



BUILDING THE FRAMEWORK FOR A SOLID FUTURE

2013
ANNUAL
REPORT



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MESSAGE TO OUR POLICYHOLDERS

For 30 years, Builders Mutual has remained dedicated to insuring the construction industry. In this time, Builders Mutual has evolved to become a regional multi-line carrier with policyholders in eight states and the District of Columbia. We continue to monitor the dynamic marketplace to partner with you to meet your evolving business needs.

Our long-term financial strength allows us to be there for you, our policyholders, when you need us most. That's why we are extremely pleased to have reached several new milestones in 2013. Direct premium written grew 22% and for the first time crossed the \$200 million mark. We further improved our loss ratio to 61.5%, contributing to a 4% decrease in our combined ratio. At 96.4%, our combined ratio will outperform our major competitors.

Additionally, for the first time since 2008 we reported an underwriting profit, earning \$5.3 million from operations. Returning to an underwriting profit is critical in this economy where investment yields are depressed and projected to remain below historical averages for the foreseeable future. Based on these results, the Board of Directors declared a \$1.45 million dividend.

Financial stability is key to our success. In 2013, our rating of A (Excellent) was reaffirmed by A.M. Best Company for the 14th consecutive time. This rating reflects our historically profitable operating performance and local market expertise. As a mutual company, you can continue to count on us to deliver solid results for many years to come.



**DIVIDEND OF
\$1.45M
RETURNED IN 2014**

Builders Mutual's Board of Directors is proud to return a \$1.45 million dividend to more than 7,100 eligible WorkSafe workers' compensation policyholders. Throughout our history, Builders Mutual has returned more than \$50 million dollars in dividends in 25 out of 29 eligible years. Builders Mutual has grown in both financial size and geography to position itself as a leading carrier of workers' compensation in the Southeast. This dividend return is one way to recognize the strong results of both our policyholders and our company.

AGENT PARTNERSHIPS

At Builders Mutual, we understand that our business has been and always will be based on relationships. For thirty years, we have relied on the solid partnerships we maintain with our agency force to attract new business and retain customers.



12%
**NEW BUSINESS
GROWTH**



82.6%
**POLICYHOLDER
RETENTION**

BMIC industry experts partner with agents to gain local market intelligence and respond quickly to the ever-changing demands of our customers. These close ties across sales, underwriting, risk management, audit and claims allow us to recognize the unique needs of certain trade contractor groups as well as the differences in coverage requirements for large and small accounts.

Our underwriting department is committed to strengthening our partnership with our agents. Additional leadership positions have been created to better support underwriting territories, build stronger relationships and aid in decision making. Work is underway to offer more streamlined submissions and further realign our teams to support our agents.

IN 2013, WE CONTINUED TO MAKE IT EASIER FOR AGENTS TO DO BUSINESS WITH US:

- We redesigned our bills and made them easier to read and understand.
- Agents can now pay installment and renewal bills on behalf of policyholders.
- The Go Paperless option is available to all agencies; email notifications are sent when customer documents are available online.
- Agents can submit claims online, by phone or through email, simplifying the claims process even further.

**AGENCY FOOTPRINT:
667 AGENCIES ACROSS 8 STATES**



Builders University, the educational arm of Builders Mutual, continues to travel throughout our territory training agents and CSRs alike. To date, we have had 1,844 agents take at least one CBIA course and 485 agents receive their CBIA designations.

IMPROVING THE TOOLS OF YOUR TRADE

BUILDERS MUTUAL strives to maintain our position in the marketplace as the company where builders come first. To accomplish this, we must continue to deliver valuable tools and focus on opportunities that directly affect our policyholders and the way they do business.



IN 2013, BMIC INTRODUCED NEW ONLINE RESOURCES:

BUILDERS ONLINE BUSINESS

With BOB, policyholders can register through **buildersmutual.com**, link policies, view and save policy documents and make payments. Currently, more than 3,500 policyholders have created logins and nearly 12% of all payments are made online.

GO PAPERLESS!

SAVE TREES, THE PLANET & LOTS OF TIME.

Policyholders can choose to Go Paperless and receive an email notification when policy documents and bills are available.

EASIER CLAIMS REPORTING

BMIC has streamlined the claims process. Policyholders can now submit claims online, by phone or through email. These new options provide more flexibility for claims reporting and simplify the reporting process.



SAFETY—HELPING PROTECT YOUR BOTTOM LINE:

KNOWLEDGE IS PRODUCTIVITY

In 2013, Builders University celebrated its 10th anniversary. We are proud to report that more than 4,700 policyholders and their employees have participated in BU safety classes. This proactive behavior is not just about keeping workers safe, it's also about creating a high-impact strategy for risk management.

