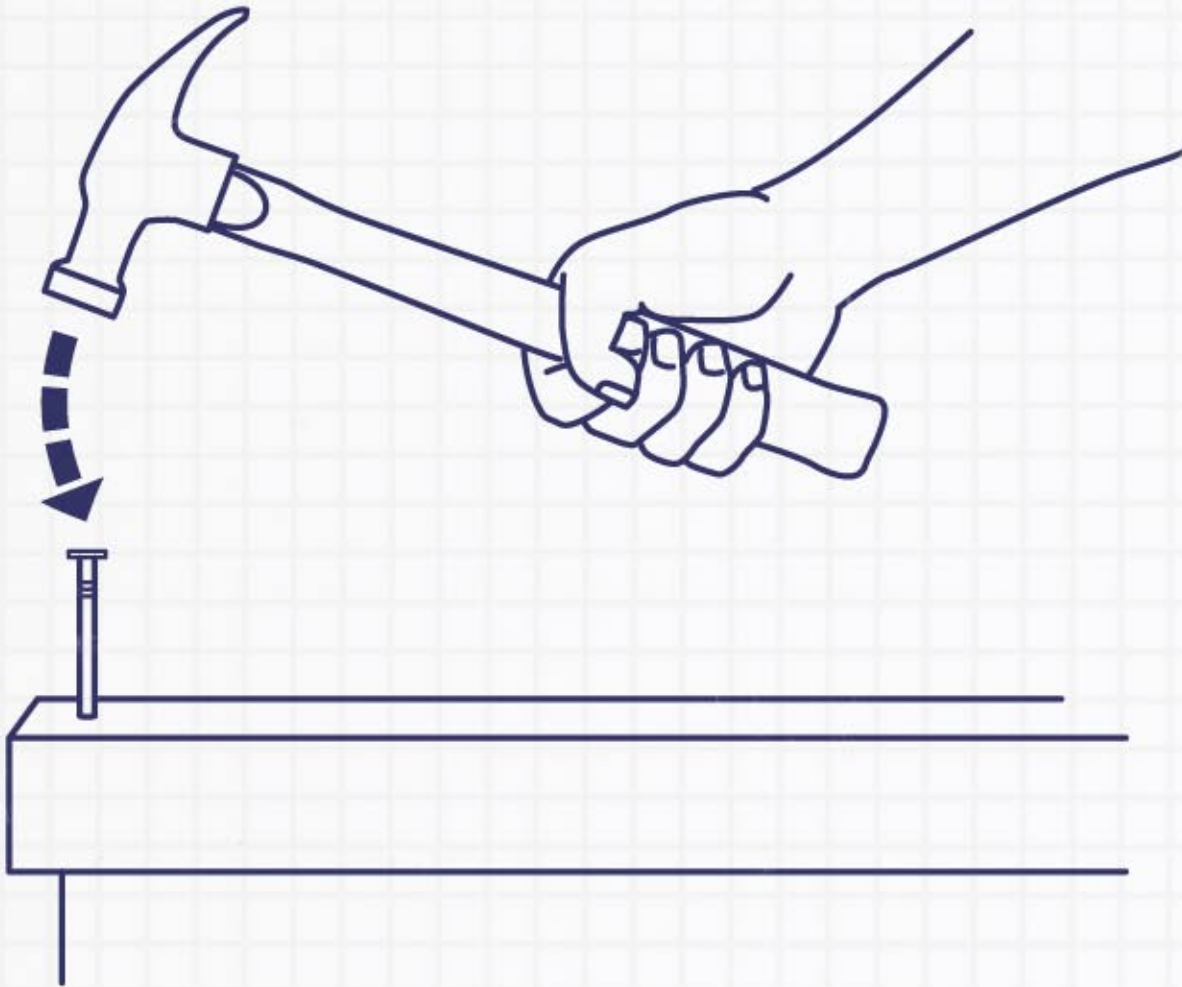


PARTNERING WITH BUILDERS MUTUAL IS YOUR BLUEPRINT TO SUCCESS



SIMPLE, RIGHT?

If you're in construction, the insurance choice is simple.

