



Discovering Resilience

ANNUAL REPORT 2020

**John K. Boggs**

CPA, CGMA, FLMI

President/Chief Executive Officer

A message from our president

Throughout the generations, our business—construction—has always been essential. Never has that been more evident than during 2020 when building projects continued across the nation while other industries came to a complete halt. But even with this general upward industry trend, our customers and stakeholders were challenged in different ways through the year. Most survived, some thrived. But one thing is certain: we're all discovering what it means to be resilient.

For over 36 years, Builders Mutual has been focused on customer loyalty—and this focus has resulted in consistent growth and progress for our business and our policyholders. During this unprecedented year of 2020 our attention shifted. We dug deeper into our customers' experience to see different and do more. We wanted to match the commitment and tenacity of our customers with the way we serve them.

When we began on our journey at the start of this new decade, we never imagined the challenges COVID-19 would bring. The extreme changes and ongoing uncertainty meant we had to quickly adapt, determining how best to move forward. With swift decisiveness, our Crisis Management Team took action to protect our employees and rapidly implement new technology to seamlessly work from home. We remained dedicated to you—our policyholders—by providing payment flexibility, extra support, and job-site safety resources. Connecting virtually with each other, our agents and policyholders allowed us to achieve all, and exceed many, of our annual goals.

As 2020 came to a close, our team of 373 industry experts celebrated another year of steady premium and customer growth, exceptional retention, and strong profitability. With over 27,000 policyholders and a customer retention rate of 86.1%, customer loyalty and satisfaction were key components of our \$407.5M in direct premium written, an increase of nearly \$23M. Additionally, we saw a 10.4% increase in policyholder surplus to \$506.6M and returned \$2.7M in dividend to eligible Workers' Compensation policyholders.

Everything changed. We responded and stayed the course.



»» Risk management consultants continued to work alongside policyholders to provide guidance on safety practices and protect against risks.
October 2020



»» Dual-language COVID-19 job-site safety resources were shared at the HCAC Drive-Thru Construction Safety Expo. *October 2020*



An opportunity to reflect and reset

As a society, so much of the past year was out of our control. For many, a “pause” button was pushed, inviting an opportunity to reflect and reset. But there was no “pause” button for the construction industry to press. Our customers had to keep pressing on, innovating, doing their job in new ways, finishing strong.

So, that’s what we did too. We responded to each new industry curveball by creating processes that met the new needs of our customers. We anticipated what was coming to establish fresh ideas that minimized interruption to business. Plus, we ensured our agents had the tools and support they needed to help service their policyholders. And, we looked internally, caring for and empowering our own employees, so they could continue to care for our customers.

Operations & Technology

We quickly mobilized a Crisis Management Team to address company and industry issues. Our office closed in mid-March to protect our staff. During the past year, we maintained critical business functions with work-from-home processes and responded to state-specific guidelines to safeguard our essential workers in the building.

Policy Coverage & Payment Flexibility

Across our footprint, we offered payment flexibility to policyholders experiencing financial hardship. We encouraged policyholders to work with us and their agents to re-estimate Workers’ Comp annualized premiums based on payroll and business changes due to the pandemic. To help with payroll reporting and audit processing, we created new guidelines for classifying employees not working or working from home.

Community Engagement

Builders Mutual announced a financial contribution to support communities, industry partners, healthcare providers, and employees affected by COVID-19. We pledged \$1 million for COVID-19 relief in the states that fall in our corporate footprint, supporting both immediate and longer-term needs.

COVID-19 Resources

We understood that our policyholders and agents were inundated with information on COVID-19, and it was challenging to keep up with emails and updates. To help them stay informed, we created dedicated webpages on buildersmutual.com, where we compiled helpful resources for contractors maintaining active job-sites, information to manage their policies during this crisis, and useful links from industry partners.

