Farm Mutual
Reinsurance
Plan Inc.

Contents

Directors and Officers

Seated, left to right: *Marie Byrne,* Recording Secretary/Office Manager; *Joe Facey,* Director, Group 2 (2003); *Philip Brett,* Chairman, Director, Group 6 (2004); *John Harper,* President; *Bruce Williams*, Director, Eastern Canada (2003); *Kathryn Adie,* Second Vice Chair, Director, Group 5 (2005).

Standing, left to right: *Doug Crockett,* Director, Group 4 (2005); *Michael O'Shea,* Canadian Director-at-large, (2005); *Robert Forsythe,* Senior Vice President; *Earl Harder,* First Vice Chairman, Director, Western Canada (2004); *John Leeson,* Director, Group 1 (2005); *Bruce Caughey,* Director, Group 7 (2003); *Terry Malcolm,* Past Chairman, Ontario Director-at-large (2004); *Brian Bessey*, Director, Group 3 (2004); *Serge Gauthier,* Director, Group 8 (2003); *Tom Smith,* Vice President.

Five Year Financial Highlights

	2002	2001	2000	1999	1998
Revenue					
Premiums Earned	**$ 100,979**	$ 78,153	$ 63,584	$ 58,045	$ 61,490
Commission Earned	**218**	508	578	582	565
	101,197	78,661	64,162	58,627	62,055
Expenditures					
Gross Claims Incurred	**77,597**	50,783	66,522	58,006	51,608
Reinsurance Recovery	**(7,275)**	(11,611)	(14,443)	(23,456)	(7,691)
Premiums Ceded	**16,235**	13,888	12,999	10,736	10,902
Commission Expense	**8,488**	6,398	4,051	3,747	5,072
Operating Expenses	**5,156**	4,316	4,111	3,877	3,675
	100,201	63,774	73,240	52,910	63,566
Underwriting Gain (Loss)	**996**	14,887	(9,078)	5,717	(1,511)
Investment Income	**(90)**	11,981	29,544	8,834	13,276
Refund of Premiums	**(6,800)**	(5,500)	(5,100)	(4,700)	
Taxes	**1,785**	(5,510)	(3,930)	(2,423)	(2,861)
Net Earnings (Loss) for the Year	**(4,109)**	15,858	$ 11,436	$ 7,428	$ 8,904
Surplus and Reserves	**$ 121,109**	$ 125,218	$ 109,360	$ 97,924	$ 90,496

OPERATIONS AND STAFF

Seated, left to right: *Krista Guia Pereira,* Claims; *Kathleen Seemann,* Office Services; *Carol Homer,* Administrative Offices; *Marcy Bradbury,* Office Services; *Cynthia White,* Underwriting; *Tracey Schneider,* EDP.

Standing, left to right: *Shannon Simpson*, EDP; *Susan McDonald,* Claims; *George Mihailov,* Accounting; *John Knill,* Underwriting Manager; *Jeff Barnard,* Reinsurance Manager; *Mary Ann Brenner,* Claims; *Richard Soehner,* Underwriting; *Robert Brenner,* Claims Manager; *Jackie Brouwers,* Claims; *Sandra Wiseman,* Accounting; *Angela Boost,* Underwriting; *Jeff Consitt,* Assistant Claims Manager; *Jack Black,* EDP Manager; *Ursula Yetman,* Claims; *Sharon Godden,* EDP.

Absent: *Marie Gorman,* Office Services; *Jane Williams,* Underwriting; *Jessie Louks,* Claims.

The Claims Department filled the vacant position of Senior Claims Examiner through the hiring of Jackie Brouwers on January 1, 2002. Jackie possesses a wealth of experience and is a valuable addition to the Claims Department team.

The Underwriting Department welcomes Cynthia White as Underwriter. Her experience and expertise will assist us in meeting the needs of Member Companies.

The Office Services Department welcomes Kathleen Seemann as Receptionist.

Chairman's Message

On behalf of the Board of Directors, it is a pleasure to present the 2002 Annual Financial Statement.

Although we are not pleased with our financial performance in 2002, there are a number of contributing factors that produced a net loss for the year of $4.1 million. Despite another difficult year for many of our members, in the primary side of the business we were able to produce an overall underwriting profit. The refund of premiums declared during 2002, and significant increases in reserves for equity investments that the corporation considers may be other than temporarily impaired, offset these gains.

During 2002, your Board of Directors authorized a Refund of Premiums of $6.8 million which 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 continue to be satisfied with the overall financial strength of the Corporation.