PREVENTION IS KEY

Builders Mutual is using claims data and analytics to help customers prevent claims and protect their company's bottom line. After a detailed review of claims data for the last five years and analysis of the four claims types with the greatest frequency and severity, we created the Focus Four. This brochure provides extensive information on prevention of the four major claims categories of falls, strains, struck-by and vehicle collisions. Prevention is key and the Focus Four is a helpful tool to educate everyone on the jobsite.



FINANCIAL SUMMARY

The following are statements of financial position and results of operations of Builders Mutual Insurance Group for the fiscal year ended December 31, 2013. The financial statements are presented in accordance with statutory accounting principles as required by the North Carolina Department of Insurance.

2013 was a year in which continued company-wide improvements yielded very strong results, as **BUILDERS MUTUAL** reported a \$13.6 million profit, returned to an underwriting gain of \$5.3 million and investment income of \$13.9 million.

The economic recovery continued and Builders Mutual is pleased to report that direct premium written grew by \$36.4 million or 22.1% in 2013, making it the largest premium year in the Company's history. While we continue to face challenges that come with a slowly stabilizing economy, the construction market continues to recover after a prolonged downturn, and the insurance market continues to moderate slightly. A \$1.45 million policyholder dividend has been paid to eligible workers' compensation policyholders, demonstrating that Builders Mutual continues to place our policyholders first and remains very committed to building long-term partnerships with all of our policyholders and agents.

FINANCIAL POSITION

ASSETS

Total assets increased \$40.2 million, or 7.5%, to \$576.4 million, with invested assets representing 86.0% of the Company's admitted assets. Bonds and common stocks increased during the year by \$29.9 million due to additional investment contributions and changes in market values, while cash and short-term investments decreased \$1.2 million due to increased amounts reinvested in the long-term bond portfolio in 2013. The Company continues to invest heavily in fixed income securities, which are \$404.5 million of invested assets. Premium balances receivable increased \$10.4 million due to the growth in written premium noted above. Other assets increased \$284 thousand, due to increases in deferred tax assets and guaranty funds receivable.

LIABILITIES

Liabilities increased by \$16.9 million, or 5.3% in 2013. Total unpaid loss and loss adjustment expense reserves increased \$11.0 million this year from exposure growth. Included in the loss and loss adjustment expense reserves is \$8.2 million of favorable loss development on prior accident years. This favorable loss development reflects the safe working environments created by our policyholders with assistance from our Risk Management consultants. Unearned premium reserves increased \$7.3 million, due to the growth in written premiums. Other liabilities decreased \$1.4 million in total, mostly due to timing of payments. A dividend payable totaling \$1.45 million is included in other liabilities, which was paid to our policyholders.

POLICYHOLDER SURPLUS

Policyholder surplus grew \$23.3 million in 2013, to \$242.0 million. This surplus growth is primarily from net income of \$13.6 million and \$6.9 million of net unrealized capital gains on investments. The Company's continued ability to grow policyholder surplus amidst the current market conditions is an indication of our financial strength and a key factor in maintaining our A.M. Best "A" (Excellent) rating.

FINANCIAL SUMMARY

RESULTS OF OPERATIONS

THE COMPANY is reporting net income of \$13.6 million for 2013. Net premiums earned increased by \$33.9 million, or 24.1%, during the year, reflecting higher levels of building activity and improvement in the construction market.

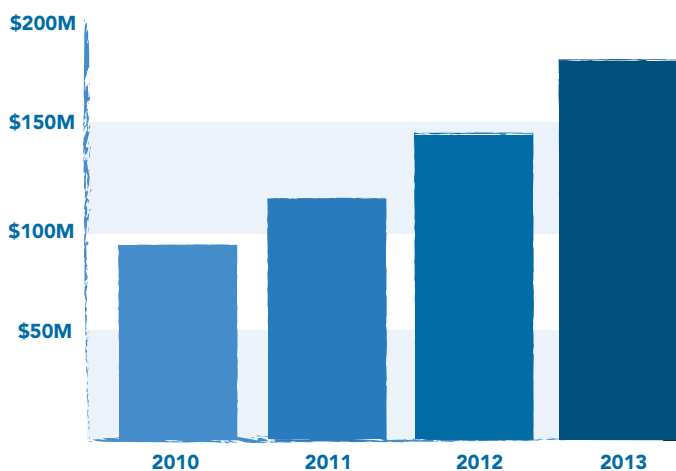
Workers' compensation premiums represent 71.2% of total premiums compared to 70.4% in 2012. Builders Mutual's focus remains providing a high quality insurance product at a fair price to our policyholders, without sacrificing the underwriting discipline necessary to grow underwriting profits.

While losses and LAE incurred increased in 2013 by \$16.1 million, our calendar year loss ratio improved to 61.5% as a percentage of premiums earned. Through risk management, underwriting discipline and a seasoned book of business, we achieved a 3.3 point improvement from the 64.8% loss ratio reported for 2012.

