

# ROAD TO THE FUTURE



## LETTER FROM THE CHAIRMAN &amp; CEO

In our 2007 Annual Report, we discussed how Builders Insurance Group is a company in motion, moving forward by finding the right growth opportunities for ourselves and our partners – agents, policyholders and employees – who are the foundation upon which the success of our company lies.

While we have all been deeply impacted by the economic downturn, which is especially dramatic in the housing market, Builders Insurance Group made the strategic decision not to recoil in tough times. Instead, we have embarked on focused, carefully orchestrated initiatives that will strengthen our company's market position and allow us to better serve our partners in the long term. These actions include expansion into new states, launching new products and implementing technology tools that increase efficiency and cut costs.

These forward-looking actions, combined with our record of financial strength, have enabled us to remain a vital and stable company.

In 2008, we earned \$104.5 million in premium, a very strong number despite a drop of 36 percent from 2007. Our policyholders' surplus, the measure of an insurance

company's financial standing, remains healthy. Even better news – we saw only a relatively small drop in policy counts, a good indication that we insure quality builders and business owners.

We continued our streak of consecutive dividend payments in Georgia. In 2008 we paid \$1.6 million to qualified policyholders and in June of 2009, we made our 13th payment of half a million dollars, bringing the cumulative dividends paid to over \$42.7 million. This is an outstanding track record and another reflection of the strength of our company.

In addition, A.M. Best Company, a leading independent insurance rating organization once again affirmed the A- "Excellent" rating of all member companies of Builders Insurance Group.

Our commitment to our partners and the construction market remain steadfast. At the same time, we are taking the expertise we have acquired over the years to very carefully make inroads to new markets where it makes the most sense. Through new initiatives and careful strategic planning, we will continue to better position Builders Insurance Group and our partners for future success.



Allen Richardson  
Chairman



Patrick Mitchell  
President & CEO

**Builders Insurance Group Senior Executive Officers:**

Patrick Mitchell: President & Chief Executive Officer

Craig Edwards: Senior Vice President, General Counsel & Secretary

Ken Price: Vice President, Information Services



Allen Richardson  
Chairman

## BOARD OF DIRECTORS

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



Patrick Mitchell  
President & CEO



## 2008 TO 2009 HIGHLIGHTS & INITIATIVES

### 2009

- 13th consecutive dividend in Georgia bringing total amount paid to over \$42.7 million.
- Workers' Compensation and General Liability launched in Pennsylvania.
- Non-construction Workers' Compensation introduced in Florida, Pennsylvania, South Carolina, Tennessee and Virginia.
- American Subcontractors Association, Hispanic Contractors Association of Georgia and Remodelers Association of Georgia exclusively endorsed Builders Insurance (A Mutual Captive Company) in Georgia.
- Obtained licenses in Indiana and Texas and began writing General Liability in Texas.

### 2008

- Builders Insurance Group and Homebuilders Association of Georgia (HBAG) entered into a new three-year exclusive endorsement agreement.
- New markets launched: Workers' Compensation and General Liability in Virginia, Workers' Compensation in Maryland, and General Liability in Mississippi.
- Builders LITE launched in Georgia, Florida, Tennessee and Virginia offering Workers' Compensation and General Liability to commercial contractors.
- Workers' Compensation for professional roofers introduced in all states.





**W**hile Builders Insurance Group confronts the downturn in the housing market, our vision remains steadfast. It has been of strategic importance that the Company not take steps backwards in response to challenging economic conditions, but instead adjust quickly and move forward. We have executed this strategy through the expansion of products and territories while at the same time using innovative technology to deliver superior service.

Through very careful, strategic management backed by a strong infrastructure, the Company had many accomplishments in 2008. These achievements help position Builders Insurance Group and our partners for growth in anticipation of improving market conditions.

### PRODUCT EXPANSION

In 2008, we launched two important new products that have served to greatly enhance and diversify our portfolio of offerings. Builders LITE and the Roofers Program are perfect examples of how Builders Insurance Group took our expertise to new market segments that best fit our appetite.

