



2006 MRB Assuming Companies and Directors

Company	Latest A.M. Best's Rating	MRB Board of Directors	CONSOLIDATED GROUP NUMBERS (as of September 30, 2006)	
			Assets <i>(in thousands)</i>	Policyholders' Surplus
AUTO-OWNERS INSURANCE CO. Lansing, Michigan	A++ XV	Kenneth R. Schroeder Sr. VP-Commercial Lines U/W	\$ 10,989,944	\$ 4,632,552
COUNTRY MUTUAL INSURANCE CO. Bloomington, Illinois	A+ XIV	Richard A. Bill, FCAS Vice President	3,313,242	1,396,456
EMPLOYERS MUTUAL CASUALTY CO. Des Moines, Iowa	A- XI	Ron D. Hallenbeck, CPCU, ARe President of EMC Reinsurance	2,958,252	877,748
KENTUCKY FARM BUREAU MUTUAL IC Louisville, Kentucky	A+ XI	Patrick J. Crowe, FCAS, MAAA VP, Market Research & Actuary	1,562,743	903,752
MOTORISTS MUTUAL INSURANCE CO. Columbus, Ohio	A X	Michael L. Wiseman, FCAS Treasurer/CFO	1,478,614	634,590
Combined Totals			\$ 20,302,795	\$ 8,445,098

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

MRB Officers

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

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

Melvin H. Krieger, CPA
Senior Vice President, CFO

Steven J. South
Vice President, Data Processing

Robert J. Monaghan
Senior Vice President, Sales & Service

Richard W. Hall
Assistant Vice President, Underwriting Services

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

Clifford A. Fister
Assistant Vice President, Underwriting Services

Marguerite D. Scherer
Senior Vice President, Underwriting

Mutual
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4th Quarter Report

2006

Mutual Reinsurance Bureau

To our clients and friends...

No 3rd quarter hurricanes meant no 4th quarter development on our property book, so we enjoyed a nice finish to what was the best underwriting year we have had during my time at MRB.

The 91.4% trade ratio for the quarter brought our year-to-date ratio to 92.3%. For the most part, our clients enjoyed comparable results. Cheers all around!

That's the good news. The bad news is we had a marginal renewal season, losing some business we were disappointed to lose, and gaining less new business than we expected. Our target business has always been well competed for, and our clients historically have had sufficient viable alternatives to MRB to keep us honest. We don't generally lose "good" business. More often, when we have lost business due to price it has been a matter of flight from, not to, quality and to some extent this is what occurred this year-end. But, to be realistic, we came up short in a couple of instances not being able to provide some clients with "services" that they perceived necessary. This is certainly something we will be addressing.

Property Pro Rata results for the quarter were skewed by a large unearned premium portfolio return on a cancelled contract. We showed a statutory underwriting gain, but a trade ratio of 103% after booking the return commission. For the year, we just squeaked under 100%. We had a big fire loss early in the year that hit us for 7% of our PPR earned premium. We had some very profitable accounts that generated another 6% in profit commissions.

Property Excess results deteriorated in the final quarter, coming in at 96%. The last half of December was apparently bad for big fires – we had a bunch. For the year our PXL trade ratio was 89%, even with some nasty development on the '05 hurricanes that was not adequately provided for in our IBNR.

Catastrophe Excess was very, very good. We had a couple of modest late losses, but our 4th quarter trade ratio was 35%, with our year-to-date ratio just under 20%. We are by no means the only reinsurer that made most of their money on CAT business. None of us can count on that for more years than not.

On the Casualty side, we did OK for the quarter at a 96% trade ratio. Our full-year 104% result was not all that good, but we sure have done worse. Some of our "hot spots" have cooled, but we are getting some flare ups in other areas that we didn't expect. We still get the occasional inexplicable shock verdict, and dubious lead paint claims are surfacing again in some states, most notably New York.

Production for 2006 fell short of our goals by about 10%. The previously mentioned year-end cancellation of a large pro rata property account was responsible for 25% of the overall shortfall. Two rather large excess contracts that were not renewed for 2006 accounted for 50%, and the rest was due to our clients' own production falling short of their estimates.

We are projecting our 2007 production at about the same level as our 2006 total.

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All of us connected in any way with "insurance" are going to have our hands full in 2007 and 2008. Nothing like some reasonable results (even if not up to S&P 500 ROEs) after a long period of marginal (or less) results to bring out the abject ignorance and shameless posturing of "consumer activists," regulators, and politicians.

Most of the issues that kept us up at night last year will continue to occupy us this year.

