Government of the District of Columbia
Department of Insurance, Securities and Banking

Thomas E. Hampton
Commissioner

BEFORE THE INSURANCE COMMISSIONER OF THE DISTRICT OF COLUMBIA

Re: Report on Examination - **ProBuilders Specialty Insurance Company, a Risk Retention Group,** as of December 31, 2005

ORDER

An Examination of **ProBuilders Specialty Insurance Company, a Risk Retention Group,** as of December 31, 2005 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

It is hereby ordered on this 28th day of June, 2007, that the attached financial condition examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.

Thomas E. Hampton
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

REPORT ON EXAMINATION

PROBUILDERS SPECIALTY INSURANCE COMPANY, A RISK RETENTION GROUP

AS OF DECEMBER 31, 2005

NAIC COMPANY CODE 11671

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Washington, D.C.
February 5, 2007

Honorable Thomas E. Hampton
Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, NE, Suite 701
Washington, D.C. 20002

Dear Sir:

In accordance with Section 31-3931.14 of the D.C. Official Code, we have examined the financial condition and activities of the

**PROBUILDERS SPECIALITY INSURANCE COMPANY,
A RISK RETENTION GROUP**

(hereinafter called "the Company" or "PBSIC"), at its main administrative offices located at 2859 Paces Ferry Road, Suite 1900, Atlanta, Georgia 30339, and the following Report on Examination is submitted.

SCOPE OF EXAMINATION

This examination, covering the period from January 1, 2003 to December 31, 2005, including any material transactions and/or events noted occurring subsequent to December 31, 2005, was conducted under the Risk Retention Group Examination Procedures as promulgated by the District of Columbia Department of Insurance, Securities and Banking – Risk Finance Bureau ("DISB") by examiners representing the DISB, and accordingly, included such tests of the accounting records and such other procedures as we considered necessary in the circumstances.

The examination included a review of the Company's business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's GAAP-basis financial statements for calendar years 2003 through 2005. We reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended

December 31, 2005, and directed our efforts to the extent practical to those areas not covered by the independent audit.

STATUS OF PRIOR EXAMINATION FINDINGS

The last examination of the Company, which was a limited scope financial examination as of December 31, 2002, was conducted by examiners representing the Nevada Division of Insurance. The Report on Examination, dated June 12, 2003, was adopted and filed as a public document on April 16, 2004. The Report made a number of recommendations that were addressed by the Company. The status of these recommendations was considered by the DISB in its approval of the Company's redomestication in May 2004. The examination team reviewed these recommendations and determined that the Company remained in substantial compliance with the recommendations as of December 31, 2005.

HISTORY

General:

The Company was incorporated in Nevada on October 30, 2001 (under the name Builders & Contractors Insurance Company, RRG). Upon receiving its Certificate of Authority from the Nevada Division of Insurance on February 5, 2002, the Company commenced operations from its home office in Las Vegas, Nevada. Effective May 10, 2004, the Company redomesticated to the District of Columbia, and is currently a District of Columbia association captive stock insurer operating under the Federal Liability Risk Retention Act of 1986.

The Company issues comprehensive general liability insurance for contractors, subcontractors, developers and other members of the construction industry on an internally developed liability policy form. Management believes that the Company's form, which provides more limited coverage than the standard ISO general liability policy, and also establishes mandatory minimum deductibles, results in fewer claims than historical industry experience. During 2005, the Company introduced two new programs: an "Artisans" program offering lower premiums and deductibles and a "Wrap" program, under which all contractors working on a single defined project receive coverage.

Policyholder Subscriptions:

As a risk retention group, every insured must be a shareholder in the Company. Beginning with policies written or renewed after June 30, 2005, insureds with policy premiums of $10,000 or less are assessed a subscription fee of $250, and those with premiums greater than $10,000 are assessed $500. The number of shares issued is calculated as the applicable subscription fee divided by the adjusted book value of the Company as of the most recent calendar quarter's end. Prior to July 1, 2005, policyholders were assessed subscriptions fees equal to 10% of their annual premium.