Underwriting experience deteriorated in both general liability and automobile lines, with property business continuing to be a major area of concern. We continue to see increases in claims frequency in the property excess of loss portfolio and extreme weather conditions in Ontario and Manitoba produced a record number of Property Catastrophe and Stop Loss claims. We have successfully implemented our plans to expand our underwriting activities in reinsuring mutual insurance companies in the United States. This portion of Class C business, together with our continued participation in crop reinsurance programs in Ontario and Manitoba, produced satisfactory financial results for the period.

As part of our strategic planning process, we held our bi-annual series of member planning meetings. We thank you for your valuable contributions. Your board of directors is actively responding to the many important issues raised at these meetings and we will continue to report to you on our progress in the future. We have revised our Mission and Vision Statement and have developed a set of guiding principles as our initial response as we strive to meet the evolving needs of our members. Our Succession Planning Committee is meeting its well defined and very important mandate of selecting a new President for the Corporation.

During 2002, we were pleased to welcome three new members to the Board of Directors: John Leeson, Secretary-Manager, North Kent Mutual Fire Insurance Company (Director, Group One), Doug Crockett, Director, Westminster Mutual Fire Insurance Company (Director, Group Four) and Bruce Caughey, Secretary-Manager, Amherst Island Mutual Insurance Company (Director, Group Seven). Each of these individuals has already made significant contributions to the Board of Directors and we look forward to working with them in the future.

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 Center Hotel, Toronto, Ontario, on Wednesday, March 26th, 2003 at 1:00 P.M. I encourage you to attend and participate.

Philip Brett

Philip Brett
Chairman of the Board

Report to the Members

We are not pleased to report an overall loss of $4.1 million for 2002. Although our combined ratio for the year comes in at a respectable 99%, adjustments to reserves for investments, and the refund of premiums declared during the year, combine to produce a net loss to surplus for the reporting period.

Analysis of our underwriting performance confirms that experience in the General Liability and Automobile portfolios deteriorated over our phenomenal performance of the past couple of years. This is not our major area of concern, as losses on the Property portfolio continue to escalate in both the Excess of Loss and Catastrophe portions of the programs.

Instability in worldwide financial markets both post- and pre-9/11 have lead us to take significant reductions in the valuation of the technology component of our equity investment portfolio. The Corporation established specific write-downs of $11.9 million on investments we considered impaired, where that impairment is considered other than temporary. These write-downs offset earned investment income during the period, producing a net loss from investments for the year.

On the operational side of the business, we had a relatively good year with our underwriting results producing a net profit of $1.0 million. Gross premiums assumed exceeded $100 million, establishing a significant milestone in the continued development of the Corporation. Unappropriated surplus, although reduced during the period, remains at a healthy $115.0 million, providing adequate support for our existing and planned underwriting activities.

Report to the Members *(continued)*

Despite continued revisions to the Property Excess of Loss Program over an extended period of time, our experience continues to deteriorate. In 2002, we did not see the very large individual losses that have impacted the program in recent years, however, frequency shows no signs of abatement. During the period, the number of individual losses over $500,000 was double our historical norms. The gross loss ratio was over 109% for the period and a net loss ratio of 126% for the year. We saw a welcomed reduction in the number of very large individual losses that have produced significant recoveries from international reinsurers participating in the program in prior years.

F.M.R.P. recorded a record nine separate Property Catastrophe occurrence losses during the year, including the largest individual loss occurrence on record. The most significant event occurred in Ontario in March affecting over 40 individual Member Companies and produced gross losses of $20.6 million and a loss to F.M.R.P. of $7.2 million. Extreme weather conditions in Ontario, Manitoba and Saskatchewan produced a series of smaller events. Accumulated losses for the period will exceed $9.0 million, representing a net incurred loss ratio of 123%.

The Corporation saw a welcomed improvement in the performance of our Crop Reinsurance Programs in Ontario and Manitoba with no losses being reported for 2002. F.M.R.P. and individual Members continue to have significant participations in these programs.

We had considerable success in expanding our underwriting activities in the United States where we participate in a number of individual and program treaties. Gross premiums assumed, including our participation in crop reinsurance programs, were $18.4 million for the period, with the line producing an overall profit of $3.0 million.

There was a significant increase in Proportional Property business as a result of a number of quota share agreements that were in effect during the period. This business produced an overall loss of $2.5 million for the year. On a combined basis, Property business produced a net incurred loss ratio of over 112% for the year.

