NORTH BLENHEIM MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS
DECEMBER 31, 2009

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BDO Canada LLP
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AUDITORS' REPORT

To the Policyholders,
NORTH BLENHEIM MUTUAL INSURANCE COMPANY

We have audited the balance sheet of **NORTH BLENHEIM MUTUAL INSURANCE COMPANY** as at December 31, 2009 and the statements of operations, unappropriated members' surplus, comprehensive income (loss), accumulated other comprehensive income (loss) and cash flows for the year then ended. These financial statements are the responsibility of the company'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 company as at December 31, 2009 and the results of its operations and the cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

“BDO CANADA LLP”

Chartered Accountants, Licensed Public Accountants

Woodstock, Ontario
January 21, 2010

NORTH BLENHEIM MUTUAL INSURANCE COMPANY

BALANCE SHEET
AS AT DECEMBER 31, 2009

		2009		2008
ASSETS				
Cash	**$**	**1,431,751**	$	965,160
Investments (Note 4)		**15,653,461**		13,490,095
Due from reinsurers		**15,401**		1,085
Due from policyholders		**1,668,215**		1,563,034
Reinsurers' share of provision for unpaid claims (Note 7)		**1,409,114**		1,388,703
Investment income accrued		**104,641**		86,410
Income taxes recoverable (Note 8)		**-**		615,712
Deferred policy acquisition expenses		**345,868**		335,011
Capital assets (Note 5)		**927,500**		1,141,883
Future income taxes		**109,300**		-
Other assets		**86,290**		120,071
	$	**21,751,541**	$	19,707,164
LIABILITIES				
Provision for unpaid claims (Note 7)	**$**	**4,239,909**	$	4,125,483
Unearned premiums (Note 6)		**3,711,126**		3,588,960
Accounts payable and accrued liabilities		**558,049**		355,863
Income taxes payable (Note 8)		**328,499**		-
Future income taxes		**-**		1,800
		8,837,583		8,072,106
Guarantees and contingent liabilities (Note 10)				
MEMBERS' SURPLUS				
Unappropriated members' surplus		**12,740,827**		12,656,231
Accumulated other comprehensive income (loss)		**173,131**		(1,021,173)
		12,913,958		11,635,058
	$	**21,751,541**	$	19,707,164

On behalf of the Board

_____________________________ Director

_____________________________ Director

The accompanying notes are an integral part of these financial statements

NORTH BLENHEIM MUTUAL INSURANCE COMPANY

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2009

	2009	2008
UNDERWRITING INCOME		
Gross premiums written	$ 7,642,880	$ 7,484,917
Less reinsurance ceded	(1,459,680)	(1,579,104)
Net premiums written	6,183,200	5,905,813
Less increase in unearned premiums	(122,166)	(104,211)
NET PREMIUMS EARNED	6,061,034	5,801,602
SERVICE CHARGES	40,536	58,400
	6,101,570	5,860,002
EXPENSES		
Administration expenses	318,497	320,873
Commissions and sales salaries	978,817	975,232
Computer expense	151,491	145,622
Direct losses incurred	2,974,434	3,137,925
Investigation and adjustment of claims	471,284	387,974
Licences, filing fees and corporation tax	134,967	126,569
Occupancy expenses (Note 5)	272,539	120,475
Postage and telephone	43,417	40,747
Printing, stationery and office supplies	40,145	37,308
Professional fees	73,137	54,802
Salaries, benefits and directors' fees	579,908	635,833
TOTAL EXPENSES	6,038,636	5,983,360
NET UNDERWRITING INCOME (LOSS)	62,934	(123,358)
INVESTMENT INCOME		
Investment income	144,039	244,948
Investment expenses	(81,638)	(99,368)
NET INVESTMENT INCOME	62,401	145,580
INCOME BEFORE PROVISION FOR INCOME TAXES	125,335	22,222
PROVISION FOR (RECOVERY OF) INCOME TAXES - current	431,039	(298,745)
- future	(390,300)	277,100
	40,739	(21,645)
NET INCOME FOR THE YEAR	$ 84,596	$ 43,867

