Contents

Financial Statements

Directors and Officers

Seated, left to right: *Marie Byrne*, Recording Secretary/Office Manager; *Joe Facey*, Director, Group 2 (2006); *Kathryn Adie*, Chair, Director, Group 5 (2005); *Michael O'Shea*, First Vice-Chair, Canadian Director-at-Large (2005); *Bruce Williams*, Director, Eastern Canada (2006); *Doug Crockett,* Director, Group 4 (2005).

Standing, left to right: *Dan Hill*, Director, Group 6 (2007); *Robert Forsythe*, Senior Vice President; *Earl Harder*, Director, Western Canada (2007); *John Leeson*, Director, Group 1 (2005); *Serge Gauthier*, Second Vice-Chair, Director, Group 8 (2006); *Bruce Caughey*, Director, Group 7 (2006); *Brian Downie*, Ontario Director-at-Large (2007); *Steve Smith*, President & C.E.O.; *Brian Bessey*, Director, Group 3 (2007); *Tom Smith*, Vice President & C.F.O.

Five Year Financial Highlights

	2004	2003	restated 2002	2001	2000
Revenue					
Premiums Earned	**$ 152,891**	$ 139,633	$ 100,979	$ 78,153	$ 63,584
Commission Earned	**271**	212	218	508	578
	153,162	139,845	101,197	78,661	64,162
Expenditures					
Gross Claims Incurred	**111,044**	112,832	77,324	50,783*	66,522*
Reinsurance Recovery	**(5,811)**	(6,901)	(7,081)	(11,611)*	(14,443)*
Premiums Ceded	**18,686**	16,645	16,235	13,888	12,999
Commission Expense	**19,050**	17,561	8,488	6,398	4,051
Operating Expenses	**7,097**	5,809	5,156	4,316	4,111
	150,066	145,946	100,122	63,774	73,240
Underwriting Gain (Loss)	**3,096**	(6,101)	1,075	14,887	(9,078)
Investment Income	**20,318**	10,655	(90)	11,981	29,544
Refund of Premiums	**–**	–	(6,800)	(5,500)	(5,100)
Taxes	**(4,010)**	(385)	1,764	(5,510)	(3,930)
Net Earnings (Loss) for the Year	**$ 19,404**	$ 4,169	$ (4,051)	$ 15,858	$ 11,436
Surplus and Reserves	**$ 150,281**	$ 130,877	$ 126,708	$ 125,218	$ 109,360

*Claims have not been discounted due to lack of historical data.

Operations and Staff

Seated, left to right: *Shannon Simpson*, IS Department; *Kathleen Seemann*, Office Services; *Carol Homer*, Administrative Offices; *Jennifer Pisani-Donga*, Human Resources; *Jane Williams*, Reinsurance; *Elaine Reaume,* Reinsurance.

Standing, left to right: *George Mihailov*, Accounting; *Sid Dijkema*, Loss Control Services; *Tracey Schneider*, IS Department; *Jeff Barnard*, Reinsurance Manager; *Marie Gorman*, Office Services; *Sue Medeiros*, Loss Control Services; *Jack Black*, IS Department Manager; *Sandra Wiseman*, Accounting; *Bob DeBrabandere*, Loss Control Services; *Sharon Godden*, IS Department; *Randy Drysdale*, Loss Control Services Manager; *Sarah Hahn*, Office Services; *Sarah Gee*, Loss Control Services.

Seated, left to right: *Brad Shantz*, Claims; *Lisa Rice*, Claims; *Cynthia White*, Underwriting; *Richard Soehner*, Underwriting.

Standing, left to right: *Angela Boost*, Underwriting; *Ursula Yetman*, Claims; *Jessie Louks*, Claims; *Susan McDonald*, Claims; *John Knill*, Underwriting Manager; *Jackie Brouwers*, Claims; *Krista Seiling*, Underwriting.

Absent: *Beate Korchak*, Claims; *Emese Fabry*, Claims; *Jeff Consitt*, Assistant Claims Manager; *Krista Guia Pereira*, Claims; *Mary Ann Brenner*, Claims; *Melanie Nieson*, Claims; *Michael Cowan*; Claims; *Pat Poirier*, Underwriting; *Robert Brenner*, Claims Manager.

Chairman's Message

On behalf of the Board of Directors, it is a pleasure to present the 2004 Annual Financial Statement.