On July 1, 2005, the Company amended its subscription agreement to eliminate any redemption rights of new shareholders. The Company maintained the right to redeem shares at its discretion. Prior to July 1, 2005, shareholders were entitled to redeem their shares based on a stated redemption formula.

Management:

The following persons were serving as the Company's executive officers and directors at December 31, 2005:

Name	Principal Position
Peter Foley	President/CEO; Chairman of Board; Director
Ronald Smith	Treasurer
Stacey Kalberman	Vice President and Secretary
Mark Heald	Director
Charles Spinelli	Director
David Lambin	Director
Deborah White	Director

The examination noted that biographical affidavits were prepared for each officer and director showing their affiliations and experience.

Conflicts of Interest:

Directors, officers and key employees responded to conflict of interest questionnaires. If possible conflicts were disclosed, they were scrutinized further by Company officials. Our review of the responses to the questionnaires completed for 2005 disclosed that certain potential conflicts of interest were reported to the attention of the board of directors. In such cases, directors withheld votes on matters where potential conflicts of interest existed.

Fidelity Bond and Other Insurance:

The Company was a named insured under a fidelity bond. The policy also covered other companies in the NBIS Group. (See the "OPERATIONS" section of this report, under the caption "Organization", for information regarding the NBIS Group.) The policy had a single loss limit of liability of $5,000,000 and an aggregate limit of $10,000,000, with a single loss deductible of $25,000. The coverage exceeded the maximum amount of fidelity bond coverage recommended by the NAIC for the Company and the insurers.

In addition, the Company was also covered under a liability insurance policy providing various liability coverage, including directors and officer's liability coverage.

Corporate Records:

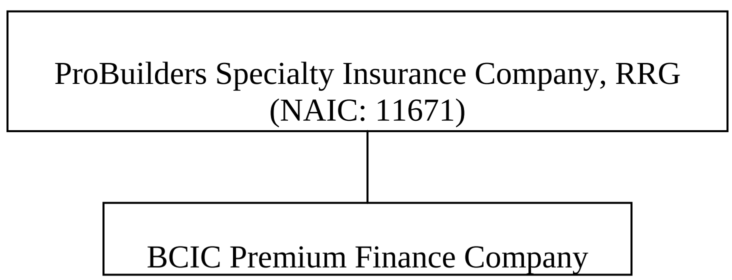
The Company maintains its statutory main office in the District of Columbia and maintains administrative offices in Atlanta, Georgia and Palm Desert, California. The examination fieldwork was conducted in the Company's Atlanta office.

The examination included a review of all board of directors meeting minutes during the examination period and through the date of this examination report. Based on our review, it appeared that the minutes documented the Company's significant transactions and events, and that directors approved those transactions and events.

OPERATIONS

Organization:

The Company is 100% policyholder owned. The Company owns 100% of the common stock of BCIC Premium Finance Company, a California corporation. BCIC Premium Finance Company ceased offering financing effective July 1, 2005. Financing of premiums on ProBuilders' policies is currently available through First Insurance Funding, a nationally recognized premium finance organization, and other third party premium finance companies selected by insureds.



The Company is managed by NationBuilders Insurance Services, Inc. (NBIS). The Company and NBIS are related through common management. NBIS is owned by insurance producers and contractors as well as other individuals and entities. Several of the Company's officers and directors have ownership interests in NBIS. In addition, NBIS owns Southwestern Casualty Insurance Company (which subsequently changed its name to NationBuilders Insurance Company), a quota share reinsurance partner.

Agreements with Affiliates:

NationsBuilders Insurance Services, Inc.

Effective February 1, 2002 the Company entered into a Management and Underwriting Agreement whereby it appointed NBIS to manage the operations and underwriting activities on behalf of the Company. Effective July 1, 2005 the Company and NBIS signed an Amended and Restated Management and Underwriting Agreement. Under this agreement NBIS has authority to manage and perform all the daily activities of the Company, accept or reject applications, quote, underwrite and conduct premium audits, and negotiate, execute, amend, cancel, renew and terminate contracts of insurance binders, cover notes, policies, certificates, slips and other formal and informal evidences of insurance and provide all other services listed within the agreement. In exchange, NBIS is paid a management fee equal to the sum of the actual producer commissions paid plus 15% of the gross written premiums.

