

# AT A MOMENT LIKE THIS, AREN'T YOU GLAD YOU HAVE BUILDERS MUTUAL?



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07

BUILDERS MUTUAL  
ANNUAL REPORT



**Builders Mutual**  
INSURANCE COMPANY

*Where Builders Come First*<sup>®</sup>

# TO OUR POLICYHOLDERS

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Lightning can strike twice in the same place, and it did for Builders Mutual in 2007 as we exceeded 2006's record operating results. Once again this success is attributed to:

1. Fewer reported claims during the year;
2. Favorable settlement of open claims reported in prior years; and
3. Most importantly, the ongoing support of you, our policyholders.

The continued trend in fewer claims is especially gratifying, as it means our policyholders are implementing sound safety practices that result in fewer injuries on the job.

As a result of our results in 2007, A.M. Best has again reaffirmed our "A" rating (Excellent) for the 9th consecutive year. Additionally, these results enabled our Board of Directors to declare an increased dividend of \$3 million to our WorkSafe policyholders. If your loss experience qualifies you to share in this distribution, you will have received it by the time this Annual Report reaches you.

Looking ahead, we all recognize the national homebuilding industry slow-down is impacting our core states. The related sub-prime lending crisis and other economic issues adversely impact our policyholder's ability to operate profitably and, in some cases, have caused business shutdowns. At a time like this, Builders Mutual remains strong as we too weather these storms. For 24 consecutive years our primary mission has been, and remains, serving the needs of the industry in both good times and bad. You can count on us, the industry experts, to continue to be here for you!



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

A handwritten signature in black ink that reads "John Q. Beard".



**RICK JUDSON**  
Chairman of  
the Board

A handwritten signature in black ink that reads "Rick Judson".



# BUILDING THE FUTURE



## Let's find a way!

Our internal motto "Find A Way!" encourages all employees to create positive customer experiences at every turn. With each phone call, mailing, and internet interaction, we are looking for ways to retain our policyholders and to reach out to more new customers. Builders Mutual is focused on providing exceptional customer service to our agents and policyholders. We all know that at a moment like this, every policy and ever customer counts.

## MOMENTS IN 2008

In early 2008, we launched our new "At a moment like this" advertising campaign that captures pivotal moments in time, like a builder falling safely off a building with a properly-attached harness or a policyholder receiving a dividend check. In these ads, we remind builders and agents of the impact Builders Mutual has in their lives. We show that in a split second, services like fall protection training and our on-line Safety Stuff can make a life or death difference. Moments like these show that despite the recent challenges facing the industry, we realize that is it more important than ever that we remain committed to services like Builders University and Risk Management. Our value-added services are just one way

we differentiate ourselves from the competition and demonstrate that we are the true industry experts.

While we are pleased with our recent success, we never stop looking for new ways to broaden our product offerings and meet the needs of the changing marketplace. This spring, we will be launching our Trade Contractor Program designed especially for residential and commercial subcontractors. Additionally, we are expanding our reach by offering our products and services to commercial contractors. Builders Mutual is well positioned to be the insurer of choice for both residential and commercial builders.



## BUILDERS UNIVERSITY GETS A NEW LOOK

Builders University (BU) is the educational arm of Builders Mutual and another way we demonstrate our commitment to partner with our agents, policyholders, and employees. During 2007, we conducted a record number of policyholder and employee training classes, and conferred designation to 48 new agents as graduates of the Certified Builder Insurance Agent (CBIA) program. We launched the new BU logo and

seal and updated all programs materials with an enhanced academic look, demonstrating that through our various insurance and safety courses industry professionals have the opportunity to build upon their knowledge and become leaders in their community.

We encourage our policyholders and agents to view upcoming course offerings at [buildersmutual.com](http://buildersmutual.com).



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# 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, 2007. The financial statements are presented in accordance with statutory accounting principles as required by the North Carolina Department of Insurance.*

For the second year in a row, Builders Mutual is pleased to announce a record financial year. A \$3 million policyholder dividend has been declared to eligible workers' compensation policyholders. By combining the significant refunds resulting from the 2005 change in policyholder deposit requirements and the policyholder dividends for 2006 and 2007, we have returned almost \$21 million to our policyholders over the past three years. As a mutual insurance company, we put our policyholders first, and we are committed to building and maintaining long-term relationships with our policyholders and agents.



## FINANCIAL POSITION

### Assets

Assets grew \$37.5 million to \$505.9 million. Asset growth was driven by positive cash flows on underwriting (premiums received exceeding claim payments) and by strong investment performance. Investments represent 87% of our total assets, while premiums receivable are 7% of total assets.

