thereon)**

Build America Mutual Assurance Company

Statutory Financial Statements and Schedules

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

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Independent Auditor's Report

To the Board of Directors of Build America Mutual Assurance Company:

We have audited the accompanying statutory financial statements of Build America Mutual Assurance Company, which comprise the statutory statement of admitted assets, liabilities and capital and surplus as of December 31, 2012, and the related statutory statements of operations, changes in capital and surplus, and cash flows for the period from July 17, 2012 (date of capitalization) through December 31, 2012.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the New York State Department of Financial Services. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the financial statements, the financial statements are prepared by the Company on the basis of the accounting practices prescribed or permitted by the New York State Department of Financial Services, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the statutory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.



Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2012, or the results of its operations or its cash flows for the period from July 17, 2012 (date of capitalization) through December 31, 2012.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of the Company as of December 31, 2012, and the results of its operations and its cash flows for the period from July 17, 2012 (date of capitalization) through December 31, 2012, in accordance with the accounting practices prescribed or permitted by the New York State Department of Financial Services described in Note 1.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules listed in the table of contents of the Company as of December 31, 2012 and for the period from July 17, 2012 (date of capitalization) through December 31, 2012 are presented for purposes of additional analysis and are not a required part of the financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The effects on the supplemental schedules of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the supplemental schedules do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Company as of December 31, 2012 and for the period from July 17, 2012 (date of capitalization) through December 31, 2012. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

February 21, 2013

Build America Mutual Assurance Company

Statutory Statement of Admitted Assets, Liabilities and Capital and Surplus

As of December 31, 2012

ADMITTED ASSETS

Bonds	\$ 467,085,515
Cash, cash equivalents and short-term investments	<u>21,092,329</u>
Total cash and invested assets	\$ 488,177,844
Investment income due and accrued	2,818,446
Other assets	<u>177,619</u>
Total admitted assets	<u><u>\$ 491,173,909</u></u>

LIABILITIES

Unearned premiums	\$ 24,160
Ceded reinsurance premiums payable	10,410
Mandatory contingency reserve	2,578
Accrued and payable expenses	<u>7,420,634</u>
Total liabilities	<u><u>\$ 7,457,782</u></u>

CAPITAL AND SURPLUS

Surplus notes	\$ 503,000,000
Member surplus contributions	257,800
Unassigned funds - surplus (deficit)	<u>(19,541,673)</u>
Total capital and surplus	\$ 483,716,127
Total liabilities, capital and surplus	<u><u>\$ 491,173,909</u></u>

See accompanying notes to statutory financial statements.

Build America Mutual Assurance Company

Statutory Statement of Operations

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

Premiums earned	\$	-
Underwriting deductions:		
Other underwriting expenses		<u>19,779,442</u>
Total underwriting deductions	\$	<u>19,779,442</u>
Net underwriting gain (loss)	\$	<u>(19,779,442)</u>
Net investment income	\$	1,840,109
Net realized capital gains (losses) (net of capital gains tax of \$0)		<u>(219,044)</u>
Net investment gain	\$	<u>1,621,065</u>
Net income (loss) before federal income tax expense	\$	(18,158,377)
Federal income tax expense incurred		-
Net income (loss)	\$	<u><u>(18,158,377)</u></u>

See accompanying notes to statutory financial statements.

Build America Mutual Assurance Company

Statutory Statement of Changes in Capital and Surplus

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

	Surplus notes	Member surplus contributions	Unassigned surplus	Total
Balances at July 16, 2012	\$ -	\$ -	\$ -	\$ -
Net income (loss)	-	-	(18,158,377)	(18,158,377)
Change in non-admitted assets	-	-	(1,380,718)	(1,380,718)
Change in surplus notes	503,000,000	-	-	503,000,000
Change in member surplus contributions	-	257,800	-	257,800
Change in mandatory contingency reserve	-	-	(2,578)	(2,578)
Balances at December 31, 2012	\$ 503,000,000	\$ 257,800	\$ (19,541,673)	\$ 483,716,127

See accompanying notes to statutory financial statements.

Build America Mutual Assurance Company

Statutory Statement of Cash Flows

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

Cash from operations:

Premiums collected, net of reinsurance	\$ 34,570
Net investment income	1,675,443
Subtotal	<u>\$ 1,710,013</u>
Commissions and expenses paid	<u>(12,716,787)</u>
Net increase (decrease) in cash from operations	\$ (11,006,774)

Cash from investments:

Proceeds from investments sold, matured or repaid:	
Bonds	\$ 273,380,960
Net gains on cash, cash equivalents and short-term investments	15,063
Cost of investments acquired:	
Bonds	<u>(742,991,313)</u>
Net cash from investments	<u>\$ (469,595,290)</u>

Cash from financing and miscellaneous sources:

Cash provided (applied):	
Surplus notes	\$ 503,000,000
Capital and paid-in surplus	257,800
Other cash provided (applied)	<u>(1,563,407)</u>
Net cash from financing and miscellaneous sources	<u>\$ 501,694,393</u>
Net change in cash, cash equivalents and short-term investments	\$ 21,092,329
Cash, cash equivalents and short-term investments at beginning of period	<u>-</u>
Cash, cash equivalents and short-term investments at end of year	<u><u>\$ 21,092,329</u></u>

See accompanying notes to statutory financial statements.

Build America Mutual Assurance Company

Notes to Statutory Financial Statements

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

1. Organization and Basis of Presentation

Organization

Build America Mutual Assurance Company (“Build America” or the “Company”) is a New York domiciled mutual financial guaranty insurance company. The Company was capitalized on July 17, 2012 and received its license to write financial guaranty insurance from the New York State Department of Financial Services (the “Department”) and commenced operations on July 20, 2012. As of December 31, 2012, Build America was also licensed in Arizona, Arkansas, Delaware, Illinois, Indiana, Kansas, Maryland, Michigan, Minnesota, New Jersey, North Carolina, North Dakota, Pennsylvania, South Dakota, Texas, Vermont, Virginia and Wisconsin, and can write business in many additional jurisdictions throughout the United States under certain conditions. Build America has received financial strength and counterparty credit ratings of ‘AA/Stable Outlook’, from Standard & Poor’s Ratings Services.

The first mutual bond insurance company, Build America is owned by and operated for the benefit of the cities, states and other municipal agencies—the municipal issuers—that use the Company’s ‘AA/Stable Outlook’ rated financial guaranty to lower their cost of funding in the U.S. municipal market.

In order to purchase financial guaranty insurance and become a member of Build America, municipal issuers pay a fee to Build America which consists of a risk premium and a Member Surplus Contribution (“MSC”). Members have the right to vote as a member of Build America and to receive dividends. The risk premium collected by Build America is consideration for the insured risk.

The MSC is effective for the life of the policy, including refunding bonds of the same insured issue. The member does not lose the value of the MSC in the event of a refunding if the refunding bonds are insured by Build America. The member will continue to receive the rights to dividends and other benefits of mutual membership for the life of the policy. The Company’s policies are issued without contingent mutual liability for assessment.

