




**P.E.I. MUTUAL**  
Insurance Company

PROTECTING EACH OTHER  
SINCE 1885

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# 2004 Annual Report



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## YOUR OWN COMPANY

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### Prince Edward Island Mutual Insurance Company

201 Water Street  
Summerside, P.E.I.  
C1N 1B4

Phone 1-800-565-5441  
Local 436-2185  
Fax 436-0148

E-mail: [protect@peimutual.com](mailto:protect@peimutual.com)  
[www.peimutual.com](http://www.peimutual.com)

### DIRECTORS

**Percy Affleck**  
Bedeque, P.E.I. 887-2507

**Claude Dorgan**  
Tignish, P.E.I. 882-3452

**Jim Doyle**  
Mount Stewart, P.E.I. 676-2472

**Allison Johnson**  
Belmont, Lot 16, P.E.I. 436-5200

**Stewart MacRae**  
Ebenezer, P.E.I. 964-2979

**Brian MacKinley**  
Cornwall, P.E.I. 566-4163

**George Matheson**  
Albion Cross, P.E.I. 583-2340

**Gordon Vessey**  
York, P.E.I. 629-1332

**Blair Wood**  
Montague, P.E.I. 838-4689

### OFFICERS

<b>President</b>	<b>Secretary/Legal Counsel</b>
Claude Dorgan	Blair Campbell
Tignish, P.E.I.	Summerside, P.E.I.

<b>Vice-President</b>	<b>Treasurer</b>
Brian MacKinley	Rudy Smith
Cornwall, P.E.I.	Summerside, P.E.I.

**General Manager**  
Terrence Shea  
Summerside, P.E.I.

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## NOTICE OF ANNUAL MEETING

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P.E.I. Mutual Insurance Company will be holding its annual meeting on Tuesday, April 12, 2005, at 2:00 P.M. at the Royal Canadian Legion, 340 Notre Dame Street, Summerside, P.E.I.

The purpose of the meeting is to receive the financial statements and auditors report for 2004; to elect directors; to appoint auditors and to transact other business which may properly be brought before the meeting.

Blair Campbell  
Corporate Secretary



## PRESIDENT'S REPORT

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It is with pleasure on behalf of our Board of Directors of PEI Mutual that we are able to report to you, our valued policyholders, another successful year. Gross premiums written for 2004 were up \$781,000 over last year representing a growth rate of 7.4%. Although we did not have any drastic weather related claims our gross claims were up in 2004 caused by some major fire losses and oil spill claims.

Although claims were up, the prudent management capabilities of our management team enabled us to end the year on a very positive note with a healthy surplus.

We at PEI Mutual will continue to strive and offer insurance to all of our policyholders at a very competitive level and in doing so will continue to develop new markets and underwriting techniques to better serve you in the future.

As you know, the insurance industry is always facing challenges in today's market place, and for PEI Mutual it is no different. With all this aside it was very rewarding to serve as President of PEI Mutual in 2004 and at this time I would like to extend my heart felt thanks to my fellow Board members for their dedication and commitment throughout the year.

On a sad note, one of our Directors, John Furness, passed away this year after serving us since 1992. Condolences are passed on to his family from the PEI Mutual family. As a result of John's passing, the Board was required to choose a new member to fill his vacancy and as such, we are very pleased to extend a very warm welcome to Jim Doyle of Mount Stewart, as PEI Mutual's newest Board member.

In closing, I would like to thank management, agents and staff for the professionalism and dedication used in carrying out their duties on a day to day basis.

Claude Dorgan,  
President



## MANAGER'S REPORT 2004

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Oil spills were the story of the year for 2004. We had 24 claims reported costing PEI Mutual approximately \$1,700,000. Over the past five years, we had 121 oil spill claims reported at a cost of \$4,500,000. Approximately 73% of these oil spills were from oil tanks located outside a building.

In 2003, we started an oil tank contest to promote policyholders having their oil tank installation brought up to provincial standards. To date, we have awarded seven prizes of \$1,000 each, and plans are to continue with four more \$1,000 draws in 2005. Information on this contest is on the last page of the Annual Report.

We thank our policyholders who have updated their oil installation to provincial standards and urge all our policyholders to do so as soon as possible. Provincial regulations require that all oil installations meet provincial standards by September 2006.

