

**NORTH BLENHEIM MUTUAL
INSURANCE COMPANY**

**FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NORTH BLENHEIM MUTUAL INSURANCE COMPANY

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DECEMBER 31, 2010

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INDEPENDENT AUDITOR'S REPORT

To the Policyholders of NORTH BLENHEIM MUTUAL INSURANCE COMPANY

We have audited the accompanying financial statements of NORTH BLENHEIM MUTUAL INSURANCE COMPANY, which comprise of the balance sheet as at December 31, 2010, and the statements of operations, unappropriated members' surplus, comprehensive income, accumulated other comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of NORTH BLENHEIM MUTUAL INSURANCE COMPANY as at December 31, 2010 are the results of its operations and its 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 28, 2011



NORTH BLENHEIM MUTUAL INSURANCE COMPANY

BALANCE SHEET
AS AT DECEMBER 31, 2010

	2010	2009
ASSETS		
Cash	\$ 1,636,965	\$ 1,431,751
Investments (Note 3)	16,553,910	15,653,461
Due from policyholders	1,875,134	1,668,215
Other receivables	1,159	15,401
Reinsurers' share of provision for unpaid claims (Note 6)	1,049,553	1,409,114
Investment income accrued	99,489	104,641
Income taxes recoverable (Note 7)	226,909	-
Deferred policy acquisition expenses	376,866	345,868
Capital assets (Note 4)	871,946	927,500
Future income taxes	27,400	109,300
Other assets	27,235	86,290
	\$ 22,746,566	\$ 21,751,541
LIABILITIES		
Provision for unpaid claims (Note 6)	\$ 4,297,424	\$ 4,239,909
Unearned premiums (Note 5)	4,011,929	3,711,126
Accounts payable and accrued liabilities	286,170	558,049
Income taxes payable (Note 7)	-	328,499
	8,595,523	8,837,583
MEMBERS' SURPLUS		
Unappropriated members' surplus	13,646,367	12,740,827
Accumulated other comprehensive income	504,676	173,131
	14,151,043	12,913,958
	\$ 22,746,566	\$ 21,751,541

Guarantees and contingent liabilities (Note 9)

On behalf of the Board

 Director
 Director

NORTH BLENHEIM MUTUAL INSURANCE COMPANY

STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
UNDERWRITING INCOME		
Gross premiums written	\$ 8,315,684	\$ 7,642,880
Less reinsurance ceded	<u>(1,593,068)</u>	<u>(1,459,680)</u>
Net premiums written	6,722,616	6,183,200
Less increase in unearned premiums	<u>(300,803)</u>	<u>(122,166)</u>
NET PREMIUMS EARNED	<u>6,421,813</u>	6,061,034
SERVICE CHARGES	<u>43,375</u>	40,536
	<u>6,465,188</u>	<u>6,101,570</u>
EXPENSES		
Administration expenses	232,753	190,377
Commissions and sales salaries	1,035,276	978,817
Computer expense	180,305	151,491
Direct losses incurred	2,700,624	2,974,434
Investigation and adjustment of claims	642,984	471,284
Licences, filing fees and corporation tax	134,877	134,967
Occupancy expenses	92,131	272,539
Postage and telephone	50,967	43,417
Printing, stationery and office supplies	36,991	40,145
Professional fees	40,938	73,137
Salaries, benefits and directors' fees	<u>930,278</u>	<u>708,028</u>
TOTAL EXPENSES	<u>6,078,124</u>	6,038,636
NET UNDERWRITING INCOME	<u>387,064</u>	62,934
INVESTMENT INCOME		
Investment income	848,228	144,039
Investment expenses	<u>(99,474)</u>	<u>(81,638)</u>
NET INVESTMENT INCOME	<u>748,754</u>	62,401
INCOME BEFORE PROVISION FOR INCOME TAXES	<u>1,135,818</u>	125,335
PROVISION FOR (RECOVERY OF) INCOME TAXES - current	196,778	431,039
- future	<u>33,500</u>	<u>(390,300)</u>
	<u>230,278</u>	40,739
NET INCOME FOR THE YEAR	<u>\$ 905,540</u>	<u>\$ 84,596</u>

NORTH BLENHEIM MUTUAL INSURANCE COMPANY

STATEMENT OF UNAPPROPRIATED MEMBERS' SURPLUS FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>2010</u>	<u>2009</u>
BALANCE AT BEGINNING OF YEAR	\$ 12,740,827	\$ 12,656,231
NET INCOME FOR THE YEAR	<u>905,540</u>	<u>84,596</u>
BALANCE AT END OF YEAR	<u>\$ 13,646,367</u>	<u>\$ 12,740,827</u>

