EXAMINATION REPORT
of
BUILDING INDUSTRY INSURANCE ASSOCIATION, INC.
Chesapeake, Virginia
as of
December 31, 2013

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Building Industry Insurance Association as of December 31, 2013, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed to the original the seal of the Bureau at the City of Richmond, Virginia this 16th day of June, 2015

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
May 12, 2015

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by authority of § 38.2-1317 of the Code of Virginia, a financial condition examination of the records and affairs of the

BUILDING INDUSTRY INSURANCE ASSOCIATION, INC.

Chesapeake, Virginia,

hereinafter referred to as the Association, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Association is a stock property and casualty insurer and is licensed under and subject to the general insurance laws contained in Title 38.2 of the Code of Virginia. The Association was last examined by representatives of the State Corporation Commission Bureau of Insurance (Bureau) as of December 31, 2009. This examination covers the period from December 1, 2010 through December 31, 2013.

HISTORY

The Association was incorporated on November 13, 2007 and licensed in Virginia on November 30, 2007. On the same date, Mid-Atlantic Insurance Corporation, a home protection company, merged with the Association. The Association commenced business on December 1, 2007. As part of the initial capitalization, the Association's parent company, Tidewater Builders Association (TBA), infused $2,000,000 in cash, which increased the Association's capital stock from $260,000 to $1,000,000 and the paid in surplus from $390,000 to $1,650,000.

On January 7, 2009, Builders Insurance Association, Inc. (BIAI), a risk retention group domiciled in South Carolina, merged with the Association. On September 21, 2009, Insurance Services Agency, Inc., a non-insurer wholly owned by TBA, was merged into the Association. On October 21, 2009, Building Insurance Association, Inc. (BIA), a Virginia group self-insurance association, was merged into the Association.

On January 31, 2012, the Association entered into an Agreement Regarding Advance of Funds with TBA. Pursuant to this agreement, the Association transferred $800,000 to TBA. The Association entered into the agreement and made the $800,000 transfer without obtaining the necessary prior written approval as required by Code of Virginia § 38-2-1331 A. The Association made an offer of settlement to the State Corporation Commission in the amount of $5,000 and waived its right to a hearing and agreed to the entry of a cease and desist order forbidding any further violation of § 38.2-1331 A. The Association's offer was accepted and full payment was made on March 2, 2012.

On March 8, 2013, the Association was acquired from TBA by Altorva Inc. (Altorva), a Virginia corporation. Altorva acquired all of the outstanding shares of the Company for $2,500,000. Altorva authorized 1,000 shares of capital stock. The Company issued 500 shares of common stock with no par value. In addition, Altorva made a capital contribution of $1,300,000 in February 2014.

