

**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

WELCOME



FROM OUR PRESIDENT

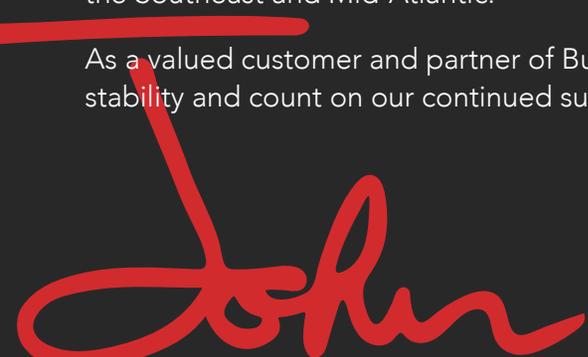
There have been several remarkable developments at Builders Mutual over the past year. One that probably caught your eye already is our brand refresh, which you can read more about on the following pages. However, there are many other enhancements we've made behind the scenes that are just as critical 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.



DIRECT PREMIUMS WRITTEN GREW TO AN ALL-TIME HIGH OF

\$263,768,674

CUSTOMER RETENTION RATE ROSE TO | IN-HOUSE CLAIMS REPS

83.9% | **+40**

BOARD OF DIRECTORS DECLARED A DIVIDEND OF

\$1.6 MILLION



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

BRANDING





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

ENHANCEMENTS



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

CULTURE



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

in-house
claims reps

45

additional
employees

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.



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

GROWTH



IN 2015

Builders Mutual grew by

13.7%

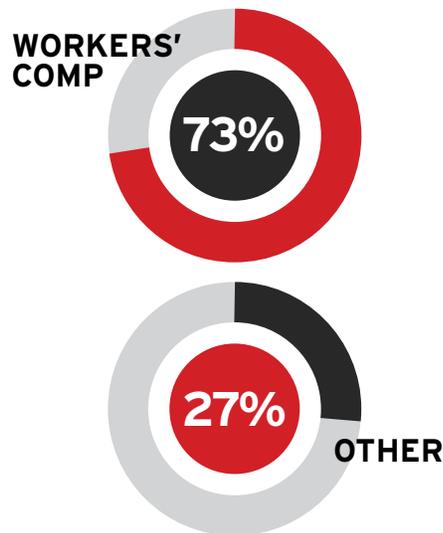
Direct premiums written grew to

\$263.8 MILLION

Customer retention soared to

83.9%

Current mix of IN-FORCE POLICIES



LAST YEAR

573

policyholders participated
in 39 classes at

BUILDERS UNIVERSITY

131

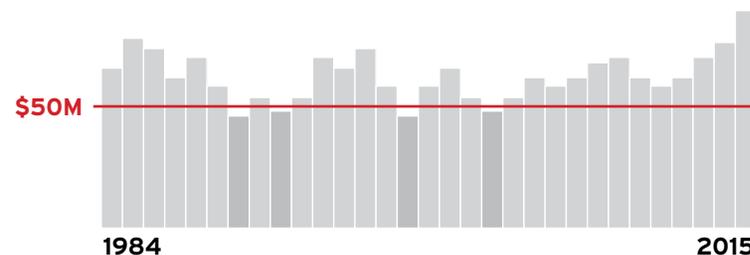
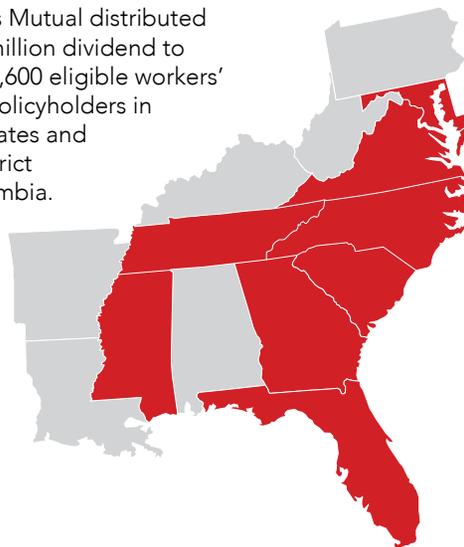
AGENTS
ATTENDED
CBIA
COURSES

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

FINANCIALS



The following are statements of financial position and results of operations of Builders Mutual Insurance Group for the fiscal year ended December 31, 2015. The financial statements are presented in accordance with statutory accounting principles as required by the North Carolina Department of Insurance.

