

# STRATEGIC MOVES

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## 2010 ANNUAL REPORT





## LETTER FROM THE CHAIRMAN OF THE BOARD AND THE PRESIDENT & CEO

**S**trategic Evolution describes 2010 for Builders Insurance Group. Like a game of chess, our focus has been setting strategic goals and creating the infrastructure required to meet those goals. Strategically focused thinking, beyond immediate tactics, has been a key driver in the success of our Company.

With the housing slump and negative economy creating uncertainty for all, it would be easy to react by retreating instead of advancing, such as cutting back on services and pulling back from markets. On the contrary, Builders Insurance Group acted in a proactive manner by taking careful, well conceived steps to expand and diversify our business.

In 2010, we launched several important initiatives to expand our market into new states. We successfully introduced General Liability (GL) in Indiana and Colorado. We expanded Workers' Compensation (WC) for non-construction to North Carolina and began writing WC for construction in Maryland.

These actions further stabilize and strengthen our Company, making us a more diverse entity, better able to meet our current and future obligations. By diversifying our risk geographically, we are less vulnerable to regional market fluctuations.

Beyond a larger footprint, we further diversified our product line by introducing our Commercial Package Policy (CPP). Our comprehensive CPP product encompasses Property, GL, Inland Marine and Crime in one flexible, integrated policy. Add our WC policy and our policyholders can conveniently protect their businesses with a trusted partner, Builders Insurance Group.

While these are still new initiatives, our results confirm a very positive story already. Direct Written Premium for the year 2010 was \$94.6 million, up 43 percent from 2009. Our policy counts increased 11 percent and new business premium grew by 51 percent over the previous year. We concluded the year with \$155.4 million in policyholder surplus, an increase of \$17.2 million.

Our plan is to continue to work with businesses that share our commitment to excellence and long term partnerships. We've rewarded our policyholders with exceptional coverage and competitive prices. More tangibly, qualified Georgia policyholders will receive a \$1.5 million dividend payment to be made in 2011.

### BOARD OF DIRECTORS

Chris Bowles  
Charlie Eison  
Fred Fisher  
Gene Hill  
David Jasmund  
Patrick Mitchell  
Jerry Kopp  
Allen Richardson  
Bill Schwanebeck

### SENIOR EXECUTIVE OFFICERS

Patrick Mitchell: President & Chief Executive Officer  
Owen Dwoskin: Senior Vice President, Chief Financial Officer & Treasurer  
Craig Edwards: Senior Vice President, General Counsel & Secretary  
Bob Korsan: Vice President, Underwriting  
Tom Maupin: Senior Vice President, Marketing  
Linda McMurray: Vice President, Claims & Medical Management

Like a demanding chess match, the game can change at any moment and we always need to be prepared. So, while we appreciate our achievements, we continue to anticipate challenges in the market and the moves of our competitors.

In 2011, we're poised for expansion into Kentucky and other states where we see significant growth opportunities within the home building community. We are closely examining additional complementary lines to enhance our suite of offerings starting with an Umbrella product slated for introduction later this year. In addition, we will continue deploying technology solutions that save time and money and make it easier to do business with Builders Insurance Group.

Builders Insurance Group and our loyal partners have much to look forward to in 2011 and beyond. As the economy begins to show signs of a recovery, we are excited and well positioned to take advantage of new business opportunities and to be the best possible partner to our agents, policyholders and employees.

Thank you for entrusting us with your most valuable assets – your people and property.

