



**A SOLID FOUNDATION  
FOR A STABLE FUTURE.  
IT'S THAT SIMPLE.**

**2011  
ANNUAL REPORT**



**Builders Mutual<sup>®</sup>**  
INSURANCE COMPANY

*Where Builders Come First<sup>®</sup>*  
Residential • Commercial • Trade

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Visit us at [buildersmutual.com](http://buildersmutual.com).

# MESSAGE TO OUR POLICYHOLDERS

At Builders Mutual®, we remain dedicated to our roots and are committed to serving you, our loyal policyholders, for all your construction insurance needs. Despite the continued slow economic recovery and the lagging residential construction segment, Builders Mutual experienced positive growth in 2011. Reported payroll numbers increased, an indicator that our long-term dedicated policyholders are returning to work. Our commercial construction segment continued to grow, and we added agency partners in both new and existing markets. We recently enhanced our major systems infrastructure so that we may serve you better. While all of this led to overall premium growth of 25%, we continue to recognize the need to balance our growth and profitability. In total, we realized a net income of \$5.3M. We have proudly shared our success with our policyholders by declaring a dividend in 23 of our 27 years, and our financial strength enabled us to distribute \$1M in dividends to eligible WorkSafe policyholders this year.

Our goal is to build on our solid foundation so that you can continue to turn to us to protect your business, your workers and your bottom line. Through the ups and downs of the economic cycles, you can count on Builders Mutual as your key business partner. It's that simple.

## SAFETY PAYS



Builders Mutual's Board of Directors in concert with our management team feel a responsibility to lead Builders Mutual in a manner that allows us to return a dividend to our policyholders. While that may not be possible every year, this year we returned \$1 million. In March, dividend checks were distributed to more than 6,600 eligible WorkSafe policyholders. We're proud to consistently put money back in your pockets 23 of 27 eligible years.

**"OUR POLICYHOLDERS HAVE ENDURED THIS ECONOMIC DOWNTURN BUT HAVE MANAGED TO KEEP THEIR JOBSITES AND WORKPLACES SAFE. IT IS THE MUTUAL EFFORTS OF OUR POLICYHOLDERS AND BUILDERS MUTUAL THAT MAKE THIS DIVIDEND POSSIBLE."**

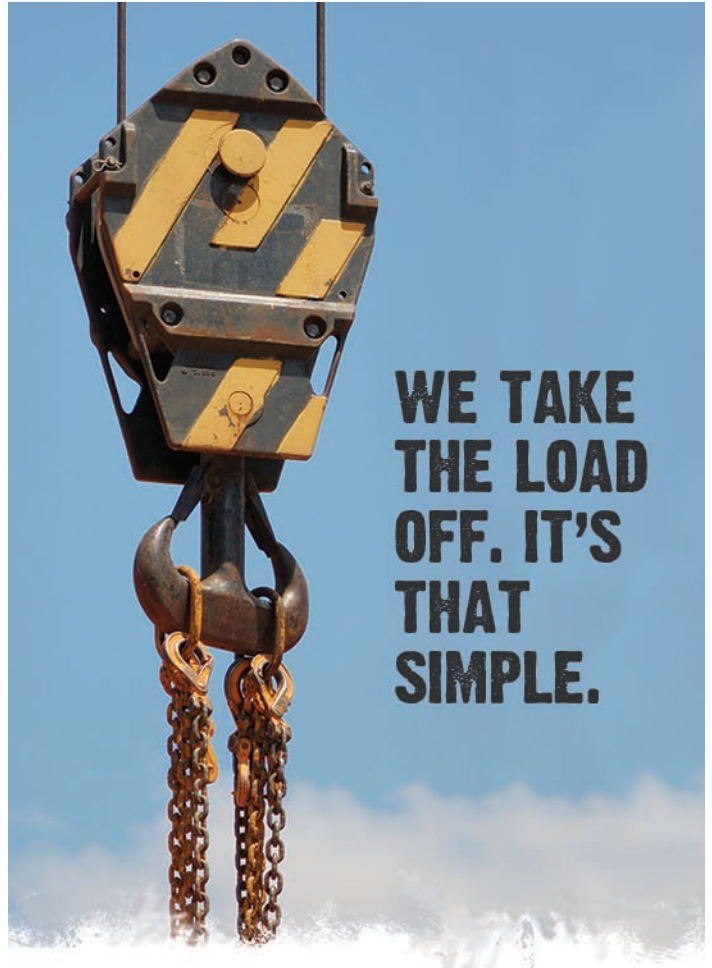
—John Boggs, President/CEO

# KEEPING IT SIMPLE

In 2011, Builders Mutual launched a new campaign focused on keeping construction insurance simple for our policyholders and agents. To make Builders Mutual even easier to do business with, we began a journey towards simplifying policy processing and servicing accounts. Moving all lines of business onto one policy processing system means that all policy information is in one place, allowing for streamlined processes and faster servicing.

