

The Farm Mutual RePort



April 2022

Message from the Board Chair



I humbly accept the Farm Mutual Re gavel handed to me by Paul Vandebosch. Paul has provided outstanding leadership to our Board over the past year. I am thankful for his common-sense approach to problems, his ability to articulate a complex concept and behind it all his quiet sense of humour.

As I look at the 2022 calendar, it becomes clear that Farm Mutual Re is quickly jumping into what looks like a pre-pandemic era. There will be face-to-face connections with people we have only been able to see as a small square on our monitors. We will continue to use some of the lessons learned during the pandemic with meetings being a mixture of virtual and in-person. This can be both scary and exciting, but I know we are up for this change. It is time.

This year our Board will continue to work through the committee structure changes that began last year. The Board has finalized the charters and operating guidelines and the committees will be testing them out over the next year. The Farm Mutual Re committees are Audit, Conduct Review, Risk & Compliance, Investment, Nomination & Governance, and Human Resources.

While the committees are doing their work, the Board continues to address some weighty issues. Profitability; Environmental, Social & Governance (ESG); Equity, Diversity & Inclusion (EDI) are topics that our whole community needs to spend time on.

I'm looking forward to this coming year and working with the fantastic people at Farm Mutual Re. We don't think the same. We don't have the same skill sets. Our opportunities lie in collaboration, challenging each other, while using the diversity of thought we have for the common good of our mutual community.

Valerie Fehr



Many thanks to those who helped the Farm Mutual Foundation raise close to \$30,000 at the silent and live auction held March 31, 2022.

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Message from the CEO



I just completed my third year leading Farm Mutual Re and it has been challenging. Resourcing issues, COVID fatigue and higher than average employee turnover, were capped off by disappointing financial results. While we are happy with the progress made on members' business and our auto results

benefiting from the driving reductions due to the pandemic; our property results continue to fall behind expectations. This is no doubt driven by the impact of inflation. The cost of material and labour have been trending up at an accelerated pace, pushing the average cost of claims upwards. We took a small step further away from breaking even in 2021, so additional increases will be necessary to continue to achieve rate adequacy.

With the current level of inflation, insurance to value is top-of-mind. We have seen an increase in the severity of claims invoking the Guaranteed Replacement Cost clause, which is an indication that amounts of insurance are not keeping up with inflation. As a community, we believe there is value in reviewing practices that determine the amount of insurance at new business and over time. To that end, our team has narrowed the scope of the underwriting audit to be more efficient. The next phase of audits will focus on amount of insurance and the learnings from this work will help inform all members on the state of insurance to value.

When it comes to the broker business, it has been a very difficult year. It has been a difficult year for the crop business, but we continue to support it, as it is a good diversifier and has been accretive to our

results over the years. And there is some good news, the terms for these accounts have improved and the loss estimate for the Manitoba crop program has been reduced.

The U.S. property book has suffered significant losses. Inflation and adverse weather are the major drivers. We are not happy with these results and have reviewed the segment starting with the terms and overall exposures per client at renewal time. We did not accept any new account at the 1/1 renewals. We reduced our overall exposures for our largest clients, and focused on getting risk-adjusted rate increases, especially on loss impacted business. We are also re-focusing our strategy. The need for growing the broker channel still exists. Concentration risk in southwestern Ontario and the continued amalgamation of our members, mean we need to find growth opportunities elsewhere. That said, we need to ensure that all segments are sustainable on their own. So, this segment will undergo its own path to profitability. Rest assured that there will be no cross subsidization between segments. The results of this segment have no impact on the pricing of the members' treaties.

Our 2022 agenda is full. With our new reinsurance system implementation, the launch of our new loss control platform, MIRA360, the rollout of new underwriting audits, the onboarding of a new executive and the finalization of a broker distribution strategy, our teams are busy. Add to that the exploration of ESG priorities and the preparation work on a new strategic plan, and our Board is busy as well.

I would like to thank Paul Vandenbosch for his stewardship over the last year as Chair of our Board. I appreciated his wisdom and common-sense approach. I look forward to working more closely with incoming Chair, Valerie Fehr this year. I am thrilled to have a strong female voice leading our Board.

JP Gagnon

Synergy2 has Launched!

