AYR FARMERS MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009

AYR FARMERS MUTUAL INSURANCE COMPANY

DECEMBER 31, 2009
CONTENTS

AYR FARMERS MUTUAL INSURANCE COMPANY

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING
DECEMBER 31, 2009

The accompanying financial statements and all other information contained in this annual report are the responsibility of the management of Ayr Farmers Mutual Insurance Company. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles including the accounting requirements of the Financial Services Commission of Ontario and have been approved by the Board of Directors.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of Ayr Farmers Mutual Insurance Company, which includes adherence by all employees to the company's Code of Conduct. Management maintains a system of internal accounting controls to provide reasonable assurance that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial information. Such information also includes data based on management's best estimates and judgments.

The Audit Committee and the Board of Directors review and approve the annual financial statements. In addition, the Audit Committee meets periodically with financial officers of Ayr Farmers Mutual Insurance Company and the external auditors, and reports to the Board of Directors thereon. The Audit Committee and Board of Directors also review the annual report in its entirety.

The accompanying financial statements have been audited by Graham Mathew Professional Corporation, authorized to practice public accounting by The Institute of Chartered Accountants of Ontario, who are engaged by the Board of Directors and whose appointment was ratified at the annual meeting of the policyholders. The auditors have access to the Audit Committee, without management present, to discuss the results of their work. Their report dated January 19, 2010 expresses their unqualified opinion on the Company's 2009 financial statements.

Donald J. Davidson, CIP	David Paterson, BBA
President & CEO	Chief Financial Officer

Graham
Mathew

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AUDITORS' REPORT

To the Policyholders of
Ayr Farmers Mutual Insurance Company

We have audited the financial position of **Ayr Farmers Mutual Insurance Company** as at December 31, 2009 and the statements of income, 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, including the accounting requirements of the Financial Services Commission of Ontario.

Graham Mathew Professional Corporation

Cambridge, Ontario
January 19, 2010

CHARTERED ACCOUNTANTS, authorized to practice public accounting by The Institute of Chartered Accountants of Ontario

AYR FARMERS MUTUAL INSURANCE COMPANY

FINANCIAL POSITION
DECEMBER 31, 2009

	2009	2008
	$	$
ASSETS		
Cash and investments (note 4 and 5)	**41,945,725**	35,616,468
Premiums receivable	**3,787,770**	3,287,384
Receivable from Facility Association	**33,430**	3,846
Income taxes recoverable		879,927
Reinsurer's share of provision for unpaid claims (note 7)	**6,431,720**	6,996,326
Future income taxes	**172,225**	218,035
Deferred policy acquisition expenses	**1,002,229**	869,120
Capital assets (note 6)	**2,029,163**	2,090,938
	55,402,262	49,962,044
LIABILITIES		
Provision for unpaid claims (note 7)	**20,757,147**	22,552,920
Unearned premiums	**8,736,309**	7,680,528
Accounts payable and accrued liabilities	**992,447**	752,384
Income taxes payable	**1,117,457**	
Provision for refund from surplus	**406,000**	350,000
	32,009,360	31,335,832
POLICYHOLDERS' EQUITY		
Policyholders' equity (page 5)	**24,091,317**	22,042,344
Accumulated other comprehensive loss (page 5)	**(698,415)**	(3,416,132)
	23,392,902	18,626,212
	55,402,262	49,962,044

APPROVED BY THE BOARD:

Director

Director

The explanatory financial notes form an integral part of these financial statements.

STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2009

	2009 $	2008 $
Gross premiums written	**18,192,741**	16,135,230
Deduct		
Reinsurance premiums	**3,210,263**	2,872,425
Increase in reserve for unearned premiums	**1,055,780**	485,056
	4,266,043	3,357,481
Net premiums earned	**13,926,698**	12,777,749
Service charge revenue	**232,380**	203,343
Net underwriting revenue	**14,159,078**	12,981,092
Claims and expenses		
Claims incurred, net of reinsurance recoveries	**7,352,256**	7,541,889
Adjusting expenses, net	**613,763**	907,940
Agents' and brokers' commissions	**1,939,859**	1,771,728
Salaries, fees and employee development (page 18)	**1,637,096**	1,627,521
General (page 18)	**1,008,745**	905,906
	12,551,719	12,754,984
Underwriting profit	**1,607,359**	226,108
Other revenue (expense)		
Investment income	**1,355,428**	1,401,582
Profit for year, subsidiary company	**7,304**	14,910
Refund from surplus	**(397,157)**	(349,124)
Income tax expense	**(523,961)**	(194,000)
	441,614	873,368
Net income for year	**2,048,973**	1,099,476

The explanatory financial notes form an integral part of these financial statements.

