

MUTUAL REINSURANCE BUREAU

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4TH QUARTER 2011

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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	Fourth Quarter (<i>in thousands</i>)			Year Ended December 31 (<i>in thousands</i>)		
	2011	2010	CHANGE	2011	2010	CHANGE
Property						
Pro Rata	\$(1,572)	\$11,453	(113.7%)	\$29,983	\$45,977	(34.8%)
Excess	7,859	7,489	4.9%	30,046	28,448	5.6%
Catastrophe	1,290	1,762	(26.8%)	4,611	6,010	(23.3%)
	\$ 7,577	\$20,704	(63.4%)	\$64,640	\$80,435	(19.6%)
Casualty	\$ 4,014	\$ 3,572	12.4%	\$15,938	\$12,710	25.4%
Total	\$11,591	\$24,276	(52.3%)	\$80,578	\$93,145	(13.5%)

Underwriting Results

Statutory Profit (Loss)	Fourth Quarter (<i>in thousands</i>)			Year Ended December 31 (<i>in thousands</i>)		
	2011	2010	CHANGE	2011	2010	CHANGE
Property						
Pro Rata	\$ 2,753	\$ (32)	\$ 2,785	\$ (8,743)	\$ 825	\$ (9,568)
Excess	2,871	2,110	761	6,636	3,830	2,806
Catastrophe	156	301	(145)	1,096	3,122	(2,026)
	\$ 5,780	\$ 2,379	\$ 3,401	\$ (1,011)	\$ 7,777	\$ (8,788)
Trade Ratio	70.7%	87.7%	17.0%	105.4%	89.2%	(16.2%)
Casualty	\$ 411	\$ (871)	\$ 1,282	\$ 1,259	\$ (907)	\$ 2,166
Trade Ratio	89.9%	124.1%	34.2%	92.2%	107.0%	14.8%
Totals						
Profit (Loss)	\$ 6,191	\$ 1,508	\$ 4,683	\$ 248	\$ 6,870	\$ (6,622)
Trade Ratio	76.4%	93.4%	17.0%	102.9%	91.7%	(11.2%)

MRB Reserves for:

Prior Years' Underwriting Results:

<i>(as of December 31)</i>			<i>(as of December 31)</i>			
	2011	2010	CHANGE		Profit (Loss)	Trade Ratio
Case Losses/LAE	\$ 67,120	\$ 65,108	3.1%	2009	\$ 10,443	86.6%
IBNR	76,956	74,783	2.9%	2008	3,080	96.2%
Premiums and				2007	8,924	91.4%
Commissions	11,635	44,265	(73.7%)	2006	8,712	92.4%
Total	\$155,711	\$184,156	(15.4%)	2005	(2,756)	103.2%

2011 MRB Assuming Companies and Directors

Company	Latest A.M. Best's Rating	MRB Board of Directors	CONSOLIDATED GROUP NUMBERS (as of September 30, 2011)	
			Assets	Policyholders' Surplus
			<i>(in thousands)</i>	
EMPLOYERS MUTUAL CASUALTY CO. Des Moines, Iowa	A- XI	Ron D. Hallenbeck, CPCU, ARe President of EMC Reinsurance	3,219,883	958,139
FARM BUREAU MUTUAL IC OF MICHIGAN Lansing, Michigan	A- IX	Steven R. Rock, CPA, CPCU, FLMI Vice President, Corp. Controller	944,772	318,112
KENTUCKY FARM BUREAU MUTUAL IC Louisville, Kentucky	A+ XI	Bill Reddington III Director Actuarial Services	1,822,591	871,963
MOTORISTS MUTUAL INSURANCE CO. Columbus, Ohio	A X	Michael L. Wiseman, FCAS Treasurer/CFO	1,636,811	588,819
Combined Totals			\$7,624,057	\$2,737,033

To Our Clients and Friends...

It's over (2011, that is). We suffered through two major winter storm events (one early on in 2011 and one over Halloween weekend), three unusually violent tornadoes, one hurricane, and one tropical storm. What a way to spend my first full year in this office. Not only did I need to sit down often, but I had to stay strapped in, too.

With a 102.9% net combined ratio (and despite all the storms) our results are probably better than most. While this result is certainly no cause for celebration, I can only imagine what our results would have been had we been writing an international property portfolio. Reinsurers suffered significant losses in Japan (earthquake/tsunami), New Zealand (two earthquakes), Australia (flood), Thailand (flood) and the United States (frequent and severe tornadoes and straight line wind events). There seemed to be no end to the relentless worldwide string of major catastrophe losses in 2011. And, it looks like 2012 is starting off in similar fashion, with powerful windstorms having already occurred in Europe.

