



Builders Mutual[®]

INSURANCE COMPANY

Where Builders Come First[®]

Residential • Commercial • Trade

2014 ANNUAL REPORT

STAY CONNECTED:



buildersmutual.com

MESSAGE TO OUR POLICYHOLDERS

2014 marked an important milestone in Builders Mutual history as we celebrated our 30th anniversary and three decades of unwavering dedication to the construction industry. While many changes have taken place since our inception in 1984, there are three key areas that we continue to emphasize with our employees, agents and policyholders. Stability, service and safety have remained at the forefront of everything we do and position us uniquely in the niche market we serve. These efforts are also reflected in the strong results we achieved in 2014.

Our solid financial foundation allows us to maintain a consistent presence in the market. While we work hard to balance growth and profitability, we reached all-time highs in written premium, new business production, and policies-in-force. Direct premiums written grew by 15.6% to a company high of \$232 million. For the second consecutive year we achieved an underwriting profit, earning \$8.9 million from operations. This, combined with investment income of \$15.8 million, resulted in \$18.4 million of net income. As a result, the Board of Directors declared a \$1.525 million dividend for eligible workers' compensation policyholders. Additionally, A.M. Best Company reaffirmed our rating of A (Excellent) for the 15th consecutive time, which reflects our historically profitable operating performance and industry expertise.

In 2014, we served more policyholders in more states than ever in the history of our company. As the economy continues to rebound, we are positioned to grow profitably alongside more than 19,000 policyholders. Our talented team of over 250 industry experts consistently offers high levels of service in our Raleigh headquarters and in your local market. We continue to look for ways to enhance online offerings and customize products to improve your BMIC experience. We go beyond the basics of insurance. Our passion for protecting lives is evident in our industry leading Builders University course offerings and Risk Management consultants who meet policyholders on jobsites to help mitigate risks and prevent injuries.

At Builders Mutual, we look ahead with confidence knowing that the past thirty years of financial strength have positioned us to protect you, your business and your workers, for many years to come.



“We understand our policyholders’ needs, their businesses, and how to protect them, and have shown that we will be there for the long haul.”

—John Boggs, President & CEO

30 YEARS OF DEDICATION TO THE INDUSTRY



1984

NC Home Builders Self Insurers Fund is established to provide affordable workers' compensation

1998

Self Insurers Fund becomes Builders Mutual with 8,188 policyholders & \$53M in premiums written

1999

Launch of commercial lines and All Your Tools in One Box; buildersmutual.com goes live



2000

A.M. Best upgrades BMIC's rating to A (Excellent)



2001

Expansion into SC, TN, VA; Premiums written reach \$67M

2003

Builders University and Builders Online Business (BOB) are born



2006

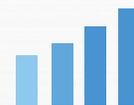
Height of the housing boom, BMIC reports a record year of \$171M in premiums written

2009

BMIC extends its footprint to include MD, DC, GA and MS

2010

BMIC returns to a time of growth, with premiums of \$105M written



2012

The Customer Contact Center creates a single point of contact for phone inquiries



2013

Policyholders can manage policies and make payments online via BOB; Expansion to FL

2014

Online Monthly Self-Reporting, Enhanced Builders Risk and WorkSafe 101 debut; Premiums reach \$232M

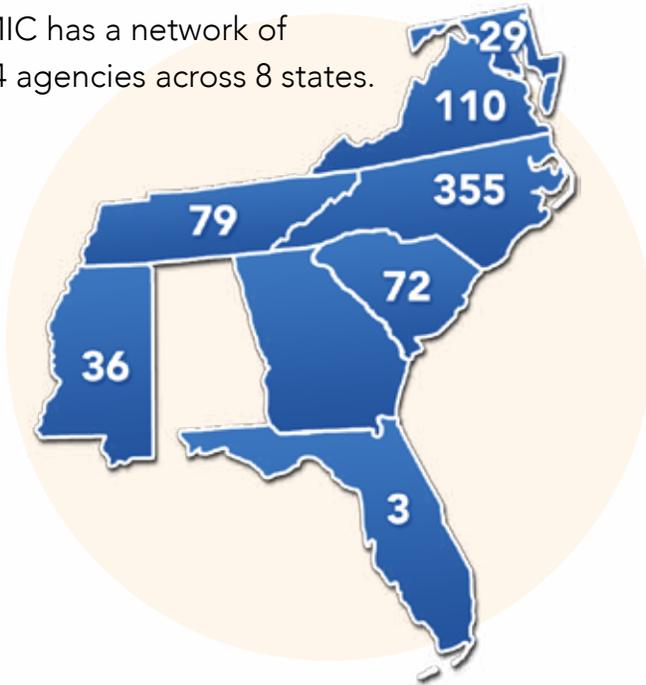
STRENGTH IN NUMBERS: PARTNERSHIPS DELIVER