STATEMENT OF POLICYHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2009

	Policyholders' Equity $	Accumulated Other Comprehensive Income (Loss) $	2009 $	2008 $
Balance at beginning of year	**22,042,344**	**(3,416,132)**	**18,626,212**	20,669,251
Comprehensive income:				
Net income for year	**2,048,973**		**2,048,973**	1,099,476
Realized losses transferred to net income		**19,565**	**19,565**	99,015
Unrealized gains (losses) on available-for-sale investments		**3,538,752**	**3,538,752**	(4,306,528)
Income tax expense		**(840,600)**	**(840,600)**	1,065,000
Comprehensive income (loss)	**2,048,973**	**2,717,717**	**4,766,690**	(2,043,037)
Balance at end of year	**24,091,317**	**(698,415)**	**23,392,902**	18,626,212

The explanatory financial notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2009

	2009 $	2008 $
Cash flows from operating activities:		
Net income from operations	**2,048,973**	1,099,476
Items not involving cash:		
Amortization, capital assets	**158,639**	150,871
Amortization, bonds	**22,404**	20,902
Future income taxes	**45,810**	(4,000)
Profit of subsidiary company	**(7,304)**	(14,910)
Unrealized losses on held-for-trading investments	**(133,022)**	172,435
	2,135,500	1,424,774
Net change in non-cash working capital balances relating to operations:		
Unearned premiums	**1,055,781**	485,056
Reinsurer's share of provision for unpaid claims	**564,606**	(1,637,802)
Provision for unpaid claims	**(1,795,773)**	2,574,952
Other payables	**2,237,445**	73,671
Receivables, premiums and other	**(529,970)**	(559,520)
Deferred policy acquisition expenses	**(133,109)**	(55,765)
Investment income due and accrued	**(34,602)**	(7,386)
Recognized gain (loss) on investments	**(157,415)**	37,758
	3,342,463	2,335,738
Cash flows from investment activities:		
Proceeds from sale of investments	**16,763,293**	6,472,242
Purchase of investments	**(19,562,318)**	(7,687,541)
Net additions to capital assets	**(96,874)**	(72,347)
	(2,895,899)	(1,287,646)
Cash flows from equity activities:		
Provision for refund from surplus, net change	**56,000**	350,000
Current income tax recovery (expense)	**(840,600)**	1,065,000
	(784,600)	1,415,000
Increase (decrease) in cash during year	**(338,036)**	2,463,092
Cash, beginning of year	**6,986,347**	4,523,255
Cash, end of year (notes 4 and 10)	**6,648,311**	6,986,347

The explanatory financial notes form an integral part of these financial statements.

1. General

The company was incorporated without share capital on December 13, 1893 under the laws of the Province of Ontario as a mutual insurance company and is subject to the Ontario Insurance Act. It is licensed to conduct its principal business activity which is to write property, liability and automobile insurance in Ontario. The business risk of insurance resides in pricing the product, in management of investment funds, and in the estimation of claim costs. Ongoing management practices and policies of the company in underwriting, claims and investment activities control the risk exposure.

To mitigate some of this risk, the company follows the policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the company to a maximum amount on any one claim of $280,000 in the event of liability and automobile claims, $325,000 in the event of property claims and $750,000 plus 5% of the excess for property catastrophe. The reinsurance treaties also contain a "stop-loss" provision which limits the company's total liability from claims occurring in the year.

Because the company writes automobile insurance, it is required to participate in the Facility Association for high risk insureds.

2. Summary of Significant Accounting Policies

This summary of the major accounting policies of the company conform with those generally accepted in Canada and comply with the requirements for filing with the Financial Services Commission of Ontario. These policies have been followed consistently, in all material respects, for the periods covered and require management to make estimates and assumptions that affect reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

(a) Investments

The company is required to classify its investments as a) held-to-maturity, b) held-for-trading, or c) available-for-sale.

