Contents

Directors and Officers

Seated, left to right: *Michael O'Shea*, Chair, Canadian Director-at-Large (2008); *Serge Gauthier*, First Vice-Chair, Director, Group 8 (2006); *Joe Facey*, Second Vice-Chair, Director, Group 2 (2006); *Steve Smith*, President & C.E.O.

Standing, left to right: *Doug Crockett*, Director, Group 4 (2008); *Dan Hill*, Director, Group 6 (2007); *Robert Forsythe*, Senior Vice President; *Marie Byrne*, Recording Secretary/Office Manager; *John Leeson*, Director, Group 1 (2008); *Kathryn Adie*, Past Chair, Director, Group 5 (2008); *Bruce Caughey*, Director, Group 7 (2006); *Brian Downie*, Ontario Director-at-Large (2007); *Sheryl Janzen*, Director, Western Canada (2008); *Tom Smith*, Vice President & C.F.O.; *Brian Bessey*, Director, Group 3 (2007); *Bruce Williams*, Director, Eastern Canada (2006).

Five Year Financial Highlights

	2005	2004	2003	restated 2002	2001
Revenue					
Premiums Earned	**$ 149,354**	$ 152,891	$ 139,633	$ 100,979	$ 78,153
Commission Earned	**274**	271	212	218	508
	149,628	153,162	139,845	101,197	78,661
Expenditures					
Gross Claims Incurred	**133,878**	111,044	112,832	77,324	50,783*
Reinsurance Recovery	**(13,581)**	(5,811)	(6,901)	(7,081)	(11,611)*
Premiums Ceded	**18,859**	18,686	16,645	16,235	13,888
Commission Expense	**17,409**	19,050	17,561	8,488	6,398
Operating Expenses	**6,807**	7,097	5,809	5,156	4,316
	163,372	150,066	145,946	100,122	63,774
Underwriting Gain (Loss)	**(13,744)**	3,096	(6,101)	1,075	14,887
Investment Income	**44,170**	20,318	10,655	(90)	11,981
Refund of Premiums	**–**	–	–	(6,800)	(5,500)
Taxes	**(5,813)**	(4,010)	(385)	1,764	(5,510)
Net Earnings (Loss) for the Year	**$ 24,613**	$ 19,404	$ 4,169	$ (4,051)	$ 15,858
Surplus and Reserves	**$ 174,894**	$ 150,281	$ 130,877	$ 126,708	$ 125,218

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

Operations and Staff

Seated, left to right: *Carol Homer*, Administrative Offices; *Jennifer Pisani-Donga*, Human Resources; *Shannon Simpson*, IS Department; *Sarah Hahn*, Office Services; *Jane Williams*, Reinsurance; *Marilyn Paquette*, Human Resources.

Standing, left to right: *George Mihailov*, Accounting; *Kathleen Seemann*, Office Services; *Randy Drysdale*, Loss Control Services Manager; *Jackie Miller*, Loss Control Services; *Sharon Godden*, IS Department; *Peter Stolk*, Loss Control Services; *Bob DeBrabandere*, Loss Control Services; *Tracey Schneider*, IS Department; *Jack Black*, IS Department Manager; *Arden MacIntyre-Kirsch*, Office Services; *Jeff Barnard*, Reinsurance Manager; *Sandra Wiseman*, Accounting.

Seated, left to right: *Angela Boost*, Underwriting; *Erika Schaller*, Claims; *Lisa Nevills*, Claims; *Christine Meacher*, Claims; *Krista Guia Pereira*, Claims; *Jackie Brouwers*, Claims.

Standing, left to right: *Ursula Yetman*, Claims; *Jessie Louks*, Claims; *Jeff Consitt*, Assistant Claims Manager; *Richard Soehner*, Underwriting; *Beate Korchak*, Claims; *Bob Brenner*, Claims Manager; *Brad Shantz*, Claims; *Susan McDonald*, Claims.

