

## REPORT OF THE BOARD OF DIRECTORS



The Board of Directors present the 124th Annual Report covering the twelve months ending December 31, 2007.

- Premiums written – \$140,084,981
- Investment income – \$10,191,642
- Underwriting income – \$5,677
- Net after tax earnings – \$7,103,602
- Earned surplus as of December 31, 2007 – \$89,638,168

The insurance industry in Canada had a very interesting year in 2007. Eastern Canada continued the past several years of profitability while Western Canada was battered through the summer with hail, wind and several tornados. In this report last year we predicted that we were at the peak of the profit cycle. Obviously we were right. Not since the cyclones of June 1922 and June 1923 has the Company suffered such extensive weather disasters.

In June 2007 Canada's first classified "F5" tornado struck Elie, Manitoba completely destroying five homes. Our Company insured four of them. Several additional hail storms occurred in June and July in Alberta and Saskatchewan to be followed by our Company's largest weather event in August concentrated mainly in Dauphin, Manitoba. The storm began in the Yorkton area tracking east through Roblin, Grandview, Dauphin and then south east to Lake Manitoba, Delta Beach, and touching parts of Winnipeg. The combined damage for the two Manitoba events was in excess of 16.5 million dollars.

With the financial assistance of our reinsurance partners, the advice of our reinsurance broker Aon-Re and the hardworking efforts of our adjusters and support staff we weathered the storms and still managed to show a very small underwriting profit.

Our premium growth is 4.38% in 2007, the policy count increased by 1.1%.

Our combined ratio is 101.6% and our earned surplus increased by 8.2% to almost 90 million dollars.

Rate inadequacy and the erosion of our distribution channel continues to concern the Company because of the shrinking number of independent brokers.

In conclusion we look forward to 2008 as a year of opportunity for growth having the financial security to deliver our products and to serve our policyholders, brokers, and employees in the same spirit of mutuality they have been accustomed to.

We wish to thank our team of dedicated staff and loyal brokers for their efforts in 2007. We look ahead to 2009 when we celebrate our Company's 125th anniversary.

Submitted on behalf of the Board of Directors.

**J.T. Trimble**

CHAIRMAN

**R.L. Clark**

PRESIDENT AND CEO



## APPOINTED ACTUARY'S REPORT

**To The Policy holders of The Portage la Prairie Mutual Insurance Company:**

I have valued the policy liabilities of The Portage la Prairie Mutual Insurance Company for its consolidated balance sheet at 31 December 2007, and their changes in its consolidated statement of operations for the year then ended, in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of the policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

**Brian G. Pelly,**

FELLOW, CANADIAN INSTITUTE OF ACTUARIES

TORONTO, ONTARIO

FEBRUARY 22, 2008

## AUDITORS' REPORT

**To The Policy holders of The Portage la Prairie Mutual Insurance Company:**

We have audited the consolidated balance sheet of The Portage la Prairie Mutual Insurance Company as at December 31, 2007 and the consolidated statements of operations, comprehensive income (loss), earned surplus and 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

**KPMG LLP**

CHARTERED ACCOUNTANTS

WINNIPEG, CANADA

FEBRUARY 25, 2008

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY



## CONSOLIDATED BALANCE SHEET

December 31, 2007, with comparative figures for 2006

	2007	2006
<b>ASSETS</b>		
Cash and short-term investments	\$ 19,643,467	\$ 9,875,010
Accounts receivable	45,891,639	46,861,474
Investments (note 4)	171,398,772	153,042,047
Capital assets (note 5)	2,377,970	2,439,620
Reinsurers' share of provision for unpaid losses (note 8)	18,200,613	8,265,948
Reinsurers' share of unearned premiums	6,283,332	6,547,550
Accrued pension asset (note 6)	3,109,395	2,670,425
Income taxes recoverable	2,768,107	-
Deferred policy acquisition expenses	14,673,627	13,996,735
Future income taxes (note 10)	212,343	5,740,000
<b>Total Assets</b>	<b>\$ 284,559,265</b>	<b>\$ 249,438,809</b>
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 11,386,252	\$ 9,731,723
Other taxes payable	3,112,540	2,354,428
Income taxes payable	-	1,824,440
Provision for unpaid losses (note 8)	100,017,657	84,416,565
Unearned premiums	71,170,936	68,247,326
Total Liabilities	185,687,385	166,574,482
Equity:		
Earned surplus	\$ 89,638,168	\$ 82,864,327
Accumulated other comprehensive income	9,233,712	-
Total Equity	98,871,880	82,864,327
<b>Total Liabilities and Equity</b>	<b>\$ 284,559,265</b>	<b>\$ 249,438,809</b>

Commitments (note 9)

Contingencies (note 12)

On behalf of the Board:

**J.T. Trimble, Director**

**R.L. Clark, Director**

See accompanying notes to consolidated financial statements.



# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

## CONSOLIDATED STATEMENT OF OPERATIONS

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Insurance operations:		
Premiums written	\$ 140,084,981	\$ 134,204,077
Reinsurance premiums ceded	18,275,335	16,872,261
Increase in unearned premiums	3,187,828	2,144,571
	21,463,163	19,016,832
Underwriting revenue	118,621,818	115,187,245
Service charges on installment premiums	1,914,593	1,802,291
	120,536,411	116,989,536
Claims and adjustment expenses	77,166,021	70,058,530
General expenses	16,154,362	15,165,882
Commissions and premium taxes	27,210,351	24,744,838
	120,530,734	109,969,250
Underwriting income	5,677	7,020,286
Investment operations:		
Interest, dividends and other revenue	7,990,283	7,355,951
Net realized gain on disposal of investments	2,201,359	2,769,863
Investment income	10,191,642	10,125,814
Income before income taxes	10,197,319	17,146,100
Income taxes ( <i>note 10</i> ):		
Current	3,060,955	6,472,000
Future	94,184	(435,000)
	3,155,139	6,037,000
Share of net income of affiliated company	61,422	-
Net income	<b>\$ 7,103,602</b>	<b>\$ 11,109,100</b>

See accompanying notes to consolidated financial statements.

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Net income	\$ 7,103,602	\$ 11,109,100
Other comprehensive income (loss):		
Change in unrealized gains or (losses) on available for sale investments	(2,170,350)	-
Reclassification of net realized (gains) losses to income	(1,733,367)	-
Total other comprehensive income (loss)	(3,903,717)	-
<b>Total comprehensive income</b>	<b>\$ 3,199,885</b>	<b>\$ 11,109,100</b>

## CONSOLIDATED STATEMENT OF EARNED SURPLUS AND ACCUMULATED OTHER COMPREHENSIVE INCOME

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Earned surplus, beginning of year	\$ 82,864,327	\$ 71,755,227
Transition adjustment on adoption of financial instruments standards ( <i>note 3</i> )	(329,761)	-
	82,534,566	71,755,227
Net income	7,103,602	11,109,100
<b>Earned surplus, end of year</b>	<b>\$ 89,638,168</b>	<b>\$ 82,864,327</b>
Accumulated other comprehensive income, beginning of year	-	-
Transition adjustment on adoption of financial instruments standards ( <i>note 3</i> )	\$ 13,137,429	-
Other comprehensive income (loss)	(3,903,717)	-
Accumulated other comprehensive income, end of year	9,233,712	-
<b>Total earned surplus and accumulated other comprehensive income</b>	<b>\$ 98,871,880</b>	<b>\$ 82,864,327</b>

The balance of accumulated other comprehensive income at December 31, 2007 consists of unrealized gains on available for sale investments, net of taxes of \$4,822,401.

See accompanying notes to consolidated financial statements.



# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2007, with comparative figures for 2006