Its investments in government debt securities, which are classified as held-to-maturity, are recorded at amortized cost with discounts and premiums being amortized to income using the effective yield method over the period to maturity. Investments in common and preferred shares and corporate debt securities, which are classified as held-for-trading or available-for-sale, are recorded at fair value. Realized gains or losses on both of these classes of investments are reported as investment income in the statement of income.

Unrealized gains or losses of the held-for-trading investments are reported as investment income in the statement of income. Unrealized gains or losses of the available-for-sale investments are reported as other comprehensive income in the statement of policyholders' equity.

2. Summary of Significant Accounting Policies (Continued)

(b) Premiums earned and deferred policy acquisition expenses

Insurance premiums are included in income on a prorata basis over the life on the policies. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

Acquisition expenses related to unearned premiums, which are comprised of commissions and premium taxes, are deferred and amortized to income over the periods in which the premiums are earned. The method followed in determining the deferred acquisition expenses limits the amount of the deferral to its realizable value by giving consideration to claims and expenses expected to be incurred as the premiums are earned.

Premiums receivable are recorded at amounts due less any required provision for doubtful amounts.

(c) Reinsurance

The company reflects reinsurance balances on the financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders and on a net basis in the statement of income and policyholders' equity to indicate the results of its retention of premiums written.

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. A contingent liability exists with respect to reinsurance ceded which could become a liability of the company in the event that the reinsurer might be unable to meet its obligations under the reinsurance agreements. The company ascertained that no provision is necessary at December 31 for doubtful collection of reinsurance recoveries.

(d) Unpaid claims

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, changes in reported claims and for claims incurred but not reported, based on past experience and business in force. The estimates are regularly reviewed and updated and any resulting adjustments are included in current income.

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the company's method for establishing the related liability.

(e) Capital assets

The building, furniture and fixtures, computer equipment and automobile are stated at cost less accumulated amortization. Amortization is provided in order to write off these assets over their expected useful lives using the following rates and methods:

Building	4%	declining-balance
Furniture and fixtures	5 years	straight-line
Computer equipment	3 years	straight-line
Automobiles	30%	declining-balance

2. Summary of Significant Accounting Policies (Continued)

(f) Facility Association

As a member of the Facility Association, the company records its proportionate share of the Association's revenue, expenses, unearned premiums and provision for unpaid claims.

(g) Contingent liabilities

In common with the insurance industry in general, the company is subject to litigation arising in the normal course of conducting its insurance business which is taken into account in establishing the provision for unpaid claims and adjustment expenses.

(h) Future income taxes

The company accounts for income taxes using the liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available, if any, to be carried forward to future years for tax purposes that are likely to be realized.

(i) Financial instruments and comprehensive income

The company's financial instruments consist of cash and investments, amounts receivable, and amounts payable. Unless otherwise noted, it is management's opinion that the company is not exposed to significant credit, market or liquidity risks arising from these financial instruments (note 15). The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

The Canadian Institute of Chartered Accountants now requires the reporting of "comprehensive income" which consists of net income and other comprehensive income. Other comprehensive income comprises unrealized gains or losses on available-for-sale securities. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income which is stated within policyholders' equity on the statement of financial position.

3. Role of the Actuary and Auditors

The actuary is retained by the company's Board of Directors to review the claims liability, in particular the IBNR reserves. The actuary's responsibility is to carry out an annual valuation of the company's provision for unpaid claims in accordance with accepted actuarial practices and report thereon to the company. In performing the valuation, the actuary makes assumptions as to the future loss ratios, trends, future rates of claims frequency and severity, inflation and both internal and external adjustment expenses, taking into consideration the circumstances of the company. The actuary also makes use of the work of the external auditor in his verification of the underlying data used in the valuation. The actuary's report outlines the scope of his work and recommendation.

The external auditors have been appointed by the company 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 company. In carrying out their audit, the auditors also make use of the work of the actuary and his report on the company's provision for unpaid claims. The auditors' report outlines the scope of their audit and their opinion.

