

Financial Statements of

**ANTIGONISH FARMERS' MUTUAL  
INSURANCE COMPANY**

Year ended December 31, 2009

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Financial Statements

December 31, 2009

---

	Page
Auditors' Report .....	1
Balance Sheet.....	2
Statement of Income .....	3
Statement of Comprehensive Income (Loss) .....	4
Statement of Policyholders' Equity .....	5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7
Schedules:	
A – Schedule of Rental Income.....	22
B – Schedule of Claims and Adjustments .....	23
C – Schedule of Administrative Expenses .....	24



**MGM & Associates**  
**Chartered Accountants**  
Commerce Tower  
15 Dorchester Street Suite 500  
PO Box 1  
Sydney NS B1P 6G9

Telephone (902) 539-3900  
Fax (902) 564-6062  
Internet [www.mgm.ca](http://www.mgm.ca)

## **AUDITORS' REPORT**

Auditors' Report to the Policyholders and Directors

We have audited the balance sheet of Antigonish Farmers' Mutual Insurance Company as at December 31, 2009 and the statements of income, comprehensive income (loss), policyholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The current year's supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads 'MGM &amp; Associates' in a cursive, flowing script.

Chartered Accountants

Sydney, Canada

January 22, 2010

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

## Balance Sheet

December 31, 2009, with comparative figures for 2008

	2009	2008
<b>Assets</b>		
Cash	\$ 857,094	\$ 536,782
Investments (note 4)	11,110,865	9,686,811
Accounts receivable (note 5)	950,537	985,043
Income taxes receivable	9,566	366,500
Prepaid expenses	28,218	18,083
Deferred policy acquisition costs	333,122	319,654
Property and equipment (note 6)	421,825	455,759
Future income tax asset (note 9)	23,700	107,400
	<hr/>	<hr/>
	\$13,734,927	\$12,476,032
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 243,389	\$ 216,550
Claims payable	903,000	911,000
Reserve for unearned premiums	2,142,886	2,149,977
Long-term debt (note 7)	33,782	75,000
	<hr/>	<hr/>
	3,323,057	3,352,527
<b>Policyholders' equity</b>		
Policyholders' surplus	11,129,517	10,567,789
Accumulated other comprehensive loss	(717,647)	(1,444,284)
	<hr/>	<hr/>
	10,411,870	9,123,505
	<hr/>	<hr/>
	\$13,734,927	\$12,476,032

See accompanying notes to financial statements.

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

## Statement of Income

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

	2009	2008
<b>Revenue:</b>		
Gross premiums written	\$ 4,336,421	\$ 4,377,874
Returned premiums	(50,650)	(77,920)
<b>Net gross premiums written</b>	<b>4,285,771</b>	<b>4,299,954</b>
Reinsurance premiums	(1,011,437)	(1,257,892)
<b>Net premiums written</b>	<b>3,274,334</b>	<b>3,042,062</b>
Decrease in unearned premiums	7,092	25,315
<b>Net earned premium</b>	<b>3,281,426</b>	<b>3,067,377</b>
Service charges and fees	107,315	92,800
<b>Net underwriting revenue</b>	<b>3,388,741</b>	<b>3,160,177</b>
<b>Expenses:</b>		
Claims and adjustments (schedule)	1,671,952	1,482,669
Administrative expenses (schedule)	1,845,859	1,746,764
	<b>3,517,811</b>	<b>3,229,433</b>
<b>Underwriting loss</b>	<b>(129,070)</b>	<b>(69,256)</b>
Other income (note 8)	748,690	860,961
Provision for decline in market value of specific securities	(50,250)	(66,465)
<b>Income before income taxes</b>	<b>569,370</b>	<b>725,240</b>
<b>Income taxes (note 9):</b>		
Current income tax expense	15,408	115,554
Future income tax recovery	(7,766)	(208,096)
	<b>7,642</b>	<b>(92,542)</b>
<b>Net income</b>	<b>\$ 561,728</b>	<b>\$ 817,782</b>

See accompanying notes to financial statements.

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

## Statement of Comprehensive Income (Loss)

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

	2009	2008
Net income	\$ 561,728	\$ 817,782
Other comprehensive income (loss):		
Change in unrealized gain/loss on available-for-sale investments	666,933	(1,821,932)
Net gain reclassified to income	244,864	12,045
	911,797	(1,809,887)
Income tax effect	(185,160)	275,757
	726,637	(1,534,130)
Comprehensive income (loss)	\$ 1,288,365	\$ (716,348)

See accompanying notes to financial statements.

