Contents

Directors and Officers

Seated, left to right: *Joe Facey,* Director, Group 2 (2003); Bruce Williams, Director, Eastern Canada (2003); *John Harper,* President; *Terry Malcolm,* Chairman, Ontario Director-at-large (2004); *Philip Brett,* First Vice Chairman, Director, Group 6 (2004); *John McIntosh,* Past Chairman, Director, Group 4 (2002).

Standing, left to right: *Ronald Perry,* Director, Group 1 (2002); *Gerald Brown*, Director, Group 7 (2003); *Michael O'Shea,* Canadian Director-at-large, (2002); *Marie Byrne,* Recording Secretary/Office Manager; *Robert Forsythe,* Senior Vice President; *Serge Gauthier,* Director, Group 8 (2003); *Kathryn Adie,* Director, Group 5 (2002); *Earl Harder,* Second Vice Chairman, Director, Western Canada (2004); *Brian Bessey*, Director, Group 3 (2004); *Tom Smith,* Vice President.

Five Year Financial Highlights

	2001	2000	1999	1998	1997
Revenue					
Premiums Earned	**$ 78,153**	$ 63,584	$ 58,045	$ 61,490	$ 65,767
Commission Earned	**508**	578	582	565	506
	78,661	64,162	58,627	62,055	66,273
Expenditures					
Gross Claims Incurred	**50,783**	66,522	58,006	51,608	24,908
Reinsurance Recovery	**(11,611)**	(14,443)	(23,456)	(7,691)	9,982
Premiums Ceded	**13,888**	12,999	10,736	10,902	10,202
Commission Expense	**6,398**	4,051	3,747	5,072	5,236
Operating Expenses	**4,316**	4,111	3,877	3,675	3,271
	63,774	73,240	52,910	63,566	53,599
Underwriting Gain (Loss)	**14,887**	(9,078)	5,717	(1,511)	12,674
Investment Income	**11,981**	29,544	8,834	13,276	18,533
Refund of Premiums	**(5,500)**	(5,100)	(4,700)		
Taxes	**(5,510)**	(3,930)	(2,423)	(2,861)	(8,644)
Net Earnings for the Year	**15,858**	$ 11,436	$ 7,428	$ 8,904	$ 22,563
Surplus and Reserves	**$ 125,218**	$ 109,360	$ 97,924	$ 90,496	$ 81,592

Operations and Staff

Seated, left to right: *Carol Homer,* Administrative Offices; *Krista Davies,* Claims; *Marcy Bradbury,* Office Services; *Shannon Simpson*, EDP; *Mary Ann Brenner*, Claims; *George Mihailov*, Accounting; *Danielle Kelly*, Claims; *Angela Boost*, Underwriting.

Standing, left to right: *Sandra Wiseman,* Accounting; *Jesse Louks*, Claims; *Jeff Barnard*, Reinsurance; *Ursula Yetman*, Claims; *Jack Black*, EDP Manager; *Marie Gorman*, Office Services; *Sharon Godden,* EDP; *Richard Soehner,* Underwriting; *John Knill,* Underwriting Manager; *Sue McDonald,* Claims; *Jane Williams,* Underwriting.

Absent: *Robert Brenner,* Claims Manager; *Jeff Consitt,* Assistant Claims Manager; *Tracey Schneider,* EDP.

The Claims Department is pleased to announce the addition of Jessica Louks, Krista Davies and Danielle Kelly to our staff. These three individuals will fill the newly created positions of Claims Technicians. Mary Ann Brenner is also a new addition responsible for clerical duties. The restructuring of the claims department has been implemented to meet the needs of our member companies and reinsurers.

The Office Services Department welcomes Marcy Bradbury as Receptionist.

Shannon Simpson was originally hired on a contract basis to fill in for Tracey Schneider's maternity leave. Shannon has since been hired on a permanent basis as a programmer analyst.

Chairman's Message

On behalf of the Board of Directors, it is a pleasure to present the 2001 Annual Financial Statement.

The tragic events of September 11th, 2001 will remain in our minds forever. Our thoughts and prayers remain with all of the innocent people whose lives have been affected. Our business has been impacted by this event, the largest insured loss in modern day history. The worldwide insurance and reinsurance industry has responded by increasing pricing for most forms of reinsurance protection and limiting coverage for terrorist acts.

We are pleased to report that our financial performance in 2001 was very acceptable, with the Corporation posting net earnings for the year of $15.9 million. The result reflects a significant and welcome improvement in underwriting performance.

