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THE ROAD AHEAD

CONSTRUCTION SPECIALTY INSURANCE LIMITED 2016 ANNUAL REPORT



LETTER FROM THE PRESIDENT

Bryant Winslow, President | Construction Specialty Insurance Limited

Dear Shareholder,

Construction Specialty Insurance Limited was formed in 2008 with a vision to unite the best in class contractors for the purpose of taking control of their insurance costs. It was our hope that by sharing risk we would improve our bottom line and create a framework for refining and producing a safer work environment for our many employees.

Since that time, CSL has excelled by enjoying an active membership who sincerely care about the success of CSL and its members by constantly seeking ways to improve our collective performance. Simply stated: our diverse yet similar assembly of companies is unified by the principles of superior risk management through an open and collaborative environment.

Throughout this report, we feature many of the individual members who have served as building blocks for CSL. These members are experts in their trade and each take the performance of CSL as seriously as they do their own company. This culture of excellence has led us to superior member selection and exceptional results, while we continuously explore new partnerships and opportunities to improve our experience.

Additionally, we have partnered with an outstanding group of service partners who provide us with steadfast management and guidance to handle the day-to-day operations of our insurance company. The many different tools and services offered through our partners have been an unexpected benefit when compared to the service level we experienced in the traditional insurance market. These services have undoubtedly helped to produce our outstanding performance and we expect this level of service to only improve as we continue to refine our processes and build upon our successes.

Again, our primary reason for forming CSL was to more effectively manage risk by collectively improving safety and claims management through the use of a stable and predictable platform. Too often, the process of policy renewal was costly and time demanding with consequent options far from our desire and control. The captive structure provides a level of constancy that allows our members to focus on the core mission of their business with the comfort of knowing that their risk is being managed skillfully and often times with superior coverage.

As we near the 10 year anniversary of CSL, it's easy to trace our success to our members and service providers who generously contribute their time, ideas and energy to control losses, manage claims and support quality member growth. I'm fortunate to be a part of this group of exceptional contractors and look forward to the continued success of CSL and the role it plays strengthening our competitive edge within the highly competitive construction industry.

Sincerely,



Bryant Winslow

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WHAT ARE THE BENEFITS OF PARTICIPATING IN A CAPTIVE?

REDUCE TOTAL COST OF RISK - Membership in a captive requires a significant commitment to risk management. Rather than a conventional insurance company profiting from the member's superior financial condition and risk management programs and using those profits to subsidize the premiums of other less attractive companies, members of the captive can reduce their cost of risk when losses are less than projected.

STABILITY OF THE PRICING CYCLE - With the group captive's buying power and retention, there is less exposure to market pricing, so the captive avoids the disruptive underwriting cycles in the traditional marketplace.

OPTIMIZE RISK MANAGEMENT PROGRAM - Loss prevention services are tailored to meet the member's individual needs and the cost of these services are included within the premiums.

CLAIMS MANAGEMENT - Having members included in the claims process yields a much better result than the insurance carrier dictating claim outcomes.

IMMEDIATE REWARD FOR REDUCING LOSSES - Captive members see the impact of an improved risk management program through lower premiums and greater dividends.

CASH FLOW MANAGEMENT - In a captive, the member knows what their potential losses are and can manage the cash flow required to fund those losses in a more controlled manner.

COVERAGE AVAILABILITY - Captives can offer coverage that might not otherwise be price competitive or available in the commercial markets.



BURESH BUILDING SYSTEMS, INC.

Hampton, Iowa | Member Since 2015

"Prior to joining CSIL we had always viewed ourselves as a safe company but the more in tune we get with CSIL the more we realize we were just scratching the surface on the potential of our safety program."

Brian Buresh, President | Buresh Building Systems, Inc.



HISTORY & MISSION

Construction Specialty Insurance Limited (CSIL) was created in 2008 to enable construction, general contracting and related businesses to obtain adequate insurance coverage at affordable rates. The founders of CSIL perceived that the commercial insurance industry was not responsive to this basic commercial necessity.

The Cayman Islands were selected as the domicile because of the offshore, on-island services available. The close proximity to the United States, English law, and a stable political setting were also factors.

