



**A SOLID
FOUNDATION
DELIVERS
LASTING
RESULTS.
IT'S THAT
SIMPLE.**

2012

ANNUALREPORT



Builders Mutual[®]
INSURANCE COMPANY

Where Builders Come First[®]
Residential • Commercial • Trade

Visit us at buildersmutual.com.



MESSAGE TO OUR POLICYHOLDERS

WITH A ROCK SOLID foundation and dedication to the building industry, Builders Mutual delivers lasting results.

For nearly 30 years, we've watched as the highs and lows of the housing market have directly impacted the overall economy. Now, as the housing industry begins its recovery and new home inventories continue to decline, we are seeing overall signs of economic improvement and increasing demand for new construction. As this modest recovery continues, we believe we will see Builders Mutual and our policyholders grow and prosper.

In 2012, Builders Mutual worked hard to recover our revenue losses of the past several years. We reduced the loss ratio by five points to 65%, achieved earned premium growth of 26% and declared a \$1.2 million dividend. We are pleased to report a combined ratio of 100.4% and expect our solid results to significantly outperform the industry. While we continue to make positive strides with our financial results, management recognizes the importance of returning to an underwriting gain as investment yields have decreased and will continue to be depressed in the foreseeable future.

Maintaining a strong and stable financial position has allowed us to make significant improvements in our structure to better support our policyholders. In 2012, we realigned teams and added staff to streamline processes and make it even easier for our policyholders to do business with us. We launched the Customer Contact Center, offering customers a single point of contact for all policy servicing needs. We also realigned our underwriting department to increase accountabilities and geographic focus. Our goal is to provide you, our policyholders, with the best customer experience while still delivering long term profitable results.

We are positioned and ready for the future and look forward to growing alongside our dedicated policyholders.

A REWARDING YEAR OF CONSISTENCY AND GROWTH

BUILDERS MUTUAL'S BOARD OF DIRECTORS work together with company management to ensure that BMIC maintains a stable financial position.

This solid foundation has enabled the Company to return more than \$50 million in dividends to our policyholders. The dividend distribution for 2012 totaled \$1.2 million, representing a twenty percent increase in distribution from the prior year and is comparable to the growth Builders Mutual experienced in 2012.





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, 2012. The financial statements are presented in accordance with statutory accounting principles as required by the North Carolina Department of Insurance.

OVERALL, 2012 WAS A YEAR OF OUTSTANDING EFFORT AND POSITIVE RESULTS with Builders Mutual reporting a \$10.4 million profit, by overcoming a \$2.1 million underwriting loss with \$14.1 million of investment income.

Reflecting the slowly improving economy, Builders Mutual is pleased to report that direct premium written grew by \$31.2 million or 23.4% in 2012. While we continue to experience challenges with an unstable economy, the residential housing market is recovering after the prolonged downturn, and the soft insurance market is beginning to moderate. A \$1.2 million policyholder dividend has been paid to eligible workers' compensation policyholders, demonstrating that through these challenging times, we put our policyholders first, and remain committed to building long term partnerships with our policyholders and agents.

FINANCIAL POSITION

ASSETS

Total assets increased \$45.9 million, or 9.4% to \$536.2 million, with invested assets representing 85.2% of the Company's admitted assets. Bonds and common stock increased during the year by \$20.7 million, due to new investments and changes in market values. Cash and short-term investments increased \$10.7 million, from increased premiums collected compared to the prior year. We continue to invest heavily in fixed income securities, which are \$395.9 million of invested assets. Premium balances receivable increased \$11.8 million due to the growth in written premium, reflecting the improving housing market conditions. Other assets increased \$2.7 million, from additional deferred tax assets and various prepaid expenses.

LIABILITIES

Liabilities increased by \$30.9 million, or 10.8% in 2012. Total unpaid loss and loss adjustment expense reserves increased \$11.2 million this year from exposure growth. Included in the loss and loss adjustment expense reserves is \$15.6 million 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 \$7.9 million, due to the growth in written premiums. Other liabilities increased \$11.8 million from other insurance operations. Included in other liabilities is a dividend payable totaling \$1.2 million which has been paid to our policyholders in 2013.

POLICYHOLDERS SURPLUS

Policyholders surplus grew \$15.0 million in 2012, to \$218.7 million. This current year surplus growth came from net income of \$10.4 million, \$2.7 million of net unrealized capital gains on investments, and from a \$1.3 million increase from the change in non-admitted assets. The Company's continued ability to grow Policyholders surplus during these market conditions is an indication of our financial strength and a key factor in maintaining our A.M. Best "A" (Excellent) rating.