Underwriting results improved in general liability and automobile lines, with property business remaining an area of concern. We continued to see increases in claims frequency in the Property Excess of Loss portfolio, and extreme weather conditions in Ontario and Manitoba produced a number of property catastrophe and stop loss claims. A severe drought in Ontario had a devastating impact on crop yields, producing a significant loss in the Agricorp Crop Reinsurance Program. Experience in the Automobile and General Liability portfolios reflects a dramatic improvement in underwriting performance and reductions in outstanding loss reserves for prior periods.

We continued to respond to the evolving needs of our Members by providing leadership and direction in the development of claims and underwriting procedures for fuel oil spills. Our leadership in the area of research and development on the many complex issues facing our Members will continue in the future.

During 2001, your Board of Directors authorized a Refund of Premiums of $5.5 million that has been distributed to all Class "A" Members of the Corporation and is reflected in our current year income statements. Our mission is to provide our Members with a strong financial partner and we are satisfied with the overall financial strength of the Corporation.

During 2001, two Members of the Board of Directors, John McIntosh (Director Group Four) and Ronald Perry (Director Group One) announced that they would not be seeking re-election. One Director, Gerald Brown (Director Group Seven), announced his resignation. Bruce Caughey, Amherst Island Mutual, (Director Group Seven) was nominated to complete the unexpired term. On behalf of the Board of Directors, Management and Staff and all FMRP Members, we want to acknowledge and thank these three individuals for their contributions and dedication to this organization.

It has been a pleasure to serve as Chairman of the FMRP over the past year, and I would like to recognize my fellow Board Members and the FMRP management and staff for their support and assistance. We have a very talented group of dedicated professionals who take a very active role in the administration of your reinsurance company.

Our Annual General Meeting will be held in the Sheraton Centre Hotel, Toronto, Ontario on Wednesday, March 20th, 2002 at 1:00 P.M. I encourage you to attend and participate.

J. T. Malcolm

Terry Malcolm
Chairman of the Board

Report to the Members

Together with the world, we were shocked and horrified by the terrorist attacks perpetrated against the United States on September 11th. We continue to mourn for all of those affected by this terrible human tragedy, and specifically for our colleagues who were lost in the destruction of the World Trade Center in New York.

The worldwide insurance and reinsurance industry was significantly damaged by this event which will produce the largest insured loss in the history of our industry. The result is an acceleration in an already hardening worldwide reinsurance market characterized by reductions in underwriting capacity, increases in product pricing and the introduction of exclusions limiting coverage for future terrorist attacks.

The ultimate impact that this event will have on our future operations is evolving - pricing for reinsurance protection has increased. The impact that exclusions related to terrorism will have on retail insurance coverage is also undergoing an evolutionary process that is not yet fully understood. We are an active participant in these discussions and we will closely monitor future developments. Reinsurance protection provided under base reinsurance treaties for FMRP Members will contain no restrictions on terrorism coverage for the 2002 contract term.

We are pleased to report a satisfactory financial result for 2001 with the Corporation posting an after tax profit of $15.9 million. A major improvement in overall underwriting performance saw the combined ratio fall to 76% for the year from 118% in 2000. Analysis of our underwriting performance confirms welcome improvements in general liability and automobile business and continuing difficulties in property lines.

We were generally satisfied with the performance of our investment portfolio during 2001, given the difficulties encountered in worldwide financial markets, both post and pre September 11th.

Results in the Property Excess of Loss Program show little signs of improvement despite rate increases that have been implemented at the reinsurance level over the past number of years. Frequency and severity continue to show no signs of abatement, with the gross loss ratio over 120% for the period and a net loss ratio of 112% for

REPORT TO THE MEMBERS *(continued)*

the year. The cost of FMRP's reinsurance protection for excess of loss business continues to escalate as the program is impacted by a number of large individual losses that have produced significant recoveries from international reinsurers participating in the program.

We recorded five separate property catastrophe occurrence losses during the year - two in Ontario and three in Manitoba. The two most significant events occurred in Ontario in February and April, producing gross losses of 4.9 million and 2.9 million respectively. Extreme weather conditions in many regions of the country produced a series of smaller event losses that were retained to Members' net accounts, producing a number of stop loss claims. Accumulated losses for the period will exceed $7.5 million, representing a net incurred loss ratio of 100% for the year.