Customer & Agent Support

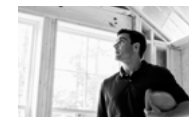
We accelerated and delivered technology for remote servicing of customers, making the transition to work from home as seamless as possible. Traditional in-person experiences of job-site safety consultations, premium audit assistance, and agency support shifted to virtual interactions. Agent classes were held on virtual platforms so agents could receive continuing education as planned.

We created relevant blog articles, garnering excellent response:



1,749 views

A Job-Site response to COVID-19



902 views

COVID-19 response: Small business resource guide



400 views

COVID-19 and the Hispanic population

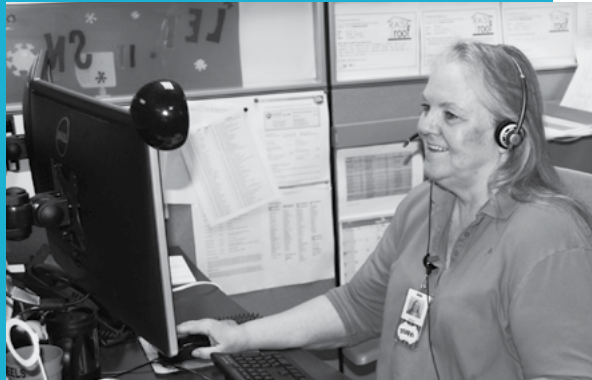
We are a true partner
you didn't realize you
needed—and now
you trust.



»» Risk Management consultants partner with policyholders to host Safety Stand-Downs for fall protection in construction. *September 2020*



»» A visit by claims and sales leadership to Goodall Homes after tornadoes touched down in Nashville and damaged several job-sites. *March 2020*



Builders Mutual is committed to delivering an experience that is:

»» CARING

»» KNOWLEDGEABLE

»» DEPENDABLE



Premium Audits

34,370

TOTAL AUDITS

12% increase in 2020

2020 presented significant change to our audit team. The inability to meet face-to-face, often in the customer's home, led to the creation of a virtual audit process. As a result, our team of auditors and reviewers assisted policyholders with nearly 15,000 virtual audits in 2020.



Customer Contact Center

102,000

CALLS HANDLED

92% answered with a live voice

A few weeks after we closed the office, we put in place a new call-center system to enhance call routing, reporting, and the ability for our customer service representatives to seamlessly handle calls from home.



Claims Service

10,566

CLAIMS HANDLED

Claims implemented TextAim, a texting service for policyholders to reach our staff, allowing us to engage in one-on-one conversations. This integrated texting platform keeps us connected with policyholders who prefer a quick and easy alternative to phone calls.



Onboarding and Loyalty Programs

13,000

INBOXES REACHED/QUARTER

We continued to selectively send policy and educational information to policyholders throughout their tenure with us. Through our established onboarding and loyalty programs, we were able to quickly distribute COVID-19 job-site safety and business resources to our policyholders.



Risk Management

4,802

JOB-SITE VISITS

22% increase in 2020

Risk Management consultants historically in front of policyholders three to four days per week adapted to new virtual and socially distant processes. During a three-week blitz in September to promote OSHA's National Safety Stand-Down, consultants completed 198 COVID-compliant and socially distant events, reaching 1,806 workers.



To accelerate our customers' ability to complete transactions and support more digital processing, we began offering e-signature options for our business activities.

We're always striving to know more and reach further.



»» Building Progress podcast from 2020 Guardrail Safety Week with guests Brad Hammock of Littler Mendelson and Josh Hollingsworth of Buchanan Construction. October 2020



»» During the inaugural Guardrail Safety Week, Builders Mutual reminded contractors that guardrails protect everyone. October 2020

Our industry expertise fosters confidence.

Depth

The commitment and knowledge of our people create a solid foundation upon which we are built.

During 2020, our team grew to 373 employees as we expanded to build expertise and ensure uninterrupted service to our customers. Our employee-focused culture encourages development and growth opportunities, evident in 40% of our employees earning a CBIA designation and 53 promotions in 2020.