	2007	2006
Cash provided by (used in):		
Operation activities:		
Net income	\$ 7,103,602	\$ 11,109,100
Items not involving cash:		
Amortization of bond premiums	243,953	414,740
Amortization on capital assets	807,177	793,966
Future income taxes	94,184	(435,000)
Loss (gain) on disposal of capital assets	(8,946)	8,310
Net realized gain on disposal of investments	(2,201,359)	(2,769,863)
Change in non-cash balances relating to operations:		
Deferred policy acquisition expenses	(676,892)	(1,560,704)
Provision for unpaid losses, net of reinsurers' share	5,174,246	6,628,046
Unearned premiums, net of reinsurers' share	3,187,828	2,144,571
Income taxes	(4,592,547)	3,119,526
Other	3,605,686	(4,768,712)
Share of net income of affiliated company	61,422	-
<b>Net cash provided by operating activities</b>	<b>12,798,354</b>	<b>14,683,980</b>
Investing activities:		
Purchase of capital assets	(788,749)	(1,583,717)
Purchase of investments	(49,229,625)	(24,661,240)
Proceeds from the sale of capital assets	52,170	59,913
Proceeds on disposal of investments	46,936,307	11,609,422
<b>Net cash (used in) investing activities</b>	<b>(3,029,897)</b>	<b>(14,575,622)</b>
<b>Net change in cash and short-term investments</b>	<b>9,768,457</b>	<b>108,358</b>
Cash and short-term investments, beginning of year	9,875,010	9,766,652
<b>Cash and short-term investments, end of year</b>	<b>\$ 19,643,467</b>	<b>\$ 9,875,010</b>
Cash and short-term investments is comprised of:		
Cash in bank	\$ 19,643,467	\$ 2,983,690
Term deposits	-	6,891,320
	\$ 19,643,467	\$ 9,875,010
Supplementary cash flow information:		
Cash paid for:		
Income taxes	\$ 7,106,160	\$ 3,954,317
Interest and dividends received	\$ 8,917,696	\$ 7,859,598

See accompanying notes to consolidated financial statements.

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2007

### 1. General

The Company is incorporated without share capital under the laws of the Government of Canada and its principal business activities include the underwriting of general insurance. The Company is licensed in all provinces except Quebec.

### 2. Significant accounting policies

These consolidated financial statements have been prepared in accordance with Subsection 331 (4) of the *Insurance Companies Act* which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada ("OSFI"), the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the preparation of these consolidated financial statements, including the accounting requirements of the Superintendent, are summarized below. These accounting policies conform, in all material respects, to Canadian generally accepted accounting principles.

#### (A) PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of The Portage La Prairie Mutual Insurance Company and the Company's wholly-owned subsidiary Portage Facility Ltd. The equity method is used to account for investments over which the Company exerts significant influence.

#### (B) INVESTMENTS:

Investments comprise investment-grade fixed income securities, such as government and corporate bonds and debentures, exchange traded equity instruments and other invested assets. Effective January 1, 2007 except for other invested assets (see note 4) investments are classified as available-for-sale (AFS) financial instruments (see note 3) and are carried at fair value. The fair value of investments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs.

#### (C) CAPITAL ASSETS:

Capital assets are stated at cost. Amortization is provided on the straight-line basis using the following annual rates:

Building	2%
Furniture and equipment	10%
Automobiles	30%
Data processing system	20%

On an annual basis, capital assets are reviewed for impairment with respect to events or changes in circumstances that may indicate that the carrying value may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

#### (D) PREMIUMS EARNED AND DEFERRED POLICY ACQUISITION EXPENSES:

Insurance premiums are included in income generally on a pro rata basis over the terms of the policies. Acquisition expenses comprise commissions, premium taxes and other expenses which relate directly to the production of the business. Deferred policy acquisition costs related to unearned premiums are amortized to income over the periods in which the premiums are earned. The amount of deferred policy acquisition expenses is limited to its net realizable value by giving consideration to losses and expenses estimated to be incurred as the premiums are earned.



## THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Year ended December 31, 2007

#### 2. Significant accounting policies (continued)

##### (E) INTEREST AND DIVIDEND INCOME:

Interest income is recognized in the statement of operations as it accrues, using the original effective interest rate. Interest income includes the amortization of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income related to exchange-traded equity investments is recognized in the statement of operations on the ex-dividend date. All other dividend income is recognized when it is declared.

##### (F) CASH AND SHORT-TERM INVESTMENTS:

Cash and short-term investments consist of bank balances, net of outstanding cheques, and highly liquid instruments. Effective January 1, 2007 cash and short-term investments are classified as held-for-trading (HFT) financial instruments (see note 3) and are carried at fair value.

##### (G) PROVISION FOR UNPAID LOSSES:

The provision for unpaid losses represents an estimate for the full amount of all costs including investigation and the projected final settlements of claims incurred to the balance sheet date. This provision is calculated taking into consideration the time value of money and including an explicit provision for adverse deviations.

These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. These provisions are adjusted up or down as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded in the current period.

