

Imagine a huge pit in the middle of an empty field. There are no warning signs, fences or guardrails around it. By itself, the pit is a hazard. Add people to the mix, and you have a full-blown exposure. **The Stories in the Numbers**

By learning to recognize hazards and exposures, Jarrod Daniel transformed his company's safety record, reduced his workers' compensation costs, and earned dividends from Texas Mutual.

Texas Mutual Insurance Company Jarrod is chief executive officer of The Daniel Group, a Houston-based staffing agency launched by him and his father, Bill. Jarrod and Bill have a combined 30 years of experience providing permanent and temporary staffing, human resources and payroll services. In 1998, Jarrod took the company for its compensation.

"I was young and aggressive, and I thought I'd get into the light-industrial field," said Jarrod. "We hired labor for warehouse, assembly lines and other areas. We quickly found out we didn't know what the heck we were doing."

Back strains, cuts, eye injuries, and slips, trips and falls are common in the light-industrial environment. Jarrod assumed his clients were teaching employees about the hazards. His safety record indicated otherwise. **2010 Annual Report**

"I know sales, not safety," said Jarrod. "We had to get a handle on our losses, or we could have found ourselves out of business."



An annual report includes a collection of numbers that reflect a company's financial results and ability to keep its commitments. This report shows that Texas Mutual Insurance Company is financially strong and prepared to fulfill its mission long into the future. More important than the financial information, however, are the stories in the numbers.

These pages tell the stories of Texans who count on us to treat workers with care, help their businesses grow and promote workplace safety.



Anita Kelly
Texas Mutual
case manager

Contents

Letter From the Chairman and the President	2
Board of Directors	4
Financial Highlights	6
Company Snapshot	7
Treating Workers With Care	8
Helping Businesses Grow	10
Promoting Workplace Safety	12
Senior Leadership and Agent Advisory Council	14

Managing Uncertainty With Strength

Where we are

This is a good time to be an employer in the Texas workers' compensation system. Intense competition among carriers is driving prices down, and more employers are making workers' compensation insurance part of their employee benefits package.

A study released by the Texas Department of Insurance (TDI) in 2010 indicated that the percentage of nonsubscribers to the workers' compensation system has reached its lowest rate since TDI began reporting nonsubscription in 1993.

More importantly, the percentage of employees who work for nonsubscribers decreased 8 percent between 2008 and 2010. That means more injured workers will benefit from the medical and financial security afforded by workers' compensation coverage.

An increasing number of employers who carry workers' compensation choose to purchase their policy from Texas Mutual Insurance Company. Despite intense competition, our market share grew in 2010. We wrote \$609 million in premiums, providing coverage for 49,000 Texas employers and their employees.

Texas Mutual is committed to sharing its success with policyholders when financial conditions allow. In 2010, approximately 38,000 safety-conscious policyholders earned a share of our \$100 million individual policyholder dividend plan. Many earned additional dividends as members of group discount programs. Since 1999, Texas Mutual has pumped \$858 million in dividends into the Texas economy.

These financial results are a direct reflection of our management and staff's singular focus on delivering superior service despite market conditions. Thanks to their hard work and commitment, Texas Mutual was named a high-performing carrier by the Texas Department of Insurance, Division of Workers' Compensation in 2010, and we enter 2011 financially stronger than ever.



Bob Barnes
Chairman

Where we are going

It makes good business sense to try to predict market conditions in the future. Unfortunately, 2011 will be marked by continued uncertainty.

Interest rates are at historic lows, and nobody knows how long the economic slowdown will impact employers' payrolls. Clouding the picture further is national health care reform, as there are no reliable estimates of its effect on all medical costs, including workers' compensation.

Some carriers may reduce their services in response to market uncertainty. Others may abandon Texas altogether.

Texas Mutual, conversely, has the financial strength to manage uncertainty, and we are committed to doing so for our current and future policyholders.

Our strong financial position empowers us to deliver competitive, responsible pricing. It frees us up to pay dividends to policyholders who share our commitment to workplace safety. Most importantly, our financial strength ensures we will be here for Texans regardless of economic or market fluctuations. That is our mission, and that is what drives everything we do.

On behalf of our board of directors, management and staff, thank you for making Texas Mutual the state's leading provider of workers' compensation insurance. We value your partnership, and we look forward to many more years of mutual success.



Bob Barnes
Chairman



Ron Wright
President



Ron Wright
President

Board of Directors



Our board members represent a diverse mix of Texas industries and regions. They bring a wealth of experience and perspective, and they understand that our mission is unique in today's market.

