WE APPRECIATE THE PERSONAL RELATIONSHIPS WE’VE BUILT WITH BUILDERS MUTUAL.

TOGETHER, WE ARE A TRUE TEAM.

Builders Mutual Policyholder
In 2016, Builders Mutual experienced unprecedented growth and success, closing out the year with more than $310.3 million in direct premiums written. Not only did we outperform our original plan by 13 percent and beat the previous year by 17.6 percent, we also outperformed the property and casualty insurance industry once again. We exceeded our new business goal by writing more than $48 million in new premiums across more than 10,000 new policies. As a result of our financial operations, the Board of Directors declared a $1.75 million dividend for eligible workers’ compensation policyholders.

Our success is not about numbers alone. At Builders Mutual, we are keenly focused on continuously improving the experience for our policyholders. We made several service improvements last year that make it easier for customers to do business with us and help us do our jobs more effectively and efficiently. This includes adding a 24/7 claims reporting service and express payment queue for customers paying their bills by phone, which boasts a 97 percent service level.

The past year’s strong results are a reflection of the efforts made every single day by everyone on the Builders Mutual team in support of our customers and the company. Throughout this annual report, you will see quotes from our customers that emphasize just how important our work is to them, as well as how much our success influences theirs. We are dedicated to being here for the long haul for the people who depend on us to get the job done right.

John K. Boggs
CPA, CGMA, FLMI
President/Chief Executive Officer
FROM REGIONAL REPRESENTATION TO MONTHLY SITE VISITS WITH FIELD REPRESENTATIVES, THERE IS A CONVICTION THAT BUILDERS MUTUAL TRULY CARES ABOUT OUR ACCOUNT.

Builders Mutual Policyholder
Customer experience drives everything we do at Builders Mutual. We are always looking for ways to streamline our processes to better serve our policyholders. Here are a few of the improvements we made to our service offerings last year.

24/7 CLAIMS SUPPORT
We overhauled our claims support to strengthen processes, bill pay options, support for medical providers, and more. In addition to establishing a six-month new hire training program to improve our own internal onboarding in this department, we added 24/7 service for claims reporting to give our policyholders continual support when they need us most.

CUSTOMER CONTACT CENTER
We continue to look for ways to enhance the services offered through our Customer Contact Center. As such, we added an express payment queue in 2016 that makes it even easier for customers to pay bills by phone. This quickly became a popular feature with our policyholders—and we have the service level results (percentage of calls answered versus abandoned) to prove it.

RISK MANAGEMENT TRAINING
Our Risk Management team members are here to share their industry expertise and experience with policyholders and their workers in order to improve job-site safety and OSHA compliance while minimizing the risk of fines, injuries, and losses. Last year alone, Risk Management reached nearly 800 workers through safety talks, OSHA classes, and the annual National Safety Stand-Down to raise awareness of fall hazards and prevention.

93,218 CALLS TAKEN IN 2016
97% SERVICE LEVEL FOR EXPRESS PAYMENT QUEUE
157 TRAINING SESSIONS COMPLETED BY RISK MANAGEMENT CONSULTANTS IN 2016
I have experienced the culture at Builders Mutual and found it to be very inspiring.

Builders Mutual Policyholder
According to a 2016 survey by the National Association of Mutual Insurance Companies, 25 percent of insurance industry professionals will be nearing retirement by 2018. Coupled with the fact that graduates from insurance and risk management programs will meet only 10-15 percent of the industry need, a looming talent crisis is just a couple of years away.

Builders Mutual is preparing for the future by developing our workforce from within. Last year, we implemented formal career paths for every role in the company. This helps employees understand the expectations of the knowledge and skills they need to gain in order to excel in future roles. We also created technical expert positions for departments like Risk Management and Claims.

Underwriting added a formal trainee program that provides a launch pad for recent college graduates or employees transferring into underwriting from other departments. They learn our culture, receive in-depth and specific training, and must pass the AU60 exam before receiving a territory and express account underwriting position. This program has been very successful and is something we plan to replicate in other departments.

Knowing that some of our most experienced and valued employees are part of that 25 percent headed into retirement, we created a phased retirement program that allows time for new hires to learn from their predecessors and lets tenured employees gradually ease into retirement.
WE SINCERELY VALUE OUR RELATIONSHIP WITH BUILDERS MUTUAL. THEY HAVE BEEN A RESOURCE OF KNOWLEDGE TO HELP OUR BUSINESS SUCCEED.

