

Service:

The Secret to Your Success

Builders Mutual 2006 Annual Report

Builders Mutual[®]
INSURANCE COMPANY

Where Builders Come First[®]

TO OUR POLICYHOLDERS

Joint commitment promotes good fortune

We are pleased to report that Builders Mutual enjoyed its most successful year ever in 2006, stemming primarily from three factors:

1. Fewer claims being reported during the year;
2. Favorable loss development on open claims reported in prior years; and
3. The continuing loyalty of our policyholders.

As a result, overall losses and reserves were reduced and profits increased. This has enabled us to declare and pay to WorkSafe policyholders a total dividend of \$2.8 million. If your loss history qualifies you for a dividend, you will have received it by the time this Annual Report reaches you.

Policyholder dividends are never guaranteed, but we are hopeful that we have now reached a degree of stable financial performance that will permit us to pay dividends on a regular basis in the future.

A.M. Best has also reaffirmed our rating of "A" (Excellent) for the eighth consecutive year, further attesting to our financial strength and claims paying abilities.

None of the above could have been achieved or sustained without the steadfast support of our policyholders and agent force. We reaffirm our continuing commitment to provide you with "Service Outside the Box," making it easier to do business with us. Your joint commitment to the building industry and the communities it serves promotes home ownership and good fortune for all.

Builders Mutual[®]
INSURANCE COMPANY
Where Builders Come First[®]



RICK JUDSON
Chairman of the Board



JOHN Q. BEARD
President/CEO/
General Counsel

2006 - A YEAR IN REVIEW

We celebrate the success of our customers as we would our own, because when their business thrives, so does ours. On this page, and the one accompanying it, you'll read about our 2006 efforts toward making our agents and customers more successful.

Making Things Easier, Behind the Scenes

As Builders Mutual continues its shift toward paperless day-to-day operations, it is increasingly important to have the best equipment, technology and people in place. We rely more and more on our Information Technology department to ensure we are staying ahead of the curve and anticipating our customers' needs.

Ease of doing business is paramount for our agents, and clear, direct communication is a top priority for our policyholders. Improving our information technology services goes a long way toward satisfying both of these needs. In 2006, our employees received additional training in customer service and how to take full advantage of the technology currently available. We continue to upgrade our equipment across the board on an as-needed basis to provide quicker, more efficient quoting to our agents, as well as enhancing the overall communications process.

Best Year Ever

While impressive, our A.M. Best rating being reaffirmed is nothing new. Indeed, we were rated "A" (Excellent) yet again, attesting to our favorable performance, strong niche market presence and industry expertise. Furthermore, A.M. Best "expects the company to continue to generate favorable operating results given the company's prudent operating strategies, active risk management initiatives and its strong policyholder retention rate." To us, this is further validation of our efforts to contribute to our policyholders' safety and success: by staying with us, they contribute to our own success.

Even more exciting, Builders Mutual enjoyed its best year ever financially in 2006. The full details are available in the financials section of this annual report, but as evidence of the company's strong year, a \$2.8 million dividend distribution was returned in early 2007. This marks the 18th dividend distribution in the 22 years of the company's existence and exceeds the \$2.5 million dividend returned in 2004.

In retrospect, 2006 may not have been a "big news" year, but by the same token, why tamper with success? We keep open lines of communication with everyone we do business with, so it's that much easier to assess and react to a concern or suggestion. Service Outside the Box continues to be our mission, both to brand-new policyholders and agents and those of 20 years.

Striving for your success is Service Outside the Box.

(continues on p.4)



Michelle Masella Corcoran, Agent
Insurance Professionals, Inc./Cary, NC

When asked about her relationship with Builders Mutual, which goes back to the self-insured fund days, Michelle simply states, "We understand each other." She appreciates having the ear of upper management, because her concerns are really taken to heart. She feels both BOB and Builders University have given her a competitive edge in attracting and retaining customers. "And since they're so involved in the building industry, they know how to respond to changes. The ease of doing business is second to none."

FINANCIAL SUMMARY

Builders Mutual is pleased to announce that 2006 was a record financial year. As a result, we have declared a policyholder dividend of \$2.8 million to eligible workers' compensation policyholders. Additionally, the changes to our premium deposit program announced in 2005 resulted in the return of more than \$6 million of workers' compensation policyholder deposits in 2006. Collectively, between our deposit refunds and policyholder dividends, we have returned more than \$17.5 million to our policyholders over the past two years. We are proud of our accomplishments in 2006 and believe that our results make it clear that as a mutual insurance company, we are committed to putting our policyholders first, and in building and maintaining long-term relationships with our customers.