Phase one of a very complex and multifaceted system change undertaken by Farm Mutual Re has been successfully completed. On April 6th we launched Synergy2, our new reinsurance platform developed by Eurobase. This solution is designed to optimally streamline our business operations to promote greater efficiency to support our member and broker channel business segments. Reinsurance, Claims, Finance, and IT departments are to be commended for diligently working towards this goal over the past year.

Message from Outgoing Board Chair



With hints of spring in the air and the optimism that the warmer weather seems to generate, it is my pleasure to provide my fifth - and final - report to you as the Chair of the Board of your reinsurance partner.

As it does at the beginning of every year, the Board and its various committees recently took some time to reflect on their

performance during the past year. The exercise gives each Board member the opportunity to provide confidential feedback and helps to identify areas where the Board has effectively discharged its responsibilities and areas where processes and performance can be improved. The accompanying peer review exercise allows each Board member to receive comments from their fellow Board members regarding their own strengths and weaknesses and is helpful in shaping education initiatives for the coming year and building trust among the directors. For directors who may be new to the exercise, the idea of having one's performance assessed may seem intimidating, but, speaking personally, having now gone through the process on a number of occasions, I have come to look forward to receiving the feedback.

In this same vein, the Human Resources Committee is nearing completion of the first annual cycle in its new President and CEO Continuous Performance Management protocol. Quarterly "check-ins" with our CEO (Jean-Pierre Gagnon) have created an environment where things that are

going well and things that are not going so well can be discussed in a conversational atmosphere. All participants have indicated that the more frequent reviews of the status of the CEO's annual objectives is an improvement over a single annual review.

With an eye to the future, as part of our new director orientation process, Ross Gowan, Ed Forbes and I recently met with our newest director, Errol Butler, to provide Errol with some insight and background on the Board's practices and procedures. Errol then received a "Reinsurance Fundamentals" presentation from Guy Carpenter, outlining the nature of Farm Mutual Re's relationships with its various insurance partners. Subsequent meetings with various members of senior management and staff concluded Errol's hectic day. Hopefully the day hasn't caused Errol to reconsider his joining the Board.

As alluded to above, this will be my final message as Chair in the Farm Mutual ReReport. At this time, I would like to take a moment to thank my home company, Middlesex Mutual, for accommodating many scheduling conflicts, all of the Group C companies for granting me the privilege of serving on the Farm Mutual Re Board, the staff and management team at Farm Mutual Re who have always been both professional and welcoming and finally, all of the past and present directors of Farm Mutual Re with whom I have had the pleasure to serve. Serving on the Board has been one of the highlights of my insurance career. Thank-you all for putting up with me.

In closing, with the pandemic not yet behind us, I continue to encourage you to take care of yourself and, if you can, to take care of someone else too.

Paul Vandenbosch

Reinsurance Underwriting Audits Begin

Spring 2022 marks the introduction of Reinsurance Underwriting Audits. To provide value with minimal disruption, we are adopting a new approach using innovative concepts. These audits will differ significantly from a traditional audit. They will not look at any one member's portfolio to provide individual recommendations. We will gain insights from a diverse group of five members within six-week periods. The first will focus on insurance to value.

Our goal remains: to gain a deeper understanding of the mutual portfolio. This understanding will allow us to speak with more conviction about our members' book of business to our reinsurance partners. In turn, their increased confidence in our assessment of our members' business will enable Farm Mutual Re to obtain the best terms and conditions possible when purchasing reinsurance. We appreciate your continued support and patience during this time as we work toward the long-term financial health of the entire mutual community.

Financial Information

Underwriting Experience

For the year ended 2021, we incurred an underwriting loss of \$23.0 million. This was driven by losses in the broker property segment, the Manitoba and Saskatchewan crop programs and member property per risk.

Investment Income

Investment income was more muted than 2020, but still a solid contributor to our overall results. Our \$833 million investment portfolio provided \$31.4 million of investment income. This is a 4.3% return on investments.

Net Income

The combination of our underwriting results and investment income has led to the generation of \$6.0 million in net income.

Capital Position

Farm Mutual Re's capital position remains well in excess of operating, internal and regulatory supervisory minimum targets as at December 31, 2021, with total surplus of \$440.2 million and a Minimum Capital Test (MCT) ratio of 415%.

Key Financial Measures

The table below provides key financial measures as at and for the year ended December 31, 2021.

