

BUILDING PROGRESS

SINCE 1984

2019 ANNUAL REPORT



**BUILDERS
MUTUAL**



IT ALL BEGAN WHEN WE
SAW AN INDUSTRY NEED.
AND WE ASKED,
"HOW CAN WE SERVE?"

'84 The North Carolina Home Builders Self Insurers Fund, Inc. (NCHBSIF) begins to meet the workers' compensation needs of NCHBA members. In its first year, NCHBSIF (The Fund) grows to 488 policyholders, resulting in \$845,000 total premium.

'94 In its 10th year, The Fund and the NCHBA, alongside 30 other trade associations and employer groups, lead the way to bring meaningful and fundamental reform to the NC workers' compensation system.

'95 The Fund grows to cover over 8,000 policyholders, resulting in more than \$69M in premium.

'96 In an effort to increase customer service levels, The Fund begins internal administration of underwriting and other policy services.



A message from our President

In 2019, Builders Mutual celebrated 35 years of protecting and serving the construction industry. Our team of 365 industry experts is passionate about supporting and educating our 25,165 policyholders. With a strong focus on customer loyalty, Builders Mutual increased customer retention to 85.2%, and that achievement served as a key factor in generating revenue of \$384.1 million in direct premium written—a \$10.8 million increase over 2018.

For 10 straight years, Builders Mutual has grown premium revenue while strengthening our overall profitability. The Company positions itself uniquely with an emphasis on our risk management resources and onsite safety education, as well as strong underwriting discipline and expertise. Our caring claims adjusters and dedicated service representatives are also integral to creating the exceptional customer experience we provide. Pursuing excellence in every area of our business has supported a net underwriting gain of \$39.2 million from insurance operations and a reported net income of \$46.9 million. And the solid financial strength of the company has generated a 17.6% increase in total policyholders surplus to \$458.9 million, along with a \$2.6 million dividend distribution.

We're always moving forward. Together.

John K. Boggs

CPA, CGMA, FLMI

President/Chief Executive Officer



AS WE GREW, WE ENHANCED OUR OFFERINGS AND EXPANDED OUR INDUSTRY PARTNERSHIPS.

'97 Incorporate as Builders Mutual Insurance Company and assume all NCHBSIF business. All NC policyholders must maintain NCHBA membership for coverage eligibility.

Receive A.M. Best rating of A- (Excellent).

'98 To provide increased financial protection and more competitive rates, Builders Mutual becomes the largest writer of workers' compensation with a 7.8% market share and over \$52M in premium.

'99 Builders Mutual begins offering a comprehensive product line to expand beyond workers' compensation.

Launch Buildersmutual.com.



**The value of partnership is priceless.
For 35 years we've created and maintained
strong industry partners.**

NCHBA & BUILDERS MUTUAL

Builders Mutual is rooted in the NCHBA. And through the years, we've been actively involved with the association to engage the industry, from participation in legislative initiatives in Washington, D.C., to outreach within the grassroots community.

Since our North Carolina beginnings, we have expanded into additional states and established partnerships with numerous industry associations.

Our partners make us better.

PREMIER PARTNERSHIPS

Builders Mutual believes when contractors are actively engaged in a Home Builders Association, it shows they are invested in their business and that they are giving back to their industry.

With this in mind, Builders Mutual maintains Premier Partnerships with the HBA of South Carolina, HBA of Tennessee, and the HBA of Virginia. In these relationships, Builders Mutual assists in sponsoring and promoting the great work of the associations for the construction industry.

Celebrating 35 Years of Partnership

We enjoyed a time of celebration in Charlotte with team members and partners. Pictured are dedicated industry leaders who have been serving the building community for the past 35 years: Rick Judson, Cathy Judson, Gary Hill, Jeff Little, Buddy Hughes, and Judy Dinelle.

ADDITIONAL VALUED PARTNERS

We support the Hispanic Contractors Association of the Carolinas with their mission to promote the long-term success of Hispanic-owned construction businesses in the Carolinas.

