

**BUILDERS
MUTUAL**

Adaptive & Connected

ANNUAL REPORT 2021

THE CHALLENGES OF OUR TIMES ARE IMPACTING EVERY INDUSTRY—AND
CONSTRUCTION IS NO DIFFERENT.
EVEN AMID CONSISTENT CONSTRUCTION GROWTH NATIONWIDE, ISSUES
LIKE LABOR SHORTAGES, SUPPLY CHAIN DISRUPTIONS, AND HOUSING AFFORDABILITY
TESTED OUR INDUSTRY.
DURING 2021, BUILDERS MUTUAL CONTINUED TO ADJUST TO THE CONSTANT CHANGE,
ADAPTING AND INNOVATING
TO MEET OUR CUSTOMERS RIGHT WHERE THEY WERE. THIS PAST YEAR WAS ABOUT
ELEVATING THE BUILDERS MUTUAL EXPERIENCE,
CONNECTING WITH OUR EMPLOYEES, CUSTOMERS, AND PARTNERS IN A DEEPER WAY.
WE ARE EVOLVING—WE MUST.
BUT WE'LL ALWAYS STAY GROUNDED BY OUR SINGULAR RESOLVE OF NEARLY 40 YEARS TO
SERVE THE CONSTRUCTION INDUSTRY.



AS THE ENVIRONMENT
CHANGES, MY FOCUS IS
HELPING US EVOLVE SO
WE CAN SERVE OUR
CUSTOMERS IN NEW WAYS.

Mike Gerber
President & CEO

THANK YOU FOR YOUR LOYALTY.

During two uniquely challenging years, we've continued to demonstrate great adaptability. Like many organizations, we've shifted to a dynamic environment where change is constant and expected. As construction continued booming in our footprint, we made it a priority to reaffirm our commitment to the industry and to our 28,000 policyholders. Despite some roadblocks, our employees benefited from increased work flexibility and our customers experienced support from a more dedicated workforce. This winning combination of engaged employees and loyal policyholders resulted in exceptionally high customer retention of 86.2% and led to total premium of \$440.8M.

Operationally, we exceeded financial expectations in 2021, with consistent top-line growth of 8.2% over the prior year, and favorable bottom-line results with a 58.8% loss ratio and net income of \$43.1M. Our unwavering commitment to safety was evident as we resumed job-site safety consultations and training, held OSHA Stand Down events to promote fall protection, and hosted the second annual Guardrail Safety Week. Our industry experts supported customers virtually and in-person through the annual audit process, and we began offering Chat assistance for customers logged into our self-service portal. Additionally, our team prepared for several long-awaited billing and payment enhancements, which launched in early 2022.

In this time of great change, we have been evolving what we already do so well, enhancing our ability to respond even more quickly to our customer needs and new market opportunities.

86.2%

**CUSTOMER
RETENTION RATE**

\$440.8M

TOTAL PREMIUM

27,938

**INSURED GENERAL
AND TRADE
CONTRACTORS**



**MIKE GERBER
PRESIDENT & CEO**

2021 INDUSTRY SNAPSHOT

Across our nation and the world, 2021 brought a myriad of challenges that impacted the construction industry. Some of the biggest news of the year includes the passing of the Infrastructure bill (in excess of \$1T to impact construction industry), as well as inflation rising to 4.7%, which affects the cost of materials and labor. Home prices continued to skyrocket as well, with Q4 prices up more than 19%, year over year. Here are some other highlights from the year in key industry areas.

LABOR SHORTAGES

 **42** AVERAGE AGE OF WORKER

55+ WORKERS { INCREASED FROM 17% >>> 22% IN LAST 10 YEARS

How can your business address the labor shortage? Check out [this four-part thought leadership series](#) from the experts at Builders Mutual.

WORKER SAFETY

1 IN 100 WORKERS INJURED ANNUALLY



Promote a culture of safety on your job-site. Learn about our [WorkSafe program](#).

SUPPLIES

PRODUCT SHIPPING
6-8 WEEKS* >>> **26-30 WEEKS***

Dock unloading & transport issues create delays



 Forecasting difficult, builders unable to set costs/timeline

Want to learn more about this pressing issue and how your business can remain steadfast through the challenges? Read [this article](#) or listen to our recent [podcast](#) on this timely topic.

