

MUTUAL REINSURANCE BUREAU

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2ND QUARTER 2011

MRB Officers

Timothy M. Dorr, CPCU
President/CEO

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Senior Vice President, CFO

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

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

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Vice President, Data Processing

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Vice President, Underwriting Services

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

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

Lisa K. Ebbers
Assistant Vice President, Underwriting Services

Scott A. Johannsen, CPA
Assistant Vice President, Controller



Production

Net Written Premiums	Second Quarter (<i>in thousands</i>)			Six Months Year to Date (<i>in thousands</i>)		
	2011	2010	CHANGE	2011	2010	CHANGE
Property						
Pro Rata	\$ 9,254	\$11,112	(16.7%)	\$18,269	\$20,695	(11.7%)
Excess	7,520	7,329	2.6%	14,826	12,829	15.6%
Catastrophe	614	1,279	(52.0%)	1,896	2,654	(28.6%)
	\$17,388	\$19,720	(11.8%)	\$34,991	\$36,178	(3.3%)
Casualty	\$ 3,468	\$ 2,610	32.9%	\$ 7,645	\$ 5,828	31.2%
Total	\$20,856	\$22,330	(6.6%)	\$42,636	\$42,006	1.5%

Underwriting Results

Statutory Profit (Loss)	Second Quarter (<i>in thousands</i>)			Six Months Year to Date (<i>in thousands</i>)		
	2011	2010	CHANGE	2011	2010	CHANGE
Property						
Pro Rata	\$ (7,657)	\$ (411)	\$ (7,246)	\$(8,308)	\$ 76	\$ (8,384)
Excess	(1,450)	1,207	(2,657)	401	374	27
Catastrophe	(1,812)	1,320	(3,132)	(935)	2,525	(3,460)
	\$(10,919)	\$ 2,116	\$(13,035)	\$(8,842)	\$ 2,975	\$(11,817)
Trade Ratio	159.2%	90.2%	(69.0%)	125.5%	92.6%	(32.9%)
Casualty	\$ 831	\$ (653)	\$ 1,484	\$ 1,189	\$ (391)	\$ 1,580
Trade Ratio	76.3%	126.3%	50.0%	84.4%	106.1%	21.7%
Totals						
Profit (Loss)	\$(10,088)	\$ 1,463	\$(11,551)	\$ (7,653)	\$ 2,584	\$(10,237)
Trade Ratio	146.3%	93.9%	(52.4%)	118.5%	94.3%	(24.2%)

MRB Reserves for:**Prior Years' Underwriting Results:**

	<i>(as of June 30)</i>				<i>(as of June 30)</i>	
	2011	2010	CHANGE		Profit (Loss)	Trade Ratio
Case Losses/LAE	\$ 72,278	\$ 71,517	1.1%	2009	\$ 5,760	86.8%
IBNR	76,908	91,900	(16.3%)	2008	789	99.2%
Premiums and				2007	1,447	98.0%
Commissions	25,657	15,927	61.1%	2006	3,931	93.2%
Total	\$174,843	\$179,344	(2.5%)	2005	5,073	91.6%

2011 MRB Assuming Companies and Directors

Company	Latest A.M. Best's Rating	MRB Board of Directors	CONSOLIDATED GROUP NUMBERS (as of March 31, 2011)	
			Assets	Policyholders' Surplus
			<i>(in thousands)</i>	
EMPLOYERS MUTUAL CASUALTY CO. Des Moines, Iowa	A- XII	Ron D. Hallenbeck, CPCU, ARe President of EMC Reinsurance	3,185,637	1,099,677
FARM BUREAU MUTUAL IC OF MICHIGAN Lansing, Michigan	A- IX	Steven R. Rock, CPA, CPCU, FLMI Vice President, Corp. Controller	954,993	351,307
KENTUCKY FARM BUREAU MUTUAL IC Louisville, Kentucky	A+ XI	Bill Reddington III Director Actuarial Services	1,870,559	933,717
MOTORISTS MUTUAL INSURANCE CO. Columbus, Ohio	A X	Michael L. Wiseman, FCAS Treasurer/CFO	1,768,692	704,890
Combined Totals			\$7,779,881	\$3,089,591

To Our Clients and Friends...

What a difference a quarter makes. I'm sure glad I didn't brag in my 1st quarter report about the great 1st quarter we had. Or did I?

By now you're all aware of the unprecedented series of tornado events that have hammered huge portions of the U.S. this year. We actually skated by pretty easy in the first two events (southern outbreak and Joplin, Missouri) but the most recent storm in Springfield, Massachusetts has our complete attention. It's no secret that our largest geographic footprint (from a property perspective) is in the Northeast. Our current gross incurred loss in the Springfield event is pushing \$11million, inclusive of IBNR. Ouch!