Automobile business continues to produce satisfactory results at the reinsurance level. We saw big increases in the number of reported claims for the current period, together with significant increases in the number of losses reported from the previous year. Reductions in reserves required for prior periods and I.B.N.R. produced a very satisfactory net incurred loss ratio of 36% for the year.

Experience in the General Liability portfolio continues to demonstrate volatility with losses incurred being three times greater than the previous year. A significant number of prior year losses were reported and increases in reserves for losses from prior periods represent over 25% of our total incurred claims for the period. Increasing frequency and severity, adjustments to loss reserves for prior periods and I.B.N.R. combined to produce a net incurred loss ratio of 141% for the year.

During 2002, the Board of Directors authorized a Refund of Premiums of $6.8 million, which has been distributed and is reflected in these financial statements. This is the fourth consecutive year that a refund has been declared. Since 1991, the Corporation has distributed over $38 million in refunds of premium to our Class "A" Members.

As part of our ongoing strategic planning procedure, we held our bi-annual series of Member Planning Meetings and we thank those who participated for their valuable grassroots input into this important process. The reports and recommendations developed at these meetings provide a solid foundation for our internal planning process and greatly assist our Board of Directors in setting the policies that will meet the evolving needs of our dynamic and diverse Membership.

We had significant growth in our Automobile portfolio, reflecting a considerable increase in premiums being underwritten by our Members who participate in the Ontario Automobile Insurance market. During the year, we prepared and filed two individual Automobile rate filings on behalf of our Ontario Members who operate under the group Automobile rate filing. Sustained contraction and the withdrawal of underwriting capacity by traditional players in this marketplace will continue to fuel aggressive growth in this line of business and we will carry on an active pursuit of additional rate increases in the future.

Our underwriting department continues to work closely with the Ontario Mutual Insurance Association to improve the statistical reporting process. The enhancement in data quality is assisting us to meet our responsibilities in establishing retail rates for the General Liability and Automobile product lines.

The claims department continually strives to assist the Members in complying with the Ontario Automobile Market Conduct Audit rules and procedures. We will maintain the administration of this program in the future, as Members writing Automobile insurance in Ontario meet and maintain compliance in their Automobile insurance claims handling practices. We continue to provide professional resources to our Members in the area of Accident Benefits claims and, during the year, we provided guidance on a number of evolving claims issues including class action lawsuits.

Our company visits program actively continues and we proceeded to expand our analysis of issues related to underwriting results and reinsurance program construction.

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 Financial Services Commission of Ontario, 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, 2003

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, 2002 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, 2002 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, 2003

Signed: BDO Dunwoody LLP
Chartered Accountants

Farm Mutual Reinsurance Plan Inc.
Balance Sheet

As at December 31 (in thousands of dollars)

	2002	2001
Assets		
Cash	**$ 4,059**	$ 9,973
Receivables (Note 2)	**18,175**	14,835
Prepaids	**122**	39
Income taxes recoverable	**4,830**	–
Investments (Note 3)	**253,014**	253,611
Unpaid claims recoverable from reinsurers (Note 6)	**37,839**	40,104
Property and equipment (Note 4)	**5,182**	5,407
Deferred acquisition costs	**2,949**	2,685
	$ 326,170	$ 326,654
Liabilities		
Payables and accruals (Note 5)	**$ 3,271**	$4,035
Income tax payable	**–**	2,199
Provision for unpaid claims (Note 6)	**191,104**	186,098
Unearned premiums	**8,338**	7,719
Future income tax liability (Note 11)	**2,348**	1,385
	205,061	201,436
Contingencies (Notes 1, 6 and 7)		
Surplus and reserves		
Reserves required by the Financial Services Commission of Ontario (Note 8)	**6,328**	6,714
Unappropriated surplus	**114,781**	118,504
	121,109	125,218
	$ 326,170	$ 326,654

On behalf of the Board:

K. Adie
Director

Joe Facey
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)

	2002	2001
Unappropriated surplus, beginning of year	**$ 118,504**	$ 99,137
Net (loss) earnings for the year	**(4,109)**	15,858
Increase in investment valuation reserve	**(292)**	–
Decrease in reserve for unregistered reinsurers	**730**	2,037
(Increase) decrease in reserve for non-admitted assets	**(52)**	1,472
Unappropriated surplus, end of year	**$ 114,781**	$ 118,504

