

**WE REMAIN COMMITTED
TO THE CONSTRUCTION INDUSTRY
& OUR POLICYHOLDERS.**



BUILDING
FOR THE FUTURE
.....
2009 ANNUAL
REPORT



Builders Mutual[®]
INSURANCE COMPANY

Where Builders Come First[®]

A NEW APPROACH

BUILD. USE. GROW.

Builders Mutual is positioning for future opportunities with a new strategic plan to Build, Use, and Grow. During the past two years of declining premiums and a challenging construction and insurance market, we have been actively preparing for the future. The three key elements of our strategy are:

- **Build:** Implement significant enhancements to our infrastructure to better position the Company for the future
- **Use:** Maximize the investments in new technology and resources to leverage results and drive improvement in efficiency and effectiveness
- **Grow:** Return the Company to a position of profitable growth

In alignment with our strategy and increased focus on expense management, we've taken a new approach with the Annual Report. All policyholders received a condensed print version by mail of our 2009 results. The online version of the 2009 Annual Report includes an enhanced financial summary and graphs as well as a detailed listing of our Board of Directors and Builders Mutual leadership.



BUILDING FOR THE FUTURE TOGETHER

We believe that nobody knows the builders like Builders Mutual. And that's why we continue to offer free services like Builders University and risk management jobsite consultations. Our field and internal industry experts are committed to serving the building industry. We recently updated all of our online risk management resources in both English and Spanish, making it even easier for our customers to protect their bottom line and keep their workers safe.

This year, more than ever, we are committed to growing our business. We are appointing new agents in the border states of Maryland and Mississippi. We've expanded our appetite beyond residential and commercial contractors and trade contractors to include many construction-related businesses. Growth is critical to our success and we can't get there without you! Whether you are a customer, an agent, or a business partner—we value your relationship and the strong reputation you've enabled us to build over the past 25 years.



MESSAGE TO OUR POLICYHOLDERS



**NOBODY KNOWS
THE BUILDER
LIKE BUILDERS MUTUAL**

2009 was a very tough year for our policyholders, our agents and for the insurance industry. Builders Mutual's premiums declined by 32% as most of our policyholders simply did not have as much work. The premium decline was exacerbated by the soft insurance pricing cycle which made the competition for premium very challenging. Given the economic downturn, Builders Mutual managed to report a \$10.5M profit and returned \$1.3M in dividends to eligible WorkSafe policyholders.



John Boggs, CPA
BMIC President and Chief Executive Officer

Builders Mutual continues to build its infrastructure with new systems and improved technology. Our goal is to be in position to capitalize when the housing market returns. Over the past few years, we created a new subsidiary and became licensed in four new markets. These marketing expansions along with improved technology have allowed us to be more competitive during this challenging economy.

We remain committed to serving our policyholders in the construction industry and we are proud to return a dividend to our policyholders during these difficult times. Even though the economy is rough, there are two things you can count on: the housing market will recover and Builders Mutual will continue to support our policyholders as we have for the past 25 years.



FINANCIAL SUMMARY

The following are statements of financial position and results of operations of Builders Mutual Insurance Group for the fiscal year ended December 31, 2009. The financial statements are presented in accordance with statutory accounting principles as required by the North Carolina Department of Insurance.

Financial summary represents both Builders Mutual & Builders Premier Insurance Companies.

The combination of the housing market, unemployment rates, and the soft insurance market continued to impact insurance carriers in 2009. Builders Mutual, despite a reduction in written premium of 31.7%, was still able to report a profit in 2009. Although reporting an underwriting loss of \$2.1 million, a strong investment portfolio contributed to the reported net income of \$10.5 million. A \$1.3 million policyholder dividend has been paid to eligible workers' compensation policyholders. As the Company's 25th anniversary celebration ends, Builders Mutual is proud to have returned policyholder dividends in 21 of those years totaling \$45.9 million. Even in these tough economic times, we continue to put our policyholders first, and remain committed to building and maintaining long-term relationships with our policyholders and agents.



FINANCIAL POSITION

ASSETS

Assets declined \$16.8 million, or 3.4% to \$470.9 million. This asset decline is from declining premium receivables and cash & short-term investments. Included in the reduction of cash & short-term investments is the redemption of a \$12.0 million surplus note. The Company did invest an additional \$6.0 million in equity securities. Total investments represent 88.3% of the Company's total admitted assets. We continue to invest heavily in fixed income securities, which are \$377.8 million of total invested assets.