We are very pleased to report net income for the year of $19.4 million which reflects the excellent results of our Member Companies and a significant increase in realized gains on the investment portfolio.

Management reports will confirm that loss experience has improved in property and automobile business, with overall growth progressing in accordance with our strategic planning initiatives. Our focus has been on responding to member needs through communications. Your active participation in our bi-annual series of Member Planning Meetings produced numerous exciting new goals and objectives.

Your Board of Directors has a well established and active process of establishing priorities that has resulted in a number of new programs and services that are now available. Management continues to work on a number of other important issues that have been identified through our Planning Meeting process.

During 2004, Director Earl Harder, FMRP Western Director, (General Manager, Mennonite Mutual Insurance Company, Waldheim, Saskatchewan) announced that he would be resigning from the Board following the completion of his term on the Executive Committee. We want to acknowledge the contributions and leadership that Earl has made to the organization since his election in 1995. Earl served as Chairman of the Board and has played a key leadership role in the continued development of the organization.

It has been a privilege and pleasure to serve as the Chair of the FMRP over the last year. Through the continued cooperation and dedication of your Board of Directors and our professional management and staff, we will succeed in developing the programs and services that will "Empower our Members for Mutual Success".

We encourage you to attend and participate in our Annual General Meeting which will be held at the Sheraton Centre Hotel, Toronto, Ontario on Wednesday, March 30th, 2005.

K. Adie

Board Chair
Kathryn Adie

REPORT TO THE MEMBERS

Following a number of difficult years for ourselves, our members and our industry, we are reporting a net income of $19.4 million for the period. Our return to profitability can only be described as extraordinary! This promising improvement in our financial performance directly reflects the experience of our members who, collectively, will be reporting one of their best years in their long history.

Our combined ratio was a respectable 97% for the year which produced an overall underwriting profit of $3.1 million. Improved realized gains included in investment income have contributed to our very healthy bottom line. The Unappropriated Surplus of the Corporation now stands at $150.3 million. Increases in premiums and operating expenses reflect the growth of our Class "A" membership base and the introduction of additional member services.

Our overall Property portfolio produced excellent results, with premiums assumed of $84.5 million. Following too many years of dismal performance, the Property Excess of Loss portfolio has finally produced an underwriting profit of $3.1 million and our reinsurance partners have been able to share in our good fortunes. The Catastrophe program contributed significantly to our overall property results. There was activity, with the most significant occurrences related to summer storm activity in the Peterborough, Ontario area and less significant events in other parts of Ontario and Western Canada. We did not see any significant increase in our Property Quota Share program, with the line producing a small underwriting loss for the year.

Property results include our Class "C" business which comprises our participation in government sponsored Crop Insurance programs in Canada and our role in numerous Reinsurance programs for Mutual Insurance Companies in the United States. Although there was a significant loss in the Manitoba Crop program, our support and long term participation in these programs has again contributed $3.4 million to our property results this year.

As usual, our General Liability portfolio demonstrated volatile characteristics, producing an underwriting loss of $3.3 million in the period on premiums assumed of $17.1 million, our only dim spot in an otherwise exemplary year. During the year, procedures for establishing and adjusting retail rates on a group basis were refined in order to respond to market issues on a more timely basis.

The Automobile portfolio was a strong performer this year producing an underwriting profit of $1.1 million on premiums assumed of $51.2 million. Reductions in claims frequency and severity, together with positive developments in our reserves for prior periods, were the contributing factors. We continue to be frustrated by political influence and lack of substantive movement on product reform in our efforts to file retail automobile rates on a group basis. We will continue our efforts to represent the interests of our members to provincial regulators on these important issues.

Over the past year, our focus has been on enhancing member services and strengthening our partnerships with our Class "A" membership base. Our most significant efforts have been focused on our property line of business with the establishment of our Loss Control Services Department. With an enthusiastic response, we are now actively engaged assisting our members in conducting sophisticated inspections of property risks using advanced thermo-graphic image technologies and advanced procedures.

During the year, we held our bi-annual series of Member Planning Meetings, a process that is a key component of our overall strategic planning process. We have accomplished a number of goals that were identified at these meetings and we will continue to report on our progress in developing new initiatives to respond to the evolving needs of our members.

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, 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.

