STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

BROTHERHOOD MUTUAL INSURANCE COMPANY

NAIC CO. CODE 13528

As of

December 31, 2008

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STATE OF INDIANA
MITCHELL E. DANIELS, JR., Governor

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CAROL CUTTER, Commissioner

August 13, 2009

Honorable Carol Cutter
Commissioner, Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3579, an examination has been made of the affairs and financial condition of:

Brotherhood Mutual Insurance Company
6400 Brotherhood Way
Fort Wayne, Indiana 46825

hereinafter referred to as the "Company," an Indiana domestic mutual property and casualty insurance company. The examination was conducted at the Company's corporate offices in Fort Wayne, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2008, is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (IDOI) as of December 31, 2003. The present examination, covering the period from January 1, 2004 through December 31, 2008, was conducted by Noble Consulting Services, Inc. (Noble) and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

In conducting the examination, the IDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by Ernst & Young LLP for each year of the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

David Shepherd, FCAS, MAAA, of Merlinos & Associates, Inc., a consulting actuary appointed by the IDOI, conducted the review of the Company's reserves and related accounts as of December 31, 2008. There were no actuarial adjustments or recommendations resulting from this review.

The examination was conducted in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) for the purpose of determining the Company's financial condition. Examination procedures included the verification and evaluation of assets, determinations of liabilities, review of income and disbursement items, minutes, corporate documents, policy and claim files, and other records to the extent deemed necessary.

HISTORY

The Company was incorporated on August 20, 1935 under the name of Brotherhood Mutual Insurance Company of the Conference of the Defenseless Mennonite Church of North America, and assumed the business and surplus of Brotherhood Aid Association of the Conference of Defenseless Mennonite Church of North America, a mutual aid society, organized in 1917. The company amended its Articles of Incorporation in 1945 to change its name to Brotherhood Mutual Insurance Company.

CAPITAL AND SURPLUS

As of December 31, 2008, the Company had no common or preferred shares of stock authorized. There also were no dividends paid by the Company during the examination period.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in all fifty states and the District of Columbia. The Company provides property/casualty insurance coverage to churches and related ministry risks throughout the United States. In addition to churches, insured include clergy dwellings, camp buildings, schools, church offices, denominational headquarters, and other church related organizations. The Company offers special package policies marketed specifically for the church market and insures over 30,000 religious institutions across the country. The Company offers various lines of business including commercial multiple peril, workers' compensation, and commercial automobile and fire.

The Company provides two commercial lines products with unique coverage for churches and related ministries. "Ministry First" was introduced in 1999 and was designed to protect ministries such as churches, day care centers, camps, conference centers, Christian colleges and universities, and youth ministries and organizations. The "Passport to Ministry" program was created in 2000 and serves to provide protection to missionary groups under the sponsorship of churches and related ministries who are traveling outside of the United States. Coverage for the "Passport to Ministry" program includes foreign general liability, foreign accidental medical and sickness for non-employee volunteers, along with various other pertinent coverage. The products and services offered demonstrate the Company's understanding of the church market and its commitment to develop coverage to meet the special needs of its policyholders.

The Company had approximately 500 independent agents and 150 agencies as of December 31, 2008.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company as reported during the examination period:

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Premium Earned	Net Income
2008	$ 312,428,301	$ 181,748,355	$ 130,679,946	$ 157,455,968	$ 8,100,524
2007	314,437,581	178,754,232	135,683,349	152,071,792	17,059,658
2006	293,366,803	173,870,608	119,496,194	149,397,889	9,170,930
2005	273,862,186	165,994,479	107,867,708	146,607,315	13,410,151
2004	251,123,906	156,787,101	94,336,805	133,923,206	12,723,460