The accompanying notes are an integral part of these financial statements

NORTH BLENHEIM MUTUAL INSURANCE COMPANY

STATEMENT OF UNAPPROPRIATED MEMBERS' SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2009

	2009	2008
BALANCE AT BEGINNING OF YEAR	**$ 12,656,231**	$ 12,612,364
NET INCOME FOR THE YEAR	**84,596**	43,867
BALANCE AT END OF YEAR	**$ 12,740,827**	$ 12,656,231

STATEMENT OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEAR ENDED DECEMBER 31, 2009

	2009	2008
NET INCOME	**$ 84,596**	$ 43,867
OTHER COMPREHENSIVE INCOME (LOSS)		
Change in unrealized gain (loss) on available-for-sale financial assets		
Debt securities	**653,101**	(138,927)
Common shares	**618,545**	(1,108,176)
Farm Mutual Pooled Fund	**160,485**	(325,059)
	1,432,131	(1,572,162)
Reclassification adjustment for (gain) loss included in income		
Debt securities	**(108,785)**	(42,930)
Common shares	**150,158**	130,340
	41,373	87,410
Net unrealized income (loss)	**1,473,504**	(1,484,752)
Income tax effect	**(279,200)**	298,869
	1,194,304	(1,185,883)
COMPREHENSIVE INCOME (LOSS)	**$ 1,278,900**	$ (1,142,016)

STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
FOR THE YEAR ENDED DECEMBER 31, 2009

	2009	2008
BALANCE AT BEGINNING OF YEAR	**$ (1,021,173)**	$ 164,710
OTHER COMPREHENSIVE INCOME (LOSS)	**1,194,304**	(1,185,883)
BALANCE AT END OF YEAR	**$ 173,131**	$ (1,021,173)

The accompanying notes are an integral part of these financial statements

NORTH BLENHEIM MUTUAL INSURANCE COMPANY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**$ 84,596**	$ 43,867
Adjustments for:		
Increase in provision for unpaid claims	**114,426**	1,056,908
Increase in unearned premiums	**122,166**	104,211
Increase in accounts payable and other liabilities	**530,685**	70,546
Decrease in refund of premium payable	**-**	(392,473)
Amortization of capital assets	**81,583**	67,929
Writedown of capital assets	**158,282**	-
Decrease (increase) in receivables and other assets	**491,354**	(873,666)
Future income taxes	**(390,300)**	277,100
Increase in deferred policy acquisition costs	**(10,857)**	(25,685)
Realized loss from disposal of investments	**41,373**	87,410
Realized loss from disposal of capital assets	**26,611**	5,073
Writedown of investments	**53,055**	288,968
	1,302,974	710,188
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	**8,165,540**	10,249,572
Purchase of investments	**(8,949,830)**	(11,129,614)
Sale of capital assets	**18,685**	20,310
Purchase of capital assets	**(70,778)**	(128,634)
	(836,383)	(988,366)
INCREASE (DECREASE) OF CASH AND CASH EQUIVALENTS	**466,591**	(278,178)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**965,160**	1,243,338
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 1,431,751**	$ 965,160
Income taxes (recovered) paid and included in cash flows from operating activities:	**$ (476,291)**	$ 128,007

The accompanying notes are an integral part of these financial statements

1. NATURE OF BUSINESS

Company

The company is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario.

All insurance entities

The company determines and charges premiums to individual policyholders which, taken as a pool with all other policyholders, is expected to cover underwriting costs and claims which may take a number of years to settle. The business risks of insurance reside in determining the product premium, settlement of claims, estimation of claims costs and management of investment funds. Ongoing management policies and practices of the company in underwriting, claims and investment activities are designed to control risk exposure.

To further mitigate underwriting risk, the company purchases reinsurance to share all or part of the risks originally accepted by the company in writing premiums. This reinsurance, however, does not relieve the company of its primary obligation to policyholders. If any reinsurers are unable to meet their obligations under the related agreements, the company would be liable to its policyholders for unrecoverable amounts.