4. Investment Information

The book values and market values on cash and investments as at December 31 were as follows:

	2009		2008	
	Book value	**Market value**	Book value	Market value
	$	**$**	$	$
Cash	**6,648,311**	**6,648,311**	6,986,347	6,986,347
Debt securities	**23,115,052**	**23,179,026**	20,289,233	20,377,374
Preferred shares	**437,306**	**437,306**	252,710	252,710
Common shares	**11,265,284**	**11,265,281**	7,650,310	7,650,310
Subsidiary company (note 9)	**347,313**	**347,313**	340,009	340,009
Accrued interest	**132,459**	**132,459**	97,859	97,859
	41,945,725	**42,009,696**	35,616,468	35,704,609

The market value of the debt securities and preferred and common shares is based on quoted market values.

	2009	2008
	$	$
The debt securities mature as follows:		
Within 1 year	**1,621,217**	1,851,326
Over 1 to 5 years	**5,707,948**	5,691,927
Over 5 years	**15,785,887**	12,745,980
	23,115,052	20,289,233

The effective investment yield for the year is 3.6% (4% for 2008).

The book value of the investments is shown in the following tables categorized by available-for-sale, held-for-trading and held-to-maturity. Book values are equal to their fair values. The maximum exposure to credit risk would be the fair value indicated.

Available-for-Sale

	2009		2008	
	Cost	**Fair value (Book value)**	Cost	Fair value (Book value)
	$	**$**	$	$
Debt securities:				
Corporate				
A or better	**6,806,865**	**7,219,132**	5,620,838	5,313,693
Below A	**1,035,924**	**1,011,647**	748,563	610,245
Pooled funds	**7,979,987**	**7,979,987**	7,768,524	7,653,189
Guarantee fund	**42,560**	**42,560**	40,303	40,303
	15,865,336	**16,253,326**	14,178,228	13,617,430

4. Investment Information (Continued)

Available-for-Sale (Continued)

	2009		2008	
	Cost	Fair value (Book value)	Cost	Fair value (Book value)
	$	$	$	$
Equity investments:				
Canadian common	**10,987,485**	**10,197,272**	9,839,662	6,725,288
Canadian preferred	**447,979**	**437,306**	387,054	252,710
U.S. equities	**1,577,924**	**1,068,012**	1,596,636	925,022
	13,013,388	**11,702,590**	11,823,352	7,903,020
Total available-for-sale	**28,878,724**	**27,955,916**	26,001,580	21,520,450

Held-for-Trading

Debt securities:				
Linked notes	**2,151,182**	**2,140,448**	3,051,587	2,907,835

Held-to-Maturity

Debt securities:				
Provincial	**3,800,574**	**3,800,574**	2,810,254	2,810,254
Municipal	**920,704**	**920,704**	953,714	953,714
	4,721,278	**4,721,278**	3,763,968	3,763,968

5. Disclosures Relating to Fair Value Measurements

In compliance with Handbook Section 3862, the company has categorized its assets that are carried at fair value (which is book 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 measured at fair value are categorized as follows:

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

Level 2: Fair value is based on quoted prices for similar assets 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.

5. Disclosures Relating to Fair Value Measurements (Continued)

	Level 1 $	Level 2 $	Level 3 $	2009 Total $
Assets				
Cash and cash equivalents	6,648,311			**6,648,311**
Bonds				
Corporate		8,230,783		**8,230,783**
Linked notes		2,140,448		**2,140,448**
Fire Mutual guarantee fund		42,560		**42,560**
Pooled funds				
Canadian fixed income		7,979,987		**7,979,987**
Canadian equity		1,701,315		**1,701,315**
Equity investments				
Canadian	8,419,622		5,004	**8,424,626**
U.S.	1,068,012			**1,068,012**
Mutual funds		508,633		**508,633**
Total assets measured at fair value	**16,135,945**	**20,603,726**	**5,004**	**36,744,675**

6. Capital Assets

	2009 $	2008 $
Cost		
Land and building	**2,599,450**	2,590,064
Furniture and fixtures	**311,105**	290,142
Computer equipment	**450,967**	430,386
Automobiles	**101,690**	55,746
	3,463,212	3,366,338
Accumulated amortization		
Building	**738,971**	667,871
Furniture and fixtures	**269,233**	253,888
Computer equipment	**397,515**	345,279
Automobiles	**28,330**	8,362
	1,434,049	1,275,400
Net Book Value	**2,029,163**	2,090,938

7. Provision for Unpaid Claims

The provision for unpaid claims and adjustment expenses and related reinsurers' share are estimates subject to variability, which could be material in the near term. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are principally based on the company's historical experience, as well as other factors inherent with the current state of the insurance industry. Methods of estimation have been used which the company believes produce reasonable results given current information.