On July 17, 2012, the Company issued, for cash, the Series 2012-A Surplus Notes and Series 2012-B Surplus Notes (collectively, the “Surplus Notes”) to HG Holdings, Ltd. (“HG Holdings”), a Bermuda holding company, and its wholly owned subsidiary HG Re, Ltd. (“HG Re”) in the amount of \$203,000,000 and \$300,000,000, respectively.

The Company’s reinsurance protection is provided by HG Re, a Bermuda domiciled special purpose insurance company, via a first-loss reinsurance treaty (the “Reinsurance Agreement”), whereby HG Re assumes all directly insured losses in an amount up to 15% of the par outstanding for each insured obligation. HG Re’s obligations under the Reinsurance Agreement are secured by, and limited to the value of, assets held in trusts, which are pledged for the benefit of Build America.

Both HG Holdings and HG Re are wholly owned subsidiaries of HG Global, Ltd. (“HG Global”), a Bermuda corporation. HG Global’s controlling parent is White Mountain Insurance Group, Ltd., a Bermuda-domiciled financial services holding company (“White Mountains”), which owns 89% of HG Global’s common equity and 97% of its preferred equity. Two of the Company’s directors, Mr. Cochran and Mr. McCarthy, along with 11 of the Company’s officers and employees, own individually or through family trusts the remaining common and preferred equity interests in HG Global.

Build America Mutual Assurance Company

Notes to Statutory Financial Statements, continued

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

Basis of Presentation

The accompanying statutory financial statements have been prepared on the basis of accounting practices prescribed or permitted by the State of New York.

The Department recognizes only statutory accounting practices prescribed or permitted by the State of New York for determining and reporting the financial condition and results of operations of an insurance company for determining its solvency under New York State Insurance Law ("NYSIL"). The National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures manual ("NAIC SAP") has been adopted as a component of prescribed practices by the Department.

The Department has the right to permit other specific practices that deviate from prescribed practices. The Company has received permission from the Department to defer the recognition of the deferred tax liabilities attributable to member surplus contributions received until such time the member surplus contributions are included in the Company's taxable income, to the extent that the total gross deferred tax liabilities exceed the total gross admitted deferred tax assets. The Department's permission to utilize this permitted practice expires on January 1, 2014. This permitted practice had no effect on either results of operations for the period from July 17, 2012 through December 31, 2012 or statutory surplus as of December 31, 2012.

As noted above, Build America was capitalized on July 17, 2012 and therefore comparative balances are not presented. Throughout these notes to statutory financial statements, the period of July 17, 2012 (date of capitalization) through December 31, 2012, is referred to as the "period ended December 31, 2012".

Summary of Significant Accounting Policies

Invested Assets

Investments in long-term bonds with an NAIC designation of 1 or 2 that are not backed by loans are reported at amortized cost; amortized cost is computed using the effective interest method. Bonds with an NAIC designation of 3 through 6 are carried at the lower of amortized cost or fair value. For bonds purchased at a price below par value, discounts are accreted over the remaining term of the bond. For bonds purchased at a price above par value, premiums are amortized to the call date that produces the lowest yield, or, if there are no call features, premiums are amortized over the remaining term of the bond.

Loan-backed securities with an NAIC designation of 1 or 2 are reported at amortized cost. Loan-backed securities with an NAIC designation of 3 through 6 are carried at the lower of amortized cost or fair value. Changes in estimated cash flows, including the effect of prepayment assumptions, on loan-backed securities are reviewed periodically. Prepayment assumptions are applied consistently to securities backed by similar collateral. Loan-backed securities are revalued using the estimated cash flows, including new prepayment assumptions, using the retrospective adjustment method. If there is an increase in expected cash flows, the Company will recalculate the amount of accretable yield. If there is a decrease in expected cash flows or if the fair value of the loan-backed security has declined below its amortized cost basis, the Company determines whether an other-than-temporary-impairment ("OTTI") has occurred.

As of December 31, 2012, the Company did not hold any bonds with NAIC designations 3 through 6.

Build America Mutual Assurance Company

Notes to Statutory Financial Statements, continued

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

For loan-backed securities for which the fair value has declined below its amortized cost basis and the Company either: (i) has the intent to sell the security, or (ii) does not have the intent or ability to hold security for a period of time sufficient to recover the amortized cost basis, an OTTI shall have occurred. The amount of the OTTI recognized in earnings as a realized loss will equal the entire difference between security's amortized cost basis and its fair value at the balance sheet date.

When an OTTI has occurred because the Company does not expect to recover the entire amortized cost basis of the security, even if the Company has no intent to sell and the Company has the intent and ability to hold, the amount of the OTTI recognized in earnings as a realized loss shall be equal to the difference between the security's amortized cost basis and the present value of cash flows expected to be collected.

As of December 31, 2012, the Company had not recorded any OTTI. However, because OTTI is based on management's judgment and estimates, there can be no assurance that the Company will not record OTTI in future periods.

Short-term investments are stated at amortized cost.

Cash and cash equivalents are carried at cost, which approximates fair value, and consists of cash in depository accounts and short-term obligations of the U.S. government and its agencies with original maturities of less than 90 days.

Premiums

Up-front written premiums are earned on a basis proportionate to the remaining scheduled periodic maturity of principal and payment of interest to the original total principal and interest insured. Unearned premiums represent the portion of premiums written that relate to unexpired risk. When an issue insured by the Company has been refunded or called, the remaining unrecognized premium is earned at that time.

Premiums ceded to reinsurers reduce the amount of earned premium the Company recognizes from its insurance policies. Ceded premium is recognized in earnings in proportion to and at the same time the related gross premium revenue is recognized. Ceding commission income is recognized in earnings when due.

Expenses incurred in connection with the acquisition of new insurance business are charged to operations as incurred and are reduced for ceding commissions received or receivable.

Unpaid Loss and Loss Adjustment Expenses

The Company's financial guaranty insurance contracts provide an unconditional and irrevocable guarantee of the payment of the principal and interest of insured obligations when due.

Case basis loss reserves are established in an amount equal to the present value of management's estimate of future claim payments discounted using the average rate of return on admitted invested assets. Case basis loss reserves are established on a contract-by-contract basis when an insured event has occurred or an insured event is expected in the future based upon credit deterioration which has already occurred and has been identified. Subsequent changes to the measurement of loss reserves are recognized as losses incurred in the period of change.

Build America Mutual Assurance Company

Notes to Statutory Financial Statements, continued

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

The Company did not have any loss or loss adjustment expense reserves as of December 31, 2012. However, because the reserves are based on management's judgment and estimates, there can be no assurance that the Company will not incur loss or loss adjustment expenses in future periods.