Prior to July 1, 2005, NBIS was paid a management fee of 13.5% of gross written premiums and was eligible to be paid a contingent profit commission equal to one-third of the Company's pre-tax net income.

Southwestern Casualty Insurance Company

From the inception of its operations, the Company has reinsured a portion of its business with Southwestern Casualty Insurance Company ("SCIC"), a wholly owned subsidiary of NBIS. Southwestern Casualty was originally domiciled as a Nevada agency captive insurance company. In 2004, SCIC was redomesticated to the District of Columbia, and during 2006 applied to convert itself to a commercially licensed insurance company. See further discussion of the arrangement under "Reinsurance."

Claims Adjusting Services, Inc.

Effective February 2, 2002, the Company entered into a claims service agreement whereby it appointed Claims Adjusting Services, Inc. ("CAS"), another wholly owned subsidiary of NBIS as a third party administrator for claims adjudication. The agreement authorizes CAS to investigate, reserve, adjust, settle, process and collect reinsurance (other than quota share reinsurance) and deductibles, and oversee the investigation, reserving, adjustment, settlement, processing of and collecting reinsurance and deductibles on all claims and losses subject to the agreement. The Company pays CAS on a fee for service basis in accordance with the agreement.

BCIC Premium Finance Company

BCIC Premium Finance Company ("BCIC") is a wholly owned subsidiary of the Company formed to provide premium financing exclusively to the Company's insureds. BCIC ceased financing any new business as of June 30, 2005.

Employee Benefits:

The Company does not offer its directors, officers or employees any type of pension or post-retirement benefits.

Territory and Plan of Operations:

The Company is licensed in the District of Columbia and is registered as a risk retention group in all states except New York. At December 31, 2005, the Company has approximately 4,700 policyholders and wrote premium in 20 different states. The majority of premium is written in five western states: California (61%); Colorado (12%); Nevada (11%); Washington (4%) and; Arizona (4%).

Reinsurance:

The Company does not assume reinsurance.

The Company relies on ceded reinsurance to protect its surplus from significant individual losses and maintain its net premiums written to surplus ratio within acceptable limits. Reinsurance is ceded to both affiliated and unaffiliated parties. Schedule F to the annual statement lists the following information related to ceded premium:

Reinsurer	2005 Ceded Premium (in millions)	A.M. Best Rating
Southwestern Casualty Ins. Co. (DC)	$ 56.7	Not rated
Max Re, Ltd (BM)	6.7	A-
Arch Reinsurance Co (NE)	5.4	A-
Starwest Insurance Co. (CI)	1.0	Not rated
Others	.5	n/a
	$70.3	

Effective February 1, 2002, the Company entered into a Casualty Quota Share Reinsurance Agreement ("quota share agreement"). While this agreement has been amended several times since inception, it remains in effect through December 31, 2005.

From January 1, 2005 through June 30, 2005, the quota share agreement ceded a 50% share of premiums and losses to SCIC. There was no excess reinsurance effective during this period. On July 1, 2005, the Company entered into a new Quota Share and Excess Cessions Reinsurance Contract ("QSXOL") with two unaffiliated reinsurers. Under this treaty, the two new reinsurers accepted a 22.5% quota share interest on policies written under the primary limits (i.e., $1 million coverage) and also accepted a 90% quota share interest related to any excess limit policies written (i.e., excess of $1 million up to $2 million). To accommodate this treaty, the original treaty was amended so that SCIC assumed 58.125% of the premium and loss. From the combined contracts, the Company retains 19.375% (19.375 = 100% - 22.5% – 58.125%) of losses not ceded to the excess layer, or a maximum per occurrence loss of $213,125 ($213,125 = 19.375% x ($2,000,000 less $900,000 (90% of $1 million xs $1 million)). The QSXOL treaty contains certain aggregate limits to the amount of losses that can be ceded to the reinsurers.