Absent: *Mary Ann Brenner*, Claims; *Cynthia White*, Underwriting; *John Knill*, Underwriting Manager; *Elaine Reaume*, Reinsurance; *Sid Dijkema*, Loss Control Services; *Krista Seiling*, Underwriting.

Chairman's Message

On behalf of the Board of Directors, it is a pleasure to present the 2005 Annual Financial Statement.

We are very pleased to report a significant profit for the year of $24.6 million which was driven by the excellent performance of our investment portfolio and capital gains that were realized during the period.

Management reports will confirm that loss experience has deteriorated in property and general liability business with the company posting an overall underwriting loss for the year. We continue to operate within our strategic planning initiatives with our focus on responding to member needs through communications. We held a number of regional meetings during the year to provide detailed information on new programs and important industry issues.

Your Board of Directors has a well established and active process of establishing priorities that respond to the needs of our members. Over the past year we have increased property underwriting capacity and introduced a number of new programs and services that are now available. Management continues to work on a number of important financial issues and we will maintain our focus on communications as we establish our future goals and objectives. During the year we announced that we are participating in discussions with the Ontario Mutual Insurance Association in examining the potential opportunities that a Joint Governance Structure may provide for our respective organizations.

During 2005, Director Kathryn Adie, FMRP Director Group 5, (General Manager, Cayuga Mutual Insurance Company, Cayuga, Ontario) announced that she would be resigning from the Board following the completion of her term on the Executive Committee. We want to acknowledge the contributions and leadership that Kathryn has made to the organization since her election in 1995. Kathryn served as Chair of the Board and has played a key leadership role in the continued development of the organization.

We are also pleased to report that FMRP has committed to provide annual funding to the Farm Mutual Foundation, an organization founded to provide financial support for post secondary education for the children of the employees of our member companies and organizations. The first distributions from the foundation have been processed and we look forward to supporting this very worthy initiative in the future.

It has been a privilege and pleasure to serve as the Chairman of FMRP over the last year.

Through the continued cooperation and dedication of your Board of Directors and our professional management and staff, we will continue to succeed in developing the programs and services that "Empower our Members for Mutual Success".

We encourage you to attend and participate in our Annual General Meeting which will be held at the Royal York Hotel, Toronto, Ontario on Wednesday, March 29th, 2006.

Michael O'Shea

Chairman of the Board
Michael O'Shea

REPORT TO THE MEMBERS

Although we are pleased to be reporting record net income of $24.6 million for the period, our underwriting operations did not contribute to this otherwise excellent financial result. Our experience directly reflects the experience of our collective membership who, again this year, will be reporting another successful year in their long history.

Our combined ratio deteriorated to 110% for the year which produced an overall underwriting loss of $13.7 million. Investment performance continued to produce favourable results and realized capital gains generated in our equity portfolio provided the largest contribution to our very healthy bottom line. The Surplus of the Corporation now stands at $174.9 million. Slight decreases in premiums and operating expenses reflect the stable growth of our Class "A" membership base and decreases in Class "C" business written in the United States.

Our overall Property portfolio produced acceptable results, with premiums assumed of $79.4 million. Performance in the Property Excess of Loss portfolio deteriorated significantly, with net claims exceeding net premiums by over $3.4 million on premiums assumed of $29.4 million for the period. Although claims frequency increased during the year, we continue to see a decline in the number of large individual risk losses which reinforces our commitment to our loss control and risk inspection activities. Our Catastrophe program performed very well for the year providing a positive contribution to our overall property results. There was increased activity with a number of occurrences related to spring and summer storms in Western Canada, with the most significant event, a combined windstorm and tornado occurring in August in Ontario. We did not see any significant increase in Property Quota Share business, with the portfolio 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. For the second consecutive year there was a significant loss in the Manitoba Crop program, however, this was offset by the positive performance of our portfolio of business in the United States. There was a reduction of our premiums writings in this portfolio in 2005 which we expect to regain in the coming year.

