
GLENGARRY MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

December 31, 2009

GLENGARRY MUTUAL INSURANCE COMPANY

December 31, 2009

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AUDITORS' REPORT

To the Members of
Glengarry Mutual Insurance Company

We have audited the balance sheet of Glengarry Mutual Insurance Company as at December 31, 2009 and the statements of loss and unappropriated members' surplus, comprehensive income, accumulated other comprehensive income 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 its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Craig Keen Despatie Markell LLP



CHARTERED ACCOUNTANTS
Licensed Public Accountants

Cornwall, Ontario
January 15, 2010

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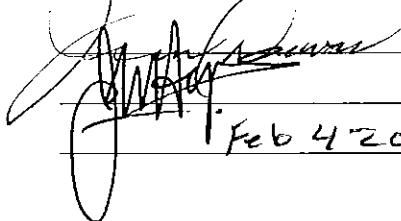
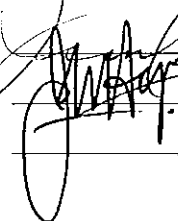
GLENGARRY MUTUAL INSURANCE COMPANY

BALANCE SHEET

As at December 31, 2009

	2009	2008
ASSETS		
Cash	\$ 2,092,134	\$ 2,077,111
Investments (Note 3)	10,505,808	9,403,911
Other investments (Note 4)	213,118	212,754
Due from agents and other receivables	2,535,850	2,327,645
Reinsurance ceded	1,153,506	1,151,681
Investment income accrued	39,280	52,853
Future income taxes	75,000	61,300
Deferred policy acquisition expenses	859,312	796,621
Income taxes receivable	44,800	88,672
Property and equipment (Note 5)	1,654,548	1,735,853
	\$ 19,173,356	\$17,908,401
LIABILITIES		
Provision for unpaid claims	\$ 3,801,516	\$ 3,049,895
Accounts payable	655,819	656,654
Unearned premiums	4,805,799	4,445,182
	9,263,134	8,151,731
MEMBERS' SURPLUS		
UNAPPROPRIATED MEMBERS' SURPLUS	9,789,854	10,216,715
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	120,368	(460,045)
	9,910,222	9,756,670
	\$ 19,173,356	\$17,908,401

APPROVED ON BEHALF OF THE BOARD:

 Director
 Director
Feb 4 2010 Date

See Accompanying Notes

GLENGARRY MUTUAL INSURANCE COMPANY
STATEMENT OF LOSS AND UNAPPROPRIATED
MEMBERS' SURPLUS

For the year ended December 31, 2009

	2009	2008
UNDERWRITING		
Gross premiums written	\$ 9,274,993	\$ 8,701,622
Reinsurance ceded	1,987,157	2,010,447
Net premiums written	7,287,836	6,691,175
Increase in unearned premiums	(360,617)	(181,905)
Net premiums earned	6,927,219	6,509,270
CLAIMS AND EXPENSES INCURRED (Schedule 1)	7,737,807	6,206,886
NET UNDERWRITING (LOSS) GAIN	(810,588)	302,384
INVESTMENT INCOME	340,134	17,852
(LOSS) INCOME BEFORE INCOME TAXES	(470,454)	320,236
INCOME TAXES		
Current	(12,493)	(73,868)
Future	(31,100)	45,900
	(43,593)	(27,968)
NET (LOSS) INCOME FOR THE YEAR	(426,861)	348,204
UNAPPROPRIATED MEMBERS' SURPLUS , beginning of year	10,216,715	9,868,511
UNAPPROPRIATED MEMBERS' SURPLUS , end of year	\$ 9,789,854	\$10,216,715

See Accompanying Notes

GLENGARRY MUTUAL INSURANCE COMPANY
STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2009

	2009	2008
NET (LOSS) INCOME FOR THE YEAR	\$ (426,861)	\$ 348,204
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX		
Unrealized gains and losses on available-for-sale financial assets arising during the year	781,333	(864,945)
Reclassification adjustment for gains and losses included in net income	(200,920)	(43,685)
	580,413	(908,630)
COMPREHENSIVE INCOME (LOSS)	153,552	(560,426)

**STATEMENT OF ACCUMULATED OTHER
COMPREHENSIVE INCOME**

For the year ended December 31, 2009

	2009	2008
Balance, beginning of year	\$ (460,045)	\$ 448,585
Other comprehensive income (loss)	580,413	(908,630)
Balance, end of year	\$ 120,368	\$ (460,045)