The original quota share contract provides for SCIC to pay a ceding commission equal to its quota share percentage of the Company's actual acquisition costs. The QSXOL contract provides for a fixed ceding commission based on the coverage: 26% of ceded premium for the layer related to the first $1 million of risk and 25% for the $1 million excess layer.

The Company accounts for both the original quota share (as amended) and the QSXOL contracts as reinsurance. The examination team reviewed the contracts and the independent CPA's conclusions regarding risk transfer. Both reinsurance contracts appeared to be a prospective sharing of risks and they contain all required statutory clauses. There are no adjustable features or accumulating retentions and the contracts call for timely reporting and settlement of losses. As such, the examination team concluded that the contracts were appropriately accounted for as reinsurance.

Through our testing of reinsurance balances, the examination team noted that no cession statements (i.e., schedules showing contractual cash flows between the ceding and assuming entities) were prepared during 2005 related to reinsurance activities between the Company and SCIC. The examination team recalculated reinsurance amounts between these companies and found that they were accurately recorded; however, the preparation of cession statements is an important internal control procedure and required by statutory accounting practices. The examination findings in the "Comments and Recommendations" section of this report include a recommendation that formal cession statements be prepared for the quota share activities between SCIC and the Company.

ACCOUNTS AND RECORDS

The Company's accounting records are maintained on a general ledger package. Our review did not disclose any significant deficiencies in these records. Examination team members reconciled the 2005 general ledger trial balance to the annual statement without exception. In addition, the examination team reconciled the annual statement to the audited financial statements noting the adjustments reflected as a result of the 2005 audit. The examination team reviewed the nature and amounts of the adjusting journal entries posted as a result of the annual audit. These entries were deemed immaterial both individually and in the aggregate.

FINANCIAL STATEMENTS

The following financial statements, prepared in accordance with accounting practices generally accepted in the United States, reflect the financial condition of the Company as of December 31, 2005, as determined by this examination:

BALANCE SHEET
ASSETS

	Amounts per Annual Statement	Examination Adjustments	Amounts per Examination
Bonds **(Note 1)**	$ 73,032,750	$ (1,223,480)	$71,809,270
Common stocks **(Note 2)**	1,274,167		1,274,167
Cash ($11,062,341)and short-term investments ($990,980)	12,053,321		12,053,321
Investment income due and accrued	764,406		764,406
Uncollected premium	11,028,298		11,028,298
Net deferred tax asset **(Note 1)**	682,072	415,983	1,098,055
Receivables from parent	2,702,937		2,702,937
Deferred acquisition costs	4,707,074		4,707,074
Other assets	1,080		1,080
Total assets **(Note 3)**	$106,246,105	$ (807,497)	$105,438,608

LIABILITIES, SURPLUS AND OTHER FUNDS

	Amounts per Annual Statement	Examination Adjustments	Amounts per Examination
Losses **(Notes 3 and 4)**	$ 16,847,391	$	$ 16,847,391
Loss adjustment expenses **(Notes 3 and 4)**	8,856,181		8,856,181
Other expenses	844,921		844,921
Taxes, licenses and fees	831,902		831,902
Current federal and foreign income taxes	463,455		463,455
Unearned premium	12,252,920		12,252,920
Advance premiums	513,223		513,223
Ceded reinsurance premiums payable	14,855,159		14,855,159
Funds held by company under reinsurance treaties	22,803,378		22,803,378
Payable to parent, subsidiaries and affiliates	5,953,987		5,953,987
Accrued shareholder redemptions	4,169,909		4,169,909
Total liabilities	88,392,426		88,392,426
Common capital stock	13,849,468		13,849,468
Unassigned funds (surplus)	4,004,211		4,004,211
Accumulated other comprehensive loss **(Note 1)**	-	(807,497)	(807,497)
Surplus as regards policyholders	17,853,679	(807,497)	17,046,182
Total liabilities and surplus	$106,246,105	$ (807,497)	$105,438,608

