

WELCOME

SERVICE

CULTURE

GROWTH

FINANCIALS

LEADERSHIP

**BUILDERS
MUTUAL**

At work with you.

2016 ANNUAL REPORT



**WE APPRECIATE
THE PERSONAL RELATIONSHIPS
WE'VE BUILT
WITH BUILDERS MUTUAL.
TOGETHER,
WE ARE A TRUE TEAM.**

Builders Mutual Policyholder



**FROM
OUR
PRESIDENT**

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

**DIRECT PREMIUMS
WRITTEN IN 2016 GREW**

17.6%

TO AN ALL-TIME HIGH OF

**\$310.3
MILLION**

NEW POLICIES WRITTEN

10,000+

**BOARD OF DIRECTORS
DECLARED A DIVIDEND OF**

**\$1.75
MILLION**



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



25% of insurance industry professionals will be nearing retirement by 2018.

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.

39
NEW HIRES

44
PROMOTIONS

21
NEW EMPLOYEE CBIA
DESIGNATIONS



**WE SINCERELY VALUE OUR
RELATIONSHIP
WITH BUILDERS MUTUAL.
THEY HAVE BEEN A
RESOURCE OF KNOWLEDGE
TO HELP OUR
BUSINESS SUCCEED.**

Builders Mutual Policyholder



PREMIUMS

IN 2016

Builders Mutual grew by

17.6%**\$310.3** MILLION
IN DIRECT PREMIUMS WRITTEN

POLICIES

10,031 NEW POLICIES
WRITTEN IN 2016**11.4% INCREASE YEAR OVER YEAR**WORKERS'
COMPENSATION
REPRESENTS**73.6%**
OF TOTAL
PREMIUMS

DIVIDEND

\$1.75
MILLIONDividend distributed
to eligible workers'
compensation
policyholders

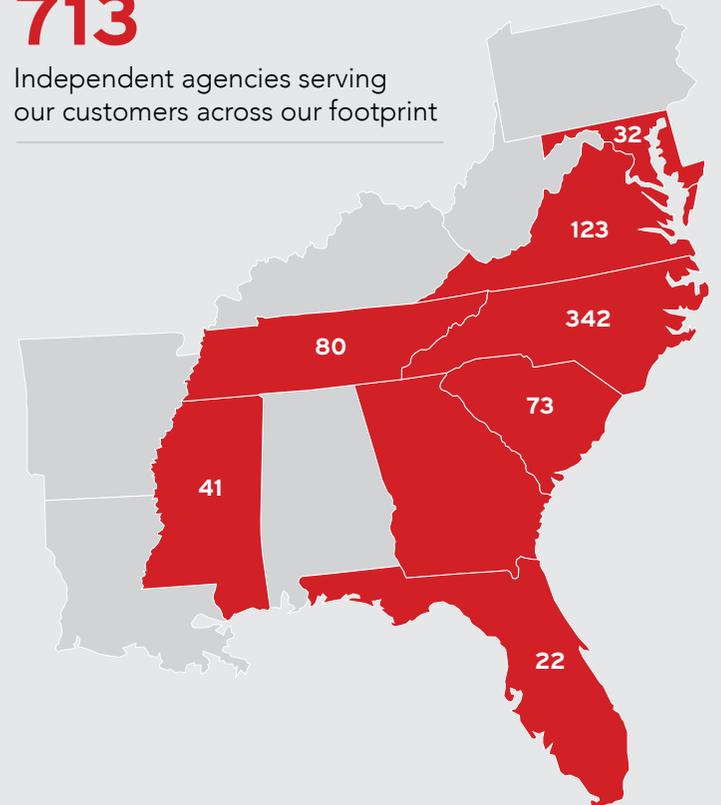
This makes over

\$55
MILLIONdistributed throughout our
company history.

RISK MANAGEMENT

3,162Surveys completed by
Risk Management

MARKET FOOTPRINT

713Independent agencies serving
our customers across our footprint



FROM CLAIMS TO
SALES SUPPORT,
OUR RELATIONSHIP
WITH BUILDERS MUTUAL
EXTENDS PAST
A STRATEGIC PARTNERSHIP.

Builders Mutual Policyholder





AT WORK
WITH YOU

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.

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.

**FOR SIX STRAIGHT
YEARS, WE HAVE
EXCEEDED OUR
ESTABLISHED GOALS,
EXPERIENCED
DOUBLE-DIGIT PREMIUM
GROWTH, AND
STRENGTHENED
PROFITABILITY.**

BALANCE SHEET

All figures represented in thousands (,000).

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

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

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.



RESULTS OF OPERATIONS

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.

NET INCOME OF

\$19.8
MILLION

NET PREMIUMS
INCREASED BY

\$37.9
MILLION

TOTAL OPERATING
EXPENSES INCURRED

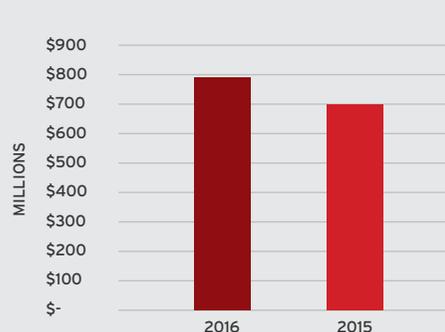
\$84.2
MILLION

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



PROFITABILITY ANALYSIS

	2016	2015	CHANGE
LOSS RATIO <i>Losses + LAE/Net Premiums Earned</i>	63.9%	63.1%	0.8%
EXPENSE RATIO <i>Other Underwriting Expenses/Net Premiums Written</i>	29.6%	29.2%	0.4%
DIVIDEND RATIO <i>Policyholders Dividends/Net Premiums Earned</i>	0.7%	0.8%	-0.1%
COMBINED RATIO <i>Loss Ratio + Expense Ratio + Dividend Ratio</i>	94.3%	93.1%	1.2%
OPERATING RATIO <i>Combined Ratio - (Net Investment Income Earned/Net Premiums Earned)</i>	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 Emblar, Buddy Hughes
From bottom left to right: Erik Anderson, David Creech, Rick Judson, Alan Banks, Gary Hill, Brian Pace

Rick Judson, Chairman

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

Alan C. Banks

Evans Coghill Homes
Charlotte, 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



OFFICERS & DEPARTMENT DIRECTORS

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President/Chief Executive Officer

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

AIC, PMP
Assistant Vice President/Claims

Ross Fowler

CPCU, CBIA
Assistant Vice President/Underwriting

Michele Hemric

SPHR, ACC, CBIA
Assistant Vice President/HR and
Organizational Effectiveness

Lisa Hoke

CPA, 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

Jeff Beatty

CBIA
Director of Underwriting

Joe Frazier

Director of IT Business Solutions

Michelle King

Director of Information Management

Jerry Kaiser

Director of Project Services

Angelo Paino

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

Steve Vore

CPA, CTP
Director of Premium Services

Melissa Williard

CIC, CBIA
Director of Underwriting