1990

ANNUAL REPORT

MSI Insurance®

Mutual Service Insurance Companies

Mutual Service Casualty Insurance Company

Mutual Service Life Insurance Company

MSI Insurance Company

Modern Service Insurance Company

Mutual Service Cooperative

MSI Insurance corporate headquarters is located at Two Pine Tree Drive in Arden Hills, Minnesota.

MSI Insurance Companies is comprised of Mutual Service Casualty, Mutual Service Life, Modern Service and MSI Insurance. The companies' core businesseses include:

- all lines of insurance for families, small businesses and individuals offered by an exclusive agency force in the Upper Midwest and on the West Coast;
- specialized insurance products for agribusiness organizations throughout the United States;
- full service retirement plans with emphasis on 401(k) defined contribution plans.

The MSI Insurance group was formed in 1948 and 1949 by the consolidation of five small companies founded by cooperative leaders in Minnesota and Wisconsin in the '30s. Today it is a national leader in cooperative insurance.

Mutual Service Cooperative, MSI's unique governing structure that provides leadership for the companies, is owned by its 600 member cooperatives. Delegates elect the 11-member board of directors on the basis of one vote by each cooperative.

On a combined basis, your companies had written premium of $227 million, achieved a gain from operations of $10.0 million before taxes, capital gains and losses, and intercompany dividends, and reached a new record for combined operating surplus. At year end, the operating surplus for your companies is $100 million. 1990 was a good year by any measure, and particularly satisfying in the wake of large losses in our group health line in the late '80s.

As reported last year, MSI experienced substantial losses in its group health business in 1988. These losses were substantial enough to reduce surplus for all our companies. Management's priority during 1989 was to reverse these losses. We did this, and since most of the problem had been caused by new ventures outside our traditional markets, these actions had only a minor impact on our primary customers.

Management's priorities this year were to conclude the financial strengthening already begun, and focus all our assets and attention on those market segments in which your companies can provide consistently superior products and services.

We said we'd do this first, by eliminating costs and activities that are not important to our customers; second, by investing the savings in things that do matter to them; and third, by concentrating our efforts on building performance in three strategic business segments. These segments are: 1) providing insurance and risk management services for cooperatives and other agribusiness firms, 2) meeting the personal insurance needs of individuals and families in two specific areas — one on the West Coast and the other in four states in the Upper Midwest, and 3) providing low cost defined contribution retirement plans for small- and medium-sized employers.

1990 Results

During 1990, we accomplished what we set out to do.

We took a hard look at overhead expenses and fixed costs and reduced the home office staff by nearly 10 percent. Some units were restructured to remove a complete layer of management. This in turn improved communications by bringing employees and senior management closer together. We then studied every program and system, and eliminated those without direct price advantage or service benefit to our policyowners. The sum of these actions reduced your companies' expenses by $5.1 million.

At the same time we were cutting overhead costs, we increased our investment in the things that mattered most to our customers. We expanded the sales and service staffs in the commercial agribusiness and pension divisions, enlarged our commercial property coverages and service operations, and introduced entirely new prospecting and customer service programs for our personal insurance agents. These programs have already had a measurable impact on agent productivity, and average agent income increased 9.9 percent.

MSI's strategies to rebuild from past losses also prepared us well to respond to the solvency concerns which plagued the entire financial services industry during 1990. Although the insurance industry has little in common with the savings and loan industry, public concern has been raised.

Much of this discussion was directed toward the quality and amount of high return bonds held by life insurance companies. At year end, Mutual Service Life had only 2.2 percent of its assets in below investment grade bonds, a percentage that is less than one-half of the industry average, and represents a conservative posture.

Another common criticism was that life insurance companies are carrying their distressed real estate at original cost. We are not doing that. It is MSI's policy to adjust the balance sheet value by (1) establishing specific reserves for distressed properties, (2) establishing a formula reserve reflecting the potential for additional problems based on the risk characteristics of our portfolio, and (3) adding a contingency reserve reflecting the current depressed real estate situation. At year end, our total reserve for these contingencies stands at $10 million, which is $6.5 million more than required by statute. These voluntary reserves mean that MSI has valued its real estate and mortgage assets on a much more conservative basis than is the practice in the industry.

During 1990, Mutual Service Life had a pre-tax gain from operations of $5.8 million, a significant increase from the break-even results in 1989 and the $28.4 million loss in 1988. Although much of this gain was used to remove risk from our balance sheet, as mentioned above, these earnings were still large enough to make a contribution to surplus of $1.3 million. One-half of this amount was used to reduce the note issued by Mutual Service Casualty in 1988.

Mutual Service Casualty also achieved good gains from operations. These gains were diminished somewhat by unrealized capital losses from the stock market decline that affected the entire industry. However, net of these losses, Mutual Service Casualty increased policyowner surplus by $7.7 million to achieve a year-end total of $77.1 million, the most ever.