RISING COSTS

 **142%** Increase in lumber prices

 **17.5%** YOY increase in construction materials costs

 **127.2%** Rise in steel mill products

One way to address rising costs is to protect your company from job-site theft. Learn more in this insightful [blog](#).

*Approximated timelines

ELEVATING THE BUILDERS MUTUAL EXPERIENCE

Builders Mutual is committed to modernizing the way we work by launching new technology, enhancing our workflows, and expanding our expertise. In 2021, we worked to leverage processes, tools, and technology to further improve our service, and we're excited to launch several programs in the year ahead.

HERE'S A LOOK AT OUR 2021 FOCUS:

A new Return to Work program equips our policyholders to get their workers back on the job-site. We know that injured workers progress faster when they get back to work, and our program is designed to do just that.

The Customer Contact Center launched Chat as a communication channel specifically for policyholders, and stats show that the average time to answer a chat is less than five seconds.

Uber is leading to savings and ease of use over traditional transportation services. Uber makes it easier and more efficient for injured workers to get the services they need.

We continued to share our Audit Preparation resources for Workers' Compensation and General Liability with our policyholders through **Policyholder Onboarding email communications**.



DEMONSTRATING EXPERTISE

INDUSTRY REACH

The **Builders Mutual blog** has grown to house a total of nearly 100 original thought-leader articles. In 2021, the blog experienced over 35,000 page views (a 120% increase over 2020), from over 24,000 users (a 193% increase over 2020). We relaunched our **Building Progress podcast**. To date, we've had over 1,600 listens, and we're excited to bring new topics and industry expertise from builders and partners throughout our footprint.

SOCIAL METRICS

Builders Mutual continues to build awareness and engagement, enhancing social touchpoints to broaden our industry impact.



569
TOTAL POSTS

13,362
ENGAGEMENTS

9K+
TOTAL FOLLOWERS

402,500
IMPRESSIONS

52%
INCREASE

30%
INCREASE

12%
INCREASE

10%
INCREASE

OUR PEOPLE

373 Team Members

40% Have earned a Certified Builders Insurance Agent (CBIA) designation

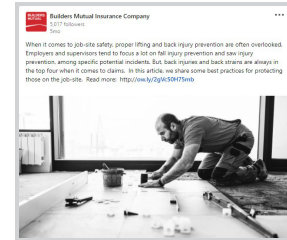
322 Leaders and employees completed unconscious bias training

DEDICATION TO SAFETY

Builders Mutual is committed to providing our policyholders with safety education tools, programming, and events to make their job-sites and workers safer.

3,214 Participants in policyholder safety training

214 Total state stand-downs with 2,431 participants



PARTNERSHIPS

A mix of sponsorships and marketing efforts allowed us to connect with approximately **100,000 contractors in 2021**.

Through our partnerships with the Job-Site Safety Institute (JSI) and the National Association of Home Builders (NAHB), we have been able to produce several video toolbox talks. To date, 42 videos in English and Spanish have been published covering 21 separate safety subjects, delivering over four hours of video content and accumulating more than 1M views.

We're continuing to partner with NAHB on the **Safety 365** initiative, which provides resources to help keep construction workers safe and eliminate preventable accidents, injuries, and deaths.

We expanded our partnership with NAHB through their **Workforce Development Program**, where they partner with educators, members, and state and local HBAs to address the housing industry's labor shortages and develop a skilled workforce for the future.

We launched our partnership with **SkillsUSA North Carolina**, where we will directly support the construction careers division and work to develop and support the future of the construction industry.

We announced a new partnership with the **Associated General Contractors of Eastern Tennessee**, providing us with another relationship to further our commitment to the insurance needs of the construction industry.



Toolbox talk videos highlight several safety topics.



Builders Mutual Risk Management consultants at a job-site.

RISK MANAGEMENT

As industry experts, we know that job-site hazards vary among contractors, so we offer customers a wide range of safety offerings that can be tailored to your unique needs. Our Risk Management consultants help you identify job-site hazards and deliver solutions to safeguard against risks while promoting OSHA compliance. Partnering with Builders Mutual improves your job-site safety practices.



WorkSafe

Give new employees the basic safety training they need before stepping foot on the job-site with this compact best practices training program.