Our General Liability portfolio continues to demonstrate volatility, with net claims exceeding net premiums by $16.0 million on premiums assumed of $20.0 million. A significant portion of this loss relates to development of prior years' losses and newly reported claims for prior periods. Outstanding loss reserves continue to be evaluated and significant adjustments to IBNR provisions have been made to accommodate for further adverse development. During the year we continued to refine our established procedures for establishing and adjusting retail rates on a group basis and we will continue our efforts to improve our financial performance of this line of business in the future.

Our Automobile portfolio continues to be a strong performer this year, with net premiums exceeding net claims by $9.7 million on premiums assumed of $50.0 million. Reductions in claims frequency and severity, together with positive developments in our reserves for prior periods, were the contributing factors.

We continued our focus on enhancing member services and strengthening our partnerships with our Class "A" membership base by increasing property risk capacity, implementing new programs for commercial insurance binding authority and by adding new boiler and machinery products. Our most significant efforts continue on our property line of business with our recently established Loss Control Services Department being actively engaged assisting our members in conducting sophisticated inspections of property risks using advanced thermo-graphic image technologies and advanced procedures.

The affects of two consecutive years of unprecedented catastrophic loss activity continues to compress global capacity and market availability within the international reinsurance community. We are not immune from the pressure to increase rates however our longstanding relationships with our reinsurance partners and our excellent loss experience minimized these increases.

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. (Steve) Smith
President and C.E.O.

T. Smith
Vice-President and Chief Financial Officer

Cambridge, Ontario
February 10, 2006

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, 2005 and the statements of earnings and 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, 2005 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 10, 2006

BDO Dunwoody LLP
Chartered Accountants

Farm Mutual Reinsurance Plan Inc.
Balance Sheet

As at December 31 (in thousands of dollars)

	2005	2004
Assets		
Cash	**$ 7,712**	$ 5,266
Receivables (Note 2)	**25,606**	26,342
Prepaids	**151**	151
Income taxes recoverable	**458**	2,830
Investments (Note 3)	**399,327**	333,695
Unpaid claims recoverable from reinsurers (Note 7)	**38,837**	30,791
Property and equipment (Note 4)	**5,900**	5,277
Future tax asset (Note 11)	**2,784**	3,613
Deferred acquisition expenditures	**7,072**	6,847
	$ 487,847	$ 414,812
Liabilities		
Payables and accruals (Note 5)	**$ 7,648**	$ 5,365
Provision for unpaid claims (Note 7)	**285,370**	239,624
Unearned premiums	**19,935**	19,542
	$ 312,953	$ 264,531
Contingencies (Notes 1, 7, 8 and 9)		
Surplus		
	174,894	150,281
	$ 487,847	$ 414,812

On behalf of the Board:

Joe Facey
Director

Serge Gauthier
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 Earnings and Surplus

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

	2005	2004
Net premiums earned (Note 8)		
Property	$ 69,480	$ 73,571
Liability	16,668	14,325
Automobile	44,347	46,309
	130,495	134,205
Net claims incurred (Note 8)		
Property	52,959	48,133
Liability	32,713	17,061
Automobile	34,625	40,039
	120,297	105,233
Underwriting gain before expenses	10,198	28,972
Expenses		
Commissions	17,135	18,779
Operating	6,807	7,097
	23,942	25,876
Net underwriting (loss) gain	(13,744)	3,096
Net investment income	44,170	20,318
Earnings before income taxes	30,426	23,414
Income taxes (Note 11)		
Current	4,984	4,248
Future	829	(238)
	5,813	4,010
Net earnings for the year	$ 24,613	$ 19,404
Surplus, beginning of year	150,281	130,877
Surplus, end of year	$ 174,894	$ 150,281