Mandatory Contingency Reserve

The Company is required to establish a mandatory contingency reserve in accordance with NAIC SAP, NYSIL and the insurance laws of the states in which it is licensed. The mandatory contingency reserve is a liability established to protect policyholders against the effect of adverse economic developments or cycles or other unforeseen circumstances. Under NAIC SAP, financial guarantors are required to establish a contingency reserve equal to the greater of 50% of premiums written or a stated percentage of the principal guaranteed based on the category of obligation insured. Contributions under NAIC SAP are made in equal quarterly installments over a period of 20 years for municipal bonds. Such contributions may be discontinued if the total reserve established for all categories exceeds the sum of the prescribed percentages multiplied by the unpaid principal balance. Certain states in which Build America is licensed may require contingency reserves greater than the amount required by NAIC SAP or NYSIL. Accordingly, the Company calculates contingency reserves using the requirements of each state in which it is licensed and records a contingency reserve equal to the greatest result. Contingency reserves must be maintained for the period specified above, except that the guarantor may be permitted to release reserves under specified circumstances in the event that actual loss experience exceeds certain thresholds or if the reserve accumulated is deemed excessive in relation to the Company's outstanding guaranteed obligations, with approval by the Department.

The NAIC SAP mandatory contingency reserve may be released on a first-in, first-out basis through unassigned surplus in the following circumstances:

- In any year where incurred losses exceed 35% of the corresponding earned premiums, with the Department's approval;
- If the reserve has been in existence less than 40 quarters, upon demonstration that the amount is excessive in relation to the outstanding obligations under the Company's financial guarantees, with the Department's approval;
- If the reserve has been in existence more than 40 quarters, upon demonstration that the amount is excessive in relation to the outstanding obligations under the Company's financial guarantees, upon 30 days prior written notice to the Department.

Reinsurance Ceded

Premiums earned and losses and loss adjustment expenses incurred are reported net of ceded reinsurance. Estimated amounts recoverable on unpaid losses and loss adjustment expenses are determined based on the Company's estimate of losses and loss adjustment expenses and the terms and conditions of the Reinsurance Agreement. As of December 31, 2012, there were no reinsurance recoverables on unpaid losses.

Reinsurance contracts that have a more than remote probability of significant variations in the amount and timing of net cash flows are generally considered to transfer risk from the cedant to the reinsurer; these contracts are accounted for using reinsurance accounting. Reinsurance contracts that do not meet these criteria are deemed to not transfer risk from the cedant to the

Build America Mutual Assurance Company

Notes to Statutory Financial Statements, continued

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

reinsurer, and are accounted for as deposits. As of December 31, 2012, the Company did not have any reinsurance contracts that were accounted for as deposits.

Non-admitted Assets

The assets included in the accompanying statutory statement of admitted assets, liabilities and capital and surplus are stated at amounts consistent with valuation methodologies prescribed by NAIC SAP. Assets designated as non-admitted are charged directly to unassigned surplus. Non-admitted assets consist principally of furniture and equipment, non-operating software and prepaid expenses. Non-admitted assets as of December 31, 2012 were \$1,380,718.

Income Taxes

Federal income taxes are recorded as an expense when payable. Deferred federal income taxes are provided for differences between the NAIC SAP financial statement amounts and the tax bases of assets and liabilities, subject to various limitations. Gross deferred tax assets are reduced by a valuation allowance if it is more-likely-than-not that some portion or all of the gross deferred tax assets will not be realized. The Company admits gross deferred tax assets, subject to certain capital requirements, to the sum of: (i) federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse during a timeframe corresponding with Internal Revenue Service tax loss carryback provisions, not to exceed three years, and (ii) the lesser of: (a) the amount of adjusted gross deferred tax assets expected to be realized within three years of the balance sheet date, or (b) fifteen percent of statutory capital and surplus as required to be shown on the statutory balance sheet of the Company for its current statement, adjusted to exclude any net deferred tax assets, electronic data processing equipment, operating system software and any net positive goodwill, and (iii) the amount of adjusted gross deferred tax assets that can offset against existing gross deferred tax liabilities. The admissibility of gross deferred tax assets included in item (ii) above are subject to the realization threshold limits prescribed in the Statement of Statutory Accounting Principles No. 101, *Income Taxes – A Replacement of SSAP No. 10R and SSAP No. 10* (“SSAP 101”). Changes in net admissible deferred tax assets are charged or credited directly to unassigned surplus.

Surplus Notes

Surplus notes are reported as surplus on the Company’s statutory statement of admitted assets, liabilities and capital and surplus. Surplus note interest payments are reported as a reduction in investment income when approved by the Department. Accordingly, unapproved interest is not reported as a reduction in investment income and is not reported as a liability in the statutory statement of admitted assets, liabilities and capital and surplus.

Property and Equipment

Build America’s written policy with respect to the capitalization of prepaid expenses, electronic data processing equipment, software, furniture, fixtures, other equipment and/or leasehold improvements is that purchases of less than ten thousand dollars are not capitalized and are expensed when purchased.

Build America Mutual Assurance Company

Notes to Statutory Financial Statements, continued

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

Purchases meeting the capitalization threshold that provide probable future economic benefits to the Company are capitalized. Expense for the amortization of capitalized assets are recognized over the estimated useful lives of the assets as follows:

<u>Class of Asset</u>	<u>Estimated Useful Life</u>
Personal computers	3 years
Electronic data processing equipment	3 years
Software - operating	3 years
Software - non-operating	5 years
Office equipment	5 years
Furniture and fixtures	10 years
Leasehold improvements ¹	10 years

¹ The estimated useful life of leasehold improvements is the lesser of 10 years or the remaining term on the lease for the location of the improvements.

Use of Estimates

The preparation of the statutory financial statements requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ materially from these estimates. The significant estimates used in the preparation of the Company's statutory financial statements, and therefore considered to be critical accounting estimates, include, but are not limited to, unpaid loss and loss adjustment expenses, the valuation of investments and the recoverability of deferred tax assets. In addition, estimates are used to evaluate risk transfer for ceded reinsurance transactions. Results of changes in estimates are generally reflected in results of operations in the period in which the change is made.

Recent Accounting Pronouncements

The NAIC adopted Statement of Statutory Accounting Principles No. 92, *Accounting for Postretirement Benefits Other Than Pensions* ("SSAP 92") and Statement of Statutory Accounting Principles No. 102, *Accounting for Pensions* ("SSAP 102") in March 2012. The effective date of adoption is January 1, 2013, with early adoption permitted. SSAP 92 and SSAP 102 supersede Statement of Statutory Accounting Principles No. 14, *Postretirement Benefits Other Than Pensions* and Statement of Statutory Accounting Principles No. 89, *Accounting for Pensions, A Replacement of SSAP No. 8*. SSAP 92 and SSAP 102 adopt with modification Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FAS 87, 88, 106, and 132(R)* ("SFAS 158"). The primary focus of SFAS 158 and SSAP 92 and SSAP 102 is to recognize the funded status of a defined benefit plan in the balance sheet. This is a change from previous guidance as entities recognized assets or liabilities that differed from the postretirement plans' overfunded or underfunded status. The transition options allow for recognition of the surplus impact over a period not to exceed 10 years, although the surplus impact as of January 1, 2013 must meet certain minimum amounts. The Company does not participate in or sponsor postretirement plans subject to the guidance in SSAP 92 or SSAP 102 and does not expect a material impact to the results of operations or capital and surplus upon adoption.