### Liabilities

Our total liabilities increased by only \$1.7 million in 2007. The Company continues to have strong favorable loss development on the prior years' books of business. The frequency of claims, which declined in 2006, continued to decrease in 2007. There has been a significant decrease in the number of large claims reported to our reinsurers. The safe working environments created by our policyholders with assistance from our Risk Management consultants are producing positive results.

### Policyholders' Surplus

Policyholders' surplus grew by more than 23% in 2007. Growth was driven by net income of \$35.4 million and the addition of \$1.5 million from eliminating the Provision for Reinsurance. The Provision for Reinsurance was established in 2006 to provide for weaker reinsurers. The Company commuted the reinsurance treaties with weaker reinsurers and the provision was eliminated in 2007. Our continued growth in policyholders' surplus is a key factor in maintaining our A.M. Best "A" (Excellent) rating.

## RESULTS OF OPERATIONS

Our net income of \$35.4 million is the highest annual mark in our Company's history. We did not write as much business in 2007 as 2006. Our direct premium written decreased by 4.3% and net premium earned decreased by 6.9%. The decreases are the results of decreased exposures brought by the declining housing market and the increased competition in a soft insurance market. Workers' Compensation premiums grew from 58% of the premiums written in 2006 to 60% in 2007. With the declining and soft markets, we continue to focus on maintaining a quality book of business.

The most significant contributor to our record year was a substantial decrease in losses incurred. As noted in our "Liabilities" discussion, we had favorable development on prior year losses, combined with favorable loss trends in our 2007 book of business. The loss ratio dropped from 53.6% in 2006 to 43.3% in 2007.

We continued to make progress on controlling operating expenses as the expense ratio dropped from 31.6% in 2006 to 31.2% in 2007. We have decreased our expense ratio for three consecutive years.

Our investments contributed significantly to our record profitability. Net investment income increased 12.3% to \$15.1 million. Realized capital gains were over \$4 million which included \$2.5 million in gains on equities and \$1.9 million on the sale of land held for investment. These gains were partially offset by modest (\$400k) losses on the sale of bonds.

# FINANCIAL SUMMARY

## BALANCE SHEET

2007

2006

### Assets

Bonds	\$363,229,000	\$322,717,000
Common and preferred stocks	\$63,129,000	\$51,415,000
Cash and short-term investments	\$11,740,000	\$25,312,000
Real estate	\$3,652,000	\$8,593,000
Premium balances	\$36,287,000	\$39,054,000
Other assets	\$27,863,000	\$21,309,000
<b>Total assets</b>	<b>\$505,900,000</b>	<b>\$468,400,000</b>

### Liabilities and Policyholders' Surplus

Unpaid losses and loss adjustment expenses	\$253,611,000	\$251,511,000
Unearned premiums	\$29,160,000	\$27,896,000
Other liabilities	\$32,463,000	\$34,111,000
<b>Total Liabilities</b>	<b>\$315,234,000</b>	<b>\$313,518,000</b>
<b>Total Policyholders' Surplus</b>	<b>\$190,666,000</b>	<b>\$154,882,000</b>
<b>Total Liabilities and Policyholders' Surplus</b>	<b>\$505,900,000</b>	<b>\$468,400,000</b>

## STATEMENT OF INCOME

2007

2006

Premiums earned	\$141,091,000	\$151,581,000
Losses and LAE incurred	\$61,044,000	\$81,285,000
Underwriting expenses	\$44,442,000	\$47,243,000
Underwriting gain	\$35,605,000	\$23,053,000
Net investment income earned	\$15,051,000	\$13,395,000
Realized capital gains	\$4,051,000	\$3,083,000
Other expenses	\$(65,000)	\$237,000
Income before income taxes and policyholder dividends	\$54,772,000	\$39,294,000
Policyholder dividends	\$3,000,000	\$2,800,000
Federal income tax expense	\$16,356,000	\$11,211,000
<b>Net Income</b>	<b>\$35,416,000</b>	<b>\$25,283,000</b>

