

Builders Mutual Insurance Company

Raleigh, North Carolina

Report on Examination

As of December 31, 2013

Builders Mutual Insurance Company
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Builders Mutual Insurance Company

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December 31, 2013

REPORT ON EXAMINATION OF FINANCIAL CONDITION

Honorable Wayne Goodwin
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-2-131 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs, and financial condition of

Builders Mutual Insurance Company

(Hereinafter referred to as the “Company”) at its main administrative office and the Company’s statutory home office located at 5580 Centerview Drive, Raleigh, NC 27606. The following report on examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covers the period from January 1, 2009 to December 31, 2013, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department’s most recent prior examination of the Company was as of December 31, 2008.

This examination was conducted in accordance with auditing standards established by the Department and procedures established by the National Association of Insurance Commissioners (“NAIC”). We examined the Company to evaluate the financial condition and identify prospective risks by obtaining information regarding its corporate governance structure, identifying and assessing inherent risks, and evaluating system controls and other procedures used to mitigate those risks. This examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management’s compliance with GS Chapter 58.

This examination was risk-focused and consisted of a seven-phase process used to identify and assess risk, assess the adequacy and effectiveness of strategies and controls used to mitigate risk and assist in determining the extent and nature of testing procedures to review the Company’s key activities. This process included a determination of the quality and reliability of the Company’s corporate governance structure and risk management programs, as well as verification of specific portions of the financial statement. All accounts and activities of the Company were considered; however, the examination focused on areas of high risk and fewer tests were performed on the accounts identified as having a low risk of misstatement.

Our examination was directed specifically to the quality, value and integrity of the admitted assets and liabilities reported by the Company in its 2013 Annual Statement, as those balances are critical to determining financial solvency.

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COMPANY HISTORY

The Company was incorporated on September 4, 1997, under the laws of the State of North Carolina as a non-assessable multiple line mutual insurance company. All North Carolina policyholders insured shall be members of the North Carolina Home Builders Association, Inc. ("Association"). For all other policies, the Board of Directors may require that a person or entity must be a member in good standing of a state or local affiliate of the National Association of Home Builders in order to be eligible for membership in the Corporation or to be a policyholder of the Corporation. . . On September 10, 1997, the Company received \$1.8 million in guaranty capital from the North Carolina Home Builders Self Insurers Fund, Inc. ("Fund"). The Fund was established on May 1, 1984, as a self-insured workers compensation group fund to provide workers compensation insurance to members of the Association. Effective January 1, 1998, the Company merged with the Fund.

The Company has two wholly-owned subsidiaries, Mutual Markets Insurance Solutions, Inc. ("MMIS") and Builders Premier Insurance Company ("BPIC"). MMIS was incorporated on November 21, 1997 under the original name of Builders Insurance Agency, Inc., which was established to compensate certain insurance agents that sold workers compensation insurance on behalf of the Company. Subsequently, the name was changed to MMIS and the charter were changed to reflect the possibility of providing alternative insurance services and solutions for the Company. BPIC was incorporated on September 10, 2007, as a North Carolina domestic insurer. BPIC received a license to transact insurance business from the Department on October 31, 2007.

The Company has an 80.74% ownership interest in Builders First LLC ("BFLLC"), which was organized on May 17, 2007. BFLLC owns an office building located at 5580 Centerview Drive, Raleigh, NC, a portion of which is leased by the Company as its headquarters. The Association and the Home Builders Association of Raleigh – Wake County, Inc. own the remaining 19.26% ownership.

The Company paid policyholder dividends in the amounts of \$1,292,000 and \$1,000,000 during 2013 and 2012, respectively. The Company's unassigned funds totaled \$242,036,824 at December 31, 2013.

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board of Directors ("Board") and committees for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the Board approved these transactions and events.

The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. On December 6, 2013, the Company amended its Bylaws to provide reasons for disqualifying directors from serving on the Board. There were no amendments made to the Articles of Incorporation.