Build America Mutual Assurance Company

Notes to Statutory Financial Statements, continued

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

Differences from Generally Accepted Accounting Principles in the United States of America

NAIC SAP varies from generally accepted accounting principles in the United States of America ("US GAAP"). The effects on the financial statements of the variances between NAIC SAP and US GAAP, although not reasonably determinable, are presumed to be material. The more significant differences are:

- Under US GAAP, investments are reported at fair value. Unrealized holding gains and losses are included in income. Under NAIC SAP, investment grade bonds are reported at amortized cost and non-investment grade bonds are carried at the lower of amortized cost or fair value. Unrealized holding gains and losses on equity securities and unrealized losses on non-investment grade bonds are recorded as a direct credit or charge to unassigned surplus;
- Under US GAAP, premiums for financial guaranty insurance contracts are earned using a constant yield method based on the insured principal amount outstanding, while under NAIC SAP, upfront premiums written for financial guaranty insurance contracts are earned on a basis proportionate to the remaining scheduled periodic maturity of principal and payment of interest to the original total principal and interest insured;
- Under US GAAP, policy acquisition costs and commissions are deferred and amortized or accreted as the related premium is earned, while under NAIC SAP policy acquisition costs and commissions are included in operations as incurred or due only to the extent that the ceding commissions paid do not exceed the anticipated acquisition cost of the business ceded and if exceeded, a liability is established and amortized pro rata over the effective period;
- Under US GAAP, surplus notes are reported as liabilities, while under NAIC SAP, surplus notes are reported in a separate caption within surplus;
- Under US GAAP, interest on surplus notes is accrued as an expense and reported as a liability based on the contractual due dates of the surplus notes, while under NAIC SAP, interest on surplus notes is reported as an expense and reported as a liability when the Department approves payment;
- Under US GAAP, there is no concept of non-admitted assets and the Company uses judgment and estimates to determine if the carry value of assets has been impaired, while under NAIC SAP, assets designated as non-admitted assets such as deferred tax assets, furniture and equipment, prepaid expenses and receivable balances more than ninety days overdue are excluded from assets and charged to statutory unassigned surplus;
- Under US GAAP, unpaid losses and loss adjustment expenses are: (i) reported gross of amounts ceded to reinsurers, (ii) are reported net of related unearned premium reserves and (iii) are discounted at the risk-free rate, while under NAIC SAP such amounts are: (iv) reported net of amounts ceded to reinsurers, (v) are not reported net of related unearned premium reserves and (vi) are discounted at the rate of return on admitted invested assets;
- Under US GAAP, deferred taxes are reflected in the statement of operations, while under NAIC SAP the admissible deferred income tax assets and deferred tax liabilities and

Build America Mutual Assurance Company

Notes to Statutory Financial Statements, continued

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

charges in admissible net deferred tax balances are recorded directly to unassigned surplus;

- Under NAIC SAP, a liability for a mandatory contingency reserve is reported and charged directly to unassigned surplus, while no such liability is required under US GAAP; and
- Under NAIC SAP, a liability for unsecured reinsurance recoverables due from unauthorized reinsurers is recorded based on criteria established by the NAIC and charged directly to surplus, while under US GAAP the Company establishes an amount for uncollectible reinsurance recoverables based on the credit quality of the reinsurer and the Company's judgment.

2. Investments

The following are the carrying values of the Company's bonds and the related fair values as of December 31, 2012:

	Carry Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government	\$ 80,152,937	\$ 196,851	\$ (118,873)	\$ 80,230,915
Special revenue and special assessment obligations	112,588,069	313,233	(143,915)	112,757,387
Industrial and miscellaneous	274,344,509	870,268	(873,480)	274,341,297
Total bonds	<u>\$ 467,085,515</u>	<u>\$ 1,380,352</u>	<u>\$ (1,136,268)</u>	<u>\$ 467,329,599</u>

Build America Mutual Assurance Company

Notes to Statutory Financial Statements, continued

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

Fair values and unrealized losses on securities held as of December 31, 2012, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position were as follows:

	<u>Fair Value</u>	<u>Unrealized Loss</u>
<i>Less than twelve months</i>		
Bonds:		
U.S. government	\$ 23,499,505	\$ 118,873
Special revenue and special assessment obligations	31,076,690	143,915
Industrial and miscellaneous	144,473,140	873,480
Total bonds	<u>\$ 199,049,335</u>	<u>\$ 1,136,268</u>
 <i>Twelve months or more</i>		
Bonds:		
U.S. government	\$ -	\$ -
Special revenue and special assessment obligations	-	-
Industrial and miscellaneous	-	-
Total bonds	<u>\$ -</u>	<u>\$ -</u>
 <i>Total unrealized loss</i>		
Bonds:		
U.S. government	\$ 23,499,505	\$ 118,873
Special revenue and special assessment obligations	31,076,690	143,915
Industrial and miscellaneous	144,473,140	873,480
Total bonds	<u>\$ 199,049,335</u>	<u>\$ 1,136,268</u>

The Company routinely reviews its investments to determine whether unrealized losses represent temporary changes in fair value or are the result of an OTTI. The process of determining whether a security is other-than-temporarily impaired is subjective and involves analyzing many factors. These factors include but are not limited to the overall financial condition of the issuer, the length and magnitude of an unrealized loss, specific credit events, the collateral structure and credit support that may be applicable to mortgage-backed securities. The Company also considers its ability and intent to hold a security for a sufficient period of time for the value to recover the unrealized loss, which is based, in part, on current and anticipated future positive net cash flows from operations that generate sufficient liquidity in order to meet the Company's obligations. If it is determined that an unrealized loss on a security is other-than-temporary, the Company recognizes a realized capital loss in the statement of operations in the period the write down occurred. In the case of mortgage-backed securities, the security is written down to the greater of the present value of expected future cash flows or the fair value of the security. All other securities determined to have an OTTI are written down to fair value.

The Company did not record any OTTI for the period ended December 31, 2012.

Build America Mutual Assurance Company

Notes to Statutory Financial Statements, continued

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

The carrying values and the related fair market values of bonds as of December 31, 2012, by contractual maturity, are as follows:

	<u>Carrying Value</u>	<u>Fair Value</u>
One year or less	\$ 20,046,408	\$ 20,051,560
Over one year to five years	215,773,501	216,053,464
Over five years to ten years	129,934,244	129,740,210
Over ten years	-	-
Mortgage-backed securities	101,331,362	101,484,365
Total bonds	<u>\$ 467,085,515</u>	<u>\$ 467,329,599</u>

Net investment income for the period ended December 31, 2012 is summarized by invested asset class as follows:

	<u>Investment Income (Expense)</u>
Bonds	\$ 2,185,166
Cash, cash equivalents and short-term investments	17,993
Total investment income	\$ 2,203,159
Less: investment expenses	(363,050)
Net investment income	<u>\$ 1,840,109</u>

As of December 31, 2012, there were no amounts of accrued investment income non-admitted.

Net realized gains and losses by invested asset class for the period ended December 31, 2012 were comprised of the following:

	<u>Gross Realized Gains</u>	<u>Gross Realized Losses</u>	<u>Tax (Expense) Benefit</u>	<u>Net Realized Capital Gains (Losses)</u>
Bonds	\$ 106,574	\$ (340,681)	\$ -	\$ (234,107)
Cash, cash equivalents and short-term investments	15,063	-	-	\$ 15,063
Total	<u>\$ 121,637</u>	<u>\$ (340,681)</u>	<u>\$ -</u>	<u>\$ (219,044)</u>

Proceeds from sales of investments in bonds, excluding maturities and paydowns, during the period ended December 31, 2012 were \$264,793,326.