For the second consecutive year, extreme growing conditions in Ontario produced losses within the Agricorp Crop Reinsurance Program. Yields for major crops such as corn and soybean were severely reduced as a result of damage caused by extended drought conditions throughout the Province at a critical stage of plant development. FMRP and individual Members have a significant participation in the Catastrophe Reinsurance Program purchased by Agricorp. Gross losses to FMRP and Members participating in the Program were $11.4 million. FMRP financial statements reflect $4.8 million in incurred losses for the 2001 crop year.

There was a significant increase in proportional property business as a result of a number of new quota share agreements that were effected during the period that produced marginal results. Experience under the Commercial Greenhouse Program continued to deteriorate during the year, leading to a decision to discontinue the Program at the end of 2001. On a combined basis, property business produced a net incurred loss ratio of over 104% for the year.

Phenomenal improvements in our automobile results were fueled by both a reduction in frequency and severity in the current year, and some very major reductions in reserves for losses from previous years. Unusually low case reserves in the current year, coupled with the reduction of loss reserves for prior periods, also produced reductions in IBNR reserves. Commutation of a special reinsurance protection purchased by FMRP in 1997, produced an additional offset of over $3.5 million to current year claims. This results in an unbelievable net incurred loss ratio of 3% for the year.

The Ontario Automobile insurance market continues to remain competitive despite the deterioration in loss experience at the retail level. During the year, we prepared and filed two individual automobile rate filings on behalf of the Ontario Members who operate under the group automobile rate filing.

General liability business produced some very good results for the year after a number of years where loss ratios were well above our historical norms for this line of business. Reductions in severity and declining reserves for losses in prior periods combined to reduce the net incurred loss ratio to 43% for the year. This line of business also benefited by the commutation of a special reinsurance protection purchased by FMRP in 1997, which produced an additional offset of over $1.3 million to current year claims.

During 2001, the Board of Directors authorized a Refund of Premiums of $5.5 million that has been distributed and is reflected in these financial statements. This is the third consecutive year that a refund has been declared and the Corporation continues to meet our established objective for surplus adequacy.

As part of our ongoing strategic planning process, senior management continued an investigation into potential advantages that a subsidiary company may provide, and participated in discussions on pooled investment funds with other industry stakeholders.

For the 2002 contract year, we have introduced a number of modifications that increase capacity for greenhouse risks in base property treaties to $2,000,000 per risk, including coverage on growing crops. Coverage under the General Liability Program has been expanded to include coverage for private airstrips and a number of other incidental liability exposures that were previously excluded. We are continuing our investigation of a number of other issues raised at our Member Planning Meetings and we will report on our progress in due course.

Throughout the year we continued our work on a number of special projects. The Pollution Committee completed their investigation and discussions on fuel oil spills, culminating in the development and distribution of claims and underwriting protocols. A series of educational seminars were held across Canada, and we continue to expand, update and validate our recommendations for dealing with these highly complex claims. We are continuing our discussions with the Ontario Ministry of the Environment and numerous other stakeholders to keep abreast of developing issues in the area of environmental liability.

Our underwriting department continued to work closely with the Ontario Mutual Insurance Association to improve the statistical reporting process. As improvement in data quality enhances our ability to meet our responsibilities in establishing retail rates for general liability and automobile product lines, this project retains a high priority for the future.

The claims department continues to assist Members in complying with the Ontario Automobile Market Conduct Audit rules and procedures. The Program will be continued in the future, as Members writing automobile insurance in Ontario meet and maintain compliance in their automobile insurance claims handling practices.

It was another active year in our Company Visits Program where we continued to expand our analysis of issues related to underwriting results and reinsurance program construction. In cooperation with Provincial Insurance Regulators and Self-Regulatory Officials in Ontario, special assistance was requested and provided to a number of Members who are experiencing difficulties. Our underwriting and claims departments have been active in this process, providing assistance to Members in evaluating underwriting performance, and responding to developments in the claims adjustment process.

Management Statement on Responsibility for Financial Reporting

The accompanying financial statements of Farm Mutual Reinsurance Plan Inc. are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada, including the accounting requirements specified by the Ontario Insurance Commission, and include some amounts based upon management's best estimates and judgments.

In meeting its responsibility for the reliability of financial information, management maintains and relies on a comprehensive system of internal control including organizational and procedural controls and internal accounting controls.