MANAGEMENT AND CONTROL

Board of Directors

The business of the Company is managed by its management team and subject to review by the Board. The bylaws specify that the number of Directors shall be not less than 11. Directors are elected at the annual policyholders meeting and serve for a term of three years.

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The following individuals were serving as directors at December 31, 2013:

<u>Name</u>	<u>Address</u>	<u>Principal Business Affiliation</u>
Fredrick D. Judson	Charlotte, NC	Evergreen Home Builders
David N. Stormont IV	Kitty Hawk, NC	Storm Coast Homes, LLC
Donald W. Betsworth	Summerfield, NC	Don Betsworth Homes, Inc.
Erik A. Anderson	Winston-Salem, NC	Anderson-Moore Builders
James A. Betts	Raleigh, NC	Retired
David J. Creech	Raleigh, NC	Creech Construction, Inc.
William G. Daleure II	Charlotte, NC	Avant-Garde Real Estate Consulting, LLC
Joseph G. Hill	Greensboro, NC	J. Gary Hill, LLC
Willard F. Hughes	Lexington, NC	Insulated Concrete, Inc.
James D. McDonald	Charlotte, NC	JDM Consultants, LLC
Sean D. Sullivan	Black Mountain, NC	Living Stone Construction

Committees

The Board has the authority to establish committees including, but not limited to, Executive, Governance, Finance and Audit, Compensation, and Marketing. The established committees and the individuals elected and serving at December 31, 2013, were as follows:

Executive Committee

Fredrick D. Judson
Donald W. Betsworth
David N. Stormont IV

Governance Committee

James D. McDonald
Erik A. Anderson
James A. Betts
David J. Creech
Willard F. Hughes

Marketing Committee

Willard F. Hughes
Erik A. Anderson
David J. Creech
Joseph G. Hill

Finance and Audit Committee

William G. Daleure II
James A. Betts
Joseph G. Hill
Fredrick D. Judson
James D. McDonald
David N. Stormont IV

Compensation Committee

Fredrick D. Judson
Donald W. Betsworth
William G. Daleure II
James D. McDonald
David N. Stormont IV

Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a president, a secretary, a treasurer, and any other officers deemed necessary by the Board. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified. Any two offices, not inconsistent with each other, may be held by the same person except for the offices of President and Secretary.

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The following individuals served as officers at December 31, 2013:

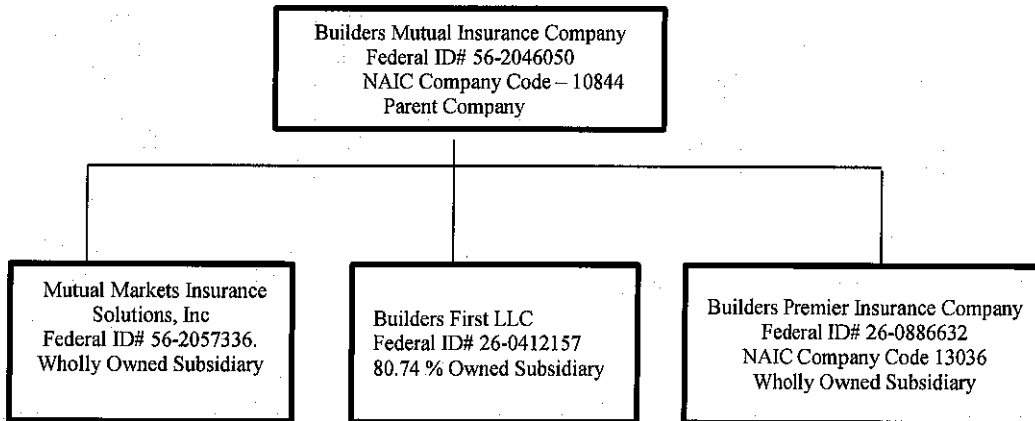
<u>Name</u>	<u>Title</u>
John K. Boggs	President/Chief Executive Officer
Thomas B. Lockard	Vice President/Chief Financial Officer
Michael A. Gerber	Senior Vice President/Chief Marketing Officer
Graeme S. Boddy	Vice President/Chief Information Officer
Ross M. Fowler	Assistant Vice President/Underwriting
Michele B. Hemric	Assistant Vice President/Human Resources
Lisa A. Hoke	Assistant Vice President/Controller
Bradley H. Moock	Assistant Vice President/Underwriting
Gerald R. Visintine	Assistant Vice President/Actuarial Services
Lindsay H. Smith	Assistant Secretary