The Governor, with the advice and consent of the Texas Senate, appoints five of the nine directors, including the chair. Policyholders elect the other four directors.

Back row (left to right):

George Wesch Jr. San Antonio • **Eric Oliver** Abilene • **Bernie Francis** Carrollton
Bob Barnes Chair, Granbury • **Linda Foster-Smith** Secretary, Georgetown
Richard A. Cooper Lubbock • **Jay Eisen** Beaumont

Front row (left to right):

Delia Reyes Vice Chair, Dallas • **Judy Broussard** Levelland

Bob Barnes, appointed

Mr. Barnes, of Granbury, Texas, is chairman of Texas Mutual Insurance Company's Board of Directors; he was appointed to the board in 2007. He currently owns Vision Asset Mgm't Ltd, Multi Concepts Ltd and was partner, president and CEO of Schlotzsky's Deli, a multinational restaurant chain. He serves on the Board of Directors of the Texas Restaurant Association and is a former state president. He is former chairman of the Midland-Odessa Transportation Alliance and the Texas Motor Vehicle Board, and was a founding member of the University of Texas of the Permian Basin Development Board.

Judy Broussard, elected

Mrs. Broussard, of Levelland, Texas, was appointed to Texas Mutual Insurance Company's Board of Directors in 2001. In 2002, she became an elected board member. She recently retired from Texas-based Sundown State Bank after a 16-year career there. She is past president of the Sundown Chamber of Commerce and is a former member of the Hockley County Appraisal Review Board. Mrs. Broussard served on the Texas Board of Examiners of Licensed Professional Counselors. She is co-chair of the Levelland Covenant Hospital Board of Directors.

Richard Cooper, appointed

Mr. Cooper, of Lubbock, Texas, was appointed to Texas Mutual Insurance Company's Board of Directors in 1996. He has been president of Lubbock-based National Travel Systems since 1993.

Jay Eisen, appointed

Mr. Eisen, of Beaumont, Texas, was appointed to Texas Mutual Insurance Company's Board of Directors in 2008. Mr. Eisen is a longtime Texas Mutual policyholder. He is president of Sampson Steel Corp. in Beaumont. Mr. Eisen is a member of the Political Advisory Committee for the Texas Association of Business, a former member of the association's statewide board and former chairman of the association's Southeast Chapter.

Linda Foster-Smith, appointed

Mrs. Foster-Smith, of Georgetown, Texas, is secretary of Texas Mutual Insurance Company's Board of Directors; she was appointed to the board in 2008. She is retired from AT&T, where she served for 37 years, the last 15 years as director of external affairs for the Permian Basin. Mrs. Foster-Smith is a former member of the Board of Trustees for the Midland Independent School District, a former member and chairwoman of the Midland Chamber of Commerce, and former board chairwoman and campaign chairwoman for the United Way of Midland. She is former board secretary for the Permian Basin Community Center and past board president of the Midland Independent School District's Educational Foundation.

Bernie Francis, elected

Mr. Francis, of Carrollton, Texas, was elected to Texas Mutual Insurance Company's Board of Directors in 2009. He is owner and CEO of Addison-based Business Control Systems LP and Dallas-based First Class Caregivers Inc. He is a member of the board of Senior Quality Lifestyles Corp. and of Workforce Solutions for North Central Texas. Mr. Francis serves on the Executive Committee of the Governor's Business Council. He is immediate past chairman of the Texas State University System Board of Regents and former chairman of the Texas State Technical College Board of Regents. He served three terms on the Carrollton City Council in the 1990s.

Eric Oliver, elected

Mr. Oliver, of Abilene, Texas, was elected to Texas Mutual Insurance Company's Board of Directors in 2009. He is founder and president of Softvest LP in Abilene; president of Midland Map Co. LLC in Midland; founder and principal of TenTex Music LLC in Nashville; founder and principal of Geologic Research Centers LLC, with libraries in Abilene and Midland; and founder and owner of Caprock Title Co. in Midland. He is chairman of Midland-based AMEN Properties Inc., and he serves on the board of ACIMCO, Abilene Christian University's endowment management company. He is a former member of the Abilene Community Foundation's investment committee.