Recognition



Ward's 50

Builders Mutual was named to the Ward's 50® group of top-performing companies for the second consecutive year.



AM Best

AM Best reaffirmed our rating of A "Excellent" for the 21st consecutive time.

Reach

We continue to explore different avenues—articles, audio podcasts, and video—to engage audiences with important content that impacts our industry. A mix of sponsorships and marketing efforts allowed us to connect with approximately 100,000 contractors in 2020. While many of the planned large-group events and tradeshows were canceled, we found creative ways to support the industry, sharing our expertise and passion for safety.

In just three years, the **Builders Mutual blog** has grown to house a total of 88 original articles in the categories of business, safety, culture, and equipment. At present, the blog has over 16,300 views and more than 8,500 users.

- ① Women in Construction (215 plays)
- ② Perspectives on Construction Careers (206 plays)
- ③ Put Your Guard Up—and Save Lives (201 plays)

We launched the **Building Progress podcast** in 2020 and posted a total of six audio episodes discussing important topics trending on job-sites. We also created three special edition video episodes, including one during our first-ever Guardrail Safety Week, one highlighting industry careers, and one focused on our response to the tornadoes in Nashville.

Dedication

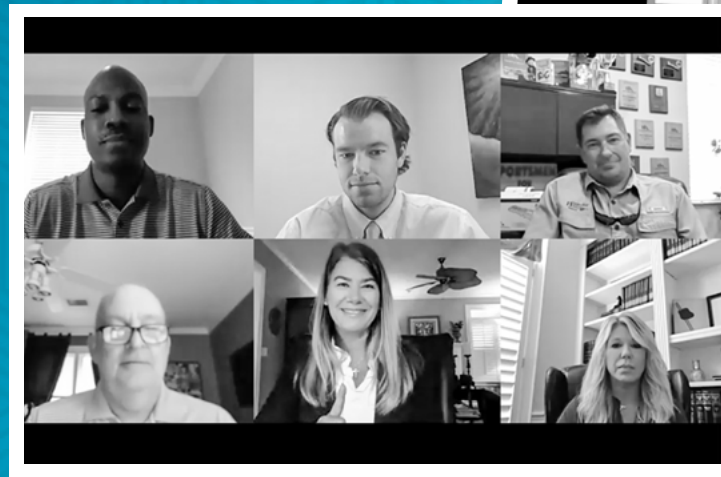


When we spread the word about guardrail safety and the preventative impact of proper guardrail use, the statistics will change. Builders Mutual wants to foster a culture of safety and empower everyone on a job-site to speak up about missing guardrails. We joined with our partners, NAHB, JSI, and Safety Maker, to launch **Guardrail Safety Week**, which took place October 19-23, 2020. During this important effort, we shared guardrail safety messages, training resources, and videos through our social media channels. We also recognized eight contractors as Leaders in Guardrail Safety.

#guardrailsprotecteveryone

We continue to partner with the Job-site Safety Institute and the National Association of Homebuilders to create and promote a series of **Toolbox Talk videos** in English and Spanish to demonstrate simple, safe work practices that prevent accidents. Hosting ongoing education courses for policyholders, **Builders University** trained 3,044 workers in 2020, with OSHA-10 continuing to be the most requested class.

In our efforts to maintain connections with our agents and policyholders, we paved the way for future growth.