##### (H) FOREIGN EXCHANGE:

Investments denominated in foreign currency are treated as non-monetary assets and as such are translated into Canadian dollars at historical rates.

##### (I) REINSURANCE CEDED:

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. Unearned premiums in business ceded and estimates of amounts recoverable from reinsurers on unpaid losses are recorded as assets on the balance sheet. Amounts recoverable from reinsurers are estimated in a manner consistent with the related claims liabilities.

##### (J) INCOME TAXES:

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the enacted or substantively enacted income tax rates for the years in which the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Year ended December 31, 2007

### 2. Significant accounting policies (continued)

#### (K) COMPANY PENSION PLAN:

The Company sponsors a defined benefit plan which covers substantially all of its employees. The Company accrues its obligations under employee benefit plans as the employees render the services necessary to earn the pension benefits. The Company has adopted the following policies:

The cost of pension benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages and expected health care costs.

For the purpose of calculating expected return on plan assets, those assets are valued at fair value.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment.

Current service costs under the Company's pension plan are charged to operations as they accrue.

The cumulative gains and losses in excess of 10% of the greater of the market value of pension fund assets and the actuarial present value of the accrued pension obligation are amortized over the expected average remaining life of the employee group covered by the plan.

#### (L) RECENT PRONOUNCEMENTS:

In December 2006, the Canadian Institute of Chartered Accountants (CICA) released new Handbook Section 1535, Capital Disclosures, effective for annual and interim periods beginning on or after October 1, 2007. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. It requires the disclosure of information about an entity's objectives, policies and processes for managing capital. The Company will adopt this standard on January 1, 2008.

In December 2006, the CICA released new Handbook Section 3862, Financial Instruments - Disclosures and Handbook Section 3863, Financial Instruments - Presentation effective for annual and interim periods beginning on or after October 1, 2007. Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset. The Company will adopt these standards on January 1, 2008.

#### (M) USE OF ESTIMATES:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of certain revenue and expenses during the year. Actual results could differ from those estimates.

### 3. Change in Accounting Policies

On January 1, 2007, The Company adopted CICA Handbook Sections 1530 *Comprehensive Income*, 3855 *Financial Instruments - Recognition and Measurement*, and 3861 *Financial Instruments - Disclosure and Presentation*.

Section 1530 establishes standards for reporting and presenting comprehensive income and other comprehensive income. Comprehensive income includes all the changes in net assets of the Company during the year from non-owner sources. Other comprehensive income includes changes in unrealized gains and losses on available-for-sale investments. A new category, Accumulated Other Comprehensive Income (Loss) has been added to earned surplus on the consolidated balance sheet which includes cumulative changes in other comprehensive income.



# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Year ended December 31, 2007

### 3. Change in Accounting Policies (continued)

According to these standards all financial instruments, other than insurance contracts must be classified into one of the following five categories: held-for-trading (HFT); held-to-maturity (HTM); loans and receivables; available-for-sale (AFS) or other liabilities. Initial measurement of financial instruments is at fair value, subsequent measurement and recognition of changes in fair value of financial instruments depend on their classification.

Investments have been classified as available-for-sale, held-to-maturity, and equity method of accounting. Accounts receivable are classified as loans and receivables. Bank indebtedness, accounts payable and accrued liabilities are classified as other liabilities. The Company has designated its cash and short-term investments as HFT.

Financial assets classified as AFS are measured at fair value at each reporting period with changes in fair value in subsequent periods included in other comprehensive income until such time as the asset is removed from the balance sheet. Financial assets and liabilities classified as loans and receivables and other liabilities are subsequently measured at amortized cost. The Company will recognize changes in the fair value of loans and receivables only if realized, or impairment in the value of an asset occurs.