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

## Statement of Policyholders' Equity

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

### Policyholders' surplus

	2009	2008
Policyholders' surplus, beginning of year	\$10,567,789	\$ 9,750,007
Net income	561,728	817,782
Policyholders' surplus, end of year	\$11,129,517	\$10,567,789

### Accumulated other comprehensive income (loss)

	2009	2008
Accumulated other comprehensive income, beginning of year	\$(1,444,284)	\$ 89,846
Other comprehensive income (loss)	726,637	(1,534,130)
Accumulated other comprehensive loss end of year	\$ (717,647)	\$(1,444,284)

See accompanying notes to financial statements.

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

## Statement of Cash Flows

Year ended December 31, 2009

	2009	2008
Cash provided by (used in):		
Operations:		
Net income	\$ 561,728	\$ 817,782
Items not involving cash:		
Amortization	58,449	59,561
Amortization of unrealized holding loss (gain)	(3,980)	1,661
Gain on disposal of investments	(214,882)	(46,956)
Future income tax recovery	(7,766)	(208,096)
Provision for decline in market value of specific securities	50,250	66,465
Loss on sale of property and equipment	6,648	-
Current tax on comprehensive income	(93,691)	302,553
Change in non-cash operating working capital:		
Decrease in accounts receivable	34,506	330,568
Decrease (increase) in income tax receivable	356,934	(282,000)
Increase in prepaid expenses	(10,135)	2,365
Increase in deferred policy acquisition costs	(13,468)	(1,318)
Increase (decrease) in accounts payable and accrued liabilities	26,839	(55,583)
Decrease in claims payable	(8,000)	(338,000)
Decrease in reserve for unearned premiums	(7,091)	(25,315)
	736,341	623,687
Financing:		
Proceeds for long-term debt	33,782	-
Repayment of long-term debt	(75,000)	(100,000)
	(41,218)	(100,000)
Investments:		
Purchase of property and equipment	(38,163)	(51,482)
Proceeds on sale of property and equipment	7,000	-
Proceeds on sale of investments	1,469,067	1,455,377
Purchase of investments	(1,812,715)	(2,135,270)
	(374,811)	(731,375)
Increase (decrease) in cash	320,312	(207,688)
Cash, beginning of year	536,782	744,470
Cash, end of year	\$ 857,094	\$ 536,782
Supplemental cash flow information:		
Income taxes paid (received)	\$ (247,832)	\$ 95,000
Interest paid	1,266	6,188

See accompanying notes to financial statements.



# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2009

---

## Company biography:

Antigonish Farmers' Mutual Insurance Company ("Company") is incorporated under a Private Act of the Legislature and is a corporate body under the Mutual Insurance Companies Act. It is licensed to write property and liability classes of insurance in Nova Scotia. The Company is subject to regulation by the Office of the Superintendent of Financial Institutions Canada ("OSFI") and the Nova Scotia Superintendent of Financial Institutions/Insurance. Its principal business activity is to provide insurance coverage for property and liability.

## 1. Basis of presentation:

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

## 2. Significant accounting policies:

### (a) Financial instruments:

The Company utilizes various financial instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments and the carrying amounts approximate fair values.

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

### Loans and receivables

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

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2009

---

## 2. Significant accounting policies (continued):

### Available-for-sale investments

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

### Other financial liabilities

Other financial liabilities includes all financial liabilities other than those classified as held-for-trading and comprise accounts payable and accrued liabilities and long-term debt. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method. Transaction costs related to other financial liabilities are expensed as incurred.

### (b) Property and equipment:

Rates and bases of amortization applied to write-off the cost less estimated salvage value of property and equipment over their estimated lives are as follows:

Asset	Basis	Rate
Building	Straight line	5%
Vehicle	Declining balance	30%
Computer equipment	Declining balance	30%
Office equipment	Declining balance	20%
Telephone equipment	Declining balance	20%

---

### (c) Deferred policy acquisition costs:

Deferred policy acquisition costs represent certain costs such as commissions and fire taxes related to the acquisition of new and renewal premiums written during the year and are amortized on a straight-line basis over the term of the policies. The method followed in determining deferred policy acquisition costs limits the deferral to its realizable value by giving consideration to losses and expenses expected to be incurred, as premiums are earned.