We partner with the NC Department of Labor and Little Giant Ladder Systems, Inc. to bring safety education and fall protection training to job-sites.

We lean on the expertise of Safety Maker Inc. to advance the protection of anyone stepping on the job-site with easy-to-use guardrail systems.

We give back to the industry we serve through our partnership with the Job-Site Safety Institute (JSI), a nonprofit dedicated to conducting research and training to save lives.





**WE BELIEVE THAT A POSITIVE
CUSTOMER EXPERIENCE SETS
THE GROUNDWORK FOR LASTING
BUSINESS RELATIONSHIPS.**

'00 Receive A.M. Best rating upgrade to A (Excellent).

Reach \$59M in premium.

'01 Expand footprint to include South Carolina, Tennessee, and Virginia.

'03 Charter Builders University to become the only institution of its kind in the industry, providing training and certification to policyholders, agents, and employees.

Builders Online Business gives agents online access to quote and service policies.



Builders Mutual is committed to delivering an experience that's caring, knowledgeable, and dependable. We are a true partner you didn't realize you needed—and now you trust.

We continue to take pride in the personalized approach we take to connect with our policyholders. Here's a snapshot of how we supported customers this year.



PREMIUM AUDITS

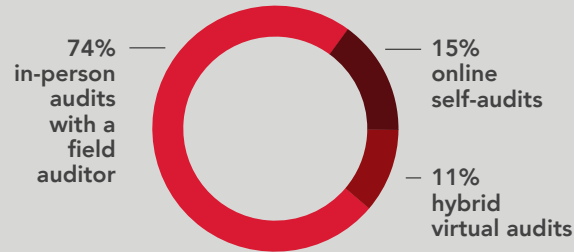
29,891
AUDITS PERFORMED



CLAIMS SERVICE

10,365
CLAIMS RESPONSES

We're always improving the claims service we provide through strategic partnerships that enhance communication, transportation, and payments.





CUSTOMER CONTACT CENTER

106,000+
CALLS HANDLED

We answered over 90% of calls with a live voice, and we call back abandoned calls to make sure all our customers' needs are met. To better support our customers, we have Spanish-speaking customer service representatives, as well as a dedicated express payment queue.



RISK MANAGEMENT

3,929
CONSULTATIONS

We completed 39% more consultations on policyholder job-sites in 2019 compared to 2018.

Additionally, we reached 5,532 workers across our footprint through job-site and classroom training and OSHA Stand Downs, a 44% boost from 2018. The most popular class continues to be OSHA-10.



NEW ONBOARDING PROGRAM

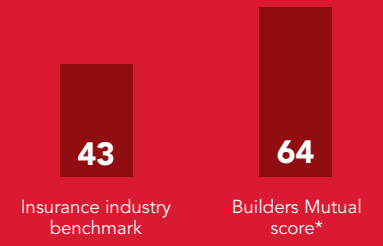
53%
OPEN RATE

We sent a series of emails to new policyholders to educate them on important touch points and to encourage them to take advantage of our online resources. We are thrilled with a 53% average email open rate, measured against the industry benchmark of 21%.



SEEKING CUSTOMER FEEDBACK

We continue to send quarterly email surveys to our policyholders who have recently contacted us or logged into Builders Online Business. In 2019, we received 1,970 total policyholder responses. This input is used to prioritize future enhancements and follow up with customers seeking specific information.



*final Net Promoter Score



AS THE YEARS PROGRESS,
OUR INDUSTRY REACH—AND
EXPERTISE—HAS GROWN
BROADER AND DEEPER.

'06 Reach \$171M in premium and 13,000+ policyholders.

'08 Create the Trade Contractor program to diversify and broaden our offerings.
Establish the Builders First Center, bringing together the Raleigh-Wake HBA, the NCHBA, and Builders Mutual in one building to create a training and meeting hub for the builder community.

