

**P**UTTING PROMISES  
INTO ACTION: THAT'S  
SERVICE OUTSIDE  
THE BOX.



**IN RECENT  
YEARS, BUILDERS  
MUTUAL HAS  
SEEN SUBSTANTIAL  
GROWTH,**

from the number of states in which we do business to the types of policies we offer. The growth in 2005 was of a different sort: a growth of commitment. The "Service Outside the Box" we pledged to deliver in 2004 had a chance to flourish and take root. Throughout this annual report, you will read about specific cases in which our service helped make someone's job easier, more productive, safer or more enjoyable — and grateful customers contribute to a stronger company.

**In 2005, Builders Mutual proved that superior customer service is its own reward.**



*Thanks to recent programs put in place at Builders Mutual, we have more opportunities than ever to listen and respond to our agents, policyholders and employees. We can be contacted any time via phone, fax and email, but unique programs like the online forum, policyholder surveys and regular Producers Councils offer even more ways to enhance Service Outside the Box.*



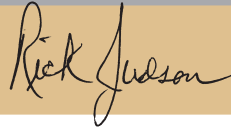
## TO OUR POLICYHOLDERS

Now entering our 22nd consecutive year of service to residential home builders and their related trades, we are pleased to present you with our 2005 Annual Report. Highlights for the past year include:

1. We earned an after-tax net income of nearly \$7.6 million and grew our year-end surplus to \$128 million, enhancing our financial strength and ability to serve our policyholders.
2. Our A.M. Best "A" (Excellent) rating was reaffirmed.
3. We distributed \$7 million in August to our monthly reporting WorkSafe policyholders after reducing their required premium deposit from 25% of estimated annual premium to 15%.
4. We eliminated the remaining 15% premium deposit requirement for WorkSafe policyholders who have been insured continuously for five or more years, effective upon renewal of their policies in 2006 and thereafter. In 2006, this action will result in the release of an additional \$5 million to long-time policyholders.

The reduction and ultimate elimination of the premium deposit for loyal policyholders are tangible evidence of our commitment to truly keep Builders Mutual as the insurer "Where Builders Come First." We value your support and opinions and ask that you contact us and give us your suggestions as to how we can best continue to serve you.