At Builders Mutual, the solid relationships we have with our independent agency partners allow us to capture growth opportunities in our market footprint. We align field and underwriting staff with agencies according to local market needs. These territory-based partnerships encourage collaboration when writing new and retaining existing accounts. The strong connections we have with our agents allow us to deliver the appropriate product, pricing and safety recommendations required to protect our policyholders' businesses and their workers. Thanks to the efforts of the 684 agencies and 4,500 producers representing Builders Mutual, we exceeded our goal and wrote \$48.2 million in new business in 2014.

APPOINTED AGENTS

BMIC has a network of 684 agencies across 8 states.



8.5%
NEW BUSINESS PREMIUM
GROWTH IN 2014

7.5%
POLICY GROWTH
IN 2014



In 2014, 286 agents turned to Builders University to increase their industry knowledge and attend CBIA classes in Frederick, MD, Williamsburg, VA and Raleigh, NC. To date, 622 agents have earned their Certified Builders Insurance Agent designation.

OFFERING YOU EVEN MORE



Both construction and insurance are relationship-based businesses. We recognize that you want to maximize the time you spend engaging with clients and minimize the time you spend managing your business. That's why we continue to deliver more online tools that make it even easier to work with us.

In July, we introduced Online Monthly Self-Reporting (MSR) for workers' compensation policies. In just six months, nearly 30% of policyholders on the MSR pay plan are logging in to Builders Online Business (BOB) to enter payroll and make an online payment.

The Enhanced Builders Risk (EBR) One-Shot product is now available for agents to rate, quote, issue and service policies online with BOB 2.0. Policyholders can login to BOB to manage their EBR policies, view documents, make payments and submit changes.

Customer focus is a core competency at Builders Mutual. We believe that our high customer retention rate of 84.2% is the result of the emphasis we place on listening and providing quality service. Hearing your feedback is the best way to learn how we're doing in order to keep raising the bar. Share your experience with us at info@bmico.com or (800) 809-4859.

PASSIONATE ABOUT PROTECTING LIVES

In 2014, Builders University and Risk Management Consultants partnered together to teach safety and OSHA courses to nearly 1,000 workers.

The construction industry continues to rebound and many business owners are hiring new workers at a rapid rate. Finding skilled labor can be challenging in today's market and shortcuts to new hire orientation and training can be fatal. In 2014, 65% of Builders Mutual workers' compensation claims were for workers in their first year of employment. In response to this trend, Builders Mutual created a new series of easy-to-use materials called WorkSafe 101. Whether you have one new employee or a small group of new workers starting, WorkSafe 101 is designed to help you review general safety training before the employee steps foot 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, 2014. The financial statements are presented in accordance with statutory accounting principles as required by the North Carolina Department of Insurance.



2014 was another solid year for Builders Mutual as we continued to expand on the success of the prior year. We were again able to achieve balanced growth and improve profitability while obtaining new milestones in written premium, new business production, and policies in force. The Company is reporting net income of \$18.4 million and an underwriting gain of \$8.9 million. 2014 marked the second consecutive year in which Builders Mutual reported an underwriting gain. We also had investment income of \$15.8 million. The economic recovery continued and the Company is pleased to report that direct premium written grew by \$31.3 million or 15.6% in 2014, eclipsing 2013 as the largest premium year in the Builders Mutual's history. While we continue to face challenges related to an economy which has not fully stabilized, the construction market continues to recover after a prolonged downturn. A \$1.525 million policyholder dividend has been paid to eligible workers' compensation policyholders, demonstrating that Builders Mutual continues to place our policyholders first and remains committed to building long-term partnerships with our policyholders and agents. We will continue to invest in our customers, people and processes, to further develop the individual expertise that makes us the leading choice in construction insurance in the southeast.