Statement of Earnings

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

	2002	2001
Net premiums earned (Note 7)		
Property	**$ 46,365**	$ 33,695
Liability	**9,180**	7,565
Automobile	**29,199**	23,005
	84,744	64,265
Net claims incurred (Note 7)		
Property	**46,764**	35,117
Liability	**12,986**	3,295
Automobile	**10,572**	760
	70,322	39,172
Underwriting gain before expenses	**14,422**	25,093
Expenses		
Commissions	**8,270**	5,890
Operating	**5,156**	4,316
	13,426	10,206
Net underwriting gain	**996**	14,887
Net investment income (loss) (Note 3)	**(90)**	11,981
Earnings before the following	**906**	26,868
Refund of premiums (Note 10)	**6,800**	5,500
Earnings (loss) before income taxes	**(5,894)**	21,368
Income taxes (Note 11)		
Current	**(2,748)**	2,765
Future	**963**	2,745
	(1,785)	5,510
Net earnings (loss) for the year	**$ (4,109)**	$ 15,858

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):	2002	2001
Operating activities		
Net earnings (loss) for the year	**$ (4,109)**	$ 15,858
Adjustments required to reconcile net earnings to net cash provided by operating activities		
Amortization	**442**	447
Bond amortization	**952**	413
Future income taxes	**963**	2,745
Gain on sale of investments	**(2,095)**	(1,671)
Loss on sale of property and equipment	**–**	12
Write down of investments	**11,900**	–
Changes in non-cash working capital components		
Receivables	**(3,340)**	(1,496)
Prepaids	**(83)**	(8)
Deferred acquisition costs	**(264)**	(988)
Payables and accruals	**(764)**	2,665
Income taxes	**(7,029)**	8,425
Provision for unpaid claims, net of recoveries	**7,271**	(4,683)
Unearned premiums	**619**	2,753
	4,463	24,472
Investing activities		
Proceeds on disposal of property and equipment	**–**	39
Purchase of property and equipment	**(217)**	(193)
Net purchase of investments (Note 12)	**(10,160)**	(17,779)
	(10,377)	(17,933)
Net (decrease) increase in cash	**(5,914)**	6,539
Cash, beginning of year	**9,973**	3,434
Cash, end of year	**$ 4,059**	$ 9,973
Supplementary cash flow information		
Income tax paid (recovered)	**$ 4,259**	$ (6,134)

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, 2002

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, 2002 (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

	2002	2001
Accrued investment income	**$ 2,320**	$ 2,052
Ceding member companies	**14,355**	11,283
Reinsurers	**1,423**	1,290
Miscellaneous	**77**	210
	$ 18,175	$ 14,835

3. INVESTMENTS

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

	2002		2001	
	Book Value	**Estimated Fair Value**	Book Value	Estimated Fair Value
Short-term securities	**$ 8,515**	**$ 8,515**	$ 5,025	$ 5,025
Bonds and debentures				
Government and guaranteed	**119,378**	**123,202**	123,647	124,086
Corporate	**58,682**	**60,923**	49,627	50,619
Common shares	**65,689**	**59,084**	74,562	74,891
Real estate held for resale	**750**	**750**	750	750
	$ 253,014	**$ 252,474**	$ 253,611	$ 255,371

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:

It is the company's policy to diversify all investment portfolios. Diversification within each asset class is provided by limiting to 10% or less the percentage of the market value of fund assets invested in a single security not guaranteed by a Canadian federal or provincial government.

Short-term Securities

These are comprised of Canadian Treasury Bills with effective interest rates of 2.6% to 2.7%.

Bonds and Debentures

Maturity profile of the portfolio as at December 31, 2002

Within 1 Year	**1-3 Years**	**3-5 Years**	**5-10 Years**	**Over 10 Years**	**Total**
$247	$35,274	$39,549	$59,295	$43,695	$178,060
1%	20%	22%	33%	24%	100%

The effective interest rate at December 31, 2002 for bonds and debentures is 5.75% based on book value.

Investment grade bonds are those rated BBB and above. At December 31, 2002 virtually all of the company's bond portfolio is investment grade.

Impaired Assets

The corporation establishes specific writedowns on any investment which is impaired where that impairment is considered other than temporary. In determining the amount of the writedown, management considers the current market value of the security and the financial strength of the issuer or borrower. Changes to these provisions are reflected in net investment income in the period when the impairment is recognized. These provisions are netted against the carrying value of the specific investment.