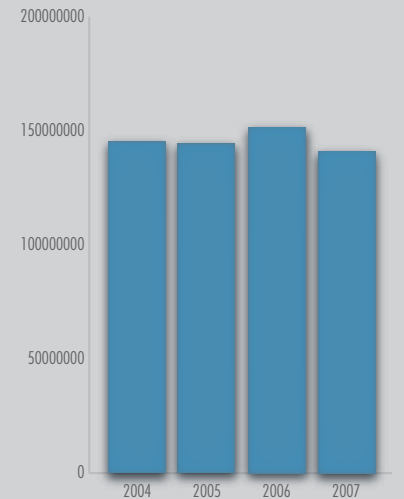
## CHANGES IN POLICYHOLDERS' SURPLUS

2007

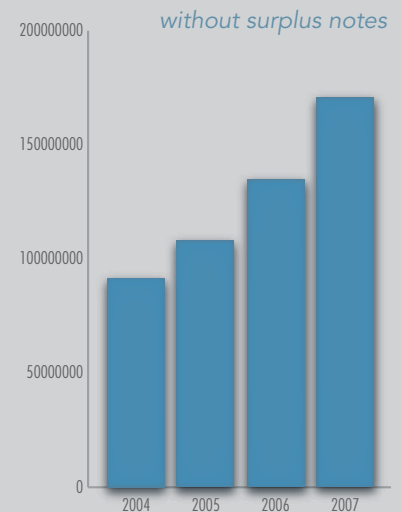
2006

Unassigned surplus, beginning of year	\$154,882,000	\$128,116,000
Net income	\$35,416,000	\$25,283,000
Net unrealized capital gains	\$(347,000)	\$2,353,000
Change in net deferred income tax	\$124,000	\$135,000
Change in non-admitted assets	\$(889,000)	\$459,000
Prior year adjustments and other items	\$1,480,000	\$(1,464,000)
<b>Unassigned Surplus, End of Year</b>	<b>\$190,666,000</b>	<b>\$154,882,000</b>

## PREMIUMS EARNED



## POLICYHOLDERS' SURPLUS



## PROFITABILITY ANALYSIS

	2007	2006	Change
Loss Ratio	43.3%	53.6%	-10.3%
Expense Ratio	31.2%	31.6%	-0.4%
Dividend Ratio	2.1%	1.8%	0.3%
Combined Ratio	76.6%	87.0%	-10.4%
Operating Ratio	65.9%	78.2%	-12.3%

**Loss Ratio:**  $\frac{\text{Losses+LAE}}{\text{Net Premiums Earned}}$

**Expense Ratio:**  $\frac{\text{Other Underwriting Expenses}}{\text{Net Premiums Written}}$

**Dividend Ratio:**  $\frac{\text{Policyholders Dividends}}{\text{Net Premiums Earned}}$

**Combined Ratio:**  $\text{Loss Ratio} + \text{Expense Ratio} + \text{Dividend Ratio}$

**Operating Ratio:**  $\text{Combined Ratio} - (\text{Net Investment Income Earned} / \text{Net Premiums Earned})$

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT



## \$3 MILLION DIVIDEND DISTRIBUTION

Members of the Board present the distribution check for 2007.

Pictured front row (left to right): Herschel Redding, Ray Rhodes, Don Betsworth, Buddy Hughes, Frank Wiesner

Back row (left to right): Robert Guthrie, David Creech, George Henson, David Stormont, Rick Judson, Paul Mullican

### 2008 BOARD OF DIRECTORS

**Rick Judson**, Chairman  
Evergreen Home Builders, Charlotte, NC

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

**Don Betsworth**, Secretary/Treasurer  
Don Betsworth Homes, Inc., Summerfield, 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

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

**Herschel Redding**  
Redding Construction Services, LLC  
Rural Hall, NC

**Ray Rhodes**  
M&R Associates of Sanford, Inc., Sanford, NC

**Frank Wiesner**  
Olde South Homes, Raleigh, NC

### OFFICERS & DEPARTMENT DIRECTORS

**John Beard**  
President/Chief Executive Officer/General Counsel

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

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

**Graeme Boddy**  
Chief Information Officer

**Charles Burton**, SPHR  
Assistant Vice President of Human Resources

**Brad Mook**, CPCU, CLU, CBIA  
Assistant Vice President of Business Development

**Gina Schwitzgebel**, CPCU, CIC, ARM, AIC  
Assistant Vice President of Underwriting

**Jerry Visintine**, FCAS, MAAA  
Assistant Vice President of Actuarial

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

**Joe Frazier**  
Director of IT Business Solutions

**Todd Quilici**  
Director of IT Infrastructure

**Ken Shivar**  
Director of Claims

**Laurie Trumbo**  
Director of Premium Accounting

**Jodi Vedelli**  
Director of Marketing

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