As of December 31, 2012, securities with a carrying value of \$3,015,819 were on deposit with various state and other regulatory authorities as required by law, assets with a carrying value of \$96,189 were held in trust to secure letters of credit and assets with a carrying value of \$50,000 were held by lessors to benefit the lease obligations of the Company.

3. Fair Value Measurements

The fair values of the Company's financial instruments are determined primarily through the use of observable inputs. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from external independent sources. Unobservable inputs reflect management's assumptions about what market participants' assumptions would be in pricing the asset or liability based on the best

Build America Mutual Assurance Company

Notes to Statutory Financial Statements, continued

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

information available. The Company classifies financial assets in the fair value hierarchy based on the lowest level input that is significant to the fair value measurement. This classification requires judgment in assessing the market and pricing methodologies for a particular security. The fair value hierarchy is comprised of the following three levels:

- Level 1: Valuations are based on unadjusted quoted prices in active markets for identical financial assets or liabilities;
- Level 2: Valuations of financial assets and liabilities are based on prices obtained from independent index providers, pricing vendors or broker-dealers using observable inputs; and
- Level 3: Valuations are based on unobservable inputs for assets and liabilities where there is little or no market activity. Management's assumptions and/or internal valuation pricing models are used to determine the fair value of financial assets or liabilities.

The Company did not carry any assets or liabilities at fair value as of December 31, 2012.

The following inputs, methods and assumptions were used to determine the fair value of each class of financial instrument for which it is practicable to estimate that value:

Bonds

The estimated fair values generally represent prices received from third party pricing services or alternative pricing sources. The pricing services prepare estimates of fair value measurements using their pricing applications, which include available relevant market information, benchmark curves, benchmarking of like securities and matrix pricing. The observable inputs used in the valuation of these securities may include the spread above the risk-free yield curve, reported trades, broker-dealer quotes, bids, prepayment speeds, delinquencies, loss severity and default rates. In cases where specific market quotes are unavailable, interpreting market data and estimating market values require considerable judgment by management. Accordingly, the estimates presented are not necessarily indicative of the amount the Company could realize in the market. In these cases, the fair value measurements are primarily classified as Level 2.

Cash and Short-Term Investments

The fair value of cash and short-term investments approximates its amortized cost. The fair value measurements were classified as Level 1.

Investment Income Due and Accrued

The fair value of investment income due and accrued approximates carrying value, and the fair value measurements were classified as Level 1.

Net Financial Guarantee Insurance Contracts

The fair value of net financial guarantee insurance contracts represents the Company's estimate of the cost to Build America to completely transfer its insurance obligations to another financial guarantor under current market conditions. Theoretically, this amount should be the same amount that another financial guarantor would hypothetically charge in the market place to provide the same protection as of the balance sheet date. The cost to transfer these insurance obligations is based on the carrying values of unearned premium reserves and member surplus

Build America Mutual Assurance Company

Notes to Statutory Financial Statements, continued

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

contributions, which are observable inputs, less estimated ceding commissions, which are not observable inputs. The Company has classified this fair value measurement as Level 3.

Surplus Notes

Surplus notes issued by the Company are not publicly traded and market quotes are not readily available. Accordingly, management utilized an internal pricing model that utilizes observable inputs to estimate the fair value of the Surplus Notes and unapproved accrued interest. The observable inputs used in the valuation of the Surplus Notes include yield curves for similar instruments. The internal pricing model does not consider the risk of non-performance by the Company in estimating the fair value of the Surplus Notes. The fair value measurement of the Surplus Notes is classified as Level 2.

The following table presents all financial assets and liabilities by fair value hierarchy as of December 31, 2012:

	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Financial Assets:					
Bonds	\$ 467,329,599	\$ 467,085,515	\$ -	\$ 467,329,599	\$ -
Cash, cash equivalents and short-term investments	21,092,329	21,092,329	21,092,329	-	-
Investment income due and accrued	2,818,446	2,818,446	2,818,446	-	-
Total Financial Assets	<u>\$ 491,240,374</u>	<u>\$ 490,996,290</u>	<u>\$ 23,910,775</u>	<u>\$ 467,329,599</u>	<u>\$ -</u>
Financial Liabilities:					
Net financial guaranty insurance contracts	\$ 225,568	\$ -	\$ -	\$ -	\$ 225,568
Total Financial Liabilities	<u>\$ 225,568</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 225,568</u>
Other Financial Instruments:					
Surplus Notes ¹	\$ 536,208,935	\$ -	\$ -	\$ 536,208,935	\$ -
Total Other Financial Instruments	<u>\$ 536,208,935</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 536,208,935</u>	<u>\$ -</u>

¹ The par outstanding on the surplus notes was \$503,000,000 at December 31, 2012

Build America Mutual Assurance Company

Notes to Statutory Financial Statements, continued

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

Transfers of assets and liabilities into or out of Level 3 are recorded at their fair values as of the end of each reporting period, consistent with the date of determination of fair value. During the period ended December 31, 2012, the Company did not transfer any assets or liabilities into or out of Level 3. The liability for net financial guaranty insurance contracts issued during the period ended December 31, 2012 had an estimated fair value of \$225,568. The transfers into or out of Level 3 were as follows for the period ended December 31, 2012:

	Net Financial Guaranty Insurance Contracts	Total
Beginning balance, July 16, 2012	\$ -	\$ -
Transfers into Level 3	-	-
Transfer out of Level 3	-	-
Total gains or losses:		
Included in net income	-	-
Included in surplus	-	-
Purchases	-	-
Issuances	225,568	225,568
Settlements	-	-
Sales, maturities and paydowns	-	-
Ending Balance, December 31, 2012	<u>\$ 225,568</u>	<u>\$ 225,568</u>

4. Income Taxes

The Company has no unrecognized deferred tax assets ("DTAs") or deferred tax liabilities ("DTLs").

The Company's permitted practice with respect to the recognition of deferred tax liabilities on MSC collected had no effect on either net income or surplus for the period ended December 31, 2012.