There has been a great deal of media attention given to insurance company profits for 2004. The insurance industry in Canada has realized a 20% return on equity. Much of this return was realized on the automobile line of business and PEI Mutual does not sell automobile insurance. PEI Mutual's return on equity for 2004 was 5% which is a bit lower than where it should be. PEI Mutual is owned by its policyholders and does not have the shareholders that the other insurance companies have, who expect a return on their investment (dividend). PEI Mutual must earn a profit which is sufficient to support premium growth. This profit is added to our equity and is held to keep our company strong for future generations of policyholders.

Our rate increases in the past number of years have been minimal and there are no planned rate increases in 2005. Our income in past years has been sufficient to grow our surplus and keep the company in the excellent financial standing it enjoys today.

Our goal at PEI Mutual is to provide excellent service. Our agents are busy servicing the needs of customers throughout PEI. Our head office staff process the work of our agents, service policyholders on the phone and process insurance claim payments to policyholders. We settle claims as quickly as possible and it is not uncommon to have a claim cheque in the mail the day after the claim is reported. I thank all our staff and service agents for their dedicated service to our policyholders.

Computer technology is an ever growing facet in all businesses and PEI Mutual is no exception. Technology allows for efficiency and we aim to be efficient. We keep abreast of change and our systems are to modern standards. At present we have 35% of our policyholders paying their insurance premium electronically on-line. We are pleased to have such a large percentage of our policyholders using this service.

PEI Mutual was honored to receive the Community Enhancement Award at the Greater Summerside Chamber of Commerce Business Awards Banquet in 2004. This award was given in recognition of both the company and employee contributions to community. We are proud of PEI Mutual's annual contributions to hospitals, exhibitions, Special Olympics and many more Island organizations. Since its centennial year in 1985, PEI Mutual has awarded 400 scholarships to high school graduates totaling \$200,000. PEI Mutual displays its community spirit by sponsoring programs such as Community Showcase on Eastlink TV and the Eric MacEwen Show on CFCY. PEI Mutual has been the title sponsor of the PEI Mutual Provincial



Summer and Winter Games for the past eight years.

Management & staff show commitment to the community through contributions to charities such as the United Way and by volunteering as members of the Board of Directors on organizations such as the Chamber of Commerce, Summerside Regional Development Corporation, Slemon Park Corporation and the Insurance Institute of PEI.

PEI Mutual has been a “Top 101 Company in Atlantic Canada “ for the past 7 years, as awarded by Progress Corp.

Policyholders of PEI Mutual benefit by sharing in the company’s profits through a “Mutual Rebate” which is given in years when the company has good financial results. A “Mutual Rebate” has been paid to the policyholders for 14 of the last 20 years. The total amount refunded to the policyholders in those 14 years was \$11,950,000. I am pleased to advise that we will be giving a “Mutual Rebate” of 5% in 2005. This “Mutual Rebate” will be given as a discount at time of renewal.

PEI Mutual is an Island company owned by its policyholders with its head office on PEI. Decisions are made promptly on PEI. Thank you for choosing PEI Mutual as your insurance provider.

Terrence Shea  
General Manager

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## AUDITOR’S REPORT

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To the Policyholders of Prince Edward Island Mutual Insurance Company. We have audited the balance sheet of Prince Edward Island Mutual Insurance Company as at December 31, 2004, and the statements of earnings 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 misstatements. 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, 2004 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Summerside, P.E.I.  
January 27, 2005

