WELCOME
BRANDING
ENHANCEMENTS
CULTURE
GROWTH
FINANCIALS
LEADERSHIP

BUILDERS MUTUAL
At work with you.

2015 ANNUAL REPORT
At Builders Mutual, we are dedicated to maintaining stability and profitability for our policyholders and agents through strategic growth, excellent service, and industry expertise.

JOHN K. BOGGS, CPA, CGMA, FLMI
President and CEO
There have been several remarkable developments at Builders Mutual over the past year. One that probably caught your eye already is our brand refresh, which you can read more about on the following pages. However, there are many other enhancements we’ve made behind the scenes that are just as critical to helping our policyholders, agents, and employees get the job done right.

From the elimination of installment fees to the addition of 40 in-house claims representatives to the unveiling of a new Auto-draft payment option, we continue to grow and evolve our products, services, and support to make it easier for our policyholders to do business with us.

We kept a keen eye on growth and profitability and set lofty financial goals for the year, which, through the hard work of everyone on our team, we managed to exceed. In 2015, direct premiums written grew by 13.7% to an all-time high of $263.8 million. Our current mix of in-force policies emphasizes our strength as a workers’ compensation carrier, with roughly 73% being workers’ compensation policies and the other 27% representing our other lines of business. Notably, our customer retention rose to 83.9%.

As a result of this incredible success, the Board of Directors declared a $1.6 million dividend for eligible workers’ compensation policyholders. For the sixteenth year, A.M. Best Company awarded us with an “A” (Excellent) rating, which is a tribute to our stability and our position as a leading carrier of insurance products for the construction industry in the Southeast and Mid-Atlantic.

As a valued customer and partner of Builders Mutual, you can trust in our financial stability and count on our continued success.
There are many reasons why companies undergo a brand refresh. At Builders Mutual, it is about expanding perceptions and positioning for the future. In recent years, we have grown significantly in premiums, policy count, customer accounts, agency representation, and market footprint. While we are the same great company with the same great resources, it is time for a new look that represents not only who we are today but where we are headed in the future.

MIKE GERBER, CBIA
SVP, Chief Marketing Officer
In 2015, Builders Mutual unveiled a new identity as part of a larger marketing effort aimed at solidifying our position as the leader and expert in construction industry coverage and safety education.

During this brand refresh, we created a visual identity that clearly defines who we are and sets a graphic standard for all our communications going forward. The new logo features a clean, bold design marked by “Builders Mutual”—minus the “Insurance Company”—set in Interstate font using all caps. This font, which is based on U.S. Federal Highway signage fonts, proclaims our strength and stability and demonstrates the important role we play in protecting our policyholders. The use of red serves as a thread of consistency from the old brand to the new.

Our new tagline, “At work with you,” underscores the teamwork approach to everything we do. From the office to the agency to the jobsite, we are working together with our policyholders, agents, and each other to ensure that everyone has what they need to get the job done right.
We launched a number of important customer initiatives in 2015 designed to improve the overall customer experience. As industry experts, Builders Mutual is committed to the construction market and will continue to look for ways to enhance the overall value proposition.

BRAD MOOCK, CPCU, CLU, CBIA
AVP Business Development
At Builders Mutual, we are always looking for ways to improve our coverage options and make it even easier for our policyholders to do business with us. These are some of the enhancements we made in the past year.

**Better Coverage**
We added several new general liability, auto, and property endorsements that enhance our existing coverage options. For example, the CGL Enhancement Endorsement is now automatically added to all General Liability policies. This new form provides updated coverage that complies with most construction contractual insurance requirements and creates consistency between the General Liability and Trade Contractor products. With this simple change, policyholders no longer have to wait for policy endorsements to be processed, and agents can provide policyholders Certificates of Insurance faster and more efficiently.

**Fewer Fees**
We have eliminated the $3 installment fee on all payments. In the past, Builders Mutual charged a $3 installment fee on all lines except workers’ compensation. This inconsistency created confusion for agents and policyholders, and proved inconvenient for policyholders with multi-lined accounts. In an effort to streamline pay plan programming, prepare for the offering of Auto-draft, and help our policyholders save more money, we decided to eliminate installment fees altogether.

**Easier Audits**
As a service to our customers, Builders Mutual began offering online self-audits in May 2015. Eligible policyholders receive instructions in the mail, and go online to complete and submit the audit.

**1,548+ self-audits reported online since new process launched**

**Simpler Payments**
In October 2015, we introduced a new Auto-draft option for policyholders. With this feature, policyholders log in to BOB and register individual policies for an automated recurring payment option drafted directly from their checking accounts.

**25%**
Eligible, in-force policies converted from online payments to Auto-draft
Builders Mutual is an exciting place to work because leadership continues to encourage our professional development as the company grows. We also have a new hire buddy program to welcome new employees and develop stronger relationships between the departments—all of which helps to strengthen our company culture.

STEFANI TYSON, CIC, CBIA
Express Account Underwriter
At Builders Mutual, we stress the importance of building relationships with new hires and make a concerted effort to immerse them in our culture from Day One.