»» Territory Managers and agents connect virtually to discuss trends and opportunities amid the pandemic. *June 2020*



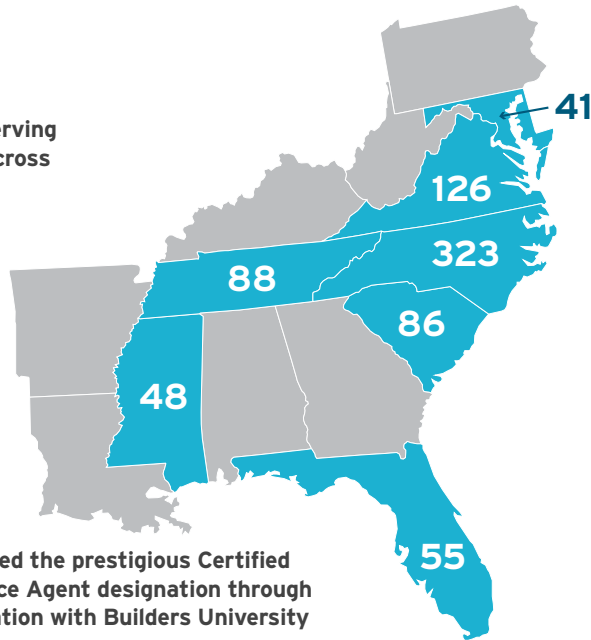
»» State HBA partners in NC and VA share their efforts to ensure construction maintained essential status. *June 2020*

Agency Growth

One of the most critical components of our ability to sustain favorable production results is the relationships we develop with our agency partners. As the “next normal” progressed, our sales and underwriting teams turned to virtual meetings and digital communication to support—and encourage—our agents when in-person visits were not possible. Our efforts during 2020 to serve better resulted in welcoming 33 new agencies, for a total of 767 agencies across our footprint.

767

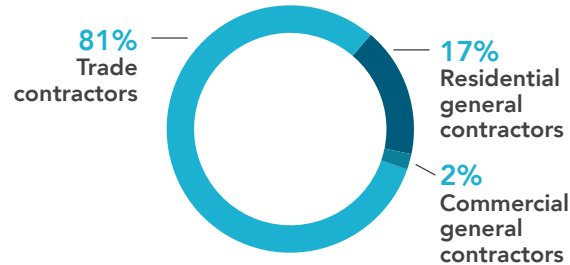
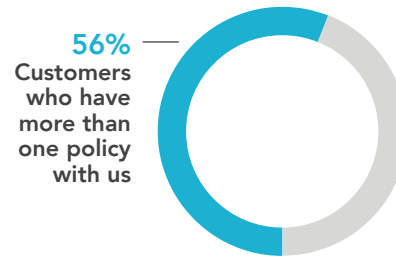
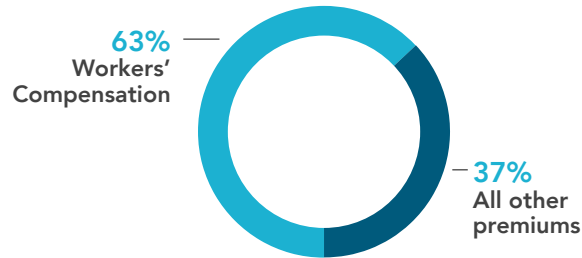
Total agencies serving our customers across our footprint



44

New agents earned the prestigious Certified Builders Insurance Agent designation through continuing education with Builders University for Agents