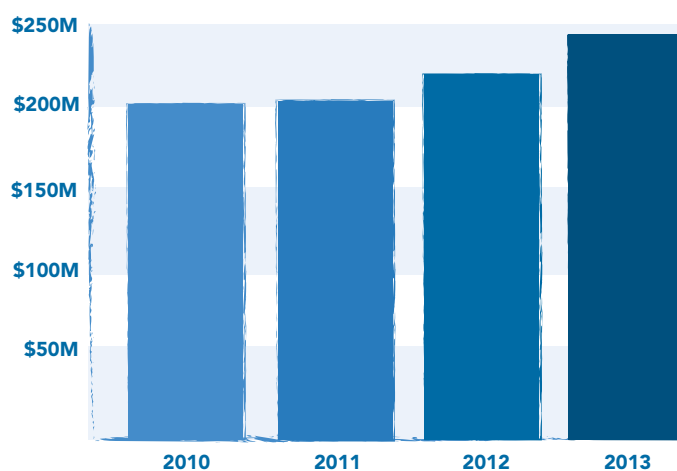
Total operating expenses incurred are \$61.9 million for 2013, compared to \$51.6 million in 2012. Consistent with the growth in current year premium, total underwriting expenses incurred also increased. While total current year underwriting expenses incurred are 20.1% greater than in the prior year due to premium related expenses, the increase in net premiums written drives improvement in our expense ratio.

Net investment income decreased slightly in 2013, consistent with the current interest rate environment with lower levels of interest earned on fixed maturities and short-term funds. Sales of investments generated realized capital losses of \$242 thousand compared to \$1.9 million of realized capital gains in the prior year.

PREMIUMS EARNED



POLICYHOLDER SURPLUS



FINANCIAL SUMMARY

BALANCE SHEET

All figures represented in thousands (,000).

	2013	2012
ASSETS		
Bonds	\$404,525	\$395,916
Common and preferred stocks	\$61,240	\$39,986
Cash and short-term investments	\$19,513	\$20,757
Premium balances	\$54,643	\$44,209
Other assets	\$36,487	\$35,356
Total Assets	\$576,408	\$536,224
LIABILITIES AND POLICYHOLDER SURPLUS		
Unpaid losses and loss adjustment expenses	\$251,040	\$240,048
Unearned premiums	\$46,088	\$38,774
Other liabilities	\$37,243	\$38,681
Total Liabilities	\$334,371	\$317,503
Total Policyholder Surplus	\$242,037	\$218,721
Total Liabilities and Policyholder Surplus	\$576,408	\$536,224

PROFITABILITY ANALYSIS

	2013	2012	CHANGE
Loss Ratio	61.5%	64.8%	-3.3%
Expense Ratio	34.1%	34.8%	-0.7%
Dividend Ratio	0.9%	0.9%	0.0%
Combined Ratio	96.4%	100.4%	-4.0%
Operating Ratio	88.5%	90.4%	-1.9%

STATEMENT OF INCOME

All figures represented in thousands (,000).

	2013	2012
UNDERWRITING INCOME		
Premiums earned	\$174,402	\$140,535
Losses and LAE incurred	\$107,193	\$91,086
Underwriting expenses	\$61,944	\$51,593
Underwriting gain / (loss)	\$5,265	\$(2,144)
INVESTMENT INCOME		
Investment income, net of interest expense	\$13,858	\$14,074
Realized capital gains / (losses)	\$(242)	\$1,859
Other expenses	\$550	\$497
Income before income taxes	\$18,331	\$13,292
Policyholder dividends	\$1,542	\$1,200
Federal income tax expense	\$3,232	\$1,731
Net Income	\$13,557	\$10,361

CHANGES IN POLICYHOLDER SURPLUS

Unassigned surplus, beginning of year	\$218,721	\$203,707
Net income	\$13,557	\$10,361
Net unrealized capital gains	\$6,942	\$2,725
Change in net deferred income tax	\$493	\$628
Change in non-admitted assets	\$2,461	\$1,307
Change in provision for reinsurance	\$(137)	\$(7)
Unassigned Surplus, End of Year	\$242,037	\$218,721

SOLID DECISIONS BASED ON SOUND STRATEGY

BOARD OF DIRECTORS



(From top, left to right) Bill Daleure, Dave Stormont, Dave McDonald, Rick Judson, Gary Hill, Sean Sullivan, David Creech, Erik Anderson, Buddy Hughes, Don Betsworth, Andy Betts

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Andy Betts

Retired Accountant
Raleigh, NC

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Creech Construction Co., Inc.
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JDM Consultants, LLC
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Living Stone Construction
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Senior Vice President/
Chief Marketing Officer

Graeme Boddy

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Chief Financial Officer

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