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>2010</u>	<u>2009</u>
NET INCOME	\$ 905,540	\$ 84,596
OTHER COMPREHENSIVE INCOME		
Change in unrealized gain on available-for-sale financial assets		
Debt securities	252,502	653,101
Common shares	257,627	618,545
Farm mutual pooled fund	<u>94,468</u>	<u>160,485</u>
	<u>604,597</u>	<u>1,432,131</u>
Reclassification adjustment for (gain) loss included in income		
Debt securities	(99,155)	(108,785)
Common shares	<u>(125,497)</u>	<u>150,158</u>
	<u>(224,652)</u>	<u>41,373</u>
Net unrealized income	379,945	1,473,504
Income tax effect	<u>(48,400)</u>	<u>(279,200)</u>
	<u>331,545</u>	<u>1,194,304</u>
COMPREHENSIVE INCOME	<u>\$ 1,237,085</u>	<u>\$ 1,278,900</u>

STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>2010</u>	<u>2009</u>
BALANCE AT BEGINNING OF YEAR	\$ 173,131	\$ (1,021,173)
OTHER COMPREHENSIVE INCOME	<u>331,545</u>	<u>1,194,304</u>
BALANCE AT END OF YEAR	<u>\$ 504,676</u>	<u>\$ 173,131</u>

NORTH BLENHEIM MUTUAL INSURANCE COMPANY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	\$ 905,540	\$ 84,596
Adjustments for:		
Increase in provision for unpaid claims	57,515	114,426
Increase in unearned premiums	300,803	122,166
(Decrease) increase in accounts payable and other liabilities	(600,378)	530,685
Amortization of capital assets	70,607	81,583
Writedown of capital assets	-	158,282
Decrease in receivables and other assets	4,182	491,354
Future income taxes	33,500	(390,300)
Increase in deferred policy acquisition costs	(30,998)	(10,857)
Realized (gain) loss from disposal of investments	(224,652)	41,373
Realized loss from disposal of capital assets	9,947	26,611
Writedown of investments	-	53,055
	<u>526,066</u>	<u>1,302,974</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	5,695,666	8,165,540
Purchase of investments	(5,991,518)	(8,949,830)
Sale of capital assets	20,700	18,685
Purchase of capital assets	(45,700)	(70,778)
	<u>(320,852)</u>	<u>(836,383)</u>
INCREASE OF CASH AND CASH EQUIVALENTS	205,214	466,591
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,431,751</u>	<u>965,160</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,636,965</u>	<u>\$ 1,431,751</u>
Income taxes paid (recovered) included in cash flows from operating activities:	<u>\$ 820,238</u>	<u>\$ (476,291)</u>

NORTH BLENHEIM MUTUAL INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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 of Ontario, 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.

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.

NORTH BLENHEIM MUTUAL INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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 and premium tax. 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.

(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, the company acquires the right 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.

NORTH BLENHEIM MUTUAL INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

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 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	\$ 1,636,965	\$ -	\$ -	\$ -	\$ 1,636,965
Investments	-	16,553,910	-	-	16,553,910
Investment income accrued	-	-	99,489	-	99,489
Accounts payable and accrued liabilities	-	-	-	(286,170)	(286,170)
	\$ 1,636,965	\$ 16,553,910	\$ 99,489	\$ (286,170)	\$ 18,004,194

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.

NORTH BLENHEIM MUTUAL INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

3. INVESTMENTS

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

	2010			2009		
	Cost	Fair Value	Carrying Value	Cost	Fair Value	Carrying Value
Guaranteed Investment Certificates	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000
Bonds issued by:						
Provincial	3,907,804	4,013,702	4,013,702	4,168,098	4,249,712	4,249,712
Municipal	916,060	969,057	969,057	929,810	953,168	953,168
Corporate						
A or better	5,228,188	5,439,819	5,439,819	4,822,812	4,972,966	4,972,966
B to BBB	917,109	932,407	932,407	692,874	673,537	673,537
Not rated	267,000	268,312	268,312	2,000	-	-
	11,236,161	11,623,297	11,623,297	10,615,594	10,849,383	10,849,383
Farm Mutual Pooled Funds						
Canadian Fixed Income	941,618	922,636	922,636	586,843	582,280	582,280
Canadian Equity	838,835	789,459	789,459	838,627	680,364	680,364
	1,780,453	1,712,095	1,712,095	1,425,470	1,262,644	1,262,644
Equity Investments						
Canadian common	2,263,354	2,551,054	2,551,054	2,199,159	2,359,109	2,359,109
U.S. common	-	-	-	137,691	133,309	133,309
	2,263,354	2,551,054	2,551,054	2,336,850	2,492,418	2,492,418
Mutual Funds	47,273	47,273	47,273	429,514	429,514	429,514
Fire Mutuals Guarantee Fund	20,191	20,915	20,191	19,502	20,232	19,502
	\$ 15,947,432	\$ 16,554,634	\$ 16,553,910	\$ 15,426,930	\$ 15,654,191	\$ 15,653,461

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.