The cumulative adjustment made to a previous carrying amount was recognized as an adjustment to opening surplus or opening accumulated other comprehensive income, net of income taxes. A summary of the impact on the consolidated balance sheet of adopting the new standards was as follows:

	As at 31-Dec-06	Adjustment on Adoption of New Standards	As at 01-Jan-07
<b>Assets</b>			
Bonds and Debentures	\$ 115,567,331	\$ 2,393,490	\$ 117,960,821
Preferred Shares	18,105,413	1,124,297	19,229,710
Common Shares	14,291,316	15,553,297	29,844,613
Income Trust Units	3,974,547	955,482	4,930,029
Future Income Taxes	5,740,000	(6,726,717)	(986,717)
Other Invested Assets	1,103,440	-	1,103,440
<b>Liabilities and Earned Surplus</b>			
Provision for Unpaid Losses	\$ 84,416,565	\$ 492,181	\$ 84,908,746
Earned Surplus	82,864,327	(329,761)	82,534,566
Accumulated Other Comprehensive Income	-	13,137,429	13,137,429

As a consequential change of the adoption of the new accounting standards, the provision for unpaid losses was recalculated at January 1, 2007 using a revised book yield discount rate. The difference between the provision at December 31, 2006 and January 1, 2007 of \$329,761, net of taxes of \$162,420, was recorded as a transitional adjustment to opening earned surplus.

These standards were adopted retroactively without restatement. As such reported net income for the year ended December 31, 2006 has not been restated.

In July 2006, the CICA revised Handbook Section 1506, Accounting Changes, effective for annual and interim periods beginning on or after January 1, 2007. Section 1506 prescribes the criteria for changing accounting policies and the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors. This Section recommends voluntary changes to accounting policies only be made if it results in the financial statements providing more reliable and relevant information. Such changes in estimates are to be applied retrospectively unless it is impractical to do so. Section 1506 also requires changes in estimates to be applied prospectively, while prior period errors are to be corrected retrospectively. This new standard was adopted on January 1, 2007 and did not have a material effect on the Company's consolidated financial statements.

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Year ended December 31, 2007

### 4. Investments

The fair value of the Company's investment portfolio by financial instrument classification as at December 31 is:

	2007		2007		2006	
	Classified as	Classified as	Total Fair &	Total Carrying	Total Fair	Total Fair
	Available for Sale	Held to Maturity	Carrying Value	Value	Value	Value
Bonds and Debentures	\$ 121,247,049	-	\$ 121,247,049	\$ 115,567,330	\$ 117,960,821	
Preferred Shares	12,454,300	-	12,454,300	18,105,413	19,229,710	
Common Shares	28,369,382	-	28,369,382	14,291,317	29,844,613	
Trust Units	4,794,761	-	4,794,761	3,974,547	4,930,029	
Other Invested Assets	-	1,589,023	1,589,023	1,103,440	1,103,440	
Invested in Affiliated Company			2,944,257			
<b>Total Investments</b>	<b>\$ 166,865,492</b>	<b>\$ 1,589,023</b>	<b>\$ 171,398,772</b>	<b>\$ 153,042,047</b>	<b>\$ 173,068,613</b>	

Management has reviewed AFS investments for objective evidence of other than temporary impairment in value and determined there is none.

Investment income as at December 31, 2007 was derived from the following:

Dividend Income	\$ 1,867,964
Interest Income	6,418,182
Realized Gains/Losses	2,201,358
<b>Total Investment Income</b>	<b>\$ 10,487,504</b>

The coupon rates on bonds and debentures varies between 3.60% and 7.20% as at December 31, 2007 (2006: 3.60% to 7.20%). The maturity dates vary from March 2008 to December 2041.

### 5. Capital assets

	Cost	Accumulated Amortization	2007 Net	2006 Net
Land	\$ 40,000	-	\$ 40,000	\$ 40,000
Building	1,020,354	308,309	712,045	650,872
Data processing system	7,876,743	7,218,645	658,098	915,489
Furniture and equipment	2,291,142	1,641,038	650,104	563,885
Automobiles	765,467	447,744	317,723	269,374
	<b>\$ 11,993,706</b>	<b>\$ 9,615,736</b>	<b>\$ 2,377,970</b>	<b>\$ 2,439,620</b>



# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Year ended December 31, 2007