G. S. Smith
President and C.E.O.

T. Smith
Vice-President and
Chief Financial Officer

Cambridge, Ontario
February 11, 2005

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, 2004 and the statements of unappropriated surplus, earnings and cash flow 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Mississauga, Ontario
February 11, 2005

BDO Dunwoody LLP
Chartered Accountants

Farm Mutual Reinsurance Plan Inc.
Balance Sheet

As at December 31 (in thousands of dollars)

	2004	2003
Assets		
Cash	**$ 5,266**	$ 878
Receivables (Note 2)	**26,342**	24,146
Prepaids	**151**	166
Income taxes recoverable	**2,830**	–
Investments (Note 3)	**333,695**	304,819
Unpaid claims recoverable from reinsurers (Note 7)	**30,791**	35,685
Property and equipment (Note 4)	**5,277**	5,127
Future tax asset (Note 12)	**3,613**	3,375
Deferred acquisition expenditures	**6,847**	6,983
	$ 414,812	$ 381,179
Liabilities		
Payables and accruals (Note 5)	**$ 5,365**	$ 5,123
Income tax payable	**–**	7,049
Provision for unpaid claims (Note 7)	**239,624**	217,035
Unearned premiums	**19,542**	21,095
	264,531	250,302
Contingencies (Notes 1, 7, 8 and 9)		
Surplus and reserves		
Unappropriated surplus	**150,281**	130,877
	$ 414,812	$ 381,179

On behalf of the Board:

Serge Gauthier
Director

Doug Crockett
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)

	2004	2003
Unappropriated surplus, beginning of year	**$ 130,877**	$ 120,380
Change in reserves required by the Financial Services Commission of Ontario	**–**	6,328
Net earnings for the year	**19,404**	4,169
Unappropriated surplus, end of year	**$ 150,281**	$ 130,877

Statement of Earnings

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

	2004	2003
Net premiums earned (Note 8)		
Property	**$ 73,571**	$ 69,233
Liability	**14,325**	11,189
Automobile	**46,309**	42,566
	134,205	122,988
Net claims incurred (Note 8)		
Property	**48,133**	55,615
Liability	**17,061**	9,523
Automobile	**40,039**	40,793
	105,233	105,931
Underwriting gain before expenses	**28,972**	17,057
Expenses		
Commissions	**18,779**	17,349
Operating	**7,097**	5,809
	25,876	23,158
Net underwriting gain (loss)	**3,096**	(6,101)
Net investment income	**20,318**	10,655
Earnings before income taxes	**23,414**	4,554
Income taxes (Note 12)		
Current	**4,248**	8,179
Future	**(238)**	(7,794)
	4,010	385
Net earnings for the year	**$ 19,404**	$ 4,169

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):	2004	2003
Operating activities		
Net earnings for the year	**$ 19,404**	$ 4,169
Adjustments required to reconcile net earnings to net cash provided by operating activities		
Amortization	**441**	409
Bond amortization	**1,429**	1,138
Future income taxes	**(238)**	(7,794)
Gain on sale of investments	**(9,499)**	(482)
Loss on sale of property and equipment	**11**	34
Write down of investments	**737**	–
Changes in non-cash working capital components (Note 13)	**14,249**	52,194
	26,534	49,668
Investing activities		
Proceeds on disposal of property and equipment	**2**	20
Purchase of property and equipment	**(601)**	(408)
Net purchase of investments (Note 13)	**(21,547)**	(52,461)
	(22,146)	(52,849)
Net increase (decrease) in cash	**4,388**	(3,181)
Cash, beginning of year	**878**	4,059
Cash, end of year	**$ 5,266**	$ 878

Supplementary cash flow information		
Income tax paid	**$ (14,144)**	$ (3,721)

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, 2004

Basis of Presentation

These financial statements have been prepared in accordance with accounting policies generally accepted in Canada. 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 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 less accumulated amortization 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 Expenditures

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 expenditures 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 initial estimate of unpaid claims is discounted for financial statement reporting purposes to give recognition to the time value of money. The interest rate used to discount the liabilities is based upon the rate of return of the Corporation's investment portfolio. The valuation incorporates assumptions made concerning future investment income and cash flows and a provision for adverse deviation. Estimates 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.

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, premium, claim and expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in income in the current period.