**RICK JUDSON**  
Chairman of the Board



**JOHN Q. BEARD**  
President/CEO/  
General Counsel

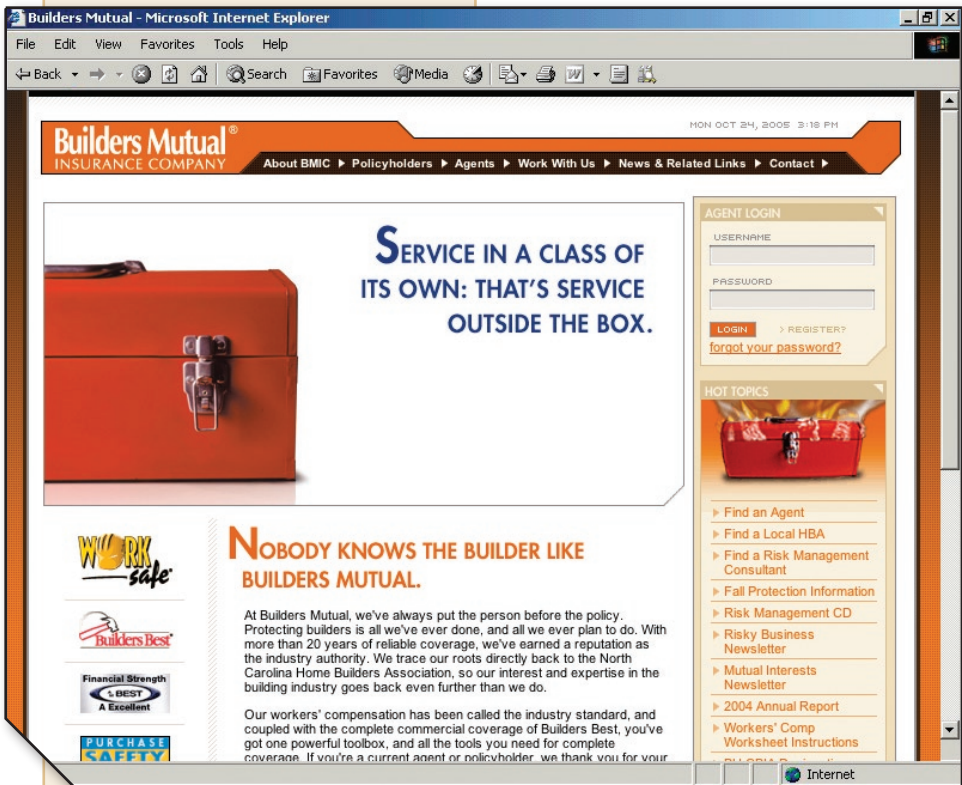


**Builders Mutual**  
INSURANCE COMPANY

Where Builders Come First®

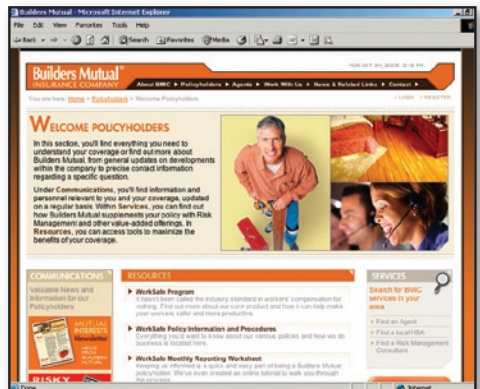


# EXTREME MAKEOVER: BUILDERSMUTUAL.COM EDITION



Based on customer and agent input, Builders Mutual's web site received its first major overhaul in 2005, making it more aesthetically pleasing and easier to find information. New navigational features such as drop-down menus reduced the number of "clicks" needed and literally put critical information like locating an agent at a customer's fingertips within seconds.

The site was segmented into two all-encompassing "portal pages" for policyholders and agents, eliminating the need to search throughout the site for a particular piece of information. Overall, the site has been extremely well-received and is one of our most visible, frequently-used examples of Service Outside the Box.



## BUILDERS UNIVERSITY: EMPLOYEES IN ACTION AND AGENTS ON THE RISE

By the end of 2005, nearly 200 agents who attended Builders University for Agents completed the requirements to earn their **CBIA (Certified Builders Insurance Agent)** designation. Representing 59 agencies, the designees were recognized in an official ceremony. An enhanced ability to attract and retain business is the true mark of the value of a CBIA designation; better-equipped and more informed agents mean satisfied builders, and that makes for a stronger company.

The first Builders Mutual employees attended Builders University for Employees in 2004; in 2005, they were equipped to put this valuable education into action for our agents and customers. A majority of employees attended all six BU courses and are now Certified Customer Service Professionals, a designation characterized by the ability to provide informed and enhanced customer service.



*Service Outside the Box begins within.  
BU for Employees offers Builders Mutual  
employees the opportunity to become  
Certified Customer Service Professionals.*

*Still the only school of its kind in the  
industry, Builders University for Agents  
graduated nearly 200 Certified Builders  
Insurance Agents by the end of 2005.*

**TAKING COMFORT  
IN YOUR CHOICE:  
THAT'S SERVICE  
OUTSIDE THE BOX.**



### **Staci Hicks The Roofing Company Yorktown, VA**

Everything happens for a reason. Otherwise, Staci Hicks might have never ended up a Builders Mutual policyholder. "We had just been through a bad audit and were eager to switch carriers to someone who was willing to work with us on our terms," she recalls. A referral led Staci to Builders Mutual and it was love at first self-reporting form.

"The audits are like clockwork—we know what we'll need and can manage our cash flow much better by paying what we owe when we owe it." In fact, Staci's agent didn't carry Builders Mutual, so her company not only switched agents, but all their other insurance as well.