MANAGEMENT AND CONTROL

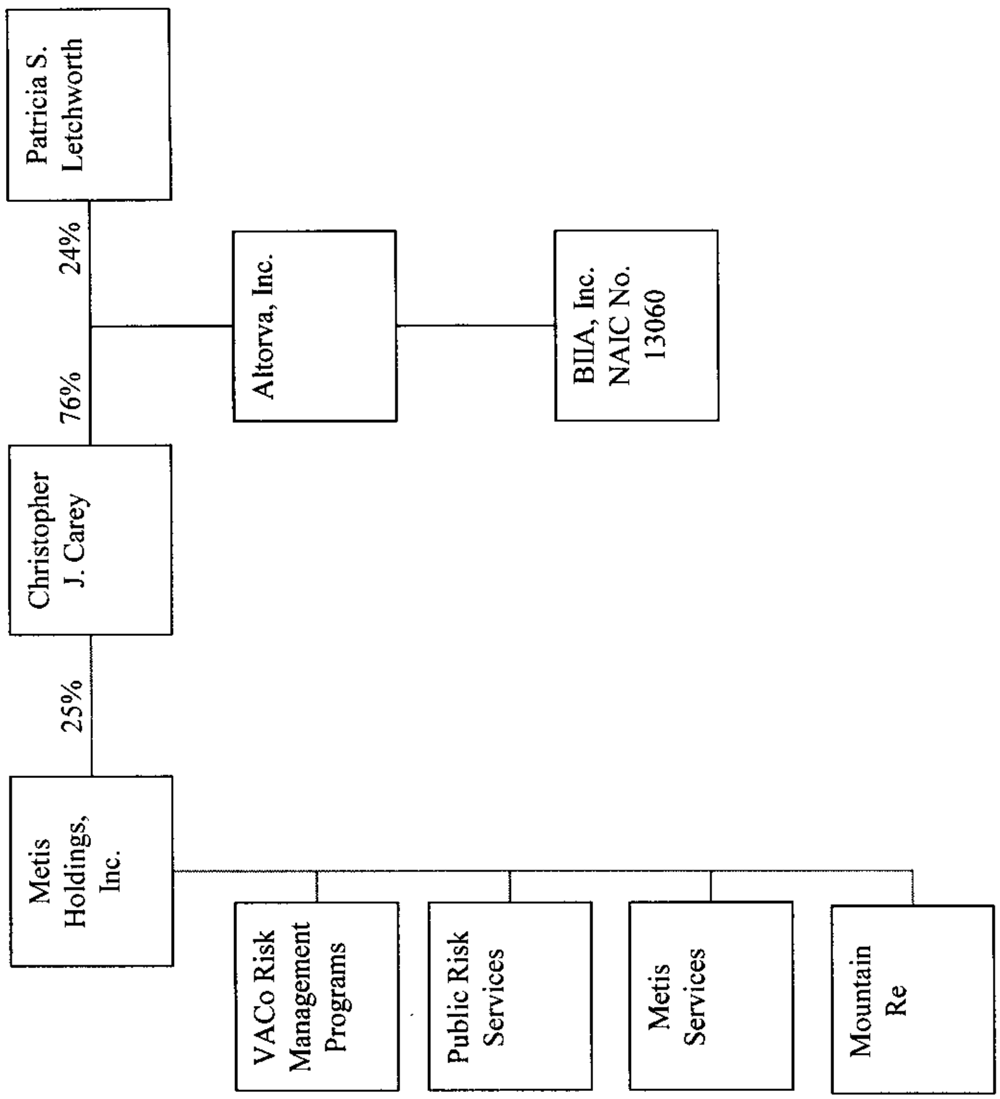
The bylaws provide that management be vested in a board of directors consisting of not more than nine members. Directors need not be shareholders of the Association. At any meeting, a majority of the members of the board constitutes a quorum for the transaction of business.

The bylaws further provide that officers of the Association shall be a president, one or more vice presidents, a secretary and a treasurer. Directors and officers of the Association as of December 31, 2013, were as follows:

Directors	Principal Occupation
Christopher J. Carey	President of the Association Roanoke, Virginia
Patricia S. Letchworth	Vice President and Chief Operating Officer of the Association Chesapeake, Virginia

Officers	
Christopher J. Carey	President
Patricia S. Letchworth	Vice President and Chief Operating Officer
Vacant	Secretary
Vacant	Treasurer

All of the Association's outstanding shares are held by Altorva. The following chart shows the Association's relationship to its parent:


Patricia S. Letchworth
24%
76%
Christopher J. Carey
Altorva, Inc.
BIIA, Inc. NAIC No. 13060
25%
Metis Holdings, Inc.
VACo Risk Management Programs
Public Risk Services
Metis Services
Mountain Re

RELATED PARTY TRANSACTIONS

Management Agreements

The Association entered into a management agreement with Altorva on March 8, 2013. Pursuant to this agreement, Altorva provides to the Association transaction, advisory, insurance, financial, management, consulting, and administrative services. The Association agrees to pay to Altorva a base fee of $450,000 per year for services rendered. In addition, the Association shall pay to Altorva other expenses as determined by the Agreement. During 2013, approximately $375,000 of expenses were incurred under this agreement. This agreement will be in effect for an initial term of five years and will be renewed automatically thereafter.