AFFILIATED COMPANIES

Holding Company

The Company is part of an insurance holding company system as defined in GS § 58-19. The Company is the parent company within the holding company system as documented below in the organizational chart.

Organizational Chart



Affiliated Transactions

The Company has a reinsurance contract with its subsidiary BPIC, effective March 1, 2008, under which the Company assumes 100% of the premiums written by BPIC. In lieu of a ceding commission, BMIC pays all expenses associated with the servicing of the insurance contracts reinsured under the agreement.

The Company has a management agreement with BPIC, effective September 11, 2007, under which the Company provides all personnel, materials, facilities, and services to BPIC. Premium cessions under the

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reinsurance agreement with BPIC, described above, constitute full reimbursement for all such services provided by the Company.

The Company is included in a consolidated income tax return in accordance with a tax sharing agreement with BPIC, effective September 11, 2007. The provisions for federal income tax are computed as if the Companies were filing separate income tax returns. Benefits, which arise from tax credits and net operating losses, are allocated to the company producing such results to the extent they are utilized in the consolidated income tax provisions. Intercompany tax balances are to be settled no later than December 15 of the subsequent year.

FIDELITY BONDS AND OTHER INSURANCE

The Company had fidelity bond coverage totaling \$5,000,000, which exceeds the minimum amount recommended by the NAIC.

In addition, the Company had other insurable risks (e.g., business, property, liability, etc.). Based on our review, the Company's insurance coverage for these risks appeared to be adequate.

PENSION PLAN

The employees of the Company are covered by a qualified defined contribution pension plan sponsored by the Company. The Company contributed \$467,371 and \$416,705 to the Plan in 2013 and 2012, respectively. In addition, a year-end non-elective discretionary contribution may be made for all eligible employees. The Company's discretionary contributions totaled \$283,180 and \$199,133 in 2013 and 2012, respectively.

TERRITORY AND PLAN OF OPERATION

At December 31, 2013, the Company was licensed in the states of Florida, Georgia, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, Wisconsin, and the District of Columbia. Statutory deposits are maintained by the Company as required by insurance regulatory agencies for doing business in these jurisdictions. The Company's 2013 Annual Statement, Schedule E, Part 3 contains a complete description and listing, by state, of the Company's statutory deposits.

The Company primarily writes workers compensation policies which provide coverage to residential and commercial construction builders, but also writes the following lines of business: commercial multiple peril, , business owners policies, commercial package policies, general liability, property, auto, builders risk and umbrella policies. The Company utilizes independent agents for the distribution of its product and solicitation of business. All policies are issued annually and insureds may elect to pay on an installment basis.

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TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department and from the last report on examination, illustrates the trends of the Company for the five (5) year period ended December 31, 2013:

	Net Admitted		Gross		
Year	Assets	Surplus	Premiums	Net Earned	Net
			Written	Premiums	Income
2013	\$576,399,116	\$242,036,824	\$206,996,396	\$174,401,720	\$13,376,111
2012	536,207,366	218,721,246	167,969,834	140,534,529	10,186,173
2011	490,304,280	203,706,604	134,972,723	110,974,687	5,140,675
2010	474,960,540	200,917,112	106,567,746	88,936,534	12,878,696
2009	470,872,096	197,061,694	95,718,483	85,346,334	10,370,839

ACTUARIAL OPINION

Every property and casualty insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with GS § 58-10-150 and GS § 58-10-155.