Builders Mutual Policyholder
 Builders Mutual grew by 17.6% in 2016.

$310.3 million in direct premiums written in 2016.

10,031 new policies written in 2016, a 11.4% increase year over year.

$1.75 million dividend distributed to eligible workers’ compensation policyholders.

$55 million distributed throughout our company history.

This makes over 3,162 surveys completed by Risk Management.

713 independent agencies serving our customers across our footprint.

Workers’ compensation represents 73.6% of total premiums.

11.4% increase year over year.
FROM CLAIMS TO SALES SUPPORT, OUR RELATIONSHIP WITH BUILDERS MUTUAL EXTENDS PAST A STRATEGIC PARTNERSHIP.

Builders Mutual Policyholder
This year we were “At work with you,” our customers, and we are pleased to report that 2016 was another exceptional year for Builders Mutual, as we delivered strong results by expanding on our successes of the prior years. The Company is pleased to report direct premiums written totaled $310.3 million, representing an increase of $46.5 million or 17.6%, eclipsing 2015 as the largest premium year in Builders Mutual’s history. We were able to achieve balanced growth while maintaining profitability and achieving new milestones in written premiums and policies in force. For six straight years, we have exceeded our established goals, experienced double-digit premium growth, and strengthened profitability. Our Company is reporting net income of $19.8 million and a net underwriting gain of $15.8 million. Policyholder surplus, the very foundation of a mutual insurance company, is $310 million at year end 2016.

The construction market continues to rebound after its prolonged downturn. A $1.75 million policyholder dividend has been paid to our eligible workers’ compensation policyholders, demonstrating that Builders Mutual continues to place our policyholders first, and we remain committed to building meaningful, long-term partnerships with our policyholders and agents. We continue to strengthen our position as a niche insurance carrier providing complete protection to the construction industry in the footprint we serve by investing in our customers, people, and processes to further develop the expertise that makes us the leading choice in the Southeast and Mid-Atlantic.

The following are statements of financial position and results of operations of Builders Mutual Insurance Group for the fiscal year ended December 31, 2016. The financial statements are presented in accordance with statutory accounting principles as required by the North Carolina Department of Insurance.
**FINANCIAL POSITION**

**ASSETS**

Total assets increased $78.4 million or 11.2% to $779.8 million. Bonds and common stocks represent 79.9% of the Company's assets and increased during the year by $60.1 million from additional investment contributions and changes in market values. The Company continues to invest heavily in fixed income securities, which are $488.3 million or 62.6% of total assets. Cash and short-term investments also increased by $1.5 million, benefiting from our strong insurance operations. Premium balances receivable increased $12.7 million due to the growth in written premium noted above. Other assets grew $4 million from our investment in renewable energy tax credits.

**LIABILITIES**

Total liabilities increased by $50 million or 11.9% in 2016. Total unpaid loss and loss adjustment expense reserves increased $41.9 million due to the exposure growth in our business. Included in the loss and loss adjustment expense reserves is $1.7 million in favorable loss development on prior accident years. This favorable loss development speaks to the safe working conditions created by our policyholders with guidance and assistance from our Risk Management consultants. Unearned premium reserves increased $7.4 million from the growth in written premiums. Other liabilities increased slightly, the result of an increase in agent commission payable, offset by decreases in other items, including federal income tax payables. The $1.75 million dividend is included in other liabilities, which was paid to our policyholders in early 2017.

**POLICYHOLDER SURPLUS**

Policyholder surplus grew $28.4 million in 2016 to $310 million. This large growth in our surplus is mainly from the net income generated of $19.8 million. The Company's continued ability to grow its policyholder surplus in this improving economy and expanding 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.

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**BALANCE SHEET**

All figures represented in thousands (,000).

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>$488,343</td>
<td>$460,708</td>
</tr>
<tr>
<td>Common and preferred stocks</td>
<td>134,830</td>
<td>102,330</td>
</tr>
<tr>
<td>Cash and short-term investments</td>
<td>32,355</td>
<td>30,861</td>
</tr>
<tr>
<td>Premium balances</td>
<td>83,140</td>
<td>70,409</td>
</tr>
<tr>
<td>Other assets</td>
<td>41,129</td>
<td>37,135</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$779,798</strong></td>
<td><strong>$701,443</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND POLICYHOLDERS SURPLUS</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unpaid losses and loss adjustment expenses</td>
<td>$350,820</td>
<td>$308,926</td>
</tr>
<tr>
<td>Unearned premiums</td>
<td>71,279</td>
<td>63,858</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>47,667</td>
<td>47,027</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>469,766</strong></td>
<td><strong>419,811</strong></td>
</tr>
<tr>
<td><strong>Total Policyholders Surplus</strong></td>
<td><strong>310,032</strong></td>
<td><strong>281,632</strong></td>
</tr>
<tr>
<td><strong>Total Liabilities and Policyholders Surplus</strong></td>
<td><strong>$779,798</strong></td>
<td><strong>$701,443</strong></td>
</tr>
</tbody>
</table>