"They work with us where our business is at the time, not where we think it might be a year from now," Staci says. "That kind of flexibility has really improved our business."

## INCREASING SAFETY AND PRODUCTIVITY: THAT'S SERVICE OUTSIDE THE BOX.



### Doug Dojan Residential Construction Services Charleston, SC

Playing it safe hadn't been at the top of Doug Dojan's list until recently. "Old habits die hard," he says of his workers' aversion to many safety measures. Builders Mutual convinced him otherwise.

"After working with [risk management manager] Bill Upton, I saw that it wasn't just about lowering rates—he was genuinely concerned for my workers' safety." Doug and Bill attended a fall protection seminar together and now Doug's workers use scaffolding and harnesses. "We've never had a fall," Doug says, "but before, we were just lucky. Now, we're doing it right."

Bill has been to Doug's job sites at least a half dozen times in the last two years. "He helps look for things. Proactive and caring—those are the words I would use to describe Builders Mutual."

## MAKING IT EASIER FOR OUR CUSTOMERS

To further Builders Mutual's goal of becoming the insurance carrier that is easiest to do business with, we incorporated a group to focus on our three customer audiences: policyholders, agents and employees. Through an annual survey and phone and email interaction, policyholders have offered suggestions that have already been implemented, such as waiving the deposit required for WorkSafe policyholders who have been with us for five years or more.

Agents offer input via Producers Council recommendations as well as through an online forum, and Builders Mutual responds within two weeks by implementing the suggestion, examining its feasibility or explaining why it cannot be

implemented. Employees have an internal forum through which to voice suggestions.

*Listening and responding: that's service outside the box.*

Topic	Author	Replies	Read	Last Post
Sticky: Posting Instructions	Administrator	0	106	08/08/2009 11:11:05 AM By: Administrator
Logging in New Business	tanose	6	65	02/27/2008 09:04:07 AM By: Administrator
Online payment	vmstine	1	19	01/21/2008 08:23:18 AM By: Administrator
Forms	Anonymous	0	24	11/30/2008 11:25:34 AM By: Anonymous
Builders Risk Online	Anonymous	1	30	11/29/2008 11:47:34 AM By: Anonymous
Internet Payroll Reporting - Your Help Requested!	Administrator	1	32	11/22/2008 11:57:53 AM By: Anonymous
Builders Risk	Anonymous	1	22	11/09/2008 08:50:13 AM By: Administrator
CE credits for Builders University	Anonymous	2	64	11/22/2008 6:02:44 PM By: Administrator
Very Bad Idea	Anonymous	7	155	11/11/2008 08:52:33 AM By: Administrator
central underwriter	Anonymous	0	47	11/18/2008 3:30:22 PM By: Anonymous
Tell us how someone else has improved	Anonymous	0	14	11/07/2008 10:08:04 AM By: Anonymous

*The online forum gives agents a chance to make suggestions, air grievances and receive commentary, all in the interest of making their jobs easier.*

It goes without saying that Builders Mutual is concerned for its customers' safety. Teaching our builders how to create a safer work environment has been a large part of the service we've provided since we started insuring the home building industry in 1984. But safety never sits still, and in 2005 we introduced a Fall Protection Certification Program to all eligible WorkSafe policyholders to further promote the use of fall protection. Once certified, a builder may be eligible for a discount of up to 10% on their workers' compensation policy at renewal.

Another extension of our focus on education was the debut issue of **Risky Business**, a quarterly risk management supplement containing educational information dealing with various aspects of safety and risk management. New safety information and techniques are available all the time; this is one more way of getting current information into our customers' hands and onto their job sites.

With such productive forums and feedback vehicles now in place, our agents, policyholders and employees have more ways than ever to speak their minds and let us know how to further improve our customer service. The consensus for 2005 was that our promises were not only made, but they were kept.