Builders LITE, our Workers' Compensation and General Liability program for light commercial contractors was introduced to all states throughout 2008. We are firmly committed to growing this segment of business through more product offerings and increasingly competitive pricing. To achieve this, we have been diligent in developing a Package Policy, which will launch in early 2010.

The Roofers Program has met with great success, and we are working cooperatively with our agents to carefully vet applications so that we only write the highest quality professional roofers. It has proven to be a positive new revenue-generating opportunity.

The expansion of Online Monthly Self Reporting for Workers' Compensation from Georgia into all states in 2008 made this attractive and flexible payment plan available to more policyholders, empowering them to better manage their cash flow, which is of vital importance during tough economic conditions.

Our General Liability product continues to be well received, especially the discounted GL Warranty program, our unique product that gives builders a significant discount on premium in conjunction with the purchase of a warranty from an approved provider on each new home constructed. There are now six approved warranty companies, expanding the opportunity for more policyholders to take advantage of this money-saving program.

### STATE EXPANSION

In addition to growing our product offerings, we have entered new states where we see the most opportunities. Increasing our footprint is a key element of the Company's commitment to growth through diversifying our premium mix. Entry into new markets also expands the ability for our appointed agents to grow business in neighboring states. We conduct extensive market research before entering new territories with a focus on the development of long-term profitability.

As a result, in 2008, we expanded to Virginia. Market and regulatory conditions made this state a strong fit for our appetite. With an agency plant of 45 locations, we have experienced steady growth, and we anticipate increasing market share as we build our reputation and further enhance our product offerings.

In early 2009, we also entered the Pennsylvania and Texas markets – states that have shown early promise and where we see many new opportunities through a strong network of agents.

## BUILDERS INSURANCE: ROAD TO THE FUTURE

### TECHNOLOGY ENHANCEMENTS

The strategic initiatives that have the most impact on all of our partners is our ongoing technology advancements aimed at cutting costs and increasing the ease with which we conduct business, such as our Online Monthly Self Reporting product, described earlier.

While this is a tangible enhancement that directly impacts our policyholders, we also made strides behind the scenes to substantially increase the efficiency of our operations and drive down costs. One important project has been to better capture, analyze and store information across all departments within the Company. This effort will empower us to better understand our partners so that we can best meet their evolving needs.

### PRODUCT MATRIX

	Workers' Compensation	Non-Construction WC	General Liability	GL Warranty Program	Builders Risk	Builders LITE	Roofers Program
Georgia	✓	✓	✓	✓	✓	✓	✓
Florida	✓	✓	✓	✓		✓	✓
Pennsylvania	✓	✓	✓	✓		✓	✓
South Carolina	✓	✓	✓	✓		✓	✓
Tennessee	✓	✓	✓	✓		✓	✓
Texas			✓	✓		✓	
Virginia	✓	✓	✓	✓		✓	✓



## THE FUTURE

The advances discussed in this year's Annual Report are part of our goal to ensure that Builders Insurance Group provides protection and service to our policyholders while achieving profitable, long term growth.

For agents, we will continue to introduce new products and services, enhancing our competitiveness. Technology will play a pivotal role in enabling us to achieve this by giving agents online tools to eliminate wasteful and cumbersome paper and remove barriers to access vital information any time. In the coming year, we will also launch several new agent capabilities that will enable us to better share information and run all of our businesses more efficiently. All of these improvements will allow agents to serve policyholders faster.

We will continue to expand to new states, including General Liability for Texas in 2009. We are researching new territories throughout the U.S. for expansion at the end of this year and beyond.

For policyholders, we'll closely examine market conditions to ensure we are delivering the products and services to meet their needs and to assure the protection of their most important assets. We will continue to introduce technology tools that make conducting business with us as easy as possible. While we examine markets outside of the construction industry, our commitment to residential and light commercial builders will not waiver.