The company itself is a reinsurer and therefore shares in risks originally accepted by other insurance companies.

2. SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles, including the requirements of the Financial Services Commission, requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements. Estimates also affect the reported amounts of income and expenses for the reporting period of the statement of operations. Actual results could differ from those estimates.

Reinsurance

The company reflects reinsurance balances on the balance sheet on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders and on a net basis in the statement of operations to indicate the results of its retention of premium written.

Policy liabilities

Policy liabilities primarily include unearned premiums, provisions for unpaid claims and adjustment expenses, the reinsurers' share of provisions for unearned premiums and unpaid claims and adjustment expenses, deferred acquisition costs, and salvage and subrogation recoverable.

Capital assets and amortization

Capital assets are recorded at cost. Amortization is provided on a straight-line basis over the estimated useful life of the assets as follows:

Building	50 years
Computer hardware	3 years
Furniture and fixtures	5 years
Vehicles	5 years

Income taxes

The company follows the asset/liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets, that are likely to be realized, and future income tax liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities.

The future tax amount is measured at enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Premium related balances

(a) Premiums and unearned premiums

The company earns premium income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

Premiums receivable are recorded at amounts due less any required provision for doubtful amounts.

(b) Reinsurers' share of unearned premiums

The reinsurers' share of unearned premiums, net of a provision for doubtful amounts, is recognized as an asset using principles consistent with the company's method for determining the unearned premium liability.

(c) Deferred acquisition costs

Acquisition costs are comprised of agents' commissions. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses and investment income.

Claims related balances

(a) Provisions for unpaid claims and adjustment expenses

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, changes in reported claims and for claims incurred but not reported, based on past experience and business in force. The estimates are regularly reviewed and updated, and any resulting adjustments are included in current income.

Claim liabilities are carried on an undiscounted basis, except for the liability related to accident benefit claims which is discounted in accordance with accepted actuarial practice as permitted by the Financial Services Commission of Ontario.

(b) Reinsurers' share of provisions for unpaid claims and adjustment expenses

Expected reinsurance recoveries on unpaid claims and adjustment expenses, net of any required provision for doubtful amounts, are recognized as assets at the same time and using principles consistent with the company's method for establishing the related liability.

(c) Salvage and subrogation recoverable

In the normal course of business, the company obtains the ownership of damaged property, which they resell to various salvage operations. Unsold property is valued at its estimated net realizable value.

Where the company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties. These claims are reflected at amounts expected to be received from the subrogated parties net of related costs.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments

The company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. Transaction costs related to all financial instruments are expensed as incurred. The company's accounting policy for each category is as follows:

Held-for-trading

This category is comprised of cash and cash equivalents. They are carried on the balance sheet at fair value with changes in fair value recognized in the statement of operations.

Loans and receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They arise principally through the provision of goods and services to customers (due from policyholders), but also incorporate other types of contractual monetary assets. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment.

Available-for-sale investments

Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise certain investments in equity instruments, including the company's investments in private companies. When they have a quoted market price in an active market, they are carried at fair value with changes in fair value recognized as a separate component of other comprehensive income. When they do not have a quoted market price in an active market, they are carried at cost. Where a decline in the fair value is determined to be other than temporary, the amount of the loss is removed from other comprehensive income and recognized in the statement of operations.

Other financial liabilities

Other financial liabilities includes all financial liabilities other than those classified as held-for-trading and comprises trade payables, and other short-term monetary liabilities. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method.

All transactions related to financial instruments are recorded on a settlement date basis.

The carrying amount of the company's financial instruments is as follows:

	Designated held-for-trading	Available-for-sale	Loans and receivables	Other financial liabilities	Total
Cash	$ 1,431,751	$ -	$ -	$ -	$ 1,431,751
Investments	-	15,653,461	-	-	15,653,461
Investment income accrued	-	-	104,641	-	104,641
Accounts payable and accrued liabilities	-	-	-	(558,049)	(558,049)
	$ 1,431,751	$ 15,653,461	$ 1,772,856	$ (558,049)	$ 18,300,019

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Fair values

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arms length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques that refer to observable market data.