Financial Position

Assets

Assets grew \$44.4 million to \$468.4 million. Asset growth was driven by strong investment performance in 2006, combined with positive cash flows on underwriting (premiums received exceeding claim payments). Investments represent 87% of our total assets, with premiums receivable as our next largest asset at 8.3% of total assets.

Liabilities

While total assets grew by \$44.4 million, our total liabilities increased by only \$17.6 million in 2006. This was the result of favorable loss development on both our current and prior year books of business. We have seen a decrease in the frequency of claims, and we have a strong reinsurance program to protect the Company against the adverse effects of large severity claims. The policyholder dividend of \$2.8 million is also included in our liabilities.

Policyholders' Surplus

Policyholders' surplus grew by more than 20% in 2006, even after consideration of the deposit refunds and dividends to policyholders. This growth was driven by underwriting gain (\$23.1 million) and by the performance of our investments in equity mutual funds (\$7.5 million). Our high level of policyholders' surplus is a key component of our ability to maintain our A.M. Best "A" (Excellent) rating.

Results of Operations

In our 2005 Annual Report, we noted our efforts to maintain a quality book of business. In 2006, we clearly saw the positive impact of writing quality accounts. Our net income of \$25.3 million represents the highest annual mark in our Company's history. We generated direct written premium growth of approximately 10% in both our Workers' Compensation and our Builders Best lines of business. Workers' Compensation insurance represented 58% of our direct written premium, and Builders Best was 42%. Our net earned premium growth was 5%, after reinsurance.

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 2006 book of business.

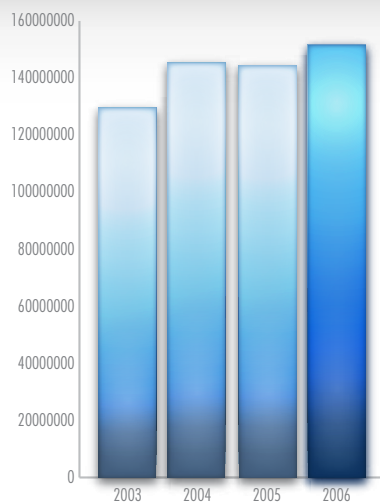
We accomplished our 10% direct written premium growth while holding the line on operational expenses. Our expense ratio dropped from 31.8% to 31.6%. We have decreased our expense ratio for two consecutive years.

Our investment portfolio also played a significant part in our record profitability. Our bond portfolio contributed \$13.7 million of income, an increase of 11.3%, as a result of more invested assets and higher bond yields in 2006. Our mutual funds, which invest in equity securities, contributed \$4.2 million of dividend income and capital gains and \$3.4 million of unrealized gains.

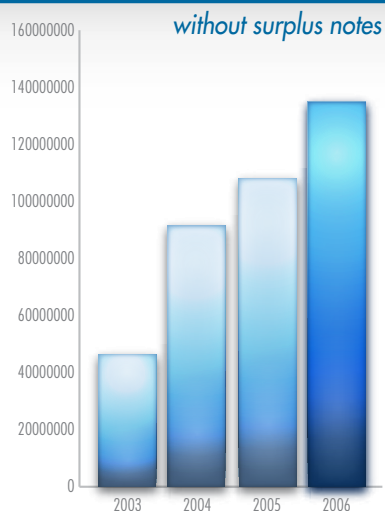
The following are statements of financial position and results of operations of Builders Mutual Insurance Company for the fiscal year ended December 31, 2006. The financial statements are presented in accordance with statutory accounting principles as required by the North Carolina Department of Insurance.

FINANCIAL SUMMARY

Premiums Earned



Policyholders' Surplus



Profitability Analysis

	2006	2005	Change
Loss Ratio	53.6%	66.7%	-13.1%
Expense Ratio	31.6%	31.8%	-0.2%
Dividend Ratio	1.8%	0.0%	1.8%
Combined Ratio	87.0%	98.4%	-11.4%
Operating Ratio	78.2%	89.3%	-11.1%

Loss Ratio Losses+LAE / Net Premiums Earned

Expense Ratio Other Underwriting Expenses / Net Premiums Written

Dividend Ratio Policyholders Dividends / Net Premiums Earned

Combined Ratio Loss Ratio + Expense Ratio + Dividend Ratio

Operating Ratio Combined Ratio - (Net Investment Income Earned / Net Premiums Earned)