The statutory reserves and related items for 2013 were reviewed and certified by the Company's Appointed Actuary, Richard Engelhuber, FCAS, MAAA, who is associated with the firm of Oliver Wyman Actuarial Consulting Inc. The actuarial opinion regarding the Company's reserves for loss and loss adjustment expenses was issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the loss and loss adjustment expense reserve. According to the actuarial opinions, the Company's reserve on the loss and loss adjustment expense met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid loss and loss expense obligations of the Company.

REINSURANCE

Reinsurance Assumed

The Company participates in the National Workers Compensation Reinsurance Association ("NWCRA"), a residual market reinsurance mechanism for servicing carriers of workers compensation assigned risk plans administered by the National Council on Compensation Insurance, Inc. ("NCCI"). As a participant, the Company assumes premiums, losses, costs, and other expenses arising from coverage provided under authorized insurance plans written through a servicing carrier. The business assumed from the NWCRA is the Company's proportionate share of the total voluntary market for workers compensation in the state. During 2013 and 2012, the Company assumed \$6,098,000 and \$3,515,000, respectively, in premiums from the NWCRA.

The Company cedes these assumed premiums to a group of subscribing reinsurers. In 2013 and 2012, the Company ceded pooled premiums totaling \$6,082,566 and \$3,496,446, respectively, to the subscribing reinsurers.

The Company has a reinsurance contract with BPIC, an affiliate, effective March 1, 2008, whereby the Company assumes 100% of the business written by BPIC. The Company provides all policyholder services for BPIC in lieu of a ceding commission. In 2013 and 2012, the Company assumed premiums of \$29,374,261 and \$26,071,390, respectively, from BPIC under this contract.

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Reinsurance Ceded

Quota Share Coverage

The Company has a quota share contract with Factory Mutual Insurance Company ("FMIC"), effective July 15, 2008, whereby the Company cedes 100% of its equipment breakdown insurance policies to FMIC. In 2013 and 2012, the Company ceded premiums totaling \$16,074 and \$7,064, respectively, to FMIC under this contract.

Quota Share Coverage/Excess of Loss Coverage

The Company has a quota share and excess of loss contract with a group of subscribing reinsurers, effective January 1, 2013, which provides coverage on its umbrella liability insurance policies. Under the quota share contract, the Company cedes 75% of its liability, up to \$1 million, on each loss, for each policy. The excess of loss contract provides up to \$4 million of coverage on its net liability in excess of \$1 million. The Company ceded premiums totaling \$4,046,224 and \$3,581,931 in 2013 and 2012, respectively, to the subscribing reinsurers under this contract.

Excess of Loss Coverage – Workers Compensation

The Company has an excess of loss contract with a group of subscribing reinsurers, effective January 1, 2013, which provides up to \$3,750,000 of coverage on its net liability in excess of \$1,250,000 on its workers compensation and employers liability insurance policies. The Company ceded premiums totaling \$7,256,842 and \$6,433,894 in 2013 and 2012, respectively, to the subscribing reinsurers under this contract.

The Company has a second excess of loss contract with a group of subscribing reinsurers, effective January 1, 2013, which provides up to \$5 million of coverage on its net liability in excess of \$5 million on its workers compensation and employers liability insurance policies. The Company ceded premiums totaling \$1,451,368 and \$1,276,144 in 2013 and 2012, respectively, to the subscribing reinsurers under this contract.

The Company has an third excess of loss agreement with a group of subscribing reinsurers, effective January 1, 2013, which provides up to \$15 million of coverage on its net liability in excess of \$10 million on its workers compensation insurance policies. The Company ceded premiums totaling \$470,351 and \$478,554 in 2013 and 2012, respectively, to the subscribing reinsurers under this contract.

Excess of Loss Coverage – Casualty

The Company has an excess of loss contract with a group of subscribing reinsurers, effective January 1, 2013, which provides up to \$650,000 of coverage on its net liability in excess of \$600,000 on its casualty insurance policies. The Company ceded premiums totaling \$3,119,119 and \$2,591,661 in 2013 and 2012, respectively, to the subscribing reinsurers under this contract.