Focus Four

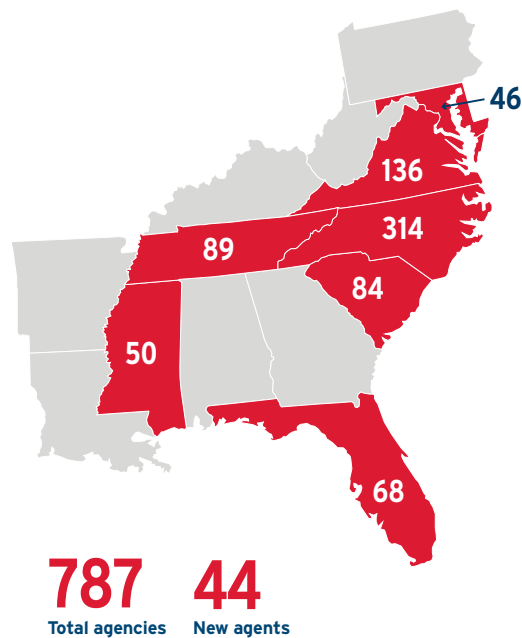
Builders Mutual has identified our top four claim types in terms of frequency (how often the claim happens) and severity (how expensive the claim is). These include falls, strains, struck-by, and vehicle collision incidents. With the Builders Mutual Focus Four, we make it easy for you to focus efforts to prevent unnecessary injuries and fatalities, protecting your employees and your bottom line.



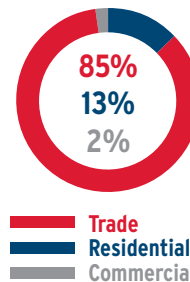
GROWTH FACTORS FOR SUCCESS

Our agency partners remain key to our success in the market. In 2021, exceptionally high customer retention of 86.2% and \$67.1M in new business production led to total premium of \$440.8M. This would not have been possible without the partnership of our agents. We've also continued our education initiatives in 2021, offering virtual CBIA classes to 720 agents, with 78 new CBIA designations conferred, and a new virtual Audit class that drew 112 attendees.

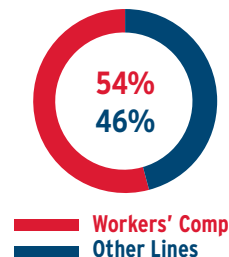
AGENCY GROWTH



PREMIUM MIX



PREMIUM BREAKDOWN



GROWTH FACTORS

86.2%

CUSTOMER RETENTION

\$67.1M

NEW BUSINESS PREMIUM

56,383

TOTAL POLICIES

27,938

INSURED
GENERAL AND TRADE
CONTRACTORS

\$2.7M

DIVIDENDS DISTRIBUTED
TO OVER 11,200 WC
POLICYHOLDERS

BUILDERS RISK ONE-SHOT NEW BUSINESS PRODUCTION

With dedicated underwriting support and an increased marketing focus on our **Builders Risk One-Shot**, we significantly grew in both policy count and premium.

	2021	2020	YOY GROWTH
Policy Count	10,710	9,016	18.8%
NB Premium	\$8.9M	\$5.8M	52.7%

FINANCIAL POSITION



ASSETS

With our continued growth throughout our footprint, total admitted assets grew to \$1.3B by year-end 2021, representing a \$122.2M or 10.5% increase over the prior year-end. Bonds and common stocks represent 73.0% of the Company's admitted assets, which increased during the year by \$109.4M from additional investment contributions from our strong insurance operations and changes in market values. Cash and short-term investments decreased by \$15.1M, as the Company deliberately reduced its excess liquidity position by investing \$58.8M in various investments. Premium balances receivable remains at less than 2% of total assets.



LIABILITIES

Liabilities include all known and potential reserves for current and future claims across all lines of business. Total unpaid loss and loss adjustment expense reserves increased \$43.7M this year, as the portfolio continued to grow due to both new business and increase in exposure on renewal business. The Company recognized \$25M of favorable loss development in 2021 from strong underwriting and claims discipline, as well as guidance and assistance from our Risk Management consultants. The growth in written premiums led to an increase in unearned premiums of \$8.4M compared to year-end 2020. The amount in other liabilities is a combination of the accrued payables for dividends, commissions, employee benefits, and general payables, which decreased \$1.6M from 2020 to December 31, 2021.



POLICYHOLDERS SURPLUS

As a Mutual company, policyholder surplus growth shows our financial strength and commitment to our policyholders. During 2021, policyholder surplus increased by \$67.8M, or 13.4%, ending the year at \$574.4M. This increase was from net income of \$43.1M, unrealized gains on our investment portfolio of \$21.9M, changes in deferred taxes of \$3.5M, and a reduction of other items totaling \$0.7M.