Through all of this, we are focused on creating continued success by ensuring that we are traveling down the right path with the right tools and the best partners. We believe our partners will experience the benefits of these efforts while also remaining confident that Builders Insurance Group is a strong, vibrant company, dedicated to service and committed to policyholders' protection.

## FINANCIAL POSITION AS OF DECEMBER 31, 2008

The summary consolidated financial statements presented, including Balance Sheet and Income Statement for Builders Insurance (A Mutual Captive Company) and its subsidiaries for the years ended December 31, 2008 and December 31, 2007, are presented in accordance with Generally Accepted Accounting Principles (GAAP).

### ASSETS

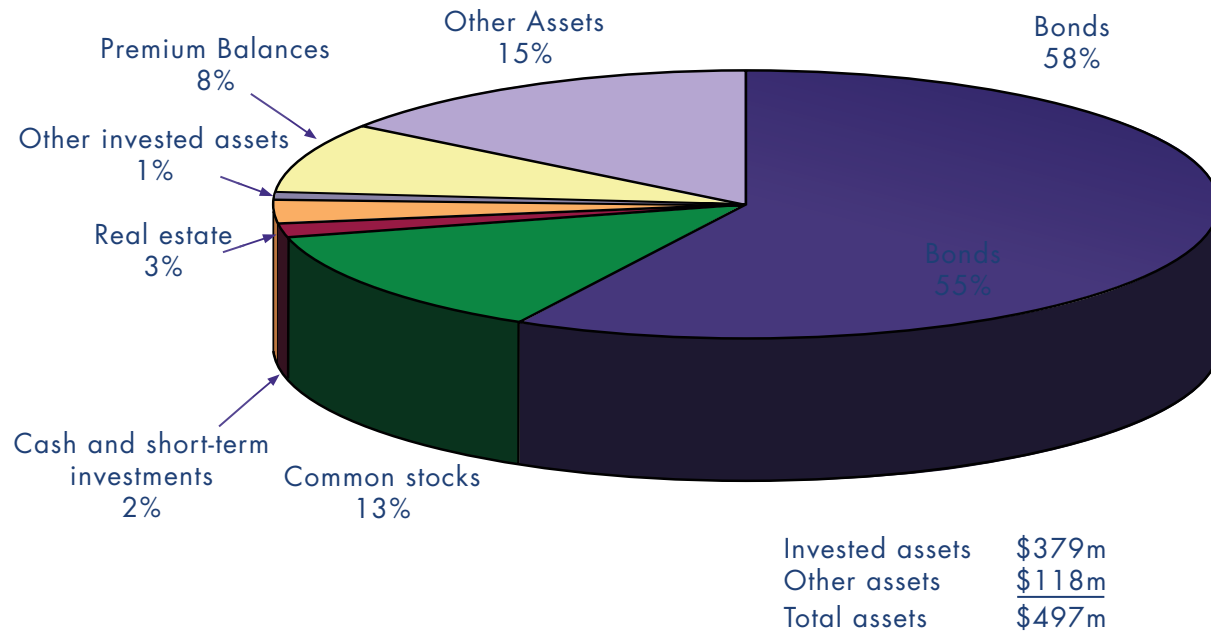
- Total assets were \$497.1 million and \$554.3 million at December 31, 2008 and 2007, respectively. The change in the asset base includes a decline in the market value of investments of \$35.6 million.