*Allen Richardson*

Allen Richardson  
Chairman



*Patrick J. Mitchell*

Patrick Mitchell  
President & CEO



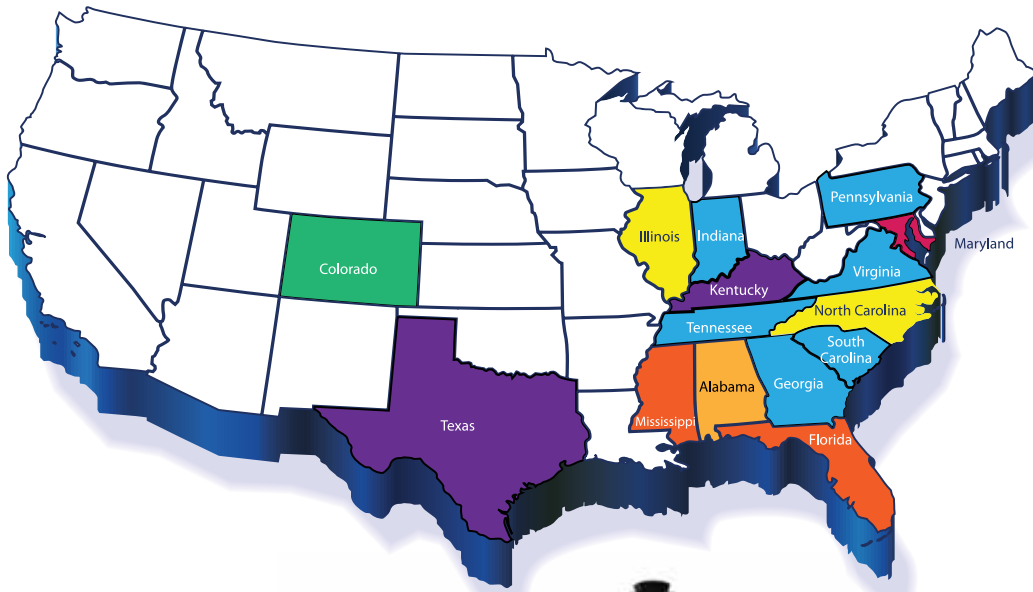


## 2010 ACHIEVEMENTS & HIGHLIGHTS

- Builders Insurance Group declared its 15th consecutive Dividend payment to be paid in 2011 to qualified Georgia policyholders, bringing the total amount of Dividends paid to \$45 million.
- General Liability introduced to new states, Indiana and Colorado.
- Workers' Compensation program launched in Maryland.
- General Liability for Trade Contractors made available in Tennessee and Texas.
- New product Commercial Package Policy launched in Texas, Pennsylvania and Virginia.
- Agency Upload capabilities enabled for agents in all states in which we write WC and GL.



## PRODUCTS & TERRITORY



- Workers' Compensation  
General Liability  
Property
- Workers' Compensation  
General Liability
- General Liability  
Property
- Workers' Compensation
- General Liability
- Incidental States
- Non-Construction  
Workers' Compensation





## FINANCIAL POSITION AS OF DECEMBER 31, 2010

The information below is a condensed version of the audited financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP). Expanded audited GAAP and Statutory financial statements, including accompanying notes, are available upon request.

Balance Sheet (\$000)	2010	2009
<b>Assets</b>	<b>Audited</b>	<b>Audited</b>
Cash & invested assets	\$409,253	\$387,223
Reinsurance recoverables	39,884	37,910
Receivables	36,781	35,116
Tax assets	7,646	17,594
Other assets	13,788	15,278
Total assets	\$507,352	\$493,121
<b>Liabilities &amp; Members' Equity</b>		
<b>Liabilities</b>		
Loss & loss adjustment expenses	\$226,710	\$226,673
Unearned premiums	47,239	45,622
Policyholder dividends payable	2,131	764
Other payables	37,476	40,888
Notes payable	46,400	48,275
Other liabilities	62	230
Total liabilities	360,018	362,452
<b>Members' Equity</b>		
Paid-in capital	200	200
Retained earnings	130,650	115,050
Accumulated other comprehensive income	16,484	15,419
Total members' equity	147,334	130,669
Total liabilities & members' equity	\$507,352	\$493,121

### ASSETS

Total assets were \$507.4 million and \$493.1 million at December 31, 2010 and 2009, respectively. The change in the asset base includes increases in cash and invested assets, reinsurance recoverable, and receivables of 6%, 5%, and 5%, respectively, and decreases in tax assets and other assets of 57% and 10%, respectively.

