



Mutual Reinsurance Bureau

1780 South Bell School Road
P.O. Box 398
Cherry Valley, IL 61016
Phone 815/332-3155
Toll Free 866/672-1921
Fax 815/332-3265

17 West Kansas Street
Liberty, MO 64068
Phone 816/781-9166
Fax 816/781-1953

MRB Officers

John W. Duncan
President, CEO, Attorney-in-Fact

Timothy M. Dorr, CPCU
Executive Vice President

Melvin H. Krieger, CPA
Senior Vice President, CFO

Robert J. Monaghan
Senior Vice President, Sales & Service

Peter L. Barr, CPCU, ARM
Senior Vice President, Sales & Service

Thomas L. Crossett, Sr., JD, CPCU, AR, ASLI
Vice President, Sales & Service

Steven J. South
Vice President, Data Processing

Richard W. Hall
Vice President, Underwriting Services

Kenneth L. Hense, CPCU, AR, SCLA, AIC
Assistant Vice President, Claims

Clifford A. Fister, CPCU
Assistant Vice President, Underwriting Services

Lisa K. Ebberts
Assistant Vice President, Underwriting Services

1st Quarter 2010 Report

Our 1st quarter ended a lot better than it began. We incurred \$3.7 million on two January fire losses, which accounted for 18.5%, part of our 60.9% loss ratio for the quarter. We had very good February and March results, and we ended up the quarter at a 94.8% trade ratio.

Property Pro Rata results were just marginally profitable, at 98%, influenced by the nasty 2010 Northeast weather and higher profit commissions attributable to favorable 2009 loss development. We like to see our PPR book at 93% or better taking into account the potential for the big one up in the Northeast at some point in the future.

Our Property Excess book suffered from the two big losses cited previously, plus several more large fire losses (weather related, apparently). We booked PXL at a 115% trade ratio, far in excess of our 85% target.

Catastrophe results were quite good, with negative incurred for the quarter. The CAT trade ratio was just 5% after operating expenses. We expect some CAT loss development from "Winter Storm" activity in the 1st quarter, however, and we moved expected redundant 2009 CAT IBNR to 2010 to take care of it.

Overall Property business generated a 95.4% trade ratio.

Casualty results were reasonable, at a 91.9% trade ratio. Our CXL book grew a bit, and we were conservative with our IBNR provisions as a result. Our older accident years are behaving a bit better than expected.

Production increased over the prior year overall by 10%, with considerable variances by line. We put on some new business, but we also lost some business we didn't want to. We expect to show the same level of growth over the course of the year.

Reinsurers appear to have some significant exposures in Chile and other places that caused a record \$16 Billion of insured catastrophe losses in the 1st quarter. The percentage of the total insured losses that will ultimately flow to the reinsurance market will be quite high relative to most catastrophes of late, perhaps 80% or more in the case of the Chilean EQ. That is not likely to put much strain on the market, but the same level of reinsurance penetration is likely to be the case in the 1 in 100 or 1 in 250 year Northeast storm. Reinsurance clients need to know what kind of modeled loss reinsurers are looking at on their own portfolios in the same events they are pricing for them. I believe the

"counter party risk" – what a euphemism - is generally underestimated, and for sure I would resist any dilution in regulatory or contractual collateral requirements.

The market remains very soft at this point, and it is going to take a major event (financial or natural) to move it in the short term. It appears to me there is more primary and reinsurance discipline being shown than in past soft markets, whether self-imposed or rating-agency imposed. Reinsurers' ROEs are at the bottom end of capital providers' expectations, however, even with a significant chunk of earnings coming from a hurricane-free Florida market for the past several years. Quite a bit of private reinsurance capital would probably be taken off the table if current valuations were at exit strategy levels. What happens if 2010 goes south on the worldwide Cat market? I really don't know, but Warren won't be able to cover the entire shortfall.

••••••••

Country Mutual has decided to withdraw from MRB at the end of this year. MRB's peak exposure zone, the Northeast, is also a peak zone for their primary book. Their primary and our reinsurance growth there have put a strain on Country Mutual's "willing to lose" number at higher return periods. Rather than rely on very costly retrocessional coverage for our exposures they determined it was best to withdraw from MRB. Country Mutual has been a very supportive MRB ACO for many years, and we will certainly miss the relationships and counsel they have provided us.

We are talking with a couple of replacement candidates and are confident we will have as strong or stronger combined balance sheet for 2011 as we now have.

••••••••

My retirement and our transition plans are on schedule. Tim Dorr will assume the President and CEO roles at mid-year, and I will be around on a part-time basis until the end of the year. My exit is going to be "low key," as far as I am concerned. As I get closer to moving out of an office I have occupied for close to 30 years, I just might have some sentimental "recollecting" to do, however.

I hope to be able to write this report a couple of more times!