'09 Celebrate 25 years of safety and stability.
Expand footprint to include D.C., Georgia, Maryland, and Mississippi.

You can trust our expertise.



OUR PEOPLE

Much of our recent success can be tied to the skills, competencies, and commitment exhibited from our employees.

Our team grew to 365 employees, with 32% holding industry designations, emphasizing the importance we place on expertise. With our focus on internal development and growth opportunities, 62 employees were promoted in 2019.

The Leaders Edge program, a two-year program designed to build leadership skills, is recognized in North Carolina's Triangle area as a best practice for employee development.



REACH IN THE INDUSTRY

There are many ways we connect annually with our customers and contractor audience. We strategically balance the demands of providing a broad range of digital content and maintaining visibility through personal connections across our footprint.

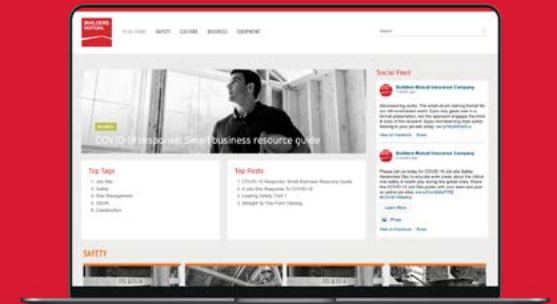
Our website, buildersmutual.com, welcomes more than 113,000 unique visitors annually, and the Builders Mutual blog attracted nearly 8,000 unique visitors in 2019. Our industry reach broadened to an estimated 300,000 contractors through our sponsorship of nearly 100 events. Builders University hosted ongoing classes for policyholders, training 989 workers.



2019 TOP BLOG ARTICLES

The Builders Mutual blog is a place where industry professionals go for thought leadership, insights, and valuable information. In 2019, we delivered content on the several key topics affecting every job-site. These are the top three blog articles, based on page views:

- 1 Job-Site Safety**
There's an app for that
- 2 Ladder Safety**
A rung-by-rung guide
- 3 Digging In**
Uncovering some surprising facts about trenching safety





INDUSTRY RECOGNITION

Builders Mutual is proud to be recognized each year as a standout in our industry. The following recognitions demonstrate our commitment to construction professionals, our employees, and the community.

- » Builders Mutual was named to the **Ward's 50® group of top-performing companies for 2019**. This recognition notes our outstanding financial results in the areas of safety, consistency, and performance over a five-year period (2014-2018).
- » AM Best listed Builders Mutual in the **Top 50 U.S. Workers' Compensation Insurers**. This list ranks insurers by direct premium written.
- » *Triangle Business Journal* ranked Builders Mutual as one of the **Healthiest Employers for 2019**. These awards recognize the "best of the best" companies and nonprofits that are located within the Triangle and are committed to implementing healthy initiatives on a daily basis.
- » *Insurance Business America* chose Builders Mutual as one of the **Top Insurance Workplaces** for the second consecutive year. We are proud to be listed among the top 16 companies in the medium-sized (100-999 employees) category.



GROWTH REPRESENTS STRENGTH. AND WE CONSISTENTLY STRENGTHEN OUR INDUSTRY CONNECTION AND IMPACT.

'10 Partner with the NAHB to present the inaugural SAFE Awards during the International Builders' Show.
Reach \$105M in premium and 13,000+ policyholders.

'11 Expand appetite to include light commercial contractors.
Partner with Safety Products Inc. to provide policyholders discounts for safety equipment.