Admitted assets and surplus as regards policyholders all continued to grow during the examination period until 2008, where they declined. This was only the third time in the past twenty-four (24) years that the Company recognized a loss in surplus as regards policyholders for the year. Earned premiums have continued to increase during the entire examination period. There are no known trends that have had or that the Company reasonably expects will have a material favorable or unfavorable impact on net revenues or net income.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors consisting of no less than nine (9) and no more than eleven (11) members, of whom, no more than five (5) may be current or former employees. At least one (1) of the Directors must be a resident of Indiana. The policyholder, at its annual meeting, elects the Board of Directors, based on a three group, three-year rotating schedule. The following is a listing of persons serving as Directors as of December 31, 2008:

Name & Address	Principal Occupation
Michael J. Allison Fort Wayne, Indiana	Chief Counsel and Secretary Brotherhood Mutual
James A. Blum Fort Wayne, Indiana	Chairman Brotherhood Mutual
R. David Boyer Fort Wayne, Indiana	Partner Boyer and Boyer
Kathy B. Bruns Fort Wayne, Indiana	President Time Services, Inc.
Phillip A. Dabill Naples, Florida	Chairman and Chief Executive Officer Bon Vivant of Florida, Inc.
Dale O. Ferrier Wolcottville, Indiana	Management Consultant Ferrier Consulting Services
Ronald J. Habegger Fort Wayne, Indiana	President Fellowship of Evangelical Churches
Allen H. Leatherman Fort Wayne, Indiana	Retired Vice-President Brotherhood Mutual
Sammy T. Mah Baltimore, Maryland	President and Chief Executive Officer World Relief
Mark A. Robison Fort Wayne, Indiana	President and Treasurer Brotherhood Mutual

Officers

The Company's Bylaws state the officers of the Corporation shall consist of the Chairman of the Board, President of the Company, a Secretary and a Treasurer, together with one or more Vice Presidents of the company, and any Assistant Vice Presidents who may be named by the Board. The same individual may hold the offices of Chairman of the Board and President concurrently. The following is a list of key officers and their respective titles as of December 31, 2008:

Name	Office
James A. Blum	Chairman of the Board
Mark A. Robison	President and Treasurer
Matthew G. Hirschy	Vice President - Finance
Michael J. Allison	Vice President and Secretary
Scott A. Figgins	Vice President - Underwriting and Claims

CONFLICT OF INTEREST

The Company requires officers and Directors to review and sign Conflict of Interest statements on an annual basis. Per review of the signed statements, the Examiner noted that officers and Directors listed in the management and control section of this Report of Examination had reviewed and signed their statements as of year-end.

OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every Director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. Each director signed an Oath of Office when elected.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

There were no amendments made to the Articles of Incorporation and Bylaws during the examination period.

Minutes

The Board of Directors', Annual Policyholders', Executive Committee's and Audit Committee's meeting minutes were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. It was noted that the annual meetings and other regular Board meetings were held in accordance with the Company's Bylaws.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by St. Paul Fire and Marine. The bond has coverage of $1,000,000 with a $50,000 deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by NAIC.

The Company had additional types of coverage in-force at December 31, 2008 including, but not limited to, management liability, Director's & Officer's coverage, employer's liability, fiduciary, general liability, property and workers' compensation.

STATUTORY AND SPECIAL DEPOSITS

The Company reported the following statutory deposits comprised of United States Treasury Notes and Bonds and Federal Home Loan Bank Notes at December 31, 2008:

State	Book Value	Fair Value
For all Policyholders:		
Indiana	$ 2,500,000	$ 2,606,131
All Other Special Deposits:		
Arizona	150,499	152,930
California	119,923	130,678
Delaware	99,936	108,898
Georgia	79,948	87,118
Idaho	300,998	305,859
Louisiana	25,078	25,488
Massachusetts	100,193	101,953
Nevada	300,957	305,859
New Mexico	299,807	326,694
North Carolina	321,065	326,250
Oregon	250,355	263,217
Tennessee	79,948	87,118
Total Deposits	$ 4,628,708	$ 4,828,192