Modern Service Insurance Company, our small specialty property/casualty company, continued its excellent performance, and achieved an operating gain of $1.3 million. Because of Modern's strong financial condition, the Board of Directors authorized the payment of a $4.0 million dividend to be shared by Mutual Service Casualty and Mutual Service Life to take advantage of income tax opportunities and to reduce the percentage of each company's assets invested in affiliates.

Looking Ahead

Management priorities for 1991 are to continue to build the now strong financial base of all of our companies, to find additional ways to improve our cost effectiveness, to increase the productivity of our personal insurance agents, and to implement the findings of the research begun in 1990, better aligning our commercial property/casualty and life/health and pension products to meet the needs of our cooperative and agribusiness customers and sponsors.

The insurance industry faces several challenges that have implications for our operations. The profitability of personal property/casualty business has continued to deteriorate, as demonstrated by the large losses being realized by almost every company selling these products. It's likely that this trend will continue, at least in the short-term, and since approximately half our property/casualty business is in the personal lines, these marketplace conditions pose challenges for your companies.

Much has been said and written about the health care crisis in America. Solutions are still taking shape, and we remain optimistic that these issues can be resolved in a way that all participants will find acceptable. In the meantime, managing our health operations presents another challenge.

Against that backdrop, the Mutual Service Insurance Companies enter 1991 with the strongest financial base in their history. Our expenses have been substantially restructured, and our employees are dedicated to the idea of trying to "think like a customer" as they carry out their day-to-day responsibilities.

On behalf of the employees, agents, and management at MSI, I pledge that we shall continue to dedicate ourselves to providing all our policyowners and sponsors with risk management services and insurance relationships that are noticeably superior.

James F. Van Houten

James F. Van Houten, CLU, CPCU
President and Chief Executive Officer

Despite the industry's losses in personal property/casualty business, each of the MSI companies achieved a gain from operations in 1990. The total gain from operations for all companies was $14 million. This includes a $4 million dividend from Modern Service shared equally by Mutual Service Life and Mutual Service Casualty.

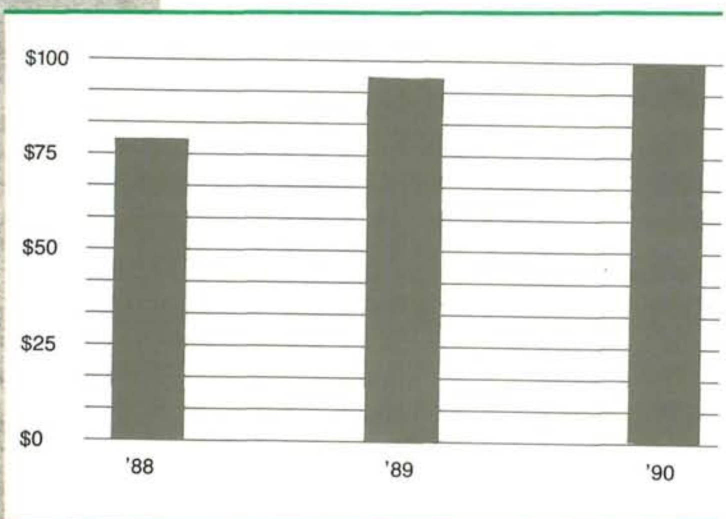
Most notable was Mutual Service Life's gain from operations of $5.8 million. This company had suffered a $28.4 million loss in 1988 and broke even in 1989.

Mutual Service Casualty's gain from operations of $6.8 million after the previous year's $11.8 million gain reflects an industry-wide increase in loss ratios.

Modern Service posted a gain from operations of $1.3 million, up from $1.2 million in 1989.

On a combined basis, the companies' year-end operating surplus reached $100 million, a milestone signifying the strongest financial position in their 56-year history.

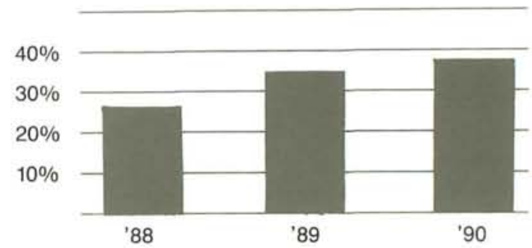
Combined Companies' Operating Surplus



1990 marketing efforts were much more targeted than in the past, and growth was achieved within each of the companies' strategic business markets. Over the last two years, these markets have produced a considerably larger share of the companies' total premium, reflecting corporate emphasis on its three core businesses:

Personal Insurance

Share of MSI Premium Produced by Multiple Line Exclusive Agency

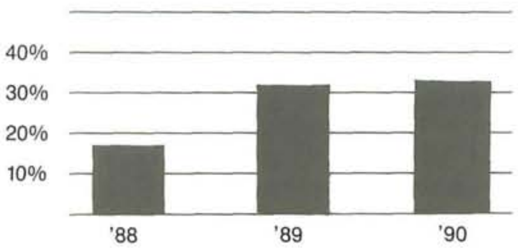


The new prospecting and customer service programs implemented during 1990 have increased the productivity and growth expectations of the multiple line exclusive agency force. The program features TelApproach, a prospect-friendly telemarketing program, and the Family Security Review, in which the customer's total insurance needs are periodically reviewed. Overall financial security, including the need for life insurance, is emphasized. The MSI Agent Staff Finance Assistance Plan was also introduced. This innovative program helps agents hire additional staff for their agencies, allowing them more time with customers.