Specific writedowns for common shares during the year amounted to $11,900 (2001 - $Nil). Included in common shares are specific provisions totalling $11,900 (2001 - $Nil).

4. Property and Equipment

			2002	2001
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Land	**$ 1,086**	**$ –**	**$ 1,086**	$ 1,086
Building	**4,914**	**1,486**	**3,428**	3,622
Office furniture and equipment	**966**	**677**	**289**	282
Computer				
– hardware	**620**	**397**	**223**	204
– software	**366**	**249**	**117**	157
Automobiles	**78**	**39**	**39**	56
	$ 8,030	**$ 2,848**	**$ 5,182**	$ 5,407

5. Payables and Accruals

	2002	2001
Expenses payable and accrued	**$ 450**	$ 319
Ceding member companies	**1,268**	2,467
Reinsurers	**1,553**	1,249
	$ 3,271	$ 4,035

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:

	2002		2001	
	Gross	**Recoverable**	Gross	Recoverable
Property	**$ 33,936**	**$ 3,461**	$ 36,480	$ 10,022
Liability	**59,954**	**15,032**	52,022	12,410
Automobile	**97,214**	**19,346**	97,596	17,672
	$ 191,104	**$ 37,839**	$ 186,098	$ 40,104

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:

	2002	2001
Provision for unpaid claims, beginning of year, net	**$ 145,994**	$ 150,677
Net Claims Activity		
Net decrease in estimated claims for losses that occurred in prior years	**(20,044)**	(32,152)
Net claims incurred on current year losses	**90,366**	71,327
Paid on claims incurred in		
– Current year	**(27,708)**	(19,842)
– Prior years	**(35,343)**	(24,016)
Provision for unpaid claims, end of year, net	**153,265**	145,994
Reinsurers' share	**37,839**	40,104
Provision for unpaid claims, gross	**$ 191,104**	$ 186,098

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:

	2002	2001
Net premiums earned		
Premiums assumed	**$ 100,979**	$ 78,153
Premiums ceded	**(16,235)**	(13,888)
	$ 84,744	$ 64,265
Net claims incurred		
Claims incurred	**$ 77,597**	$ 50,783
Reinsurance portion	**(7,275)**	(11,611)
	$ 70,322	$ 39,172

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

	In Excess of		**To a Maximum of**	
	2002	2001	**2002**	2001
Catastrophe – 95%	**$ 10,000**	$ 10,000	**$ 100,000**	$ 100,000
Excess reinsurance				
Property – 100%	**750**	500	**1,750**	1,000
Property – 95%	**1,750**	1,000	**6,000**	6,000
Liability – 90%	**1,500**	–	**3,000**	–
Liability – 100%	**3,000**	1,000	**18,000**	18,000
Automobile – 90%	**1,500**	–	**3,000**	–
Automobile – 100%	**3,000**	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:

	2002	2001
Investment valuation reserve	**$ 292**	$ ––
Reserve for non-admitted assets	**1,168**	1,116
Reserve for unregistered reinsurers	**4,868**	5,598
	$ 6,328	$ 6,714

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 $108 (2001 - $103) includes no charges for past service costs.

Based on the last actuarial valuation as at December 31, 2000, the Corporation's portion of 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:

	2002	2001
Income taxes based on combined basic Canadian federal and provincial tax rate of 39% (2001 – 42%)	**$ (2,298)**	$ 8,975
Increase (decrease) resulting from permanent differences		
Non-taxable dividend income	**(362)**	(416)
Exempt income from insuring farm risks	**600**	(3,270)
Large Corporations Tax	**275**	221
Total taxes – current and future	**$ (1,785)**	$ 5,510

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

	2002	2001
Provision for unpaid claims	**$ 1,661**	$ 1,160
Invested assets	**(4,009)**	(2,545)
	$ (2,348)	$ (1,385)

12. Investing Activities

The investing activities included in the statement of cash flow are comprised of the following:

2002	**Purchases**	**Sales**	**Net**
Bonds	**$ 191,540**	**$ 185,382**	**$ 6,158**
Short-term	**78,114**	**75,917**	**2,197**
Common shares	**21,253**	**19,448**	**1,805**
			$ 10,160

2001	Purchases	Sales	Net
Bonds	$ 311,861	$ 293,435	$ 18,426
Short-term	87,419	89,056	(1,637)
Common shares	30,174	29,184	990
			$ 17,779

