



## REPORT OF THE BOARD OF DIRECTORS

The Board of Directors present the 126th Annual Report covering the twelve months ending December 31, 2009.

- Premiums written – \$167,500,549
- Investment income – \$12,096,308
- Underwriting income – \$2,424,568
- Net after tax earnings – \$10,180,939
- Earned surplus as of December 31, 2009 – \$110,845,550

Having completed our 125th anniversary year your Company continues with a profitable position when a number of our mutual competitors were not so fortunate. Our investment income was \$12 million coupled with an underwriting profit of \$2.4 million.

We encountered some major weather events in 2009 in Alberta, Manitoba and Ontario. We again called on our reinsurance partners on our catastrophe coverage in Manitoba. Our automobile portfolio continues to be a challenge with government imposed premium restraints and product modifications in Ontario and Alberta. On a more positive note the erosion of the broker channel in Canada has become stabilized mainly due to a number of financial factors.

Our premium growth is a healthy 10.7% in 2009 with a policy count increase of 5.9%. Our combined ratio of 100% and a strong investment portfolio increased our earned surplus to almost \$111 million. Corporate governance, ethics in business and compliancy with International Financial Reporting are the ongoing challenges to the Board of Directors and the Company.

The Board also wishes to announce the appointment of Mr. John G. Mitchell to President and Chief Executive Officer replacing Mr. Randy Clark who is retiring after a lengthy career with the Company.

The Board expresses our thanks to our dedicated staff and loyal brokers for their great efforts in paving the road to success in 2009.

Submitted on behalf of the Board of Directors.

**J.T. Trimble**  
CHAIRMAN

**R.L. Clark**  
PRESIDENT AND CEO



# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

## MANAGEMENT COMMENTARY

Year ended December 31, 2009

### Overview

2009 was our 125th anniversary, a successful year for our Company in several areas. We now have written premiums of over \$167 million and a customer base exceeding 160,000 policyholders. With a staff of 210 and the stability of an earned surplus of almost \$111 million the future bodes well for our Company.

Management discussions on operations and strategic planning are listed below:

### *Underwriting*

Weather related catastrophe losses had a significant impact on the property underwriting account; however, continued good results on the auto portfolio resulted in a positive end result for 2009.

Rate increases are required on the Personal Property side to help combat the increasing frequency and severity of weather related losses across the country. Hail losses continue to be a concern on the prairies and water losses are a growing concern across Canada.

While 2009 was a very successful year on the automobile book, it will be difficult to sustain these results in 2010. Regulatory constraints continue to restrict our ability to obtain rate increases where required. On a positive note the resolution of the Charter challenge in Alberta has helped to create more stability in that market place. Ontario has recently announced intentions to modify the auto product in that province in an attempt to stabilize losses. The impact of these changes will not be known until 2011 or beyond.

Spread of risk has always been a key component of our underwriting strategy. To this end we continue to carefully expand the classes of commercial insurance that we write. This continued diversification of our portfolio will help to ensure its long-term profitability.

### *Marketing*

We offer insurance for homes, autos, farms, and commercial enterprises. Our products are marketed solely through independent insurance brokers in nine Canadian provinces. Our strategic plan calls for premium growth averaging 5%. In the near future we expect that the actual growth will exceed 8% annually. Our reliable and consistent rating methodology creates an environment for controlled growth through the insurance cycle. Challenges to our distribution channel will come from regional consolidation in the broker force as well as increased competition from existing direct writers and new direct writing initiatives.

### *Information Technology*

In 2009 we signed a new five year commitment with CGI to continue to provide our policy, claims, and account billing processing. Our partnership with CGI is now more than 20 years old. Their breadth of strategic alliances allows us to implement leading edge technology.

Our broker portal project will move to the Company testing phase in the fall of 2010. We are very excited about the benefits the portal will provide to ourselves and our brokers. The new platform and infrastructure of this project provides for future information technology initiatives.

Our goal is to improve service to our brokers and our policyholders through new web services while providing the technology to reduce and contain costs.