The Company has a second excess of loss contract with a group of subscribing reinsurers, effective January 1, 2013, which provides up to \$4,000,000 of coverage on its net liability in excess of \$1,250,000 on its casualty insurance policies. The Company ceded premiums totaling \$1,260,158 and \$263,494 in 2013 and 2012, respectively, to the subscribing reinsurers under this contract.

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Excess of Loss Coverage – Property

The Company has an excess of loss contract with a group of subscribing reinsurers, effective January 1, 2013, which provides up to \$500,000 of coverage on its net liability in excess of \$500,000 on its property insurance policies. The Company ceded premiums totaling \$219,186 and \$207,985 in 2013 and 2012, respectively, to the subscribing reinsurers under this contract.

The Company has a second excess of loss contract with a group of subscribing reinsurers, effective January 1, 2013, which provides up to \$2 million of coverage on its net liability in excess of \$1 million on its property insurance policies. The Company ceded premiums totaling \$126,769 and \$120,479 in 2013 and 2012, respectively, to the subscribing reinsurers under this contract.

Facultative Coverage

The Company has a Property Facultative Pro Rata contract with a group of subscribing reinsurers, effective January 1, 2013, which provides coverage for its property insurance policies. Cessions made under this contract shall be limited to an amount equal to \$2 million on any one risk and, in no case, shall the Company's net retained liability be less than \$2 million as respects to any risk ceded. The Company ceded premiums totaling \$167,335 and \$189,544 in 2013 and 2012, respectively, to the subscribing reinsurers under this contract.

Catastrophe Coverage

The Company has an excess of loss catastrophe contract with a group of subscribing insurers, effective January 1, 2013, which provides three layers of catastrophe coverage for its property insurance policies. The first layer provides coverage of up to \$3.5 million of the Company's net loss in excess of \$1.5 million per occurrence; the second layer covers up to \$5 million in excess of \$5 million; and the third covers up to \$15 million in excess of \$10 million. The Company pays deposit premiums quarterly, which are adjusted to no less than \$776,000 at the contract expiration based on a percentage of net earned premiums.

ACCOUNTS AND RECORDS

The Company's books and records are maintained at 5580 Centerview Drive, Raleigh, NC 27606.

Independent Auditor

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). Johnson Lambert, LLP of Raleigh, NC, the designated independent public accountant of the Company, issued an unqualified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2013.

Information System

The Company's significant information system applications are hosted at the primary data center located at the Company's headquarters in Raleigh, NC. The Company's accounting information systems include three main applications utilized for processing premiums and policyholder information, claims, and for financial reporting. All of these applications were purchased from outside vendors.

STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2013 Annual Statement Schedule E Part 3 contains a complete description

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and listing, by state, of the Company's statutory deposits. As of December 31, 2013, the statutory deposits were sufficient to meet the capital deposit requirements for the states where the Company is doing business.

FINANCIAL STATEMENTS

The accompanying financial statement presents the Company's statutory financial position as of December 31, 2013, and statutory results of operations for the period then ended as reported by the Company to the Department in its 2013 Annual Statement and adjusted, as necessary, based on the results of our examination. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the GS. The financial statement and supporting schedules as of December 31, 2012, are unexamined and are presented for comparative purposes only.

Builders Mutual Insurance Company
Statutory Statement of Admitted Assets

	December 31,	
	2013	2012
		<i>(unexamined)</i>
<u>Admitted Assets</u>		
Bonds	\$ 393,858,304	387,854,126
Common stocks	72,416,333	50,959,362
Cash and short-term investments	18,899,164	17,901,127
Other invested assets	9,614,964	10,883,283
Receivable for securities	700,000	
Total cash and invested assets	495,488,765	467,597,898
Investment income due and accrued	4,140,397	4,234,215
Premiums and agents' balances in course of collection	9,386,394	6,576,878
Premiums and agents' balances booked but deferred and not yet due	45,256,390	37,632,034
Reinsurance recoverable	4,482,326	2,904,560
Net deferred tax asset	13,672,899	13,306,568
Guaranty funds receivable or on deposit	1,871,505	1,405,284
Electronic data processing equipment and software	63,645	227,369
Receivable from parent, subsidiaries and affiliates	325,548	175,408
State tax credit	6,060	2,147,152
Other assets	1,705,187	
Total admitted assets	\$ 576,399,116	536,207,366