The Board of Directors is responsible for approving the financial statements. It establishes an Audit Committee, comprised of directors who are not employees of the Corporation who meet with management and external auditors, who have unrestricted access and the opportunity to have private meetings with the Audit Committee, to review the financial statements. The Audit Committee then submits its report to the Board of Directors prior to its approval of the financial statements.

The members' auditors, BDO Dunwoody LLP, conduct an independent audit of the financial statements and report to the members thereon.

The Financial Services Commission of Ontario makes an annual examination and inquiry into the affairs of the Corporation as deemed necessary to ensure that the Corporation is in sound financial condition and in compliance with the provisions of the Ontario Insurance Act.

John A. Harper
President

T. Smith
Vice-President and
Chief Financial Officer

Cambridge, Ontario
February 13, 2002

AUDITORS' REPORT

To the Members of Farm Mutual Reinsurance Plan Inc.

We have audited the balance sheet of Farm Mutual Reinsurance Plan Inc. as at December 31, 2001 and the statements of earnings, unappropriated surplus and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Financial Services Commission of Ontario.

Mississauga, Ontario
February 13, 2002

Signed: BDO Dunwoody LLP
Chartered Accountants

Farm Mutual Reinsurance Plan Inc.
Balance Sheet

As at December 31 (in thousands of dollars)

	2001	2000
Assets		
Cash	**$ 9,973**	$ 3,434
Receivables (Note 2)	**14,835**	13,339
Prepaids	**39**	31
Income taxes recoverable	**–**	6,226
Investments (Note 3)	**253,611**	234,574
Unpaid claims recoverable from reinsurers (Note 6)	**40,104**	39,531
Property and equipment (Note 4)	**5,407**	5,711
Deferred acquisition costs	**2,685**	1,697
Future tax asset (Note 11)	**–**	1,360
	$ 326,654	$ 305,903
Liabilities		
Payables and accruals (Note 5)	**$4,035**	$1,369
Income tax payable	**2,199**	–
Provision for unpaid claims (Note 6)	**186,098**	190,208
Unearned premiums	**7,719**	4,966
Future income tax liability (Note 11)	**1,385**	–
	201,436	196,543
Contingencies (Notes 1, 6 and 7)		
Surplus and reserves		
Reserves required by the Financial Services Commission of Ontario (Note 8)	**6,714**	10,223
Unappropriated surplus	**118,504**	99,137
	125,218	109,360
	$ 326,654	$305,903

On behalf of the Board:

K. Adie
Director

Earl Harder
Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Farm Mutual Reinsurance Plan Inc.

Statement of Unappropriated Surplus

For the year ended December 31 (in thousands of dollars)

	2001	2000
Unappropriated surplus, beginning of year	**$ 99,137**	$ 86,002
Net earnings for the year	**15,858**	11,436
Decrease (increase) in reserve for unregistered reinsurers	**2,037**	(868)
Decrease in reserve for non-admitted assets	**1,472**	2,567
Unappropriated surplus, end of year	**$ 118,504**	$ 99,137

Statement of Earnings

For the year ended December 31 (in thousands of dollars)

	2001	2000
Net premiums earned (Note 7)		
Property	**$ 33,695**	$ 26,502
Liability	**7,565**	6,457
Automobile	**23,005**	17,626
	64,265	50,585
Net claims incurred (Note 7)		
Property	**35,117**	25,116
Liability	**3,295**	10,246
Automobile	**760**	16,717
	39,172	52,079
Underwriting gain (loss) before expenses	**25,093**	(1,494)
Expenses		
Commissions	**5,890**	3,473
Operating	**4,316**	4,111
	10,206	7,584
Underwriting gain (loss)	**14,887**	(9,078)
Investment income	**11,981**	29,544
Earnings before the following	**26,868**	20,466
Refund of premiums (Note 10)	**5,500**	5,100
Earnings before income taxes	**21,368**	15,366
Income taxes (Note 11)		
Current	**2,765**	1,700
Future	**2,745**	2,230
	5,510	3,930
Net earnings for the year	**$ 15,858**	$ 11,436

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Farm Mutual Reinsurance Plan Inc.
Statement of Cash Flow

For the year ended December 31 (in thousands of dollars)