MSI Insurance employees wear "Think Like A Customer" buttons as reminders of how, in their day-to-day responsibilities, they can positively influence customer satisfaction.

Agribusiness

Share of MSI Premium
Produced by Commercial and Agribusiness Sales

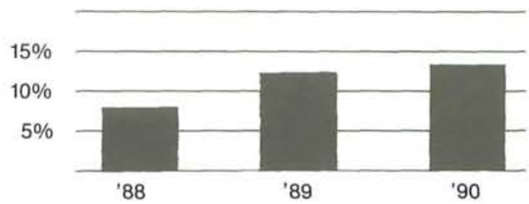


As the leading insurer of cooperatives, MSI provides insurance to many of the nation's largest cooperatives, and offers specialized expertise in helping customers develop risk control programs. The company continued to expand its presence in the agricultural marketplace with an emphasis on cooperatives. Most growth came from Florida, the South Central and Pacific Northwest geographical regions, and California.

Commercial agribusiness property/casualty premium reached record highs. Group life and health sales were targeted to cooperatives and agribusinesses, offering products designed for firms whose employees rely on rural medicine for their health care.

Pension 401(k)

Share of MSI Premium
Produced by Pension 401(k) Sales



The company strengthened its position in the marketplace as the low cost provider of 401(k) plans for small-to-medium sized employers. In 1990, this line continued the strong growth of recent years in both new and ongoing premium.

Corporate Responsibility

In addition to providing quality products and services for its customers, MSI endeavors to enrich the community through corporate giving and community relations programs. During the past year the MSI Insurance Foundation granted $196,000 to community and cooperative organizations. Of this, $70,000 was directed to cooperative organizations through the Mutual Service Fund to promote and expand the cooperative form of business. The largest of these, a $40,000 grant, went to the National Rural Cooperative Development Task Force.

Once again, MSI sponsored the MSI Insurance Turtleman and Turtlekid Triathlons, promoting a healthy lifestyle for children and adults. The Turtleman is a nationally recognized event that attracts both the hobby racer and the country's racing elite.

MSI and its employees contributed to the community through United Way gifts totaling $128,000, and through conscientious participation in a new corporate recycling program.

Risk Control for Agribusinesses

"The way we work together in solving risk management and insurance problems makes MSI seem like an extension of our own company," said Pat Finley, president and general manager of Universal Cooperatives Inc. "Their representatives are like another department of Universal.

"Just one example of the relationship we have is our openness in discussing our risk exposures, exploring alternative solutions,"

Universal President and General Manager Pat Finley, center; and MSI staff — Larry Johns, corporate accounts consultant, left, and Agribusiness Sales Vice President Randy Stoneking are surrounded by Universal products.

Finley continued. "MSI's staff is very willing to learn, to take the time to understand us, and the final insurance program is tailored to meet our circumstances."

Universal Cooperatives Inc., with more than $200 million in annual sales, is an interregional farm supply cooperative providing manufacturing, distribution and purchasing services for 28 regional cooperatives in the United States and Canada. Its 465 employees staff its five main divisions: Automotive, Lawn and Garden/Farm Chemicals, Livestock Equipment, Animal Health and Nutrition, and Twine and Import Sales.

Universal began exploring opportunities to build a risk management approach to their operations and associated risks. The Universal-MSI relationship that evolved is a refreshingly far cry from the traditional relationship between insured and insurer. Through the hard work of both organizations, the typical insurance inspection role changed to a relationship of cooperation, with the emphasis on the risk management process. Finley chairs periodic risk management meetings, bringing together division officers of both companies and MSI risk control, claims, underwriting and sales representatives, as well as Universal's insurance brokers. Problems uncovered in these meetings are addressed by Universal's internal Risk Management Committee. Large losses are reviewed and questions raised about preventabilty — through product design changes or worker training, for instance.

Sharing of information between insurer and insured means that loss trends can be discovered early and action taken. One example was an analysis by MSI risk control of several transportation claims. Though Universal's losses per miles driven were better than industry averages, a problem surfaced that was later corrected through adoption of a driver awareness program researched by MSI.