**In 2015,** we welcomed 40 claims adjusters, shifting our claims structure from a third party administrator to an in-house claims operation. This behind-the-scenes change allowed us to streamline many processes and look for additional ways to improve claims service. We also hired 45 employees; of those, 15 were new positions. As we continue to grow, we are working hard to preserve the company culture our policyholders, agents, and employees have come to know and value, while remaining open and adaptable to the arrival of new ideas and new people.

This year, with so many new employees joining Builders Mutual, it is particularly important to integrate everyone into our collaborative atmosphere and share our industry expertise with them. Our human resources department provides thorough new-hire orientation, to create a culture that says we care as much about what we do as how we do it.

Builders University also offers training courses for seasoned employees as well as newcomers who want to learn more about topics ranging from financials to communication. Because employee excellence is so critical to our success, these opportunities are offered as a benefit to all employees throughout the year.

**IN 2015, WE WELCOMED**

- 40 in-house claims reps
- 45 additional employees
It’s great to work for a company, like Builders Mutual, who understands the intricate needs of such a diverse group of customers in an industry that represents the fabric of our country. What’s especially gratifying is to watch that company build and sustain double-digit growth rates while building its surplus and developing its people.

ROSS FOWLER, CPCU, CBIA
AVP Underwriting
In 2015, Builders Mutual grew by 13.7%. Direct premiums written grew to $263.8 million. Customer retention soared to 83.9%.

Current mix of in-force policies:
- Workers’ comp: 73%
- Other: 27%

Last year:
- 573 policyholders participated in 39 classes at Builders University.
- 131 agents attended CBIA courses.
- 196 employees enrolled in at least one Builders University class.

Dividends:
Builders Mutual distributed a $1.6 million dividend to nearly 9,600 eligible workers’ comp policyholders in eight states and the District of Columbia.

Throughout our history, Builders Mutual has consistently returned more than $50 million in dividends in 27 out of 31 eligible years. We continue to provide financial stability to our policyholders and show steady, controlled growth as a company. This dividend return is one way to recognize the strong results of both our policyholders and our company.
Our Balance Sheet provided the backbone to survive the economic downturn, and the strength to prosper and exceed financial goals in this current recovery period. Builders Mutual’s strong financial results are a testament to this.

TOM LOCKARD, CPA, CGMA
Chief Financial Officer
2015 was a fantastic year for Builders Mutual as we once again continued to expand on the success of the prior year. We were again able to achieve balanced growth and significantly improve profitability, while obtaining new milestones in written premium and policies in force. Our Company is reporting net income of **$20.1 million** and a net underwriting gain of **$16.2 million**. 2015 marked the third consecutive year in which Builders Mutual reported a net underwriting gain. We also had investment income of **$16.1 million**. The economic recovery continues, and the Company is pleased to report that direct premiums written grew by **$31.7 million or 13.7%** in 2015, eclipsing 2014 as the largest premium year in Builders Mutual’s history. While we continue to face challenges related to an economy not fully stabilized, the construction market continues to rebound after a prolonged downturn. A **$1.6 million** policyholder dividend has been paid to our eligible workers’ compensation policyholders, demonstrating that Builders Mutual continues to place our policyholders first and remains committed to building meaningful, 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 and Mid-Atlantic.
FINANCIALS

ASSETS

Total assets increased $62.9 million, or 9.9%, to $701.4 million. Bonds and common stocks represent 80.3% of the Company’s assets and increased during the year by $46.1 million from additional investment contributions and changes in market values. The Company continues to invest heavily in fixed income securities, which are $460.7 million, or 65.7% of total assets. Cash and short-term investments also increased by $8.6 million, benefiting from our strong insurance operations. Premium balances receivable increased $8.8 million due to the growth in written premium noted above. Other assets grew $0.5 million, due primarily to increases in a deferred income tax asset, guaranty insurance funds and various receivables.

LIABILITIES

Total liabilities increased by $43.9 million, or 11.8%, in 2015. Total unpaid loss and loss adjustment expense reserves increased $30.4 million this year due to exposure growth in our business. Included in loss and loss adjustment expense reserves is $7.3 million of favorable loss development from 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 $7.7 million, from the growth in written premiums. Other liabilities increased $5.8 million, mostly from the assumption of future exposures with the Tennessee workers’ compensation insurance plan. A $1.6 million dividend is included in other liabilities, which was paid to our policyholders in early 2016.

POLICYHOLDER SURPLUS

Policyholder surplus grew $19.0 million in 2015 to $281.6 million. This large growth in surplus is from net income totaling $20.1 million. The Company’s continued ability to grow policyholder surplus in this slowly stabilizing economy and construction market is a solid indication of our underlying foundational financial strength and is also a key factor in maintaining our A.M. Best “A” (Excellent) rating.
RESULTS OF OPERATIONS

The Company is reporting net income of $20.1 million for 2015. Net premiums earned increased by $33.6 million, or 16.4%, during the year, reflecting higher levels of building activity and continued improvement in the construction industry. Workers’ compensation premium represents 73% of total premiums compared to 72.6% in 2014. Builders Mutual’s focus remains providing a high-quality insurance product at a fair price to our policyholders, without sacrificing any of the underwriting discipline necessary to grow underwriting profits and sustain financial strength.