The components of net deferred tax assets ("DTAs") and deferred tax liabilities ("DTLs") as of December 31, 2012 are as follows:

	Ordinary	Capital	Total
Gross deferred tax assets	\$ 12,758,488	\$ 1,601	\$ 12,760,089
Less: valuation allowance adjustment	6,216,022	1,601	6,217,623
Subtotal - adjusted gross deferred tax assets	\$ 6,542,466	\$ -	\$ 6,542,466
Deferred tax assets non-admitted	-	-	-
Subtotal - net admitted deferred tax asset	\$ 6,542,466	\$ -	\$ 6,542,466
Deferred tax liabilities	6,542,466	-	6,542,466
Total - net admitted deferred tax asset	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Build America Mutual Assurance Company

Notes to Statutory Financial Statements, continued

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

The admission calculation for deferred tax assets admitted under each component of SSAP 101 paragraphs 11.a., 11.b., and 11.c. as of December 31, 2012 is as follows:

	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
SSAP 101 ¶11.a.:			
Federal income taxes paid in prior years recoverable through loss carrybacks	\$ -	\$ -	\$ -
SSAP 101 ¶11.b.:			
Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets SSAP 101 ¶11.a.) after application of the threshold limitation. The lesser of:			
Adjusted gross deferred tax assets expected to be realized following the balance sheet date	\$ -	\$ -	
Adjusted gross deferred tax assets allowed per limitation threshold	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
SSAP 101 ¶11.c.:			
Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from SSAP 101 ¶11.a. and ¶11.b.) that can be offset by gross deferred tax liabilities	<u>6,542,466</u>	<u>-</u>	<u>6,542,466</u>
Deferred tax assets admitted as a result of application of SSAP No. 101	<u>\$ 6,542,466</u>	<u>\$ -</u>	<u>\$ 6,542,466</u>

Build America Mutual Assurance Company

Notes to Statutory Financial Statements, continued

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

The amount of adjusted gross DTAs admitted under each component of SSAP 101 as of December 31, 2012 are as follows:

Deferred tax assets:

Ordinary:

Unearned premium reserve	\$	846
Compensation and benefit accruals		1,892,941
Net operating loss carryforward		10,130,680
Start-up costs		734,022
Subtotal - ordinary deferred tax assets	\$	12,758,489
Statutory valuation allowance		6,216,023
Nonadmitted ordinary deferred tax assets		-
Admitted ordinary deferred tax assets	\$	6,542,466

Capital:

Investments	\$	1,601
Subtotal - capital deferred tax assets	\$	1,601
Statutory valuation allowance		1,601
Nonadmitted capital deferred tax assets		-
Admitted capital deferred tax assets	\$	-

Deferred tax liabilities:

Ordinary:

Investments	\$	14,692
Fixed assets		16,915
Interest on surplus notes		6,429,652
Member surplus contribution		81,207
Ordinary deferred tax liabilities	\$	6,542,466
Net admitted deferred tax asset	\$	-

As of December 31, 2012, the Company has not implemented any tax planning strategies that would affect adjusted gross and net admitted DTAs.

For the period ended December 31, 2012, the Company generated a tax basis ordinary operating loss of \$28,949,373 and as of December 31, 2012 has an unused operating loss carryforward of the same amount available to offset against future taxable income. This unused tax basis loss will fully expire in 2032.

Build America Mutual Assurance Company

Notes to Statutory Financial Statements, continued

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

The differences between the expected federal income tax expense computed at the statutory federal rate of 35% and the actual federal income tax expenses for the period ended December 31, 2012 is as follows:

Statutory pre-tax income	\$ (18,158,377)
Provision computed at 35% statutory rate	\$ (6,355,432)
Increase in actual tax reported resulting from:	
Change in valuation allowance	6,217,623
Member surplus contribution	81,207
Non-deductible expenses for meals, entertainment and lobbying	56,602
Total income tax incurred	<u><u>\$ -</u></u>

5. Unpaid Losses and Loss Adjustment Expenses

Insured obligations are monitored periodically with the objective of identifying emerging trends, ensuring proper ratings for capital allocation and avoiding or minimizing losses.

As of December 31, 2012, all of Build America's insured obligations are "Fully Performing" and exhibit no indication that the status will change. The Company does not establish any case basis reserves for insured obligations that are "Fully Performing".

Should any of Build America's insured obligations exhibit weakness that could potentially lead to a rating of below investment grade, those obligations would be placed on Build America's "Watchlist" and would be monitored closely.

If the insured obligation requires "Distressed Credit Management", a team of Build America's professionals and, possibly, outside consultants or attorneys, would be engaged to work with the obligor to improve its financial situation and avoid or minimize losses to Build America.

If Build America determines that a loss on a Build America policy is expected and measurable, then Build America would establish a reserve for that policy. Build America's "Watchlist" will identify insured obligations for which a loss reserve has been established.

As of December 31, 2012, the Company did not have any loss or loss adjustment expense reserves.

6. Reinsurance

As discussed in Note 1 – Organization and Basis of Presentation, Build America is provided reinsurance protection by HG Re via the Reinsurance Agreement.

Build America Mutual Assurance Company

Notes to Statutory Financial Statements, continued

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

The following table summarizes reinsurance as of December 31, 2012:

	Premium Reserve	Commission Equity
Assumed:		
Affiliated	\$ -	\$ -
Non-affiliated	-	-
Total assumed	<u>\$ -</u>	<u>\$ -</u>
Ceded:		
Affiliated	\$ -	\$ -
Non-affiliated	(85,163)	(19,587)
Total ceded	<u>\$ (85,163)</u>	<u>\$ (19,587)</u>
Net:		
Affiliated	\$ -	\$ -
Non-affiliated	(85,163)	(19,587)
Total net	<u>\$ (85,163)</u>	<u>\$ (19,587)</u>

The Company's direct unearned premium reserve was \$109,323 as of December 31, 2012.

7. Insurance In Force

The insurance policies issued by Build America are unconditional and irrevocable guarantees of the payment of the principal and interest when due. The Company's insurance in force represents the aggregate amount of the insured principal on insured obligations, net of reinsurance.

The creditworthiness of each issuer of an insured obligation is evaluated prior to the issuance of insurance and must comply with Build America's underwriting guidelines. These guidelines are based on the aspects of credit quality that Build America deems important for each category of obligation. These include but are not limited to economic trends, financial management, viable tax and economic bases and estimated cash flows.

As discussed in Note 6 – Reinsurance, Build America is provided reinsurance protection via the Reinsurance Agreement.

As of December 31, 2012, insurance in force on insured obligations had a contractual maturity range of 10 to 20 years.

As of December 31, 2012, the geographic distribution of in force principal and interest on insured obligations, net of reinsurance, was as follows:

	Insurance In Force	Percentage of Insurance In Force
United States:		
Pennsylvania	\$ 24,943,926	80.9%
Texas	5,887,958	19.1%
Total	<u>\$ 30,831,884</u>	<u>100.0%</u>

Build America Mutual Assurance Company

Notes to Statutory Financial Statements, continued

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

As of December 31, 2012, the in force principal and interest on insured obligations, net of reinsurance, by type of bond was as follows:

	Insurance In Force	Percentage of Insurance In Force
Municipal Bonds:		
General obligation	\$ 24,943,926	80.9%
Utility	5,887,958	19.1%
Total	<u>\$ 30,831,884</u>	<u>100.0%</u>

For the period ended December 31, 2012, the premiums written and earned were as follows:

	Written Premium	Earned Premium
Direct	\$ 109,323	\$ -
Assumed	-	-
Gross	\$ 109,323	\$ -
Ceded	(85,163)	-
Net	<u>\$ 24,160</u>	<u>\$ -</u>

As of December 31, 2012, the Company had no contracts outstanding for which premiums are received in installments. The table below summarizes future scheduled, contractual earned premium revenue, net of reinsurance, on non-installment contracts in force as of December 31, 2012:

Three months ended:	
March 31, 2013	\$ -
June 30, 2013	274
September 30, 2013	-
December 31, 2013	247
Twelve months ended:	
December 31, 2014	760
December 31, 2015	775
December 31, 2016	826
December 31, 2017	972
Five years ended:	
December 31, 2022	6,634
December 31, 2027	4,610
December 31, 2032	9,062
Total	<u>\$ 24,160</u>

8. Capital and Surplus and Dividend Restrictions

Build America is a mutual insurance company domiciled in New York. NYSIL defines the scope of permitted financial guaranty insurance and governs the conduct of business of all financial guarantors licensed to do business in the State of New York, including Build America. NYSIL also establishes single risk and aggregate risk limits with respect to insured obligations insured by financial guaranty insurers. Single risk limits are specific to the type of insured obligation.