With Universal involved in so many agriproduct areas, there is significant potential for product liability losses. Cooperating on claims cost information enables Universal to make decisions on transferring risks or eliminating certain products or product lines. Solutions developed are then shared with Universal's member cooperatives, many of whom are also MSI insureds. Universal's relationship with MSI parallels its relationship with its members — cooperation in communication to share a concept, an approach and an outcome beneficial to both. Universal's mission statement sums it up best — "pooling resources and sharing risks to cooperatively achieve economies."

Group Insurance for Agribusiness Employees

From left, MSI group sales manager Colleen Swanson joins The Terminal Agency Executive Vice President Dick Eissinger and benefits administrator Cindy Anderson in front of Harvest States Cooperatives corporate headquarters north of St. Paul, Minn. Harvest States, with annual sales of more than $3 billion, represents approximately 180,000 farmers and ranchers.

"MSI knows our customers in rural America, their needs and their thinking," said Cindy Anderson, benefits administrator for The Terminal Agency. "Because of its cooperative structure, MSI better understands Harvest States, and how each grain elevator is unique. MSI's group accident and health insurance program allows managers flexibility to choose the features they want."

The Terminal Agency, an independent agency and wholly-owned Harvest States subsidiary, markets all lines of insurance to 500 Harvest States affiliate grain elevators across the Midwest and Pacific Northwest. The job of Agency Executive Vice President Dick Eissinger is "to make the best coverage possible available to member cooperatives at cost-efficient rates." Anderson added, "We also want quality service from the insurance company reps."

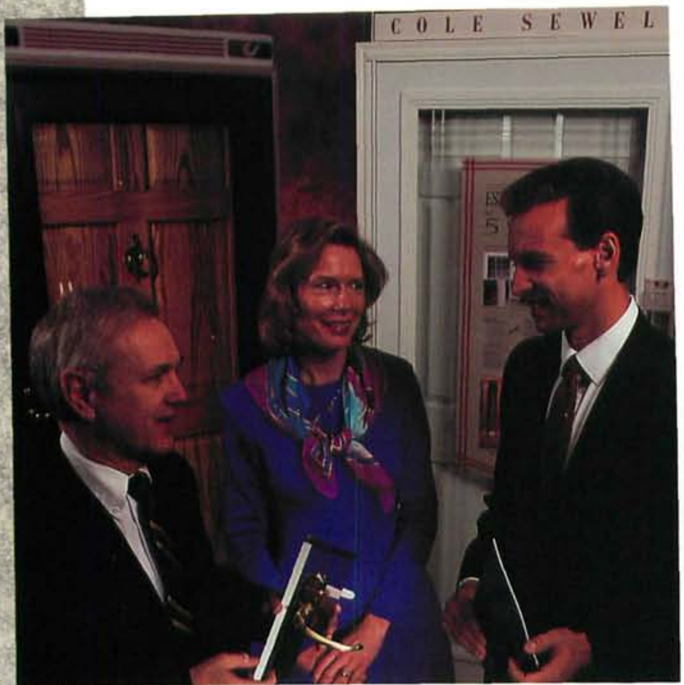
That's why The Terminal Agency markets MSI's group life and health plan exclusively. Beyond the quality service of MSI's underwriters and claims representatives, group sales manager Colleen Swanson will provide training for Terminal Agency sales representatives, preparing them for contacts with those who make health care decisions for individual elevators. She has also spoken on controlling health care costs at Harvest States management meetings and has been featured in Harvest States publications.

"The sophistication and availability of health care services in the United States has never been better," Swanson said. "The odds of living longer and healthier are greater than ever, but, we are in a health care crisis."

At the heart of the crisis is cost. Nationally, the cost of employee medical care is rising by approximately 21 percent per year. Health care insurance has become a No. 1 priority for individuals as well as organizations; 75 percent of employers in a recent survey said it was their most important workplace benefit. Swanson works with The Terminal Agency and its representatives and suggests that one way to reduce their premiums is through higher deductibles and cost sharing with employees.

Together, MSI and The Terminal Agency are working to make quality health care affordable for employees of Harvest States members.

Pension Plans for Businesses



MSI pension account representative Mark Walch, right, visits with Cole Sewell President and CEO Fred Sewell and Vice President Joan Thomas in their showroom.

"In the same way we ask our customers, 'Have you looked at your storm door lately?', we ask our employees, 'Have you looked at your retirement options lately?'" said Fred Sewell, president and CEO of Cole Sewell Corp. in St. Paul.

"Storm doors used to be strictly utilitarian, so we tended not to really look critically at them, and yet, the first thing people see when they approach a house is the front door." He pointed to the beautiful Cole Sewell storm doors behind him, "We don't just sell storm doors, we sell fashion."

"The same with retirement plans," he continued. "We had a profit sharing plan, but we thought people needed to assume some of the responsibility for their own retirement. We wanted to encourage that, not only because it's good for them as individuals, but because it's good for our country's economy, so we established the MSI 401(k) plan."