*Grant Thornton LLP*  
Chartered Accountants



## STATEMENT OF EARNINGS

Year Ended December 31

<b>Underwriting Income</b>	<b>2004</b>	<b>2003</b>
Gross premiums written	\$ 11,329,131	\$ 10,548,258
Reinsurance premiums assumed (Note 8)	36,569	37,607
Reinsurance premiums ceded (Note 8)	<u>(1,481,447)</u>	<u>(1,201,996)</u>
Net premiums written	9,884,253	9,383,869
Less: increase in unearned premiums	424,255	732,051
Net premiums earned	<u>9,459,998</u>	<u>8,651,818</u>
<b>Claims and expenses</b>		
Gross claims incurred	6,885,661	6,410,974
Adjusting, legal and appraisals	765,506	788,002
Less: reinsurance recoveries	<u>1,133,724</u>	<u>1,885,626</u>
Net claims and adjusting	6,517,443	5,313,350
Advertising	111,737	132,827
Canada pension plan	60,999	62,471
Conventions, courses and travel	82,342	51,200
Depreciation	51,009	60,497
Directors fee	165,155	155,064
Donations	61,900	59,800
Employment insurance	34,216	38,038
Fire prevention tax	113,291	105,483
Group insurance	137,652	126,793
Loss prevention	101,283	106,721
Office supplies	68,179	67,808
Other administration costs	153,712	130,501
Postage	107,318	79,958
Premium acquisition expenses	1,465,768	1,331,489
Professional fees	16,919	25,762
Salaries	887,408	858,048
Taxes, dues and licences	39,138	42,062
Telephone	45,579	44,261
	<u>10,221,048</u>	<u>8,792,133</u>
Net underwriting loss	<u>(761,050)</u>	<u>(140,315)</u>
<b>Other income</b>		
Net investment income (Note 6)	2,223,691	2,502,417
Gain (loss) on sale of fixed assets	10,336	(9,519)
Miscellaneous	22,276	37,431
	<u>2,256,303</u>	<u>2,530,329</u>
Earnings before income taxes	1,495,253	2,390,014
Income taxes (Note 9) - Current	274,936	668,363
- Future	11,342	7,023
<b>Net earnings</b>	<u>\$ 1,208,975</u>	<u>\$ 1,714,628</u>

See accompanying notes to the financial statements.



## BALANCE SHEET

December 31

<b>Assets</b>	<b>2004</b>	<b>2003</b>
Cash and short term deposits	\$ 833,228	\$ 1,049,284
Receivables (Note 3)	988,977	991,549
Income tax receivable	215,947	-
Prepaid items	16,814	11,443
Deferred premium acquisition expenses	735,779	746,870
Reinsurers' share of provision for unpaid claims and adjustment expenses	2,262,413	3,070,013
Investments (Note 4)	31,245,841	29,027,405
Property and equipment (Note 5)	505,458	479,235
Future income taxes	114,516	125,858
	<u>\$36,918,973</u>	<u>\$35,501,657</u>

### Liabilities

Payables and accruals	\$ 288,568	\$ 271,829
Income tax payable	-	383,742
Provision for unpaid claims and adjusting expenses	5,472,457	5,321,368
Unearned premiums	6,283,181	5,858,926
	<u>12,044,206</u>	<u>11,835,865</u>

### Equity

Policyholders' security fund, beginning of year	23,665,792	21,951,164
Net earnings	1,208,975	1,714,628
Policyholders' security fund, end of year	24,874,767	23,665,792
	<u>\$36,918,973</u>	<u>\$35,501,657</u>

See accompanying notes to the financial statements.



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SINCE 1885



**STATEMENT OF  
CASH FLOWS**  
*Year ended December 31*

	<u>2004</u>	<u>2003</u>
Increase (decrease) in cash and cash equivalents		
<b>Operating</b>		
Net earnings	\$ 1,208,975	\$ 1,714,628
Depreciation	70,112	59,284
Bond premium amortized	88,319	71,733
Gain on sale of investments	(401,494)	(633,699)
(Gain) loss on sale of equipment	(10,336)	9,519
Future income taxes	11,342	7,023
	<u>966,918</u>	<u>1,228,488</u>
 Change in non-cash operating working capital (Note 7)	 <u>808,286</u>	 <u>(260,804)</u>
	<u>1,775,204</u>	<u>967,684</u>
 <b>Investing</b>		
Purchase of property and equipment	(104,393)	(19,538)
Proceeds on disposal of bonds & equities	3,672,672	5,548,896
Purchase of bonds and equities	(5,577,933)	(6,307,651)
Proceeds on disposal of property and equipment	18,394	300
	<u>(1,991,260)</u>	<u>(777,993)</u>
 Net decrease in cash and cash equivalents	 (216,056)	 189,691
Cash and cash equivalents, beginning of year	<u>1,049,284</u>	<u>859,593</u>
Cash and cash equivalents, end of year	<u>\$ 833,228</u>	<u>\$ 1,049,284</u>

*See accompanying notes to the financial statements.*

**NOTES TO THE FINANCIAL STATEMENTS**

*December 31, 2004*

**1. Nature of operations**

The Company is incorporated without share capital under the laws of Prince Edward Island and is subject to the Prince Edward Island Insurance Act. It is licensed to write property and casualty insurance in Prince Edward Island.