FINANCIAL SUMMARY

RESULTS OF OPERATIONS

NET PREMIUMS EARNED INCREASED BY \$29.6 MILLION, or 26.6%, during the year, reflecting higher levels of building activity and improvement in the construction market.

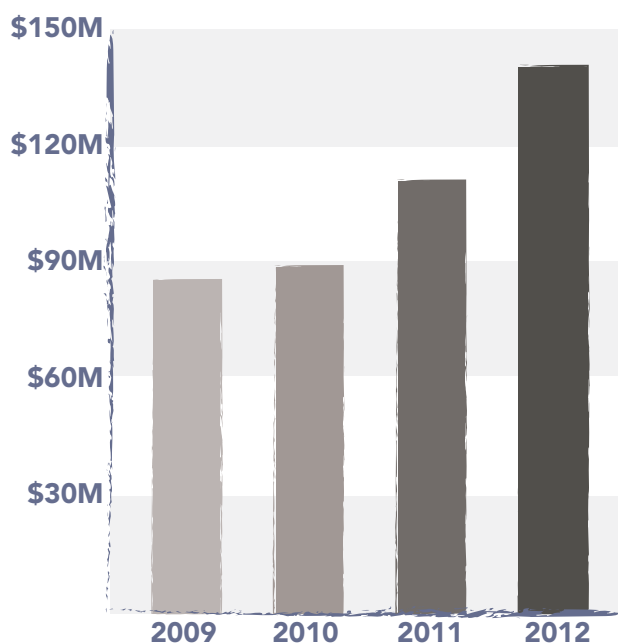
Workers' compensation premiums represent 70.4% of total premiums compared to 67.0% in 2011. Our focus is to provide a high quality insurance product at a fair price to our policyholders, without sacrificing the underwriting discipline necessary to grow revenue.

Losses and LAE incurred increased in 2012 by \$13.5 million, but as a percentage of premiums earned our calendar year loss ratio decreased to 64.8%. Through risk management, underwriting discipline and a more seasoned book of business, a 5.1% improvement was recognized from the 69.9% loss ratio reported for 2011.

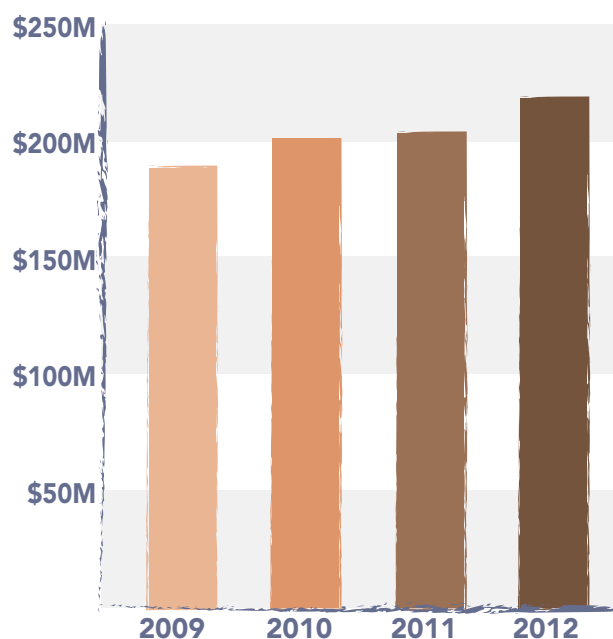
Total operating expenses incurred are \$51.6 million for 2012, compared to \$41.7 million in 2011. Underwriting expenses incurred increased 23.9% compared to the prior year, consistent with the growth in current year premium. Additionally, the 24.2% increase in net premiums written in 2012 helped lower the expense ratio slightly compared to the 2011 ratio.

Net investment income decreased slightly in 2012 from continued low interest rates. Sales of investments generated realized capital gains of \$1.9 million compared to \$2.4 million of realized capital gains in the prior year.

PREMIUMS EARNED



POLICYHOLDERS SURPLUS



FINANCIAL SUMMARY

BALANCE SHEET

All figures represented in thousands (,000).