Impaired investments

When the value of any investment is identified as impaired, the carrying amounts are adjusted to estimated realizable amounts. Estimated realizable amounts are measured by discounting reasonably determinable expected future cash flows at the effective interest rate inherent in the investment or using the estimated fair value of underlying security less realization costs of observable market prices. Adjustments to carrying amounts are included in investment income in the period the impairment is recognized.

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue 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.

3. CHANGE IN ACCOUNTING POLICY

The Accounting Standards Board has amended Section 3862, Financial Instruments - Disclosures by including enhanced disclosure requirements for fair value measurement of financial instruments and liquidity risks. The required note disclosures are in Note 4. Prior financial statements have not been restated.

4. INVESTMENTS

The carrying value of bonds and equities by issuer and industry sector as at December 31 is shown in the following table.

	2009			2008		
	Cost	**Fair Value**	**Carrying Value**	Cost	Fair Value	Carrying Value
Bankers Acceptance	**$ -**	**$ -**	**$ -**	$ 1,447,357	$ 1,447,357	$ 1,447,357
Guaranteed Investment Certificate	**600,000**	**600,000**	**600,000**	-	-	-
Bonds issued by:						
Provincial	**4,168,098**	**4,249,712**	**4,249,712**	2,816,112	2,894,707	2,894,707
Municipal	**929,810**	**953,168**	**953,168**	908,748	935,943	935,943
Corporate						
A or better	**4,822,812**	**4,972,966**	**4,972,966**	4,282,257	4,005,176	4,005,176
B to BBB	**692,874**	**673,537**	**673,537**	702,037	606,802	606,802
Not rated	**2,000**	**-**	**-**	210,003	166,000	166,000
	10,615,594	**10,849,383**	**10,849,383**	8,919,157	8,608,628	8,608,628
Farm Mutual Pooled Fund						
Canadian Fixed Income	**586,843**	**582,280**	**582,280**	553,021	548,809	548,809
Canadian Equity	**838,627**	**680,364**	**680,364**	843,604	524,504	524,504
	1,425,470	**1,262,644**	**1,262,644**	1,396,625	1,073,313	1,073,313
Equity Investments						
Canadian common	**2,199,159**	**2,359,109**	**2,359,109**	2,343,863	1,717,208	1,717,208
U.S. common	**137,691**	**133,309**	**133,309**	-	-	-
	2,336,850	**2,492,418**	**2,492,418**	2,343,863	1,717,208	1,717,208
Mutual Funds	**429,514**	**429,514**	**429,514**	610,663	624,184	624,184
Fire Mutuals Guarantee Fund	**19,502**	**20,232**	**19,502**	19,405	19,748	19,405
	$ 15,426,930	**$ 15,654,191**	**$ 15,653,461**	$ 14,737,070	$ 13,490,438	$ 13,490,095

The maximum exposure to credit risk would be the fair value as shown above.

The estimated fair value of bonds, mutual funds and pooled funds are based on quoted market values. The estimated fair value of equities are determined using last bid price.

The investment in the Fire Mutuals Guarantee Fund does not have a active market. This investment has been carried at cost for accounting purposes.

Based on an analysis by management, investments that have declined from their cost value in a manner not similar to that of the entire market were deemed as other than temporarily impaired and were written down.

4. INVESTMENTS (cont'd)

During the year, the company determined that an other than temporary impairment occurred with specific equity investments. In total, equity investments were written down by $44,602 to reflect this market impairment. The writedown has been recognized in the statement of operations.

During the year, it was determined that a debt security was impaired. The investment has been written down to management's best estimate of recoverability based on information available at year end. A writedown of $8,000 has been included in the statement of operations.

It is management's belief that other declines in fair market value are temporary in nature, and improvement is probable within a timeframe consistent with the investment strategy and therefore no writedown is necessary.