FINANCIAL POSITION

ASSETS

Total assets increased \$62.1 million, or 10.8%, to \$638.5 million. Bonds and common stocks represent 81.0% of the Company's assets and increased during the year by \$51.2 million from additional investment contributions and changes in market values. The Company continues to invest heavily in fixed income securities, which are \$421.3 million, or 66.0% of total assets. Cash and short-term investments also increased by \$2.7 million from insurance operations. Premium balances receivable increased \$7.0 million due to the growth in written premium noted above. Other assets increased \$1.1 million, due to increases in reinsurance recoverable, federal income tax receivable and guaranty funds receivable.

LIABILITIES

Total liabilities increased by \$41.5 million, or 12.4% in 2014. Total unpaid loss and loss adjustment expense reserves increased \$27.5 million this year due to growth in exposures. Included in the loss and loss adjustment expense reserves is \$12.2 million of favorable loss development on prior accident years. This favorable

loss development speaks to the safe working conditions created by our policyholders with assistance from our Risk Management consultants. Unearned premium reserves increased \$10.1 million, due to the growth in written premiums. Other liabilities increased \$4.0 million, due primarily for increases in commission payable and other premium related items. A dividend totaling \$1.525 million is included in other liabilities, which was paid to our policyholders in early 2015.

POLICYHOLDER SURPLUS

Policyholder surplus grew \$20.5 million in 2014, to \$262.6 million. This surplus growth is primarily from net income totaling \$18.4 million and \$2.2 million of net unrealized capital gains on investments. The Company's continued ability to grow policyholder surplus in a slowly stabilizing economy and construction market 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

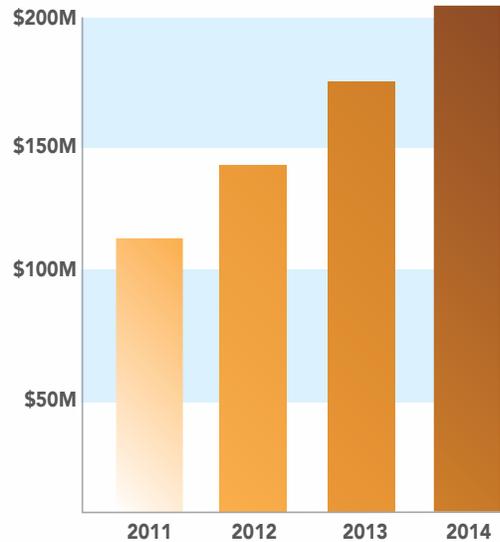
The Company is reporting net income of \$18.4 million for 2014. Net premiums earned increased by \$31.0 million, or 17.8%, during the year, reflecting higher levels of building activity and continued improvement in the construction industry. Workers' compensation premium represents 72.6% of total premiums compared to 71.2% in 2013. 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.

Losses and LAE incurred increased in 2014 by \$20.7 million and our calendar year loss ratio increased to 62.3% as a percentage of premiums earned. Despite this slight increase from the prior year, the loss ratio still came in lower than plan and is the result of successful risk management and underwriting discipline as our overall exposures continue to grow.

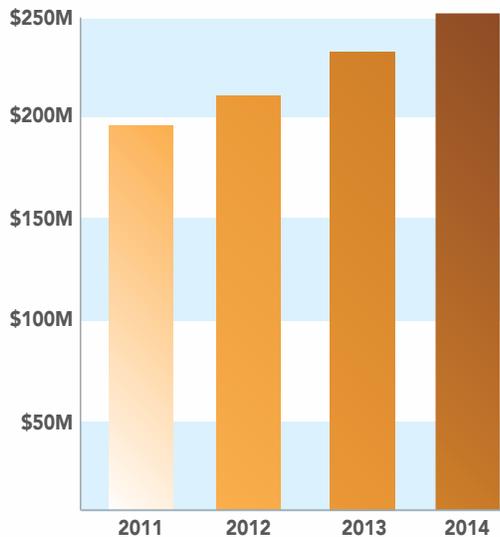
Total operating expenses incurred are \$68.6 million for 2014, compared to \$61.9 million in 2013. Consistent with the growth in current year premium, total underwriting expenses incurred also increased. However, this 10.8% increase was substantially lower than the 18.6% increase in net premiums written resulting in an expense ratio improvement from the prior year.