All figures represented in thousands (,000).
The Company is reporting net income of $19.8 million for 2016. Net premiums earned increased by $37.9 million or 15.8% during the year, reflecting higher levels of building activity and continued improvement in the construction industry. While workers’ compensation premiums represents 73.6% of total premiums, we continue to implement strategies to further diversify our book of business to provide complete coverage. The Company’s focus remains on providing a high-quality insurance product at a fair price to our policyholders, without sacrificing any of the underwriting discipline needed to grow profits and sustain financial strength.

Losses and loss adjustment expenses incurred increased by $26.1 million, and our calendar year loss ratio increased to 63.9% as a percentage of premiums earned. The loss ratio came in slightly 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 $84.2 million for 2016, compared to $72 million in 2015. The growth in operating expenses is consistent with the growth in current year premium and supports our continuing investment in our customers, people, and processes. While the operating expense increase was higher than the growth in our net premiums written, our expense ratio of 29.6% was substantially lower than planned.

Despite a continued low interest rate environment, net investment income remains virtually unchanged.
STATEMENT OF INCOME
All figures represented in thousands (,000).

UNDERWRITING INCOME 2016 2015
- Premiums earned $276,921 $239,066
- Losses and LAE incurred 176,995 150,854
- Underwriting expenses 84,151 72,012
- Underwriting gain/(loss) $15,775 $16,200

INVESTMENT INCOME 2016 2015
- Investment income, net of interest expense $16,331 $16,149
- Realized capital gains/(losses) 98 920
- Other expenses 966 2,632
- Income before dividends and income taxes 31,238 30,637
- Policyholder dividends 2,074 1,990
- Federal income tax expense 9,397 8,530
- Net Income $19,767 $20,117

CHANGES IN POLICYHOLDERS SURPLUS 2016 2015
- Unassigned surplus, beginning of year $281,632 $262,576
- Net income 19,767 20,117
- Net unrealized capital gains 6,171 (3,662)
- Change in net deferred income tax 641 874
- Change in non-admitted assets 741 1,686
- Change in provision for reinsurance (1) 41
- Adjustment for PY Receivables/Commissions 1,081 -
- Unassigned Surplus, End of Year $310,032 $281,632

TOTAL ASSETS

TOTAL POLICYHOLDERS SURPLUS

PROFILEABILITY ANALYSIS

LOSS RATIO
Losses + LAE/Net Premiums Earned 63.9% 63.1% 0.8%

EXPENSE RATIO
Other Underwriting Expenses/Net Premiums Written 29.6% 29.2% 0.4%

DIVIDEND RATIO
Policyholders Dividends/Net Premiums Earned 0.7% 0.8% -0.1%

COMBINED RATIO
Loss Ratio + Expense Ratio + Dividend Ratio 94.3% 93.1% 1.2%

OPERATING RATIO
Combined Ratio - (Net Investment Income Earned/Net Premiums Earned) 88.4% 86.4% 2%
I know that the team at Builders Mutual is 100 percent dedicated to our industry.

Builders Mutual Policyholder
2017 BOARD OF DIRECTORS

From top left to right: Jerry Hartsell, Andy Betts, David Stormont, Gary Embler, Buddy Hughes
From bottom left to right: Erik Anderson, David Creech, Rick Judson, Alan Banks, Gary Hill, Brian Pace

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Storm Coast Homes, LLC
Kitty Hawk, NC

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Andy Betts
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Concord, NC

Jerry Hartsell
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CULTURE

GROWTH

FINANCIALS

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Vice President/Chief Financial Officer

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Michelle King
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Jerry Kaiser
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CPCU, CBIA
Director of Sales

Todd Quilici
Director of IT Infrastructure

Bill Schaffner
CBIA
Director of Risk Management

Jodi Vedelli
CBIA
Senior Director of Marketing

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CPA, CTP
Director of Premium Services

Melissa Williard
CIC, CBIA
Director of Underwriting

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