### LIABILITIES

Total liabilities were \$360.0 million and \$362.5 million at December 31, 2010 and 2009, respectively. Contributing to the decline in liabilities were decreases in other payables and notes payable of 8% and 4%, respectively.

### MEMBERS' EQUITY

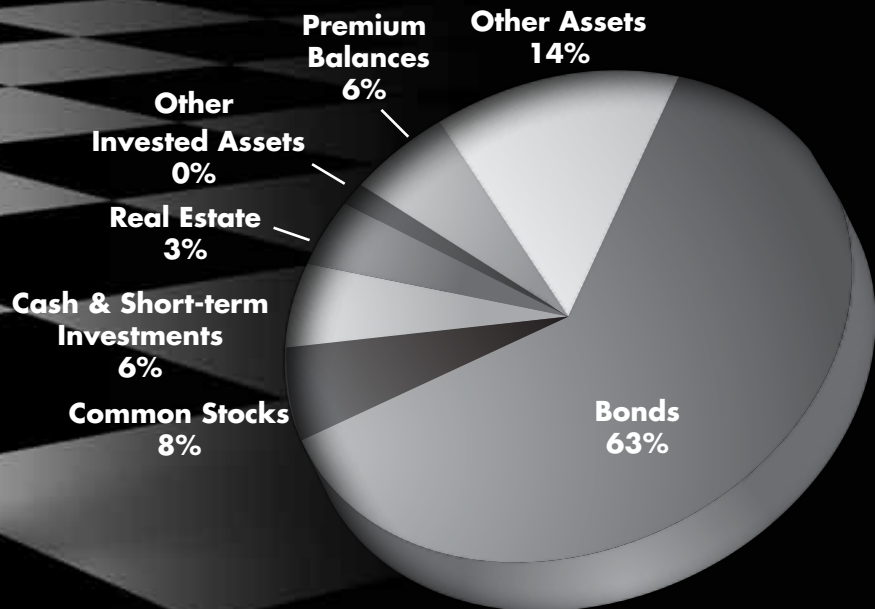
Members' equity increased \$16.7 million, or 13%, to \$147.3 million from December 31, 2009 to December 31, 2010. The change is primarily a reflection of 2010 net income of \$15.6 million.



## RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2010

- Net income (loss) was \$15.6 million and \$(3.0 million) for the years ending December 31, 2010 and 2009, respectively.
- Premium earned in 2010 was \$88.9 million compared to \$72.4 million in 2009. The increase in premium revenues reflects growth in new states, the addition of a commercial package policy offering, and a reduction in returned premium from policy audits.
- Net investment income was \$12.5 million and \$12.8 million for the years ending December 31, 2010 and 2009, respectively.
- Realized and unrealized gains on investment totaled \$12.1 million and \$6.0 million for the years ending December 31, 2010 and 2009, respectively.
- Incurred loss and loss adjustment expenses were \$53.9 million and \$49.7 million for the years ended December 31, 2010 and 2009, respectively.
- Net income (loss) for 2010 and 2009 include impairments and recognized gains (losses) on unsold securities, net of tax, of \$0.7 million and \$(5.6) million, respectively. These 2009 impairments reflected changes in market values on securities recorded during that year that were not expected to recover in value in the short-term and reflected general changes in the stock markets experienced during the first quarter of 2009 and fourth quarter of 2008. Subsequently, the market values of those securities made significant recoveries and contributed to the realized gains on sold securities recognized in 2010.

