

REPORT ON ORGANIZATION

OF THE

BUILD AMERICA MUTUAL ASSURANCE COMPANY

AS OF

JULY 18, 2012

DATE OF REPORT

JULY 18, 2012

EXAMINER

BERNARD LOTT

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawskey
Superintendent

July 18, 2012

Honorable Benjamin M. Lawskey
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30865 dated July 16, 2012 attached hereto, I have made an examination on organization of Build America Mutual Assurance Company as of July 18, 2012, and submit the following report thereon.

Wherever the designation “the Company” or “BAM” appears herein without qualification, it should be understood to indicate Build America Mutual Assurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York Department of Financial Services.

The examination was conducted at the Company’s office, located at 1345 Avenue of the Americas, New York, New York 10105.

1. SCOPE OF EXAMINATION

The examination comprised a complete verification of the receipt of capital and surplus funds and the determination of the Company's assets and liabilities. The records examined were the Declaration of Intention and Charter, the By-Laws, the Certificate of Incorporation, the corporate minutes, and custodial and any other agreements entered into between BAM and HG Re Ltd. or its affiliates as of the examination date. In addition, an affidavit, appended hereto, was obtained from two officers of the Company indicating that the transactions noted in this report were lawful and bona fide.

2. INCORPORATION

Build America Mutual Assurance Company was incorporated under the laws of the State of New York on March 16, 2012. The Department approved the Company's Declaration of Intention and Charter on the same date.

As of the examination date, the Company's board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Raymond Barrette Hanover, NH	Chairman and Chief Executive Officer, White Mountains Insurance Group, Ltd.
Robert Phillips Cochran New York, NY	Managing Director and Secretary, Build America Mutual Assurance Company
Seán Wallace McCarthy New York, NY	Managing Director and President, Build America Mutual Assurance Company
Richard Ravitch New York, NY	Attorney
Edward Gene Rendell Philadelphia, PA	Consultant
Robert Albert Vanosky Rancho Santa Fe, CA	Retired
Allan Lewis Waters Hanover, NH	President and Chief Executive Officer, Sirius International Insurance Group Ltd.

As of July 18, 2012, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Robert Phillips Cochran	Managing Director and Secretary
Elizabeth Ann Keys	Chief Financial Officer and Treasurer
Laura Levenstein	Chief Risk Officer
Seán Wallace McCarthy	Managing Director and President

3. **CAPITALIZATION AND SUBSCRIPTION**

The Company's contributed surplus of \$503,000,000 was funded with the issuance and sale of surplus notes of \$203,000,000 and \$300,000,000 to HG Holdings Ltd., a Bermuda holding company, and HG Re Ltd., a Bermuda-domiciled reinsurance company, respectively. HG Re Ltd. is a wholly-owned subsidiary of HG Holdings Ltd. The sale was completed on July 17, 2012.

In order to fulfill the deposit requirements of Section 4104 of the New York Insurance Law, the Company has placed securities with a par and market value totaling \$500,000 in an account in the name of the "Superintendent of Department of Financial Services of the State of New York in Trust for the security of all policyholders of Build America Mutual Assurance Company within the United States, its territories and possessions." The custodian is The Bank of New York Mellon, located at 500 Grant Street, Pittsburgh, PA 15258 and the securities are held pursuant to a custodian agreement that conforms to the provisions of Section 1314 of the New York Insurance Law.

4. **BALANCE SHEET**

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of July 18, 2012, and as reported by the Company:

Assets

Bonds		\$80,392,666
Cash		422,493,053
Investment income due and accrued		<u>115,450</u>
Total admitted assets		<u>\$503,001,169</u>

Liabilities

Accounts payable		<u>\$2,995,176</u>
Total liabilities		\$2,995,176

Capital and Surplus

Surplus notes	\$503,000,000	
Unassigned funds (surplus)	<u>(2,994,007)</u>	
Total surplus as regards policyholders		<u>500,005,993</u>
Total liabilities and surplus as regards policyholders		<u>\$503,001,169</u>

5. AUTHORIZATION POWERS AND MINIMUM CAPITAL REQUIRED

Pursuant to its Declaration of Intention and Charter, the Company is authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
16 (C,D,E,F,G,H and I)	Surety
25	Financial guaranty

The Company's license will include all of the foregoing kinds of insurance. Pursuant to the provisions of Articles 41 and 69 of the New York Insurance Law, in order to be licensed to write non-assessable policies for the foregoing kinds of insurance, the Company shall have an initial surplus to policyholders in the amount of at least \$76,500,000 and shall thereafter maintain a minimum surplus to policyholders in the amount of \$66,000,000. However, based on BAM's filed "Plan of Operation" and pursuant to a Department directive, the Company will need to have at least \$500 million in capital in its custodial account.

Pursuant to the provisions of Section 1102(e)(1)(B)(ii) of the New York Insurance Law, in order for the superintendent to issue a license to the Company, it must have the amount of its required minimum initial surplus to policyholders on deposit in either cash or investments qualifying as minimum surplus investments pursuant to Section 1402 of the New York Insurance Law; such investments consist of:

- (1) Obligations of the United States or of any agency thereof provided such agency obligations are guaranteed as to principal and interest by the United States.
- (2) Direct obligations of this state or of any county, district or municipality thereof.
- (3) Direct obligations of any state of the United States.
- (4) Obligations secured by first mortgage loans which meet the standards specified in paragraph four of subsection (a) of section one thousand four hundred four of this article on property located in this state.

The Company has met these requirements.

6. HOLDING COMPANY SYSTEM

As a mutual insurer, BAM is not a member of a holding company. However, in light of the fact that the Company's business plan is strongly aligned and intertwined with HG Holdings Ltd. and HG Re Ltd., BAM has agreed to submit to this Department any agreements with or between any entities within the HG Holdings Ltd. group of affiliated entities or with any "controlling person" (as defined in Section 1501 of the New York Insurance Law) of HG Holdings Ltd. The effect of this agreement operates as if BAM, HG Holdings Ltd. and its affiliated entities, and the controlling persons of HG Holdings Ltd. were subject to Article 15 of the New York Insurance Law. Accordingly, the Company provided the following agreements with HG Holdings Ltd. and HG Re Ltd.:

- 1) First Loss Reinsurance Treaty Agreement.
- 2) Framework Agreement.
- 3) Regulation 114 Trust Agreement.
- 4) Supplemental Trust Agreement.
- 5) Surplus Note Purchase Agreement

7. CONCLUSION

Based on the foregoing examination, it is concluded that the Company issued and sold two surplus notes pursuant to Section 1307 of the New York Insurance Law totaling \$503,000,000. These notes represent the Company's initial contributed surplus.

Respectfully submitted,

/S/

Bernard Lott
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

BERNARD LOTT, being duly sworn, deposes and says that the foregoing report, subscribed to by him, is true to the best of his knowledge and belief.

/S/

Bernard Lott

Subscribed and sworn to before me

this _____ day of _____, 2012.