The number one issue, it seems to me, revolves around the seemingly hard-to-grasp concept that the economy just flat out doesn't function without relatively open and free market insurance mechanisms – with free-market incentives for all stakeholders to do the right thing. Let's face it, if taxpayers (forgetting they are us) are going to pay for our wind and flood losses or heart attacks, or subsidize our premiums why do anything in the way of prevention or avoidance? Florida had a chance for a long-term, stable market after Andrew in 1992 and blew it big time. They solved the post-Andrew problem with "take-out" companies that pretty much all failed in '05 and '06 and a taxpayer insurer/reinsurer of last resort. That worked for a while (the wind didn't blow), but now after the inevitable they are committing economic suicide. Just like Mississippi, which has apparently decided valid and unambiguous contracts mean nothing and coerced State Farm into selling us down the river. Hertz is now renting cars *leaving* Florida for one penny, and Mississippi is losing businesses that can't get coverage. Companies and individuals with options are voting with their feet, and it will get worse before it gets better, to be sure.

More and more pressure (influenced by the capriciousness of certain states and an NAIC that is spending domestic industry goodwill on "free trade" collateralization issues) will surely come to move to an Optional Federal Charter. The various trade associations are not all on the same page on this issue (and others), as might be expected. Over the next year or so, given the November political shift, it looks like it will be more difficult to keep the Feds at bay. We are with NAMIC and PCI on this issue, and we are grateful they have the quality, committed, energetic staff, and member support to fight the good fight.

Good Luck to all in 2007.

Production

Net Written Premiums	Fourth Quarter (in thousands)			Year Ended December 31 (in thousands)		
	2006	2005	CHANGE	2006	2005	CHANGE
Property						
Pro Rata	\$ 13,325	\$ 14,511	(8.2%)	\$ 50,883	\$ 59,151	(14.0%)
Excess	6,139	6,892	(10.9%)	20,659	22,220	(7.0%)
Catastrophe	3,349	3,059	9.5%	7,374	10,333	(28.6%)
	\$ 22,813	\$ 24,462	(6.7%)	\$ 78,916	\$ 91,704	(13.9%)
Casualty						
Pro Rata	\$ 238	\$ 160	48.8%	\$ 775	\$ 669	15.8%
Excess	5,650	6,048	(6.6%)	20,497	20,573	(0.4%)
	\$ 5,888	\$ 6,208	(5.2%)	\$ 21,272	\$ 21,242	0.1%
Total	\$ 28,701	\$ 30,670	(6.4%)	\$ 100,188	\$ 112,946	(11.3%)

Underwriting Results

Statutory Profit (Loss)	Fourth Quarter (in thousands)			Year Ended December 31 (in thousands)		
	2006	2005	CHANGE	2006	2005	CHANGE
Property						
Pro Rata	\$ 479	\$ (750)	\$ 1,229	\$ 1,353	\$ (562)	\$ 1,915
Excess	228	(1,490)	1,718	2,195	(291)	2,486
Catastrophe	2,270	1,700	570	5,955	587	5,368
	\$ 2,977	\$ (540)	\$ 3,517	\$ 9,503	\$ (266)	\$ 9,769
Trade Ratio	90.7%	105.2%	14.5%	89.7%	101.7%	12.0%
Casualty						
Pro Rata	\$ 222	\$ 19	\$ 203	\$ 526	\$ (19)	\$ 545
Excess	19	75	(56)	(1,317)	(2,471)	1,154
	\$ 241	\$ 94	\$ 147	\$ (791)	\$ (2,490)	\$ 1,699
Trade Ratio	95.9%	98.7%	2.8%	103.7%	111.7%	8.0%
Totals						
Profit (Loss)	\$ 3,218	\$ (446)	\$ 3,664	\$ 8,712	\$ (2,756)	\$ 11,468
Trade Ratio	91.4%	103.7%	12.3%	92.3%	103.2%	10.9%

MRB Reserves for:

	(as of December 31)		
	2006	2005	CHANGE
Case Losses/LAE	\$ 86,949	\$ 89,014	(2.3%)
IBNR	88,490	91,605	(3.4%)
Premiums and Commissions	33,643	36,254	(7.2%)
Total	\$209,083	\$216,873	(3.6%)

Prior Years' Underwriting Results:

	(as of December 31)	
	Profit (Loss)	Trade Ratio
2004	\$ 3,313	97.9%
2003	7,263	96.3%
2002	(9,204)	104.5%
2001	(12,463)	108.3%
2000	(10,157)	110.3%