### (d) Premiums earned and unearned premiums:

The Company recognizes premium income over the period covered by each individual insurance contract. Unearned premiums represent premiums written by the Company for insurance contracts which are in force at the year end and will continue into the next fiscal year.

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2009

---

## 2. Significant accounting policies (continued):

### (e) Unpaid claims and adjustment expenses:

The provision for unpaid claims represents the amounts needed to provide for the estimated ultimate expected cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each balance sheet date. The provision for adjustment expenses represents the estimated ultimate expected costs of investigating, resolving and processing these claims. Estimated recoveries of these costs from reinsurance ceded are included in assets. The computation of these provisions takes into account the time value of money using discount rates based on projected investment income from the assets supporting the provisions.

The process of determining the provision for unpaid claims and adjustment expenses necessarily involves risks that the actual results will deviate from the best estimates made. These risks vary in proportion to the length of the estimation period and the volatility of each component comprising the liabilities. To recognize the uncertainty in establishing these best estimates and to allow for possible deterioration in experience, actuaries are required to include explicit margins for adverse deviation in assumptions for asset defaults, reinvestment risk, claims development and recoverability of reinsurance balances.

All provisions are periodically reviewed and evaluated in the light of emerging claim experience and changing circumstances. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the current period.

### (f) Reinsurance:

Reinsurance premiums and commissions are recognized on a straight-line basis over the terms of the policies.

### (g) Income taxes:

Income taxes are accounted for using the asset and liability method. Under this method, current income taxes are based on taxable income and future income taxes are based on taxable temporary differences. The income tax rates used to measure income tax assets and liabilities are those rates enacted or substantively enacted at the balance sheet date.

### (h) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2009

---

## 2. Significant accounting policies (continued):

- (i) Fair value and liquidity risk disclosure – amendments to: Financial Instruments – Disclosures, Section 3862

In June, 2009, the CICA amended Handbook Section 3862, Financial Instruments – Disclosures, to enhance disclosures about fair value measurements and the liquidity risk of financial instruments. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels which are described as follows:

Level 1 - inputs are unadjusted quoted prices of identical instruments in active markets,

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, and

Level 3 - one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The amendments only impact disclosure and is presented in note 13.

## 3. Role of the actuary and auditor:

The actuary, Ernst & Young LLP, has been appointed pursuant to the Act. With respect to preparation of financial statements, the actuary is required to carry out a valuation of the Company's policy liabilities and report thereon to the directors and the Company's members. Policy liabilities consist of the provisions for, and reinsurance recovery of, unpaid claims and adjustment expenses on insurance policies in force, and future obligations on the unearned portion of insurance policies in force including deferred policy acquisition costs. 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. 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 data base. 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.

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2009

### 3. Role of the actuary and auditor (continued):

The external auditors, MGM & Associates, Chartered Accountants, have been appointed by the members pursuant to the Act to conduct an independent and objective audit of the financial statements of the Company in accordance with Canadian generally accepted auditing standards and to report thereon to the members. 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.

### 4. Investments:

	2009		2008	
	Cost	Fair market value	Cost	Fair market value
Government bonds:				
Federal:				
Less than 1 year	\$ 350,000	\$ 356,223	\$ –	\$ –
1 – 5 years	–	–	350,000	363,498
	350,000	356,223	350,000	363,498
Provincial:				
Less than 1 year	275,000	284,394	–	–
1 – 5 years	1,275,000	1,404,564	1,550,000	1,728,144
After 5 years	450,000	564,199	700,000	846,026
	2,000,000	2,253,157	2,250,000	2,574,170
Municipal:				
Less than 1 year	–	–	–	–
1 – 5 years	570,000	617,132	480,000	520,640
After 5 years	–	–	90,000	108,225
	570,000	617,132	570,000	628,865
Corporate bonds:				
Less than 1 year	375,000	387,704	100,000	83,370
1 – 5 years	2,230,000	2,299,127	2,100,000	2,073,503
After 5 years	175,000	179,993	430,000	423,154
	2,780,000	2,866,824	2,630,000	2,580,027
Common shares	5,074,991	4,022,399	4,587,734	2,811,808
Preferred shares	1,018,564	995,130	893,564	728,443
	\$11,793,555	\$11,110,865	\$11,281,298	\$ 9,686,811

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2009

## 4. Investments (continued):

Management has reviewed currently available information regarding those investments whose fair market value is less than cost and ascertained that the declines are due to what is expected to be a temporary decline in general market values.