Farm Mutual Reinsurance Plan Inc.
Notes to Financial Statements

December 31, 2004 (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

	2004	2003
Accrued investment income	**$ 2,705**	$ 2,362
Ceding member companies	**19,482**	19,842
Reinsurers	**3,979**	1,828
Miscellaneous	**176**	114
	$ 26,342	$ 24,146

3. Investments

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

	2004		2003	
	Book Value	**Estimated Fair Value**	Book Value	Estimated Fair Value
Short-term securities	**$ 9,956**	**$ 9,956**	$ 7,103	$ 7,103
Bonds and debentures				
Government and guaranteed	**169,899**	**174,215**	160,896	163,424
Corporate	**76,244**	**80,122**	64,036	67,309
Common shares	**76,846**	**94,735**	72,034	85,932
Real estate	**750**	**750**	750	750
	$ 333,695	**$ 359,778**	$ 304,819	$ 324,518

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 is based on appraised value.

Included in investments are bonds totalling $8,904 (2003 - $8,317) and common shares totalling $13,817 (2003 - $12,096) which are part of a pooled fund. The pooled fund is administered by Farm Mutual Financial Services, a company which has members in common with the Corporation.

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 2.4%.

Bonds and Debentures

Maturity profile of the portfolio as at December 31, 2004

Within 1 Year	1-3 Years	3-5 Years	5-10 Years	Over 10 Years	Total
$ 9,294	$ 60,087	$ 35,018	$ 88,853	$ 52,890	$ 246,142
3.8%	24.4%	14.2%	36.1%	21.5%	100%

The effective interest rate at December 31, 2004 for bonds and debentures is 5.19% based on book value.

Investment grade bonds are those rated BBB and above. At December 31, 2004 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 write-downs for common shares during the year amounted to $737 (2003 – $Nil). Included in common shares are specific provisions totalling $4,632 (2003 - $8,534).

4. Property and Equipment

	Cost	Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
Land	**$ 1,086**	**$ –**	**$ 1,086**	$ 1,086
Building	**5,163**	**1,887**	**3,276**	3,303
Office furniture and equipment	**1,473**	**857**	**616**	355
Computer				
– hardware	**681**	**421**	**260**	293
– software	**383**	**344**	**39**	78
Automobiles	**–**	**–**	**–**	12
	$ 8,786	**$ 3,509**	**$ 5,277**	$ 5,127

5. Payables and Accruals

	2004	2003
Expenses payable and accrued	**$ 560**	$ 384
Ceding member companies	**4,255**	2,801
Reinsurers	**550**	1,938
	$ 5,365	$ 5,123

6. Role of the Actuary and Auditors

The actuary is mandated by the members of the Corporation to review the Corporation's claims liabilities. The actuary's responsibility is to carry out an annual valuation of the Corporation's provision for unpaid claims in accordance with accepted actuarial practice and report thereon to the members. In performing the valuation, the actuary makes assumptions as to the future loss ratios, trends, future rates of claims frequency and severity, inflation and both internal and external adjusting expenses, taking into consideration the circumstances of the Corporation. The actuary also makes use of the work of the external auditor in his verification of the underlying data used in the valuation. The actuary's report outlines the scope of his work and opinion.

The external auditors have been appointed by the members of the Corporation to conduct an independent and objective audit of the financial statements of the Corporation in accordance with Canadian generally accepted auditing standards and report thereon to the members. In carrying out their audit, the auditors also make use of the work of the actuary and his report on the Corporation's provision for unpaid claims. The auditors' report outlines the scope of their audit and their opinion.

7. 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:

	2004		2003	
	Gross	**Recoverable**	Gross	Recoverable
Property	**$ 45,757**	**$ 4,501**	$ 43,289	$ 5,533
Liability	**60,404**	**12,896**	54,810	12,156
Automobile	**133,463**	**13,394**	118,936	17,996
	$ 239,624	**$ 30,791**	$ 217,035	$ 35,685

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:

	2004	2003
Provision for unpaid claims, beginning of year, net	**$ 181,350**	$ 145,594
Net Claims Activity		
Net increase (decrease) in estimated claims for losses that occurred in prior years	**8,087**	(5,882)
Net claims incurred on current year losses	**97,146**	111,812
Paid on claims incurred in		
– Current year	**(27,457)**	(37,323)
– Prior years	**(50,293)**	(32,851)
Provision for unpaid claims, end of year, net	**208,833**	181,350
Reinsurers' share	**30,791**	35,685
Provision for unpaid claims, gross	**$ 239,624**	$ 217,035