### *Claims*

Continued active and prudent claims management helped to control losses. The economic recession did not increase claims frequency for 2009. In private auto jurisdictions government regulations such as the "all comers rule" continue to make claims difficult to handle. The government is continuing to look at changing the limitation provisions for bodily

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY



## MANAGEMENT COMMENTARY CONTINUED

Year ended December 31, 2009

injury in the Maritimes and as such we continue to reserve accordingly. We have now completed the Manitoba August 2007 storm which was the most severe storm of our history. We had three significant weather events in 2009, Ontario for water damage, followed by Alberta and Manitoba for weather related hail and windstorms. The storm in Manitoba was the only event that went above our reinsurance retention. We will continue to improve our claims handling to provide a high level of claims service while minimizing our losses.

### *Investments and Capital Management*

Total investment income increased by \$1,459,370 to \$12,096,308 and was composed of the following items: Interest, dividend and other income increased this year by 5.8% to \$8,836,557. This increase is due to the growth or increased investments in bonds and debentures during the year. Net realized gains increased after allowances for other than temporary impairments of \$714,580.

Overall the company's investment portfolio in 2009 experienced an unrealized gain of \$9,383,479 after tax. The yield on the investment portfolio was 5.96% in 2009 increasing slightly from 5.77% in 2008. See notes 4 and 14 of the financial statements for more information on the composition and risks of the investment portfolio.

As outlined in note 16 Capital Management, the company is a federally regulated P&C insurance company. The company's financial strength through the Minimum Capital Test (MCT) is 347% for 2009 vs. 329% in 2008. This ratio is more than double the minimum target MCT, prescribed by the Office of the Superintendent of Financial Institutions (OSFI).

The financial strength of the Portage Mutual enables the company to fulfill its promise to protect the assets of our policyholders. Our financial strength also allows management to focus on the long term and avoid the types of investments that have proven so catastrophic to the world financial markets.

### *Management*

The Company continues to focus on diversifying risk across Canada's regions and lines of business, structured growth continues to be our focus. With our emphasis on Mutuality we continue to grow our broker force in all of the nine provinces we offer our products in.

### *A Look Ahead*

The future plans of the Company are to maintain our prudent underwriting and investment standards that have produced our "Gibraltar like" strength. The retirement of our President and CEO, Mr. Randy Clark, brings in a new management team headed by Mr. John Mitchell on May 1. We look forward to the future with confidence knowing we have the financial strength to face the challenges in our ever changing regulatory and business environment.



## APPOINTED ACTUARY'S REPORT

### To the Policyholders of The Portage la Prairie Mutual Insurance Company:

I have valued the policy liabilities of The Portage la Prairie Mutual Insurance Company for its balance sheet at 31 December 2009 and their changes in the statement of income 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 19, 2010

## AUDITORS' REPORT

### To the Policyholders 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, 2009 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, 2009 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 19, 2010

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY



## CONSOLIDATED STATEMENT OF OPERATIONS

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Insurance operations:		
Premiums written	\$ 167,500,549	\$ 151,317,023
Reinsurance premiums ceded	18,172,186	16,948,025
Increase in unearned premiums	8,990,142	6,577,639
	27,162,328	23,525,664
Underwriting revenue	140,338,221	127,791,359
Service charges on installment premiums	2,483,863	2,149,714
	142,822,084	129,941,073
Claims and adjustment expenses	88,136,506	79,727,671
General expenses	19,941,748	17,489,380
Commissions and premium taxes	32,319,262	27,709,330
	140,397,516	124,926,381
Underwriting income	2,424,568	5,014,692
Investment operations:		
Interest, dividends and other revenue	8,836,557	8,354,018
Net realized gain on disposal of investments	3,259,751	2,282,920
Investment income	12,096,308	10,636,938
Income before income taxes	14,520,876	15,651,630
Income taxes ( <i>note 11</i> ):		
Current	4,268,095	4,614,224
Future	180,946	113,202
	4,449,041	4,727,426
Share of net income of affiliated company	109,104	102,239
Net income	<b>\$ 10,180,939</b>	<b>\$ 11,026,443</b>

See accompanying notes to consolidated financial statements.



# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

## CONSOLIDATED BALANCE SHEET

December 31, 2009, with comparative figures for 2008

	2009	2008
<b>ASSETS</b>		
Cash and short term investments	\$ 15,771,760	\$ 21,683,412
Accounts receivable	56,105,822	51,272,548
Investments (note 4)	213,371,648	168,632,809
Capital assets (note 5)	2,623,290	2,558,867
Other assets (note 6)	3,461,875	1,209,564
Reinsurers' share of provision for unpaid losses (note 9)	9,176,942	12,652,000
Reinsurers' share of unearned premiums	7,085,955	6,685,613
Accrued pension asset (note 7)	2,797,252	3,484,231
Income taxes recoverable	-	4,205,879
Deferred policy acquisition expenses	18,722,141	16,776,463
Future income taxes (note 11)	-	240,741
<b>Total Assets</b>	<b>\$ 329,116,685</b>	<b>\$ 289,402,127</b>
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 13,278,062	\$ 10,710,054
Other taxes payable	3,721,163	3,236,526
Provision for unpaid losses (note 9)	99,919,993	98,340,000
Income taxes payable	5,928,563	-
Future income taxes (note 11)	198,454	-
Unearned premiums	87,541,341	78,150,856
Total Liabilities	210,587,576	190,437,436
Equity:		
Earned surplus	\$ 110,845,550	\$ 100,664,611
Accumulated other comprehensive income	7,683,559	(1,699,920)
Total Equity	118,529,109	98,964,691
<b>Total Liabilities and Equity</b>	<b>\$ 329,116,685</b>	<b>\$ 289,402,127</b>

Commitments (note 10)  
Contingencies (note 13)  
Subsequent event (note 19)

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 COMPREHENSIVE INCOME (LOSS)

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Net income	\$ 10,180,939	\$ 11,026,443
Other comprehensive income (loss):		
Change in unrealized gains or (losses) on available for sale investments	9,784,031	(9,634,066)
Reclassification of net realized (gains) losses to income	(400,552)	(1,299,566)
Total other comprehensive income (loss)	9,383,479	(10,933,632)
<b>Total comprehensive income</b>	<b>\$ 19,564,418</b>	<b>\$ 92,811</b>

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

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Earned surplus, beginning of year	\$ 100,664,611	\$ 89,638,168
Net income	10,180,939	11,026,443
<b>Earned surplus, end of year</b>	<b>\$ 110,845,550</b>	<b>\$ 100,664,611</b>
Accumulated other comprehensive income, beginning of year	(1,699,920)	9,233,712
Other comprehensive income (loss)	9,383,479	(10,933,632)
Accumulated other comprehensive income, end of year	7,683,559	(1,699,920)
<b>Total earned surplus and accumulated other comprehensive income</b>	<b>\$ 118,529,109</b>	<b>\$ 98,964,691</b>

The balance of accumulated other comprehensive income at December 31, 2009 consists of net unrealized gains on available for sale investments, net of taxes of \$4,499,230. At December 31, 2008 this balance consisted of net unrealized losses on available for sale investments, net of taxes of (\$277,198).

See accompanying notes to consolidated financial statements.



## THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

### CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Cash provided by (used in):		
Operation activities:		
Net income	\$ 10,180,939	\$ 11,026,443
Items not involving cash:		
Amortization of bond premiums	326,982	282,506
Amortization on capital and other assets	726,838	689,868
Future income taxes	180,946	113,202
Loss (gain) on disposal of capital assets	(7,650)	(23,884)
Net realized gain on disposal of investments	(3,259,751)	(2,282,920)
Change in non-cash balances relating to operations:		
Deferred policy acquisition expenses	(1,945,678)	(2,102,836)
Provision for unpaid losses, net of reinsurers' share	5,054,991	3,870,956
Unearned premiums, net of reinsurers' share	8,990,143	6,577,639
Income taxes	10,134,442	(1,437,772)
Other	(6,090,014)	(998,344)
Share of net income of affiliated company	109,104	102,239
<b>Net cash provided by operating activities</b>	<b>24,401,292</b>	<b>15,817,097</b>
Investing activities:		
Purchase of capital assets	(513,161)	(1,028,432)
Purchase of other assets	(2,539,062)	(1,070,102)
Purchase of investments	(48,735,551)	(33,477,683)
Proceeds from the sale of capital assets	21,100	42,090
Proceeds on disposal of investments	21,453,730	21,756,975
<b>Net cash (used in) investing activities</b>	<b>(30,312,944)</b>	<b>(13,777,152)</b>
<b>Net change in cash and short-term investments</b>	<b>(5,911,652)</b>	<b>2,039,945</b>
Cash and short-term investments, beginning of year	21,683,412	19,643,467
<b>Cash and short-term investments, end of year</b>	<b>\$ 15,771,760</b>	<b>\$ 21,683,412</b>
Cash and short-term investments is comprised of:		
Cash in bank	\$ 15,771,760	\$ 21,683,412
Supplementary cash flow information:		
Cash paid for:		
Income taxes	\$ (992,864)	\$ 2,212,541
Interest and dividends received	\$ 8,875,412	\$ 8,778,919