Details of significant terms and exposure to interest rate risk on investments are as follows:

### (i) Bonds - interest rate risk:

	2009	2008
	Interest rate (% range)	Interest rate (% range)
Government:		
Federal	3.50 – 4.00%	3.50 – 4.00%
Provincial	4.10 – 11.50%	4.10 – 11.50%
Municipal	4.20 – 10.125%	4.20 – 10.125%
Corporate	0.10 – 9.65%	0.10 – 9.65%

### (ii) Interest rate and liquidity risk:

Investment policy and strategy has been established taking into consideration historic claims settlement patterns. Since the nature of the business is ongoing, current cash flow is utilized to settle claims and any excess cash flow is invested. Fluctuations in interest rates could have a significant impact on the market value of the bond portfolio. This could result in the need to realize gains or losses if actual claims payments differed significantly from expected and some liquidation of assets were required to meet policy obligations.

## 5. Accounts receivable:

	2009	2008
Interest	\$ 80,211	\$ 79,897
Premiums	540,908	560,249
Farmers Mutual Reinsurance Plan Inc.	214,000	250,000
Rent	2,034	452
Other	124,184	99,520
	961,337	990,118
Provision for doubtful accounts	(10,800)	(5,075)
	\$ 950,537	\$ 985,043

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2009

## 6. Property and equipment:

	2009		2008	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 21,700	\$ –	\$ 21,700	\$ 21,700
Building	595,755	305,715	290,040	319,828
Vehicle	69,569	22,250	47,319	32,578
Computer equipment	261,595	243,698	17,897	25,567
Office equipment	52,687	35,020	17,667	22,083
Telephone equipment	16,479	10,268	6,211	7,764
Building generator	36,443	15,452	20,991	26,239
	<u>\$ 1,054,228</u>	<u>\$ 632,403</u>	<u>\$ 421,825</u>	<u>\$ 455,759</u>

Amortization of \$58,449 was provided in 2009 (2008 - \$59,561).

## 7. Long-term debt:

	2009	2008
GMAC loan payable, fixed interest at 2.9%, maturing January 2013, secured by 2010 Chevrolet Equinox	\$ 33,782	\$ –
Northeastern Community Investment Inc. loan payable, during the year	–	75,000

Principal payments due on long-term debt for three years subsequent to December 31, 2009 are as follows: 2010 - \$10,900; 2011 - \$11,300; and 2012 - \$11,582.

## 8. Other income:

	2009	2008
Income from investments	\$ 570,583	\$ 667,832
Gain on sale of investments	214,882	46,956
Miscellaneous	(9,377)	1,201
Farmers Mutual Insurance Agency Limited	(3,999)	70,654
Insurance proceeds	(50,610)	50,610
Net rental income (schedule)	27,211	23,708
	<u>\$ 748,690</u>	<u>\$ 860,961</u>

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2009

## 9. Income taxes:

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates of 35.0% (2008 – 35.5%) to income before income taxes. The reasons for the differences and the related tax effects are as follows:

	2009	2008
Income before income taxes	\$ 569,370	\$ 725,240
Tax at applicable tax rate	\$ 199,280	\$ 257,460
Non-temporary differences:		
Farm premium deduction	(95,745)	(43,991)
Non-taxable dividends	(32,038)	(31,950)
	71,497	181,519
Change in enacted rates, including available small business deduction	(25,254)	(66,165)
Other	(38,601)	(207,896)
	\$ 7,642	\$ (92,542)

The Company is exempt from income tax on that portion of its income that is attributable to farm insurance premiums as defined under The Income Tax Act (Canada). The income tax calculations presented in these financial statements are based on current legislation.