Cole Sewell Vice President Joan Thomas told of how hard it was to get employees in their 20s to think of financing their retirement. "In this culture of instant gratification, it's tough to get young people to think long term, to look critically at where they'll be financially in 40 years, unless you make the incentive big enough." Cole Sewell matches a percentage of their employees' contributions. Joan figures that employees may nearly double their first-year contributions by virtue of the employer match, tax deferral, and investment return, a yield difficult to match with other investments.

Thomas is so convinced of the value of the plan that she presents it to each new employee individually at their 100-employee factory in Clear Lake, Iowa. "It used to be a hard sell," she said, "but now their peers convince them. When the 401(k) status reports come out, they hear how fast their friends' accounts are growing."

The loan provisions of the MSI 401(k) plan have proven attractive for several employees, one of whom borrowed to remodel her home, and in five years, when she's repaid the loan, will borrow again to finance her child's college education. "Not only is the interest rate attractive — but because the employee is borrowing from herself, the interest she's paying goes back into her own account instead of to a lending institution," Thomas said.

MSI's 401(k) Plans are a win/win situation for everyone.

Personal Insurance for Families

"My business keeps me so darn busy that the most important thing my insurance agent can do for me is save my time," said Dale Meyers, owner of Meyers Electric in Rice Lake, Wis. "I know that when I have a claim, all I have to do is call Al, and he'll take care of it for me. Al started out with the insurance on our house and one car, and took such good care of us, that little by little, he ended up with all of it."

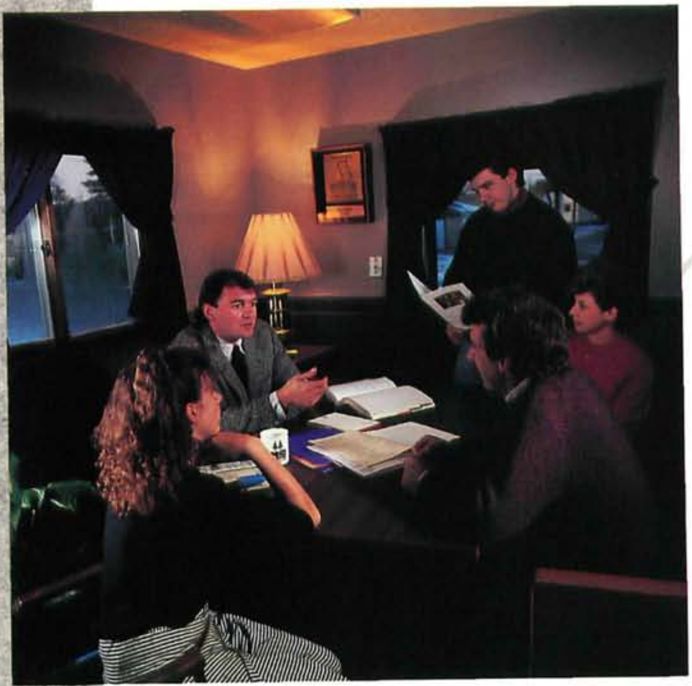
MSI agent Al Haus takes his multi-line responsibilities seriously in providing for families' total financial security needs. In Meyers' case, that involved insurance on his business, three cars, six trucks, Universal Life, spouse term life, and major medical for the Meyer family and the families of their four employees.

In September, a hail storm hit Rice Lake. Three of Meyers' trucks were among the 175 pock-marked MSI-insured vehicles. "Our claim adjusters worked so hard on inspections that 90 percent of our insureds left with checks in their hands. That really impressed people in town who were insured by other companies and were just getting started on the red tape," Al said. Part of the credit for prompt claim service is Al's. When rain threatened to wipe out a day of inspections because of the need for dry surfaces on the cars, he turned his garage into a drive-in claims center.

Al thinks like a customer because it hasn't been very long since he was one. Before joining MSI six years ago, he was the proprietor of three laundromats. "I'd think of something to discuss with my agent about 9 o'clock at night, when things at the laundromats quieted down, and I'd have to wait until morning. That's why the phone in my office switches over to my home when I leave for the day," he said. "I'm available to my clients when they need to talk to me." He's also available on his 800 number. As the father of three, he understands kids; there's a toy box in the office for children who might not be as interested in insurance as their parents.

Born and raised in Rice Lake, Al and his wife, Paula, have a close relationship with the town and those who live there. He is a member of the Elks, Moose and Ducks Unlimited and plays flag football, and manages youth baseball teams and a softball team of "older" players — those over 25 years of age. Paula is a public health nurse, and one day a week, serves the elderly with a "Laundry on Wheels" route.

Service is a tradition with the Haus family — and with MSI Insurance.



MSI agent Al Haus meets in his office with the Meyers family: 12-year-old Angie, Dale and his wife, Nancy, and Jason, 17.