2010 ANNUAL REPORT



Builders Mutual[®]
INSURANCE COMPANY

Where Builders Come First[®]

Residential • Commercial • Trade

MESSAGE TO OUR POLICYHOLDERS

2010 brought very little economic upturn for our policyholders, our agents and for the insurance industry. While the economy is on the mend, the rate of improvement is slow. Many of our policyholders found new work projects and began the recovery process. Builders Mutual created opportunities by welcoming new commercial construction accounts and appointing agencies in both underserved and new markets. The combination of all these factors allowed Builders Mutual to grow premiums by 12%. Along with our premium growth we were able to manage our losses, control expenses and realize good investment returns which resulted in net income of \$13.1M and allowed us to return \$1.575M in dividends to eligible WorkSafe policyholders.

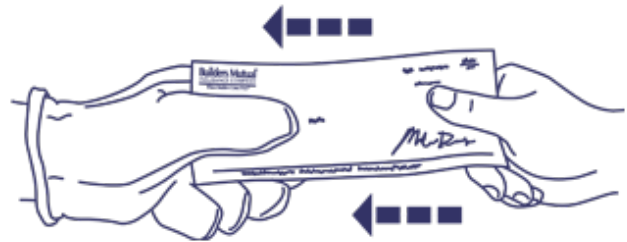
Builders Mutual made significant strides in improving its infrastructure with new systems and improved technology in 2010. We are proud of the industry expertise we bring to our customers and strongly believe our personalized service approach continues to set us apart in this competitive environment. As the economy continues to improve, Builders Mutual will remain dedicated to the construction industry and our policyholders.



*John Boggs, CPA
BMIC President and
Chief Executive Officer*

SAFETY PAYS

The year 2010 was perhaps the most challenging yet for those in the building industry. However, Builders Mutual and its policyholders continued to forge ahead. The \$1.575 million dividend is a direct result of policyholders' continuous efforts to incorporate a culture of safety into their companies. Builders Mutual proudly returned dividends to over 6,500 eligible WorkSafe policyholders this year. We have consistently distributed dividends to policyholders 22 of 26 years, totaling more than \$47 million.



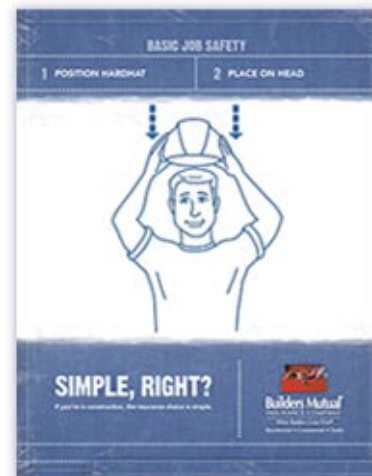
SIMPLE, RIGHT?



As insurance and construction become more complex, BMIC takes pride in keeping it simple. Builders Mutual has insured builders and only builders since our inception in 1984. It's our specialty; it's **ALL** we do. We provide a complete set of coverages to meet our customers' commercial insurance needs; from a One-Shot Builders Risk policy to Workers' Compensation and General Liability, we cover it all. Our flexible pay plans like the popular and convenient monthly self reporting for WorkSafe accounts are designed to make working with us as easy as possible. By keeping it simple, we've grown to insure over 14,000 residential builders, commercial contractors and trade contractors of all sizes.

With our easy-to-use online resources, valuable information on the audit process, claims handling, risk management, and educational opportunities are just a click away. Agents can now quote, issue and service policies online with ease.

While we are always looking to enhance our online tools and resources, we're constantly reminded that this is a "people" business. Our team of nearly 200 industry experts is ready to assist with knowledgeable and personalized service. **If you're in construction, the insurance choice is simple!**



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, 2010. The financial statements are presented in accordance with statutory accounting principles as required by the North Carolina Department of Insurance.

Despite the continuing residential housing market struggles, unrelenting high unemployment rates, and a competitive soft insurance market, Builders Mutual grew direct premium written by \$11.5 million or 12.3% in 2010. This is impressive after experiencing a 31.7% reduction in direct premium written in 2009. Builders Mutual achieved a \$13.1 million profit in 2010 overcoming a \$3.5 million underwriting loss with \$15.6 million of investment income. A \$1.575 million policyholder dividend has been paid to eligible workers' compensation policyholders. Although these are tough economic times, we put our policyholders first, and remain committed to building long-term relationships with our policyholders and agents.