Fair value measurement

In compliance with CICA 3862, the company has categorized its assets and liabilities that are carried at fair value, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Financial assets and liabilities measured at fair value are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2: Fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs or inputs that are derived principally for or corroborated with observable market data through correlation or other means.

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs or the use of broker quotes. These unobservable inputs reflect the company's assumptions about the assumptions market participants would use in pricing the assets or liabilities.

	Level 1	Level 2	Level 3	Total
Guaranteed investment certificates	$ 600,000	$ -	$ -	$ 600,000
Bonds issued by:				
Provincial	4,249,712	-	-	4,249,712
Municipal	953,168	-	-	953,168
Corporate	5,646,503	-	-	5,646,503
Farm Mutual Pooled Funds				
Canadian Fixed Income	-	582,280	-	582,280
Canadian Equity	-	680,364	-	680,364
Equity Investments				
Canadian common	2,359,109	-	-	2,359,109
U.S. common	133,309	-	-	133,309
Mutual Funds	429,514	-	-	429,514
Fire Mutuals Guarantee Fund	-	19,502	-	19,502
Total assets measured at fair value	$14,371,315	$ 1,282,146	$ -	$15,653,461

4. INVESTMENTS (cont'd)

Liquidity risk

Maturity profile as at December 31, 2009

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Carrying Value
Debt securities	$ 105,132	$ 1,703,438	$ 7,485,927	$ 1,554,886	$ 10,849,383
Percent of total	1 %	16 %	69 %	14 %	

The effective interest rate at December 31, 2009 for debt securities is 4.85%

5. CAPITAL ASSETS

	2009		2008	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 48,886**	**$ -**	$ 48,886	$ -
Building	**1,025,199**	**299,085**	1,185,296	274,701
Computer hardware	**93,170**	**29,699**	95,121	19,147
Furniture and fixtures	**43,063**	**29,263**	42,172	24,136
Vehicles	**94,617**	**19,388**	115,996	27,604
	$ 1,304,935	**$ 377,435**	$ 1,487,471	$ 345,588
Net book value		**$ 927,500**		$ 1,141,883
Amortization		**$ 81,583**		$ 67,929

During the year the company determined that the net book value of their building was in excess of their net recoverable amount. The write down of $158,282 is included in occupancy expenses in the statement of operations.

6. UNEARNED PREMIUMS

Reinsurance recoveries

The company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, investment income and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2009 and 2008.

The company cedes all reinsurance business to Farm Mutual Reinsurance Plan Inc. No provision is necessary at December 31, 2009 or 2008 for doubtful collection of reinsurance recoveries related to unearned premiums.

7. PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

Scope

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurers' share requires the estimation of three major variables which are the development of claims, reinsurance recoveries, and future investment income.

The Superintendent of the Financial Services Commission of Ontario has required that consideration of future investment income be disregarded except in the evaluation of automobile accident benefit claims.

The provision for unpaid claims and adjustment expenses and related reinsurers' share are estimates subject to variability, and the variability could be material in the near term. 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 of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are principally based on the company's historical experience. Methods of estimation have been used which the company believes produce reasonable results given current information.

The table below details the provision for unpaid claims and adjustment expenses by risk categories.

	2009		2008	
	Gross	**Ceded**	Gross	Ceded
Long settlement term	**$ 3,299,964**	**$ 1,133,267**	$ 2,584,853	$ 953,735
Short settlement term	**625,943**	**275,847**	1,291,221	434,968
Facility Association and other residual pools	**314,002**	**-**	299,409	-
	$ 4,239,909	**$ 1,409,114**	$ 4,125,483	$ 1,388,703

Claim development

The estimation of claim development involves assessing the future behaviour of claims taking into consideration the consistency of the company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

Comments and assumptions for specific claims categories

The ultimate cost of long settlement general liability claims are difficult to predict for several reasons. Claims may not be reported until many years after a policy expires. Changes in the legal environment have created further complications. Court decisions and federal and provincial legislation may dramatically increase the liability between the time a policy is written and associated claims are ultimately resolved. For example, liability for exposure to toxic substances and environmental impairment, which did not appear likely or even exist when the policies were written, has been imposed by legislators and judicial interpretation. Tort liability has been expanded by some jurisdictions to cover defective workmanship. Provisions for such difficult-to-estimate liabilities are established by examining the facts of tendered claims and adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns and current socioeconomic trends.