Delia Reyes, appointed

Mrs. Reyes, of Dallas, Texas, is vice chair of Texas Mutual Insurance Company's Board of Directors; she was appointed to the board in 2005. She is the first and only woman to have chaired the United States Hispanic Chamber of Commerce, and she is among only a dozen Hispanic women in the country to have served on the board of a Fortune 500 company. She has been president and CEO of Reyes Consulting Corp. since 1992, and she is CEO of Adrian Information Strategies, a subsidiary of Reyes Consulting. She is a former member of the Board of Regents for Texas Woman's University. She is a director of the Community Advisory Board of the Dallas Independent School District, the Cuban American National Council and the Parkland Hospital Foundation, and she is immediate past chair of the Community Council of Greater Dallas.

George Wesch Jr., elected

Mr. Wesch, of San Antonio, Texas, was appointed to Texas Mutual Insurance Company's Board of Directors in 1996. In 2007, he became an elected board member. He has been CEO of Mission City Container Inc. in San Antonio for nearly 30 years. Mr. Wesch is a member of, and has previously served on the boards of, the San Antonio Manufacturers Association and the Rotary Club of San Antonio. He is also a member and past president of the San Antonio Executives Association, and former board member of the Bandera Independent School District and Bandera Fresh Water District #1. Mr. Wesch serves as an elder at Concordia Lutheran Church in San Antonio.

Financial Highlights

For the year ended December 31, 2010

(in thousands)

Gross premiums written	\$609,186
Gross premiums earned	\$630,285
Net premiums earned	\$623,063
Net investment income	\$238,848
Claim benefits paid and incurred	\$381,327
Underwriting expense	\$168,736
Dividends to policyholders	\$115,974
Provision for uncollectible premiums	\$1,443
Other expense	(\$38)
Net income	\$194,468

At December 31, 2010

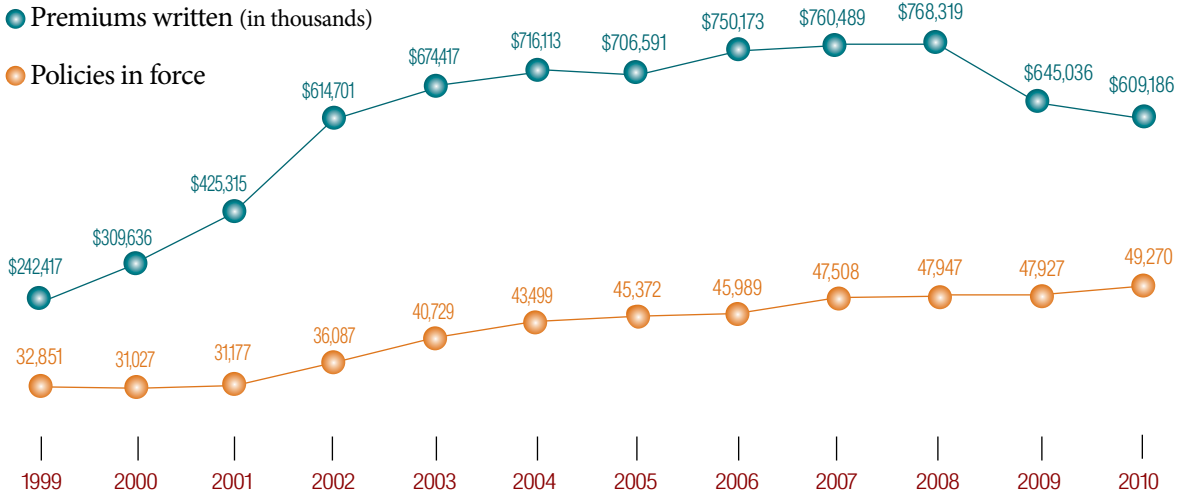
(in thousands, except number of policies in force)

Admitted assets	\$4,720,887
Liabilities	\$3,110,708
Policyholders' surplus	\$1,610,179
Number of policies in force	49,270

