

Report of Examination of

Mennonite Mutual Insurance Company
Orrville, Ohio

As of December 31, 2007

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Columbus, Ohio
February 23, 2009

Honorable Mary Jo Hudson
Director
Ohio Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Ms. Hudson:

In accordance with Section 3901.07 of the Ohio Revised Code (ORC), the Ohio Department of Insurance (“Department”) conducted an examination of

Mennonite Mutual Insurance Company

an Ohio domiciled, mutual, property and casualty insurance company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 1000 South Main Street, Orrville, Ohio.

Scope of Examination

The Department last examined the Company as of December 31, 2002. The current full scope examination covers the period of January 1, 2003 through December 31, 2007.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook. The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For each year during the period under examination, the Certified Public Accounting firm of Buffamante Whipple Buttaforo, P.C. (“BWB”) provided an unqualified opinion based on statutory accounting principles. Relevant work performed by BWB during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers.

The Department's property and casualty actuary was retained to review the relevant work performed by the opining actuary, to report on the adequacy of the carried reserves, and to comment on any other statutory matters relating to reserves.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

Name	Principal Occupation
Robert E. Aschliman Archbald, Ohio	Certified Public Account, Aschliman & Co.
George Bixler, Jr. Orrville, Ohio	Executive Director, Orr Villa, Inc. Retirement Center
Paul D. Bontrager Hartsville, Ohio	Principle, Yoder Insurance Agency
Donald Dravenstott Orrville, Ohio	Bookkeeper, Dravenstott's Restaurant's, Inc.
David L. Lehman Orrville, Ohio	President and Treasurer, Mennonite Mutual Insurance Company
Craig T. Mercer Columbiana, Ohio	Principle, Catalpa Grove Farm
Morris Stutzman Wooster, Ohio	Attorney, Logee, Hostetler, Stutzman & Lehman

Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws.

Name	Title
Morris Stutzman	Chairman of the Board
Paul Bontrager	Vice Chairman of the Board
David L. Lehman	President and Treasurer
George Bixler, Jr.	Secretary

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in Section 3901.32 of the ORC. The Orrville Insurance Agency, Inc. is a wholly owned subsidiary of the Company.

Territory and Plan of Operations

The Company is licensed and authorized to transact multiple lines of business in the State of Ohio. The Company markets its business through approximately 45 independent agencies, primarily in small cities, towns and rural communities.

The following schedule illustrates the premium written in 2007 by line of business:

<u>Description</u>	<u>Direct</u>	<u>Assumed</u>	<u>Ceded</u>	<u>Net</u>
Farmowners multiple peril	\$ 3,963,820	\$ -	\$ 680,729	\$ 3,283,091
Homeowners multiple peril	3,071,698	-	524,032	2,547,666
Commercial multiple peril	1,621,840	-	340,687	1,281,153
Fire	1,502,756	-	257,872	1,244,884
Other liability (occurrence)	772,912	21,732	310,257	484,387
Commercial auto liability	446,112	-	58,439	387,673
Auto physical damage	<u>195,945</u>	<u>-</u>	<u>33,427</u>	<u>162,518</u>
Total	<u>\$ 11,575,083</u>	<u>\$ 21,732</u>	<u>\$ 2,205,443</u>	<u>\$ 9,391,372</u>

Reinsurance

Multi-Line Excess of Loss

The Company entered into a multi-line excess of loss reinsurance agreement with Munich Reinsurance America, Inc. effective January 1, 2007. The agreement provides for casualty coverage of \$875,000 and property coverage of \$4.875 million in excess of the Company's \$125,000 retention.

Umbrella Liability Quota Share

The Company entered into a quota-share reinsurance agreement with Munich Reinsurance America, Inc. effective January 1, 2007 covering umbrella liability business. The Company reinsurers 95% of the first \$1 million and 100% of \$1 million in excess of \$1 million.

Property Catastrophe Excess of Loss

Catastrophe reinsurance brokered through Guy Carpenter & Company provides property protection of \$4.5 million in excess of \$500,000. Additional catastrophe coverage is provided by Mutual Reinsurance Bureau of \$4 million in excess of \$5 million.

Significant Operating Results

The Company reported the following net underwriting results during the examination period, reported in thousands.

	2007	2006	2005	2004	2003
Premium earned	<u>\$ 9,397</u>	<u>\$ 9,143</u>	<u>\$ 8,780</u>	<u>\$ 8,579</u>	<u>\$ 7,082</u>
Losses incurred	4,258	3,842	3,608	3,664	3,287
Loss adjustment exp. incurred	867	776	775	573	575
Underwriting expenses incurred	<u>3,621</u>	<u>3,614</u>	<u>3,459</u>	<u>3,508</u>	<u>2,942</u>
Total underwriting deductions	<u>8,746</u>	<u>8,232</u>	<u>7,842</u>	<u>7,745</u>	<u>6,804</u>
Net underwriting gain	<u>\$ 651</u>	<u>\$ 911</u>	<u>\$ 938</u>	<u>\$ 834</u>	<u>\$ 278</u>
Pure loss ratio	45.3	42.0	41.1	42.7	46.4
Loss adjustment expense ratio	<u>9.2</u>	<u>8.5</u>	<u>8.8</u>	<u>6.7</u>	<u>8.1</u>
Loss ratio	54.5	50.5	49.9	49.4	54.5
Underwriting expense ratio	<u>38.6</u>	<u>39.0</u>	<u>37.4</u>	<u>36.4</u>	<u>39.0</u>
Combined ratio	<u>93.1</u>	<u>89.5</u>	<u>87.3</u>	<u>85.8</u>	<u>93.5</u>