The Association entered into an administrative and other services agreement with Metis Risk Services, Inc. (Metis), an affiliate of Altorva, on March 8, 2013. Pursuant to this agreement, Metis provides claim servicing, bill review services and other administrative services to the Association. The Association paid service fees of approximately $355,000 to Metis during 2013. The initial term of this agreement expires January 31, 2018, and shall be renewed for successive three year periods thereafter.

OFFICERS AND EMPLOYEES' WELFARE AND PENSION PLANS

Substantially all employees of the Association are covered by a defined contribution 401(k) plan. Contributions to the retirement plan are discretionary and the Association elected to not contribute to the plan years ending December 31, 2010, 2011, 2012 and 2013. Participants may make voluntary contributions to the plan up to 15% of their compensation.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2013, the Association was listed as a named insured on a $500,000 fidelity bond, subject to a $1,000 deductible. The Association also had directors and officers coverage of $1,000,000 in the aggregate each policy year. This coverage is subject to a $25,000 retention on each claim. The Association is also a named insured under commercial property, commercial general liability, commercial umbrella, workers compensation and employers liability, and business auto policies as of December 31, 2013.

TERRITORY AND PLAN OF OPERATION

The Association confines its operations to insuring Virginia domiciled companies where it is licensed as a property and casualty insurer under Chapter 10 of Title 38.2 of the Code of Virginia. As of December 31, 2013, the Association is licensed to write the following lines of business:

Auto Liability	Home Protection
Auto Physical Damage	Inland Marine
Boiler & Machinery	Liability Other Than Automobile
Burglary & Theft	Miscellaneous Property & Casualty
Commercial Multi-Peril	Ocean Marine
Fidelity	Surety
Fire	Workers Compensation and Employers Liability
Glass	

The Association currently issues workers compensation and employers liability and general liability policies only. The Association ceased writing new home protection policies on October 15, 2009. During 2012, the Association entered into a loss portfolio transfer agreement with Bankers Insurance Company (Bankers) where Bankers agreed to assume all claim liabilities relating to the Association's home warranty line of coverage. This resulted in a $762,164 net income effect and was reported in the 2012 Annual Statement.

General Liability policy rules, forms and loss costs are filed by ISO on behalf of the Association. Loss Cost Factors and exceptions to rules and forms are filed by the Association and approved by the Bureau. The Association charges a minimum policy premium of $1,500 which includes a policy fee of $150 charged to all policies.

Likewise, forms and loss costs for workers compensation & employers liability are filed by NCCI on behalf of the Association and loss cost factors and exceptions to rules and forms are filed by BIIA and approved by the Bureau. The Association charges an expense constant of $240 and a minimum premium of $990 inclusive of the expense constant.

GROWTH OF THE ASSOCIATION

The following data, obtained from Annual Statements filed with the Bureau and from examination reports, indicates the growth of the Association since its inception through December 31, 2013:

Year	Admitted Assets	Liabilities	Capital Paid Up	Gross Paid In and Contributed Surplus	Unassigned Funds (Surplus)
2007	$9,146,537	$4,246,891	$1,000,000	$1,650,000	$2,249,646
2008*	19,929,926	13,152,965	1,000,000	2,150,000	3,626,961
2009	18,203,232	9,059,063	1,000,000	7,666,449	477,720
2010	15,996,594	9,115,467	1,000,000	6,410,700	(529,573)
2011	13,852,090	8,206,727	1,000,000	6,410,700	(1,765,337)
2012	14,433,784	12,211,684	1,000,000	6,406,091	(5,183,991)
2013	18,280,071	16,665,880	1,000,000	7,714,160	(7,099,969)

Year	Premiums Earned	Loss and Loss Adjustment Expenses Incurred	Other Underwriting Expenses	Net Underwriting Gains or (Loss)
2007	$674,554	$140,972	$495,276	$38,306
2008*	4,605,324	2,549,171	2,713,723	(657,570)
2009	4,041,704	725,419	1,449,339	1,866,946
2010	3,377,606	3,080,601	2,274,501	(1,977,496)
2011	3,322,123	2,151,896	2,277,554	(1,107,327)
2012	4,962,305	6,382,750	3,344,998	(4,765,443)
2013	7,016,255	8,034,930	3,923,314	(4,941,989)

*As a result of the merger of BIA into the Association, the 2009 Annual Statement prior year columns for 2008 were adjusted to include the merged amounts.