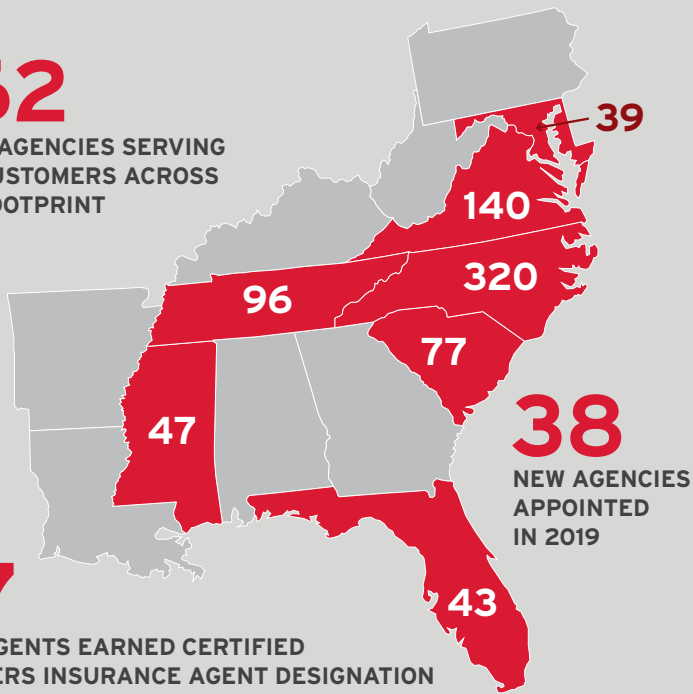
'12 Become a Premier Partner of the HBA of SC.
Launch Customer Contact Center as a single point of contact for all agent and policyholder inquiries.

Agency Growth

With 38 new agencies appointed in 2019, our total partnerships are up to 762 across our footprint. As the primary sales and service contacts for our policyholders, our partner agencies build their expertise through continuing education with Builders University for Agents. This year, 87 new agents earned the prestigious Certified Builders Insurance Agent designation.

762

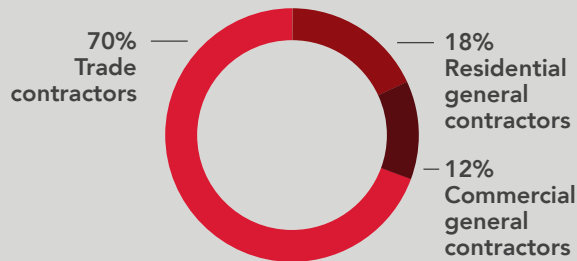
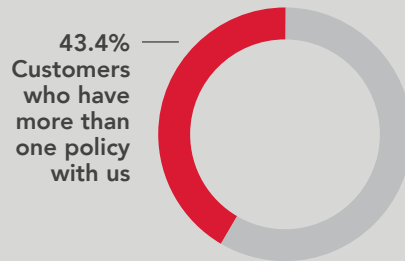
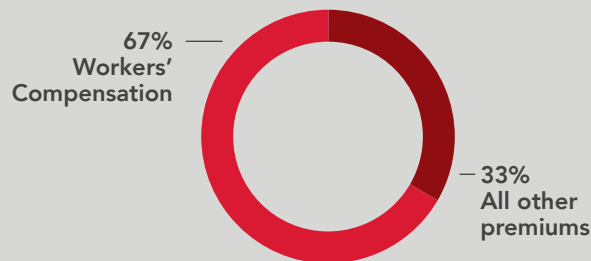
TOTAL AGENCIES SERVING OUR CUSTOMERS ACROSS OUR FOOTPRINT



87

NEW AGENTS EARNED CERTIFIED BUILDERS INSURANCE AGENT DESIGNATION

Premium Breakdown



Growth Factors

PREMIUM RETENTION

85.2%

3% higher than anticipated

NEW BUSINESS PREMIUM

\$66.2M

against plan of \$61M

BUILDERS RISK PREMIUM

\$4.2M

18% more than 2018

TOTAL POLICIES SERVICED IN 2019

44,548

WE INSURE

25,165

GENERAL AND TRADE CONTRACTORS



YEAR AFTER YEAR, WE ARE ON
FIRM FINANCIAL FOOTING—
CONTINUING TO FORGE AHEAD
AS OUR INDUSTRY PROGRESSES.