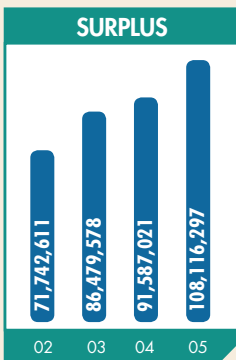
*Consistently striving to provide better service is service outside the box.*



*We're so serious about risk management, we're putting it in writing. Risky Business is a new supplement focused solely on issues surrounding risk management and job site safety.*

# FINANCIAL SUMMARY

The following are statements of financial position and results of operations of Builders Mutual Insurance Company for the fiscal year ended December 31, 2005. The financial statements are presented in accordance with statutory accounting principles as required by the North Carolina Department of Insurance.



**Surplus** grew 50% over the four-year period (exclusive of surplus notes in 2003 and 2004)

Builders Mutual had a very positive year in 2005. We were committed to improving overall profitability, and we are proud to announce that we achieved an underwriting gain and significantly improved net income. While our earned premium volume remained stable, our losses decreased, we lowered expenses and increased investment income. As a result our surplus grew by 14.8%, which provides additional assurances about the long-term financial stability of the Company. While future dividends cannot be guaranteed, we believe the Company will continue to improve profitability in 2006 and be in a position to return a dividend in the near future.

## FINANCIAL POSITION

### ASSETS

Assets grew \$37.8 million to \$424.0 million as a result of positive cash flows from underwriting, strong investment returns and a focus on reducing expenses. Investments represent 86.7% of the Company's assets at December 31, 2005. We continue to invest heavily in fixed income securities, which are \$301.6 million of total invested assets.

### LIABILITIES

Liabilities increased \$21.3 million during 2005. Loss and loss adjustment expense (LAE) reserves grew \$26.1 million from the new business written in 2005. The decrease in other liabilities is the result of changing the deposit required for monthly self-reporting workers' compensation policies from 25% to 15%. This change provided a substantial benefit to the policyholders allowing the Company to return deposits to workers' compensation policyholders of nearly \$7.0 million in 2005.

### POLICYHOLDERS' SURPLUS

Policyholders' surplus growth of \$16.5 million is comprised primarily of net income of \$7.6 million, unrealized gains on our common stock investments (net of tax) of \$1.6 million, and an accounting adjustment from prior years of \$6.2 million. Even without the prior year adjustment, surplus grew by more than 9% based on the results of our 2005 operations.

## FINANCIAL SUMMARY

### RESULTS OF OPERATIONS

As a result of our efforts to maintain a quality book of business, our premium volume was flat in 2005 versus 2004.

Our mix of business continued to change in 2005, as our Builders Best lines grew by 20.7% in direct written premium, while workers' compensation direct written premium decreased by 12.1%. Earned premium was \$144.4 million for the year versus \$145.4 million in the prior year.

The Loss and LAE ratio (which encompasses all lines of business and all accident years) decreased in 2005, to 66.7% from 68.4%. This is the result of our improved underwriting over the last several years following the Company's rapid expansion from 2001 to 2003.

Other underwriting expenses decreased by nearly \$1.0 million, and our expense ratio decreased from 32.5% to 31.8%. The Company benefited from a reduction in premium tax expense due to premium tax credits earned from guaranty fund assessments.

Investment income (excluding capital gains) increased by \$2.5 million as a result of better returns and a larger invested asset base. Unlike 2004, the Company did not sell any equity securities, therefore capital gains were virtually zero in 2005,

versus \$4.6 million in 2004. Surplus notes interest expense increased by \$700,000 to \$1.4 million as all \$20.0 million in notes were outstanding during 2005 and the variable interest rate increased in 2005. The net result is that net investment income including capital gains, decreased from \$13.9 million to \$11.8 million.

Our bad debts, or uncollectible premiums, decreased significantly from \$2.5 million in 2004 to \$876,000 in 2005. The reduction in bad debts is attributed to more timely completion of premium audits and quicker pursuit of collections.

No dividends were declared in 2005.