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.



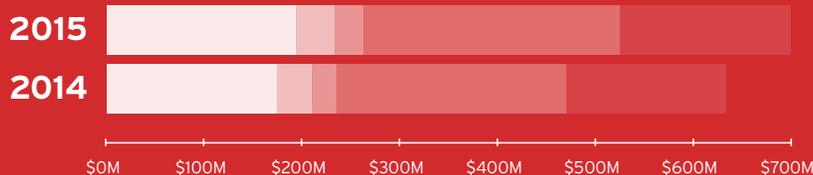
BALANCE SHEET

All figures represented in thousands (,000).

ASSETS	2015	2014
Bonds	\$460,708	\$421,257
Common and preferred stocks	\$102,330	\$95,718
Cash and short-term investments	\$30,861	\$22,220
Premium balances	\$70,409	\$61,647
Other assets	\$37,135	\$37,631
Total Assets	\$701,443	\$638,473



LIABILITIES & POLICYHOLDERS SURPLUS	2015	2014
Unpaid losses & loss adjustment expenses	\$308,926	\$278,534
Unearned premiums	\$63,858	\$56,169
Other liabilities	\$47,027	\$41,194
Total Liabilities	\$419,811	\$375,897
Total Policyholders Surplus	\$281,632	\$262,576
Total Liabilities & Policyholders Surplus	\$701,443	\$638,473



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, benefitting 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.

3.13.15

A.M. Best Company, the leading source for information on the financial condition and operating performance of insurance companies worldwide, reaffirmed our "A" (Excellent) rating for the sixteenth consecutive time.

"The 'A' rating reflects [Builders Mutual's] strong risk-adjusted capitalization, historically profitable operating performance, and stable loss reserving trends driven by effective loss control practices and aggressive claims management."

A.M. Best

STATEMENT OF INCOME

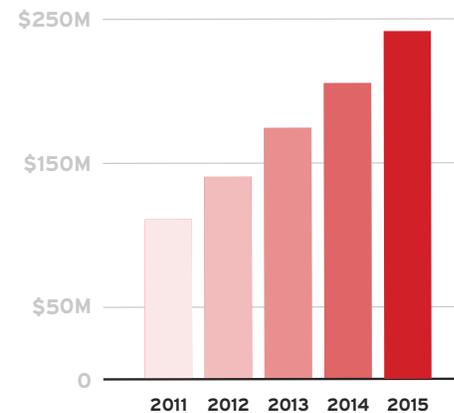
All figures represented in thousands (,000).

UNDERWRITING INCOME	2015	2014
Premiums earned	\$239,066	\$205,439
Losses & LAE incurred	\$150,854	\$127,907
Underwriting expenses	\$72,012	\$68,617
Underwriting gain/(loss)	\$16,200	\$8,915

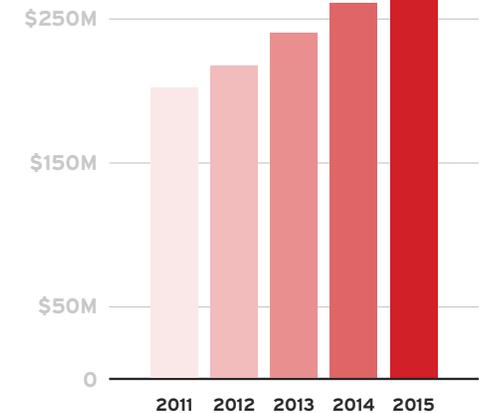
INVESTMENT INCOME	2015	2014
Investment income, Net of interest expense	\$16,149	\$15,770
Realized capital gains/(losses)	\$920	\$1,396
Other expenses	\$2,632	\$1,384
Income before dividends & income taxes	\$30,637	\$24,697
Policyholder dividends	\$1,990	\$1,525
Federal income tax expense	\$8,530	\$4,751
Net Income	\$20,117	\$18,421