'13 Expand footprint
to include Florida.

'14 Celebrate our 30th anniversary with more
than 700 agents, over 19,000 policyholders,
and more than \$230M in premium.

Become a Premier Partner
of the HBA in Virginia.

Builders Online Business allows
policyholders to make payments,
report claims, and view policies.

Establish the Job-Site Safety Institute (JSI), a
public nonprofit dedicated to improving safety
and protecting lives through residential and
commercial job-site safety research.



The following are statements of financial position and results of operations of Builders Mutual Insurance Group for the fiscal year ended December 31, 2019. The financial statements are presented in accordance with statutory accounting principles as required by the North Carolina Department of Insurance.

Results of Operations

The Company is reporting net income of \$46.9 million for 2019. Net premiums earned increased by \$7.9 million, or 2.4%, during the year, reflecting higher levels of building activity and continued improvement in the construction industry. While Workers' Compensation premium represents 67.7% of total premiums, we continue to implement strategies to further diversify our book of business to provide complete coverage to our customers. BMIC'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 LAE incurred increased by \$4.5 million, and our calendar-year loss ratio was 56.5%, as a percentage of net premiums earned. The loss ratio came in lower than was planned and is the result of successful risk management and underwriting discipline, even as our overall exposures continue to grow.

Total underwriting expenses incurred are \$109.8 million for 2019, compared to \$103.2 million in 2018. The growth in the Company's operating expenses is consistent with the growth in current year premium and supports our continuing investment in and dedication to all of our customers, people, and key processes.

Despite a continued low-interest-rate environment, net investment income increased by \$4.6 million in 2019. This increase is largely due to our increased funding of investment contributions over the course of 2019. Adding to overall investment income, sales of investments generated realized capital gains of \$2.3 million.

Balance Sheet

All figures represented in thousands (,000).

| ASSETS | 2019 | 2018 |
|--|--------------------|------------------|
| Bonds | \$642,661 | \$589,946 |
| Common and preferred stocks | 227,371 | 168,606 |
| Real estate held for income | 13,168 | 13,201 |
| Cash and short-term investments | 24,268 | 33,586 |
| Premium balances | 109,047 | 102,975 |
| Other assets | 43,637 | 35,545 |
| Total Assets | \$1,060,152 | \$943,859 |
| LIABILITIES AND POLICYHOLDERS SURPLUS | 2019 | 2018 |
| Unpaid losses and loss adjustment expenses | \$444,372 | \$411,331 |
| Unearned premium | 94,683 | 84,957 |
| Other liabilities | 62,230 | 56,803 |
| Total Liabilities | 601,285 | 553,091 |
| Total Policyholders Surplus | 458,867 | 390,768 |
| Total Liabilities and Policyholders Surplus | \$1,060,152 | \$943,859 |

Financial Position



ASSETS

Total assets increased \$116.3 million, or 12.3%, to \$1.1 billion. Bonds and common stocks represent 82.1% of the Company's assets and increased during the year by \$111.5 million from additional investment contributions from our strong insurance operations and changes in market values. The Company continues to invest heavily in fixed income securities, which are \$642.7 million, or 60.6% of total assets. Cash and short-term investments decreased by \$9.3 million. Premium balances receivable increased \$6.1 million, or 5.9% due to the growth in written premium noted above.



LIABILITIES

Total liabilities increased by \$48.2 million, or 8.7% in 2019. Total unpaid loss and loss adjustment expense reserves increased \$33 million this year due to the exposure growth in our business. Included in the loss and loss adjustment expense reserves is favorable loss development on our prior accident years. This favorable loss development reflects the safe working conditions created by our policyholders with guidance and assistance from our Risk Management consultants. Unearned premium reserves increased \$9.7 million, from the growth in written premiums. Other liabilities increased slightly. This is the result of an increase in agent commission payables, offset by decreases in other items, including policyholders deposits. The \$2.6 million safety dividend is included in other liabilities and was paid to all our eligible policyholders in early 2020.