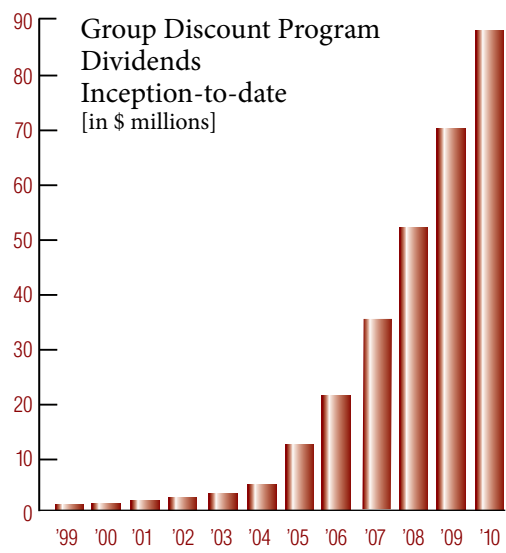
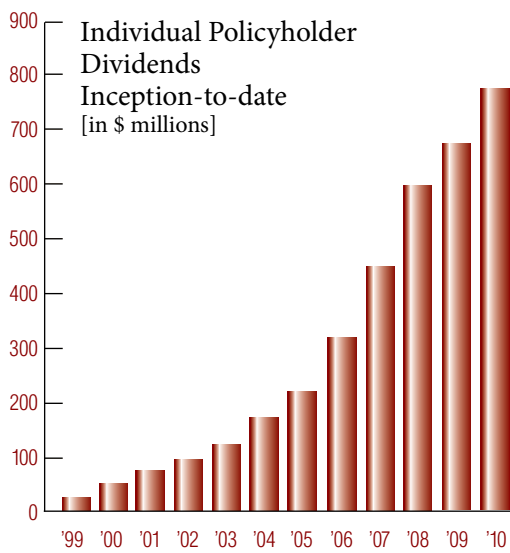
Key indicators, year ended December 31, 2010

Incurred loss ratio	61.2%
Statutory combined ratio	89.5%
Combined ratio including dividends	108.7%
Premiums written to surplus ratio	0.38:1

Key Indicators



Dividends Paid



Treating Workers With Care

Tammy Peterson started working with horses when she was eight years old. After a brief diversion in the furniture business, she landed a position four years ago as estate manager at a horse farm outside Austin.

One summer afternoon, Tammy was showing a group of trainers how to properly wrap a horse's legs for support. Suddenly, the 1,300-pound animal kicked.

"I've wrapped thousands of horses' legs," said Tammy. "In fact, I've wrapped that particular horse's legs a hundred times, and I've never had a problem. Something spooked her, but there was no warning. That's unusual."

The force of the kick sent Tammy's head into a cement wall. She was rushed to a minor emergency clinic, and she began seeing a host of doctors soon afterward. Unfortunately, her progress was slow.

Plagued by panic attacks, slow speech, depression and unreliable balance, Tammy began working with Anita Kelly, a Texas Mutual case manager. Anita is a registered nurse who specializes in helping injured workers get quality care and return to productive employment.

"Anita has such a good attitude," said Tammy. "If I was having a down day, she gave me hope. She told me about other injured workers who were in my position and got through it. If I tried to do more than I could, she told me to slow down and let my body catch up."

Horse training is physically and mentally demanding work. With her body on the mend, Tammy's doctor did not permit her to immediately return to her normal duties. Anita knew, however, that work can have a therapeutic effect on injured employees' bodies and emotional conditioning.



“Anita’s compassion and support guiding me through this maze when I did not have the energy to function has been amazing. I am blessed to have her help, and Texas Mutual is blessed to have such a fine employee. I can only hope she feels my heartfelt gratitude.”

Working closely with doctors, Anita identified Tammy’s work restrictions. She then collaborated with Tammy and her employer to zero in on modified duties Tammy could perform while she recovered.

Though she had eased back into life at the farm, managing the finances and supervising the staff, Tammy admitted it wasn’t easy.

“I had double vision and difficulty multitasking. I was getting impatient,” said Tammy.

Anita believes that is largely due to Tammy’s profession. The same qualities that make her a great horse trainer may have impeded her recovery.

“She uses discipline and strict schedules to turn newborn horses into show horses,” said Anita. “She was trying to handle her recovery the same way. You have to listen to your body and take things as they come.”

By doing things Anita’s way, Tammy continued to make progress. Today, she is back at work with no restrictions. “The doctor told me I can ride horses again,” she happily reported. Tammy credits Anita for helping her recover.

“Her compassion and support guiding me through this maze when I did not have the energy to function has been amazing,” said Tammy. “I am blessed to have Anita’s help, and Texas Mutual is blessed to have such a fine employee. I can only hope she feels my heartfelt gratitude.”

Anita has Texas Mutual’s heartfelt gratitude, as well. This year, we recognized her with our shining star award, which goes to employees who exemplify our commitment to excellent customer service.

Tammy has invited Anita to tour the farm and ride a horse, but Anita has politely declined.

“I haven’t ridden a horse since I was on a date as a teenager,” laughed Anita. “Never again.”