See accompanying notes to consolidated financial statements.

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2009

### 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 Mutual Financial Inc. 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. Except for Investment in Affiliated Company, investments are classified as either available-for-sale (AFS) or held-to-maturity (HTM) financial instruments.

#### (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%
Leasehold improvements	Over the term of the leases, 5 - 7 years

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) OTHER ASSETS:

Other assets are comprised of computer system software. Computer system software under development is not amortized until such time as the asset is available for use, after which it is amortized on a straight-line basis of 20% per year.

#### (E) 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.



## THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Year ended December 31, 2009

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

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.

#### (F) 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.

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

Cash and short-term investments consist of bank balances, net of outstanding cheques. They are highly liquid instruments classified as held-for-trading (HFT) financial instruments and are carried at fair value.

#### (H) 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.

#### (I) FOREIGN EXCHANGE:

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

#### (J) REINSURANCE CEDED:

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. Unearned premiums on 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.

#### (K) 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, 2009

### 2. Significant accounting policies (continued)

#### (L) 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.

#### (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.

#### (N) FINANCIAL INSTRUMENTS:

Accounts receivable are classified as loans and receivable. Accounts payable and accrued liabilities are classified as other liabilities.

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, or has become other than temporarily impaired. As long as an AFS asset is held and not other than temporarily impaired, gains and losses are not recognized in the statement of operations. When the asset is disposed of, or has become other than temporarily impaired, the gain or loss is recognized in the statement of operations and the amount is deducted from other comprehensive income. Financial assets and liabilities are subsequently measured at amortized cost. The Company recognizes changes in the fair value of loans and receivables only if realized, or impairment in the value of an asset occurs.

HTM financial assets are carried at amortized cost on the balance sheet starting on the settlement date.

HFT financial assets are carried at fair value on the balance sheet starting on the settlement date and changes in fair value are recorded in the statement of operations.

#### (O) FUTURE ACCOUNTING POLICY CHANGES:

In January 2009, the Canadian Institute of Chartered Accountants (CICA) issued new accounting standards on Business Combinations, Consolidated Financial Statements and Non-controlling Interests. The Business Combinations standard provides clarification as to what an acquirer must measure when it obtains control of a business, the basis of valuation and



## THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Year ended December 31, 2009

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

the date at which the valuation should be determined. Most acquisition-related costs must be accounted for as expenses in the periods they are incurred. This new standard will be applicable January 1, 2011 although adoption in 2010 is permitted to facilitate the transition to International Financial Reporting Standards in 2011. The Consolidated Financial Statements standard establishes guidance for preparing consolidated financial statements after the acquisition date. The Non-controlling Interests standard provides guidance on the accounting and presentation of Non-controlling Interest. These new standards must be adopted concurrently.

#### 3. Implementation of New Accounting Standards

On January 1, 2009, the Company adopted CICA Handbook Section 3064, Goodwill and Intangible Assets. This section establishes new standards for the recognition and measurement of intangible assets, but does not affect the accounting for goodwill. As a result of the adoption of the new requirements and in accordance with its transitional provisions, the

Company reclassified computer systems software from capital assets to other assets on its consolidated balance sheet. Accordingly, computer system software with a net book value of \$1,209,564 as at December 31, 2008 has been reclassified.