See Accompanying Notes

GLENGARRY MUTUAL INSURANCE COMPANY

STATEMENT OF CASH FLOWS

For the year ended December 31, 2009

	2009	2008
CASH FROM OPERATING ACTIVITIES		
Net (loss) income for the year	\$ (426,861)	\$ 348,204
Items not requiring an outlay of cash		
Amortization	81,305	87,727
Future income taxes	(31,100)	45,900
Write-off of investment in related company	-	122,354
Loss incurred by related company	-	64,320
Other investments	(364)	(192,058)
Due from agents and other receivables	(208,205)	(138,388)
Reinsurance ceded	(1,825)	275,186
Investment income accrued	13,573	(3,410)
Deferred policy acquisition expenses	(62,691)	(27,580)
Provision for unpaid claims	751,621	(743,478)
Income taxes receivable	43,872	(45,262)
Accounts payable	(835)	31,443
Unearned premiums	360,617	181,905
	519,107	6,863
CASH FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(56,605)
Purchase of investments	(10,713,480)	(1,524,459)
Sale of investments	10,209,396	1,614,929
Transfer of property and equipment to other investments	-	191,368
Advances to related company	-	(65,000)
	(504,084)	160,233
INCREASE IN CASH	15,023	167,096
CASH, beginning of year	2,077,111	1,910,015
CASH, end of year	\$ 2,092,134	\$ 2,077,111
REPRESENTED BY:		
Cash	\$ 2,092,134	\$ 2,077,111
Supplementary information:		
Income taxes recovered	\$ <u>(28,113)</u>	\$ <u>(1,026)</u>

See Accompanying Notes

GLENGARRY MUTUAL INSURANCE COMPANY

CLAIMS AND EXPENSES INCURRED

Schedule 1

For the year ended December 31, 2009

	2009	2008
Net claims and adjusting	\$ 4,549,717	\$ 3,130,053
Net commissions	1,683,783	1,653,286
Premium taxes	28,252	26,874
Salaries and benefits	716,770	727,230
Directors fees	38,000	33,885
Travel	29,246	27,563
Advertising	33,141	33,238
Stationery and printing	50,920	45,719
Postage and telephone	34,366	35,260
License and filing fees	36,516	42,251
Meetings and conventions	61,129	76,840
Membership fees	68,180	62,769
Building occupancy	78,910	29,641
Amortization	81,305	87,727
Miscellaneous	17,370	29,941
Professional fees	71,783	29,064
Computer maintenance	158,419	135,545
	\$ 7,737,807	\$ 6,206,886

See Accompanying Notes

GLENGARRY MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2009

Glengarry Mutual Insurance Company is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile, accident and sickness, fidelity, and boiler and machinery insurance in Ontario.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Financial Instruments

All financial instruments are classified as held-for-trading, available-for-sale, loans and receivables or other liabilities. The Company has classified its financial instruments as follows:

Cash is classified as held-for-trading,
Investments are classified as available-for-sale,
Due from agents and other receivables are classified as loans and receivables,
Accounts payable are classified as other financial liabilities.

Purchases and sales of financial assets are accounted for at settlement date.

Transaction costs for available-for-sale financial assets are recorded as part of the purchase cost of the asset. Transaction costs for financial liabilities classified as other than held for trading will be deducted from the value of the instrument at issue.

Revaluation of the available-for-sale investments are determined based on quoted market values.

Changes in the fair value of available-for-sale financial assets are reported within other comprehensive income (OCI), until the financial asset is disposed of or becomes impaired, at which time it will be recognized in income. Changes in the fair value of held-for-trading financial assets are reported in income.

Fair value

Fair value is an amount which represents the estimated exchange value of a financial instrument between willing parties. The fair value of the investments is considered to be the market value. For financial instruments, valuations are based on quoted market prices.

To value the unpaid claims and adjustment expenses, the Company recognizes the time value of money. There is no active market for policy liabilities in Canada, so a market value is not readily available.

The fair value of other financial assets and financial liabilities is considered to be the carrying value where they are of short duration or interest rates approximate the current market. Where other financial assets and financial liabilities are of longer duration, then fair value is determined using the discounted cash flow method using discount rates based on market rates.