Mutual Service Casualty Insurance Company

BALANCE SHEETS (UNAUDITED)

ASSETS	DECEMBER 31 1990	1989
Bonds	$ 158,145,178	$ 144,696,969
Preferred and Common Stocks	15,224,713	15,950,508
Mortgage Loans	3,632,927	4,569,210
Real Estate	12,046,535	
Investment in Subsidiaries	16,485,561	18,432,300
Short-term Investments	8,597,714	11,120,723
Cash	672,163	2,278,564
Premiums Due and Other Receivables	19,372,497	13,885,710
Accrued Investment Income	4,125,059	3,884,975
Due From Affiliates	3,455,066	9,340,656
Other Assets	245,043	331,001
TOTAL ASSETS	$ 242,002,456	$ 224,490,616

LIABILITIES AND POLICYOWNERS' SURPLUS

Reserves for Losses and Loss Adjustment Expenses	$ 111,624,888	$ 105,880,806
Unearned Premiums	40,065,176	33,585,046
Funds Held Under Reinsurance Treaties	690,190	518,991
Accrued Expenses and Other Liabilities	10,457,533	8,189,705
Conditional Reserves	2,062,054	6,959,464
TOTAL LIABILITIES	164,899,841	155,134,012
POLICYOWNERS' SURPLUS		
Guaranty Fund	1,250,000	1,250,000
Unassigned Surplus	75,852,615	68,106,604
TOTAL POLICYOWNERS' SURPLUS	77,102,615	69,356,604
TOTAL LIABILITIES AND POLICYOWNERS' SURPLUS	$ 242,002,456	$ 224,490,616

The finanical statements do not reflect any potential negative impact of California Proposition 103.

Certain 1989 amounts have been reclassified to conform to 1990 presentation.

STATEMENTS OF OPERATIONS (UNAUDITED)

	YEAR ENDED DECEMBER 31 1990	1989
UNDERWRITING		
Premiums Written and Assumed	**$ 153,760,600**	$ 133,066,908
Less Reinsurance Ceded	**17,298,226**	14,702,878
Net Premiums Written	**136,462,374**	118,364,030
Change in Unearned Premiums	**(6,480,130)**	(6,491,148)
PREMIUMS EARNED	**129,982,244**	111,872,882
Losses and Loss Adjustment Expenses	**96,379,267**	77,206,341
Commissions	**23,967,833**	15,841,951
Other Underwriting Expenses	**22,432,172**	22,298,219
TOTAL LOSSES AND EXPENSES	**142,779,272**	115,346,511
GAIN (LOSS) FROM UNDERWRITING	**(12,797,028)**	(3,473,629)
NET INVESTMENT INCOME	**19,408,123**	15,231,574
OTHER INCOME, NET	**188,307**	35,255
GAIN FROM OPERATIONS	**6,799,402**	11,793,200
Federal Income Taxes	**(174,000)**	(287,000)
Realized Gains (Losses) on Sales of Investments	**(775,504)**	1,141,006
NET INCOME	**5,849,898**	12,647,206
Change in Unrealized Appreciation of Investments	**(3,440,976)**	1,203,334
Change in Conditional Reserves	**4,897,410**	(6,146,023)
Other Operating Surplus Changes, Net	**439,678**	(874,761)
INCREASE IN POLICYOWNERS' SURPLUS	**$ 7,746,010**	$ 6,829,756

Mutual Service Life Insurance Company

BALANCE SHEETS (UNAUDITED)

ASSETS	DECEMBER 31 1990	1989
Bonds	$ 235,168,316	$ 243,560,995
Common and Preferred Stocks	316,914	494,644
Mortgage Loans	135,312,626	154,541,414
Real Estate, net	13,351,330	17,069,665
Policy Loans	13,433,670	13,136,304
Investment in Subsidiaries	4,873,866	6,216,280
Other Invested Assets	1,228,347	1,267,683
Short-term Investments	28,520,255	20,847,467
Cash (Overdraft)	(817)	2,089,258
Due and Deferred Premiums	1,381,290	6,884,526
Accrued Investment Income	7,080,979	7,840,386
Federal Income Taxes Recoverable	—0—	175,000
EDP Equipment and Other Assets	3,760,941	2,203,310
Separate Account Assets	38,395,755	35,751,773
TOTAL ASSETS	$ 482,823,472	$ 512,078,705