CHANGES IN POLICYHOLDERS SURPLUS	2015	2014
Unassigned surplus, beginning of year	\$262,576	\$242,037
Net income	\$20,117	\$18,421
Net unrealized capital gains	\$(3,662)	\$2,196
Change in net deferred income tax	\$874	\$(913)
Change in non-admitted assets	\$1,686	\$643
Change in provision for reinsurance	\$41	\$192
Unassigned Surplus, End of Year	\$281,632	\$262,576

PREMIUMS EARNED



POLICYHOLDER SURPLUS



PROFITABILITY ANALYSIS

	2015	2014	CHANGE
LOSS RATIO <i>Losses+LAE/Net Premiums Earned</i>	63.1%	62.3%	0.8%
EXPENSE RATIO <i>Other Underwriting Expenses/ Net Premiums Written</i>	29.2%	31.8%	-2.6%
DIVIDEND RATIO <i>Policyholders Dividends/ Net Premiums Earned</i>	0.8%	0.7%	0.1%
COMBINED RATIO <i>Loss Ratio + Expense Ratio + Dividend Ratio</i>	93.1%	94.8%	-1.7%
OPERATING RATIO <i>Combined Ratio - (Net Investment Income Earned/Net Premiums Earned)</i>	86.4%	87.2%	-0.8%





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.

RICK JUDSON, EVERGREEN GROUP, LLC

Chairman, Builders Mutual Board of Directors

LEADERSHIP





2016 BOARD OF DIRECTORS

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Evergreen Group, LLC
Charlotte, NC

David Stormont, Vice Chairman

Storm Coast Homes, LLC
Kitty Hawk, NC

Erik A. Anderson, Secretary/Treasurer

Anderson-Moore Builders
Winston-Salem, NC

Andy Betts

Business Consultant
Raleigh, NC

David Creech

Creech Construction Co., Inc.
Raleigh, NC

Gary Emblar

Niblock Development Corp.
Concord, NC

Jerry Hartsell

Business Consultant
Midland, NC

Gary Hill

J. Gary Hill, LLC
Greensboro, NC

Willard "Buddy" Hughes

Insulated Concrete, Inc.
Lexington, NC

Brian Pace

Pace Development Group
Charlotte, NC

Sean D. Sullivan, AMB, CGP, CLR

Living Stone Construction
Black Mountain, NC



OFFICERS & DEPARTMENT DIRECTORS**John K. Boggs, CPA, CGMA, FLMI**

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Mike Gerber, CBIA

Senior Vice President/Chief Marketing Officer

Tom Lockard, CPA, CGMA

Vice President/Chief Financial Officer

Alan Mercaldo

Vice President/Chief Information Officer

Ken Bunn

Assistant Vice President/Claims

Ross Fowler, CPCU, CBIA

Assistant Vice President/Underwriting

Michele Hemric, SPHR, ACC, CBIA, CISR

Assistant Vice President/Human Resources
and Organizational Effectiveness

Lisa Hoke, FLMI

Assistant Vice President/Controller

Brad Moock, CPCU, CLU, CBIA

Assistant Vice President/Business Development

Jerry Visintine, FCAS, MAAA

Assistant Vice President/Actuarial

Lindsay H. Smith

Assistant Secretary

Michael Carter, CPCU, APA

Director of Premium Audit

Joe Frazier

Director of IT Business Solutions

Michelle King

Director of Information Management

Jerry Kaiser

Director of Project Services

Angelo Paino, CPCU, CBIA

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Todd Quilici

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Director of Underwriting