REINSURANCE

At December 31, 2013, the Association had the following reinsurance coverage in force:

Type of Agreement	Line of Business	Association's Retention	Reinsurers' Limits
Excess of Loss	Workers Compensation and Employers' Liability	First Layer: $1,000,000 each and every loss occurrence	$1,000,000 excess of $1,000,000 each and every loss occurrence; maximum any one life is $10,000,000
		Second Layer: $2,000,000 each and every loss occurrence	$3,000,000 excess of $2,000,000 each and every loss occurrence; maximum any one life is $10,000,000
		Third Layer: $5,000,000 each and every loss occurrence	$5,000,000 excess of $5,000,000 each and every loss occurrence; maximum any one life is $10,000,000
Excess of Loss	General Liability	$200,000 ultimate net loss, each insured, each loss occurrence	100% of the ultimate net loss in excess of $200,000, each insured, each loss occurrence; reinsurers' liability shall never exceed $800,000 ultimate net loss, each insured, each loss occurrence

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2010 through December 31, 2013. Assets were verified and liabilities established at December 31, 2013.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the Bureau plan and perform the examination to evaluate the financial condition and identify prospective risks of the Association, assess corporate governance, identify and assess inherent risks within the Association, and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

The services of Merlinos & Associates, Inc. were employed to provide an actuarial report as to the reasonableness of the Association's loss and loss adjustment expense reserves as of December 31, 2013.

All accounts and activities of the Association were considered in accordance with the risk-focused examination process.

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2013, a statement of income for the period ending December 31, 2013, a reconciliation of surplus for the period under review, a statement of cash flow for the period ending December 31, 2013, and a statement of Examiners' changes in surplus at December 31, 2013. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$6,874,040		$6,874,040
Common stocks	781,424		781,424
Cash and short-term investments	536,929		536,929
Investment income due and accrued	79,759		79,759
Uncollected premiums and agents' balances in the course of collection	5,124,108	1,072,453	4,051,655
Amounts recoverable from reinsurers	2,132,982		2,132,982
Other amounts receivable under reinsurance contracts	1,023,929		1,023,929
Current federal income tax recoverable and interest thereon	218,387		218,387
Net deferred tax asset	2,099,711	1,445,561	654,150
Electronic data processing equipment and software	43,063		43,063
Receivable from parent, subsidiaries and affiliates	1,300,000		1,300,000
Aggregate write-ins for other than invested assets	626,687	42,934	583,753
Totals	$20,841,019	$2,560,948	$18,280,071

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		$8,039,644
Loss adjustment expenses		211,807
Commissions payable, contingent commissions and other similar charges		55,494
Other expenses		465,016
Taxes, licenses and fees		324,000
Unearned premiums		5,461,993
Advanced premiums		242,949
Ceded reinsurance premiums payable		1,573,648
Amounts withheld or retained by company for account of others		107,469
Payable to parent, subsidiaries and affiliates		133,481
Aggregate write-ins for liabilities		50,379
Total liabilities		$16,665,880
Common capital stock	$1,000,000	
Gross paid in and contributed surplus	7,714,160	
Unassigned funds (surplus)	(7,099,969)	
Surplus as regards policyholders		1,614,191
Totals		$18,280,071

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	$7,016,255
Deductions:	
Losses incurred	$7,823,476
Loss adjustment expenses incurred	211,454
Other underwriting expenses incurred	3,923,314
Total underwriting deductions	$11,958,244
Net underwriting gain	($4,941,989)