In compliance with CICA Handbook Section 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 follows:

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

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

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

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Year ended December 31, 2009

### 4. Investments

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

	Classified as AFS	Classified as HTM	2009 Carrying Value	2008 Carrying Value
Bonds and Debentures	\$ 155,999,566	\$ 5,000,000	\$ 160,999,566	\$ 129,322,701
Preferred Shares	9,968,668	-	9,968,668	8,671,652
Common Shares	28,306,305	-	28,306,305	19,447,052
Trust Units	5,916,716	-	5,916,716	3,717,791
Other Invested Assets	-	4,786,814	4,786,814	4,389,138
Total Investments Accounted for at Fair Value	\$ 200,191,255	\$ 9,786,814	\$ 209,978,069	\$ 165,548,334
Invested in Affiliated Company accounted for using Equity Method	-	-	3,393,579	3,084,475
<b>Total Investments</b>	<b>\$ 200,191,255</b>	<b>\$ 9,786,814</b>	<b>\$ 213,371,648</b>	<b>\$ 168,632,809</b>

Management has reviewed investments for objective evidence of impairment at December 31, 2009 and determined there is an other than temporary impairment of four investments in the amount of \$714,580 (2008: \$372,353).

Investment income as at December 31, 2009 was derived from the following:

	2009	2008
Dividend Income	\$ 1,660,446	\$ 1,719,598
Interest Income	7,525,772	6,881,105
Realized Gains/Losses	3,259,751	2,282,920
<b>Total Investment Income</b>	<b>\$ 12,445,969</b>	<b>\$ 10,883,623</b>

The coupon rates on bonds and debentures varies between 3.11% and 10.20% as at December 31, 2009 (2008: 3.11% to 10.20%). The maturity dates vary from January 2010 to December 2036.

### 5. Capital assets

	Cost	Accumulated Amortization	2009 Net	2008 Net
Land	\$ 40,000	-	\$ 40,000	\$ 40,000
Building	1,201,439	343,800	857,639	725,923
Data processing system	2,083,287	1,707,261	376,026	288,502
Furniture and equipment	2,722,819	1,844,357	878,462	914,775
Automobiles	760,182	499,477	260,705	340,350
Leasehold Improvements	299,359	88,901	210,458	249,317
	<b>\$ 7,107,086</b>	<b>\$ 4,483,796</b>	<b>\$ 2,623,290</b>	<b>\$ 2,558,867</b>

### 6. Other assets

	Cost	Accumulated Amortization	2009 Net	2008 Net
Computer system software	\$ 9,724,899	6,263,024	\$ 3,461,875	\$ 1,209,564
	<b>\$ 9,724,899</b>	<b>\$ 6,263,024</b>	<b>\$ 3,461,875</b>	<b>\$ 1,209,564</b>



# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Year ended December 31, 2009

### 7. Pension obligation

	2009	2008
Components of net periodic pension cost:		
Current service cost (employer portion)	\$ 1,463,179	\$ 933,760
Interest cost	931,204	894,083
Actual return on plan assets	(4,582,177)	4,002,317
Actuarial loss (gain) on accrued benefit obligation	(8,692,166)	3,387,904
Plan amendments	-	595,299
Costs arising in the year	(10,879,960)	9,813,363
Differences between costs arising in the year and costs recognized in the year in respect of:		
Return on plan assets	\$ 2,965,340	\$ (5,780,430)
Actuarial gain (loss)	8,841,396	(3,548,988)
Plan amendments	85,977	(533,007)
Transitional obligation (asset)	(325,774)	(325,774)
Total of the differences between costs arising in the year and costs recognized in the year	\$ 11,566,939	\$ (10,188,199)
Net pension cost (recovery) recognized	<b>\$ 686,979</b>	<b>\$ (374,836)</b>
Weighted-average assumptions for expense:		
Discount rate	3.70%	4.50%
Expected long-term rate of return on plan assets	6.75%	6.20%
Rate of compensation increase	4.40%	4.65%
Weighted-average assumptions for accrued benefit obligation:		
Discount rate	6.80%	3.70%
Rate of compensation increase	5.60%	4.40%
Change in accrued benefit obligation:		
Accrued benefit obligation at end of prior year	\$ 24,008,779	\$ 18,934,238
Current service cost (employer portion)	1,463,179	933,760
Interest cost	931,204	894,083
Benefits paid	(608,581)	(736,505)
Actuarial loss (gain)	(8,692,166)	3,387,904
Plan amendments	-	595,299
Accrued benefit obligation at end of year	\$ 17,102,415	\$ 24,008,779
Change in plan assets:		
Fair value of plan assets at end of prior year	\$ 24,257,429	\$ 28,996,251
Actual return on plan assets	4,582,177	(4,002,317)
Employer contributions	-	-
Employees' contributions	-	-
Benefits paid	(608,581)	(736,505)
Fair value of plan assets at end of year	\$ 28,231,025	\$ 24,257,429
Reconciliation of funded status to accrued benefit asset (liability)		
Excess at end of year	\$ 11,128,610	\$ 248,650
Unamortized transitional obligation (asset)	(1,563,711)	(1,889,485)
Unamortized past service costs	822,585	908,562
Unamortized net actuarial loss (gain)	(7,590,232)	4,216,504
Accrued benefit asset	<b>\$ 2,797,252</b>	<b>\$ 3,484,231</b>
Plan assets by asset category		
Equity securities	53.5%	41.0%
Debt securities	41.5%	41.0%
Other	5.0%	18.0%
Total	100.0%	100.0%