LIABILITIES AND POLICYOWNERS' SURPLUS

LIABILITIES		
Policy Reserves:		
Life and Annuities	$ 391,498,955	$ 415,101,999
Accident and Health	—0—	1,226,599
Dividends on Deposit	13,865,361	13,790,517
Dividends Payable	3,025,457	2,361,659
Policy and Contract Claims:		
Life and Annuities	616,832	730,299
Accident and Health	—0—	1,005,533
Accrued Expenses and Other Liabilities	3,586,851	5,252,616
Due to Affiliates	2,846,821	10,534,477
Mandatory Securities Valuation Reserve	4,737,360	7,547,978
Voluntary Mortgage Valuation Reserve	6,483,284	1,670,121
Separate Account Liabilities	38,395,755	35,751,773
TOTAL LIABILITIES	465,056,676	494,973,571
POLICYOWNERS' SURPLUS		
Guaranty Funds	500,000	500,000
Unassigned Surplus	17,266,796	16,605,134
TOTAL POLICYOWNERS' SURPLUS	17,766,796	17,105,134
TOTAL LIABILITIES AND POLICYOWNERS' SURPLUS	$ 482,823,472	$ 512,078,705

STATEMENTS OF OPERATIONS (UNAUDITED)

	YEAR ENDED DECEMBER 31 1990	1989
INCOME:		
Premiums, Annuity and Other Contract Considerations	**$ 63,739,226**	$ 65,180,134
Investment Income Less Related Expenses	**41,704,337**	43,435,487
Other Income	**14,631,902**	12,119,133
TOTAL	**120,075,465**	120,734,754
BENEFITS AND EXPENSES:		
Death and Other Contract Benefits	**5,806,522**	14,727,295
Annuity and Cash Value Payments	**102,931,286**	92,504,020
Change in Policy Reserves	**(17,309,960)**	(15,814,587)
Commissions	**5,090,231**	7,411,092
General Expenses	**16,006,821**	20,309,812
TOTAL	**112,524,900**	119,137,632
GAIN FROM OPERATIONS BEFORE DIVIDENDS	**7,550,565**	1,597,122
Dividends to Policyowners	**1,723,378**	1,596,564
GAIN FROM OPERATIONS	**5,827,187**	558
Federal Income Taxes on Operations	**(265,000)**	95,164
Realized Gains on Investments, Net of Income Taxes	**941,106**	184,728
NET INCOME	**6,503,293**	280,450
Change in Unrealized Appreciation of Investments	**(2,770,775)**	2,359,271
Change in Mandatory Securities Valuation Reserve	**2,810,618**	1,646,278
Change in Voluntary Mortgage Valuation Reserve	**(4,813,163)**	(1,670,121)
Interest on Surplus Note	**(885,601)**	(975,000)
Surplus Note Repayment	**(661,661)**	(916,893)
Other Surplus Changes, Net	**478,950**	192,907
INCREASE IN POLICYOWNERS' SURPLUS	**$ 661,661**	$ 916,892

Certain 1989 amounts have been reclassified to conform with 1990 presentation.

BALANCE SHEETS (UNAUDITED)

ASSETS	DECEMBER 31 1990	1989
Bonds	$ 15,783,075	$ 22,547,538
Common Stocks	884,657	909,281
Short-term Investments	126,710	957,095
Cash (Overdraft)	(56,884)	42,697
Premiums Due and Other Receivables	1,933,224	1,565,011
Accrued Investment Income	271,600	464,391
TOTAL ASSETS	$ 18,942,382	$ 26,486,013

LIABILITIES AND STOCKHOLDERS' EQUITY

Reserves for Losses and Loss Adjustment Expenses	$ 6,060,983	$ 6,994,329
Unearned Premiums	1,883,823	2,420,111
Accrued Expenses and Other Liabilities	905,724	1,251,755
Due to Affiliates	511,916	3,343,053
Conditional Reserves	—	126,000
TOTAL LIABILITIES	9,362,446	14,135,248
STOCKHOLDERS' EQUITY		
Capital Stock	1,250,000	1,250,000
Additional Paid-in Capital	1,100,000	1,100,000
Unassigned Surplus	7,229,936	10,000,765
TOTAL STOCKHOLDERS' EQUITY	9,579,936	12,350,765
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 18,942,382	$ 26,486,013

Modern Service Insurance Company is jointly owned by Mutual Service Casualty Insurance Company and Mutual Service Life Insurance Company.

The finanical statements do not reflect any potential negative impact of California Proposition 103.

Certain 1989 amounts have been reclassified to conform to 1990 presentation.

STATEMENTS OF OPERATIONS (UNAUDITED)