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 Flows

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

Cash provided by (used in):	2005	2004
Operating activities		
Net earnings for the year	$ 24,613	$ 19,404
Adjustments required to reconcile net earnings to net cash provided by operating activities		
Amortization	463	441
Bond amortization	1,797	1,429
Future income taxes	829	(238)
Gain on sale of investments	(29,841)	(9,499)
Loss on sale of property and equipment	–	11
Write down of investments	–	737
Changes in non-cash working capital components (Note 12)	43,259	14,249
	41,120	26,534
Investing activities		
Proceeds on disposal of property and equipment	–	2
Purchase of property and equipment	(335)	(601)
Net purchase of investments (Note 12)	(38,339)	(21,547)
	(38,674)	(22,146)
Net increase in cash	2,446	4,388
Cash, beginning of year	5,266	878
Cash, end of year	$ 7,712	$ 5,266
Supplementary cash flow information		
Income tax paid	$ (2,586)	$ (14,144)

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, 2005

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.

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

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, 2005 (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

	2005	2004
Accrued investment income	**$ 3,179**	$ 2,705
Ceding member companies	**18,572**	19,482
Reinsurers	**3,747**	3,979
Miscellaneous	**108**	176
	$ 25,606	$ 26,342

3. INVESTMENTS

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

	2005		2004	
	Book Value	**Estimated Fair Value**	Book Value	Estimated Fair Value
Short-term securities	**$ 13,910**	**$ 13,910**	$ 9,956	$ 9,956
Bonds and debentures				
Government and guaranteed	**186,550**	**191,898**	169,899	174,215
Corporate	**89,365**	**92,675**	76,244	80,122
Common shares	**109,502**	**122,452**	76,846	94,735
Real estate	**–**	**–**	750	750
	$ 399,327	**$ 420,935**	$ 333,695	$ 359,778

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 $9,415 (2004 – $8,904) and common shares totalling $28,488 (2004 – $13,817) which are part of a pooled fund. The pooled fund is managed 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 Corporation'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.

During the year real estate has been transferred to property and equipment.

Short-term Securities

These are comprised of Canadian Treasury Bills with effective interest rates of 3.4%.

Bonds and Debentures

Maturity profile of the portfolio as at December 31, 2005:

Within 1 Year	1-3 Years	3-5 Years	5-10 Years	Over 10 Years	Total
$ 4,102	$ 81,559	$ 40,329	$ 86,336	$ 63,589	$ 275,915
1.5%	29.6%	14.6%	31.3%	23.0%	100%

The effective interest rate at December 31, 2005 for bonds and debentures is 4.9% based on book value.

Investment grade bonds are those rated BBB and above. At December 31, 2005 virtually all of the Corporation'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 (common shares: 2005 – $Nil; 2004 – $737). These provisions are netted against the carrying value of the specific investment (common shares: 2005 – $Nil; 2004 – $4,632).

4. Property and Equipment

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 1,837	$ –	$ 1,837	$ 1,086
Building	5,260	2,096	3,164	3,276
Office furniture and equipment	1,563	990	573	616
Computer				
– hardware	535	285	250	260
– software	202	126	76	39
	$ 9,397	$ 3,497	$ 5,900	$ 5,277

5. Payables and Accruals

	2005	2004
Expenses payable and accrued	$ 580	$ 560
Ceding member companies	6,520	4,255
Reinsurers	548	550
	$ 7,648	$ 5,365

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 adjustment 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:

	2005		2004	
	Gross	**Recoverable**	Gross	Recoverable
Property	**$ 46,243**	**$ 3,564**	$ 45,757	$ 4,501
Liability	**82,644**	**13,088**	60,404	12,896
Automobile	**156,483**	**22,185**	133,463	13,394
	$ 285,370	**$ 38,837**	$ 239,624	$ 30,791

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 and surplus are set out below:

	2005	2004
Provision for unpaid claims, beginning of year, net	**$ 208,833**	$ 181,350
<u>Net Claims Activity</u>		
Net increase in estimated claims for losses that occurred in prior years	**6,168**	8,087
Net claims incurred on current year losses	**114,129**	97,146
Paid on claims incurred in		
– Current year	**(29,701)**	(27,457)
– Prior years	**(52,896)**	(50,293)
Provision for unpaid claims, end of year, net	**246,533**	208,833
Reinsurers' share	**38,837**	30,791
Provision for unpaid claims, gross	**$ 285,370**	$ 239,624