Cash provided for (used in):	**2001**	2000
Operating activities		
Net earnings for the year	**$ 15,858**	$ 11,436
Adjustments required to reconcile net earnings to net cash provided by operating activities:		
Amortization	**447**	467
Bond amortization	**413**	196
Future income taxes	**2,745**	2,230
Gain on sale of investments	**(1,671)**	(20,113)
Loss on sale of property and equipment	**12**	9
Changes in non-cash working capital components:		
Receivables	**(1,496)**	(1,193)
Prepaids	**(8)**	7
Deferred acquisition costs	**(988)**	(48)
Payables and accruals	**2,665**	(1,161)
Income taxes	**8,425**	(11,831)
Provision for unpaid claims, net of recoveries	**(4,683)**	13,109
Unearned premiums	**2,753**	85
	24,472	(6,807)
Investing activities		
Proceeds on disposal of property and equipment	**39**	35
Purchase of property and equipment	**(193)**	(151)
Proceeds from sale of investments	**411,675**	435,702
Purchase of investments	**(429,454)**	(429,115)
	(17,933)	6,471
Net increase (decrease) in cash	**6,539**	(336)
Cash, beginning of year	**3,434**	3,770
Cash, end of year	**$ 9,973**	$ 3,434
Supplementary cash flow information		
Income tax paid (recovered)	**$ (6,134)**	$ 13,536

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Farm Mutual Reinsurance Plan Inc.
Summary of Significant Accounting Policies

December 31, 2001

Basis of Presentation

These financial statements have been prepared in accordance with accounting policies generally accepted in Canada and comply with the requirements of the Financial Services Commission of Ontario. The preparation of financial statements requires management to make estimates and assumptions that affect reported assets and liabilities and disclosure of contingencies. These estimates also affect the reported amounts of income and expenses for the reporting period of the statement of earnings. Actual results could vary from these estimates.

Investments

Investments in bonds and debentures are carried at amortized cost less amounts written off for other than temporary declines in value. Premiums or discounts incurred on the purchase of bonds and debentures are amortized on a straight-line basis over the remaining life of the investment.

Investments in short-term securities and common shares are carried at cost less amounts written off for other than temporary declines in value. Real estate held for resale is carried at the lower of cost and estimated fair value.

Gains or losses on investments are included in investment income when realized and are calculated on the basis of average cost.

Property and Equipment

Property and equipment are recorded at cost and are amortized from the date of acquisition at the following annual rates:

Building	– 4% straight-line
Office furniture and equipment	– 20% declining balance
Computer hardware and software	– 20% straight-line
Automobiles	– 30% declining balance

Premiums Earned and Deferred

Acquisition Costs

Premiums are included in income on a daily pro-rata basis over the term of the contracts. Acquisition costs related to unearned premiums, comprising commissions paid on proportional reinsurance, are deferred and amortized to income over the periods in which the premiums are earned. The method followed in determining the deferred acquisition costs limits the amount of the deferral to its realizable value by giving consideration to claims and expenses expected to be incurred as the premiums are earned.

Unpaid Claims

The provision for unpaid claims includes individual claim estimates for the full amount of all costs including the investigation and the projected final settlements for losses which occurred prior to the end of the year. In addition, a further provision is made in respect of incurred but not reported claims and development of losses on all outstanding claims. The provision does not take into consideration the time value of money. Estimates are subject to uncertainty, are selected from a wide range of possible outcomes and are adjusted up or down as additional information becomes known. All changes in estimates are recorded as incurred claims in the current period.

Reinsurance Recoverable Premiums earned and claims incurred are recorded net of amounts ceded to, and recoverable from, reinsurers. Amounts recoverable from reinsurers, which are estimated in a manner consistent with the associated claim liability, are recorded separately from the provision for unpaid claims.

Income Taxes Income taxes are accounted for using the liability method. Future income taxes arise from temporary differences between the tax basis of the Corporation's assets and liabilities and their reported amounts in the financial statements. These assets and liabilities include investments and provision for unpaid claims.

Farm Mutual Reinsurance Plan Inc.
Notes to Financial Statements

December 31, 2001 (in thousands of dollars)

1. Nature of Business

The Corporation is incorporated without share capital under the laws of the Province of Ontario. It provides reinsurance to member mutual insurance companies across Canada.

The Corporation is a reinsurer and therefore shares in risks originally accepted by its members. These risks are generally assumed by line of business at premiums established under the terms of agreements (treaties) with individual members. The premiums charged in aggregate, together with investment income attributable to unpaid claims, are expected to cover underwriting costs and claims, which may take a number of years to settle. The business risks of reinsurance reside in determining the premiums, settlement of claims, management of invested funds, and maintaining an appropriate net underwriting exposure.