See accompanying notes to the statutory financial statement

Builders Mutual Insurance Company
Statutory Statement of Liabilities and Surplus

	December 31,	
	2013	2012
		<i>(unexamined)</i>
<u>Liabilities</u>		
Losses	\$ 208,611,512	198,786,848
Reinsurance payable on paid losses and loss adjustment expenses	595,912	531,904
Loss adjustment expenses	42,428,545	41,261,171
Commissions payable, contingent commissions and other similar charges	8,996,047	5,694,154
Other expenses	8,127,062	7,867,660
Taxes, licenses and fees	6,218,443	5,605,220
Federal income tax liability	89,603	163,227
Unearned premiums	46,088,001	38,773,932
Advance premium	1,207,502	2,575,590
Policyholders dividends declared and unpaid	1,450,000	1,200,000
Ceded reinsurance premiums payable	2,426,644	2,140,729
Remittances and items not allocated	46,794	43,689
Provision for reinsurance	232,667	95,403
Payable for securities		5,418,400
Policyholder deposits	5,428,101	4,770,792
Vacation and bonus accrual	1,864,473	2,181,069
National Workers Compensation Reinsurance Pool payable	542,344	368,666
Other liabilities	8,642	7,666
Total liabilities	334,362,292	317,486,120
<u>Surplus</u>		
Unassigned funds	242,036,824	218,721,246
Total surplus	242,036,824	218,721,246
Total liabilities and surplus	\$ 576,399,116	536,207,366

See accompanying notes to the statutory financial statement

Builders Mutual Insurance Company
Statutory Statement of Operations

	Year Ended December 31,	
	2013	2012
	<i>(unexamined)</i>	
<u>Underwriting Income</u>		
Premiums earned	\$ 174,401,720	140,534,529
<u>Underwriting Deductions</u>		
Losses incurred	87,477,801	73,522,365
Loss adjustment expenses incurred	19,714,943	17,563,867
Other underwriting expenses incurred	62,027,380	51,637,676
Total underwriting deductions	169,220,124	142,723,908
Net underwriting gain (loss)	5,181,596	(2,189,379)
<u>Investment Income</u>		
Net investment income earned	13,734,422	13,942,238
Net realized capital (losses) gains	(159,597)	1,486,887
Net investment gain	13,574,825	15,429,125
<u>Other Income</u>		
Net gain (loss) from agents' or premium balances charged off	232,025	(747,582)
Finance and service charges not included in premiums	174,142	168,277
Other Income	25,370	67,902
Allowance for reinsurance recoveries	(965,998)	
Total (loss)	(534,461)	(511,403)
Dividends to policyholders	1,542,000	1,200,000
Federal income tax incurred	3,303,849	1,342,170
Net income	\$ 13,376,111	10,186,173

See accompanying notes to the statutory financial statement

Builders Mutual Insurance Company

Statutory Statement of Surplus

	December 31,	
	2013	2012
		<i>(unexamined)</i>
Surplus, beginning of year	<u>\$ 218,721,246</u>	<u>203,706,604</u>
Surplus increases (decreases):		
Net income	13,376,111	10,186,173
Change in net unrealized capital gains	7,122,559	2,900,508
Change in net deferred income tax	493,213	628,595
Change in non-admitted assets	2,460,959	4,371,038
Change in provision for reinsurance	(137,264)	(7,261)
Eliminate premium receivables over 90 days past due previously non-admitted		<u>(3,064,411)</u>
Change in surplus as regards policyholders for the year	<u>23,315,578</u>	<u>15,014,642</u>
Surplus, end of year	<u>\$ 242,036,824</u>	<u>218,721,246</u>