FINANCIAL POSITION

Assets

Assets increased \$4.0 million, or 0.9% to \$474.9 million. Common stock increased by \$7.2 million due to new investments in equities and appreciation in the portfolio. Cash and short-term investments declined \$1.2 million as the company redeemed an \$8.0 million surplus note and invested \$2.7 million in equity securities. Other assets decreased by \$1.4 million due to reinsurance settlements and receiving federal income taxes refunds. Total investments represent 88% of the Company's admitted assets. We continue to invest heavily in fixed income securities, which are \$376.9 million of invested assets.

Liabilities

Our liabilities increased by \$0.2 million, or 0.1% in 2010. Unpaid losses and loss adjustment expense reserves declined by \$8.8 million from favorable loss development on prior accident years. This favorable loss development reflects the safe working environments created by our policyholders with assistance from our Risk Management Consultants. Unearned premium reserves increased \$3.4 million due to increased written premiums. Other liabilities increased \$4.0 million from other insurance operations and a dividend of \$1.575 million to our policyholders.

Policyholders Surplus

Policyholders' surplus grew \$3.9 million in 2010, to \$200.9 million. This surplus growth was from net income of \$13.1 million and \$2.6 million of unrealized gains on equity investments. Current year surplus was reduced by \$4.2 million for non-admitted assets and the redemption of an \$8.0 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

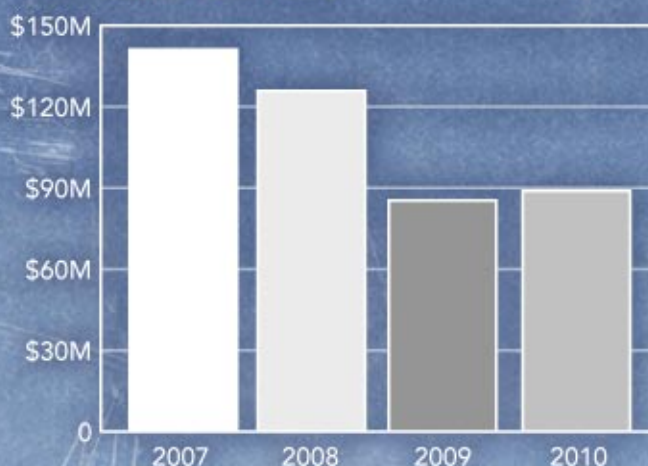
The Company is reporting net income of \$13.1 million for 2010. Net premiums earned increased by 4.2% during the current year from increased commercial construction business and growth in recent expansion states. Workers' compensation premiums now represent 65% of total premiums compared to 70% in 2009. Our focus is to provide a high quality insurance product at a fair price to the policyholder while not sacrificing underwriting discipline to grow revenue.

Losses and LAE incurred increased in 2010 by \$5.5 million. The loss ratio increased to 63.0% for the current calendar year compared to 59.2% reported in 2009. This increase is due to increased business volume with the accompanying increased exposures to losses in the current accident year. We have seen a slight increase in the frequency of claims, however we continue to see favorable loss experience on older accident years.

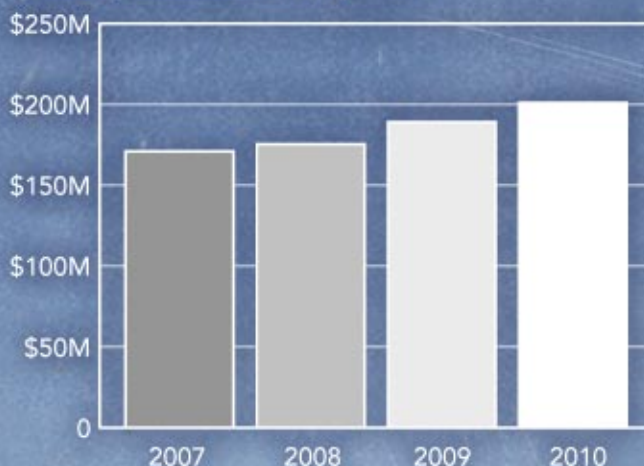
Operating expenses declined by \$0.5 million compared to the prior year, confirming our focus on managing operating expenses. Total operating expenses incurred are \$36.4 million for 2010 compared to \$36.9 million in 2009. The 12.3% increase in net premiums written in 2010 helped lower the expense ratio to 39.5% compared to 45.5% in 2009.