**2. Summary of significant accounting policies**

**Depreciation**

Depreciation of fixed assets is recorded on the diminishing balance method at the rates indicated in Note 5.

**Unearned premiums**

The unearned premium reserve is based on the unexpired term of all policies of the Company in force as at December 31.





### **Deferred premium acquisition expenses**

Deferred premium acquisition expenses are those expenses such as agents' commissions, which relate directly to the acquisition of premiums. These expenses, to the extent that they are considered recoverable, are deferred and amortized over the terms of the related premiums.

### **Investments**

Investments in bonds and debentures are carried at amortized cost. Premiums or discounts incurred on the purchase of bonds and debentures are amortized over the remaining life of the investment. Equities are carried at cost. Gains or losses arising from the disposition of bonds and debentures sold prior to maturity are recognized at the time of sale.

### **Provision for unpaid claims and adjusting expenses**

The provision for unpaid claims represents an estimate for the full amount of all costs including investigation and the projected final settlements of reported claims and for claims incurred but not reported prior to the balance sheet date. 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 become known during the course of claims settlement. All changes in estimates are recorded as incurred claims in the current period.

### **Premium revenues**

Premiums are recognized as earned over the term of the policy on a pro rata basis.

### **Income taxes accounting policy**

The Company uses the tax liability method for determining income taxes. Under this method, future tax assets and liabilities are determined according to differences between their respective carrying amounts and tax basis. Future tax assets and liabilities are measured based on enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which these temporary differences are expected to reverse. Adjustments to these balances are recognized in earnings as they occur.

### **Reinsurance**

The Company reflects reinsurance balances on the balance sheet on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders.

### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, balances with banks and short term deposits with original maturities of one year or less.

## **3. Receivables**

	<u>2004</u>	<u>2003</u>
Policyholders for premiums	\$ 532,038	\$ 567,225
Accrued interest	440,341	407,364
Other	16,598	16,960
	<u>\$ 988,977</u>	<u>\$ 991,549</u>



#### 4. Investments

	2004		2003	
	Cost	Market Value	Cost	Market Value
Term deposits and GIC's	<u>\$1,326,138</u>	<u>\$1,326,138</u>	<u>\$1,026,138</u>	<u>\$1,026,138</u>
Bonds at par less unamortized purchase discounts and premiums				
Federal	1,411,748	1,530,820	1,926,556	2,096,202
Provincial	15,897,217	17,940,002	15,177,189	17,004,579
Municipal	2,369,340	2,565,448	2,180,485	2,329,903
Corporate	4,624,813	4,987,250	3,941,747	4,230,873
Total bonds	<u>24,303,118</u>	<u>27,023,520</u>	<u>23,225,977</u>	<u>25,661,557</u>
Equities - Canadian				
Common stock	<u>4,285,491</u>	<u>4,960,099</u>	<u>3,534,166</u>	<u>4,229,071</u>
Equities - US				
Common stock	<u>1,331,094</u>	<u>1,156,718</u>	<u>1,241,124</u>	<u>1,115,481</u>
Total	<u>\$31,245,841</u>	<u>\$34,466,475</u>	<u>\$29,027,405</u>	<u>\$32,032,247</u>

#### Bonds and term deposits - maturity profile

	Within 1 Year	1 to 5 Years	5 to 10 Years	10 to 20 Years	Book Value
Bonds	\$ 2,311,606	\$6,124,074	\$10,531,887	\$5,335,551	\$24,303,118
Term deposits	<u>206,138</u>	<u>1,120,000</u>			<u>1,326,138</u>
Total	<u>\$2,517,744</u>	<u>\$7,244,074</u>	<u>\$10,531,887</u>	<u>\$5,335,551</u>	<u>\$25,629,256</u>
Percent of total	10%	28%	41%	21%	100%

#### 5. Property and equipment

	Rate	Cost	Accumulated Depreciation	2004 Net Book Value	2003 Net Book Value
Land		\$132,097		\$132,097	\$132,097
Building	5%	452,562	\$237,095	215,467	212,783
Office equipment	20%	149,831	109,862	39,969	42,469
Computer equipment	30%, 100%	210,552	155,004	55,548	66,725
Motor vehicle	30%	120,477	63,248	57,229	19,565
Parking lot	8%	13,715	8,567	5,148	5,596
		<u>\$1,079,234</u>	<u>\$573,776</u>	<u>\$505,458</u>	<u>\$479,235</u>