Balance Sheet (\$000)	2008	2007
<b>Assets</b>		
Cash & invested assets	\$378,917	\$422,570
Reinsurance recoverables	30,983	27,847
Receivables	47,049	70,724
Tax assets	24,883	13,909
Other assets	15,249	19,281
Total assets	\$497,081	\$554,331
<b>Liabilities &amp; Members' Equity</b>		
<b>Liabilities</b>		
Loss & loss adjustment expenses	\$228,344	\$234,538
Unearned premiums	54,913	71,493
Policyholder dividends payable	946	1,819
Other payables	49,197	59,028
Surplus notes payable	44,330	46,107
Other liabilities	7,114	10,422
Total liabilities	384,844	423,407
<b>Members' Equity</b>		
Paid-in capital	200	200
Retained earnings	118,076	119,184
Accumulated other comprehensive (loss) income	(6,039)	11,540
Total members' equity	112,237	130,924
Total liabilities & members' equity	\$497,081	\$554,331



## ASSET MIX



## LIABILITIES

- Total liabilities were \$384.8 million and \$423.4 million at December 31, 2008 and 2007, respectively. Contributing to the decline in liabilities was a decrease in loss and loss adjustment expense reserves of \$19.7 million and a decrease in unearned premium reserves of \$16.6 million.

## MEMBERS' EQUITY

- Members' equity was \$112.2 million and \$130.9 million at December 31, 2008 and 2007, respectively. Net income before unrealized impairments of investments for 2008 of \$5.4 million and decreases in changes in unrealized gains (losses) on the equity investment portfolio, net of tax, were the largest contributors to the change in members' equity.

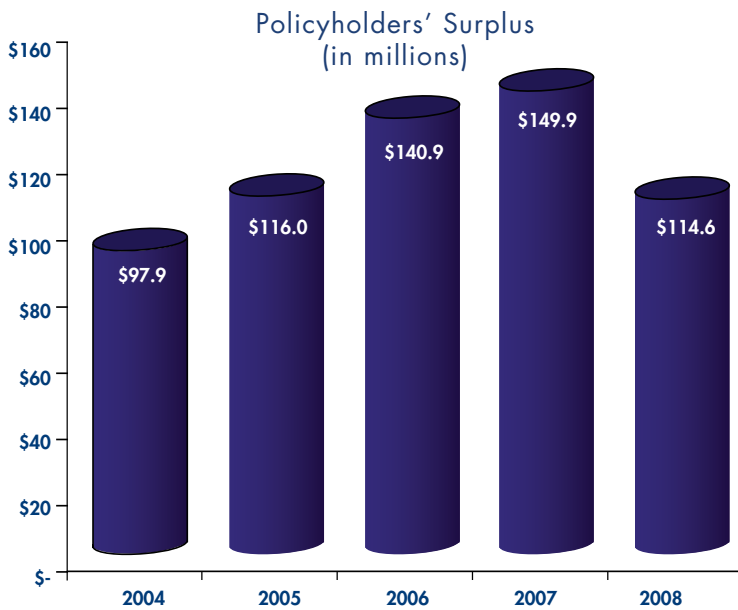
## FINANCIAL POSITION AS OF DECEMBER 31, 2008

- Net income before unrealized impairments of investments for the period was \$5.4 million and \$12.2 million for the years ending December 31, 2008 and 2007, respectively.
- Premium earned in 2008 was \$104.5 million compared to \$164.8 million in 2007. Declines in payroll exposures are the primary contributors of the overall decline in premium revenues, reflecting deteriorating economic conditions in the homebuilding industry.
- Net investment income increased 12% or \$1.6 million in 2008 over 2007 due to a change in investment strategy to dividend paying stocks and a shift from non-taxable bonds to taxable. Realized and unrealized losses on investments include \$0.5 million losses on sold securities and \$1.9 million losses on unsold securities.
- Losses incurred, as a percentage of earned premium, decreased from 60.5% in 2007 to 58.3% in 2008. The primary driver for the decrease in the loss ratio is the favorable development in prior accident years.
- Operating and administrative expenses declined by \$17.2 million or 27% from the prior year due to a change in expenses related to the decline in premium volume.
- Net (loss) income for the period includes impairments on unsold securities, net of tax, of \$6.9 million recorded during the year. These impairments reflect changes in market values on securities recorded during the year and reflect general changes in the stock markets experienced during the fourth quarter of 2008.