### 6. Pension obligation

	2007	2006
Components of net periodic pension cost:		
Current service cost (employer portion)	\$ 894,457	\$ 857,884
Interest cost	851,065	794,209
Actual return on plan assets	(1,284,925)	(2,916,237)
Actuarial loss (gain) on accrued benefit obligation	84,137	(443,276)
Plan amendments	-	-
Costs arising in the year	544,734	(1,707,420)
Differences between costs arising in the year and costs recognized in the year in respect of:		
Return on plan assets	\$ (395,961)	\$ 1,336,269
Actuarial loss (gain)	(301,554)	330,443
Plan amendments	39,585	39,585
Transitional obligation (asset)	(325,774)	(325,774)
Total of the differences between costs arising in the year and costs recognized in the year	\$ (983,704)	\$ 1,380,523
Net pension cost (recovery) recognized	<b>\$ (438,970)</b>	<b>\$ (326,897)</b>
Weighted-average assumptions for expense:		
Discount rate	4.65%	4.50%
Expected long-term rate of return on plan assets	6.00%	6.15%
Rate of compensation increase	5.25%	5.25%
Weighted-average assumptions for accrued benefit obligation:		
Discount rate	4.50%	4.65%
Rate of compensation increase	4.80%	5.25%
Change in accrued benefit obligation:		
Accrued benefit obligation at end of prior year	\$ 17,711,467	\$ 17,079,758
Current service cost (employer portion)	894,457	857,884
Interest cost	851,065	794,209
Benefits paid	(606,888)	(577,108)
Actuarial loss (gain)	84,137	(443,276)
Accrued benefit obligation at end of year	\$ 18,934,238	\$ 17,711,467
Change in plan assets:		
Fair value of plan assets at end of prior year	\$ 28,318,214	\$ 25,979,085
Actual return on plan assets	1,284,925	2,916,237
Employer contributions	-	-
Employees' contributions	-	-
Benefits paid	(606,888)	(577,108)
Fair value of plan assets at end of year	\$ 28,996,251	\$ 28,318,214
Reconciliation of funded status to accrued benefit asset (liability)		
Excess at end of year	\$ 10,062,013	\$ 10,606,747
Unamortized transitional obligation (asset)	(2,215,259)	(2,541,033)
Unamortized past service costs	375,555	415,140
Unamortized net actuarial gain	(5,112,914)	(5,810,429)
Accrued benefit asset	<b>\$ 3,109,395</b>	<b>\$ 2,670,425</b>
Plan assets by asset category		
Equity securities	57.37%	62.43%
Debt securities	33.72%	34.49%
Other	8.91%	3.08%
Total	100.00%	100.00%

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Year ended December 31, 2007

### 6. Pension obligation (continued)

The plan's assets do not include any investments in The Portage la Prairie Mutual Insurance Company as of December 31, 2007 and December 31, 2006.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2004 and the next required valuation will be as of December 31, 2007.

### 7. Reinsurance

The Company follows the policy of underwriting and reinsuring contracts of insurance which, in the main, limits the liability of the Company to a maximum on any one loss of \$400,000 (2006-\$400,000) in the event of a property claim and an amount of \$1,250,000 (2006- \$1,000,000) in the event of a liability claim. In addition, the Company has obtained reinsurance having an upper amount of \$72,500,000 (2006 - \$63,000,000) which limits the Company's liability to \$2,500,000 (2006 - \$2,000,000) in the event of a series of claims arising out of a single occurrence.

Reinsurance has been recorded in the statement of earnings as follows:

	2007	2006
Gross premiums earned	\$ 137,161,371	\$ 130,829,425
Less earned premiums ceded	18,539,553	15,642,180
Underwriting revenue	\$ 118,621,818	\$ 115,187,245
Gross losses and expenses incurred	100,171,482	\$ 78,201,516
Less incurred losses and expenses ceded	23,005,461	8,142,986
Claims and adjustment expenses	\$ 77,166,021	\$ 70,058,530

### 8. Provision for unpaid losses

#### (a) Nature of unpaid losses and adjustment expenses:

The establishment of the provision for unpaid losses is based on known facts and interpretation of circumstances, on a case by case basis, and is therefore a complex and dynamic process influenced by a large variety of factors.

These factors include the professional experience of the Company's claims department personnel and independent adjustors retained to handle individual claims, the continually evolving and changing regulatory and legal environment, the quality of data used for projection purposes, actuarial studies, and the effect of inflationary trends on future claims settlement costs and court decisions. In addition, time can be a critical part of the reserving determination, since the longer the span between the incidence of a loss and the final payment of the claims, the more variable the ultimate settlement amount can be. Short-term claims, such as property claims, tend to be more reasonably predictable than long-term claims, such as automobile liability and general liability claims.