The numbers:

- Paid and incurred \$381 million in benefits
- Processed 523,000 medical bills
- Added 70 health care providers in Longview to our certified workers’ compensation health care network
- Earned second consecutive high-performer designation from the Texas Department of Insurance

Tammy Peterson
and My Heart’s Afire



Helping Businesses Grow

One day in 2006, Steve Glidden opened his mail and found a \$47,000 check from Texas Mutual Insurance Company. He reacted the same way most of us would.

“I thought it was a mistake,” said Steve, human resources director at Lamb’s Tire and Automotive Centers. “I went to our controller and asked why we would be getting a huge check from Texas Mutual. We didn’t want to do anything with that money until we made sure it was legit.”

The unexpected windfall was no error. It was the company’s share of Texas Mutual’s individual policyholder dividend plan. Dividends are one way we reward policyholders who share our commitment to preventing workplace accidents.

Dividend checks do not surprise Steve anymore. Lamb’s has earned six consecutive individual policyholder dividends from Texas Mutual, including a share of our \$100 million distribution this summer. The company has reinvested the money in its safety program, purchasing personal protective equipment, providing training and rewarding safety-conscious employees.

Steve stresses that while dividends are a perk for any business, service is what sets Texas Mutual apart in a competitive market.

“If I got a letter tomorrow from Texas Mutual saying they were discontinuing the dividend program, I would be disappointed, but it wouldn’t change my mind at all about doing business with them,” said Steve. “I’ve been in this industry for 30 years, and I’ve worked with a lot of insurance carriers. None has treated us like partners the way Texas Mutual does.”



“If I got a letter tomorrow from Texas Mutual saying they were discontinuing the dividend program, I would be disappointed, but it wouldn’t change my mind at all about doing business with them. I’ve been in this industry for 30 years, and I’ve worked with a lot of insurance carriers. None has treated us like partners the way Texas Mutual does.”

Kiolbassa Provision Company in San Antonio values partnerships, too. Rufus and Juanita Kiolbassa launched the company in 1949. Their son Bobby took over 10 years later, and Kiolbassa Provision has been a family business ever since.

“Our employees are an extension of the family,” said Bobby’s son Michael, the company’s president. “The first couple of years we earned dividends, we put them toward employee bonuses. Lately, we’ve used the money to expand our employee benefits program, increase our 401(k) contributions and absorb more of the costs of employee health insurance.”

Kiolbassa Provision Company has earned additional dividends as a member of the NFIB manufacturing group discount program. Texas Mutual underwrites 28 group discount programs representing a range of industries, including oil and gas, restaurants, construction and health care.

In addition to potential dividends, group discount program members save money on their premiums, and they have access to safety materials specific to their industry.

Texas Mutual cannot guarantee future dividends, but we have a permanent, vested interest in helping Texas businesses thrive.

“Since 1999, we have returned a combined \$858 million to the Texas economy through our dividend programs,” said Bob Barnes, chairman of Texas Mutual’s board of directors. “Our policyholders use those funds to expand their businesses, create jobs, pay skilled employees and improve their safety programs.”

The numbers:

- Offered 28 group discount programs
- Issued \$73 million in network discounts
- Saved, identified or recovered \$5.5 million in fraud
- Paid \$100 million in individual policyholder dividends and \$16 million to group discount program members



Steve Glidden
Lamb’s Tire and
Automotive Centers

Promoting Workplace Safety

Imagine a huge pit in the middle of an empty field. There are no warning signs, fences or guardrails around it. By itself, the pit is a hazard. Add people to the mix, and you have a full-blown exposure.

By learning to recognize hazards and exposures, Jarrod Daniel transformed his company's safety record, reduced his workers' compensation costs, and earned dividends from Texas Mutual.

Jarrold is chief executive officer of The Daniel Group, a Houston-based staffing agency launched by him and his father Bill. Jarrod and Bill have a combined 30 years of experience providing permanent and temporary staffing, human resources and payroll services. In 1998, Jarrod took the company out of its comfort zone.

"I was young and aggressive, and I thought we should get into the light-industrial field," said Jarrod. "We started providing labor for warehouses, assembly lines and construction sites. We quickly found out we didn't know what the heck we were doing."

Back strains, cuts, eye injuries, and slips, trips and falls are common in the light-industrial environment. Jarrod assumed his clients were teaching employees about the hazards. His safety record indicated otherwise.

"I know sales, not safety," said Jarrod. "We had to get a handle on our losses, or we could have found ourselves out of business."

Texas Mutual placed The Daniel Group in its Start program. The program is for businesses with poor loss histories, inadequate safety programs or uncontrolled catastrophic exposures. We also assigned a Texas Mutual safety professional, Jane Houser, to work with Jarrod.