Premium Breakdown



Growth Factors

CUSTOMER RETENTION

86.1%

0.9% higher than anticipated

NEW BUSINESS PREMIUM

\$70.9M

up from \$63.2M in 2019

BUILDERS RISK PREMIUM

\$6.1M

27% increase over 2019

TOTAL POLICIES SERVICED IN 2020

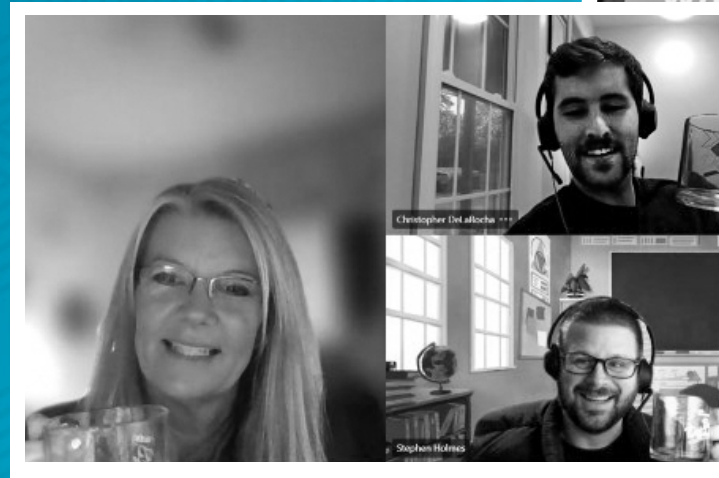
48,200+

WE INSURE OVER

27,000

GENERAL AND TRADE CONTRACTORS

As we continued to adapt, providing the support you needed to thrive, we celebrated record levels of financial strength.



»» Claims teammates celebrated results during a virtual team meeting. *September 2020*



»» An essential member of our accounting team is recognized during an employee appreciation drive-by parade. *July 2020*

The following are statements of financial position and results of operations of Builders Mutual Insurance Group for the fiscal year ended December 31, 2020. 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 after dividends and taxes of \$39.3M for 2020. Driving this result is a net premium earned increase of \$20.4M, or 6.0% growth, bringing the total to \$362.6M for the year. Both new business and renewal retention exceeded both prior year and plan. With 767 dedicated agents ready to assist policyholders and more than 370 Builders Mutual employees available to service customers, agents, claimants, and vendors, premium has continued to grow across all product lines. While Workers' Compensation premium continues to be our major product at 63.8%, the additional premium from other product lines has increased from 24.8% five years ago to 36.2% of total premiums (and almost 45% of new business) as we continue to offer competitive products across our geographic footprint.

Losses and loss expenses incurred increased \$15.9M from 2019, ending the year with a loss ratio of 57.7%, as both premiums and losses grow with the size and composition of the portfolio. To report a loss ratio that continues to be lower than the industry, Builders Mutual provides critical risk management resources that not only result in financial benefits but, more importantly, reduce the chances of injuries or fatalities on construction sites.

As premium grows, expenses will increase due to commissions and premium taxes being directly tied to premium. In addition, as the need for servicing increases, other general expenses will increase. The ratio of expenses to net premiums written is a good indicator of expense growth and whether it is in proportion to revenue growth. For 2020, Builders Mutual's expense ratio was 31.3%, which indicates that expenses are in line with premium growth.

Net investment income before capital gains was \$26.0M for 2020, consistent with the prior year. Capital gains of \$1.0M were recognized in 2020 from the sale of investments.

The Board of Directors declared a \$2.7 million dividend to be paid in February 2021 to all eligible Workers' Compensation policyholders.



Balance Sheet

All figures represented in thousands (,000).

| ASSETS | 2020 | 2019 |
|--|--------------------|--------------------|
| Bonds | \$674,621 | \$642,661 |
| Common and preferred stocks | 158,610 | 227,371 |
| Real estate held for income | 12,580 | 13,168 |
| Cash and short-term investments | 56,873 | 24,268 |
| Premium balances | 118,475 | 109,047 |
| Other assets | 147,864 | 43,637 |
| Total Assets | \$1,169,023 | \$1,060,152 |
| LIABILITIES AND POLICYHOLDERS SURPLUS | 2020 | 2019 |
| Unpaid losses and loss adjustment expenses | \$482,284 | \$444,372 |
| Unearned premium | 105,339 | 94,683 |
| Other liabilities | 74,837 | 62,230 |
| Total Liabilities | 662,460 | 601,285 |
| Total Policyholders Surplus | 506,563 | 458,867 |
| Total Liabilities and Policyholders Surplus | \$1,169,023 | \$1,060,152 |

Financial Position



Assets

The Company surpassed \$1.0 billion in total assets to end 2019 and quickly followed that milestone with total invested assets exceeding \$1.0 billion as well. This represented a 10.2% increase over 2019. During economic uncertainty, Builders Mutual had high liquidity and did not consider using loans or funding but instead continued to invest funds throughout the year, with 88% of total assets being held in investments or cash. For tax purposes, municipal bonds and small cap equity holdings were reduced, and the investment portfolio was increased in short-term investments, direct lending, and large cap equities. Premiums receivable continue to remain at less than 2% of total assets, and deferred premiums declined to 8.6% of total assets by year end, even with higher premium.