#### (b) Discounting of the provision for unpaid claims and adjustment expenses and related reinsurance recoveries:

The provision for unpaid claims and adjustment expenses and related reinsurance recoveries is discounted using rates based on the projected investment income from the assets supporting the provisions, and reflecting the estimated timing of payments and recoveries. The discount rates used are 3.99% for 2007 and 3.85% for 2006.



# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Year ended December 31, 2007

### 8. Provision for unpaid losses (continued)

(c) The table below details the provision for unpaid losses by risk categories:

Type of claim provision (000's)	2007 Gross	2007 Ceded	2006 Gross	2006 Ceded
Long-settlement term:				
General liability, automobile liability and personal accident	\$ 62,729	\$ 3,891	\$ 55,656	\$ 4,750
Facility Association and other residual pools	7,508	-	10,547	-
	70,237	3,891	66,203	4,750
Short-settlement term:				
Property and automobile other	29,781	14,310	18,214	3,516
Total	\$ 100,018	\$ 18,201	\$ 84,417	\$ 8,266

The appointed actuary completes an annual valuation of the adequacy of the policy liabilities at the end of each financial year. This valuation includes a re-estimation of the liability for unpaid claims relating to each preceding financial year compared to the liability that was originally established. The following summarizes the resulting comparison:

Accident year (000's)	2006	2005	2004	2003	2002
Unpaid claims (net of reinsurance), originally established at end of the accident year	\$ 33,607	\$ 28,100	\$ 26,743	\$ 26,766	\$ 27,294
Less paid to date	15,511	17,065	15,447	20,177	25,770
Re-estimated as at December 31, 2007	15,564	10,612	8,883	2,546	2,469
Cumulative (deficiency) redundancy	\$ 2,532	\$ 423	\$ 2,413	\$ 4,043	\$ (945)

(d) The fair value of the provision for unpaid losses, gross and recoverable from reinsurers, has been omitted because it is not practicable to determine fair value with sufficient reliability.

### 9. Commitments

(a) The Company leases office premises under operating leases which expire at various dates between 2008 and 2013. The following is a schedule of future minimum lease payments due in each of the next five years:

2008	\$ 551,000
2009	543,240
2010	523,522
2011	336,973
2012	142,837

(b) The Company has a commitment for computer processing and support services expiring in 2009. The following is the projected future minimum payments for these services.

2008	\$ 1,176,430
2009	411,751

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Year ended December 31, 2007

### 10. Income taxes

The provision for income taxes differs from the statutory marginal rate as certain sources of income are exempt from tax or are taxed at other than the marginal rate.

The Company's provision for income taxes, compared to statutory rates is summarized as follows:

	2007	2006
Provision for income taxes at		
Statutory marginal income tax rate at 35.73% (2006 - 36.02%)	\$ 3,643,502	\$ 6,177,000
Non-taxable investment income	(562,583)	(522,000)
Change in tax rates	(2,533)	465,000
Other	76,753	(83,000)
Provision for income taxes	\$ 3,155,139	\$ 6,037,000

The components of future income tax balances are as follows:

	2007	2006
Future income tax assets:		
Investments	\$ 46,959	\$ 5,530,000
Unpaid claims	1,264,892	1,309,000
Future income tax assets	\$ 1,311,851	\$ 6,839,000
Future income tax liabilities:		
Pension plan	(961,425)	(867,000)
Other	(138,083)	(232,000)
Future income tax liabilities	\$ (1,099,508)	\$ (1,099,000)
Net future income tax assets	\$ 212,343	\$ 5,740,000

### 11. Role of the actuary and auditor

The actuary has been appointed pursuant to the *Insurance Companies Act*. With respect to preparation of financial statements, the actuary is required to carry out a valuation of the Company's policy liabilities, which consist of a provision for, and reinsurance recovery of, unpaid claims and adjustment expenses on the expired portion of policies and of future obligations on the unearned portion of insurance policies in force, including deferred policy acquisition expenses. The valuation is made in accordance with accepted actuarial practice, as well as any other matter specified in any direction that may be made by regulatory authorities, and reported thereon to the policyholders. In performing the valuation of the liabilities, which are by their nature inherently variable, assumptions are made as to the future loss ratios, trends, rates of claims frequency and severity, inflation, reinsurance recoveries, investment rates of return, and both internal and external adjustment expenses, taking into consideration the circumstances of the Company and the nature of the insurance policies in force. The provisions do not include estimates for extraordinary future emergence of either new classes of claims or claims categories not sufficiently recognized in the claims database. It is certain that the actual development of claims and adjustment expenses will vary from the valuation and may, in fact, vary significantly. The actuary, in his verification of the management information provided by the Company used in the valuation, also makes use of the work of the external auditors. The actuary's report outlines the scope of his work and opinion.