The Company is exposed to fluctuations in the market prices of equities and fixed income investments, interest and foreign exchange rates, and credit risks on fixed income investments. These risks are managed by the Company's investment policies that prescribe the investment asset mix, including the degree of liquidity and concentration, the amount of foreign content and the credit ratings of the debt issuers.

GLENGARRY MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and aggregate issuer limits. All fixed income portfolios are measured for performance on an annual basis and monitored by management on a quarterly basis.

Reinsurance is placed with 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 receivables 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 period in the exposure to credit risk or policies procedures and methods used to measure the risk.

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. The day-to-day investment management has been delegated to an external investment manager. An investment policy is in place and its application is monitored by the Board of Directors. Asset allocation targets are utilized to minimize risk.

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 its holdings in United States stocks. The Company limits its holdings in these stocks to 10% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by management and holdings are adjusted when out of balance with investment policy. Changes to the value of the United States dollar would be reflected in net income or OCI.

GLENGARRY MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

There have been no significant changes from the previous period in the exposure to currency 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 which consist of cash, bonds and debentures.

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 OCI. 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.

The objective and policies and procedures for managing interest rate risk is to diversify the bond portfolio for a duration comparable to a recognized Canadian Bond Index Fund. A portion of the bond portfolio matures on a regular basis and is reinvested. This protects the Company from fluctuations in the interest rates.

At December 31, 2009, a 1% move in interest rates, with all other variables held constant, could impact the market value of the Farm Mutual Canadian Fixed Income Fund by \$86,000. A 50 basis point change in the spread between corporate and government bonds could impact the market value of the bond portfolio by \$144,000. For bonds that the Company did not sell during the period, the change during the period and changes prior to the period would be recognized as OCI during the period.

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

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 investment policy limits equity investments to stocks traded on the Toronto Stock Exchange and major United States trading facilities. The policy also includes asset allocation, diversification and liquidity targets to minimize equity risk.

The portfolio includes equity mutual funds and Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index and United States stocks with fair values that move with the S&P 500 Index. A 10% movement in the stock markets with all other variables held constant would have an estimated affect on the fair values of the Company's equities of \$213,000.

GLENGARRY MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For stocks that the Company did not sell during the period, the change would be recognized in the asset value and in OCI. For stocks that the Company did sell during the period, the change during the period and changes prior to the period would be recognized as net realized gains or losses in income during the period.

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. 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 does not have material commitments for capital expenditures and there is no requirement for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

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

(b) Premiums Earned and Deferred Policy Acquisition Expenses

Insurance premiums are included in income on a daily prorata basis over the life of the policies. Acquisition expenses related to unearned premiums, which comprise commissions and premium taxes, are deferred and amortized to income over the periods in which the premiums are earned. The method followed in determining the deferred acquisition expenses limits the amount of deferral to its realizable value by giving consideration to claims and expenses expected to be incurred as the premiums are earned.

(c) Use of Estimates

The financial statements have been prepared by management using Canadian generally accepted accounting principles. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies at the date of the financial statements, and the revenues and expenses during the reporting period. Actual results will differ from those estimates.

Provision for unpaid claims

In particular, the provision for unpaid claims represents an estimate of all costs including investigation and the projected final settlements of claims incurred prior to the balance sheet date. These estimates of future loss activity are subject to uncertainty and are selected from a wide range of possible outcomes. These provisions are adjusted as additional information affecting the estimated amounts become known during the course of claims settlement. All changes in estimates are recorded as incurred claims in the current period.

(d) Net Claims and Adjusting Expenses

Net claims and adjusting expenses are stated net of reinsurance recoveries.

GLENGARRY MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property and Equipment

Property and equipment are recorded at cost. Amortization is provided annually at rates calculated to write-off the assets over their estimated useful lives as follows:

Buildings	- 2.5% diminishing balance
Furniture and equipment	- 20% diminishing balance
Computer equipment	- 3 to 5 years straight-line
Paving	- 8% diminishing balance

(f) Income Taxes

Income taxes are accounted for under the asset and liability method, which determines future income taxes based on the differences between assets and liabilities reported for financial accounting purposes and those reported for tax purposes. Future income taxes are calculated using tax rates anticipated to apply in periods that temporary differences are expected to reverse.

The Company is responsible for income taxes on the portion of the premiums that relate to non-farm business.

2. CHANGE IN ACCOUNTING POLICY

Future Accounting Changes

International Financial Reporting Standards (IFRS)

The Canadian 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 assessed. 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.