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Year ended December 31, 2009

### 7. Pension obligation (continued)

The plan's assets do not include any investments in The Portage la Prairie Mutual Insurance Company as of December 31, 2009 and December 31, 2008.

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 plan for funding purposes was as of December 31, 2007 and the next required valuation will be as of December 31, 2009.

During the year, the Company changed the methodology used to determine the discount rate on the accrued benefit obligation from the rate at which the accrued benefit obligation could be settled to one which reflects market interest rates on high quality debt instruments.

### 8. 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 \$500,000 (2008 - \$400,000) in the event of a property claim and an amount of \$1,500,000 (2008 - \$1,500,000) in the event of a liability claim. In addition, the Company has obtained reinsurance having an upper amount of \$100,000,000 (2008 - \$100,000,000) which limits the Company's liability to \$2,500,000 (2008 - \$2,500,000) in the event of a series of claims arising out of a single occurrence.

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

	2009	2008
Gross premiums earned	\$ 158,510,407	\$ 144,337,103
Less earned premiums ceded	18,172,186	16,545,744
Underwriting revenue	\$ 140,338,221	\$ 127,791,359
Gross losses and expenses incurred	99,482,588	\$ 87,370,939
Less incurred losses and expenses ceded	11,346,082	7,643,268
Claims and adjustment expenses	\$ 88,136,506	\$ 79,727,671

### 9. 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 adjusters 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 losses 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 3.01% for 2009 and 4.03% for 2008.



## THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Year ended December 31, 2009

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

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

Type of claim provision (000's)	2009 Gross	2009 Ceded	2008 Gross	2008 Ceded
Long-settlement term:				
General liability, automobile liability, and personal accident	\$ 62,926	\$ 2,125	\$ 58,667	\$ 3,229
Facility Association and other residual pools	10,212	-	13,222	-
	73,138	2,125	71,889	3,229
Short-settlement term:				
Property and automobile other	26,782	7,052	26,451	9,423
Total	\$ 99,920	\$ 9,177	\$ 98,340	\$ 12,652

The appointed actuary completes an annual evaluation of the adequacy of the policy liabilities at the end of each financial year. This evaluation 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)	2008	2007	2006	2005	2004
Unpaid claims (net of reinsurance), originally established at end of the accident year	\$ 36,537	\$ 33,288	\$ 33,607	\$ 28,100	\$ 26,743
Less paid to date	17,714	28,349	21,094	20,174	18,456
Re-estimated as at December 31, 2008	16,444	10,197	8,685	4,038	2,477
Cumulative (deficiency) redundancy	\$ 2,379	\$ (5,258)	\$ 3,828	\$ 3,888	\$ 5,810

(d) The provision for unpaid losses is calculated as the present value of expected future payments plus actuarially determined provisions for adverse deviations, and is considered an indicator of fair value, as there is no organized market for the trading of insurance liabilities.