The company must participate in industry automobile residual pools of business, and recognizes a share of this business based on its automobile market share. The company records its share of the liabilities provided by the actuaries of the pools.

7. PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES (cont'd)

Claims and adjustment expenses

Changes in claim liabilities recorded in the balance sheet for the years ended December 31, 2009 and 2008 and their impact on claims and adjustment expenses for the two years follow:

	2009	2008
Unpaid claim liabilities - beginning of year - net	**$ 2,736,780**	$ 2,163,151
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	**(249,562)**	80,936
Provision for losses and expenses on claims occurring in the current year	**3,380,811**	3,145,832
Payment on claims:		
Current year	**(1,902,281)**	(1,999,227)
Prior years	**(1,134,953)**	(653,912)
Unpaid claim liabilities - end of year - net	**2,830,795**	2,736,780
Reinsurer's share and subrogation recoverable	**1,409,114**	1,388,703
Provision for unpaid claims and adjustment expenses - end of year as reported in financial statements	**$ 4,239,909**	$ 4,125,483

The change in estimate of losses occurring in prior years is due to changes in light of new information received.

8. INCOME TAXES

The company is subject to income taxes on that portion of its income derived from insuring other than farm related risks.

9. CAPITAL MANAGEMENT

The company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty companies to comply with capital adequacy requirements. This test compares a company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. The regulator indicates that the company should produce a minimum MCT of 150%. During the year, the company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the company's operations if deemed necessary.

In an actuarial study done, the Net Risk Ratio was shown to have a high correlation to the MCT. As a result of these findings, the company uses Net Risk Ratio (surplus to gross premiums written) to monitor capital adequacy.

For the purpose of capital management, the company has defined capital as members' surplus excluding accumulated other comprehensive income.

Reinsurance

The company is substantially dependent on reinsurance contracts with a related party. There is no single non-related reinsurer which is material to the company. The reinsurance transactions with its related party are in the normal course of business.

During 2009, the company followed the policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the company to an amount on any one claim of $210,000 in the event of a property claim, an amount of $160,000 in the event of an automobile claim and $80,000 in the event of a liability claim. For amounts over the respective limits there is a 10% retention to a specified maximum. The company also obtained reinsurance which limits the company's liability to $610,000 in the event of a series of claims arising out of a single occurrence. In addition, the company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% of gross net earned premiums for property and automobile.

10. GUARANTEES AND CONTINGENT LIABILITIES

In common with the insurance industry in general, the company is subject to litigation arising in the normal course of conducting its insurance business which is taken into account in establishing the provision for unpaid claims and adjustment expenses.

Pursuant to an agreement effective January 1, 1976, the company is a member of the Fire Mutuals Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding policyholders' claims if a member company becomes bankrupt. As a result, the company may be required to contribute assets to their proportionate share in meeting this objective.

The company is a member of the Farm Mutual Reinsurance Plan Inc. ("the Plan"), which is a general reinsurer that shares in the insurance risks originally accepted by member insurance companies. As a member of the Plan, the company may be required to contribute additional capital to the Plan in the form of subordinated debt should the Plan's capital fall below a prescribed minimum.

The company and certain directors have been named as a defendant in an action for damages allegedly sustained by the plaintiffs. The company expects such actions to be resolved with minimal damages in excess of the amounts accrued.

11. PENSION PLAN

The company makes contributions to the Ontario Mutual Insurance Association Pension Plan, which is a multi-employer plan, on behalf of members of its staff. The plan is a money purchase plan, with a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay.

The amount contributed to the plan for 2009 was $76,554 (2008 - $80,856) for current service.