This was a difficult decision given that the Company showed true operating income. Ultimately, the decision to not issue a dividend was based on the need to grow surplus and the \$7.0 million of policyholder deposits refunded during the year. The Company needs to grow surplus to maintain our A rating by A.M. Best and to position the Company to repay all or part of the \$20.0 million in surplus notes that were issued in response to our recent growth. Surplus note repayments are a direct reduction of surplus, thus the need to grow surplus significantly in advance of repayments.

MAKING THE EASY  
EASIER: THAT'S  
SERVICE OUTSIDE  
THE BOX.



### Angie Barnhill Insurance Professionals, Inc. Cary, NC

Whatever you do, don't take away Angie Barnhill's underwriter. "I'd be out there picketing or whatever I'd need to do," the Cary, NC insurance agent said. "I wouldn't trade my underwriter for anything."

Angie said her underwriter, and Builders Mutual's willingness to keep an open mind on new business has kept her writing Builders Mutual policies regularly. "They don't just say 'no' right away like some other carriers. They listen and are willing to take a closer look."

Angie is also a vocal fan of BRP One-Shot, and has written considerably more Builders Mutual business since its introduction. "It's probably the easiest to use of any program that I've encountered—anywhere," she said.

### BALANCE SHEET

	2005	2004
<b>ASSETS</b>		
Bonds	\$301,613,000	\$265,321,000
Common and preferred Stocks	\$43,878,000	\$40,281,000
Cash and short-term Investments	\$13,618,000	\$27,553,000
Real estate	\$8,647,000	\$8,804,000
Premium balances	\$34,357,000	\$29,705,000
Other assets	\$21,908,000	\$14,508,000
<b>TOTAL ASSETS</b>	<b>\$424,021,000</b>	<b>\$386,172,000</b>
<b>LIABILITIES AND POLICYHOLDERS SURPLUS</b>		
Unpaid Losses and Loss Adjustment expenses	\$235,450,000	\$209,320,000
Unearned Premiums	\$29,776,000	\$25,469,000
Other Liabilities	\$30,679,000	\$39,796,000
<b>TOTAL LIABILITIES</b>	<b>\$295,905,000</b>	<b>\$274,585,000</b>
<b>TOTAL POLICYHOLDERS SURPLUS</b>	<b>\$128,116,000</b>	<b>\$111,587,000</b>
<b>TOTAL LIABILITIES AND POLICYHOLDERS SURPLUS</b>	<b>\$424,021,000</b>	<b>\$386,172,000</b>

MAKING OUR  
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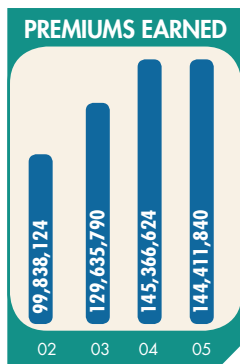
**Ted Kuester**  
**GHT Insurance Agency**  
**Richmond, VA**

“Builders Mutual has made me an expert,” says longtime agent Ted Kuester of Richmond, VA. Ted, also a CPCU, was in the first graduating class of Builders University for Agents, and received his CBIA designation at the end of 2005.

Prior to attending Builders University, Ted wrote a fair amount of construction business, residential and otherwise, but never felt he had a firm grip on the industry and its unique regulations. Now, however, Ted says his agency routinely reviews all its customers’ contracts and even amends them, based solely on knowledge gathered at BU.

“It’s like a light came on,” Ted said of the time he spent in class. “I didn’t attend a single Builders University course that I didn’t come away with something I didn’t know before.”