STATEMENT OF INCOME

	Amounts per Annual Statement	Examination Adjustments	Amounts per Examination
Premiums earned	$ 28,149,698	$	$ 28,149,698
Losses incurred	9,158,814		9,158,814
Loss expenses incurred	4,912,690		4,912,690
Other underwriting expenses incurred	11,476,015		11,476,015
Total underwriting deductions	25,547,519		25,547,519
Net underwriting gain	2,602,179		2,602,179
Net investment income earned	1,382,942		1,382,942
Net realized capital gains	2,589		2,589
Net investment gain	1,385,531		1,385,531
Net loss from premium balances charged off	(256,439)		(256,439)
Finance and service charges not included in premiums	19,657		19,657
Net income before taxes	3,750,928		3,750,928
Federal income taxes incurred	1,270,590		1,270,590
Net income	$ 2,480,338	$	$ 2,480,338

CAPITAL AND SURPLUS ACCOUNT

	Amounts per Annual Statement	Examination Adjustments	Amounts per Examination
Surplus as regards policyholders, December 31, 2004	$12,223,479	$	$12,223,479
Net income	2,480,338		2,480,338
Accumulated other comprehensive (loss)	-	(807,497)	(807,497)
Capital changes - paid in	3,149,862		3,149,862
Change in surplus as regards policyholders	5,630,200	(807,497)	4,822,703
Surplus as regards policyholders, December 31, 2005	$17,853,679	$ (807,497)	$17,046,182

COMPARATIVE FINANCIAL POSITION OF THE COMPANY

The comparative financial position of the Company for the three-year period ended December 31, 2005 was as follows:

	Per Examination	Per Annual Statement	
	2005	2004	2003
Assets	$105,438,608	$90,695,245	$ 38,681,075
Liabilities	88,392,426	78,471,766	34,704,236
Policyholders surplus	17,046,182	12,223,479	3,976,839
Premiums earned	28,149,698	18,410,436	7,530,709
Net underwriting gain (loss)	2,602,179	589,187	(545,529)
Net investment gain	1,385,531	429,010	94,849
Net income (loss)	2,480,338	805,041	(592,040)

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds

The Company's invested assets consist of highly-rated fixed maturity securities. At December 31, 2005, the Company classified its investment portfolio as held-to-maturity under SFAS No. 115, and carried these investments at their amortized cost value. In its 2005 Annual Statement, the Company reported it sold over $10 million of securities prior to their maturity during 2005. The examination team concluded that these sales were inconsistent with the Company's assertion that it has the intent and ability to carry its investments until maturity. In addition, subsequent to year-end, the Company reclassified its portfolio to available-for-sale. As such, the examination team determined that the portfolio was incorrectly classified under GAAP, and proposed an adjustment to carry the entire portfolio at its fair value. The adjustment, net of the related tax effect of $415,983, reduced stockholders' equity by $807,497.

Note 2 - Investment in Subsidiary

The Company reported its investment in BCIC Premium Finance Company ("BCIC") as a common stock and at its historical cost basis of $75,000. The DISB had previously indicated to the Company that this investment should be accounted for at book value for annual statement purposes. The book value of BCIC as of December 31, 2005 is less than the historical cost. Due to the immateriality of this investment, no examination adjustment is made for purposes of our report.

Note 3 - Ceded Reinsurance Balances Recoverable

In the 2005 annual statement, the Company reported unearned premiums and loss and loss adjustment expense reserves net of amounts ceded to reinsurers. Under GAAP, these accounts should be reported on the balance sheet gross of reinsurance, with related assets recognized for amounts ceded to reinsurers. Ceded unearned premium amounted to $36.0 million and ceded losses and LAE reserves amounted to $54.2 million. Although the Company's accounting treatment does not result in any change in net income or policyholders' surplus, it is recommended that the Company follow GAAP in preparing future annual statements.