REINSURANCE

The Company's business consists primarily of commercial multi-peril and workers compensation business written for various faith-based organizations (i.e. churches and related ministries). Following is additional information concerning the Company's assumed and ceded reinsurance programs:

Reinsurance Assumed

The Company does not maintain an active assumed reinsurance program. Their primary reinsurance assumed account consists of a small participation in the National Council of Compensation Insurance (NCCI) reinsurance pool. This block of business accounted for approximately 75% of the Company's total assumed premiums of $1.0 million and 96% of total assumed case loss and loss expense reserves of $1.3 million in 2008. The Company had no other individually significant assumed reinsurance balances in 2008.

Reinsurance Ceded

In 2008, the Company reported $48.2 million of ceded premiums which represents 23% of gross direct and assumed premiums. While some of the reinsurance is placed directly by the Company, the majority is handled through Guy Carpenter & Co., a reinsurance intermediary.

Reinsurance programs are generally structured to limit the Company's per-risk exposure to a maximum of $500,000 for all primary business lines. A summary of the primary ceded contracts in place during 2008 and the limits reinsured under each series of treaties is as follows:

Description of Reinsurance	**Limits placed**
Casualty Excess of loss - 3 layers	$10,500,000 x/s $500,000
Workers Compensation Excess of Loss - 1 layer	$9,500,000 x/s $500,000
Excess and Umbrella Liability - 2 layers	95% quota share - 1st $1,000,000 100% quota share - next $4,000,000
Property Per-Risk Excess of Loss - 4 layers	$24,500,000 x/s $500,000
Boiler and Machinery - 1 layer	100% quota share of risk

In addition to reinsurance placed on a quota share or excess of loss basis, the Company also maintains a catastrophe reinsurance program providing the following limits:

Description of Reinsurance	**Limits placed**
Catastrophe Excess of Loss 5 layers	$52,000,000 x/s $3,000,000
Aggregate Catastrophe Excess Of Loss **	$10,000,000 x/s $10,000,000

** Covers the Company's net retained liability under the property per-risk and property catastrophe program.

Most of the Company's reinsurance treaties are syndicated among multiple reinsurers. The following reflects the dispersal of ceded premiums and total reinsurance recoverable at December 31, 2008:

Company Name		2008 Ceded Premiums 000's			2008 Total Reinsurance Recoverable 000's	
Swiss Reins America Corp	$	7,348	15.2%	$	3,113	9.5%
Travelers Indemnity Co		6,739	14.0%		4,676	14.3%
Toa-Re Ins Co of America		3,847	8.0%		1,870	5.7%
Hannover Ruck A.G.		3,761	7.8%		1,107	3.4%
Platinum Underwriters Reins		3,561	7.4%		2,818	8.6%
Arch Reins Co		3,449	7.1%		2,401	7.3%
American Agricultural		2,573	5.3%		1,824	5.6%
Employers Mutual Casualty		2,531	5.2%		1,098	3.3%
Total of above companies		33,809	70.0%		18,907	57.6%
Total ceded in 2008	$	48,267		$	32,802	

The Company had no other significant reinsurance ceded at December 31, 2008.

RESERVES

Robb Luck, FCAS, MAAA, with the firm Ernst & Young LLP, was appointed by the Board of Directors on December 16, 2008 to render an opinion on the statutory-basis loss and loss adjustment expense reserves of the Company. Mr. Luck rendered an opinion on such reserves for the years ending December 31, 2004, December 31, 2005, and December 31, 2008. Charles H. Boucek, FCAS, MAAA, of Ernst & Young LLP, provided the opinions for 2006 and 2007.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining loss reserves and related items, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used and such tests of the calculations as considered necessary.

The 2008 opinion stated that the balances of loss and loss adjustment expense reserves 1) meet the requirements of the insurance laws of Indiana; 2) are computed in accordance with accepted loss reserving standards and principles; and 3) make a reasonable provision for all unpaid loss and loss adjustment expense obligations, gross and net as to reinsurance ceded, of the Company under the terms of its policies and agreements.