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 and surplus:

	2005	2004
Net premiums earned		
Premiums assumed	**$ 149,354**	$ 152,891
Premiums ceded	**(18,859)**	(18,686)
	$ 130,495	$ 134,205
Net claims incurred		
Claims incurred	**$ 133,878**	$ 111,044
Reinsurance portion	**(13,581)**	(5,811)
	$ 120,297	$ 105,233

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

	In Excess of		**To a Maximum of**	
	2005	2004	**2005**	2004
Catastrophe – 95%	**$ 12,500**	$ 12,500	**$ 120,000**	$ 120,000
Excess reinsurance				
Property – 100%	**1,250**	1,250	**3,000**	3,000
Property – 95%	**3,000**	3,000	**6,000**	6,000
Liability – 87.5%	**–**	1,500	**–**	3,000
Liability – 100%	**1,500**	3,000	**18,000**	18,000
Automobile – 87.5%	**–**	1,500	**–**	3,000
Automobile – 100%	**1,500**	3,000	**18,000**	18,000

9. Contingencies

The Corporation has outstanding stand-by letters of credit at December 31, 2005 totalling $4,494 (2004 – $8,671) denominated in CDN dollars (2005 – $3,864 USD and 2004 – $7,214 USD). 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 $146 (2004 – $439) 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. Income Taxes

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

	2005	2004
Income taxes based on combined basic Canadian		
federal and provincial tax rate of approximately 36% (2004 – 36%)	**$ 10,953**	$ 8,456
Decrease resulting from permanent differences		
Non-taxable dividend income	**(995)**	(528)
Exempt income from insuring farm risks	**(4,216)**	(4,208)
Increase resulting from change in future tax rate	**15**	283
Large Corporations Tax	**56**	7
Total taxes – current and future	**$ 5,813**	$ 4,010

Future income tax assets are comprised of the following:

	2005	2004
Provision for unpaid claims	**$ 2,624**	$ 2,124
Invested assets	**160**	1,489
	$ 2,784	$ 3,613

12. Statement of Cash Flows

Changes in non-cash working capital

	2005	2004
Receivables	**$ 736**	$ (2,196)
Prepaids	**–**	15
Deferred acquisition costs	**(225)**	136
Payables and accruals	**2,283**	243
Income taxes	**2,372**	(9,879)
Provision for unpaid claims, net of recoveries	**37,700**	27,483
Unearned premiums	**393**	(1,553)
	$ 43,259	$ 14,249

Investing activities

2005	**Purchases**	**Sales**	**Net**	2004	Purchases	Sales	Net
Bonds	**$ 302,092**	**$ 273,022**	**$ (29,070)**	Bonds	$ 376,208	$ 357,026	$ (19,182)
Common shares	**92,575**	**87,060**	**(5,515)**	Common shares	34,275	34,377	102
Short-term	**299,189**	**295,435**	**(3,754)**	Short-term	231,462	228,995	(2,467)
			$ (38,339)				$ (21,547)

13. 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.

14. Fair Value of Financial Instruments

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

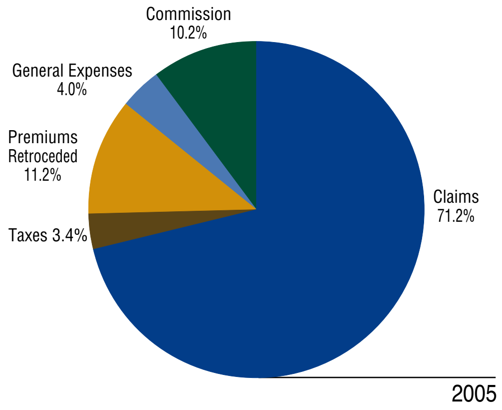
The fair values of cash, receivables and payables and accruals approximate their carrying values because of the short maturity of these instruments.