POLICYHOLDERS SURPLUS

Policyholders surplus grew \$68.1 million in 2019 to \$458.9 million. This large growth in our surplus is mainly from the net income generated of \$46.9 million. BMIC's continued ability to grow its policyholders surplus in 2019's 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 AM Best "A" (Excellent) rating.

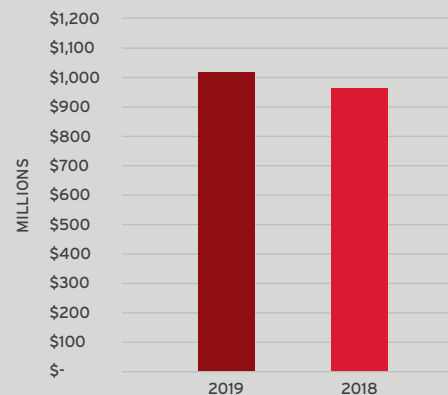
Statement of Income

All figures represented in thousands (,000).

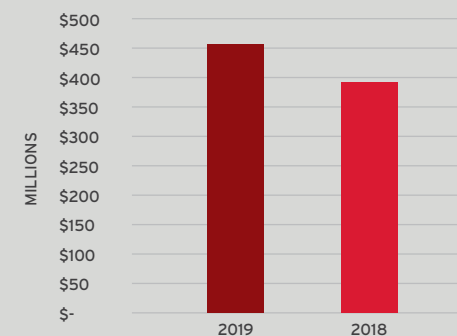
| UNDERWRITING INCOME | 2019 | 2018 |
|--|-----------------|-----------------|
| Premium earned | \$342,209 | \$334,321 |
| Losses and LAE incurred | 193,215 | 188,722 |
| Underwriting expenses | 109,751 | 103,216 |
| Underwriting gain | \$39,243 | \$42,384 |
| INVESTMENT INCOME | 2019 | 2018 |
| Investment income, net of interest expense | \$26,201 | \$21,614 |
| Rental income | 470 | 554 |
| Realized capital gains | 2,321 | 1,473 |
| Other expenses | 658 | 1,755 |
| Income before dividends and income taxes | 67,577 | 64,270 |
| Policyholders dividends | 8,149 | 4,518 |
| Federal income tax expense | 12,478 | 13,469 |
| Net Income | \$46,950 | \$46,284 |

| CHANGES IN POLICYHOLDERS SURPLUS | 2019 | 2018 |
|---|------------------|------------------|
| Unassigned surplus, beginning of year | \$390,768 | \$358,182 |
| Net income | 46,950 | 46,284 |
| Net unrealized capital gains/(losses) | 21,028 | (13,881) |
| Change in net deferred income tax | 532 | 2,582 |
| Change in non-admitted assets | 364 | (1,738) |
| Change in provision for reinsurance | (775) | (661) |
| Unassigned Surplus, End of Year | \$458,867 | \$390,768 |

TOTAL ASSETS



TOTAL POLICYHOLDERS SURPLUS



Profitability Analysis

| | 2019 | 2018 | CHANGE |
|------------------------|-------------|-------------|---------------|
| LOSS RATIO | 56.5% | 56.4% | 0.1% |
| EXPENSE RATIO | 31.2% | 30.2% | 1.0% |
| DIVIDEND RATIO | 2.4% | 1.4% | 1.0% |
| COMBINED RATIO | 90.0% | 88.0% | 2.0% |
| OPERATING RATIO | 82.4% | 81.5% | 0.9% |



AS WE WORK TO BUILD
PROGRESS IN OUR
COMMUNITIES, WE ALSO
GIVE BACK TO KEEP THOSE
COMMUNITIES STRONG.

'16 Begin supporting OSHA's Stand Down initiative with job-site training focusing on fall protection.

'17 The NAHB celebrates its 75th anniversary, and we become the organization's official Safety Sponsor.