INVESTMENT INCOME

Net investment income earned	$121,065
Net realized capital gains	252,850
Net investment gain	$373,915

OTHER INCOME

Aggregate write-ins for miscellaneous income	$401,181
Total other income	$401,181
Net income before federal income taxes	($4,166,893)
Net income	($4,166,893)

RECONCILIATION OF CAPITAL AND SURPLUS FOR PERIOD UNDER REVIEW

	2010	2011	2012	2013
Surplus as regards policyholders, December 31, previous year	$9,144,169	$6,881,127	$5,645,363	$2,222,100
Net income	($1,405,546)	$194,631	($3,087,421)	($4,166,893)
Change in net unrealized capital gains or (losses)	53,888	(113,286)	71,164	(15,440)
Change in nonadmitted assets	(1,003,250)	(1,317,107)	(396,381)	1,291,068
Change in provision for reinsurance	25,327	4,109		
Surplus adjustments:				
Paid in				1,308,069
Aggregate write-ins for gains and losses in surplus	66,539	(4,111)	(10,625)	975,287
Change in surplus as regards policyholders for the year	($2,263,042)	($1,235,764)	($3,423,263)	($607,909)
Surplus as regards policyholders, December 31, current year	$6,881,127	$5,645,363	$2,222,100	$1,614,191

CASH FLOW

Cash From Operations

Premiums collected net of reinsurance	$9,528,071
Net investment income	196,503
Miscellaneous income	304,526
Total	$10,029,100
Benefit and loss related payments	$7,452,686
Commissions, expenses paid and aggregate write-ins for deductions	5,641,365
Total	$13,094,051
Net cash from operations	($3,064,951)

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	$12,123,873
Stocks	812,085
Total investment proceeds	$12,935,958
Cost of investments acquired (long-term only):	
Bonds	$11,930,879
Stocks	910,031
Other invested assets	14,548
Miscellaneous applications	1
Total investments acquired	$12,855,459
Net cash from investments	$80,499

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided	$2,170,072
Net cash from financing and miscellaneous sources	$2,170,072
Net change in cash and short-term investments	($814,380)

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	$1,351,309
End of year	536,929
Net change in cash and short-term investments	($814,380)

EXAMINERS' CHANGES IN SURPLUS

	Amount per Association	Amount per Examiners	Increase (Decrease) in Surplus
Assets			
Uncollected premiums and agents' balances in the course of collection	$4,421,655	$4,051,655	($370,000)
Liabilities			
Losses	5,139,644	8,039,644	(2,900,000)
Payable to parent, subsidiaries and affiliates		133,481	(133,481)
Examiners' net increase (decrease) in surplus			($3,403,481)

Surplus as regards policyholders per Examiners	$1,614,191
Surplus as regards policyholders per Association	5,017,672
Examiners' net increase (decrease) in surplus	($3,403,481)

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. The Association's bylaws require that the officers shall be a president, one or more vice presidents, a secretary and a treasurer. At the time of this examination, the Association had only two officers, a president and a vice president. The Association should amend its bylaws or add additional officers to be in compliance with the bylaws.

2. Uncollected Premiums and Agents' Balances in the Course of Collection — $4,051,655

   The above asset is $370,000 less than the amount reported by the Association in its 2013 Annual Statement. The decrease resulted from a review of premium receivables at year end. The review determined that older receivables were reported in the general ledger and rolled forward to the current year without reconciliation. The Examiners non-admitted the older receivables since the potential collectability of those amounts was doubtful. The Examiner's recommend that the Company properly reconcile and report premium receivables in future filings.

3. Losses — $8,039,644

   The above liability is $2,900,000 more than the amount reported by the Association in its 2013 Annual Statement. The increase is the result of an analysis of the Association's adverse development in 2014 for losses incurred in 2013 and prior. The Examiners recommend that the Association appropriately establish its loss reserves in future filings.