Builders Mutual agents applauded the migration of WorkSafe and Builders Best products together on one common platform. The result—BOB 2.0—our enhanced Builders Online Business agency portal where agents can rate, quote and issue all lines of business with ease. Nearly 40% of all new policies are being issued online, resulting in a completely paperless submission process for small to medium sized accounts.

Now, Builders Mutual is gearing up to deliver a series of self-service capabilities for policyholders. [Buildersmutual.com](http://Buildersmutual.com) has a solid reputation for its helpful resources on risk management, audit preparation, and tips to protect your business and your bottom line. Soon, customers will be able to view toolbox talk videos from a desktop, tablet or mobile device, making it even easier to educate your workers on jobsite safety. Plans are also in place to design and develop a policyholder portal where Builders Mutual customers can review their policies and pay bills online. BMIC leadership is committed to delivering these capabilities to customers in the coming years. [Follow BMIC on Facebook](#) to stay up to date on the latest BMIC company news.



**WE TAKE  
THE LOAD  
OFF. IT'S  
THAT  
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, 2011. The financial statements are presented in accordance with statutory accounting principles as required by the North Carolina Department of Insurance.

While there are positive signs the economy is slowly improving, we continue to experience challenges with higher unemployment rates, the continued residential housing downturn, and the soft insurance market. Despite these challenges, Builders Mutual is pleased to report that direct premium written grew by \$27.9 million or 26.5% in 2011. Builders Mutual is reporting a \$5.3 million profit in 2011 overcoming a \$8.3 million underwriting loss with \$14.7 million of investment income. A \$1.0 million policyholder dividend has been paid to eligible workers' compensation policyholders. Even through these 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 \$15.4 million, or 3.2% to \$490.3 million. Bonds and common stock increased during the year by \$3.3 million due to new investments and changes in market values. Cash and short-term investments increased \$1.1 million from additional premiums collected compared to the prior year. Premium balances receivable increased \$8.5 million due to the growth in premium. Other assets increased \$2.4 million from additional deferred tax assets and reinsurance receivables. Total investments represent 87% of the Company's admitted assets. We continue to invest heavily in fixed income securities, which are \$381.0 million of invested assets.

### LIABILITIES

Liabilities increased by \$12.6 million, or 4.6% in 2011. Unpaid loss and loss adjustment expense reserves increased \$6.0 million this year from exposure growth. The Company did recognize \$9.8 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 \$8.5 million due to increased written premiums. Other liabilities decreased \$1.9 million from other insurance operations. Included in the 2011 liabilities is a dividend payable totaling \$1.0 million which has been paid to our policyholders.

### POLICYHOLDERS SURPLUS

Policyholders surplus grew \$2.8 million in 2011, to \$203.7 million. This surplus growth was from net income of \$5.3 million and \$2.4 million of changes in net deferred income tax. Current year surplus was reduced by \$2.0 million for non-admitted assets and a \$2.2 million adjustment for prior year reported federal income tax. The Company's 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

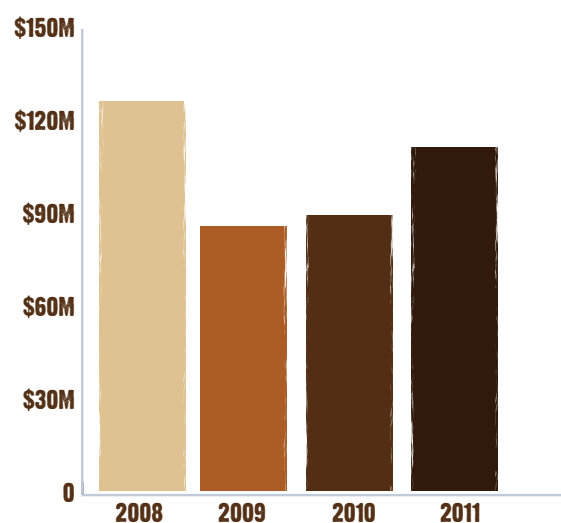
The Company is reporting net income of \$5.3 million for 2011. Net premiums earned increased by \$22.0 million, or 24.8% during the year due to increased commercial construction business and growth in expansion states. Workers' compensation premiums represent 67% of total premiums compared to 65% in 2010. Our focus is to provide a high quality insurance product at a fair price to the policyholder without sacrificing the underwriting discipline necessary to grow revenue.

Losses and LAE incurred increased in 2011 by \$21.5 million. The loss ratio increased to 69.9% for the current calendar year compared to 63.0% reported in 2010. Current year premium growth and the accompanying increased exposures to losses in the current accident year caused this rise in the loss ratio. We have seen a slight increase in the frequency of claims however we continue to see favorable loss experience on older accident years.