CSIL believes that its management strength lies in its strong individual involvement by shareholders during semi-annual board meetings. It is anticipated that Committees will be established in the following areas to support the Board of Directors: Underwriting, Risk Control, Finance and Nominating. The Board will rely on the recommendations of these Committees to establish policies. Day-to-day management of CSIL will be provided by the captive's licensed off-shore Insurance Manager. New shareholders will be recommended through the Underwriting Committee, once appointed. The Company desires participation by well-managed, profitable companies whose management philosophies and personalities are compatible with those of the other shareholders.

From the beginning, CSIL has focused on one thought: insurance is a manageable cost. The mystique and mystery of the insurance industry should be unveiled. Shareholders should be in control of their insurance destinies and not dictated to by the insurance industry.

The mission of CSIL is to provide the highest quality insurance protection and services for its non-related shareholders in construction, general contracting and related businesses. By joining together to create true sharing of risk, the shareholders can better control their insurance costs and avoid the volatility of the general insurance industry. Additional benefits may be created through the increased assurance of coverage, the stabilization of premiums and the improved management of risk through effective loss control.

Through the active participation of its shareholders, CSIL endeavors to provide the long-term security of a well-managed offshore insurance company. To meet this goal, the captive attempts to retain only those providers of services which the Company believes can meet the highest standards of excellence.



COLORADO LINING INTERNATIONAL, INC.

Parker, Colorado | Member Since 2016

“We have had a good experience Cottingham & Butler thus far. Bryant Winslow really sold the captive at our lunch meeting so it has been a good experience to date.”

John Heap, President | Colorado Lining International, Inc.

NEW MEMBER CRITERIA

Construction Specialty Insurance Limited’s underwriting guidelines target a selection of high-quality construction companies for participation in the captive. The criteria focuses on industry best practices recognizing that companies committed to quality have satisfied clients and employee and, as a result, are financially successful over the long-term.

The following guidelines describe the preferred characteristics of prospective captive members, but with the understanding that each company is unique and should be looked at according to its own merits.

1. **FINANCIAL STABILITY** – The captive is a long-term commitment thus requiring financially solid members.
2. **TERRITORY** – The captive is currently looking for members countrywide with close scrutiny of companies with operations in CA, IL, IN, LA, and NY.
2. **OPERATIONS** – The captive prefers those companies who operate predominantly as the prime contractor in general construction or trade construction.
3. **PREMIUM OF \$200,000** – Minimum Premium of \$200,000 across all lines of coverage.
5. **MINIMUM OF THREE YEARS IN BUSINESS** – This allows for the “kinks” of a start-up operation to get worked out.
6. **ON-SITE SAFETY REVIEW** – Each prospective member must pass an on-site safety review by the safety services provider to the captive.

DIVIDEND DISTRIBUTION

Construction Specialty Insurance Limited reviews the ability to pay dividends once a year during the fall Board of Directors’ Meetings. At this meeting, the loss activity is reviewed for all expired underwriting years and compared to the expected remaining liabilities for that year as determined by an independent actuary. If the board determines that there is more equity than is needed to pay for future liabilities they may decide to declare a dividend for specific underwriting years. The dividend declaration is ultimately based on each individual members performance in that particular year and will usually just be a portion of the available equity. The board will continue to review that year and all others every fall for further dividends until they close the accounting on individual years at which time the remaining equity is distributed. Each member/owner can easily see what their equity is in each of the underwriting years via the company financial statement.

CSIL declared dividends for the first time in 2014.
As of 10/31/2016, shareholders equity totals **\$3,929,636**.

SAFETY ACHIEVEMENT AWARDS

CSIL recognizes outstanding achievement in safety and loss control through the annual presentation of the President's Club awards. The 2016 awards have been presented to the following companies:

Kalman Floor Company, Inc. | R.A. Nelson, LLC | Winslow Crane Service Co.

BALANCE SHEETS AS OF OCTOBER 2016 | STATED IN US DOLLARS

ASSETS	October 2016	October 2015
Cash & Cash Equivalents	606,399	604,419
Investments	6,124,244	3,188,033
Loss Funds	352,125	306,787
Reinsurance Balances Receivable	0	797,123
Claims Indemnification Receivable	294,731	147,904
Provisional Claims Indemnifications	1,418,054	1,741,395
Accounts Receivable & Prepayments	102,598	88,491
Total Assets	8,898,151	6,874,152
LIABILITIES		
Case Reserves	764,068	389,097
IBNR Reserves	3,215,463	3,511,197
Reinsurance Balances Payable	848,409	136,471
Due to Investment Broker	0	95,000
Other Payables	0	120,000
Accrued Expenses	140,575	110,393
Total Liabilities	4,968,515	4,362,158
SHAREHOLDER'S EQUITY		
Issued Share Capital	36	28
Share Premium	539,964	419,972
Contributed Surplus	4,441,619	3,489,513
Less: Letters of Credit	(3,120,941)	(2,507,747)
Retained Earnings	2,068,958	1,110,228
Total Shareholders' Equity	3,929,636	2,511,994
Total Liabilities and Shareholders' Equity	8,898,151	6,874,152