It is management's belief that any 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.

NORTH BLENHEIM MUTUAL INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

3. INVESTMENTS (cont'd)

Fair value measurement

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.

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.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Guaranteed investment certificates	\$ 600,000	\$ -	\$ -	\$ 600,000
Bonds issued by:				
Provincial	4,013,702	-	-	4,013,702
Municipal	969,057	-	-	969,057
Corporate	6,640,538	-	-	6,640,538
Farm Mutual Pooled Funds				
Canadian Fixed Income	-	922,636	-	922,636
Canadian Equity	-	789,459	-	789,459
Equity Investments				
Canadian common	2,551,054	-	-	2,551,054
Mutual Funds	47,273	-	-	47,273
Fire Mutuals Guarantee Fund	-	20,191	-	20,191
Total assets measured at fair value	\$14,821,624	\$ 1,732,286	\$ -	\$16,553,910

The company did not have any significant transfers between level 1 and level 2.

Liquidity risk

Maturity profile as at December 31, 2010

	<u>Within 1 year</u>	<u>2 to 5 years</u>	<u>6 to 10 years</u>	<u>Over 10 years</u>	<u>Carrying Value</u>
Debt securities	\$ -	\$ 4,466,117	\$ 7,157,180	\$ -	\$ 11,623,297
Percent of total	-	38 %	62 %	-	

The effective interest rate at December 31, 2010 for debt securities is 4.43%. (2009 - 4.85%)

NORTH BLENHEIM MUTUAL INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

4. CAPITAL ASSETS

	2010		2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 48,886	\$ -	\$ 48,886	\$ -
Building	1,025,199	320,293	1,025,199	299,085
Computer hardware	93,170	60,781	93,170	29,699
Furniture and fixtures	43,063	29,263	43,063	29,263
Vehicles	89,273	17,308	94,617	19,388
	<u>\$ 1,299,591</u>	<u>\$ 427,645</u>	<u>\$ 1,304,935</u>	<u>\$ 377,435</u>
Net book value		<u>\$ 871,946</u>		<u>\$ 927,500</u>
Amortization		<u>\$ 70,607</u>		<u>\$ 81,583</u>

5. 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, 2010 and 2009.

The company cedes all reinsurance business to Farm Mutual Reinsurance Plan Inc. No provision is necessary at December 31, 2010 or 2009 for doubtful collection of reinsurance recoveries related to unearned premiums.

NORTH BLENHEIM MUTUAL INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS
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6. 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 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.

	2010		2009	
	Gross	Ceded	Gross	Ceded
Long settlement term	\$ 3,655,629	\$ 1,048,089	\$ 3,299,964	\$ 1,133,267
Short settlement term	317,311	-	625,943	275,847
Facility Association and other residual pools	324,484	-	314,002	-
	\$ 4,297,424	\$ 1,049,553	\$ 4,239,909	\$ 1,409,114

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.

NORTH BLENHEIM MUTUAL INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

6. 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, 2010 and 2009 and their impact on claims and adjustment expenses for the two years follow:

	<u>2010</u>	<u>2009</u>
Unpaid claim liabilities - beginning of year - net	\$ 2,830,795	\$ 2,736,780
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	102,931	(249,562)
Provision for losses and expenses on claims occurring in the current year	2,924,222	3,380,811
Payment on claims:		
Current year	(1,828,311)	(1,902,281)
Prior years	(781,766)	(1,134,953)
Unpaid claim liabilities - end of year - net	<u>3,247,871</u>	2,830,795
Reinsurer's share and subrogation recoverable	<u>1,049,553</u>	1,409,114
Provision for unpaid claims and adjustment expenses - end of year as reported in financial statements	<u>\$ 4,297,424</u>	<u>\$ 4,239,909</u>

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

7. INCOME TAXES

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

NORTH BLENHEIM MUTUAL INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

8. 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 Risk Ratio was shown to have a high correlation to the MCT. As a result of these findings, the company uses 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. The reinsurance transactions with its related party are in the normal course of business.

During 2010, 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, \$180,000 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.

9. 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.

10. 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.

Contributions made during the year on behalf of the employees amounted to 2010 was \$91,157 (2009 - \$76,554) for current service. A payment of \$215,019 was also made in 2010 for the company's share of the pension plan deficit that existed for the year ending December 31, 2009 based on an actuarial valuation. The next actuarial valuation will be performed for the year ended December 31, 2010.

11. 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.

12. 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 92% 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 3.

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.

12. 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 10% 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 (GICs, Bonds, Fixed Income Pooled Funds).

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, 2010, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by \$784,000. 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.

12. 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, 2010, 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 \$260,000 and the equity pooled fund of \$79,000. 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 investment 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.

13. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current year's presentation.