

**BUILDING A LEGACY
TOGETHER.**



SILVER ANNIVERSARY
Builders Mutual®
25 YEARS
1984—2009
OF SAFETY & STABILITY

2008
ANNUAL REPORT



Builders Mutual®
INSURANCE COMPANY

Where Builders Come First®

25 YEARS OF SAFETY & STABILITY

1984

- Foundation: North Carolina Home Builders Self Insurers Fund is established to provide affordable workers' compensation coverage

1992

- The Fund's assets increased to more than \$29 million & a surplus of \$1 million was returned to eligible members

1998

- Self Insurers Fund becomes Builders Mutual
- WorkSafe program for workers' compensation launched

1999

- Launch of Builders Best commercial lines
- buildersmutual.com goes live

2001

- Growth beyond North Carolina—expansion into SC, TN, & VA

2003

- Builders University & Builders Online Business (BOB) are born

2005

- "Service Outside the Box" campaign puts customer service on the front lines

2007

- BMIC first recognized as "Best Places to Work" by Triangle Business Journal
- Certified Builders Insurance Agent grads reach 290

2008

- BMIC relocated to Builders First Center

2009

- BMIC celebrates 25 Years of Safety & Stability

A MESSAGE TO OUR POLICYHOLDERS

2008 continued a three-year trend in Builders Mutual's operations: Your own risk management has resulted in fewer new claims and we have experienced favorable settlement of prior years' claims. While our overall premiums are lower than 2007, we are as financially sound as at any period in our 25 year company history. The accompanying financial report confirms that our financial strength remains at peak levels.

Our 2008 operating results have permitted us to declare and pay another \$3 million dividend to eligible WorkSafe policyholders. In addition, A.M. Best reaffirmed our "A" rating for the ninth consecutive year.

To further serve our agents and policyholders operating near the borders of our core states, we have qualified to write in the adjoining jurisdictions of Georgia, the District of Columbia, Maryland and Mississippi. The ability to write in these new markets will position us to continue to meet the needs of our existing and future insureds with cross-border operations.

As we observe our 25th consecutive year of serving the building industry, we will continue to support you, our loyal policyholders, and work hard to meet your needs in every reasonable way. At a moment like this, aren't you glad you have Builders Mutual?



JOHN Q. BEARD
President/CEO/
General Counsel



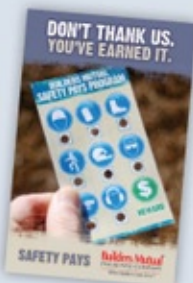
RICK JUDSON
Chairman of
the Board

FINANCIAL SUMMARY



The following are statements of financial position and results of operations of Builders Mutual for the fiscal year ended December 31, 2008. The financial statements are presented in accordance with statutory accounting principles as required by the North Carolina Department of Insurance.

Despite the declining housing market and the soft insurance market, Builders Mutual is pleased to announce another strong financial year. A \$3 million policyholder dividend was paid to eligible WorkSafe policyholders. As the Company nears its 25th anniversary, Builders Mutual has completed 24 years of service and returned 20 policyholder dividends totaling \$44.6 million. We continue to put our policyholders first, and we remain committed to building and maintaining long-term relationships with our policyholders and agents.



FINANCIAL POSITION

Assets

Assets declined \$18.2 million, or 3.6% to \$487.7 million. This asset decline was due to decreasing market value of non-affiliated equity securities, sale of real estate, and declining premium receivables. Total investments represent 87% of the Company's total admitted assets. We continue to invest heavily in fixed income securities, which are \$376.7 million of total invested assets.

Liabilities

Our total liabilities decreased by \$22.8 million, or 7.3% in 2008. Unearned premium reserves declined \$5.7 million due to decreased sales driven by the declining housing market and the soft insurance market. The Company continues to have strong favorable loss development on the prior years' books of business. The frequency of claims continued to decline in 2008 reflective of the safe working environments created by our policyholders with assistance from our Risk Management consultants.

Policyholders' Surplus

Policyholders' surplus grew \$4.7 million, or 2.5% in 2008. This surplus growth was driven by net income of \$21.9 million and an increase in net deferred tax of \$1.3 million. Current year surplus was reduced by an increase in non-admitted assets and unrealized losses on investments. Our continued growth in policyholders' surplus in these tough market conditions is a key factor in maintaining our A.M. Best "A" (Excellent) rating.

RESULTS OF OPERATIONS

The Company is reporting net income of \$21.9 million for 2008. Our direct premium written decreased by 16.3% and net premium earned decreased by 10.8%. Workers' compensation premiums grew to 63% of our total premium compared to 60% in 2007. With the declining housing market and soft insurance market, we continue to focus on maintaining a high quality book of business and do not sacrifice quality business to grow our revenue.

Incurred losses declined in 2008 by \$3.3 million. This decline is due to continued favorable development on prior accident years due to less frequent claims. Our loss ratio increased from 43.3% reported in 2007 to 45.9% reported in 2008. The increase in the ratio is due to the decline in net premium earned.