The Board of Directors declared a \$3M dividend payable to all eligible Workers' Compensation policyholders, which was paid in February 2022.

RESULTS OF OPERATIONS



PREMIUM

Topline growth of net premium earned increased by \$31.1M, or 8.6%, bringing the total to \$393.7M for the year. While Workers' Compensation premium continues to be our major product at 63.8%, the additional premium from other product lines has now increased to 36.2% of total premiums, as we continue to offer competitive products across our geographic footprint. Builders Mutual remains committed to growth while ensuring financial strength through a disciplined selection and pricing strategy to provide coverage needed by our customers.



LOSSES

Losses and loss expenses incurred (including reserves for future claims) increased \$21.7M from 2020, ending the year with a loss ratio of 58.8%. 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. This also has shown our proven ability to continue to produce loss ratios well below industry averages.



EXPENSES

Commissions and premium tax expenses are directly tied to premium and, therefore, track premium growth. 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. As we prepare for continued growth and a dedication to providing an outstanding customer experience, Builders Mutual has committed long-term resources to a new policy and claims system platform that will create a short-term increase in the expense ratio. In 2021, the expense ratio increased to 33.0%, compared to 31.3% for the prior year. Even with the additional software expenses and increase in inflationary costs, the 2021 expenses are in line with premium growth.

Net investment income before capital gains was \$25.4M for 2021. Capital gains, after tax, of \$12.5M were recognized in 2021 from the sale of investments based on decisions by the Investment Committee, senior leadership, and the Board of Directors.

The Company is reporting net income after dividends and taxes of \$43.1M for the year ending 2021.

BALANCE SHEET

ASSETS	2021	2020
Bonds	\$737,195	\$674,621
Common and preferred stocks	208,136	158,680
Real estate held for income	12,202	12,580
Cash and short-term investments	41,800	56,873
Premium balances	118,956	109,586
Other assets	173,035	156,756
Total Assets	\$1,291,324	\$1,169,096

LIABILITIES AND POLICYHOLDERS SURPLUS	2021	2020
Unpaid losses and loss adjustment expenses	\$525,898	\$482,284
Unearned premium	113,772	105,339
Other liabilities	77,255	74,910
Total Liabilities	716,925	662,533
Total Policyholders Surplus	574,399	506,563
Total Liabilities and Policyholders Surplus	\$1,291,324	\$1,169,096

All figures represented in thousands (,000).



\$1.29B
TOTAL ASSETS



10%
INCREASE
OVER 2020

STATEMENT OF INCOME

UNDERWRITING INCOME	2021	2020
Premiums earned	\$393,738	\$362,648
Losses and LAE incurred	231,413	209,112
Underwriting expenses	133,066	117,094
Underwriting gain	29,259	36,442

INVESTMENT INCOME	2021	2020
Investment income, net of interest expense	\$25,409	\$26,012
Rental income	87	327
Realized capital gains	9,895	1,049
Other expenses	726	2,880
Income before dividends & income taxes	63,924	60,950
Policyholder dividends	8,634	9,191
Federal income tax expense	12,252	12,560
Net Income	\$43,038	\$39,199

CHANGES IN POLICYHOLDERS SURPLUS	2021	2020
Unassigned surplus, beginning of year	\$506,051	\$458,867
Net income	43,038	38,687
Net unrealized gains	22,738	9,521
Change in net deferred income tax	3,471	1,875
Change in non-admitted assets	(1,857)	2,164
Change in provision for reinsurance	(24)	(231)
Adjustment for prior year premium tax	470	(4,832)
Unassigned Surplus, End of Year	\$574,399	\$506,051



\$29M
UNDERWRITING
GAIN



\$43M
NET INCOME

PROFITABILITY ANALYSIS

UNDERWRITING INCOME	2021	2020	CHANGE
Loss Ratio	58.8%	57.8%	1.0%
Expense Ratio	33.0%	31.3%	1.7%
Dividend Ratio	2.2%	2.5%	-0.3%
Combined Ratio	93.9%	91.7%	2.2%
Operating Ratio	87.5%	84.5%	3.0%