'18 Reach \$341M in premium and 23,500+ policyholders.

Honors:

- 2018 Company of the Year by the Independent Insurance Agents of NC
- 2018 Top Insurance Company by Insurance Business of America
- One of the *Triangle Business Journal's* Healthiest Employers for 2018



Each year, we enrich our culture and community through our giveBACK program, setting aside funds and matching gifts for charities closely aligned with our mission and values. Additionally, our Builders Mutual team comes together throughout the year to share our time and talents in the building community. In 2019, we supported the following nonprofit organizations:

\$35,990

to the American Cancer Society, The V Foundation for Cancer Research, the Susan G. Komen Race for the Cure, and the Holt Brothers Foundation, with over 75 employees participating in local NC Triangle events

\$22,145

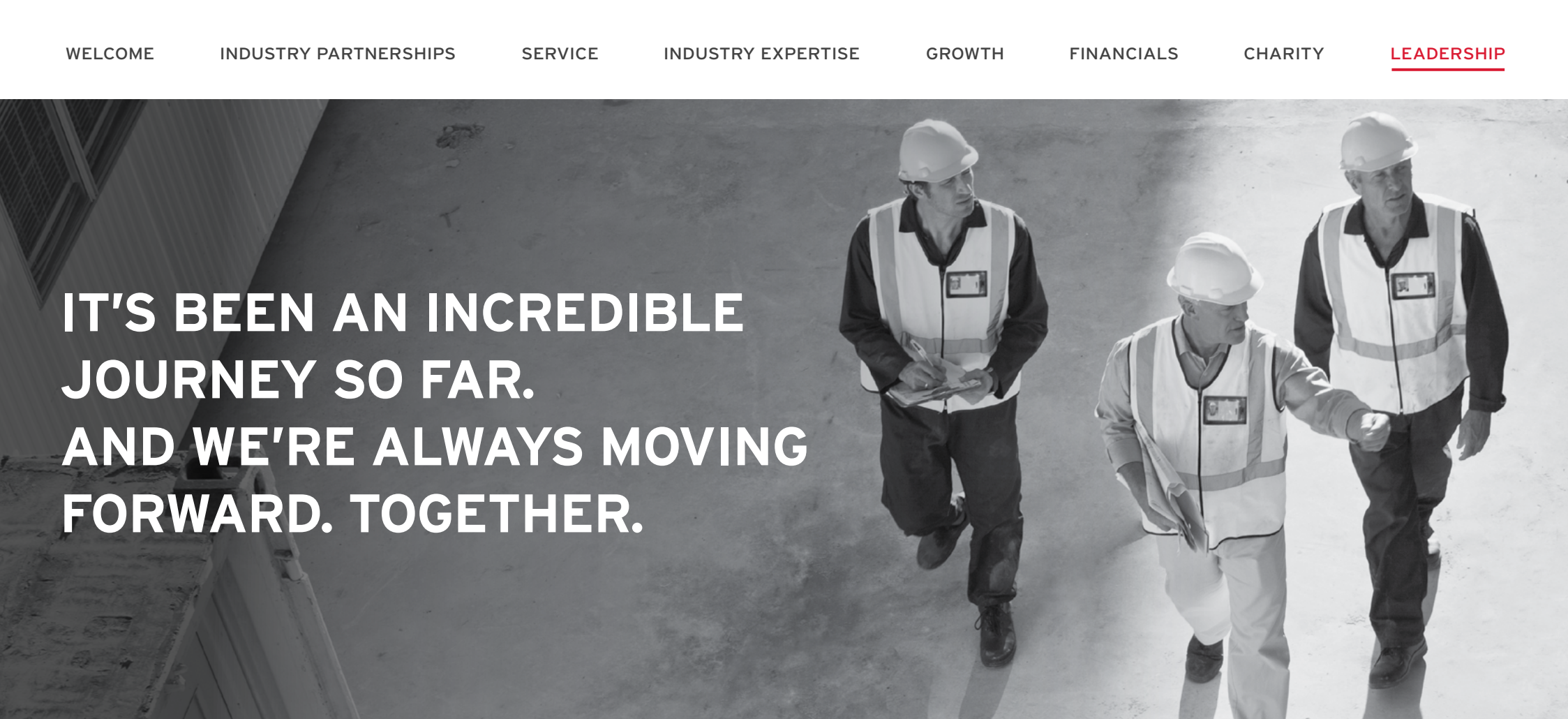
to the American Heart Association and participation of over 100 employees and their families in the annual Triangle Heart Walk