#### 6. Investment income

	2004	2003
Interest from bonds and short term deposits	\$1,655,553	\$1,685,817
Dividends received	166,644	182,901
Gain on sale of investments	401,494	633,699
	<u>\$2,223,691</u>	<u>\$2,502,417</u>

#### 7. Change in non-cash operating working capital

	2004	2003
Receivables	\$ 2,572	\$ (218,406)
Prepaid expenses	(5,371)	(1,182)
Deferred premium acquisition expenses	11,091	(103,179)
Reinsurers' share of provision for unpaid claims	807,600	(508,908)
Payables and accruals	16,739	111,161
Income tax receivable/payable	(599,689)	317,632
Unpaid claims	151,089	(589,973)
Unearned premiums	424,255	732,051
	<u>\$ 808,286</u>	<u>\$ (260,804)</u>
Income taxes paid	<u>\$ 874,625</u>	<u>\$ 350,731</u>

#### 8. Reinsurance

All reinsurance is ceded and assumed from Farm Mutual Reinsurance Plan Inc., a mutual reinsurer incorporated without share capital, of which the Company is a member.

#### Reinsurance ceded

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 amount on any one property loss to \$415,000 and liability loss to \$199,000. The reinsurance contracts also limit the Company's liability on the sum of all individual losses arising out of one event to \$1,200,000. In addition, the Company has obtained reinsurance which limits the Company's overall liability on losses to a maximum of 100% of the Company's earned premium.

### **Reinsurance assumed**

The Company is participating as a reinsurer of losses from catastrophe suffered by members of the Farm Mutual Reinsurance Plan Inc. to the extent of \$150,000 for a single catastrophe loss. The Company's participation commences if a catastrophe loss exceeds \$10 million and reaches the limit of \$150,000 if the loss is \$100 million or greater.

The Company is also participating with a group of Canadian mutual insurance companies as a reinsurer of Agricorp, a crown corporation in Ontario that provides crop insurance to Ontario farmers. The Company's maximum exposure in any one year is \$150,000.

## **9. Income taxes**

Forty five percent (45%) of premiums are from farming and fishing producers. The Company is taxable on the portion of its income that is attributed to non-farming/fishing premiums.

## **10. Pensions**

The Company has a defined contribution plan providing pension, to all of its employees. The total plan expense for the Company's defined contribution plan for all of 2004 was \$67,965 (2003: \$56,581).

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### **CLAIMS MANAGER**

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**Blair Campbell**

Summerside

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### **SAFETY SURVEYOR**

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**Franklin Sanderson**

North Wiltshire

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### **AGENTS**

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**Cam Trail**

Tignish

**Jane MacLaurin**

Grand River

**Philip MacDonald**

Margate

**Myles Grady**

South Freetown

**Bruce Simpson**

Stanley Bridge

**Sandra MacDonald**

Crapaud

**Tom Kickham**

Souris

**Dave MacAdam**

Morell

**Peter Johnston**

Kinlock

**David Walsh**

Summerville

**Janice Taylor**

Gaspereaux

Now is the time to act! Oil Escapes ruin our property and our environment. By Sept 2006 all Heating Oil Tank Installations must be inspected and labeled under Provincial Regulations. There are over 45,000 tanks on PEI - Don't get caught in the rush. Contact your Oil Supplier or Independent Installer early to arrange this.

**4 draws of  
\$1,000  
remaining!**

**Draw Dates  
for 2005:**

**March 31  
June 30  
Sept 30  
Dec 31**

<b>OIL TANK CONTEST - ENTRY FORM</b>	
<b>Policyholder(s) Name:</b>	_____
<b>Phone Number:</b>	_____
<b>Policy Number:</b>	_____
<b>Oil Tank Provincial Label ID:</b>	_____
<b>Label Expiry Date:</b>	_____
<small>The Provincial ID label is a small brass tag installed on the Vent pipe. see picture =====&gt; It is not the Manufacturers tag on the Tank. If you don't have an ID Label contact your oil supplier or independent installer to arrange.</small>	



**Contest Rules:**

- The tank must service a property insured with PEI Mutual.
- Policyholders submit a valid Provincial ID Label # and Expiry.
- Maximum 1 prize per policyholder.
- Information confirmed when name is drawn.
- Get your name in early since it stays in for all draws.