We continue to manage operating expenses as evidenced by a \$2.3 million decline from the prior year. Total operating expenses incurred are \$42.1 million for 2008 compared to \$44.4 million last year. Due to the decline in net premiums written during 2008, expense ratio has increased from 31.2% in 2007 to 35.0% for the current year.

Net investment income grew modestly in 2008 as the equity markets and interest rates were down. Realized capital losses totaling \$8.4 million, before tax, were recognized from the sale of equities. The Company did record a gain of \$1.4 million on the sale of real estate.

FINANCIAL SUMMARY



BALANCE SHEET

	2008	2007
Assets		
Bonds	\$376,757,000	\$363,229,000
Common and preferred stocks	\$15,521,000	\$63,129,000
Cash and short-term investments	\$30,386,000	\$11,740,000
Real estate	\$0	\$3,652,000
Premium balances	\$29,547,000	\$36,287,000
Other assets	\$35,511,000	\$27,863,000
Total Assets	\$487,722,000	\$505,900,000
Liabilities and Policyholders' Surplus		
Unpaid losses and loss adjustment expenses	\$244,714,000	\$253,611,000
Unearned premiums	\$23,419,000	\$29,160,000
Other liabilities	\$24,222,000	\$32,463,000
Total Liabilities	\$292,355,000	\$315,234,000
Total Policyholders' Surplus	\$195,367,000	\$190,666,000
Total Liabilities and Policyholders' Surplus	\$487,722,000	\$505,900,000

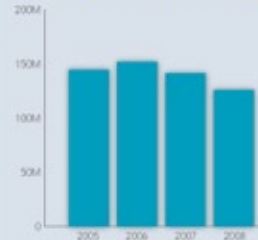
STATEMENT OF INCOME

	2008	2007
Premiums earned	\$125,882,000	\$141,091,000
Losses and LAE incurred	\$57,742,000	\$61,044,000
Underwriting expenses	\$42,099,000	\$44,442,000
Underwriting gain	\$26,041,000	\$35,605,000
Net investment income earned	\$15,479,000	\$15,051,000
Realized capital (losses) / gains	\$(7,538,000)	\$4,051,000
Other expenses / (income)	\$1,527,000	\$(65,000)
Income before income taxes	\$32,455,000	\$54,772,000
Policyholder dividends	\$3,000,000	\$3,000,000
Federal income tax expense	\$7,464,000	\$16,356,000
Net Income	\$21,991,000	\$35,416,000

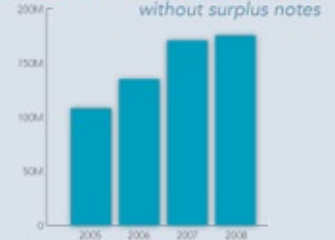
CHANGES IN POLICYHOLDERS' SURPLUS

	2008	2007
Unassigned surplus, beginning of year	\$190,666,000	\$154,882,000
Net income	\$21,991,000	\$35,416,000
Net unrealized capital (losses) / gains	\$(10,123,000)	\$(347,000)
Change in net deferred income tax	\$1,322,000	\$124,000
Change in non-admitted assets	\$(8,511,000)	\$(889,000)
Prior year adjustments and other items	\$22,000	\$1,480,000
Unassigned Surplus, End of Year	\$195,367,000	\$190,666,000

PREMIUMS EARNED



POLICYHOLDERS' SURPLUS



PROFITABILITY ANALYSIS

	2008	2007	Change
Loss Ratio	45.9%	43.3%	2.6%
Expense Ratio	35.0%	31.2%	3.8%
Dividend Ratio	2.4%	2.1%	0.3%
Combined Ratio	83.3%	76.6%	6.7%
Operating Ratio	71.0%	65.9%	5.1%

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

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

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

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

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

BUILDERS UNIVERSITY: EXPANDING YOUR TOOLS FOR SUCCESS

Last year alone, Builders Mutual safety experts facilitated over 35 Builders University classes to nearly 500 policyholders. For years, we've been your resource for Fall Protection and OSHA Construction Safety Courses. In response to today's business environment, we are increasing course offerings of the Enterprise Risk Management for Contractors program. This class is designed for business owners and managers to get a handle on controllable risks that can mean the difference between profit and loss.

25 YEARS OF SAFETY & STABILITY

2008 was a most challenging year in our economy, however Builders Mutual remained steadfastly committed to the construction industry in partnership with our agents and customers. We launched a variety of new products and services, including a specialized Trade Contractor program and an increased appetite for commercial contractors. Continuing our commitment to our employees, we are proud to be recognized as one of the Best Places to Work for the second straight year. In the fall we relocated our corporate office and created Builders First Center as a meeting and training center for the building community.

In 2009, we commemorate our silver anniversary as we celebrate 25 years of service to the building industry. At a moment like this, we take pride in the safety and stability we have provided to our customers and agents year after year. With our continued commitment to our very own industry-leading services like Builders University, WorkSafe programs, and Risk Management consultations, Builders Mutual is well-positioned to be the carrier of choice for residential and commercial builders and trade contractors for years to come.

BOARD OF DIRECTORS AND EXECUTIVE TEAM



The BMIC Board of Directors proudly announces 2008's \$3 Million dividend, proving that Safety Pays.

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