See accompanying notes to the statutory financial statement

Builders Mutual Insurance Company
Statutory Statement of Cash Flow

	Year ended December 31,	
	2013	2012
Cash From Operations		
		<i>(unexamined)</i>
Premiums collected net of reinsurance	\$ 168,342,190	141,017,134
Net investment income	17,348,642	16,999,368
Miscellaneous income	(534,461)	(511,403)
Totals	<u>185,156,371</u>	<u>157,505,099</u>
Benefit and loss related payments	79,166,895	62,320,033
Commissions, expenses paid and aggregate write-ins for deductions	76,866,652	65,723,181
Dividends paid to policyholders	1,292,000	1,000,000
Federal income taxes paid net of tax on capital gains	3,295,256	1,866,094
Totals	<u>160,620,803</u>	<u>130,909,308</u>
Net cash from operations	<u>24,535,568</u>	<u>26,595,791</u>
Cash (Used by) Investments		
Proceeds from investments sold, matured or repaid	88,819,669	72,822,582
Cost of investments acquired	114,029,186	84,764,220
Net cash (used by) investments	<u>(25,209,517)</u>	<u>(11,941,638)</u>
Cash From (Used by) Financing and Miscellaneous Sources		
Other cash provided (applied)	1,671,986	(3,949,711)
Net cash from (used by) financing and miscellaneous sources	<u>1,671,986</u>	<u>(3,949,711)</u>
Reconciliation of Cash and Short-Term Investments		
Net change in cash and short-term investments	998,037	10,704,442
Cash and short-term investments, beginning of year	17,901,127	7,196,685
Cash and short-term investments, end of year	<u>\$ 18,899,164</u>	<u>17,901,127</u>

See accompanying notes to the statutory financial statement

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Notes to the Statutory Financial Statement

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1. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying financial statement has been prepared in conformity with the accounting practices prescribed by the GS. The more significant accounting policies followed by the Company are as follows:

Bonds: Carried at amortized cost or fair value based on their NAIC rating.

Common stocks: Carried at fair value except investments in stock of subsidiaries, which are carried at a value determined under the equity method.

Cash and short-term investments: Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

Premiums: Earned over the policy period and reduced for reinsurance ceded.

Reinsurance: Premiums, commissions, expense reimbursements, and reserves are reported for on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported as reductions of those items. Uncollateralized amounts from unauthorized reinsurers are deducted directly from capital and surplus through a provision for unauthorized reinsurance. Changes to the provision are credited or charged directly to surplus.

2. Analysis of Assets

The following represents an analysis of the Company's net admitted assets:

	December 31, 2013		
	Assets	Assets not Admitted	Net Admitted Assets
Bonds	\$ 393,858,304		393,858,304
Common stocks	72,416,333		72,416,333
Cash and short-term investments	18,899,164		18,899,164
Other invested assets	9,614,964		9,614,964
Receivable for securities	700,000		700,000
Total cash and invested assets	495,488,765		495,488,765
Investment income due and accrued	4,140,397		4,140,397
Premiums and agents' balances in course of collection	16,198,056	6,811,662	9,386,394
Premiums and agents' balances booked but not yet due	48,325,264	3,068,874	45,256,390
Reinsurance recoverable	4,482,326		4,482,326
Net deferred tax assets	13,672,899		13,672,899
Guaranty funds receivable or on deposit	1,871,505		1,871,505
Electronic data processing equipment and software	8,498,684	8,435,039	63,645
Furniture and equipment	465,417	465,417	
Receivable from parent, subsidiaries and affiliates	325,548		325,548
State tax credit	800,000	793,940	6,060
Other assets	1,705,187		1,705,187
Total admitted assets	\$ 595,974,048	19,574,932	576,399,116