Financial Statements

The financial condition as reported by the Company, and the results of its operations for the five-year period under examination, are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds
Statement of Income
Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2007**

Bonds	\$ 8,001,497
Preferred stock	77,700
Common stock	3,112,009
Mortgage loans on real estate	127,620
Real estate occupied by the company	735,454
Cash	<u>1,958,483</u>
Subtotal, cash and invested assets	14,012,763
Investment income due and accrued	86,930
Uncollected premiums in course of collection	262,910
Deferred premiums and installments booked but not yet due	2,057,279
Amount recoverable from reinsurers	14,514
Net deferred tax asset	400,630
Electronic data processing equipment	<u>39,223</u>
Total admitted assets	<u>\$16,874,249</u>
Losses	\$ 1,431,137
Loss adjustment expense	212,600
Commissions payable	745,193
Other expenses	121,671
Taxes, licenses and fees	122,198
Current federal income taxes	69,652
Unearned premiums	5,672,873
Advance premium	181,937
Ceded reinsurance premiums payable (net of ceding commissions)	(19,825)
Funds held by company under reinsurance treaties	3,077
Amounts withheld or retained by company for accounts of others	563
Provision for reinsurance	4,071
Unapplied premiums	<u>25,213</u>
Total liabilities	<u>8,570,360</u>
Unassigned funds	<u>8,303,889</u>
Total surplus	<u>8,303,889</u>
Total liabilities and surplus	<u>\$16,874,249</u>

Statement of Income
December 31, 2007

As of December 31, 2007

Premiums earned	<u>\$ 9,397,501</u>
Losses incurred	4,257,989
Loss expense incurred	867,047
Other underwriting expenses incurred	<u>3,621,353</u>
Total underwriting deductions	<u>8,746,389</u>
Net underwriting gain	<u>651,112</u>
Net investment income earned	377,960
Net realized capital gains	<u>161,316</u>
Net investment gain	<u>539,276</u>
Finance and service charges not included in premiums	154,329
Aggregate write-ins for miscellaneous income	<u>(2,937)</u>
Total other income	<u>151,392</u>
Income before federal income taxes	1,341,780
Federal income taxes incurred	<u>399,652</u>
Net income	<u>\$ 942,128</u>

Statement of Changes in the Capital and Surplus Account
(in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Surplus December 31, previous year	<u>\$ 7,370</u>	<u>\$ 6,164</u>	<u>\$ 5,412</u>	<u>\$ 4,464</u>	<u>\$ 3,904</u>
Net income	942	949	925	839	183
Net unrealized capital gains (losses)	(11)	200	(37)	(71)	214
Change in net deferred income tax	52	(24)	82	211	47
Change in non-admitted assets	(45)	81	(218)	(31)	116
Change in provision for reinsurance	<u>(4)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in surplus	<u>934</u>	<u>1,206</u>	<u>752</u>	<u>948</u>	<u>560</u>
Surplus December 31, current year	<u>\$ 8,304</u>	<u>\$ 7,370</u>	<u>\$ 6,164</u>	<u>\$ 5,412</u>	<u>\$ 4,464</u>

Notes to Financial Statements

Investments

The Company's diversified investment portfolio consists primarily of investment grade bonds and equity securities and is in compliance with Section 3925.08 of the ORC. The investments were valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

Joseph L. Petrelli, ACAS, MAAA of Demotech, Inc. opined on the loss and loss adjustment expense reserves at year end 2007. Mary Miller, FCAS, MAAA, Assistant Director, Office of Product Regulation and Actuarial Services with the Department, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2007.

On the basis of the above-mentioned analysis, it was determined that the loss and loss adjustment expense reserves were reasonable as of December 31, 2007.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2007, and is summarized as follows:

Total Assets	<u>\$16,874,249</u>
Liabilities	\$ 8,570,360
Surplus	<u>8,303,889</u>
Total Liabilities and Surplus	<u>\$16,874,249</u>

Subsequent Events

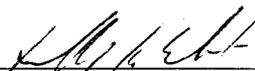
The change in September 30, 2008 surplus as a result of unrealized losses in common stocks occurring in October 2008 related to assets owned as of September 30, 2008 was \$432,789.

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the undersigned, Ryan Gibson, CFE; Mary D. Miller, FCAS, MAAA; Bradley Schroer; and Patricia Severs, CPA, participated in this examination.

Respectfully,



Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2007.

[Signature] 2/23/09
Assistant Chief Examiner Date

State of Ohio

County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 23 day of February, 2009.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2012~~
My Commission Expires