#### 10. Commitments

(a) The Company leases office premises under operating leases which expire at various dates between 2010 and 2013. The following is a schedule of future minimum lease payments due:

2010	\$	354,617
2011		263,816
2012		145,989
2013		58,324

(b) The Company has a commitment for computer processing and support services expiring in 2014. The future minimum payments for these services is \$584,125.

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Year ended December 31, 2009

### 11. 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:

	2009	2008
Provision for income taxes at		
Statutory marginal income tax rate at 32.15% (2008 - 31.97%)	\$ 4,653,947	\$ 4,982,940
Non-taxable investment income	(349,044)	(346,675)
Change in other taxes	37,354	(7,062)
Other	106,784	98,223
Provision for income taxes	\$ 4,449,041	\$ 4,727,426

The components of future income tax balances are as follows:

	2009	2008
Future income tax assets:		
Investments	\$ -	\$ 198,007
Unpaid claims	1,334,101	1,234,336
Future income tax assets	\$ 1,334,101	\$ 1,432,343
Future income tax liabilities:		
Pension plan	(789,944)	(1,003,807)
Investments	(399,867)	
Other	(342,744)	(187,795)
Future income tax liabilities	\$ (1,532,555)	\$ (1,191,602)
Net future income tax assets	\$ (198,454)	\$ 240,741

### 12. 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 insurance policies in force 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, 2009

### 13. 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 \$3,486,787 (2008 - \$4,585,470).

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.

### 14. Financial Instruments

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 insurance risk, credit risk, liquidity risk, market risk, and the use of derivative and non-derivative financial instruments.

#### Insurance Risk

Is the risk that the total cost of claims and acquisition expenses will exceed premiums received and can arise from numerous factors, including pricing risk, reserving risk, catastrophic loss risk and reinsurance coverage risk.

**Pricing risk:** Arises when actual claims experience differs from the assumptions included in pricing calculations. Historically, the underwriting results of the property and casualty industry have fluctuated significantly due to the cyclical nature of the insurance market.

**Reserving risk:** 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.

**Catastrophic loss risk:** Is the exposure to losses resulting from multiple claims arising out of a single catastrophic event.

**Reinsurance coverage risk:** The Company relies on reinsurance to manage the underwriting risk, however, reinsurance does not release the Company from its primary commitments to its policyholders. The Company limits its exposure to individual reinsurers and regularly reviews the creditworthiness of reinsurers with whom it transacts.

#### Credit Risk

The Company is exposed to credit risk through its investments in fixed income securities, other invested assets 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 or 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 breakdown of the Company's fixed income portfolio by credit ratings from various ratings agencies, is presented below:

Credit Rating	2009 Total Carrying Value		2008 Total Carrying Value	
AAA	\$ 16,510,046	10%	\$ 19,505,685	15%
AA	76,939,368	48%	42,072,025	33%
A	64,905,001	40%	66,992,457	51%
BBB	2,645,151	2%	752,534	1%
Total	\$ 160,999,566	100%	\$ 129,322,701	100%

As at December 31, 2009, 98.36% of the Company's fixed income portfolio is rated 'A' or better, compared to 99.42% at December 31, 2008.

#### 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. Accounts payable and accrued liabilities, and unearned premiums have a contractual maturity of less than one year.

# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Year ended December 31, 2009

### 14. Financial Instruments (continued)

The table below summarizes the carrying value and fair value by the earliest contractual maturity of the Company's bonds and debentures.

Maturity Profile	Within 1 Year	2 to 5 Years	6 to 10 Years	Over 10 Years	Total
As at December 31, 2009					
Bonds and Debentures	\$ 14,386,630	\$ 96,854,470	\$ 29,028,195	\$ 20,730,271	\$ 160,999,566
As at December 31, 2008					
Bonds and Debentures	\$ 4,596,220	\$ 84,686,123	\$ 35,523,918	\$ 4,516,440	\$ 129,322,701

#### Market Risk

The risk that changes in market prices, such as interest rates, equity market prices, foreign exchange rates and credit spreads will affect the Company's income or the value of its holdings of financial instruments. Market risk generally includes currency risk, interest rate risk, and equity market fluctuations risk.

