

To Our Policyholders,

It's our pleasure to report that for the fifth consecutive year, Indiana Farmers Mutual has outperformed the property/casualty insurance industry. Hardening market conditions and lower levels of catastrophe losses enabled the industry to achieve a combined ratio of 105.7%, a much needed improvement. However, this industry accomplishment pales in comparison to the remarkable 100.7% combined ratio achieved by Indiana Farmers Mutual. Our 2002 strategies to reduce underwriting losses were successful. We reversed our 2001 net loss of \$3,829,505 to a 2002 net gain of \$3,684,897, a significant accomplishment.

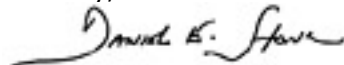
The industry's surplus balance declined 1.7% in 2002 for the third consecutive drop. This was primarily due to capital losses in the equity market and lower investment income available to offset underwriting losses. Although we are not immune from these financial market forces, a gain on operations and sound investment strategies enabled Indiana Farmers Mutual to buck the industry trend and post an increase to surplus in 2002, the 12th consecutive year. Policyholders can rest assured that we have the required capital to provide the security we promise. The A.M. Best Company, the oldest and most experienced rating agency in the world, continues to affirm our financial strength rating of 'A' (Excellent).

We continue to focus upon exceeding the needs and expectations of policyholders by partnering with independent insurance agencies that deliver professional advice and quality service. Our 14.6% premium growth level and 3,501 direct policy count increase serve as evidence of our progress. In 2002 Indiana Farmers Mutual also was named Co-Company of the Year by the Independent Insurance Agents of Indiana and received a 'Best Insurance Website Award' from the Property/Casualty Insurance Magazine.

The efficient use of technology and competent rate analysis are critical to our continued success. In 2003, management committed to an information technology strategy that will provide us more flexibility and efficiency within our existing infrastructure. We have also added an actuary to our staff to ensure that we are making sound pricing decisions.

Loss reserve shortages, staggering jury awards, catastrophe losses, challenging regulatory and legislative environments, changes in the reinsurance market, and an uncertain investment climate all represent issues confronting our industry. Indiana Farmers Mutual will face these challenges with a strong balance sheet and solid operating fundamentals. As always, we will operate with integrity in all of our relationships with employees, policyholders, agents and business partners. Thank you for placing your trust in our Company as we continue to deliver, "Performance in Time of Adversity ... Since 1877."

Sincerely,



Daniel E. Stone  
President – CEO

## 126th Annual Report 2002- Financials

<b>Financial Statement December 31, 2002</b>		
<b>Assets</b>	2002	2001
Cash in banks and offices	\$2,131,246	\$1,836,061
U.S. Government bonds	2,987,232	3,258,598
Other bonds	101,590,999	103,601,291
Stocks (at market)	34,422,774	25,815,589
Real estate (net)	1,020,838	1,096,967
Reinsurance recoverable on paid losses	498,136	867,010
Premium in course of collection	4,593,552	4,099,251
Premium installments not yet due	30,089,354	27,649,326
Other admitted assets	9,635,949	9,371,227
Total Assets	<b>\$186,970,080</b>	<b>\$177,595,320</b>
 <b>Liabilities and Policyholders' Security Fund</b>		
Reserve for claims, etc.	\$45,778,033	\$42,618,161
Reserve for unearned premium	64,800,100	57,866,955
Reserve for expense, taxes, etc.	4,111,827	5,569,078
Drafts payable	3,873,847	3,547,540
All other liabilities	28,029	144,173
Total Liabilities	<b>\$118,591,836</b>	<b>\$109,745,817</b>
Policyholder's Security Fund	<b>\$68,378,244</b>	<b>\$67,849,503</b>
Total Liabilities and Security Fund	<b>186,970,080</b>	<b>177,595,320</b>
Total Losses and Loss Expenses Incurred	<b>\$81,328,586</b>	<b>\$71,590,351</b>
Net Premium Written	<b>\$120,810,800</b>	<b>\$119,236,335</b>