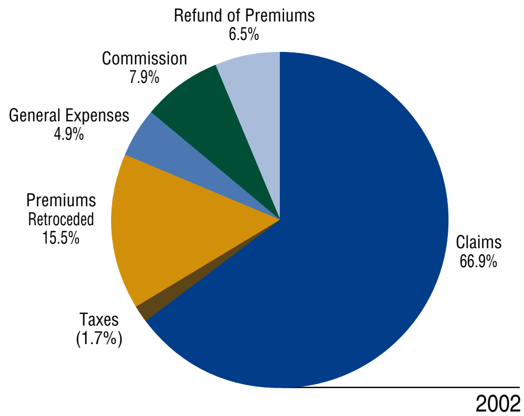
13. Fair Value of Financial Instruments

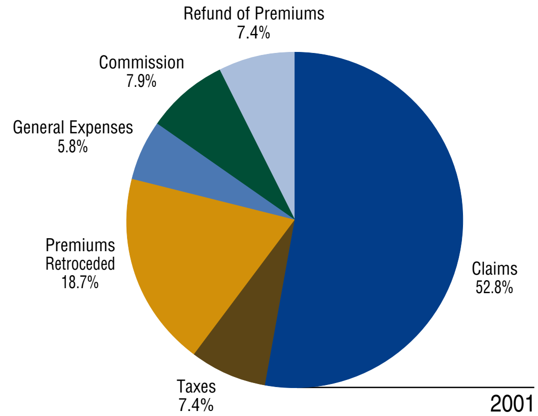
The estimated fair value of investments is set out in Note 3.

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

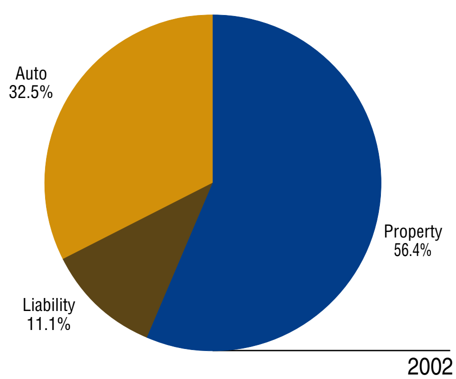
The provision for unpaid claims and related unpaid claims recoverable from reinsurers will be settled over an extended period of time. Their estimated fair values, which would represent the discounted future net cash outflows required to meet these obligations, have not been determined because management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

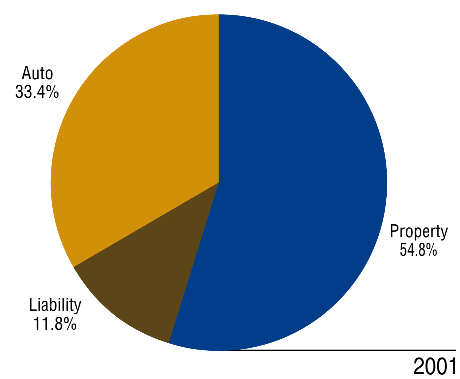
Distribution of expenses



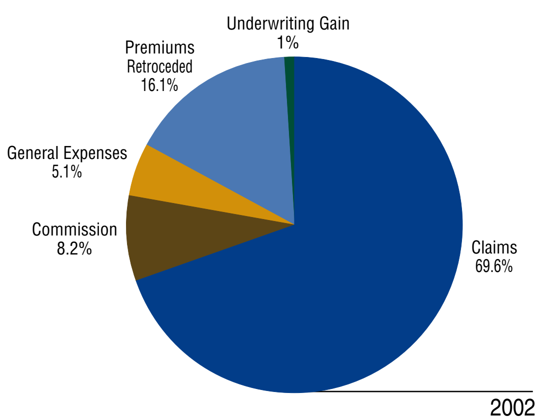


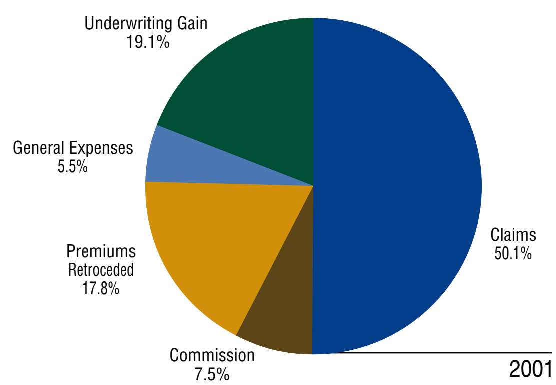
Sources of Gross Premium Income





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	2002
Philip Brett	2002	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