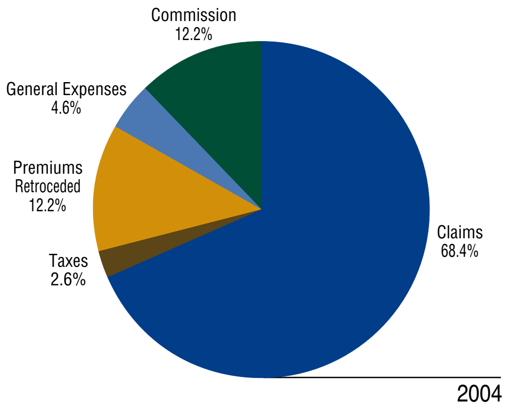
Unpaid claims and reinsurance recoverables are recorded at their discounted present value which approximates fair value.

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

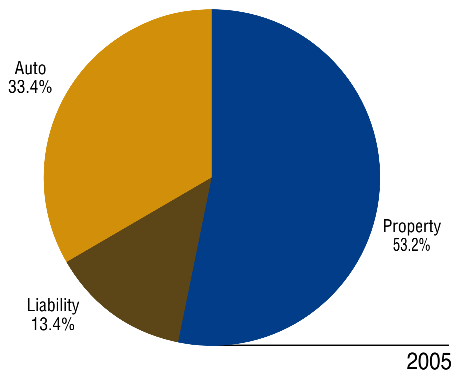
	Currency	**2005**	2004
Cash	U.S. dollars	**$ 266**	$ 94
Accounts receivable	U.S. dollars	**5,296**	4,938
Accounts payable	U.S. dollars	**908**	220
Provision for unpaid claims	U.S. dollars	**3,848**	4,502

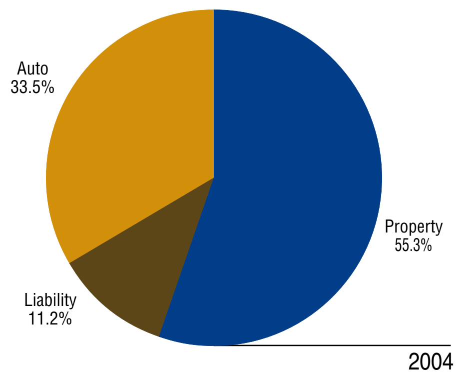
DISTRIBUTION OF EXPENSES



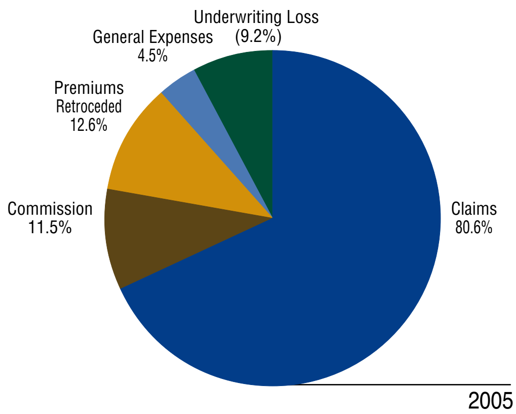


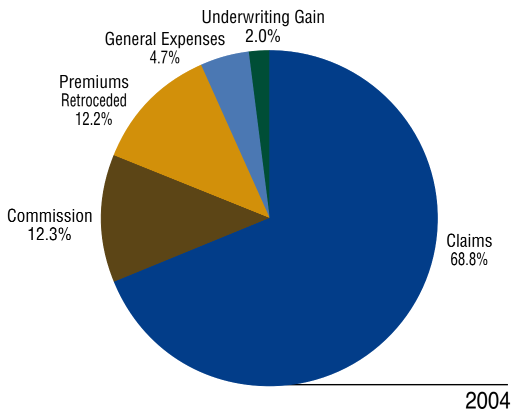
SOURCES OF GROSS PREMIUM INCOME





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	2005
Michael O'Shea	2005	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
G.S. (Steve) Smith	2003	Present