(In thousands of Canadian dollars unless otherwise stated)	2021 December 31	2020 December 31
Net premiums earned	228,064	211,699
Investment income	31,417	44,752
Underwriting loss	(23,030)	(18,037)
Net income	6,024	21,343
Surplus	440,211	434,187
Combined ratio	110%	109%

Welcome New Director: Errol Butler



Please welcome Errol Butler to the Board of Directors effective March 30, 2022. Errol replaces Jeff Whiting who has completed his final term after joining the Board in 2010.

Errol was born in Derby, England and emigrated to Canada when he was seven. His parents and siblings had previously emigrated to England from Jamaica. He is

a graduate of the Air Water Resources Field Technology program at Fanshawe College in London, Ontario.

During his career he worked as an Environmental Technologist for Concord Scientific, a Senior Environmental Officer with the Ontario Ministry of the Environment and a Project Manager for Hal-Mar International. Errol was also President of Jedd Enterprise Ltd. a company that owned and managed an 82,000 square foot industrial/commercial building.

Errol served on the Town & Country Mutual Insurance Board for eight years with various responsibilities including Vice-Chair, Chair, and Past Chair of the Board. Since January of 2021 he has served on the Board of HT&C Mutual. He is currently the Chair of the HR committee. He has also served as a Director on the Board of the Grand Bend Area Health Centre Foundation.

He is an Elder and serves on the Board of Managers of St. Andrews Presbyterian Church Beechwood. Errol's interests include karate, in which he has a black belt. He owned and operated Arkona Kenpo Karate for several years. Errol volunteers as a Martial Arts Therapist with the Kids Kicking Cancer Heroes Circle program at Hillside School on the Kettle & Stoney Point First Nation. His other interests include cycling, curling, and skiing. Recently he has developed an interest in music, joining his church choir and learning to play the piano.

Errol and his wife are enjoying their retirement in Grand Bend, Ontario and have two grown children.

Welcome Errol!

Bringing Innovation 2.0 to Life

The past year was one of learning and growth in Innovation for Farm Mutual Re and our membership. In the second half of 2021, we began fully investing to bring our Innovation 2.0 Strategy to life.

To kick off this year, we shared our path ahead for Mutual Innovation, providing our findings from the Mutual Innovation Lab experiment and communicating the decision to not continue with this experiment. While we had momentum and interest, ultimately, we were missing some of the fundamentals to create an Innovation Lab. This experiment, however, was not done in vain. The outputs became key inputs into our new vision for innovation, and how we will engage the membership moving forward.

Supported by our Innovation 2.0 vision to be a beacon of mutual innovation, we will be taking the opportunity to thoughtfully engage in the external innovation ecosystem. An external innovation ecosystem provides the opportunity to get outside your own organization to gain insight into what your industry and your local innovation community are doing to innovate. As you do

this, you gain the opportunity to use this insight and these connections to start innovating.

We will provide an opportunity for all members to participate in this external innovation ecosystem, leveraging Farm Mutual Re's path along the way. This will enable all members to take part in a way suited to your specific innovation needs and desires, understanding that we are all on our own individual innovation journeys.

We are focusing much of 2022 on building the fundamentals to help Farm Mutual Re light the way for the mutual community. In Q1, we have found top innovation professionals to round out the Innovation Group and have built our first lean processes to find our most important problems and opportunities on which to focus. This will ensure we build the right team and have the right conversations with the mutual community at the right time. We will share more on our progress in the coming months and will provide an ecosystem update in late 2022.

Thank you for continuing on this journey with us.

Farm Mutual Re Board of Directors

Director	Position on Farm Mutual Re Board	Nominating Committee	Member company affiliation
Valerie Fehr	Chair	G	My Mutual, CEO
Ed Forbes	1 st Vice Chair	D	Dufferin Mutual, CEO
Kevin Konecny	2 nd Vice Chair	Board	K&E Mutual, CEO
Jill Taylor	Director	Board	Tradition Mutual, Director
Jill Chuli	Director	B	Caradoc Townsend Mutual, Director
Gord Lodwick	Director	E	Commonwell, Director
Derek MacFarlane	Director	Board	Stanley Mutual, Director
Christine Van Daele	Director	A	Westminster Mutual, CEO
Shane MacKinnon	Director	F	PEI Mutual, Director
Errol Butler	Director	Board	HT&C Mutual, Director
Ross Gowan	Director	Board	n/a
Paul Vandenbosch	Past Chair	C	Middlesex Mutual, Director