Build America Mutual Assurance Company

Notes to Statutory Financial Statements, continued

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

Under NYSIL, policyholders' surplus and contingency reserves must be equal to or greater than a percentage of aggregate net liability. The percentage of aggregate net liability is equal to the sum of various percentages of aggregate net liability for various categories of specified obligations. In addition, to the extent applicable, Build America must also comply with the single and aggregate risk limits established by the insurance laws in the other states and jurisdictions the Company is licensed.

As discussed in Note 1 – Organization and Basis of Presentation, the Surplus Notes were purchased by HG Holdings and HG Re.

Details regarding the Surplus Notes issued by the Company are as follows:

	<u>Series 2012-A</u>	<u>Series 2012-B</u>
Date issued	July 17, 2012	July 17, 2012
Date of maturity	April 1, 2042	April 1, 2042
Interest rate	8.0%	8.0%
Par value	\$ 203,000,000	\$ 300,000,000
Carrying value	\$ 203,000,000	\$ 300,000,000
Principal and interest paid:		
In current period	\$ -	\$ -
In total	\$ -	\$ -
Unapproved principal and interest	\$ 7,413,913	\$ 10,956,522

The Surplus Note agreement provides for quarterly interest payments commencing on December 1, 2012, upon: (i) the Company's request for authority to make payment and (ii) the Department's approval of that request. These conditions for the payment of interest due on the Surplus Notes allow for the deferral of interest without the occurrence of a default under the Surplus Note agreement. The Company did not request Department approval for the December 1, 2012 interest payment and does not anticipate requesting Department approval for the March 1, 2013 interest payment. No interest shall be accrued on deferred interest payments. The Surplus Notes are expressly subordinate and junior to the Company's policy obligations and all other liabilities other than distribution of assets to members. Because the Company is a mutual company, there is no liquidation preference for the insurer's common and preferred shareholders, as no such shares exist.

As funds become available to make interest and principal payments and subject to approval by the Department, payments will be made in the following order, satisfying each category of payment in full before beginning payments on the subsequent category: (i) the interest due and payable on the Series 2012-A Surplus Notes and the Series 2012-B Surplus Notes in pari passu, (ii) the outstanding principal of the Series 2012-A surplus notes, and (iii) the outstanding principal of the Series 2012-B Surplus Notes.

The Company may not make any payment of principal on the Series 2012-B Surplus Notes, or on any other debt subordinated to the Surplus Notes, until all interest due and all outstanding principal on the Series 2012-A Surplus Notes has been paid. In addition, the Company may not make any payment of principal on any debt subordinated to the Surplus Notes until all interest due and all outstanding principal on all of the Surplus Notes has been paid.

While the scheduled maturity date of the Surplus Notes is April 1, 2042, the Company has the option to pre-pay, in whole or in part, the principal amount of the Surplus Notes at par value prior to such date subject to Department approval and the conditions noted in the previous paragraph.

Build America Mutual Assurance Company

Notes to Statutory Financial Statements, continued

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

The payment of dividends by the Company is limited by applicable laws and regulatory requirements of the Department. Under NYSIL, the Board of Directors of Build America may, from time to time, fix and determine an amount to be declared and paid as a dividend, retaining a surplus as deemed necessary to meet outstanding policy obligations and for the maintenance of reserves and surplus. No dividend shall be declared or paid if Build America's minimum or other required surplus will be impaired. In declaring and paying any dividend, the board of directors may make reasonable classifications of policies, and shall declare and pay such dividend in a manner that is fair and equitable to the policyholders. Such classification shall be filed with the Department and shall not become effective unless approved as fair, equitable, not impracticable in operation and not unfairly discriminatory. Classifications approved by Department shall remain in effect until disapproved by the Department or withdrawn with the Department's approval by the Company.

Build America has committed to the Department that it will not pay dividends to members for the first two years of its operations without obtaining the Department's prior approval and has not paid any dividends as of December 31, 2012.

9. Information Concerning Related Party Transactions

Build America is a mutual financial guaranty company with no parent, subsidiary or affiliated entities.

Other than disclosed in Note 1 – Organization, Build America had no material related party transactions during the period ended December 31, 2012.

10. Retirement Plans and Deferred Compensation

The Company participates in a multiemployer defined contribution plan. All of Build America's employees are co-employed by Build America and a professional employer organization ("PEO"). Under this arrangement, the PEO is the employer of record; however, Build America directs the employees' day-to-day activities. Employees are eligible to participate in the PEO's defined contribution plan. Build America makes a matching contribution subject to limits set by the Internal Revenue Code. The Company provides a 100% match on employee contributions up to 3% of the employee's base pay and a 50% match on employee contributions up to an additional 2% of the employee's base pay. The total cost to the Company of the defined contribution plan was \$77,185 for the period ended December 31, 2012.

11. Contingencies and Commitments

Outstanding Commitments for Financial Guaranty

As of December 31, 2012, Build America had commitments to insure obligations with total principal and interest of \$4,231,969.

Litigation

In the normal course of operating a business, Build America may be involved in various legal proceedings. The Company is not currently aware of any pending or threatened material litigation or arbitration.

Build America Mutual Assurance Company

Notes to Statutory Financial Statements, continued

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

Lease Commitments

The Company leases office space in New York, New York and San Francisco, California under operating lease agreements that expire on December 30, 2015 and October 15, 2017, respectively. Rental expense for the period ended December 31, 2012 was \$239,001. The rental commitment for the New York, New York location has a cancellation option, which provides for the Company to cancel the lease beginning June 2014 but not later than March 31, 2015.

As of December 31, 2012, the minimum aggregate rental commitments are as follows:

Year ending:		
December 31, 2013	\$	698,044
December 31, 2014		412,369
December 31, 2015		177,271
December 31, 2016		179,883
Thereafter		143,408
Total	\$	<u>1,610,975</u>

12. Subsequent Events

Subsequent events have been considered through February 21, 2013, the date upon which the audited statutory financial statements were available to be issued.

In addition to the states in which it was licensed to issue financial guaranty contracts at December 31, 2012, as of February 21, 2013, Build America was licensed to issue financial guaranty contracts in California, Colorado, Connecticut, the District of Columbia, Hawaii, Louisiana, Maine, Massachusetts, Missouri, Nebraska, Nevada, New Hampshire, Ohio and Washington.