8. 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:

	2004	2003
Net premiums earned		
Premiums assumed	**$ 152,891**	$ 139,633
Premiums ceded	**(18,686)**	(16,645)
	$ 134,205	$ 122,988
Net claims incurred		
Claims incurred	**$ 111,044**	$ 112,832
Reinsurance portion	**(5,811)**	(6,901)
	$ 105,233	$ 105,931

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

	In Excess of		**To a Maximum of**	
	2004	2003	**2004**	2003
Catastrophe – 95%	**$ 12,500**	$ 12,500	**$ 120,000**	$ 100,000
Excess reinsurance				
Property – 100%	**1,250**	1,000	**3,000**	3,000
Property – 95%	**3,000**	3,000	**6,000**	6,000
Liability – 87.5% (90% 2003)	**1,500**	1,500	**3,000**	3,000
Liability – 100%	**3,000**	3,000	**18,000**	18,000
Automobile – 87.5% (90% 2003)	**1,500**	1,500	**3,000**	3,000
Automobile – 100%	**3,000**	3,000	**18,000**	18,000

9. Contingencies

The Corporation has outstanding stand-by letters of credit at December 31, 2004 totalling $8,671 ($13,616 - 2003) denominated in CND dollars. ($7,214, USD – 2004 and $10,540, USD - 2003) These stand-by letters of credit are put in place to cover claims reserves as required.

The maximum facility available to the Corporation is $40,000. The facility is secured by a general hypothecation of bonds.

10. Pension Plan

The Corporation participates in a multiemployer 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 $439 (2003 - $91) includes no charges for past service costs.

Based on the last actuarial valuation as at December 31, 2003, the Corporation's portion of the plan's position was as follows:

Assets	$1,945
Liabilities	$2,256

11. Refund of Premiums

Refunds of premiums are determined by the Board and are refundable to Class A members on a pro-rata basis based on premiums written over the last five years. The Board did not authorize the payment of any refund of premiums during the current or prior year.

12. Income Taxes

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

	2004	2003
Income taxes based on combined basic Canadian		
federal and provincial tax rate of approximately 36% (2003 – 37%)	**$ 8,456**	$ 1,686
(Decrease) resulting from permanent differences		
Non-taxable dividend income	**(528)**	(405)
Exempt income from insuring farm risks	**(4,208)**	(324)
Increase (decrease) resulting from change in future tax rate	**283**	(622)
Large Corporations Tax	**7**	50
Total taxes – current and future	**$ 4,010**	$ 385

Future income tax assets are comprised of the following:

	2004	2003
Provision for unpaid claims	**$ 2,124**	$ 2,303
Invested assets	**1,489**	1,072
	$ 3,613	$ 3,375

13. Statement of Cash Flow

Changes in non-cash working capital

	2004	2003
Receivables	**$ (2,196)**	$ (5,971)
Prepaids	**15**	(44)
Deferred acquisition costs	**136**	(4,034)
Payables and accruals	**243**	1,851
Income taxes	**(9,879)**	11,879
Provision for unpaid claims, net of recoveries	**27,483**	35,756
Unearned premiums	**(1,553)**	12,757
	$ 14,249	$ 52,194

Investing activities

2004	**Purchases**	**Sales**	**Net**	2003	Purchases	Sales	Net
Bonds	**$ 376,208**	**$ 357,026**	**$ (19,182)**	Bonds	$ 333,835	$ 291,437	$ (42,398)
Common shares	**34,275**	**34,377**	**102**	Short-term	239,425	241,718	2,293
Short-term	**231,462**	**228,995**	**(2,467)**	Common shares	27,649	15,293	(12,356)
			$ (21,547)				$ (52,461)

14. Facility Association

The Facility Association is comprised of various risk sharing pools where most companies in the auto insurance industry share resources to provide insurance for high risks.

The Corporation is not a direct writer of automobile insurance policies and as a result does not participate directly in the Facility Association.

The Corporation acts as an administrator on behalf of its members participating in the Facility Association.