Liabilities

Liabilities include all known and potential reserves for current and future claims. Total unpaid loss and loss adjustment expense reserves increased \$37.7M this year, as the portfolio continued to grow due to new business and increases in exposure on renewal business. The favorable loss development on our prior accident years was more than \$25M, which more than offsets the current accident year growth in exposures. This continuing favorable loss development reflects underwriting strength and safe working conditions created by our policyholders with guidance from our Risk Management consultants. Unearned premiums increased \$10.6M from the growth in written premiums. The increase in other liabilities is a combination of the accrued payables for dividends, commissions, employee benefits, and general payables.



Policyholders Surplus

The strength of a mutual company is measured in premium growth, asset growth, and, most importantly, in policyholder surplus growth. In 2020, Builders Mutual met another milestone in reaching \$500 million in policyholder surplus, ending the year at \$506.6M. The increase of \$47.7M is made up of the current year net income (\$39.3M), unrealized gains on our investments (\$9.5M), and increase from both non-admitted assets (\$2.2M) and deferred tax (\$1.9M). It is offset in part by an adjustment for a solar plant investment for which the NC Department of Revenue has disputed the tax benefit for all North Carolina investors (-\$4.8M). With construction activities deemed to be essential, supported by the strong voice of the homebuilder and trade associations, Builders Mutual continued to grow the value of policyholder surplus. The Board of Directors declared a \$2.7M dividend to eligible Workers' Compensation policyholders for 2020. Our financial strength and growth potential was also exhibited by maintaining our A.M. Best "A" (Excellent) rating.

Statement of Income

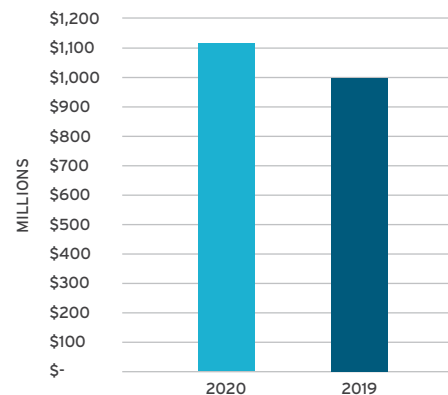
All figures represented in thousands (,000).

| UNDERWRITING INCOME | 2020 | 2019 |
|----------------------------|-------------|-------------|
| Premium earned | \$362,648 | \$342,209 |
| Losses and LAE incurred | 209,112 | 193,215 |
| Underwriting expenses | 117,094 | 109,785 |
| Underwriting gain | \$36,442 | \$39,208 |

| INVESTMENT INCOME | 2020 | 2019 |
|--|-----------------|-----------------|
| Investment income, net of interest expense | \$26,012 | \$26,201 |
| Rental income | 327 | 470 |
| Realized capital gains | 1,049 | 1,844 |
| Other expenses | 2,879 | 623 |
| Income before dividends and income taxes | 60,951 | 67,100 |
| Policyholders dividends | 9,191 | 8,149 |
| Federal income tax expense | 12,491 | 12,001 |
| Net Income | \$39,270 | \$46,950 |

| CHANGES IN POLICYHOLDERS SURPLUS | 2020 | 2019 |
|--|------------------|------------------|
| Unassigned surplus, beginning of year | \$458,867 | \$390,768 |
| Net income | 39,270 | 46,950 |
| Net unrealized capital gains/(losses) | 9,451 | 21,028 |
| Change in net deferred income tax | 1,875 | 532 |
| Change in non-admitted assets | 2,164 | 364 |
| Change in provision for reinsurance | (231) | (775) |
| Adjustment for solar investment premium tax credit | (4,832) | 0 |
| Unassigned Surplus, End of Year | \$506,563 | \$458,867 |

TOTAL ASSETS



TOTAL POLICYHOLDERS SURPLUS



Profitability Analysis

| | 2020 | 2019 | CHANGE |
|------------------------|-------------|-------------|---------------|
| LOSS RATIO | 57.8% | 56.5% | 1.3% |
| EXPENSE RATIO | 31.3% | 31.2% | 0.1% |
| DIVIDEND RATIO | 2.5% | 2.4% | 0.1% |
| COMBINED RATIO | 91.7% | 90.0% | 1.7% |
| OPERATING RATIO | 84.5% | 82.4% | 2.1% |

Progress moves our industry forward. Builders Mutual is committed to being an influence for positive change.



»» Employees celebrate Hispanic Heritage Month. October 2020



»» As a sponsor of Susan G. Komen Race for the Cure, Builders Mutual employees participated in the virtual 5K event. September 2020

Our differences make us STRONGER.



Employees attend a parking lot event to celebrate Hispanic Heritage Month.
October 2020

Green Team

Our Green Team is committed to developing and maintaining new initiatives in support of environmental responsibility both within the company and in the construction industry. Most recently, we have been focused on reducing waste through changing printer options, providing water-bottle filling stations, and expanding the use of composting bins. Efforts included educational campaigns to address waste reduction while working from home.

GiveBack

Each year Builders Mutual supports local and national nonprofits through financial means and employee involvement, also matching employee charitable donations. There is a long-standing relationship between Builders Mutual and Habitat for Humanity, Susan G. Komen foundation for breast cancer, food banks in various locations throughout our footprint, and the American Heart Association.

Of course, 2020 was an unusual year, and Builders Mutual stepped up to the plate to do our part. We provided additional support to food banks and food shuttles across our footprint and made donations to specific medical funds for COVID, including to the [American Red Cross](#), [Mississippi Blood Services](#), [John Hopkins COVID fund](#), and [United Way](#) local area funds. To directly support job-site safety for essential construction workers, we provided free PPE and safety products totaling over \$53,000 and donated \$75,000 to the Job-Site Safety Institute, which provided free OSHA safety training.

Diversity, Equity, and Inclusion

Builders Mutual is committed to being an inclusive company that embraces and encourages our employees' differences and strengths to build stronger teams and collaboration. Our DEI council is driving results through awareness, experiences, training, and appreciation. Efforts in 2020 included a February celebration of Black History Month with donations made to support social justice and equity, as well as a virtual celebration of Hispanic Heritage Month in September.

Serving and protecting others gave us renewed passion for what we do and why we do it.



»» Contractors dedicated to safety are recognized as the NAHB and Builders Mutual Safety Award of Excellence winners at 2020 NAHB International Builders' Show in Las Vegas. January 2020



»» Angel Tree packages donated by employees were delivered to the Salvation Army. December 2020

2020 Board of Directors

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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

Mike Carpenter

General Counsel,
North Carolina Home
Builders Association,
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

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President/Chief Executive
Officer

Michael Gerber

CBIA
Senior Vice President/
Chief Operating Officer

Ross Fowler

CPCU, CBIA
Vice President/Underwriting

Tom Lockard

CPA, CGMA
Vice President/
Chief Financial Officer

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 Information
Technology

Melissa Piercy

AIC, CPCU, CBIA
Director of Builders University

Todd Quilici

Director of IT Operational
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Bill Schaffner

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Services

Jodi Vedelli

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Stephen Vore

CPA, CTP
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Melissa Williard

CIC, CBIA
Senior Director of Underwriting