The tax effects of temporary differences that give rise to future tax assets and future tax liabilities at December 31, 2009 and 2008 are presented below:

	2009	2008
<b>Future income tax assets:</b>		
Retirement allowance, principally due to accrual for financial reporting purposes	\$ 33,600	\$ 33,000
Claims payable, net for financial reporting purposes exceeds amounts deductible for tax purposes	12,100	11,700
Investments – principally due to changes to market on securities and unamortized premiums/discounts on bond purchases	116,100	193,000
Property and equipment – differences in depreciation and undepreciated capital cost	23,500	20,100
Total gross future income tax asset	185,300	257,800



# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2009

## 9. Income taxes (continued):

	2009	2008
Carry forward	\$ 185,300	\$ 257,800
<b>Future income tax liabilities:</b>		
Deferral of gains/losses on disposition of bonds for tax purposes	24,000	27,400
Investments – due to changes to fair value on bonds	137,600	123,000
<b>Total gross future income tax liability</b>	<b>161,600</b>	<b>150,400</b>
<b>Net future income tax asset</b>	<b>\$ 23,700</b>	<b>\$ 107,400</b>

## 10. Unpaid claims and adjustment expenses:

### a) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's claim department personnel, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, investment rates of returns, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims such as property claims tend to be more reasonably predictable than long-tail claims, such as general liability claims.

Consequently, the establishment of the provision for unpaid claims relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2009

## 10. Unpaid claims and adjustment expenses (continued):

- 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 as follows:

Cash flow period	2009	2008
All periods	2.59%	4.26%

- c) Activity in the provision for unpaid claims and claims adjustment expense is summarized as follows:

	2009	2008
Claims payable, beginning of year:		
Gross	\$ 911,000	\$ 1,249,000
Reinsurance ceded	(250,000)	(544,000)
	661,000	705,000
Net incurred claims and adjustment expense for prior year events	(328,557)	(343,268)
Decrease of provision for prior year events (net)	(23,108)	(1,646)
Provision for current year events (net)	379,665	300,914
	\$ 689,000	\$ 661,000
Claims payable, end of year:		
Gross	\$ 903,000	\$ 911,000
Reinsurance ceded	(214,000)	(250,000)
	\$ 689,000	\$ 661,000

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2009

---

## 11. Underwriting policy and reinsurance ceded:

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophe or other events that cause unfavourable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers.

While reinsurance is obtained to protect against large losses, the primary liability to the policyholder remains with the Company. Failure of reinsurers to honour their obligations could result in losses to the Company.

The Company follows the policy of underwriting and reinsuring insurance contracts which, in the main, limit the liability of the Company to \$125,000 plus 10% of the next \$875,000 on any property claim and \$75,000 plus 10% of the next \$925,000 of any liability claim. In addition, the Company has obtained reinsurance which limits the Company's liability to \$240,000 plus 5% of the balance of all claims in the event of a series of claims arising out of a single occurrence. The Company has also obtained Stop Loss reinsurance which limits the "Net Incurred Loss Ratio" to 80% for property and 100% for liability. Reinsurance does not relieve the Company of primary liability as the originating insurer.

As at December 31, 2009, reinsurance recoverable with a carrying value of \$214,000 (2008 - \$250,000) were associated with a single reinsurer.

## 12. Capital management:

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. The Company's agreements with its reinsurer Farm Mutual Reinsurance Plan Inc are described in note 11. For the purpose of capital management, the company has defined capital as policyholders' surplus.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty companies to comply with the capital adequacy requirements. This test compares a company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. The regulator indicates that the Company should produce a minimum MCT of 150%. As of December 31, 2009, the Company's capital margin exceeded the minimum required.

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2009

## 13. Financial instrument risk management:

### Fair value of financial instruments

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act.

Fair value is best evidenced by quoted market prices in an active market. Where quoted market prices are not available, the quoted prices of similar financial instruments or valuation models with observable market based inputs are used to estimate fair value. These valuation models may use multiple observable market inputs, including observable interest rates, foreign exchange rates, index levels, credit spreads, equity prices, counterparty credit quality, and corresponding market volatility levels. Minimal management judgment is required for fair values calculated using quoted market prices or observable market inputs for models. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The Company employs a fair value hierarchy to categorize the inputs it uses in valuation techniques to measure the fair value. The extent of use of Level 1 quoted prices in active markets for identical assets or liabilities, Level 2 inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, and Level 3 inputs for the asset or liability that are not based on observable market data in the valuation of securities as at December 31, 2009 are as follows:

	Level 1	Level 2	Level 3	Total
Bonds	\$ 6,093,336	\$ —	\$ —	\$ 6,093,336
Common shares	4,022,399	—	—	4,022,399
Preferred shares	995,130	—	—	995,130
	\$11,110,865	\$ —	\$ —	\$11,110,865

The carrying value of unpaid claims and reinsurance recoverable, which takes into consideration the time value of money and explicit provision for adverse derivation, approximates the fair value. The carrying value of all other financial instruments approximates their fair value due to the short-term to maturity of those financial instruments.