John W. Duncan


Production

| Net Written Premiums | First Quarter (in thousands) | | | Year Ended December 31 (in thousands) | | |
|----------------------|------------------------------|------------------|--------------|---------------------------------------|------------------|----------------|
| | 2010 | 2009 | CHANGE | 2009 | 2008 | CHANGE |
| Property | | | | | | |
| Pro Rata | \$ 9,583 | \$ 7,934 | 20.8% | \$ 39,118 | \$ 41,372 | (5.4%) |
| Excess | 5,499 | 5,174 | 6.3% | 19,951 | 19,831 | 0.6% |
| Catastrophe | 1,375 | 2,166 | (36.5%) | 6,368 | 5,377 | 18.4% |
| | \$ 16,457 | \$ 15,274 | 7.7% | \$ 65,437 | \$ 66,580 | (1.7%) |
| Casualty | \$ 3,218 | \$ 2,612 | 23.2% | \$ 10,900 | \$ 14,427 | (24.4%) |
| Total | \$ 19,675 | \$ 17,886 | 10.0% | \$ 76,337 | \$ 81,007 | (5.8%) |

Underwriting Results

| Statutory Profit (Loss) | First Quarter (in thousands) | | | Year Ended December 31 (in thousands) | | |
|-------------------------|------------------------------|-----------------|-------------------|---------------------------------------|-----------------|-------------------|
| | 2010 | 2009 | CHANGE | 2009 | 2008 | CHANGE |
| Property | | | | | | |
| Pro Rata | \$ 487 | \$ 2,165 | \$ (1,678) | \$ 2,552 | \$ 2,068 | \$ 484 |
| Excess | (833) | 922 | (1,755) | 5,200 | (3,358) | 8,558 |
| Catastrophe | 1,204 | 721 | 483 | 2,567 | 2,950 | (383) |
| | \$ 858 | \$ 3,808 | \$ (2,950) | \$ 10,319 | \$ 1,660 | \$ 8,659 |
| Trade Ratio | 95.4% | 79.8% | (15.6%) | 84.5% | 97.5% | 13.0% |
| Casualty | \$ 262 | \$ (35) | \$ 297 | \$ 125 | \$ 1,420 | \$ (1,295) |
| Trade Ratio | 91.9% | 101.7% | 9.8% | 98.9% | 90.2% | (8.7%) |
| Totals | | | | | | |
| Profit (Loss) | \$ 1,120 | \$ 3,773 | \$ (2,653) | \$ 10,444 | \$ 3,080 | \$ 7,364 |
| Trade Ratio | 94.8% | 82.8% | (12.0%) | 86.6% | 96.2% | 9.6% |

MRB Reserves for:

| | (as of March 31) | | |
|--------------------------|------------------|------------------|---------------|
| | 2010 | 2009 | CHANGE |
| Case Losses/LAE | \$ 64,963 | \$ 72,726 | (10.7%) |
| BNR | 95,130 | 90,370 | 5.3% |
| Premiums and Commissions | 24,503 | 23,490 | 4.3% |
| Total | \$184,596 | \$186,586 | (1.1%) |

Prior Years' Underwriting Results:

| | (as of March 31) | |
|------|------------------|-------------|
| | Profit (Loss) | Trade Ratio |
| 2008 | \$ 165 | 100.8% |
| 2007 | 1,766 | 93.2% |
| 2006 | (468) | 103.4% |
| 2005 | 234 | 99.1% |
| 2004 | 1,483 | 96.1% |

2010 MRB Assuming Companies and Directors

| Company | Latest A.M. Best's Rating | MRB Board of Directors | CONSOLIDATED GROUP NUMBERS (as of December 31, 2009) | |
|--|---------------------------|--|--|------------------------|
| | | | Assets | Policyholders' Surplus |
| | | | (in thousands) | |
| COUNTRY MUTUAL INSURANCE CO. Bloomington, Illinois | A+ XIV | Ronald D. Pridgeon VP, Corp. P/C Actuary | \$3,533,575 | \$1,558,189 |
| EMPLOYERS MUTUAL CASUALTY CO. Des Moines, Iowa | A- XII | Ron D. Hallenbeck, CPCU, ARe Vice President of Reinsurance | 3,094,064 | 1,000,807 |
| FARM BUREAU MUTUAL IC OF MICHIGAN Lansing, Michigan | A- IX | Steven R. Rock, CPA, CPCU, FLMI Vice President/Corp. Controller | 902,973 | 364,381 |
| KENTUCKY FARM BUREAU MUTUAL IC Louisville, Kentucky | A+ XI | Bill Reddington III Director Actuarial Services | 1,639,113 | 852,554 |
| MOTORISTS MUTUAL INSURANCE CO. Columbus, Ohio | A X | Michael L. Wiseman, FCAS Treasurer/CFO | 1,617,564 | 657,273 |
| Combined Totals | | | \$ 10,787,289 | \$ 4,433,204 |

Note: MRB Assuming Companies jointly assume business written by MRB. The combined policyholders' surplus of our Assuming Companies stands behind our reinsurance commitments.