LIABILITIES

Our total liabilities decreased by \$18.5 million, or 6.3% in 2009. Unpaid losses and loss adjustment expense reserves declined by \$13.1 from favorable loss development on prior accident years and a decline in loss exposures. This favorable loss development is reflective of the safe working environments created by our policyholders with assistance from our Risk Management consultants. Unearned premium reserves declined \$4.4 million from the impact the economy has had on our business.

POLICYHOLDERS' SURPLUS

Policyholders' surplus grew \$1.7 million in 2009, to \$197.0 million. This surplus growth was from net income of \$10.5 million and \$4.7 million unrealized gains, net of tax on equity investments. Current year surplus was reduced by an increase in non-admitted assets and the redemption of a \$12.0 million surplus note. The ability to grow policyholders' surplus during these tough market conditions is a key factor in maintaining our A.M. Best "A" (Excellent) rating.

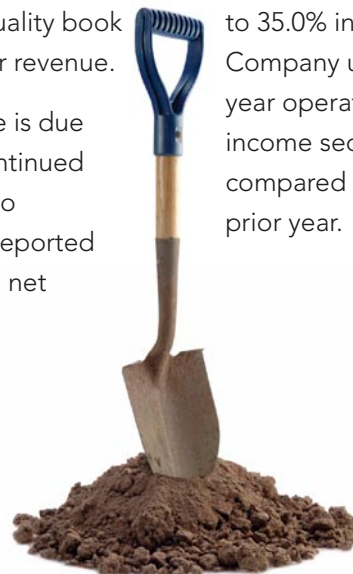
FINANCIAL SUMMARY



RESULTS OF OPERATIONS

The Company is reporting net income of \$10.5 million for 2009. Our direct premium written decreased by 31.7% and net premium earned decreased by 32.2%. Workers' compensation premium now represents 70% of our total premium compared to 63% in 2008. Even during these tough economic times, we continue to stay focused on maintaining a high quality book of business and do not sacrifice quality business to grow our revenue.

Losses incurred declined in 2009 by \$7.2 million. This decline is due to lower loss exposures on the current accident year and continued favorable development on prior accident years. The loss ratio increased to 59.2% for the current year compared to 45.9% reported in 2008. The increase in the loss ratio is due to the decline in net premium earned.



**BUILDERS UNIVERSITY
FREE SAFETY COURSES
ARE DESIGNED TO HELP KEEP YOUR WORKERS
SAFE AND PRODUCTIVE.**



We continue to manage operating expenses as evidenced by \$5.2 million decline from the prior year. Total operating expenses incurred are \$36.9 million for 2009 compared to \$42.1 million last year. The decline in net premiums written in 2009 increased the expense ratio to 45.5% compared to 35.0% in 2008. Net investment income increased slightly in 2009 as the Company utilized some investment income generated to help fund current year operations and redeem the \$12.0 million surplus note. Sales from fixed income securities generated realized capital gains, before tax of \$642,000 compared to realized capital losses, before tax totaling \$8.4 million in the prior year.

FINANCIAL SUMMARY

BALANCE SHEET

All figures represented in thousands (,000).

ASSETS	2009	2008
Bonds	\$377,807	\$376,757
Common & preferred stocks	\$27,823	\$15,521
Cash & short-term investments	\$10,156	\$30,386
Premium balances	\$23,442	\$29,547
Other assets	\$31,699	\$35,511
Total Assets	\$470,927	\$487,722
LIABILITIES & POLICYHOLDERS SURPLUS		
Unpaid losses & loss adjustment expenses	\$231,612	\$244,714
Unearned premiums	\$19,057	\$23,419
Other liabilities	\$23,196	\$24,222
Total Liabilities	\$273,865	\$292,355
Total Policyholders Surplus	\$197,062	\$195,367
Total Liabilities & Policyholders Surplus	\$470,927	\$487,722



WE ARE COMMITTED TO
**GROWING
OUR BUSINESS**

STATEMENT OF INCOME

All figures represented in thousands (,000).