During the examination, it was determined that the material actuarial items in the Annual Statement of the Company are materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the Commissioner of Insurance of the State of Indiana.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2007 and December 31, 2008 were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2004 through December 31, 2008 were agreed to each year's independent audit report with no exceptions noted. The Examiners determined the Company's accounting procedures, practices, and account records were satisfactory.

BROTHERHOOD MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

	As of December 31, 2008			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Assets:				
Bonds	$ 178,480,211	$ -	$ 178,480,211	$ 166,569,810
Stocks:				
Common stocks	34,579,856	-	34,579,856	58,860,455
Real Estate:				
Properties occupied by the company	7,443,915	-	7,443,915	6,568,209
Properties held for the production of income	-	-	-	815,730
Cash, cash equivalents and short-term investments	6,567,961	-	6,567,961	11,229,877
Other invested assets	6,663,477	-	6,663,477	1,317,053
Receivables for securities	25,613	-	25,613	637,194
Subtotals, cash and invested assets	$ 233,761,033	$ -	$ 233,761,033	$ 245,998,327
Investment income due and accrued	2,843,841	-	2,843,841	2,614,365
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	11,460,973	-	11,460,973	11,152,780
Deferred premiums, agents' balances and installments booked but deferred and not yet due	50,423,368	-	50,423,368	48,560,589
Reinsurance:				
Amounts recoverable from reinsurers	1,376,937	-	1,376,937	1,450,262
Other amounts receivable under reinsurance contracts	818,735	-	818,735	456,220
Current federal and foreign income tax recoverable and interest thereon	1,664,888	-	1,664,888	-
Net deferred tax asset	8,034,565	-	8,034,565	2,164,774
Guaranty funds receivable or on deposit	509,915	-	509,915	658,244
Electronic data processing equipment and software	590,870	-	590,870	396,926
Aggregate write-ins for other than invested assets	943,176	-	943,176	985,094
Total Assets	**$ 312,428,301**	**$ -**	**$ 312,428,301**	**$ 314,437,581**

BROTHERHOOD MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

	As of December 31, 2008			
	Per Annual Statement	**Examination Adjustments**	**Per Examination**	**December 31, Prior Year**
Liabilities:				
Losses	$ 54,616,494	$ -	$ 54,616,494	$ 53,977,804
Loss adjustment expenses	12,864,668	-	12,864,668	11,711,147
Commissions payable, contingent commissions and other similar charges	7,061,042	-	7,061,042	7,927,883
Other expenses	1,941,023	-	1,941,023	3,026,175
Taxes, licenses and fees	1,794,699	-	1,794,699	1,742,468
Current federal and foreign income taxes on realized capital gains (losses)	-	-	-	963,731
Unearned premiums	95,048,932	-	95,048,932	91,982,407
Advance premium	2,757,664	-	2,757,664	2,982,006
Ceded reinsurance premiums payable	2,786,273	-	2,786,273	2,107,891
Amounts withheld or retained by company for account of others	339,962	-	339,962	368,092
Provision for reinsurance	49,254	-	49,254	53,354
Payable for securities	2,467,942	-	2,467,942	1,803,374
Aggregate write-ins for liabilities	20,401	-	20,401	107,900
Total liabilities	**$ 181,748,355**	**$ -**	**$ 181,748,355**	**$ 178,754,232**
Surplus notes	$ 22,000,000	$ -	$ 22,000,000	$ 22,000,000
Unassigned funds (surplus)	108,679,946	-	108,679,946	113,683,350
Surplus as regards policyholders	**$ 130,679,946**	**$ -**	**$ 130,679,946**	**$ 135,683,350**
Total liabilities, capital and surplus	**$ 312,428,301**	**$ -**	**$ 312,428,301**	**$ 314,437,581**

BROTHERHOOD MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Statement of Income