CORELL CONTRACTOR, INC.

West Des Moines, Iowa | Member Since 2016

“Our focus has always been on the safety, well-being and productivity of our employees. Our belief is by joining CSIL, we are able to benefit from our track record by value added opportunity through the captive.”

Grant Corell, President | Corell Contractor, Inc.



GRAVES CONSTRUCTION CO., INC.

Spencer, Iowa | Member Since 2010

“The captive insurance concept has motivated us to place a renewed emphasis on our safety culture and refocused our efforts on our entire insurance program. Because of our membership in CSIL we have a strong safety culture and our employees are fully engaged in maintaining and constantly improving that culture. We are a better company for being in CSIL.”

Dan Graves, President | Graves Construction Co., Inc.

EXECUTIVE SUMMARY AS OF OCTOBER 2016 | STATED IN US DOLLARS

	2011/2012 U/W Year	2012/2013 U/W Year	2013/2014 U/W Year	2014/2015 U/W Year	2015/2016 U/W Year
Earned Premium	\$1,284,873	\$3,015,951	\$3,079,211	\$3,402,734	\$4,493,962
Total Incurred Losses	\$435,182	\$836,068	\$922,353	\$508,749	\$1,223,747
Incurred Loss Ratio	33.87%	27.72%	29.95%	14.95%	27.23%
Incurred Loss Ratio Including Claims Indemnifications	30.40%	26.86%	23.92%	14.94%	24.57%
Claims Indemnifications As a % of Earned Premium	3.47%	0.87%	6.04%	0.01%	2.66%
Operating Costs As a % of Earned Premium	55.37%	54.47%	52.81%	51.96%	52.12%

	Fiscal Year Ended 10/31/2012	Fiscal Year Ended 10/31/2013	Fiscal Year Ended 10/31/2014	Fiscal Year Ended 10/31/2015	Fiscal Year Ended 10/31/2016
Number of Shareholders	10	12	13	14	18
Investment Income (Loss)	\$500	\$4,921	\$27,697	\$40,126	\$81,321
Net Income (Loss)	\$29,845	\$278,983	\$267,763	\$770,152	\$1,128,094
Total Assets	\$2,341,772	\$4,038,149	\$5,635,179	\$6,874,152	\$8,898,151
Shareholders' Equity	\$230,614	\$824,382	\$1,709,473	\$2,511,994	\$3,929,636

HISTORICAL DATA AS OF OCTOBER 2016

YEAR	PAYROLL	REVENUE	POWER UNITS	LOSS FUNDS	PREMIUMS
2008/09*	\$18,972,571	\$170,297,599	133	\$944,800	\$1,827,112
2009/10	\$7,526,778	\$60,200,538	55	\$363,175	\$702,330
2010/11	\$14,676,228	\$127,189,805	118	\$731,818	\$1,415,235
2011/12	\$14,387,173	\$121,745,000	108	\$664,407	\$1,284,874
2012/13	\$30,365,506	\$238,064,052	360	\$1,466,273	\$3,015,953
2013/14	\$32,527,436	\$216,465,455	355	\$1,562,083	\$3,079,211
2014/15	\$39,127,202	\$255,712,863	357	\$1,738,229	\$3,426,324
2015/16	\$64,197,191	\$358,473,942	554	\$2,250,676	\$4,430,465

*2008/09 year represents an 18 month period.

CLAIMS & SAFETY METRICS

- 59% of CSIL's closed liability claims in the last five years closed with zero payments to third-party claimants.
- Average of 28% in net savings on workers' compensation bill review over the last five years.
- For the policy years 2009 through 2015, CBCS has closed 98% of all general liability claims submitted.
- For the policy years 2009 through 2015, CBCS has closed 100% of all auto liability claims submitted and 98% of all workers' compensation claims submitted.
- CBCS has recovered over \$450,000 in subrogation and collection dollars for CSIL and its members to date.