3. Reinsurance

Builders Mutual Insurance Company

Notes to the Statutory Financial Statement

December 31, 2013

The Company has excess of loss and quota share reinsurance contracts to minimize its exposure to losses. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Failure of the reinsurers to discharge their obligations could result in losses to the Company. The Company utilizes Guy Carpenter & Company, Inc. and Towers Perrin, as reinsurance intermediaries to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

Direct and assumed, and ceded premiums written and earned are as follows:

	December 31,	
	2013	2012
		<i>(unexamined)</i>
Direct and assumed written	\$ 206,996,396	167,969,834
Ceded written	<u>25,280,607</u>	<u>19,584,949</u>
Net written	<u>181,715,789</u>	<u>148,384,885</u>
Direct and assumed earned	199,006,413	159,493,545
Ceded earned	<u>24,604,693</u>	<u>18,959,016</u>
Net earned	<u>\$ 174,401,720</u>	<u>140,534,529</u>

4. Reserves

The following provides a reconciliation of the Company's reserves for losses and loss adjustment expenses:

	December 31,	
	2013	2012
		<i>(unexamined)</i>
Reserve for losses and loss adjustment expenses, beginning of year	<u>\$ 240,048,019</u>	<u>228,844,627</u>
Add:		
Provision for losses and loss adjustment expenses, current year	117,875,000	107,968,000
Change in estimated losses and loss adjustment expenses, prior years	<u>(10,682,256)</u>	<u>(16,881,768)</u>
Total incurred	<u>107,192,744</u>	<u>91,086,232</u>
Deduct:		
Losses and loss adjustment expenses paid, current year	28,352,000	23,868,000
Losses and loss adjustment expenses paid, prior year	<u>67,848,706</u>	<u>56,014,840</u>
Total paid	<u>96,200,706</u>	<u>79,882,840</u>
Reserve for losses and loss adjustment expenses, end of year	<u>251,040,057</u>	<u>240,048,019</u>
Increase in reserve for losses and loss adjustment expenses	<u>\$ 10,992,038</u>	<u>11,203,392</u>

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. At December 31, 2013 and 2012, the liability for losses and loss adjustment expenses was reduced by \$60,527,000 and \$75,991,000, respectively, for amounts to be recovered from reinsurers.

Builders Mutual Insurance Company
Notes to the Statutory Financial Statement
December 31, 2013

5. Surplus

The following, in conjunction with the Statutory Statement of Surplus (see page 13), represents the changes in the Company's surplus since the Department's last examination:

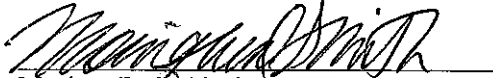
	December 31,		
	2011	2010	2009
	<i>(unexamined)</i>	<i>(unexamined)</i>	<i>(unexamined)</i>
Surplus, beginning of year	\$ 200,917,112	197,061,693	195,367,006
Surplus increases (decreases):			
Net income	5,140,675	12,878,696	10,370,839
Change in net unrealized capital (loss) gain	(492,802)	2,813,878	5,054,096
Change in net deferred income tax	2,383,241	307,107	581,000
Change in nonadmitted assets	(2,027,027)	(4,150,238)	(2,262,239)
Change in provision for reinsurance	(45,109)	5,976	(49,009)
Change in surplus notes		(8,000,000)	(12,000,000)
Correction of prior period error - federal income taxes	(2,169,486)		
Change in surplus as regards policyholders for the year	2,789,492	3,855,419	1,694,687
Surplus, end of year	\$ 203,706,604	200,917,112	197,061,693

6. Contingencies and Commitments

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. The Company is of the opinion that these proceedings will not have a material effect on the financial position of the Company.

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-7-75 for the kinds of insurance that the Company has been authorized to write, which is \$1,800,000.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Monique D. Smith", is written over a horizontal line.

Monique D. Smith, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

February 13, 2015

STATE OF NORTH CAROLINA
COUNTY OF WAKE

William G. Keely, Supervising Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature: William G. Keely Date: 3/25/15
William G. Keely

Sworn and subscribed before me this 25 day of March, 2015.

Notary Public Signature: Thomas Smith Notary Public Seal:

