



At work with you.

2017 ANNUAL REPORT



**"WE ARE DEDICATED TO SETTING
YOU AND YOUR EMPLOYEES
UP FOR SUCCESS. THAT'S WHY WE ARE
PROVIDING THIS QUICK REFERENCE TOOL
THAT YOU CAN USE WHEN TRAINING
NEW EMPLOYEES."**

**PREVENT LADDER ACCIDENTS
THROUGH SAFETY TRAINING**

*An infographic from the industry experts
at Builders Mutual.*

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FROM OUR PRESIDENT

From new business premium to policies written and policyholders acquired, 2017 was another year of records at Builders Mutual. We exceeded our goals with a total of \$53.3 million in new business production and a total revenue just above \$336 million. We stand at a record number of 37,953 policies across 22,477 policyholders. In these competitive times, 8% revenue growth certainly outperforms the industry. We are producing quality business and serving our customers to improve workplace safety and minimize overall losses. These are outstanding milestones along our company's journey.

As a result of our financial operations, the Board of Directors declared a \$2.1 million dividend for eligible workers' compensation policyholders, demonstrating that Builders Mutual continues to place our policyholders first.

Our success in 2017 goes beyond the numbers. We established more ways to be at work with you. In addition to our variety of resources, including online tools, classroom and job-site training, and personalized audit and claims support, we launched a blog featuring posts from the industry experts at Builders Mutual. Throughout this annual report, you will see excerpts from our thought leadership articles that showcase the variety of topics and formats available online for your use. Each of these resources provide ways to protect our policyholders' businesses, workers, and equipment.

The past year's strong results reflect our commitment to staying connected to our policyholders and the industry. Together, we can get the job done right.

John K. Boggs

CPA, CGMA, FLMI

President/Chief Executive Officer

NEW BUSINESS PRODUCTION

\$53.3M

RECORD NUMBER OF POLICIES


37,953

TOTAL REVENUE

\$336M

DIVIDEND DECLARED

\$2.1M



**"REGARDLESS OF YOUR BUSINESS
PLAN, YOUR BUILDERS MUTUAL
AGENT CAN HELP YOU FIND THE
RIGHT COVERAGE."**

**CUSTOMER-CONSCIOUS: AVOIDING THE
HAZARDS OF REMODELS AND RENOVATIONS**

*Part of an ongoing accident prevention series
from the industry experts at Builders Mutual.*

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AT BUILDERS MUTUAL, WE
ARE COMMITTED TO BEING
THE LEADER IN CONSTRUCTION
INSURANCE IN THE
SOUTHEAST AND MID-ATLANTIC.
THAT'S WHY WE STAY CONNECTED
TO YOU, OUR POLICYHOLDERS,
AND LISTEN TO YOUR FEEDBACK
ON WAYS TO ENHANCE
OUR SERVICES.



CUSTOMER CONTACT CENTER

We continue to answer nearly 90% of all calls with a live voice and with an average time to answer under 2 minutes across all phone queues. This year, a total of 96,992 calls were answered—a 3.6% increase from 2016.



ONLINE ENHANCEMENTS

Our online claims reporting has been enhanced to improve the user experience for policyholders reporting claims from desktop and mobile devices. Some new features include allowing attachment uploads, populating data, and providing smart validation for users entering addresses.

This enhancement allowed us to reduce the abandon rate by automatically saving claims during the process, which allows users to resume their submissions later without losing information already keyed. It also allows our Customer Service Representatives to pick up where a policyholder or agent left off.



PAYMENT HISTORY

Thirty-six percent of our policyholders pay online through Builders Online Business (BOB). Policyholders can now easily view their payment history within BOB for each policy.



RISK MANAGEMENT TRAINING

In the past decade, Builders University has provided free OSHA training and certifications for roughly 5,000 workers. This year, risk management consultants reached 1,444 workers through various training programs, assisting 11% of policyholders.

EMPLOYEES ACROSS ALL
DEPARTMENTS PROVIDING
SERVICE TO POLICYHOLDERS

318

CALLS TAKEN
IN 2017

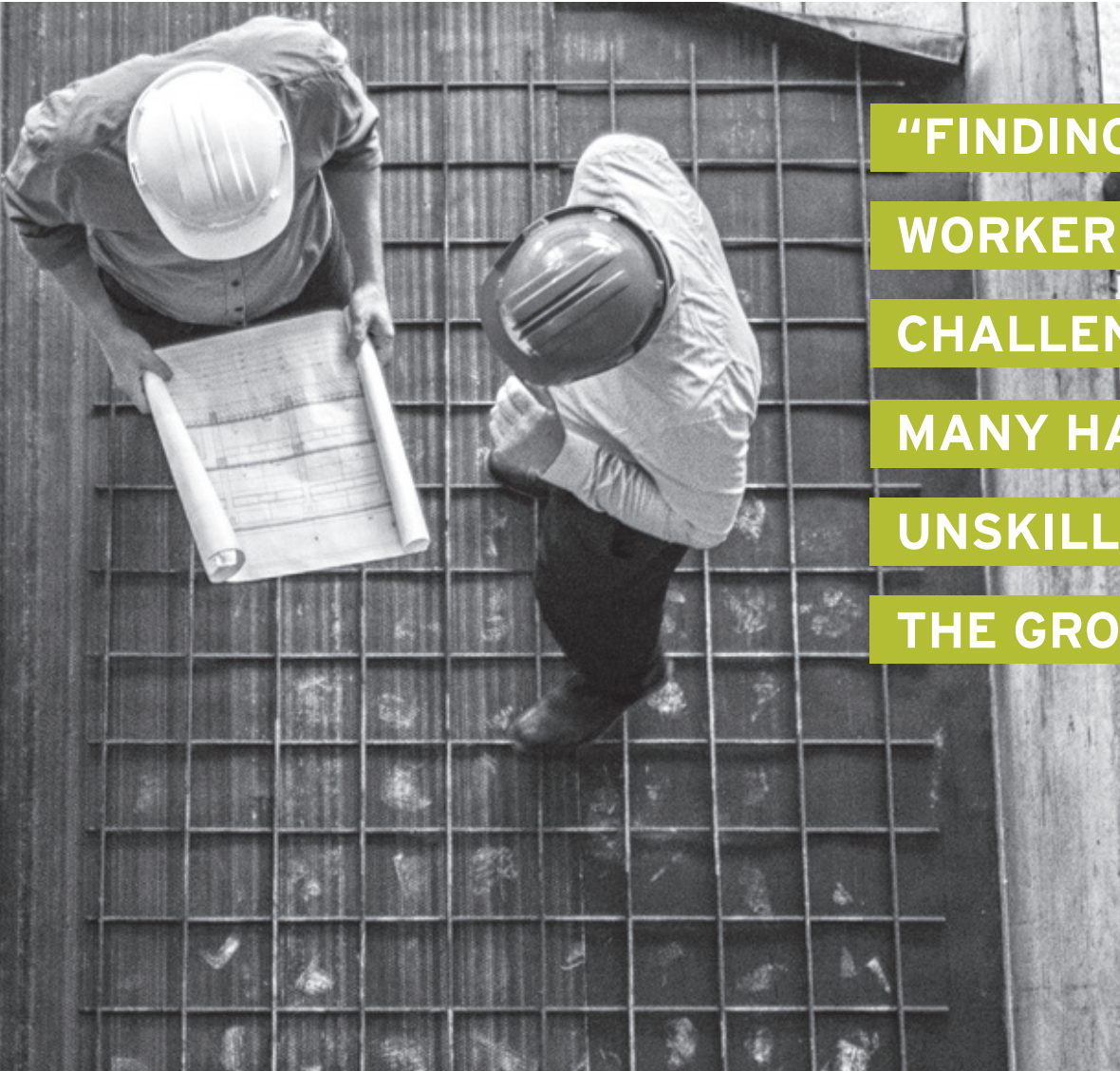
96,992

POLICYHOLDERS
PAYING ONLINE

36%

WORKERS TRAINED
IN 2017

1,444



**"FINDING AND HIRING DEPENDABLE
WORKERS HAS PROVED TO BE A
CHALLENGE FOR MOST BUILDERS.
MANY HAVE HAD TO TRAIN
UNSKILLED WORKERS FROM
THE GROUND UP."**

**THE LABOR SHORTAGE: INDUSTRY
BEST PRACTICES FOR TRAINING
AND ONBOARDING NEW HIRES**

*Part three of an ongoing labor series from the
industry experts at Builders Mutual.*

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NEW BUSINESS ▶

\$53.3MIN NEW BUSINESS
PRODUCTIONPlanned
New Business
Production
\$50M**\$3.3M**ABOVE THE
PLAN FOR 2017

REVENUE ▶

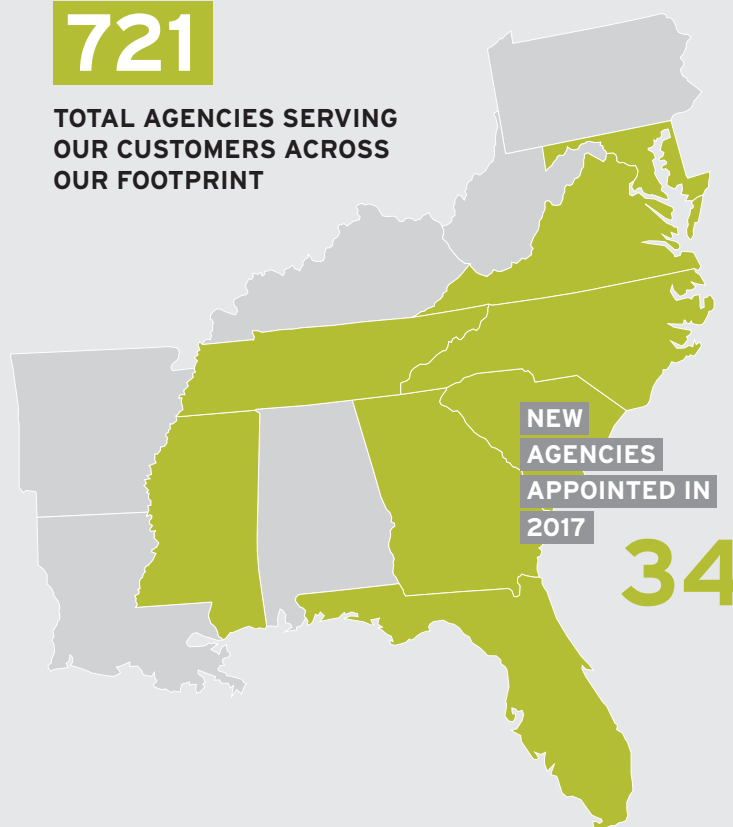
\$336M

TOTAL REVENUE FOR 2017

8%

REVENUE GROWTH

MARKET FOOTPRINT ▶

721TOTAL AGENCIES SERVING
OUR CUSTOMERS ACROSS
OUR FOOTPRINT

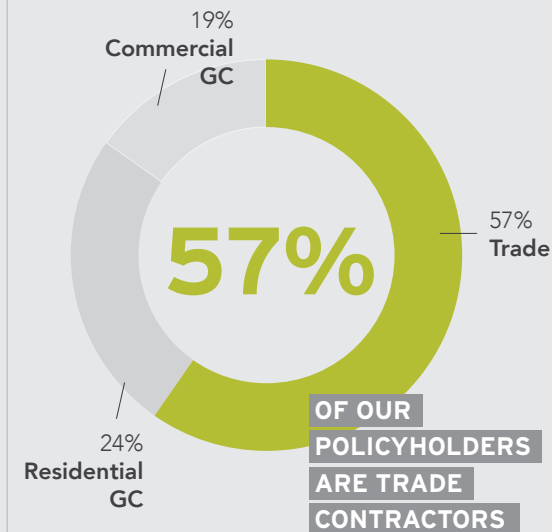
POLICIES ▶



A RECORD

37,953TOTAL POLICIES WERE
WRITTEN FOR**22,477**

POLICYHOLDERS





**"WHEN SAFETY IS A TOP
PRIORITY, WE CAN BE MORE
PRODUCTIVE AND PROFITABLE."**

WORKSAFE: KNOW THE BASICS

Protect your business with tips from the industry experts at Builders Mutual.

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The following are statements of financial position and results of operations of Builders Mutual Insurance Group for the fiscal year ended December 31, 2017. The financial statements are presented in accordance with statutory accounting principles as required by the North Carolina Department of Insurance.

In 2017, we were “At Work With You,” our customers, and we are pleased to report that 2017 was another exceptional year for Builders Mutual, as we delivered stellar results by expanding on our successes of prior years. Our Company is reporting its highest net income of \$42.0 million, with a supporting net underwriting gain of \$43.4 million. We continue to achieve balanced growth, while maintaining profitability and giving back to our customers through an annual dividend. Builders Mutual is pleased to report direct premium written totaling \$336.3 million, representing an increase of \$26.0 million, or an 8.4% increase over 2016. Total policyholder surplus, the very foundation of every mutual insurance company, is \$358.2 million at year-end 2017, an increase of 15.5% from 2016.

While we still face challenges related to an economy demonstrating steady improvement, the construction market continues to rebound after its prolonged downturn. A \$2.1 million policyholder dividend has been paid to our eligible workers’ compensation policyholders, demonstrating that Builders Mutual continues to place our policyholders first and that we remain committed to building meaningful, long-term partnerships with our policyholders and agents. We continue to strengthen our position as a niche insurance carrier providing complete protection to the construction industry in the footprint we serve, by investing in all our customers, people, and key processes to further develop the expertise that makes us the leading choice in the Southeast and Mid-Atlantic.

A \$2.1 MILLION POLICYHOLDER DIVIDEND

has been paid to our eligible workers’ compensation policyholders, demonstrating that Builders Mutual continues to place our policyholders first.

BALANCE SHEET

All figures represented in thousands (,000).

ASSETS	2017	2016
Bonds	\$525,248	\$488,343
Common and preferred stocks	171,736	134,830
Real Estate held for income	13,638	-
Cash and short-term investments	27,316	32,355
Premium balances	91,207	83,140
Other assets	30,579	41,129
Total Assets	\$859,742	\$779,798

LIABILITIES AND POLICYHOLDERS SURPLUS	2017	2016
Unpaid losses and loss adjustment expenses	\$374,698	\$350,820
Unearned premiums	77,578	71,279
Other liabilities	49,284	47,667
Total Liabilities	501,560	469,766
Total Policyholders Surplus	358,182	310,032
Total Liabilities and Policyholders Surplus	\$859,742	\$779,798

FINANCIAL POSITION



ASSETS

Total assets increased \$80.0 million, or 10.3%, to \$859.7 million. Bonds and common stocks represent 81.1% of the Company's assets and increased during the year by \$73.8 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 \$525.2 million, or 61.1% of total assets. Cash and short-term investments decreased by \$5.0 million, as we transferred more into longer-term bond securities. In anticipation of our continued growth as a Company, we have purchased an investment property adjacent to our building, and rental income from the current tenants contributes to our overall revenue growth. Premium balances receivable increased \$8.1 million due to the growth in written premium noted above.



LIABILITIES

Total liabilities increased by \$31.8 million, or 6.8%, in 2017. Total unpaid loss and loss adjustment expense reserves increased \$23.9 million this year due to the exposure growth in our business. Included in the loss and loss adjustment expense reserves is \$15.0 million of favorable loss development on 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 \$6.3 million, from the growth in written premiums. Other liabilities increased slightly, the result of an increase in agent commission payable, offset by decreases in other items, including policyholder deposits. The \$2.1 million dividend is included in other liabilities, and was paid to our policyholders in early 2018.



POLICYHOLDER SURPLUS

Policyholder surplus grew \$48.2 million in 2017 to \$358.2 million. This large growth in our surplus is mainly from the net income generated of \$42.0 million. Builders Mutual's continued ability to grow its policyholder surplus in this improving economy and expanding construction market is a solid indication of our underlying foundational financial strength and is also a key factor in maintaining our A.M. Best "A" (Excellent) rating.



RESULTS OF OPERATIONS

The Company is reporting net income of \$42.0 million for 2017. Net premiums earned increased by \$24.0 million, or 8.6%, during the year, reflecting higher levels of building activity and continued improvement in the construction industry. While workers' compensation premium represents 72.0% of total premiums, we continue to implement strategies to further diversify our book of business to provide complete coverage. Our 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 decreased by \$12.0 million, and our calendar year loss ratio improved to 54.8% as a percentage of 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 \$92.5 million for 2017, compared to \$84.2 million in 2016. 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 \$2.1 million in 2017. This increase is largely due to the increased funding of investment contributions during the year and includes net rental income from our investment property. Adding to overall investment income, sales of investments generated realized capital gains of \$2.6 million.

NET INCOME

\$42M

NET PREMIUMS INCREASED BY

\$24M

CALENDAR YEAR LOSS RATIO IMPROVED TO

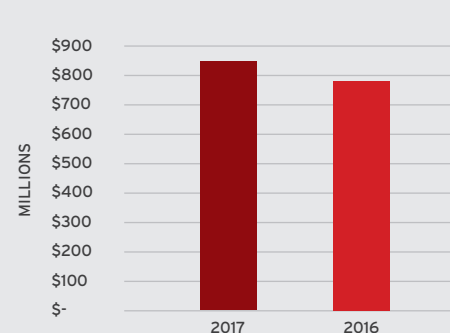
54.8%

STATEMENT OF INCOME

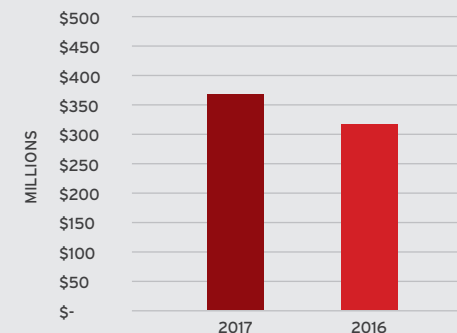
All figures represented in thousands (,000).

UNDERWRITING INCOME	2017	2016
Premiums earned	\$300,873	\$276,921
Losses and LAE incurred	165,025	176,995
Underwriting expenses	92,449	84,151
Underwriting gain/(loss)	\$43,399	\$15,775
INVESTMENT INCOME	2017	2016
Investment income, net of interest expense	\$18,279	\$16,331
Rental income	127	-
Realized capital gains/(losses)	2,625	98
Other expenses	1,864	966
Income before dividends and income taxes	62,566	31,238
Policyholder dividends	2,844	2,074
Federal income tax expense	17,699	9,397
Net Income	\$42,023	\$19,767
CHANGES IN POLICYHOLDERS SURPLUS	2017	2016
Unassigned surplus, beginning of year	\$310,032	\$281,632
Net income	42,023	19,767
Net unrealized capital gains	15,591	6,171
Change in net deferred income tax	(8,710)	641
Change in non-admitted assets	(1,651)	741
Change in provision for reinsurance	-	(1)
Adjustment for prior period changes	897	1,081
Unassigned Surplus, End of Year	\$358,182	\$310,032

TOTAL ASSETS




TOTAL POLICYHOLDERS SURPLUS



PROFITABILITY ANALYSIS

	2017	2016	CHANGE
LOSS RATIO	54.8%	63.9%	-9.1%
<i>Losses + LAE/Net Premiums Earned</i>			
EXPENSE RATIO	30.1%	29.6%	0.5%
<i>Other Underwriting Expenses/Net Premiums Written</i>			
DIVIDEND RATIO	0.9%	0.7%	0.2%
<i>Policyholders Dividends/Net Premiums Earned</i>			
COMBINED RATIO	85.9%	94.3%	-8.4%
<i>Loss Ratio + Expense Ratio + Dividend Ratio</i>			
OPERATING RATIO	79.8%	88.4%	-8.6%
<i>Combined Ratio - (Net Investment Income Earned/Net Premiums Earned)</i>			



**“WHEN IT COMES TO FALL PROTECTION,
DON’T WAIT UNTIL YOU NEED IT TO
USE IT. WE TURN TO THREE EXPERTS AT
BUILDERS MUTUAL FOR A Q&A TO ENSURE
YOUR FALL PROTECTION IS PREPARED
TO SAVE LIVES ON YOUR JOB-SITE.”**

DOES YOUR FALL PROTECTION FALL SHORT?

Ask the industry experts at Builders Mutual.

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2018 BOARD OF DIRECTORS

Left to Right

Top Row Alan C. Banks, Brian Pace, David Stormont, Jerry Hartsell, Phil Warrick
Middle Row Rick Judson, David Creech, Erik A. Anderson
Front Row Gary Embler, Andy Betts, Willard "Buddy" Hughes

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Charlotte, NC

David Stormont, Vice Chairman

Storm Coast Homes, LLC
Kitty Hawk, NC

Erik A. Anderson, Secretary/Treasurer

Anderson-Moore Builders
Winston-Salem, NC

Alan C. Banks

Evans Coghill Homes
Charlotte, NC

Andy Betts

Business Consultant
Raleigh, NC

David Creech

Creech Construction Co., Inc.
Raleigh, NC

Gary Embler

Niblock Development Corp.
Concord, NC

Jerry Hartsell

Business Consultant
Midland, NC

Willard "Buddy" Hughes

Insulated Concrete, Inc.
Lexington, NC

Brian Pace

Pace Development Group
Charlotte, NC

Phil Warrick

Piedmont Wholesale
Greensboro, NC

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CBIA
Senior Vice President/Chief
Marketing Officer

Tom Lockard

CPA, CGMA
Vice President/Chief Financial Officer

Alan Mercaldo

CBIA
Vice President/Chief Information
Officer

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Assistant Secretary

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Assistant Vice President/Claims

Ross Fowler

CPCU, CBIA
Assistant Vice President/Underwriting

Michele Hemric

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

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CPCU, CLU, CBIA
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Development

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FCAS, MAAA
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Joe Frazier

Director of IT Business Solutions

Tina Hill

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Jerry Kaiser

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Michelle King

Director of Information Management

Angelo Paino

CPCU, CBIA
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Todd Quilici

Director of IT Operational Services

Bill Schaffner

CBIA
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Jodi Vedelli

CBIA
Senior Director of Marketing

Steve Vore

CPA, CTP
Director of Premium Services

Melissa Williard

CIC, CBIA
Director of Underwriting