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2009

---

## 13. Financial instrument risk management (continued):

### Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to this risk relating to its debt holdings in its investment portfolio and the reliance on reinsurers to make payment when certain loss conditions are met.

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, and other general guidelines. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

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

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

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

### Market risk

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

The Company's investment policy operates within the guidelines of the Insurance Act and its application is monitored by the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in any one corporate issuer to a maximum of 25% of the Company's total assets.

#### a) Currency risk:

Currency risk relates to the Company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The Company was not operating in different currencies during the year and therefore currency risk is minimal.

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

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2009

---

## 13. Financial instrument risk management (continued):

### b) Interest rate risk:

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

The Company is exposed to this risk through its interest bearing investments.

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop and investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. There are no occurrences where interest would be charged on liabilities, therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

The objective and policies and procedures for managing interest rate risk is to diversify the bond portfolio in such a way that the bonds are a portfolio laddered over a number of years. A portion of the bond portfolio would come due each year and be reinvested. This helps to protect the Company from fluctuations in the interest rates.

At December 31, 2009, a 1% move in interest rates, with all other variables held constant, would not have a material impact on the market value of debt securities. For bonds that the Company did not sell during the year, the change during the year and changes prior to the year would be recognized as other comprehensive income during the period.

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

### c) Equity risk:

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

The Company's portfolio includes common share investment and preferred share investments in publicly traded entities. A 10% movement in the stock markets with all other variables held constant would have an estimated affect on the fair values of the Company's equity holdings of \$326,000. For equity investments that the Company did not sell during the period, the change would be recognized in the asset value and in other comprehensive income. For equity investments that the Company did sell during the period, the change during the period and changes prior to the period would be recognized as net realized gains in income during the period.

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Notes to Financial Statements (continued)

Year ended December 31, 2009

---

## 13. Financial instrument risk management (continued):

### Liquidity risk:

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

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

## 14. New accounting pronouncements:

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

### International Financial Reporting Standards

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has confirmed that all publically accountable enterprises will be required to comply with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. The Company understands that there will be differences between current Canadian generally accepted accounting standards and IFRS and has undertaken a project to determine the possible future effects on the financial statements.

## 15. Comparative figures:

Certain of the 2008 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2009.

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

## Schedule A – Schedule of Rental Income

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

	2009	2008
Tenants	\$ 98,100	\$ 99,849
Expenses:		
Amortization	17,247	17,181
Insurance	3,492	4,085
Lights, heat and power	17,744	20,243
Repairs and maintenance	20,087	22,028
Taxes	11,368	10,528
Miscellaneous	951	2,076
	70,889	76,141
	\$ 27,211	\$ 23,708



# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

## Schedule B – Schedule of Claims and Adjustments

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

	2009	2008
Expenses:		
Claims and adjustments – gross	\$ 2,131,781	\$ 1,552,465
Recoveries from reinsurance	(459,829)	(69,796)
	<u>\$ 1,671,952</u>	<u>\$ 1,482,669</u>

# ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

## Schedule C – Schedule of Administrative Expenses

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

	2009	2008
Expenses:		
Advertising and promotion	\$ 129,701	\$ 65,837
Agent commissions	598,031	615,927
Amortization	41,202	42,380
Bad debts	7,509	789
Computer	39,389	35,752
Conventions and meetings	32,522	31,186
Directors fees	35,950	32,550
Donations	23,325	15,573
Education	10,616	24,409
Field representative expenses	32,723	27,316
Furniture and fixtures	32,111	5,329
Insurance	24,148	22,844
Interest on long-term debt	1,266	6,188
Loss on sale of property and equipment	6,648	–
Loss prevention	1,643	1,214
Meals and entertainment	15,202	11,693
Memberships and fees	33,886	32,106
Miscellaneous	28,473	31,542
Office	18,462	20,889
Postage and express	41,564	22,649
Printing and stationery	20,388	14,879
Professional fees	46,208	47,992
Rent	63,900	63,900
Retiring allowance	2,795	5,222
Salaries and benefits	374,276	359,567
Taxes and levies	168,755	181,721
Telephone	9,277	20,361
Travel	5,889	6,949
	<b>\$ 1,845,859</b>	<b>\$ 1,746,764</b>