15. Fair Value of Financial Instruments

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

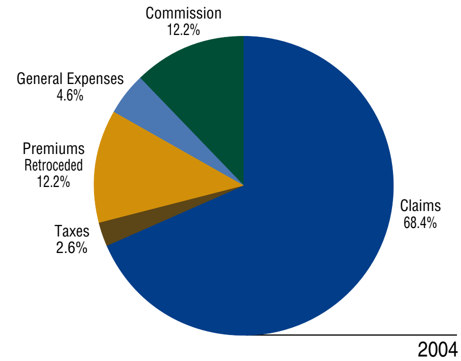
The fair values of cash, receivables and payables and accruals approximate their carrying values because of the short maturity of these instruments.

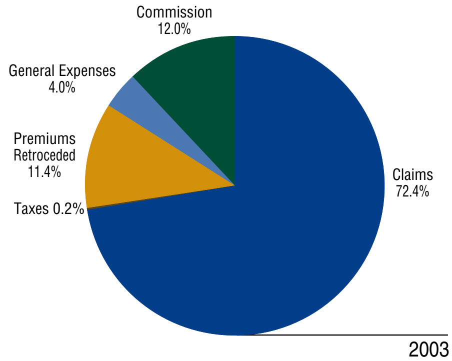
Unpaid claims and reinsurance recoverables are recorded at their discounted present value which approximates fair value.

Included in the balance sheet are the following amounts denominated in foreign currencies:

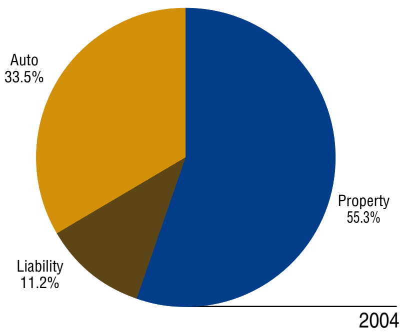
	Currency	**2004**	2003
Cash	U.S. dollars	**$ 94**	$ 206
Accounts receivable	U.S. dollars	**4,938**	2,822
Accounts payable	U.S. dollars	**220**	–
Provision for unpaid claims	U.S. dollars	**4,502**	6,173

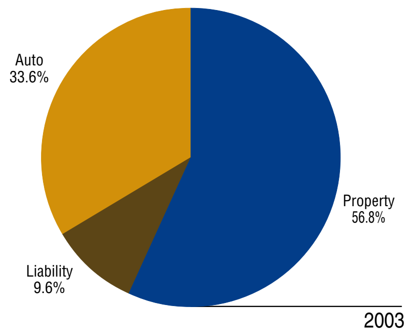
Distribution of expenses



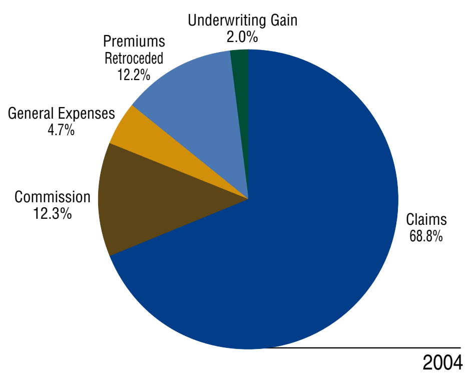


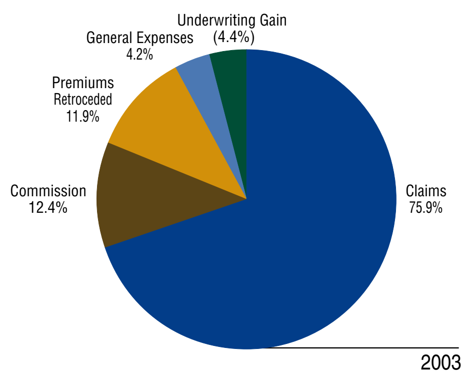
Sources of Gross Premium Income





Distribution of Gross Premium Dollar





Past Presidents and Chairmen of the Board

Chair (President prior to 1995)	*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
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	2003
Earl Harder	2003	2004
Kathryn Adie	2004	Present

Staff

President (General Manager prior to 1995)	*from*	*to*
H.H. McFadden	1959	1973
Bruce Bird	1974	1979
Gerald M. Snyder	1980	1986
John A. Harper	1987	2003
Steve Smith	2003	Present