\$25,000

to Habitat for Humanity and 96 participants in Women Build in 2019

\$2,675

in matching gifts and additional requests to support nonprofit organizations our employees are passionate about



IT'S BEEN AN INCREDIBLE
JOURNEY SO FAR.
AND WE'RE ALWAYS MOVING
FORWARD. TOGETHER.

'19 Sponsor the inaugural IBS Jobsite Safety Zone to spotlight the latest workplace safety solutions.

Launch Put Your Guard Up, a safety movement to protect workers from injuries resulting from improper use or lack of guardrails.

Receive a ranking among the Ward's 50™ group of top-performing companies in recognition of outstanding financial results.

Earn recognition as a 2019 Top Insurance Company by Insurance Business of America.



2019 Board of Directors

Rick Judson, Chairman
Evergreen Group, LLC
Charlotte, NC

David Stormont, Vice Chairman
Storm Coast Homes, LLC
Kitty Hawk, NC

Erik A. Anderson, Secretary
Anderson-Moore Builders
Winston-Salem, NC

Andy Betts
Business Consultant
Raleigh, NC

Michael S. Enscore
The Veritas Group, Inc.
Kernersville, NC

Gary Emblar
Niblock Development Corp.
Concord, NC

Jerry Hartsell
Business Consultant
Midland, NC

Willard "Buddy" Hughes
Insulated Concrete, Inc.
Lexington, NC

Mark Martin
Sandmark Custom Homes, Inc.
Kitty Hawk, NC

Brian Pace
Pace Development Group
Charlotte, NC

Phil Warrick
Piedmont Wholesale
Greensboro, NC

Top Left to Right: Erik Anderson, Rick Judson, David Stormont

Middle: Gary Emblar, Mark Martin, Jerry Hartsell, Brian Pace

Front: Michael Enscore, Buddy Hughes, Phil Warrick, Andy Betts





Officers & Department Directors

John Boggs

CPA, CGMA, FLMI
President/Chief Executive Officer

Michael Gerber

CBIA
Senior Vice President/
Chief Operating Officer

Tom Lockard

CPA, CGMA
Vice President/
Chief Financial Officer

Alan Mercaldo

Vice President/
Chief Information Officer

Ross Fowler

CPCU, CBIA
Vice President/Underwriting

Brad Moock

CPCU, CLU, CBIA
Vice President/
Business Development

Ken Bunn

AIC, PMP
Assistant Vice President/Claims

Michele Hemric

SPHR, ACC, CBIA
Assistant Vice President/
Human Resources and
Organizational Effectiveness

Chris Wetzel

Assistant Vice President/
Actuarial Services

Jillian Madsen

Assistant Secretary

Jeff Beatty

Director of Underwriting

Lori Edwards

Director of Claims Operations
& Commercial Claims

Joe Frazier

Director of IT Business Solutions

Tina Hill

CBIA
Director of Claims, WC

Jerry Kaiser

Senior Director of Project Services

Todd Quilici

Director of IT Infrastructure

Bill Schaffner

Senior Director of Field Services

Jodi Vedelli

CBIA
Senior Director of Marketing

Stephen Vore

CPA, CTP
Director of Treasury Services

Melissa Williard

CIC, CBIA
Senior Director of Underwriting