The numbers we include in this report are always our NET results (after retrocessions of premium and loss). I'm happy to say that our GROSS combined ratio came in at 93.6%. Compared to 2010, our overall gross earned premium volume was pretty flat, ending right at \$112 million. The reason for the big disparity between our gross and net result is nearly all due to our RRCP pool where, as you know, we cede 90% of all premiums and losses to pool participants.

Yes, things could have been better (but they could have been much, much worse).

Speaking of the RRCP, I'm delighted to tell you that many of the pool members authorized significant increases in their assumed lines for 2012....enough that we were able to increase the per occurrence/member limit from \$35 to \$40million. As a result, quite a few clients decided to buy the full \$40million limit for 2012. As many of you know, the RRCP has been "full up" in certain geographic zones (primarily in the Northeast). As a result, we decided to gauge market reaction to the development of a new RRCP Pool II for 2012 that would serve new clients precluded from a Pool I participation due to capacity restrictions. When we went down this path, we were afraid that most of the interest would come from a handful of potential new clients in the Northeast..... and that's exactly what happened. The existing RRCP Pool I is successful for a lot of reasons, not the least of which is its geographic diversity. Unfortunately, this potential lack of geographic diversity is what precluded Pool II from getting off the ground. We'll keep an eye on things, though, and when/if there becomes enough critical mass to get a new Pool II up and running, we will move forward with it.

Because of the increase in limit to \$40million (and as a result of adding a few new members) the RRCP pool premium will grow to \$16.3million in 2012 ,up from \$13.6million in 2011. We are proud of the success of the RRCP and realize that its profitable growth is largely due to the "spread the word" efforts of the members themselves. Thank you. As you've heard me say many times, the RRCP is a member pool.....reinsurance by the members, for the members. We just manage it. As always (and since it's your money), any comments you have regarding its management and administration are welcome.

Difficult loss years usually result in difficult year end renewal seasonsand 2011 was no exception. You've probably read the post-game commentaries written by the arm chair quarterbacks in the trade journals describing year end capacity and pricing issues. I suppose a few generalizations can be made, but it's certainly no hard market (not yet, anyway). Pricing on loss free casualty business was pretty flat. Property cat pricing was generally up (5-15% is the reported average). If your property reinsurance program suffered losses you likely took a price increase..... some more than others. If your property book is in a peak zone (Atlantic seaboard, gulf coast, southeast) you were probably under more upward pricing pressure than portfolios located in non-peak zones. All that said, property renewals in the Midwest were no picnic, either. The recent frequency and severity of Midwest wind events is driving reinsurance pricing up in that zone..... and it looks like this trend is going to continue. In some cases, market conditions are such that price increases were taken by reinsurance programs that hadn't suffered recent losses.

Despite all the 2011 loss activity, the reinsurance market remains overcapitalized, capacity is plentiful (at the right price, anyway) and the market continues to operate in an orderly manner. If that's the case, why did prices for property reinsurance generally increase at year end? Prices increased not in response to capacity or capital issues, but in response to EARNINGS issues. These days, most reinsurers are publicly owned, stockholder driven companies. Stockholders demand consistently positive returns. Reinsurer results in 2011 weren't just bad, they were ugly. As a result, most reinsurers are feeling tremendous pressure to return to profitability (and soon). And, as we all know, investment returns are non-existent and won't be improving anytime soon. Profits are going to have to come from good underwriting and book management. That means there will be a continued focus

on margins, ROE, and sound underwriting. And, it will remain that way for the foreseeable future.

So what will happen in 2012 reinsurance markets? My crystal ball tells me that if there is a major market loss, Katie bar the door. A relatively benign year should keep things "as is". And, benign is good.

While MRB is not immune from the pressures felt by large, publicly held reinsurers, those of you who have done business with us for any length of time know that we take a much longer term view of the business than "the big guys". You don't survive for 90 years in this business without doing that (how many of your other reinsurers were around 90 years ago?). That doesn't mean we'll never ask for price increases or engage in book management. We'd be crazy not to. That said, we will always focus on a longer term perspective, build relationships one client at a time, and not allow ourselves to get caught up trying to be the latest "flavor of the day". While there are very few constants in our business, we like the fact that our operating philosophy is one of them.

We look forward to seeing all of you in the course of our travels throughout the coming year. Here's wishing all of you a happy, prosperous, and very uneventful (from a loss perspective, anyway) 2012.

Best regards,



Tim Dorr, CPCU
President/CEO