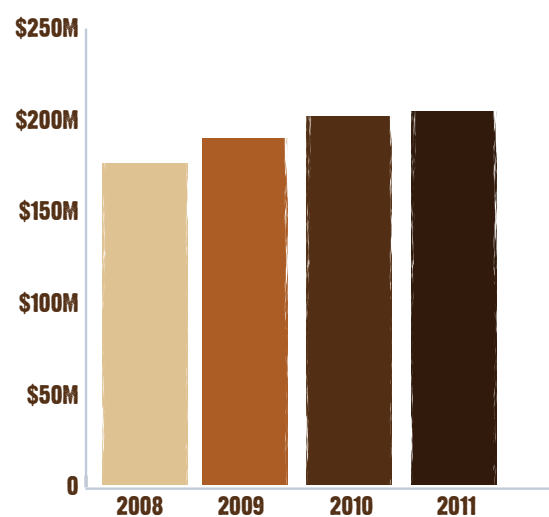
Underwriting expenses increased by \$5.2 million compared to the prior year. Premium related expenses increased in the current year from the growth in written premium. Total operating expenses incurred are \$41.7 million for 2011 compared to \$36.4 million in 2010 which is a 14.6% increase. However a 29.4% increase in net premiums written in 2011 helped lower the expense ratio to 34.9% compared to 39.5% in 2010.

Net investment income decreased slightly in 2011 as the Company utilized some of the cash from investment income to supplement current year operations and from a decline in interest rates. Sales of investments generated realized capital gains of \$2.4 million compared to \$2.2 million of realized capital gains in the prior year.

## PREMIUMS EARNED



## POLICYHOLDERS SURPLUS



# FINANCIAL SUMMARY

## BALANCE SHEET

All figures represented in thousands (,000).

	2011	2010
<b>ASSETS</b>		
Bonds	\$380,596	\$376,898
Common and preferred stocks	\$34,653	\$35,046
Cash and short-term investments	\$10,015	\$8,922
Premium balances	\$32,426	\$23,880
Other assets	\$32,647	\$30,216
<b>Total Assets</b>	<b>\$490,337</b>	<b>\$474,962</b>
<b>LIABILITIES AND POLICYHOLDERS SURPLUS</b>		
Unpaid losses and loss adjustment expenses	\$228,845	\$222,848
Unearned premiums	\$30,924	\$22,430
Other liabilities	\$26,861	\$28,767
<b>Total Liabilities</b>	<b>\$286,630</b>	<b>\$274,045</b>
<b>Total Policyholders Surplus</b>	<b>\$203,707</b>	<b>\$200,917</b>
<b>Total Liabilities and Policyholders Surplus</b>	<b>\$490,337</b>	<b>\$474,962</b>

## PROFITABILITY ANALYSIS RATIOS

	2011	2010	CHANGE
<b>Loss Ratio</b>	69.9%	63.0%	6.9%
<b>Expense Ratio</b>	34.9%	39.5%	-4.6%
<b>Dividend Ratio</b>	0.9%	1.8%	-0.9%
<b>Combined Ratio</b>	105.7%	104.2%	1.5%
<b>Operating Ratio</b>	92.4%	86.7%	5.7%

## STATEMENT OF INCOME

All figures represented in thousands (,000).

	2011	2010
<b>UNDERWRITING INCOME</b>		
Premiums earned	\$110,975	\$88,937
Losses and LAE incurred	\$77,573	\$56,037
Underwriting expenses	\$41,653	\$36,423
Underwriting (loss)	\$(8,251)	\$(3,523)
<b>INVESTMENT INCOME</b>		
Investment income, net of interest expense	\$14,674	\$15,578
Realized capital gains	\$2,400	\$2,167
Other expenses	\$1,186	\$1,359
Income before income taxes	\$7,637	\$12,863
Policyholder dividends	\$1,000	\$1,575
Federal income tax expense / (benefit)	\$1,304	\$(1,766)
Net Income	\$5,333	\$13,054
<b>CHANGES IN POLICYHOLDERS SURPLUS</b>		
Unassigned surplus, beginning of year	\$200,917	\$197,062
Net income	\$5,333	\$13,054
Net unrealized capital (losses) / gains	\$(685)	\$2,639
Change in net deferred income tax	\$2,383	\$307
Change in non-admitted assets	\$(2,027)	\$(4,151)
Change in surplus notes	\$—	\$(8,000)
Change in provision for reinsurance	\$(45)	\$6
Adjustment for income tax	\$(2,169)	\$—
<b>Unassigned Surplus, End of Year</b>	<b>\$203,707</b>	<b>\$200,917</b>

# 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) Gary Hill, Bill Daleure, Dave Stormont, Rick Judson, Hershel Redding, Erik Anderson, Dave McDonald, Buddy Hughes, David Creech, Andy Betts, Don Betsworth.

**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

**Andy Betts**

Retired Accountant  
Raleigh, NC

**David Creech**

Creech Construction Co., Inc.  
Raleigh, NC

**Bill Daleure**

Avant-Garde Real Estate Consulting, LLC  
Charlotte, NC

**Gary Hill**

Tradition Homes  
Greensboro, 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

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Assistant Vice President/Controller

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**Ross Fowler, CPCU**

Assistant Vice President of Underwriting

**Jerry Visintine, FCAS, MAAA**

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