## ASSET MIX



INVESTED ASSETS:	\$409M
OTHER ASSETS:	\$98M
TOTAL ASSETS:	<u>\$507M</u>



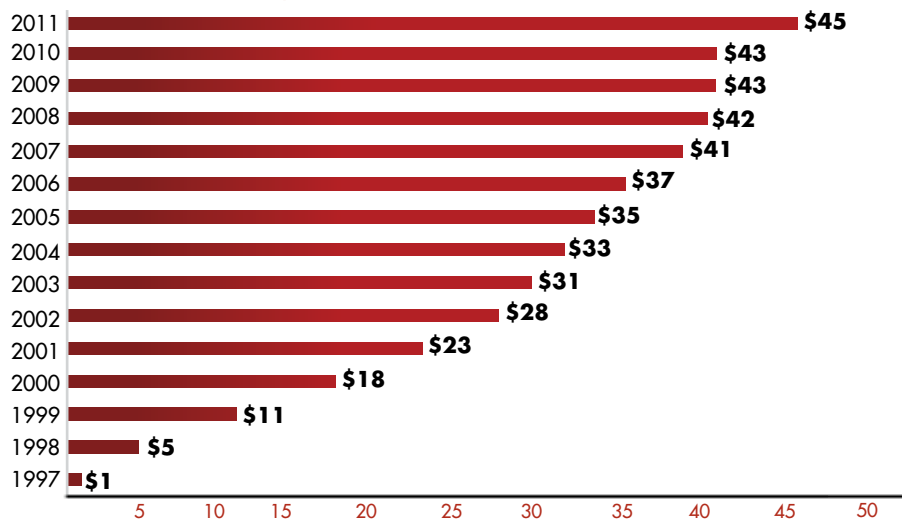
Income Statement (\$'000)	2010	2009
<b>Revenue:</b>	<b>Audited</b>	<b>Audited</b>
Premiums earned, net	\$88,857	\$72,443
Net investment income	12,535	12,813
Realized gains on investments, net	12,139	6,006
Impairment of investments	(297)	(11,903)
Other revenue	550	470
<b>Total revenue</b>	<b>113,784</b>	<b>78,829</b>
<b>Expenses:</b>		
Loss & loss adjustment expenses	53,940	49,699
Selling, general and administrative expense	32,864	33,909
Interest expense	2,047	2,050
Policyholder dividends	2,079	635
<b>Total expenses</b>	<b>90,930</b>	<b>86,293</b>
Income (loss) before income taxes	22,854	(6,464)
Income tax expense (benefit)	7,254	(3,438)
<b>Net income (loss)</b>	<b>\$15,600</b>	<b>\$(3,026)</b>



Select Combined Statutory Financial Highlights, For the twelve-month period and year ended December 31, 2010 (\$'000)

	2010	2009
Direct premium written	\$ 94,564	\$ 66,239
Net premiums earned	\$ 88,857	\$ 72,443
Underwriting income (loss)	\$ 1,195	\$ (10,154)
Combined ratio	97.6%	122.2%
Surplus as regards policyholders	\$ 155,434	\$ 138,247

**Cumulative Policyholder Dividends Paid (In Millions)**





PO Box 723099  
Atlanta, GA 31139

## ABOUT BUILDERS INSURANCE GROUP

Insuring the Foundation of Your Business

More than 13,500 policyholders in residential and light commercial construction as well as a variety of non-construction fields rely on Builders Insurance Group to protect their most important assets – people and property. Over a span of nearly two decades of operation, the Company has evolved into a dynamic, financially secure and dedicated partner with a philosophy of providing outstanding products, backed by exceptional customer service and easy-to-use technology solutions. Headquartered in Atlanta, the Company delivers leading, innovative Workers' Compensation, General Liability and Property insurance through independent insurance agents to customers throughout the Southeastern, Mid-Atlantic and Midwestern states as well as Colorado and Texas. Builders Insurance Group and all of its member companies are rated A- (Excellent) VIII by A.M. Best Company. For more information, please visit our Web site at [www.bldrs.com](http://www.bldrs.com).



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