4. Payable to Parent, Subsidiaries and Affiliates — $133,481

   The above liability, which is an amount due to an affiliate for services rendered during the fourth quarter of 2013, has been established by the Examiners. This amount was subsequently paid in April 2014. The Examiners recommend that the Association appropriately accrue its liabilities in future filings.

5. Pursuant to § 38.2-1028 of the Code of Virginia:

   > No stock insurer shall be licensed to transact the business of insurance in this Commonwealth unless it has fully paid in capital stock of at least one million dollars and surplus of at least three million dollars.

As a result of the examination, as of December 31, 2013, the Association has common stock of $1,000,000, gross paid in and contributed surplus of $7,714,160, and unassigned funds of ($7,099,969), resulting in total surplus of $1,614,071. The Association is reminded of its responsibility, pursuant to § 38.2-1028 of the Code of Virginia, to maintain compliance with the capital and surplus requirement as a condition of licensure.

SUBSEQUENT EVENTS

1. Effective January 1, 2015, the Association entered into a management agreement with Altorva. This agreement replaces the previous management agreement with Altorva and the previous service agreement with Metis. Pursuant to this agreement, Altorva will supply transaction, advisory, insurance, financial, management, administrative and consulting services to the Association. This agreement provides for certain services to be subcontracted to other entities, including Metis. The Association agrees to pay Altorva the customary market rates for the services specified in the agreement. This agreement will be in effect for an initial term of five years and will be renewed automatically thereafter on a year-to-year basis unless cancelled by one of the parties to the agreement.

2. In its March 31, 2015 Quarterly Statement, the Association reported common stock of $1,000,000, gross paid in and contributed capital of $7,714,160 and unassigned funds of ($3,827,913), resulting in total surplus of $4,886,247. This amount exceeded the requirement of § 38.2-1028 of the Code of Virginia.

CONCLUSION

The courteous cooperation extended by the Association's officers and employees during the course of the examination is hereby gratefully acknowledged.

In addition to the undersigned, Allison L. Bohrer, Jennifer K. Crawley, CFE, and Mario A. Cuellar, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,

T. Bradford Earley, Jr., AIAF, CFE, CPCU
Insurance Principal Financial Analyst

BIIA

June 9, 2015

Mr. David H. Smith, CFE, CPA, CPCU
Chief Examiner
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

Re: Building Industry Insurance Association, Inc. (BIIA, Inc.)
Examination Report as of December 31, 2013

Dear Mr. Smith:

I am in receipt of your examination report referenced above dated May 22, 2015. I have reviewed the report and believe it is an accurate representation of BIIA, Inc. as of December 31, 2013. We are waiving our right to a hearing on this report. Please see our responses to this report.

We would like to thank the Bureau for the courteous and professional manner in which the examination was conducted. Due to the transition of ownership that occurred in March, the examination was more complex than would have otherwise been the case.

Altorva, Inc. and BIIA, Inc. are pleased that we have been able to substantially reduce reinsurance and operating expenses, lower the retained layers of risk, and adopt a better rating structure to alleviate some of the problems that existed during the period of the examination. In addition, BIIA, Inc. has adopted a more conservative reserving philosophy which should lead to lower volatility on future financial reports. We appreciate the Bureau's assistance and guidance as we have adopted these measures.

With regard to the recommendations for corrective action:

1. Duly noted. BIIA, Inc. will either amend its Bylaws or add additional officers to comply with the bylaws.
2. Duly noted, BIIA, Inc. has already improved its efforts in reconciling and reporting premium receivables.

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3. Duly noted. The Bureau has been supplied with documentation with respect to the reporting of reserves on a more conservative basis.
4. Duly noted. BIIA, Inc. is now accruing expenses on a monthly basis.
5. Duly noted. BIIA, Inc. believes it has cured the financial impairment and has supplied the necessary documentation to the Bureau in this regard.

I believe this response properly acknowledges the report and accurately represents the current efforts of the Company to comply with all aspects of the regulation. Please send two copies of the final report for our records. I am happy to answer any additional questions the Bureau may have.

Sincerely,

Chris Carey
President