The provision for unpaid claims and adjustment expenses by class of insurance is as follows:

	2009 $	2008 $
Property	**505,918**	928,287
Automobile	**11,981,776**	12,301,453
Liability	**1,837,733**	2,326,854
Net position	**14,325,427**	15,556,594

The company cedes all reinsurance to Farm Mutual Reinsurance Plan Inc. in order to limit the maximum loss through the spreading of risks. Reinsurance ceded does not relieve the company of primary liability as the originating insurer. The following table sets out the impact of reinsurance ceded on the provision for unpaid claims:

Gross provision	**20,757,147**	22,552,920
Deduction for reinsurance ceded	**6,431,720**	6,996,326
Net position	**14,325,427**	15,556,594

8. Pension Plan

The company participates in a multi-employer pension plan through the Ontario Mutual Insurance Association. The plan includes a defined benefit pension plan for the employees in which the company made contributions during the year on their behalf in the amount of $97,143 and a defined contribution pension plan for the sales agents in which the company made contributions during the year on their behalf in the amount of $49,762.

Since the company makes up for any funding deficits and discontinues contributions when there is a funding surplus as a result of an actuarial valuation, no accrued assets or liabilities of the defined benefit plan are included in the financial position. The most recent actuarial valuation of the defined benefit plan was on December 31, 2006. An actuarial valuation is expected to be performed as at December 31, 2009 with the report being issued in 2010.

9. Non-Consolidated Financial Statements

The operations of Ayr Farmers Financial Services Inc., a wholly-owned subsidiary of this company, have not been consolidated with these financial statements in order to comply with the accounting requirements of the Financial Services Commission of Ontario and because consolidation would not provide a more informative presentation.

The investment in Ayr Farmers Financial Services Inc. recorded on the non-consolidated, equity basis amounting to $347,313 ($340,009 in 2008) reflects the capital investment of $300,300 for 300,300 common shares plus accumulated after tax income of the subsidiary amounting to $47,013 through 2009 ($39,709 through 2008).

10. Statement of Cash Flows

	2009 **$**	2008 $
Cash paid relating to income taxes	**64,800**	44,975
Cash received relating to income taxes	**707,070**	677,549

11. Income Taxes

As a result of provisions in the Income Tax Act the company is liable for income taxes on that percentage of its taxable income that relates to non-farm insurance business written which amounted to 71%.

12. Change in Accounting Policy

The Accounting Standards Board has amended Handbook Section 3862, "Financial Instruments - Disclosures" by including enhanced disclosure requirements for fair value measurement of financial instruments and liquidity risks. The required note disclosures are in note 5.

13. Future Accounting Changes

The Canadian Accounting Standards Board confirmed in 2008 that the use of International Financial Reporting Standards ("IFRS") by publicly accountable enterprises will be required in 2011 with comparative data for the prior year. IFRS uses a conceptual framework similar to Canadian GAAP, but there could be significant differences in recognition, measurement and disclosures that will need to be addressed.

In order to prepare for the conversion to IFRS, the company has developed an IFRS Conversion Plan. The IFRS Conversion Plan is well underway with key IFRS standards analyzed and compared against the company's current Canadian GAAP policies. The key accounting policy alternatives have been identified including contract classification and first-time adoption of IFRS; however final decisions are pending. The impacts of these decisions are currently being assessed. Developments relating to existing standards and new standards are being monitored to assess the impact on the Conversion Plan. The transition status is currently on track with the implementation schedule.