Balance Sheet

	2006	2005
Assets		
Bonds	\$322,717,000	\$301,613,000
Common and preferred stocks	\$51,415,000	\$43,878,000
Cash and short-term investments	\$25,312,000	\$13,618,000
Real estate	\$8,593,000	\$8,647,000
Premium balances	\$39,054,000	\$34,357,000
Other assets	\$21,309,000	\$21,908,000
Total assets	\$468,400,000	\$424,021,000
Liabilities and Policyholders Surplus		
Unpaid losses and loss adjustment expenses	\$251,511,000	\$235,450,000
Unearned premiums	\$27,896,000	\$29,776,000
Other liabilities	\$34,111,000	\$30,679,000
Total Liabilities	\$313,518,000	\$295,905,000
Total Policyholders Surplus	\$154,882,000	\$128,116,000
Total Liabilities and Policyholders Surplus	\$468,400,000	\$424,021,000

Statement of Income

	2006	2005
Premiums earned	\$151,581,000	\$144,412,000
Losses and LAE incurred	\$81,285,000	\$96,307,000
Underwriting expenses	\$47,243,000	\$47,233,000
Underwriting gain	\$23,053,000	\$872,000
Net investment income earned	\$13,395,000	\$11,774,000
Realized capital gains	\$3,083,000	\$2,000
Other expenses	\$237,000	\$690,000
Income before income taxes and policyholder dividends	\$39,294,000	\$11,958,000
Policyholder dividends	\$2,800,000	\$0
Federal income tax expense	\$11,211,000	\$4,359,000
Net Income	\$25,283,000	\$7,599,000

Changes in Policyholder Surplus

	2006	2005
Unassigned surplus, beginning of year	\$128,116,000	\$111,587,000
Net income	\$25,283,000	\$7,599,000
Net unrealized capital gains	\$2,353,000	\$1,627,000
Change in net deferred income tax	\$135,000	\$641,000
Change in non-admitted assets	\$459,000	\$276,000
Prior year adjustments and other items	\$(1,464,000)	\$6,386,000
Unassigned Surplus, End of Year	\$154,882,000	\$128,116,000

2006 - A YEAR IN REVIEW (CONT.)

To many builders, insurance is seen as an expense. In 2006, with two full years of Service Outside the Box in effect, Builders Mutual continued to prove that insurance can and should be an investment. For this to be true, however, several components need to work in harmony. The insurance company must offer resources that are of value to the customer above and beyond standard coverage; the customer must take advantage of these resources; and lastly, the effects of the customers' actions must have a significant impact on their business.

Builders University Class of '06

Builders Mutual created Builders University—the first such program of its kind in the industry—to provide extensive continuing education to its invaluable network of agents. Since then, classes have been added to inform and train policyholders and Builders Mutual employees as well. In January, the first group of Certified Builders Insurance Agents (CBIAAs) was honored.

Agents who earn a CBIAA designation have a competitive advantage over other agents, making them better resources for customers as well as more valuable Builders Mutual partners. Given a choice, wouldn't a builder rather do business with and ask questions of a CBIAA? To date, more than 100 agents have been CBIAA designated; a policyholder need only check buildersmutual.com to check the status of any agent.

Staying the Experts, One Employee at a Time

As Builders Mutual moves forward in its efforts to provide its agents and policyholders with the best and most efficient processes and services, it is imperative that the leadership be in place to oversee those functions.

To fortify our roster of industry experts back at headquarters, Builders Mutual brought Brad Mook, CPCU, CLU, and Gina Schwitzgebel, CPCU, ARM, CIC, AIC, on board as assistant vice presidents of business development and underwriting, respectively.

Mook has extensive experience managing operations areas on a multi-state basis. Complementing this background, Schwitzgebel's experience in commercial lines, as well as in processing and support operations will be critical as the company moves to one operating platform and increases its e-business initiatives.

We continue to enhance our employees' expertise across the board with better communications programs, faster response times to inquiries, and other methods designed to improve business processes.



Charles Boyd, Policyholder
W.N.C. Nursery & Landscaping/Waynesville, NC

When an employee is injured, the pain can often spread across the entire business. According to Charles, Builders Mutual put forth every effort possible to ensure his injured employee was taken care of and Charles' red tape was kept to a minimum. "When they found out how far he had to drive for therapy, they even reimbursed him for gas," he adds. "And they call him regularly to check on his progress. I couldn't be more pleased with their service or their interest in my employee."

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Bill Walker, CPEA
Director of Risk Management



Debbie Dunlap, Agent
Sadler and Company, Inc./Columbia, SC

When other insurance companies pulled out of the industry in South Carolina, Builders Mutual stood their ground, and that meant a lot to Debbie. Her agency specializes in the building industry, so for Debbie, there has always been a strong connection. "For our customers, they offer it all—all the tools in one box," she says. "They understand builders and they understand agents who work with builders." Working with them goes beyond the sheer numbers, she says—"we feel like they are a true partner with our agency."



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