Despite a low interest rate environment, net investment income increased by \$1.9 million in 2014. This increase is largely in part to the increased funding of investment contributions during the year. In addition, sales of investments generated realized capital gains of \$1.4 million compared to \$242 thousand of realized capital losses in the prior year.

PREMIUMS EARNED



POLICYHOLDER SURPLUS



FINANCIAL SUMMARY

BALANCE SHEET

All figures represented in thousands (,000).

	2014	2013
ASSETS		
Bonds	\$421,257	\$404,525
Common and preferred stocks	\$95,719	\$61,240
Cash and short-term investments	\$22,220	\$19,513
Premium balances	\$61,646	\$54,643
Other assets	\$37,631	\$36,487
Total Assets	\$638,473	\$576,408
LIABILITIES AND POLICYHOLDER SURPLUS		
Unpaid losses and loss adjustment expenses	\$278,534	\$251,040
Unearned premiums	\$56,169	\$46,088
Other liabilities	\$41,194	\$37,243
Total Liabilities	\$375,897	\$334,371
Total Policyholder Surplus	\$262,576	\$242,037
Total Liabilities and Policyholder Surplus	\$638,473	\$576,408

PROFITABILITY ANALYSIS

	2014	2013	CHANGE
Loss Ratio	62.3%	61.5%	0.8%
Expense Ratio	31.8%	34.1%	-2.3%
Dividend Ratio	0.7%	0.9%	-0.2%
Combined Ratio	94.8%	96.4%	-1.6%
Operating Ratio	87.2%	88.5%	-1.3%

STATEMENT OF INCOME

All figures represented in thousands (,000).

	2014	2013
UNDERWRITING INCOME		
Premiums earned	\$205,439	\$174,402
Losses and LAE incurred	\$127,907	\$107,193
Underwriting expenses	\$68,617	\$61,944
Underwriting gain	\$8,915	\$5,265
INVESTMENT INCOME		
Investment income, net of interest expense	\$15,770	\$13,858
Realized capital gains / (losses)	\$1,397	\$(242)
Other expenses	\$1,384	\$550
Income before income taxes	\$24,698	\$18,331
Policyholder dividends	\$1,525	\$1,542
Federal income tax expense	\$4,751	\$3,232
Net Income	\$18,422	\$13,557
CHANGES IN POLICYHOLDER SURPLUS		
Unassigned surplus, beginning of year	\$242,037	\$218,721
Net income	\$18,422	\$13,557
Net unrealized capital gains	\$2,196	\$6,942
Change in net deferred income tax	\$(913)	\$493
Change in non-admitted assets	\$642	\$2,461
Change in provision for reinsurance	\$192	\$(137)
Unassigned Surplus, End of Year	\$262,576	\$242,037



BOARD OF DIRECTORS

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

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Storm Coast Homes, LLC
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Winston Salem, NC

Don Betsworth
Don Betsworth Homes, Inc.
Summerfield, NC

Andy Betts
Retired Accountant
Raleigh, NC

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Creech Construction Co., Inc.
Raleigh, NC

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Avant-Garde Real Estate
Consulting, LLC
Charlotte, NC

Gary Hill
J. Gary Hill, LLC
Greensboro, NC

Willard "Buddy" Hughes
Insulated Concrete, Inc.
Lexington, NC

Brian Pace
Pace Development Group
Charlotte, NC

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AMB, CGP, CLR**
Living Stone Construction
Black Mountain, NC

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Executive Officer

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Chief Marketing Officer

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Chief Financial Officer

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Underwriting

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Human Resources &
Organizational Effectiveness

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Accounting

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Melissa Willard, CIC, CBIA
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