	2012	2011
ASSETS		
Bonds	\$395,916	\$380,596
Common and preferred stocks	\$39,986	\$34,653
Cash and short-term investments	\$20,757	\$10,015
Premium balances	\$44,209	\$32,426
Other assets	\$35,356	\$32,647
Total Assets	\$536,224	\$490,337

LIABILITIES AND POLICYHOLDERS SURPLUS

Unpaid losses and loss adjustment expenses	\$240,048	\$228,845
Unearned premiums	\$38,774	\$30,924
Other liabilities	\$38,681	\$26,861
Total Liabilities	\$317,503	\$286,630
Total Policyholders Surplus	\$218,721	\$203,707
Total Liabilities and Policyholders Surplus	\$536,224	\$490,337

PROFITABILITY ANALYSIS

	2012	2011	CHANGE
Loss Ratio	64.8%	69.9%	-5.1%
Expense Ratio	34.8%	34.9%	-0.1%
Dividend Ratio	0.9%	0.9%	0.0%
Combined Ratio	100.4%	105.7%	-5.3%
Operating Ratio	90.4%	92.4%	-2.0%

STATEMENT OF INCOME

	2012	2011
UNDERWRITING INCOME		
Premiums earned	\$140,535	\$110,975
Losses and LAE incurred	\$91,086	\$77,573
Underwriting expenses	\$51,593	\$41,653
Underwriting gain / (loss)	\$(2,144)	\$(8,251)

INVESTMENT INCOME

Investment income, net of interest expense	\$14,074	\$14,674
Realized capital gains / (losses)	\$1,859	\$2,400
Other expenses / (income)	\$497	\$1,186
Income before income taxes	\$13,292	\$7,637
Policyholder dividends	\$1,200	\$1,000
Federal income tax expense / (benefit)	\$1,731	\$1,304
Net Income	\$10,361	\$5,333

CHANGES IN POLICYHOLDERS SURPLUS

Unassigned surplus, beginning of year	\$203,707	\$200,917
Net income	\$10,361	\$5,333
Net unrealized capital (losses) / gains	\$2,725	\$(685)
Change in net deferred income tax	\$628	\$2,383
Change in non-admitted assets	\$1,307	\$(2,027)
Change in provision for reinsurance	\$(7)	\$(45)
Adjustment for income tax	\$0	\$(2,169)
Unassigned Surplus, End of Year	\$218,721	\$203,707

BOARD OF DIRECTORS



BUILDERS MUTUAL is the leading provider of commercial insurance products for residential and commercial builders and trade contractors in the Southeast.

With the strong leadership and commitment of our Board of Directors, Builders Mutual maintains its position in the construction community as the company Where Builders Come First®. (From top, left to right) Dave Stormont, David Creech, Dave McDonald, Rick Judson, Gary Hill, Kevin Annas, Andy Betts, Buddy Hughes, Erik Anderson, Don Betsworth, Bill Daleure.

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Charlotte, NC

David Stormont, Vice Chairman

Storm Coast Homes LLC
Kitty Hawk, NC

Don Betsworth, Secretary/Treasurer

Don Betsworth Homes, Inc.
Summerfield, NC

Erik A. Anderson

DreamMaker Bath & Kitchen™
Winston Salem, NC

Kevin Annas

Providence Home Builders
Granite Falls, NC

Andy Betts

Retired Accountant
Raleigh, NC

David Creech

Creech Construction Co., Inc.
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Lexington, NC

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JDM Consultants, LLC
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Chief Marketing Officer

Graeme Boddy

Vice President/
Chief Information Officer

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Vice President/
Chief Financial Officer

Ross Fowler, CPCU

Assistant Vice President
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Stephen Vore, CPA

Director of Premium
Accounting

STAYING CONNECTED



BUILDING RELATIONSHIPS WITH POLICYHOLDERS AND AGENTS IS CRITICAL TO OUR SUCCESS.

IN 2012, WE MADE IT EVEN EASIER FOR YOU TO CONNECT WITH US.

-  For policy or billing inquiries, call BMIC's Customer Contact Center at 800.809.4859, Monday through Friday, 8am-6pm EST.
-  When you "Like" Builders Mutual on Facebook or follow us on LinkedIn, you'll join our network and receive privileged updates from the industry experts.
-  With BMIC's new mobile site, you can watch toolbox talk videos in the palm of your hand.

WE BELIEVE THAT A HEALTHY DIALOGUE WITH OUR CUSTOMERS AND AGENTS is the key to mutual satisfaction. These new means of contact will improve your access and the flow of information in both directions. We encourage you to take advantage of them at every opportunity.