Year to date, and on a combined ratio basis, we are running at 103.5% gross, 118.5% net. I'm guessing that most reinsurance market players would take our 103.5% gross combined ratio in a heartbeat. Right at the moment that's little consolation, however.

The three storms added 28 and 31 combined ratio points to our gross and net combined ratios through the first 6 months. Oh, well....coulda, shoulda, woulda.

I'm sure most of you read the same trade journals we read here at MRB. You've all undoubtedly seen the statistics regarding the overall insured loss in each event and what part of each will wind up in the reinsurance market. At this juncture, suffice it to say that while the overall size of the three losses is huge, most market observers still don't feel the impact of these three storms will be a game changer. That's a reflection of how much capacity and capital is still "out there", I guess.

All that said, hurricane season is just now getting underway.

One or more major U.S. hurricane landfalls (combined with the tornadoes, earthquakes, and tsunamis we've already had this year) will definitely change the landscape from a pricing and capacity perspective. In small measure, that did happen in the just completed July 1 renewals here in the U.S. Foreign Property business impacted by the earthquakes overseas earlier this year did take larger increases during the April 1 renewal season on international business, however.

I'm struck by several things.

First, most of the people I talk to are amazed at how much the modeling companies "missed" on their severe thunderstorm models. There is no doubt the big modeling companies have spent far more time and money working on their hurricane and earthquake models, thinking that's where the most catastrophic potential exists. One need only look at what happened in Joplin, Missouri to get an idea of the potential magnitude of loss should a storm of that nature rip through the heart of Chicago, Illinois or Des Moines, Iowa, though. Without a doubt, Joplin has caused us all to re-think how we look at "spread" and "aggregation".

Second, in true herd mentality, people have eventually come to another unanimous conclusion. The prevailing feeling seems to be that the homeowners line of business is dramatically underpriced, has been for years, and that something needs to be done about it sooner rather than later. I agree. My view is that cat loads simply have to be revisited....particularly by the regulators we all have to keep happy. They simply aren't high enough...and something has to give.

My third observation (and last) comes from years of watching capital movements in times like these. It's no secret there's a ginormous amount of money sitting on the sidelines waiting for the political and economic environment to "get better", whatever

that means. I sense that some of this money smells blood in the reinsurance water..... particularly should a major hurricane or two land on U.S. shores this year. One need only look at the proliferation of capital that moved into the reinsurance sector post Andrew and Katrina to see what's being set up now. Does the potential for that kind of capital movement keep us in a permanent soft market? That's my fear. Historical returns don't seem to be a real good barometer of capital movements these days, particularly in the reinsurance sector. These days "long term" in the reinsurance business seems to be 1-3 years. That's far different from the "good old days", whatever those were.

The recent model changes have generated a lot of client interest in buying more cat limit. Most of the PML changes are centered on the hurricane peril and are due to an upwardly revised decay rate for landfalling hurricanes. Hurricane Ike (and all the damage it caused in the midwest) seems to be the primary impetus for these changes.

Contrary to the opinion of the major modeling companies, we believe it's imperative to take a blended approach when looking at the hurricane modeling results from the major vendors. Pride of authorship precludes them, we believe, from recommending this approach themselves, but AM Best seems to be taking a blended approach, as are (as best we can tell) most of the major reinsurers.

There is no doubt that the model changes will cause people to look at buying more cat limit, particularly clients in the Mid-Atlantic and Northeast. We've had several expressions of interest in the formation of a new RRCP Pool II (mostly due to the fact that our capacity is already "full up" in RRCP I in the Northeast and certain areas of the Midwest). Shortly, we will be approaching the market for firm expressions of interest in the formation of

RRCP II. We'll keep you posted in that regard.

We've had some good conversations with people interested in joining MRB as its fifth assuming company member. It hasn't been helpful that it's been such an active cat year. Our view of risk coincides with that of a well known Omaha investor no one can afford to ignore. We are bullish when others are scared and cautious when the market is frothy. From my perspective, it's shaping up to be a good time to write some conservative, well managed reinsurance business.

When John retired last year we thought it might be a good time to write a new mission and beliefs statement. I won't bore you with the entirety of it here, but I think part of it is very timely.

"At MRB, we resist making long term decisions based on short term events."

This philosophy has stood the test of time during our first 90 years. And, it will be the same philosophy that will guide us through the next 90.

Have a great (and, hopefully, quieter) second half.

Best regards,



Tim Dorr, CPCU
President/CEO