	2009	2008
Premiums earned	\$85,346	\$125,882
Losses and LAE incurred	\$50,538	\$57,742
Underwriting expenses	\$36,880	\$42,099
Underwriting gain	\$(2,072)	\$26,041
Net investment income earned	\$15,724	\$15,479
Realized capital (losses)/gains	\$642	\$(7,538)
Other expenses/(income)	\$1,309	\$1,527
Income before income taxes	\$12,985	\$32,455
Policyholder dividends	\$1,300	\$3,000
Federal income tax expense	\$1,166	\$7,464
Net income	\$10,519	\$21,991
CHANGES IN POLICYHOLDERS SURPLUS		
Unassigned surplus, beginning of year	\$195,367	\$190,666
Net income	\$10,519	\$21,991
Net unrealized capital (losses)/gains	\$4,724	\$(10,123)
Change in net deferred income tax	\$763	\$1,322
Change in non-admitted assets	\$(2,262)	\$(8,511)
Change in surplus notes	\$(12,000)	—
Other items	\$(49)	\$22
Unassigned Surplus, End of Year	\$197,062	\$195,367

FINANCIAL SUMMARY

RATIOS

PROFITABILITY ANALYSIS	2009	2008	CHANGE
Loss Ratio	59.2%	45.9%	13.3%
Expense Ratio	45.5%	35.0%	10.5%
Dividend Ratio	1.5%	2.4%	-0.9%
Combined Ratio	106.3%	83.3%	23.0%
Operating Ratio	87.9%	71.0%	16.9%

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

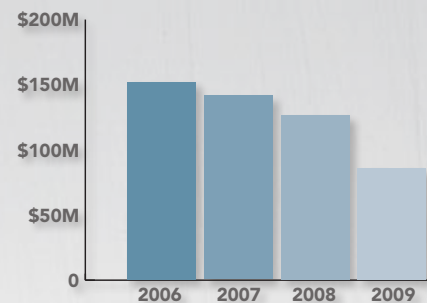
Operating Ratio: $\text{Combined Ratio} - (\text{Net Investment Income Earned} / \text{Net Premiums Earned})$

DIVIDEND

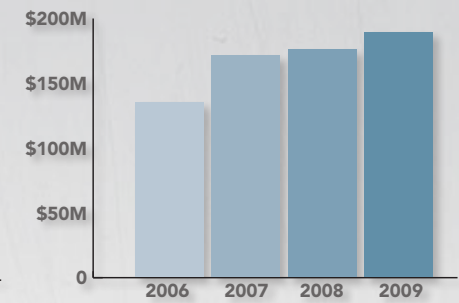
Builders Mutual distributed a \$1.3 million dividend to over 6,500 eligible WorkSafe policyholders. At a time when builders are challenged to reduce costs, it's clear they haven't reduced focus on safety. BMIC remains committed to jobsite safety with valuable services like risk management consultations, Builders University classes and new online safety programs. Our policyholders' strong safety culture has allowed us to return over \$45.9 million in dividends over the past 25 years.



PREMIUMS EARNED



POLICYHOLDERS SURPLUS



2010 BOARD OF DIRECTORS



Nobody knows the builder like Builders Mutual Board of Directors. Closely connected to the building industry, BMIC's Board focuses on what's most important to our clients and their businesses. (From top, left to right) Dave McDonald, Bill Daleure, Willard "Buddy" Hughes, Frank Wiesner, Rick Judson, David Creech, Herschel Redding, Don Betsworth, Lyle D. Gardner, David Stormont, Robert Guthrie

Rick Judson, Chairman
Evergreen Home Builders
Charlotte, NC

David Stormont, Vice Chairman
Kitty Hawk, NC

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

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

Bill Daleure
Crossland Group
Charlotte, NC

Lyle D. Gardner
Spectrum Homes
Raleigh, NC

Robert Guthrie
Raleigh, NC

Williard "Buddy" Hughes
Hughes Construction Co.
Lexington, NC

Dave McDonald
JDM Consultants, LLC
Charlotte, NC

Herschel Redding
Redding Construction Services, LLC
Rural Hall, NC

Frank Wiesner
Olde South Homes
Raleigh, NC

OFFICERS & DEPARTMENT DIRECTORS

John Boggs, CPA
President/Chief Executive Officer

Michael Gerber
Senior Vice President/
Chief Marketing Officer

Graeme Boddy
Vice President/
Chief Information Officer

Tom Lockard, CPA
Vice President/Chief Financial 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, AMIM**
Assistant Vice President of
Underwriting

Jerry Visintine, FCAS, MAAA
Assistant Vice President of Actuarial

Ron Adams, WCCL, CBIA, C-Mesh
Director of Risk Management

Michael Carter, CPCU, APA
Director of Premium Audit

Joe Frazier
Director of IT Business Services

Michele Hemric, CBIA
Director of Training & Development

Jerry Kaiser
Director of Project Management

Michelle King
Director of Information Management

Todd Quilici
Director of IT Infrastructure

Ken Shivar
Director of Claims

Laurie Trumbo
Director of Premium Accounting

Jodi Vedelli
Director of Marketing