**FINANCIAL SUMMARY**



*Premiums Earned remained stable from 2004 to 2005.*

**STATEMENT OF INCOME**

	2005	2004
<b>STATEMENT OF INCOME</b>		
Premiums earned	\$144,412,000	\$145,367,000
Losses and LAE incurred	\$96,307,000	\$99,479,000
Underwriting expenses	\$47,233,000	\$48,195,000
Underwriting gain	\$872,000	\$(2,307,000)

**INVESTMENT INCOME**

Investment income, net of interest expense	\$11,774,000	\$9,308,000
Realized capital gains	\$2,000	\$4,603,000
Other expenses	\$690,000	\$2,363,000
Income before income taxes	\$11,958,000	\$9,241,000
Federal income tax expense	\$4,359,000	\$3,997,000

**NET INCOME \$7,599,000 \$5,244,000**

**CHANGES IN POLICYHOLDERS' SURPLUS**

Unassigned surplus, beginning of year	\$111,587,000	\$98,480,000
Net income	\$7,599,000	\$5,244,000
Net unrealized capital gains (loss)	\$1,627,000	\$430,000
Change in net deferred income tax	\$641,000	\$1,065,000
Change in non-admitted assets	\$276,000	\$938,000
Change in surplus notes	—	\$8,000,000
Other, including prior year adjustments	\$6,386,000	\$(2,570,000)

**UNASSIGNED SURPLUS, END OF YEAR \$128,116,000 \$111,587,000**

**NET INVESTMENT INCOME EARNED (EX CAP GAINS) \$11,774,590 \$9,308,092**

**PROFITABILITY ANALYSIS**

	2005	2004
<b>Loss and LAE Ratio</b> (Losses+LAE)/Net premiums earned	66.7%	68.4%
<b>Underwriting Expense Ratio</b> Underwriting expenses/Net premiums written	31.8%	32.5%
<b>Dividend Ratio</b> Policyholders dividends/Net premiums earned	0.0%	0.0%
<b>Combined Ratio</b> Loss & LAE Ratio + Underwriting Expense Ratio + Dividend Ratio	98.4%	101.0%
<b>Operating Ratio</b> (Net investment income earned/Net premiums earned)	89.3%	94.6%

## BOARD OF DIRECTORS & SENIOR MANAGEMENT

### 2006 BOARD OF DIRECTORS

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Evergreen Home Builders  
Charlotte, NC

**Don Betsworth**, Vice Chairman  
Don Betsworth Homes, Inc.  
Summerfield, NC

**Greg Isenhour**, Secretary/Treasurer  
Isenhour Enterprises  
Chapel Hill, NC

**David Creech**  
Creech Construction Co., Inc.  
Raleigh, NC

**Robert Guthrie**  
Raleigh, NC

**George Henson**  
Henson Construction, Inc.  
Hickory, NC

**Willard "Buddy" Hughes**  
Hughes Construction Co.  
Lexington, NC

**Robert Ingraham**  
Robert Ingraham Homes, Inc.  
Charlotte, NC

**Paul Mullican**  
Relco Construction Co.  
Winston-Salem, NC

**Herschel Redding**  
D.J. Redding Co., Inc.  
Rural Hall, NC

**David Stormont**  
Stormont & Co., Inc.  
Kitty Hawk, NC

### SENIOR OFFICERS & DEPARTMENT DIRECTORS

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President/Chief Executive Officer/  
General Counsel

**John Boggs**, CPA  
Vice President/Chief Financial Officer

**Michael Gerber**  
Vice President/Chief Marketing Officer

**Steve Gregg**  
Vice President/Chief Information Officer

**Don Johnson**, CPA  
Vice President/Chief Operating Officer

**Charles Burton**, SPHR  
Director - Human Resources

**Michael Carter**, CPCU, APA  
Director - Premium Audit

**Dan Clark**, CIA  
Director - Internal Audit

**Darcy Dye**  
Director - Marketing

**Allen Houck**, CPA  
Controller

**John Parrish**, CBIA  
Director - Sales and Agency Relations

**Judy Rogers**, CPCU, CIC, CBIA  
Director - Underwriting

**Ken Shivar**  
Director - Claims

**Delores Stimpson**, PMP  
Director - IT Business Services

**Laurie Trumbo**  
Director - Premium Accounting

**Jerry Visintine**, FCAS, MAAA  
Director - Actuarial Services

**Bill Walker**, CPEA  
Director - Risk Management

**Builders Mutual**<sup>®</sup>  
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