The Corporation in turn purchases reinsurance to limit its exposure to loss. This reinsurance, however, does not relieve the Corporation of its obligation to members. If any reinsurers are unable to meet their obligations under the related agreements, the Corporation would be liable for unrecoverable amounts.

2. Receivables

	2001	2000
Accrued investment income	**$ 2,052**	$1,846
Ceding member companies	**11,283**	5,235
Reinsurers	**1,290**	6,080
Miscellaneous	**210**	178
	$ 14,835	$13,339

3. Investments

The book values and estimated fair values of investments as at December 31 were:

	2001		2000	
	Book Value	**Estimated Fair Value**	Book Value	Estimated Fair Value
Short-term securities	**$ 5,025**	**$ 5,025**	$ 6,320	$ 6,320
Bonds and debentures				
Government and guaranteed	**123,647**	**124,086**	101,572	102,356
Corporate	**49,627**	**50,619**	50,825	50,687
Common shares	**74,562**	**74,891**	75,107	85,822
Real estate held for resale	**750**	**750**	750	750
	$ 253,611	**$ 255,371**	$ 234,574	$ 245,935

The estimated fair values of common shares and bonds and debentures are based on quoted market values. The estimated fair market value of real estate held for resale is based on appraised value.

Virtually all investments are denominated in Canadian dollars. Details of significant terms and conditions, exposure to interest rate and credit risks on debt instruments are as follows:

Short-term Securities

These are comprised of Canadian Treasury Bills with effective interest rates of 2.0% to 2.9%.

Bonds and Debentures

Maturity profile of the portfolio as at December 31, 2001

Within 1 Year	**1-3 Years**	**3-5 Years**	**5-10 Years**	**Over 10 Years**	**Total**
$ 9,092	$ 30,667	$ 23,260	$ 72,163	$ 38,092	$ 173,274
5%	18%	13%	42%	22%	100%

The effective interest rate at December 31, 2001 for bonds and debentures is 6.0% based on book value.

4. Property and Equipment

			2001	2000
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Land	**$ 1,086**	**$ –**	**$ 1,086**	$ 1,086
Building	**4,912**	**1,290**	**3,622**	3,806
Office furniture and equipment	**895**	**613**	**282**	289
Computer				
– hardware	**644**	**440**	**204**	248
– software	**519**	**362**	**157**	203
Automobiles	**78**	**22**	**56**	79
	$ 8,134	**$ 2,727**	**$ 5,407**	$ 5,711

5. Payables and Accruals

	2001	2000
Expenses payable and accrued	**$ 319**	$ 290
Ceding member companies	**2,467**	1,079
Reinsurers	**1,249**	–
	$ 4,035	$ 1,369

6. Provision for Unpaid Claims

The determination of the provision for unpaid claims and the related reinsurers' share requires the estimation of claims development and reinsurance recoveries. These estimates are subject to variability which could be material. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability can be caused by receipt of additional claim information, changes in judicial interpretation, or significant changes in severity or frequency of claims from historical trends. The estimates are principally based on the Corporation's historical experience but incorporate expectations as to future developments arising out of actuarial studies, changes in the regulatory environment, inflationary trends and economic conditions. Methods of estimation have been used which the Corporation believes produce reasonable results given current information.

Catastrophes are an inherent risk of property and casualty insurance and may contribute to material year-to-year fluctuations in the Corporation's results of operations and financial condition when they occur. The level of catastrophe loss experienced in any one year cannot be predicted and could be material to results of operations and financial position.

The table below details the provision for unpaid claims by line of business:

		2001		2000
	Gross	**Recoverable**	Gross	Recoverable
Property	**$ 36,480**	**$ 10,022**	$ 29,025	$ 7,365
Liability	**52,022**	**12,410**	53,725	13,204
Automobile	**97,596**	**17,672**	107,458	18,962
	$ 186,098	**$ 40,104**	$ 190,208	$ 39,531

The Corporation generally assumes risks from members on an excess of loss treaty basis. On the basis of historical experience, property claims are usually settled on a short-term basis, whereas claims on liability and automobile risks normally have a long settlement term.