	YEAR ENDED DECEMBER 31 1990	1989
UNDERWRITING		
Premiums Written and Assumed	**$ 6,921,344**	$ 11,062,090
Less Reinsurance Ceded	**88,150**	901,961
Net Premiums Written	**6,833,194**	10,160,129
Change in Unearned Premiums	**536,288**	363,093
PREMIUMS EARNED	**7,369,482**	10,523,222
Losses and Loss Adjustment Expenses	**5,424,943**	7,311,464
Commissions	**849,250**	1,345,734
Other Underwriting Expenses	**1,576,792**	2,205,021
TOTAL LOSSES AND EXPENSES	**7,850,985**	10,862,219
GAIN (LOSS) FROM UNDERWRITING	**(481,503)**	(338,997)
NET INVESTMENT INCOME	**1,913,064**	1,947,277
OTHER EXPENSES, NET	**(82,263)**	(416,317)
GAIN FROM OPERATIONS	**1,349,298**	1,191,963
Federal Income Taxes	**(249,000)**	(219,000)
Realized Gains on Sales of Investments	**115,994**	59,760
NET INCOME	**1,216,292**	1,032,723
Change in Unrealized Appreciation of Investments	**(142,844)**	25,007
Dividend to Stockholders	**(4,000,000)**	—
Change in Conditional Reserves	**126,000**	(120,872)
Other Surplus Changes, Net	**29,723**	99,843
INCREASE (DECREASE) IN UNASSIGNED SURPLUS	**$ (2,770,829)**	$ 1,036,701

From left: Donald Armstrong, Bruce Anderson, Norman Jones.

Executive Committee

Bruce G. Anderson, Chairman
Executive Vice President
ALCECO, Albert City, Iowa

Donald R Armstrong, Vice Chairman
President and General Manager (retired)
Universal Cooperatives Inc.
Bloomington, Minnesota

Norman T. Jones
Executive Vice President
and Chief Executive Officer
GROWMARK Inc.
Bloomington, Illinois

Directors

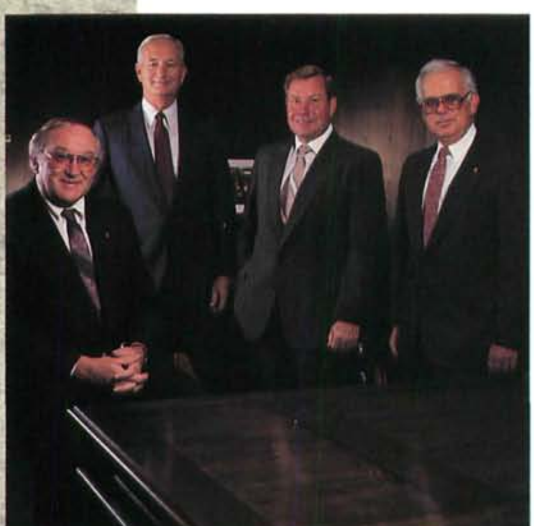
J. Clark Boatman
Controller
Luckey Farmers Inc., Woodville, Ohio

Donald R. Gilles
General Manager
Athens Cooperative, Athens, Wisconsin

Warner Isaac
Executive Vice President
Select Foods Inc., Hayward, California

Marvin J. Kanne
Self-employed dairy farmer
Waseca, Minnesota

From left: Dixie Riddle, Richard Vilstrup, Marvin Kanne, John Shaffer.



From left: Clark Boatman, Joseph Marshburn, Donald Gilles, Warner Isaac.

Joseph D. Marshburn
Chief Executive Officer
Citrus World Inc., Lake Wales, Florida

Dixie Lee Riddle
Self-employed farmer
Mead, Washington

John B. Shaffer
Owner, Shaffer Farms Inc.
Pipestone, Minnesota

Richard H. Vilstrup, Ph.D.
Professor of Agricultural Economics, (retired)
University of Wisconsin, Madison, Wisconsin

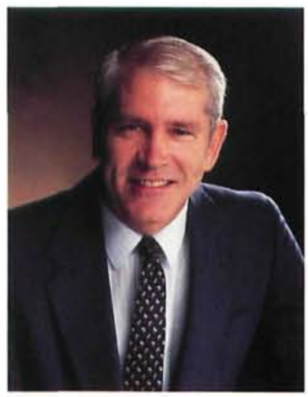
James F. Van Houten, CLU, CPCU
President and Chief Executive Officer

Robert L. Gaecke, FLMI
Vice President and General Manager, Life/Health Operations

J. Randal Powers, CLU, ChFC
Vice President, Agency Sales

Charles W. Quandt
Vice President and General Manager, Property/Casualty Operations

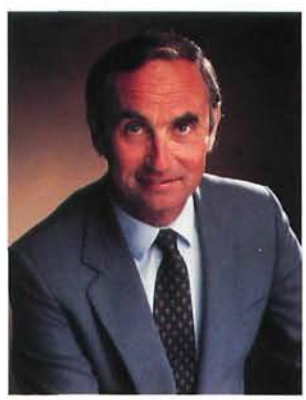
Stephen L. Rohde, FLMI
Vice President, Finance and Treasurer



Thomas R. Schori, Ph.D., CLU, ChFC
Vice President, Marketing Planning

Randall I. Stoneking, CLU, FLMI, RHU, LUTCF
Vice President, Agribusiness Sales

Jerome L. Sychowski, FLMI
Vice President, Administration



Chester A. Zinn, Jr., FLMI
Vice President, General Counsel and Corporate Secretary

MSI Insurance®

Mutual Service Insurance Companies

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