GLENGARRY MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2009

3. INVESTMENTS

Fair value measurement

In compliance with CICA 3862, the Company has categorized its assets and liabilities that are carried at fair value on a recurring basis, 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 follow:

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 and liabilities.

	Level 1	Level 2	Level 3	Total
	000's	000's	000's	000's
ASSETS				
Term deposits	\$ 750	\$ -	\$ -	\$ 750
Debt securities				
Government of Canada	-	4,468	-	4,468
Provincial	-	679	-	679
Municipal	-	33	-	33
Corporate	-	1,193	-	1,193
Farm Mutual Pooled Funds				
Canadian Fixed Income	-	1,253	-	1,253
Canadian Equity	-	529	-	529
Common shares and trust units	1,416	-	-	1,416
Other Mutual Funds	-	185	-	185
	\$ 2,166	\$ 8,340	\$ -	\$ 10,506

GLENGARRY MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2009

3. INVESTMENTS(continued)

The carrying value of bonds and equities by issuer and type of investment as at December 31 is shown in the following table. Carrying values are equal to their fair values.

	2009		2008	
	Book Value 000's	Fair Value 000's	Book Value 000's	Fair Value 000's
Term deposits	\$ 750	\$ 750	\$ -	\$ -
Debt Securities				
Federal and Provincial	5,182	5,147	2,595	2,705
Municipalities	33	33	270	281
Corporate	1,208	1,193	3,079	3,013
Farm Pooled and other Mutual Funds	2,085	1,967	2,844	2,356
Common Shares and Trust Units	1,144	1,416	1,109	1,049
	\$ 10,402	\$ 10,506	\$ 9,897	\$ 9,404

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

The maturity profile of the debt securities is as follows:

Over one to five years	3,609,416
Over five years	<u>2,814,000</u>
Carrying value	<u>\$6,423,000</u>

4. OTHER INVESTMENTS

	2009	2008
Real estate, at amortized cost	\$ 191,368	\$ 191,368
Guarantee fund, at cost	21,750	21,386
	\$ 213,118	\$ 212,754

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	Net 2009	Net 2008
Land	\$ 169,788	\$ -	\$ 169,788	\$ 169,788
Buildings	1,451,805	106,024	1,345,781	1,380,288
Furniture and equipment	177,603	118,915	58,688	73,360
Computer equipment	143,202	101,845	41,357	70,097
Paving	50,000	11,066	38,934	42,320
	\$ 1,992,398	\$ 337,850	\$ 1,654,548	\$ 1,735,853

GLENGARRY MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2009

6. 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. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. To limit their potential impact, the Company follows the policy of underwriting and reinsuring contracts of insurance which limit the liability of the Company to \$125,000 plus 10% of the next \$875,000 of any liability claim, to \$145,000 plus 10% of the next \$855,000 of any property claim and to \$150,000 plus 10% of the next \$850,000 of any automobile claim.. In addition, the Company has obtained reinsurance which limits the company's liability to \$435,000 plus 5% of the balance of all claims in the event of a series of claims arising out of a single occurrence. The Company has also obtained Stop Loss reinsurance which limits the "Net Incurred Loss Ratio" to 80% for property and 100% for liability and automobile. Reinsurance does not relieve the Company of primary liability as the originating insurer. For the purpose of capital management, the Company has defined capital as members' surplus excluding accumulated other comprehensive income.

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%. The MCT for the company at December 31, 2009 was 645%.

7. PENSION PLAN

The Company contributes to the Ontario Mutual Insurance Association Pension Plan, which is a multi-employer plan, on behalf of its employees. 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 to be received by the employees based on the length of service and rates of pay. The amount contributed to the plan for 2009 was \$48,098 (2008, \$48,246). The last actuarial evaluation was completed in 2007. These payments are included as an expense in the statement of income.

8. CONTINGENT LIABILITIES

In connection with its operations, the Company, and/or its directors, may be named as a defendant in an action for damages and costs allegedly sustained by the plaintiffs. It is not possible to estimate the outcome of the potential proceedings at this time. The uninsured exposure to the Company is not considered by management to be material to the Company's financial position.

9. RATE REGULATION

The company's automobile rates and rules are subject to regulation by the Financial Services Commission of Ontario. Any change in the automobile insurance premium rates or rules must be approved by the commission