KALMAN FLOOR COMPANY, INC.

Evergreen, Colorado | Member Since 2012

“CSIL has been a strong partner working with Kalman Floor Company in regard to its workers' compensation and general liability insurance needs. Because of our relationship with CSIL, Kalman has been able to improve job site safety programs and reduce its number of workers’ compensation claims.”

Scott Vogeler, Consultant | Kalman Floor Company, Inc.



KINZLER CONSTRUCTION SERVICES

Ames, Iowa | Member Since 2015



“CSIL, coupled with the Cottingham & Butler team, has been a tremendous asset to our company. Support, education and peer best practices have been very valuable to our company's continued growth and maturity.”

Kevin Kinzler, President | Kinzler Construction Services

DEDICATION TO A CULTURE OF SAFETY

CSIL partners with Safety Management Services Company (SMSC) to ensure that all members are working towards a common set of safety standards and goals. The safety consulting services are provided through a series of onsite visits, webinars and other scheduled “touches” throughout the course of the underwriting year. An annual safety audit (GAP analysis) serves as the starting point for all members and is used to establish individualized company plans aimed at continuous improvement.

As a way to gauge each member’s safety results, a semi-annual scorecard is created to provide the membership a transparent and competitive way to see how they stack up to their best-in-class partners. This serves many functions:

- Clearly identifies the leading safety conscious partners
- Allows a collaborative effort to inquire about best practices across businesses
- Friendly competition and awards
- Targets areas for improvement and tracks progress made

RISK CONTROL WORKSHOPS:

Semi-annual educational workshops are held at various locations throughout the United States to keep safety at the forefront of all members. A broad spectrum of safety experts, attorneys, insurance professionals, and claims experts headline the workshops and highlight real life case studies to emphasize the importance that proper safety and claim procedures play within the captive.

NUMBERS TELL THE SAFETY STORY FOR CSIL:

- The average GAP Analysis score has increased 30% over the last 3 years.
- Injury frequency rates have decreased 38% over the last 3 years.
- Member participation at the semi-annual safety workshops was 100% in 2016.

“Safety Management Services Company is the very best at what they do. Their programs are great for compiling the data necessary to make our safety program company-specific.”



LESTER BUILDINGS SYSTEMS, LLC

Lester Prairie, Minnesota | Member Since 2013

"The assistance we have received from CSIL in creating a safer work environment for our associates has been much more effective than any previous experience we have had with other insurance companies we have worked with."

John Hill, President | Lester Buildings Systems, LLC



MCPHERSON CONCRETE PRODUCTS

MCPHERSON CONCRETE PRODUCTS, INC.

McPherson, Kansas | Member Since 2016

"We joined CSIL because it fit our risk management philosophy at McPherson Concrete. The representatives at Cottingham & Butler are extremely knowledgeable and have been a great resource for us."

Dan Ledebauer, Controller | McPherson Concrete Products, Inc.



PRICE INDUSTRIAL ELECTRIC

Robins, Iowa | Member Since 2015

“Cottingham & Butler’s team has helped us focus on multiple aspects of risk management from the top down. We’ve learned the insurance environment is constantly changing and we now have a partner to help us stay in front instead of chasing from behind. I’m confident that as my company grows, our insurance program will stay strong.”

Jeremy Price, President | Price Industrial Electric



R.A. NELSON LLC

Avon, Colorado | Member Since 2014

“CSIL has a great group of like-minded people and companies. Joining the group has been a positive experience because we’ve decreased our insurance cost, improved our risk management, and formed strong relationships. To top it off, we anticipate long term dividends.”

Sharon Jones, CFO | R.A. Nelson LLC



REILLY CONSTRUCTION CO., INC.

Ossian, Iowa | Member Since 2012

“We are excited to be joining CSIL and look forward to the added control this will give us on a major fixed cost of doing business.”

Chris Reilly, President | Reilly Construction Co., Inc.



THE WITMER GROUP, LLC

Mount Joy, Pennsylvania | Member Since 2016

“Now in our 50th year of business, The Witmer Group is prime for new partnerships and ventures - the CSIL Captive program offers best of class risk management resources and is a natural fit for us. We look forward to developing relationships with partners who share in our values, standards and business practices as we launch into the next fifty.”