The Company monitors its exposure to individual issuers, foreign currencies and classes of issuers of equity instruments. A hypothetical change in 1% of foreign exchange would not have a significant impact on the financial statements.

As at December 31, 2009, management estimates that an immediate hypothetical 100 basis point, or 1%, parallel increase in interest rates would decrease the market value of the fixed income securities by \$6,640,000, representing 4% of the \$159,544,000 fair value fixed income securities portfolio, and decrease the value of unpaid claims reserves by \$1,454,000 thus partially offsetting the change in market value of bonds. Conversely, a 100 basis point decrease in interest rates would increase the market value of the fixed income securities and value of unpaid claims reserves by the same amounts, respectively.

The Company's investments in equities are sensitive to market fluctuations. To properly manage the Company's other price risk, appropriate guidelines on asset diversification to address specific security, geographic, sector and investment manager risks are set and monitored. A decline of 10 percent in equity values, with all other variables held constant, will impact the Company's equity investments by an approximate loss of \$4,420,000.

The Company has no investments in derivative products, hedge funds, collateral financial products, or structured financial products.

#### Fair Value

Carrying value of accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short-term nature. The carrying value of HTM bonds and debentures and other invested assets approximates fair value.

### 15. Disclosures Relating to Fair Value Measurements

In compliance with CICA Handbook Section 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 follows:

	Level 1	Level 2	Level 3	Total
Bonds and Debentures				
Canadian Government	\$ -	\$ 6,558,290	\$ -	\$ 6,558,290
Provincial	-	47,344,009	-	47,344,009
Corporate	-	102,097,267	-	102,097,267
Equity Investments				
Canadian	\$ 35,986,984	\$ -	\$ -	\$ 35,986,984
Foreign	8,204,705	-	-	8,204,705
Total	\$ 44,191,689	\$ 155,999,566	\$ -	\$ 200,191,255



# THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Year ended December 31, 2009

### 16. Capital Management

Capital is comprised of the Company's earned surplus and accumulated other comprehensive income (AOCI). As at December 31, 2009 the Company's earned surplus was \$110,845,549 and AOCI was \$7,683,559. The Company's objectives when managing capital are to maintain financial strength and protect its claims paying abilities, to maintain creditworthiness and to maximize returns for policyholders over the long term. Senior management develops the capital strategy and oversees the capital management process of the Company. Capital is managed using both regulatory capital measures and internal metrics.

The Portage la Prairie Mutual Insurance Company is regulated by the Office of the Superintendent of Financial Institutions (OSFI). The minimum capital test targeted by the Company is 200.0% compared to the regulatory MCT requirement of 150.0%. To measure the degree to which the Company is able to meet regulatory solvency requirements, the appointed actuary presents an annual report to the Audit Committee and management on the Company's current and future solvency. As at December 31, 2009, the Company has a MCT ratio of 347% and aggregate available capital in excess of required capital of approximately \$76 million.

A common measure of capital adequacy in the property and casualty industry and used by management is the ratio of premiums to earned surplus. A lower ratio implies a higher measure of capital adequacy. The net premiums written to surplus ratio at December 31, 2009 was 1.35% (2008 - 1.36%).

### 17. Related Party Transactions

The Company enters into related party transactions with Portage Mutual Financial Inc. and with entities that Portage Mutual Financial Inc. has made investments in. These transactions consist of interest income and commissions and 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, 2009 are summarized below:

#### a) Revenue and Expenses

	2009	2008
Revenue		
Interest Income	\$ 52,790	\$ 48,300
Expenses		
Commissions	333,146	324,166

#### b) Consolidated Balance Sheet Amounts

	2009	2008
Accounts Receivable	\$ 1,196	\$ 35,863

### 18. International Financial Reporting Standards (IFRS)

In 2006, the Accounting Standards Board (AcSB) published a new plan that will significantly affect financial reporting requirements for Canadian publicly accountable companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly accountable enterprises to use IFRS, replacing existing Canadian GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company continues to assess the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

### 19. Subsequent event

Subsequent to December 31, 2009, Portage Mutual Financial Inc. has entered into an agreement to purchase an equity position in a brokerage. The terms of the agreement have not been finalized.