Note 4 - Loss and Loss Adjustment Expense Reserves

The Company engaged Mr. Gustave Krause, MAAA, FCAS, to review the adequacy of its carried reserves and prepare a statement of actuarial opinion. Mr. Krause serves as a consulting actuary with the firm Insurance Industry Consultants, LLC. In his opinion issued February 27, 2006, Mr. Krause concluded that the Company's carried reserves, A) meet the requirements of the insurance laws of the District of Columbia, B) are consistent with reserves computed in accordance with GAAP, and C) make a reasonable provision for the aggregate unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements. The examination team reviewed the independent actuary's report and opinion noting that the Company's carried reserves were within the range of reasonable actuarial estimates.

The examination procedures included the engagement of Merlinos & Associates, Inc. to perform a review of the Company's carried reserves and assess the reasonableness of Mr. Krause's projection methodologies. In his report dated November 29, 2006, Mr. Robert P. Daniel, MAAA, ACAS stated that he proposed no changes to the Company's overall carried reserves. He did note several recommendations related to the content of the independent actuary's report and the preparation of Schedule P, which did not warrant inclusion in this examination report. These recommendations were provided to management under separate cover.

COMMENTS AND RECOMMENDATIONS

Preparation of reinsurance cession statements:

Cession statements detailing reinsurance premiums, losses and ceding commissions due between the Company and Southwestern Casualty Insurance Company (SCIC) were not prepared throughout 2005. The preparation of cession statements represents an important internal control procedure, provides appropriate supporting documentation for the settlement and/or offsetting of balances due between companies and is required under statutory accounting practices.

We recommend that cession statements be prepared on at least a quarterly basis in support of reinsurance transactions between the Company and all of its assuming reinsurers.

Documentation of the board's consideration of the financial aspects of changes to related party agreements:

The Company is primarily dependent upon NBIS for the management and execution of its operations. Specifically, the Company has contractual arrangements with NBIS or its affiliates for management, underwriting, claims adjudication and reinsurance. During our examination, we noted that many of these agreements have been amended from their original form. Since its re-domestication to the District of Columbia, the Company has submitted all proposed changes to the DISB for approval, as required by the captive insurance statutes.

The minutes of the board of director's meetings document the board's consideration of changes to related party agreements; however, the minutes did not generally document any discussion of the financial implications of the proposed amendment on either party. While the qualitative benefits of reduced record keeping and enhanced accuracy are appropriate considerations, the financial, economic and cash flow implications should also be evaluated as part of the directors' deliberations.

Therefore, we recommend that the minutes of the board of directors meetings include reference to the board's consideration of the financial and/or economic implications of proposed changes to the Company's agreements with related parties.

Other comments and recommendations:

During the course of this examination, other suggestions and recommendations related to financial statement preparation, investment accounting and federal income tax accruals were communicated verbally to the Company's management. These additional comments were not deemed significant for the purposes of this examination and are not included in this Report.

CONCLUSION

Our examination disclosed that as of December 31, 2005 the Company had:

Admitted assets	$ 105,438,608
Liabilities and Reserves	88,392,426
Common Capital Stock	13,849,468
Unassigned Funds (Surplus)	3,196,714
Policyholders' Surplus	17,046,182
Total Liabilities, Capital and Surplus	$ 105,438,608

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company as of December 31, 2005, and the accompanying statement of income properly presents the results of its operations for the period then ended.

Chapter 39 ("CAPTIVE INSURANCE COMPANIES") of Title 31 ("Insurance and Securities") of the D.C. Official Code specifies the level of capital and surplus required for the Company. We concluded that the Company's capital and surplus funds exceeded the minimum requirements during the period under examination.

SIGNATURES

Respectfully submitted,

James A. Murphy
Johnson Lambert & Co, LLP

Under the Supervision of,

James H. Lawrence, CFE
District of Columbia Department of
Insurance, Securities and Banking

PRO BUILDERS INSURANCE
A Risk Retention Group

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DEPARTMENT OF INSURANCE SECURITIES & BANKING

February 16, 2007

Honorable Thomas E. Hampton
c/o Honorable Dana Sheppard
Department of Insurance, Securities and Banking
1400 L Street, NW
Washington, DC 20002

Re: Response to draft Examination Report of ProBuilders Specialty Insurance Company, a Risk Retention Group covering the period 1/1/05 to 12/31/05

Dear Sirs:

We are in receipt of the draft Examination Report of ProBuilders Specialty Insurance Company, a Risk Retention Group ("ProBuilders"). This letter is in response to the draft report and provides further information as requested by the examination team.

In its Comments and Recommendations section, the Examiner made a recommendation that the board of directors elect an independent, financial expert to the board in order to enhance the board's ability to analyze the financial aspects of transactions. In a recent discussion with the Examiner and the Department, we provided information regarding the ProBuilders' Director, Mark Heald. Mr. Heald has a bachelor's degree in business administration and currently holds the position of Chief Financial Officer of KB Homes, a California developer and builder. Mr. Heald has over twenty years of accounting and financial experience and has held positions as Controller and Accounting Manager in a variety of businesses. We have attached a copy of his biographical affidavit and resume for your review.

Mr. Heald is also independent of NationsBuilders Insurance Services, Inc. ("NBIS"), the manager of ProBuilders, as he is not a shareholder of NBIS. We believe that Mr. Heald fulfills the recommendation of independent financial expert and, in addition, Mr. Heald is a member the ProBuilders Audit Committee.

In the Notes to Financial Statement Accounts section of the Report, the Examiner stated that due to the sale of certain securities in 2005, the classification of the investment portfolio as held-to-maturity was incorrect and the Examiner proposed an adjustment to carry the entire portfolio at its fair market value. While ProBuilders made the decision to reclassify the investment portfolio as fair market value in 2006, the investment portfolio should be classified as held-to-maturity for the periods prior to 2006. The sales which were made in 2005 by the prior investment manager, Congress Trust, were conducted without the permission of ProBuilders and in contradiction to ProBuilders' prior investment policy and objectives.

Stacey Kalberman • Vice President and General Counsel • skalberman@nbis.com
1900 Overlook III • 2859 Paces Ferry Road • Atlanta, GA 30339 • Tel: 770.257.1777 • Direct: 770.257.1119 • Fax: 678.392.4359
www.ProBuildersins.com

Please let me know if you have any further questions or concerns. We greatly appreciate the Examiner's and the Department's time and effort on this examination and we look forward to the final Examination Report.

Sincerely,

Stacey Kalberman
General Counsel

Cc: James Murphy, Johnson & Lambert & Co., LLP
James Lawrence, DC Department of Insurance, Securities and Banking

Stacey Kalberman • Vice President and General Counsel • skalberman@nbis.com
1900 Overlook III • 2859 Paces Ferry Road • Atlanta, GA 30339 • Tel: 770.257.1777 • Direct: 770.257.1119 • Fax: 678.392.4359
www.ProBuildersins.com

Government of the District of Columbia
Department of Insurance, Securities and Banking

Thomas E. Hampton
Commissioner

June 28, 2007

Peter H. Foley
President
ProBuilders Specialty Insurance Company, a Risk Retention Group
2859 Paces Ferry Road, Suite 1900
Atlanta, Georgia 30339

Dear Mr. Foley:

We are in receipt of a response, dated February 16, 2007, from Stacey Kalberman, Vice President and General Counsel, which addresses the recommendations made in the Report on Examination of ProBuilders Specialty Insurance Company, a Risk Retention Group, as of December 31, 2005, dated February 2, 2007.

During our next examination of the Company, we will review the implementation of the corrective actions taken to address the recommendations.

The adopted Report (which includes a copy of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10 day period has passed, the Report will be publicly available, and will be forwarded electronically to each Commissioner whose name is set forth on Page 1 of the Report, as well as to the National Association of Insurance Commissioners, and to each state in which the Company writes business, according to your Annual Statement.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each Company director stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention here at the Department.

Please contact me at 202-535-1169 if you have any questions.

Sincerely,

P. Sean O'Donnell

P. Sean O'Donnell
Director of Financial Examination,
Risk Finance Bureau

Enclosures