Ken Schwebel, President | The Witmer Group, LLC



WICK BUILDINGS, INC.

Mazomanie, Wisconsin | Member Since 2013

“CSIL provides much more than just standard insurance coverage. They deliver sound business advice and offer safety solutions that help us take ownership and improve our safety performance. The resources and motivation provided by the safety professionals, workshops, and onsite assistance continues to be critical to improvement in our safety culture.”

Jeff Farquhar, General Manager | Wick Buildings, Inc.



WICKS CONSTRUCTION, INC.

Decorah, Iowa | Member Since 2012

“Our cost of insurance has decreased and it feels like we are moving in the right direction. When we were with our other agent and in the regular insurance market, every year seemed to get worse with no end in sight. I am very happy with our decision to join the CSIL captive. Our relationship with Cottingham & Butler has been great.”

Brad Wicks, President | Wicks Construction, Inc.



WIESER BROTHERS, INC.

La Crescent, Minnesota | Member Since 2010

"Being part of a captive insurance group gives us the opportunity to share business ideas and practices with industry peers. Members are safety and claims conscious, which benefits everyone. Construction can be a risky business and belonging to CSIL not only aligns with our business needs, but also provides the option for future dividend returns."

Jeff Wieser, President | Wieser Brothers, Inc.



WINSLOW CRANE SERVICE CO.

Englewood, Colorado | Member Since 2008

"CSIL has provided many benefits to our firm, including superior coverage, financial stability and superb claims management and guidance. However, the greatest benefit of membership has evolved from the relationships between our staff, Cottingham & Butler and our partners."

Bryant Winslow, President | Winslow Construction Company



Buresh Building Systems, Inc.
Member Since 2015



Colorado Lining International, Inc.
Member Since 2016



Corell Contractor, Inc.
Member Since 2016



Graves Construction Co., Inc.
Member Since 2010



Price Industrial Electric
Member Since 2015



R.A. Nelson LLC
Member Since 2014



Reilly Construction Co., Inc.
Member Since 2012



The Witmer Group, LLC
Member Since 2016



Kalman Floor Company, Inc.
Member Since 2012



Kinzler Construction Services
Member Since 2015



Lester Buildings Systems, LLC
Member Since 2013



McPherson Concrete Products, Inc.
Member Since 2016



Wick Buildings, Inc.
Member Since 2013



Wicks Construction, Inc.
Member Since 2012



Wieser Brothers, Inc.
Member Since 2010



Winslow Crane Service Co.
Member Since 2008

SERVICE PROVIDERS

COTTINGHAM & BUTLER

Cottingham & Butler is the sole broker and consultant to the captive. Cottingham & Butler is directed by the captive Board of Directors to ensure that the service providers properly manage the operations of the company and execute the decisions of the captive’s Board of Directors.

ARCH INSURANCE COMPANY

Arch is the policy-issuing carrier. They issue all policies for the captive and take care of all the legal requirements of providing insurance. Arch also provides the specific excess and aggregate reinsurance thereby protecting the captive from catastrophic losses.

ARTEX RISK SOLUTIONS (CAYMAN)

Artex serves as the Offshore Captive Manager responsible for maintaining the accounting records of the captive, preparing financial statements, serving as Assistant Corporate Secretary, and maintaining the corporate and statutory records, including the minutes of all board meetings.

COTTINGHAM & BUTLER CLAIMS SERVICES (CBCS)

CBCS provides the claims administration, thus handling the settlement of all claims under the policies.

COTTINGHAM & BUTLER SAFETY MANAGEMENT SERVICES

Cottingham & Butler Safety Management Services provides risk control services and works with each member to develop standards and goals for their individual loss control purposes.

KPMG

KPMG (Cayman) serves as the captive's tax advisor.

RSM (CAYMAN) LTD.

RSM (Cayman) Ltd. conducts the annual audit of the captive and issues the audited financial statements.

COMERICA

Comerica Bank serves as the primary banking relationship for the captive providing depository, custodial and letter of credit services.

HEBER FUGER WENDIN

HFW acts as the investment advisor to the captive. They also manage the captive’s investment portfolio subject to the captive investment policy approved by the Board of Directors.

MCDERMOTT, WILL AND EMERY

McDermott, Will, and Emery Law Offices provide the captive with legal advice as needed.