	As of December 31, 2008			
	Per Annual Statement	Exam Adjustments	Per Examination	December 31, Prior Year
UNDERWRITING INCOME				
Premiums earned	$ 157,455,968	$ -	$ 157,455,968	$ 152,071,792
DEDUCTIONS				
Losses incurred	$ 82,545,743	$ -	$ 82,545,743	$ 71,158,655
Loss adjustment expenses incurred	13,279,959	-	13,279,959	11,422,557
Other underwriting expenses incurred	51,410,631	-	51,410,631	53,827,748
Total underwriting deductions	$ 147,236,332	$ -	$ 147,236,332	$ 136,408,960
Net underwriting gain (loss)	**$ 10,219,636**	**$ -**	**$ 10,219,636**	**$ 15,662,833**
INVESTMENT INCOME				
Net investment income earned	$ 6,522,120	$ -	$ 6,522,120	$ 7,004,338
Net realized capital gains (losses)	(3,435,156)	-	(3,435,156)	1,382,928
Net investment gain (loss)	**$ 3,086,964**	**$ -**	**$ 3,086,964**	**$ 8,387,267**
OTHER INCOME				
Net gain (loss) from agents' or premium balances charged off	$ (254,664)	$ -	$ (254,664)	$ (314,466)
Finance and service charges not included in premiums	970,530	-	970,530	967,100
Aggregate write-ins for miscellaneous income	195,531	-	195,531	606,169
Total other income	$ 911,397	$ -	$ 911,397	$ 1,258,803
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	$ 14,217,996	$ -	$ 14,217,996	$ 25,308,903
Dividends to policyholders	$ 2,208,661	$ -	$ 2,208,661	$ 2,238,447
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	$ 12,009,335	$ -	$ 12,009,335	$ 23,070,456
Federal and foreign income taxes incurred	3,908,812	-	3,908,812	6,010,798
Net Income	**$ 8,100,524**	**$ -**	**$ 8,100,524**	**$ 17,059,658**
CAPITAL & SURPLUS ACCOUNT				
Surplus as regards policyholders, December 31 prior year	$ 135,683,349	$ -	$ 135,683,349	$ 119,496,194
Net income	$ 8,100,524	$ -	$ 8,100,524	$ 17,059,658
Change in net unrealized capital gains or (losses)	(12,462,215)	-	(12,462,215)	366,653
Change in net deferred income tax	177,149	-	177,149	525,752
Change in nonadmitted assets	(822,960)	-	(822,960)	(1,747,643)
Change in provision for reinsurance	4,100	-	4,100	(17,264)
Change in surplus as regards policyholders for the year	**$ (5,003,403)**	**$ -**	**$ (5,003,403)**	**$ 16,187,155**
Surplus as regards policyholders, December 31 current year	**$ 130,679,945**	**$ -**	**$ 130,679,945**	**$ 135,683,349**

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2008 based on the results of this examination.

SUBSEQUENT EVENTS

There were no events occurring subsequent to the completion of fieldwork and prior to the issuance of this report that were deemed in need of disclosure.

MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a completed management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the IDOI.

CONCLUSION

The preceding report of examination of **Brotherhood Mutual Insurance Company** as of December 31, 2008 reflects its financial condition in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and any and all prescribed and permitted accounting practices of the Indiana Department of Insurance. An Affidavit of the Examiner-in-Charge, Daniel P. McBay, CFE, is on file with the Indiana Department of Insurance and attests that the examination was performed in a manner consistent with the standards and procedures required by the Indiana Department of Insurance and the National Association of Insurance Commissioners Financial Condition Examiners Handbook. Based on my review, to the best of my knowledge, the examination was performed in a manner consistent with those standards and procedures and properly reflects the financial condition of **Brotherhood Mutual Insurance Company.**

Alan T. Griffieth

Alan T. Griffieth, CFE
Examinations Manager
Indiana Department of Insurance