12. GOVERNMENT REGULATION OF AUTOMOBILE INSURANCE

The company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutuals by the Farm Mutual Reinsurance Plan Inc. The rate filing must include actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Commission of Ontario.

Rate regulation may affect the automobile revenues that are earned by the company. The actual impact of rate regulation would depend on the competitive environment at the time.

13. FINANCIAL INSTRUMENT RISK MANAGEMENT

Credit Risk

Credit risk is the risk of financial loss to the company if a debtor fails to make payments of interest and principal when due. The company is exposed to this risk relating to its debt holdings in its investment portfolio and the reliance on reinsurers to make payment when certain loss conditions are met.

The company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio remains very high quality with 93.79% of the bonds rated A or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer. Management monitors the creditworthiness of FMRP by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

Accounts receivable are short-term in nature and are not subject to material credit risk.

The maximum exposure to investment credit risk and concentration of this risk is outlined in note 4.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

13. FINANCIAL INSTRUMENT RISK MANAGEMENT (cont'd)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

The company’s investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in any one corporate issuer to a maximum of 8% (except government sponsored bonds) of the company’s portfolio.

The company’s investment policy limits investment in bonds and debentures of the various ratings to limits ranging from 5% to 50% of the company's portfolio. 95% of the funds should be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated BBB or better, while the other 5% can be invested in unrated bonds and debentures.

Currency Risk

Currency risk relates to the company operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The company’s foreign exchange risk is related to stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The company limits its holdings in foreign equity to 5% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when offside of the investment policy.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Interest Rate Risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

The company is exposed to this risk through its interest bearing investments (Bankers Acceptance, T-Bills, GICs, Bonds).

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the company’s assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result, generally, the company’s investment income will move with interest rates over the medium to long-term with short term interest rate fluctuations creating unrealized gains or losses in other comprehensive income. There are no occurrences where interest would be charged on liabilities; therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

At December 31, 2009, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $647,000. This change would be recognized in other comprehensive income.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

13. FINANCIAL INSTRUMENT RISK MANAGEMENT (cont'd)

Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The company is exposed to this risk through its equity holdings within its investment portfolio.

The company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. At December 31, 2009, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the company's Canadian common equities of $292,000 and the equity pooled fund of $68,000. This change would be recognized in other comprehensive income.

The company's investment policy limits investment in preferred and common shares to a maximum of 30% of the market value of the portfolio. The total investment in preferred and common shares cannot exceed 25% of total assets.

Equities are monitored by the board of directors and holdings are adjusted following each quarter when the investments are offside of the investment policy.

Liquidity Risk

Liquidity risk is the risk that the company will not be able to meet all cash outflow obligations as they come due. The company mitigates this risk by monitoring cash activities and expected outflows. The company's current liabilities arise as claims are made. The company does not have material liabilities that can be called unexpectedly at the demand of a lender or client. The company has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

The company's investment policy requires that 4% to 15% of the company's portfolio be held in cash and short term investments. Short term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

14. NEW ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the company, are as follows:

International financial reporting standards (IFRS)

The Accounting Standards Board confirmed in 2008 that the use of International Financial Reporting Standards ("IFRS") by publicly accountable enterprises will be required in 2011 with comparative data for the prior year. IFRS uses a conceptual framework similar to Canadian GAAP, but there could be significant differences in recognition, measurement and disclosures that will need to be addressed.

In order to prepare for the conversion to IFRS, the company has developed an IFRS conversion plan. The IFRS conversion plan is well underway with key IFRS standards analyzed and compared against the Company's current Canadian GAAP policies. The key accounting policy alternatives have been identified including contract classification and first-time adoption of IFRS, however, final decisions are pending. The impacts of these decisions are currently being addressed. Developments relating to existing standards and new standards are being monitored to assess the impact on the conversion plan. The transition status is currently on track with the implementation schedule.

15. COMPARATIVE AMOUNTS

The comparative amounts presented in the financial statements have been restated to conform to the current year's presentation.