Changes in the provision for unpaid claims recorded in the balance sheet and their impact on claims incurred reported in the statement of earnings are set out below:

	2001	2000
Provision for unpaid claims, beginning of year, net	**$ 150,677**	$ 137,568
Net Claims Activity		
Net decrease in estimated claims for losses that occurred in prior years	**(32,152)**	(15,804)
Net claims incurred on current year losses	**71,327**	67,883
Paid on claims incurred in		
– current year	**(19,842)**	(13,939)
– prior years	**(24,016)**	(25,031)
Provision for unpaid claims, end of year, net	**145,994**	150,677
Reinsurers' share	**40,104**	39,531
Provision for unpaid claims, gross	**$ 186,098**	$ 190,208

7. Reinsurance

The Corporation assumes risks from its members and cedes reinsurance to other insurers in order to limit the maximum loss through the spreading of risks. Reinsurance ceded does not relieve the corporation of liability as the originating reinsurer and accordingly it has a contingent liability for reinsurance recoverable should any of the assuming reinsurers be unable to meet their obligations.

The following table sets out the impact of ceded reinsurance on the statement of earnings:

	2001	2000
Net premiums earned		
Premiums assumed	**$ 78,153**	$ 63,584
Premiums ceded	**(13,888)**	(12,999)
	$ 64,265	$ 50,585
Net claims incurred		
Claims incurred	**$ 50,783**	$ 66,522
Recoverable portion	**(11,611)**	(14,443)
	$ 39,172	$ 52,079

The Corporation reinsures assumed risks to limit its maximum loss to the following:

	In Excess of		**To a Maximum of**	
	2001	2000	**2001**	2000
Catastrophe – 95%	**$ 10,000**	$ 10,000	**$ 100,000**	$ 100,000
Excess reinsurance				
Property – 50%	**500**	–	**1,000**	–
Property – 95%	**1,000**	500	**6,000**	4,000
Liability – 100%	**1,000**	1,000	**18,000**	18,000
Automobile – 100%	**1,000**	1,000	**18,000**	18,000

8. Requirements Under the Ontario Insurance Act

The Act in its measurement of the Corporation's solvency position requires appropriation of members' surplus in respect of assets not admitted, investment valuation reserve and other statutory requirements. These appropriations, which are not considered part of surplus by the Financial Services Commission of Ontario, are set out below:

	2001	2000
Reserve for non-admitted assets	**$ 1,116**	$ 2,588
Reserve for unregistered reinsurers	**5,598**	7,635
	$ 6,714	$10,223

9. Pension Plan

The Corporation participates in a multiple employer pension plan through the Ontario Mutual Insurance Association. The plan is a contributory defined benefit pension plan which covers substantially all of its employees. The plan provides pension based on length of service and final average earnings.

The pension expense of $103 (2000 - $102) includes no charges for past service costs.

Based on the last actuarial valuation as at December 31, 2000, the plan's position was as follows:

Assets	$ 1,646
Liabilities	$ 1,564

10. Refund of Premiums

Refund of Premiums are based on members' premiums written over the past five years and are refundable to members on a pro-rata basis.

11. Income Taxes

The provision for income taxes reflects an effective tax rate which differs from the corporate tax rate for the following reasons:

	2001	2000
Income taxes based on combined basic Canadian		
federal and provincial tax rate of 42% (2000– 43%)	**$ 8,975**	$ 6,607
Decrease resulting from permanent differences		
Non-taxable dividend income	**(416)**	(334)
Exempt income from insuring farm risks	**(3,270)**	(2,543)
Large Corporations Tax	**221**	200
Total taxes – current and future	**$ 5,510**	$ 3,930

Future income tax (liabilities) assets are comprised of the following:

	2001	2000
Provision for unpaid claims	**$ 1,160**	$ 916
Invested assets	**(2,545)**	444
	$ (1,385)	$ 1,360

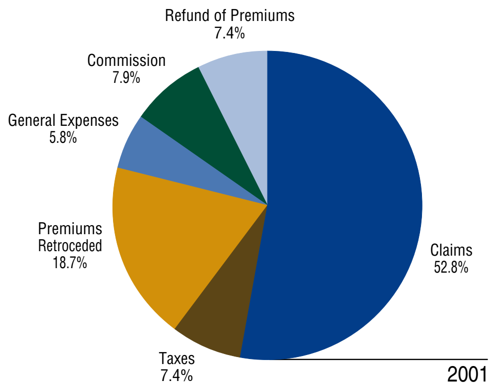
12. Fair Value of Financial Instruments

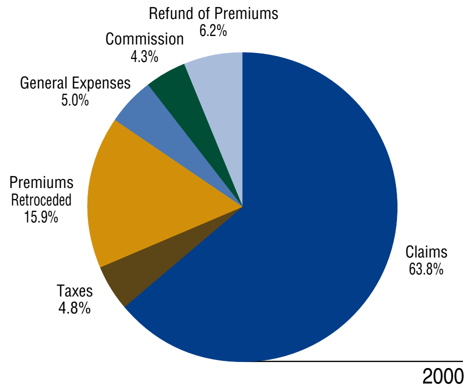
The estimated fair value of investments is set out in Note 3.

