

To our Policyholders,

Forecasts for 2006 to incur record breaking hurricane activity in the U.S. with accompanying property damages were not realized. Catastrophe losses for the U.S. property-casualty insurance industry totaled \$7.5 billion in 2006, significantly less than the \$34 billion losses of the previous year. This fact, coupled with price adequacy and more rational underwriting, led to the industry's unprecedented underwriting gain.

Indiana was not as fortunate in 2006, ranking #1 in total incurred catastrophe losses. The April 2006 hail and windstorms of the Midwest were the major contributors to Indiana's \$1.5 billion or 20% share of the nation's catastrophe losses. This provided Indiana Farmers Mutual Insurance Company with an opportunity to demonstrate our four corporate values. Quality **service** was provided with **integrity** on over 4,000 catastrophe claims. The catastrophe claims payments of over \$31 million fulfilled the **security** sought by our policyholders at point of sale. In the end, corporate **stability** was demonstrated by growth in both total assets and the policyholders' security fund.

Effective enterprise risk management in the form of investment strategy and reinsurance structure softened the financial impact of the catastrophe losses. Net investment income of \$11,666,562 more than offset our \$3,893,598 underwriting loss. Most lines of business were adversely impacted by the catastrophe losses. One notable exception was private passenger automobile, which posted a \$5,491,184 underwriting gain and a 90.2% combined ratio. Our all-lines combined ratio for 2006 was 102.2%.

The Policyholders' Security Fund (Surplus) assures policyholders that we have the required capital to provide the security we promise. The growth of this fund for the 16th consecutive year is an important trend to note. The fund balance increased 7.6% in 2006 to a record high of \$116,892,330. Policyholder confidence is further reinforced by our financial strength rating of 'A' (Excellent) by the A.M. Best Company, the oldest and most experienced rating agency in the world.

We continue to be a stable, financially sound company operated by effective management. In 2006 Indiana Farmers Mutual Insurance Company was selected for the Ward 50 Benchmark Group of top performing property-casualty insurance companies for the third consecutive year. On December 4, 2006 we were once again named to the National Underwriter's list of Top 50 Profit Leaders. Going forward we are embracing systems and processes that support our policyholder-centric business model. We are implementing technology that maximizes operational efficiency, increases data acquisition and utilization, improves infrastructure stability, and facilitates strategic flexibility. We are also continuing to invest in the training, education, career and leadership development of our staff, which is critical to our continued success.

We are gaining momentum in our growth campaign to achieve \$200 million Gross Premiums Written. In 2006 direct premium grew to \$150.3 million, a record high. We will achieve this goal by holding true to our values and by partnering with agencies that deliver professional advice and quality service. Indiana Farmers Mutual...Stable but not Stagnant!

| | 2006 | 2005 |
|--|------------------------------|------------------------------|
| Assets | | |
| Cash in banks and offices | \$ 1,863,593 | \$ 2,025,489 |
| U.S. Government Bonds | 11,707,034 | 13,618,090 |
| Other bonds | 152,648,074 | 149,846,400 |
| Stocks (at market) | 48,678,865 | 40,659,554 |
| Real Estate (net) | 744,827 | 806,119 |
| Reinsurance recoverable on paid losses | 2,690,400 | 193,007 |
| Premium in course of collection | 5,934,214 | 5,463,267 |
| Premium installments not yet due | 34,058,534 | 32,599,407 |
| Other admitted assets | <u>9,745,359</u> | <u>9,366,140</u> |
| Total Assets | \$ <u>268,070,900</u> | \$ <u>254,577,473</u> |
| Liabilities & Surplus | | |
| Reserve for claims, etc. | \$ 60,952,955 | \$ 60,337,950 |
| Reserve for unearned premium | 74,666,154 | 71,581,322 |
| Reserve for expenses, taxes, etc. | 8,433,722 | 8,555,453 |
| Drafts payable | 6,926,169 | 5,168,931 |
| All other liabilities | <u>199,570</u> | <u>284,120</u> |
| Total Liabilities | 151,178,570 | 145,927,776 |
| Surplus | 116,892,330 | 108,649,697 |
| Total Liabilities & Surplus | \$ <u>268,070,900</u> | \$ <u>254,577,473</u> |
| Total Losses & Loss Expenses Incurred | \$ 100,459,267 | \$ 90,103,947 |
| Net Premium Written | \$ 140,868,885 | \$ 138,677,051 |