Income Statement (\$000)	2008	2007
<b>Revenue:</b>	<b>Audited</b>	<b>Audited</b>
Premiums earned, net	\$104,548	\$164,815
Net investment income	15,698	14,052
Realized & unrealized (losses) gains on investments, net	(2,378)	4,656
Other revenue	446	1,429
Total revenue	<u>118,314</u>	<u>184,952</u>
<b>Expenses:</b>		
Loss & loss adjustment expenses	60,917	99,740
Operating & administrative expenses	47,674	64,907
Interest expense & change in fair value of interest rate swap	2,235	2,799
Policyholder dividends	989	1,873
Total expenses	<u>111,815</u>	<u>169,319</u>
Income before income taxes & unrealized impairment of investments	6,499	15,633
Income tax expense	1,098	3,460
<b>Net income before unrealized impairment of investments</b>	<b>5,401</b>	<b>12,173</b>
Unrealized impairment of investments, net of tax	(6,908)	(594)
Net (loss) income	<u>\$ (1,507)</u>	<u>\$ 11,579</u>



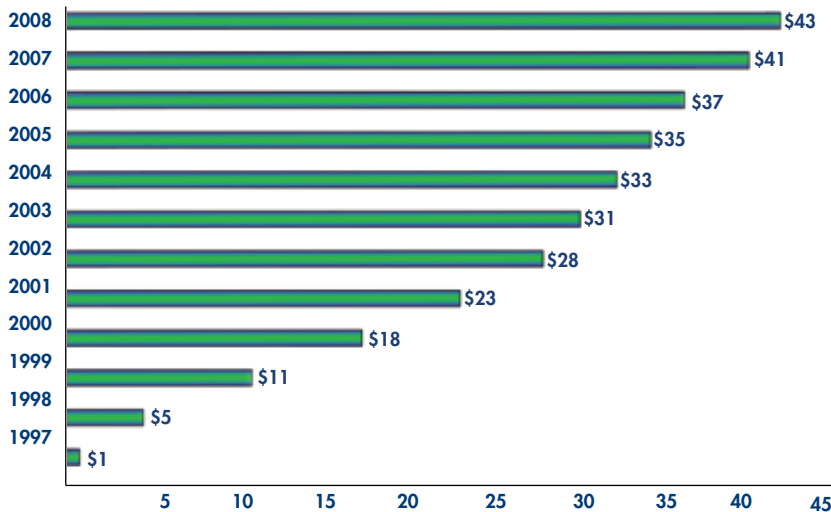
Select Combined Statutory Financial Highlights for the twelve-month period and year ended December 31



	2008	2007
Direct premium written	\$ 92,827,386	\$161,123,811
Net premiums earned	\$104,548,516	\$164,815,132
Underwriting income	\$ 248,002	\$ 5,711,700
Combined ratio	110.3%	101.5%
Surplus as regards policyholders	\$114,607,537	\$149,926,132

Statutory Financial highlights are prepared in accordance with statutory accounting principles as required by the Georgia Department of Insurance.

Cumulative Policyholder Dividends Paid (millions)



Direct Written Premium by Product Line (in millions)





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## ABOUT BUILDERS INSURANCE GROUP

With more than 17 years of service, Builders Insurance Group has become the largest Workers' Compensation underwriter domiciled in Georgia and a leading provider of General Liability insurance throughout the Southeast. Builders Insurance Group works through a network of local, independent insurance agents to deliver insurance products tailored to the needs of the residential and light construction building community as well as a wide variety of non-construction entities.

Headquartered in Atlanta, Georgia, the Builders Insurance Group companies administer coverage to approximately 11,800 policyholders and are rated A- (Excellent) VIII by A.M. Best Company. Builders Insurance Group has three member insurance companies, Builders Insurance (A Mutual Captive Company), Association Insurance Company and Vinings Insurance Company. For more information, please visit our Web site at [www.bldrs.com](http://www.bldrs.com).



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