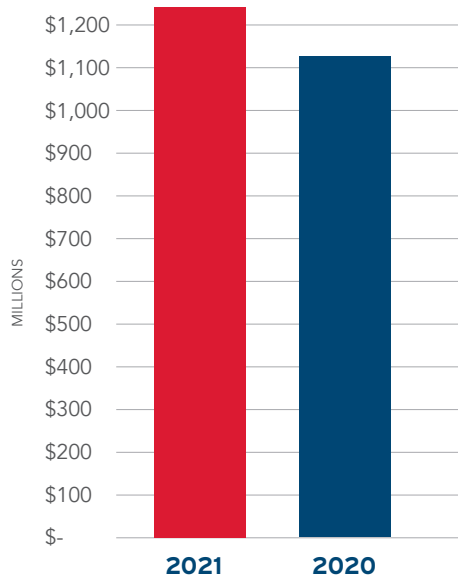


87.5%
OPERATING RATIO



\$574M
POLICYHOLDERS
SURPLUS

TOTAL ASSETS



TOTAL POLICYHOLDERS SURPLUS



INFLUENCING PROGRESS



DIVERSITY, EQUITY & INCLUSION

We are proud to share that the total number of participants for DEI experiences this year was more than 700. In 2021, we hosted our first Unconscious Bias Workshops with our partner, The Diversity Movement, and more than 322 leaders and employees attended. Additionally, we focused on three key events to celebrate diversity: Black History Month in February, Geek Week in June, and Hispanic Heritage Month in September. Builders Mutual also celebrated Women's Equality Day with a panel of Builders Mutual female leaders. This was one of our most well-attended experiences to date. On Veteran's Day, employees selected two charities, Wounded Warrior Project and National Veterans Foundation, to donate \$1,000 each in honor of our veteran teammates.



GIVE BACK

Each year, Builders Mutual supports local and national nonprofits through financial means and employee involvement, also matching employee charitable donations. There is a longstanding 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**.



BUILDERS MUTUAL'S GREEN TEAM

Our internal Green Team, with representation from nine different departments, continues to keep employees aware of opportunities for making environmentally wise choices, whether onsite in the home office or remotely. In 2021, they were able, with the financial support of Builders Mutual, to assist two HBAs in converting their lighting to LED from old fluorescent lights. The Company continues to reduce paper usage wherever possible, continues to use recycle-friendly paper, and maintains composting bins on all floors of the building. The Green Team spearheaded three events for volunteers to participate in cleaning parks, working at a community garden, and assisting at invasive species removal at a nearby city park.



Black History Month celebration



Hispanic Heritage event



Angel Tree donation

INDUSTRY RECOGNITION & CONNECTIONS



**AM BEST REAFFIRMED
OUR A (EXCELLENT) RATING**



**BECAME GREAT PLACE
TO WORK CERTIFIED**



**NAMED FORTUNES'
BEST SMALL AND MEDIUM
WORKPLACES**



**NAMED AS A TOP PERFORMING
COMPANY FOR THE
THIRD CONSECUTIVE YEAR**

LEADERSHIP

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

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

Willard "Buddy" Hughes

Insulated Concrete, Inc.
Lexington, NC

Mark Martin

Sandmark Custom Homes, Inc.
Kitty Hawk, NC

Brian Pace

Pace Development Group
Charlotte, NC

Randy Screen

Business Consultant
Raleigh, NC

SENIOR LEADERSHIP

Mike Gerber, CBIA

President/Chief Executive Officer

Tom Lockard, CPA, CGMA

Vice President/
Chief Financial Officer

Ross Fowler, CPCU, CBIA

Vice President/Underwriting

Brad Moock, CPCU, CLU, CBIA

Vice President/Business Development

Ken Bunn, AIC, PMP

Vice President/Claims

Michele Hemric, SPHR, PCC, CBIA

Assistant Vice President/
Human Resources and
Organizational Effectiveness

Sherman McCoy

Assistant Vice President/
Business Operations

Jodi Vedelli, CBIA

Assistant Vice President/Strategy

Chris Wetzel, FCAS, MAAA

Assistant Vice President/
Actuarial Services

Melissa Williard, CIC, CBIA

Assistant Vice President/
Underwriting

Bill Schaffner, CBIA

Executive Advisor

Susan Lenhart

Assistant Secretary



For the last several years, the many challenges we've faced, we overcame with flying colors. And when we look at the one common element that guided our path forward, that guided our response to what we were facing, it's the culture we have built.

**Mike Gerber
President & CEO**