The external auditors have been appointed by the policyholders pursuant to the *Insurance Companies Act* to conduct an independent and objective audit of the financial statements of the Company in accordance with Canadian generally accepted auditing standards and report thereon to the policyholders. In carrying out their audit, the auditors also make use of the work of the actuary and his report on the Company's policy liabilities. The auditors' report outlines the scope of their audit and their opinion.



# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Year ended December 31, 2007

### 12. Contingencies

The Company has purchased a number of annuities in settlement of claims. These annuities have been purchased from registered Canadian life insurers with the highest claims paying ability ratings as determined by outside ratings organizations. The Company has a contingent credit risk with respect to the failure of these life insurers and the fair value of the financial guarantees is \$4,855,982 (2006 - \$3,000,924).

From time to time, in connection with its operations, the Company is named in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome at this time, in the opinion of management, these matters are without substantial merit and therefore no provision has been made for them in the accounts.

### 13. Financial Risk Management Objectives and Policies

**Credit Risk:** The Company is exposed to credit risk through its investments in fixed income securities and accounts receivable from policyholders and reinsurers. The Company monitors its exposure to individual issuers and classes of issuers of fixed income securities which do not carry the guarantee of a national Canadian provincial government. Management believes the Company's credit exposure to any one individual policyholder is not material due to the geographic dispersion of revenues and diversified customer base. The Company's policies are distributed by brokers who manage cash collections on its behalf. The Company monitors its exposure to credit risk with brokers and ensures that it works only with provincially licensed firms in good standing with their respective regulatory bodies. The Company limits its exposure to individual reinsurers and regularly reviews the creditworthiness of reinsurers with whom it transacts.

**Price Risk:** Is the risk that changes in market prices, such as interest rate equity prices, foreign exchange rates and credit spreads will affect the Company's income or the value of its holdings of financial instruments. Price risk generally includes currency risk, interest rate risk, and market risk. The Company monitors its exposure to individual issuers, foreign currencies and classes of issuers of equity instruments.

**Liquidity Risk:** Is the risk that the Company will encounter difficulty in meeting obligations from its financial liabilities. To mitigate these risks the Company ensures that assets and liabilities are broadly matched in both their duration and currency and actions are taken to balance positions within approved risk tolerance limits.

Risk management is carried out by a Finance Group and Investment Committee under policies approved by the Board of Directors and Senior Management. The Company has written principles for overall risk management, as well as written policies covering specific areas, such as underwriting, reinsurance, foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

### 14. Related Party Transactions

During the year, Portage Facilities Ltd. acquired 470,932 common shares of a brokerage company for cash consideration of \$1,944,257 which represents an ownership interest of 34%. The Company enters into related party transactions with Portage Facilities Ltd. and with entities that Portage Facilities has made investments in. These transactions consist of interest income and commissions. These transactions are carried out in the normal course of operations and on normal market terms.

The types of transactions with entities that are related parties for the year ended December 31, 2007 are summarized below:

#### a) Revenue and Expenses

	<b>2007</b>
Revenue	
Interest Income	\$ 41,819
Expenses	
Commissions	230,512

#### b) Consolidated Balance Sheet Amounts

	<b>2007</b>
Accounts Receivable	\$ 24,507

### 15. Subsequent Event

On February 8, 2008 the Court of Queen's Bench of Alberta rendered a decision which resulted in the lifting of the \$4,000 cap on pain and suffering awards for minor injuries resulting from auto accidents. The decision is being appealed by the Government of Alberta. Significant uncertainty remains over the ultimate outcome of the court's decision. The December 31, 2007 consolidated financial statements do not include a provision for this item. The Company has determined that the potential resolution and its impact on the financial statements cannot be reasonably estimated at this time.