14. Capital Management

The company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. To limit their potential impact, catastrophe coverage limits Ayr Farmers Mutual Insurance Company exposure to $750,000 plus 5% of the remaining loss. The $750,000 retained amount represents approximately 3% of company's capital. For the purpose of capital management, the company has defined capital as policyholders equity including accumulated other comprehensive income.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty companies to comply with capital adequacy requirements. This test compares a company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. The regulator indicates that the company should produce a minimum MCT of 150%. The MCT for the company at December 31, 2009 was 462% (413% at December 31, 2008).

15. Financial Instrument Risk Management

Credit risk

Credit risk is the risk of financial loss to the company if a debtor fails to make payments of interest and principal when due. The company is exposed to this risk relating to its debt holdings in its investment portfolio and the reliance on reinsurers to make payment when certain loss conditions are met.

The company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits and corporate sector limits. The bond portfolio remains very high quality with 96% of the bonds rated A or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer. Management monitors the credit-worthiness 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.

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

The maximum exposure to credit risk and concentration of this risk is outlined in note 2(i).

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.

15. Financial Instrument Risk Management (Continued)

Market risk

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

The company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The policy limits the investment in any one corporate issuer to a maximum of 10% 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's foreign exchange risk is related to its stock holdings. The company limits its holdings in foreign equity to 10% of investments in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when out of balance with its investment policy. A 1% change in the value of the United States dollar would affect the fair value of stocks by approximately $10,680, which would be reflected in net income or other comprehensive 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.

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, which include treasury bills, guaranteed investment certificates and bonds.

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result, generally, the company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gain or losses in other comprehensive income. There are no occurrences where interest would be charged on liabilities; therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

The objective, policies and procedures for managing interest rate risk is to diversify the bond portfolio in such a way that the bonds portfolio are laddered over a period of years. This protects the company from fluctuations in the interest rates. At December 31, 2009, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by approximately $739,500.

There have been no significant changes from the previous period in the exposure to risk, nor any significant changes to policies, procedures and methods used to measure the risk.

15. Financial Instrument Risk Management (Continued)

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 Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index, United States stocks with fair values that move with the S&P 500 Index, and international stocks that move with financial markets in Europe, Australia and Far East. A 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the company's Canadian common stocks and United States common stocks of approximately $1,126,000. A 10% move in the fair value of the company's Canadian preferred stocks would have an impact of approximately $43,700. For stocks that the company did not sell during the period, the change would be recognized in the asset value and in other comprehensive income. For stocks that the company did sell during the period, the change during the period and changes prior to the period would be recognized as net realized gains or losses in net income during the period.

The Investment Committee of the Board of Directors follows investment policies, procedures and processes for managing equity risk.

Liquidity Risk

Liquidity risk is the risk that the company will not be able to meet all cash outflow obligations as they come due. The company mitigates this risk by monitoring cash activities and expected outflows. The company's current liabilities arise as claims are made. The company does not have material liabilities that can be called unexpectedly at the demand of a lender or client, nor does it have material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

There have been no significant changes from the previous period in the exposure to risk, nor significant changes in policies, procedures and methods used to measure the risk.

SCHEDULES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009

	2009 $	2008 $
Salaries, fees and employee development		
Salaries and benefits	**1,402,226**	1,411,227
Directors' fees	**39,720**	43,295
Professional fees	**47,781**	43,660
Employee development, travel and conventions	**147,369**	129,339
	1,637,096	1,627,521

	2009 $	2008 $
General expenses		
Marketing and promotion	**143,532**	85,100
Bad debts	**6,478**	12,897
Bank charges and interest	**10,009**	6,301
Cleaning and repairs	**64,973**	60,000
Amortization, capital assets	**138,681**	140,109
Fire prevention expense, net	**2,503**	2,848
Fuel and hydro	**32,000**	35,155
Insurance	**26,774**	20,356
Licenses	**25,236**	25,351
Memberships	**42,308**	41,525
Municipal taxes	**61,815**	57,569
Postage and telephone	**61,608**	61,981
Premium and other taxes	**30,469**	40,499
Office and computer expense	**235,363**	201,059
Statistical service	**61,269**	51,162
Underwriting expenses	**72,309**	70,602
Facility Association, operating expenses and premium deficiency (recovery)	**(6,582)**	(6,608)
	1,008,745	905,906