Net investment income decreased slightly in 2010 as the Company utilized some of the cash from investment income to supplement current year operations and redeem the \$8.0 million surplus note. Sales of investments generated realized capital gains of \$2.2 million compared to \$0.6 million of realized capital gains in the prior year.

Premiums Earned



Policyholders Surplus



FINANCIAL SUMMARY

BALANCE SHEET

All figures represented in thousands (,000).

	2010	2009
Assets		
Bonds	\$376,898	\$377,807
Common and preferred stocks	\$35,046	\$27,823
Cash and short-term investments	\$8,922	\$10,156
Premium balances	\$23,880	\$23,442
Other assets	\$30,216	\$31,699
Total Assets	\$474,962	\$470,927
Liabilities and Policyholders Surplus		
Unpaid losses and loss adjustment expenses	\$222,848	\$231,612
Unearned premiums	\$22,430	\$19,057
Other liabilities	\$28,767	\$23,196
Total Liabilities	\$274,045	\$273,865
Total Policyholders Surplus	\$200,917	\$197,062
Total Liabilities and Policyholders Surplus	\$474,962	\$470,927

RATIOS

	2010	2009	Change
Profitability Analysis			
Loss Ratio	63.0%	59.2%	3.8%
Expense Ratio	39.5%	45.5%	-6.0%
Dividend Ratio	1.8%	1.5%	0.3%
Combined Ratio	104.2%	106.3%	-2.1%
Operating Ratio	86.7%	87.9%	-1.2%

STATEMENT OF INCOME

All figures represented in thousands (,000).

	2010	2009
Underwriting Income		
Premiums earned	\$88,937	\$85,346
Losses and LAE incurred	\$56,037	\$50,538
Underwriting expenses	\$36,423	\$36,880
Underwriting gain / (loss)	\$(3,523)	\$(2,072)
Investment Income		
Investment income, net of interest expense	\$15,578	\$15,724
Realized capital gains / (losses)	\$2,167	\$642
Other expenses / (income)	\$1,359	\$1,309
Income before income taxes	\$12,863	\$12,985
Policyholder dividends	\$1,575	\$1,300
Federal income tax expense / (benefit)	\$(1,766)	\$1,166
Net Income	\$13,054	\$10,519
Changes in Policyholders Surplus		
Unassigned surplus, beginning of year	\$197,062	\$195,367
Net income	\$13,054	\$10,519
Net unrealized capital gains / (losses)	\$2,639	\$4,724
Change in net deferred income tax	\$307	\$763
Change in non-admitted assets	\$(4,151)	\$(2,262)
Change in surplus notes	\$(8,000)	\$(12,000)
Change in provision for reinsurance	\$6	\$(49)
Unassigned Surplus, End of Year	\$200,917	\$197,062

2011 BOARD OF DIRECTORS



Builders Mutual's Board of Directors bring a unique perspective to the Company with years of experience on job sites and in the building community. The Board of Directors stays focused on initiatives that will help BMIC better serve the construction community and our policyholders' businesses. (From top, left to right) Dave McDonald, Rick Judson, Dave Stormont, Lyle D. Gardner, Willard "Buddy" Hughes, Robert Guthrie, Bill Daleure, Don Betsworth, Herschel Redding, David Creech, Erik A. Anderson.

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

Erik A. Anderson

Anderson-Moore Builders
Winston Salem, NC

David Creech

Creech Construction Co., Inc.
Raleigh, NC

Bill Daleure

Avant-Garde Real Estate
Consulting, LLC
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

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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

Lisa Hoke, CPA, FLMI

Assistant Vice President/Controller

Brad Moock, CPCU, CLU, CBIA

Assistant Vice President of
Business Development

**Gina Schwitzgebel, CPCU,
CIC, CRM, 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 Technology Services

Ken Shivar

Director of Claims

Laurie Trumbo

Director of Premium Accounting

Jodi Vedelli

Director of Marketing