Losses and LAE incurred increased in 2015 by $22.9 million, and our calendar year loss ratio increased to 63.1% as a percentage of premiums earned. The loss ratio came in lower than was planned and is the result of successful risk management and underwriting discipline, even as our overall exposures continue to grow.

Total operating expenses incurred are $72.0 million for 2015, compared to $68.6 million in 2014. Consistent with the growth in current year premium and the continued investment in our customers, people, and processes, the total underwriting expenses incurred also increased. However, this relatively small increase of only 4.9% was substantially lower than the 14.5% increase in our net premiums written, resulting in a significant expense ratio improvement from the prior year.

Despite a continued low interest rate environment, net investment income increased by $0.4 million in 2015. This increase is largely in part to the increased funding of investment contributions during the year. Adding to overall investment income, sales of investments generated realized capital gains of $0.9 million.
# STATEMENT OF INCOME

All figures represented in thousands (,000).

## UNDERWRITING INCOME 2015 2014

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
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<tbody>
<tr>
<td>Premiums earned</td>
<td>$239,066</td>
<td>$205,439</td>
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<tr>
<td>Losses &amp; LAE incurred</td>
<td>$150,854</td>
<td>$127,907</td>
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<tr>
<td>Underwriting expenses</td>
<td>$72,012</td>
<td>$68,617</td>
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<tr>
<td>Underwriting gain/(loss)</td>
<td>$16,200</td>
<td>$8,915</td>
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## INVESTMENT INCOME 2015 2014

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<thead>
<tr>
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<tbody>
<tr>
<td>Investment income, Net of interest expense</td>
<td>$16,149</td>
<td>$15,770</td>
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<tr>
<td>Realized capital gains/(losses)</td>
<td>$920</td>
<td>$1,396</td>
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<tr>
<td>Other expenses</td>
<td>$2,632</td>
<td>$1,384</td>
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<tr>
<td>Income before dividends &amp; income taxes</td>
<td>$30,637</td>
<td>$24,697</td>
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<tr>
<td>Policyholder dividends</td>
<td>$1,990</td>
<td>$1,525</td>
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<tr>
<td>Federal income tax expense</td>
<td>$8,530</td>
<td>$4,751</td>
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<tr>
<td>Net Income</td>
<td>$20,117</td>
<td>$18,421</td>
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## CHANGES IN POLICYHOLDERS SURPLUS 2015 2014

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Unassigned surplus, beginning of year</td>
<td>$262,576</td>
<td>$242,037</td>
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<tr>
<td>Net income</td>
<td>$20,117</td>
<td>$18,421</td>
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<tr>
<td>Net unrealized capital gains</td>
<td>$(3,662)</td>
<td>$2,196</td>
</tr>
<tr>
<td>Change in net deferred income tax</td>
<td>$874</td>
<td>$(913)</td>
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<tr>
<td>Change in non-admitted assets</td>
<td>$1,686</td>
<td>$643</td>
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<tr>
<td>Change in provision for reinsurance</td>
<td>$41</td>
<td>$192</td>
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<tr>
<td>Unassigned Surplus, End of Year</td>
<td>$281,632</td>
<td>$262,576</td>
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## PROFITABILITY ANALYSIS

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<tr>
<th></th>
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<tbody>
<tr>
<td><strong>LOSS RATIO</strong></td>
<td></td>
<td></td>
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<tr>
<td>Losses+LAE/Net Premiums Earned</td>
<td>63.1%</td>
<td>62.3%</td>
<td>0.8%</td>
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<table>
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<th></th>
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<tr>
<td><strong>EXPENSE RATIO</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Underwriting Expenses/Net Premiums Written</td>
<td>29.2%</td>
<td>31.8%</td>
<td>-2.6%</td>
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<table>
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<th>2014</th>
<th>CHANGE</th>
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<tbody>
<tr>
<td><strong>DIVIDEND RATIO</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policyholders Dividends/Net Premiums Earned</td>
<td>0.8%</td>
<td>0.7%</td>
<td>0.1%</td>
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<table>
<thead>
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<th></th>
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<tbody>
<tr>
<td><strong>COMBINED RATIO</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss Ratio + Expense Ratio + Dividend Ratio</td>
<td>93.1%</td>
<td>94.8%</td>
<td>-1.7%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
<th>CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPERATING RATIO</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combined Ratio - (Net Investment Income Earned/Net Premiums Earned)</td>
<td>86.4%</td>
<td>87.2%</td>
<td>-0.8%</td>
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</tbody>
</table>
Builders Mutual’s leadership has always appreciated and focused on the market niche in which the company excels and has worked to separate itself from the masses. The Board has cultivated a unique style of leadership based on its breadth of professional experience and staunch commitment to the company as a result of many Board members being policyholders themselves.

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Chairman, Builders Mutual Board of Directors
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