“Jarrod was still operating as if he were placing people in relatively safe office jobs. He needed to recognize the hazards of this new industry, think about what his employees would be exposed to, and ask clients what they were doing to control those exposures.”

Jane has been promoting workplace safety at Texas Mutual for 17 years. Her first priority was to change Jarrod’s safety paradigm.

“Jarrod was still operating as if he were placing people in relatively safe office jobs,” said Jane. “He needed to recognize the hazards of this new industry, think about what his employees would be exposed to, and ask clients what they were doing to control those exposures.”

Jane created a safety plan for The Daniel Group that included regularly scheduled safety meetings and walk-throughs of new clients’ facilities.

Jarrod was initially skeptical. After all, he had built one of Houston’s top 10 staffing firms without all this attention to safety.

“Jane was persistent,” laughed Jarrod. “She walked me through the plan until I got it through my head, and she stayed on me. If we had a safety meeting, she wanted the attendance sheet. If we had a facility inspection, she wanted to be included. She had confidence in what she was putting in place.”

With Jane’s help, The Daniel Group emerged from the Start program with a new commitment to safety. The company’s reputation has even attracted new customers.

“People want to do business with companies that work safely,” said Jarrod.

Jarrod admits that dividends and increased sales are nice, but they are not the primary reason he works with Jane to continuously improve his safety program.

“It gives me peace of mind to know that our employees are doing the things they need to do to protect themselves,” said Jarrod. “I think it’s safe to say we are back in our comfort zone.”

The numbers:

- Made 10,000 workplace safety visits
- Offered 2,000 online safety resources, 560 available in Spanish
- Hosted 14 workers’ compensation workshops
- Recognized 180 employers for their commitment to safety

Jane Houser
Texas Mutual
loss prevention consultant



Senior Leadership

Ron Wright
President

Lisa Corless
Chief Operating Officer

Mike Barron
Senior Vice President
Financial Services

Cecily Gallagher
Corporate Actuary and
Chief Risk Officer

Mary Nichols
Senior Vice President
and General Counsel

Lynette Caldwell
Vice President
Human Resources

Randy Johnson
Senior Vice President
Investments

Ernest Stokey
Vice President
Premium Audit and
Recovery

Elliott Flood
Senior Vice President
Internal Audit

Steve Math
Senior Vice President
Underwriting

Jeanette Ward
Senior Vice President
Claims

Terry Frakes
Senior Vice President
Public Affairs

Bill McLellan
Senior Vice President
Information Technology

Agent Advisory Council

Steve Addkison

Scott Burton

Keith Montgomery

Duane Arbuckle

Bob Dean

Don Morriss

Dwayne Baker

Kim Dryden

Robert Nitsche

Gary Banks

Gary Felker

Patsy Piceynski

Peter Batjer

Randall Green

Jeff Rea

Jim Berger

Chris Heinchon

Tom Roberts

Matt Berry Sr.

Gary Howell

Chris Rooker

Chuck Blair

Ronnie Hudson

Gerri Rougeau

Jerry Blystone

Tom Hughston

Douglas Sanford

Allen Borden

Joe Hutchison

Anne Sheahen

Bill Bridges

Gary LaFour

Bob Shepard

John Brimberry

Steve Lapp

Ben Smith

Ed Britt

Greg Louvier Sr.

Stuart Wallace

Philip Bruce

John McCarden Jr.

Brian Welch

Bruce Burdett

Ken Mitchell

Texas Mutual placed The Daniel Group in its Start program. The program is for businesses with poor loss histories, inadequate safety programs or uncontrolled catastrophic exposures. We also assigned a Texas Mutual safety professional, Jane Houser, to work with Jarrod.

Jane has been promoting workplace safety at Texas Mutual for 17 years. Her first priority was to change Jarrod's safety paradigm.

“Jarrod was still operating as if he were placing people in relatively safe office jobs,” said Jane. “He needed to recognize the hazards of this new industry, think about what his employees would be exposed to, and ask clients what they were doing to control those exposures.”



texasmutual.com

Jane created a safety plan for The Daniel Group that included regularly scheduled safety meetings and walk-throughs of new clients' facilities.

Jarrod was initially skeptical. After all, he had built one of Houston's top 10 staffing firms without all this attention to safety.

“Jane was persistent,” laughed Jarrod. “She walked me through the plan until I got it through my head, and she stayed on me. If we had a safety meeting, she wanted the attendance sheet. If we had a facility inspection, she wanted to be included. She had confidence in what she was putting in place.”