The fair values of cash, receivables and payables and accruals approximate their carrying values because of the short maturity of these instruments.

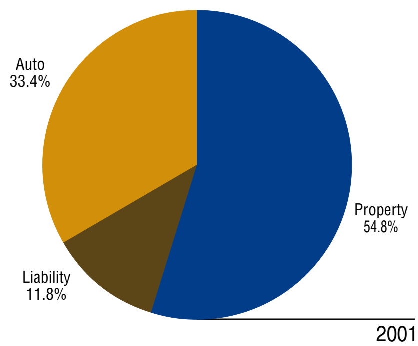
The provision for unpaid claims and related unpaid claims recoverable from reinsurers will be settled over an extended period of time. Their estimated fair values, which would represent the discounted future net cash outflows required to meet these obligations, have not been determined. It is management's assumption, however, that the fair value will be less than carrying value.

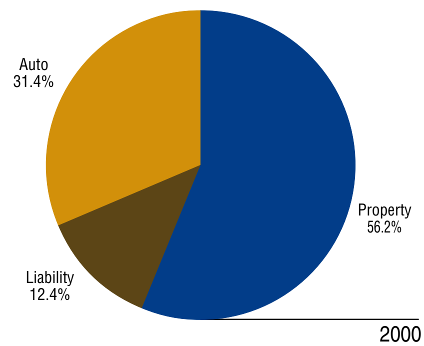
Distribution of expenses



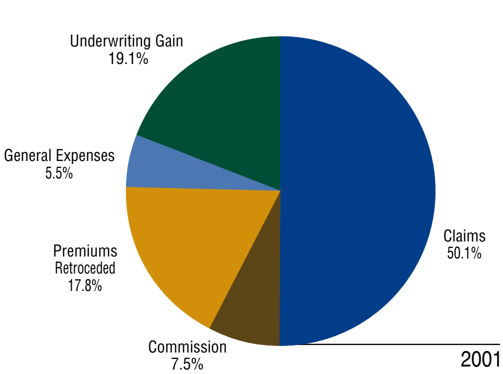


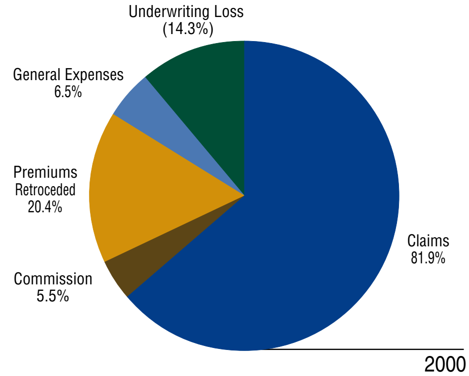
Sources of Gross Premium Income





Distribution of Gross Premium Dollar





Past Presidents and Chairmen of the Board

President

	from	*to*
Fred M. Fletcher	1959	1965
J. Stan Mitchell	1965	1973
Delmar Cobban	1973	1975
Willard Shaw	1975	1977
K. Max Forsythe	1977	1979
William Weir	1979	1981
Emory Knill	1981	1983
John Harper	1983	1985
Fred Legg	1985	1987
Albert McArthur	1987	1989
Donald Mylrea	1989	1991
Gordon Johnson	1991	1992
Vern Inglis	1992	1993
Edward Pellow	1993	1994
Brian Fisher	1994	1995

Chairmen

	from	*to*
James Pinnock	1995	1996
Carl Turnbull	1996	1997
Ronald Perry	1997	1998
Douglas Winer	1998	1999
Gerald Brown	1999	2000
John McIntosh	2000	2001
Terry Malcolm	2001	Present

Staff

General Manager

	from	*to*
H.H. McFadden	1959	1973
Bruce Bird	1974	1979
Gerald M. Snyder	1980	1986
John A. Harper	1987	1995

President

John A. Harper	1995	Present

Notes