Build America Mutual Assurance Company

Schedule I – Summary Investment Schedule

At December 31, 2012

	Gross Investment Holdings		Admitted Assets			
	Amount	Percentage	Amount	Securities Lending Collateral Reinvested	Total Admitted Assets	Percentage
Bonds:						
US Treasury securities	\$ 35,078,000	7.2%	\$ 35,078,000	\$ -	\$ 35,078,000	7.2%
US government agency and corporate obligations (excluding mortgage-backed securities):						
Issued by US government-sponsored agencies	56,331,645	11.6%	56,331,645	-	56,331,645	11.6%
Mortgage-backed securities:						
Issued or guaranteed by GNMA	45,074,937	9.2%	45,074,937	-	45,074,937	9.2%
Issued or guaranteed by FNMA or FHLMC	56,256,425	11.5%	56,256,425	-	56,256,425	11.5%
Other debt and other fixed income securities:						
Unaffiliated domestic securities	274,344,508	56.2%	274,344,508	-	274,344,508	56.2%
Cash, cash equivalent and short-term investments	21,092,329	4.3%	21,092,329	-	21,092,329	4.3%
Total	\$ 488,177,844	100.0%	\$ 488,177,844	\$ -	\$ 488,177,844	100.0%

See accompanying independent auditors' report.

Build America Mutual Assurance Company

Schedule II – Supplemental Investment Risk Interrogatories

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

- 1 Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$ 491,173,909
 2 Ten largest exposures to a single issuer/borrower/investment.

	1	2	3	4
	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	Verizon Communications	Bonds	\$ 9,329,779	1.899%
2.02	Goldman Sachs Inc	Bonds	8,982,450	1.829%
2.03	Duke Energy	Bonds	7,122,157	1.450%
2.04	Anheuser-Busch Inbev	Bonds	6,968,572	1.419%
2.05	Metlife Inc	Bonds	6,793,116	1.383%
2.06	Merck & Co Inc	Bonds	6,778,003	1.380%
2.07	Praxair Inc	Bonds	5,726,643	1.166%
2.08	Massmutual Global Funding	Bonds	5,571,185	1.134%
2.09	AT&T Inc.	Bonds	5,297,497	1.079%
2.10	Oracle Corp	Bonds	5,184,978	1.056%

- 3 Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

		1	2
	Bonds	Amount	Percent
3.01	NAIC-1	\$ 472,165,669	96.130%
3.02	NAIC-2	-	0.000%
3.03	NAIC-3	-	0.000%
3.04	NAIC-4	-	0.000%
3.05	NAIC-5	-	0.000%
3.06	NAIC-6	-	0.000%

		3	4
	Preferred Stocks	Amount	Percent
3.07	P/RP-1	\$ -	0.000%
3.08	P/PR-2	-	0.000%
3.09	P/PR-3	-	0.000%
3.10	P/PR-4	-	0.000%
3.11	P/PR-5	-	0.000%
3.12	P/PR-6	-	0.000%

- 4 Assets held in foreign investments:

- 4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 4.01 above is yes, responses are not required for interrogatories 5 - 10

		1	2
		Amount	Percent
4.02	Total admitted assets held in foreign investments	\$ -	0.000%
4.03	Foreign-currency-denominated investments	-	0.000%
4.04	Insurance liabilities denominated in that same foreign currency	-	0.000%

- 11 Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments exposure and unhedged Canadian currency.

- 11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 11.01 above is yes, responses are not required for the remainder of Interrogatory 11.

- 12 Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions

- 12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 12.01 above is yes, responses are not required for the remainder of Interrogatory 12.

- 13 Amounts and percentages of admitted assets held in the ten largest equity interests:

- 13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

- 14 Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

- 14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

- 15 Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

- 15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

Build America Mutual Assurance Company
Schedule II – Supplemental Investment Risk Interrogatories (continued)
For the period from July 17, 2012 (date of capitalization) through December 31, 2012

16 Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:
 16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

18 Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:
 18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

19 Amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:
 19.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []
 If response to 19.01 above is yes, responses are not required for the remainder of Interrogatory 19.

20 Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

Description	At Year-End		Amount at End of Each Quarter		
	Amount 1	Percent 2	1st Qtr 3	2nd Qtr 4	3rd Qtr 5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	\$ -	0.000%	\$ -	\$ -	\$ -
20.02 Repurchase agreements	-	0.000%	-	-	-
20.03 Reverse repurchase agreements	-	0.000%	-	-	-
20.04 Dollar repurchase agreements	-	0.000%	-	-	-
20.05 Dollar reverse repurchase agreements	-	0.000%	-	-	-

21 Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps and floors:

Description	Owned		Written	
	Amount 1	Percent 2	Amount 3	Percent 4
21.01 Hedging	\$ -	0.000%	\$ -	0.000%
21.02 Income generation	-	0.000%	-	0.000%
21.03 Other	-	0.000%	-	0.000%

22 Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps and forwards:

Description	At Year-End		Amount at End of Each Quarter		
	Amount 1	Percent 2	1st Qtr 3	2nd Qtr 4	3rd Qtr 5
22.01 Hedging	\$ -	0.000%	\$ -	\$ -	\$ -
22.02 Income generation	-	0.000%	-	-	-
22.03 Replications	-	0.000%	-	-	-
22.04 Other	-	0.000%	-	-	-

23 Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

Description	At Year-End		Amount at End of Each Quarter		
	Amount 1	Percent 2	1st Qtr 3	2nd Qtr 4	3rd Qtr 5
23.01 Hedging	\$ -	0.000%	\$ -	\$ -	\$ -
23.02 Income generation	-	0.000%	-	-	-
23.03 Replications	-	0.000%	-	-	-
23.04 Other	-	0.000%	-	-	-

See accompanying independent auditors' report.

Build America Mutual Assurance Company

Schedule III – Reinsurance Summary Supplement

For the period from July 17, 2012 (date of capitalization) through December 31, 2012

1. The Company has no quota share reinsurance contracts in force that include a provision that would limit the reinsurer's losses below the stated quota share percentage.
2. The Company has not ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement:
 - it recorded a positive or negative underwriting result greater than five-percent (5%) of prior year end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than five-percent (5%) of prior year-end surplus as regards policyholders;
 - it accounted for that contract as reinsurance and not as a deposit; and
 - the contract(s) contain one or more of the following features or other features that would have similar results:
 - a contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
 - a limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
 - aggregate stop loss reinsurance coverage;
 - an unconditional or unilateral right by either party to commute the reinsurance contract except for such provisions which are only triggered by a decline in the credit status of the other party;
 - a provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
 - payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.
3. The Company does not have reinsurance agreements wherein the positive or negative underwriting result represents five percent (5%) or more of prior year-end surplus as regards policyholders or its reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than five percent (5%) of prior year-end surplus as regards policyholders where:
 - the written premium ceded to the reinsurer by the Company represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
 - twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the Company or its affiliates in separate reinsurance contract.
4. The Company has not ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:
 - accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or
 - accounted for that contract as reinsurance under GAAP and as a deposit under SAP.

See accompanying independent auditors' report.