



Financial Statements

Prince Edward Island Mutual Insurance Company

December 31, 2010

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Independent auditor's report

To the policyholders of
Prince Edward Island Mutual Insurance Company

We have audited the accompanying financial statements of Prince Edward Island Mutual Insurance Company, which comprise the balance sheet as at December 31, 2010, the statement of earnings, comprehensive income, equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Prince Edward Island Mutual Insurance Company as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles



February 8, 2011
Summerside, Prince Edward Island

Chartered Accountants

Prince Edward Island Mutual Insurance Company

Statement of earnings

Year Ended December 31	2010	2009
Underwriting income		
Gross premiums written	\$ 15,854,718	\$ 14,727,474
Reinsurance premiums assumed (Note 10)	9,796	10,623
Reinsurance premiums ceded (Note 10)	<u>(2,107,344)</u>	<u>(1,517,464)</u>
Net premiums written	13,757,170	13,220,633
Less: increase in unearned premium reserve	<u>717,392</u>	<u>564,956</u>
Net premiums earned	<u>13,039,778</u>	<u>12,655,677</u>
Claims and expenses		
Gross claims incurred	8,968,164	7,528,368
Adjusting, legal and appraisals	838,431	607,825
Less: reinsurance recoveries	<u>666,545</u>	<u>686,207</u>
Net claims and adjusting	9,140,050	7,449,986
Operating expenses (Page 16)	<u>5,191,210</u>	<u>4,580,864</u>
	<u>14,331,260</u>	<u>12,030,850</u>
Net underwriting (loss) income	<u>(1,291,482)</u>	<u>624,827</u>
Other income		
Net investment income (Note 8)	2,458,760	2,301,313
Gain (loss) on sale of property and equipment	1,721	(1,267)
Miscellaneous	<u>49,149</u>	<u>53,075</u>
	<u>2,509,630</u>	<u>2,353,121</u>
Earnings before special mutual rebate	1,218,148	2,977,948
Special mutual rebate	<u>-</u>	<u>(1,472,747)</u>
Earnings before income taxes	<u>1,218,148</u>	<u>1,505,201</u>
Income tax expense (recovery) (Note 12)		
Current	205,442	10,294
Future	<u>(551)</u>	<u>6,437</u>
	<u>204,891</u>	<u>16,731</u>
Net earnings	<u>\$ 1,013,257</u>	<u>\$ 1,488,470</u>

See accompanying notes to the financial statements.

Prince Edward Island Mutual Insurance Company

Statement of comprehensive income

Year Ended December 31	2010	2009
Net earnings	\$ 1,013,257	\$ 1,488,470
Other comprehensive income		
Change in unrealized gain on available for sale investments, net of taxes	<u>747,365</u>	<u>1,142,692</u>
Total comprehensive income	<u>\$ 1,760,622</u>	<u>\$ 2,631,162</u>

See accompanying notes to the financial statements.

Prince Edward Island Mutual Insurance Company

Statement of equity

December 31	2010	2009
Policyholders' security fund, beginning of year	\$ 33,694,104	\$ 32,205,634
Net earnings	<u>1,013,257</u>	<u>1,488,470</u>
Policyholders' security fund, end of year	<u>34,707,361</u>	<u>33,694,104</u>
Accumulated other comprehensive income (loss), beginning of year	<u>210,278</u>	<u>(932,414)</u>
Other comprehensive income	<u>903,815</u>	<u>1,389,629</u>
Provision for income tax expense	<u>156,450</u>	<u>246,937</u>
Other comprehensive income, net of taxes (Page 3)	<u>747,365</u>	<u>1,142,692</u>
Accumulated other comprehensive income, end of year	<u>957,643</u>	<u>210,278</u>
Total equity	<u>\$ 35,665,004</u>	<u>\$ 33,904,382</u>

See accompanying notes to the financial statements.

Prince Edward Island Mutual Insurance Company

Balance sheet

December 31

2010

2009

Assets

Current

Cash and short term deposits	\$ 2,059,793	\$ 1,844,050
Receivables (Note 4)	1,536,455	1,298,269
Income tax receivable	84,402	-
Prepaid items	46,629	13,138
Deferred premium acquisition expenses	1,117,512	1,017,985
Re-insurers' share of reserve for unpaid claims and adjustment expenses	<u>1,756,503</u>	<u>1,327,787</u>
	6,601,294	5,501,229
Investments (Note 5)	46,716,955	45,302,381
Property and equipment (Note 7)	592,861	584,859
Future income taxes	<u>11,483</u>	<u>10,932</u>
	\$ <u>53,922,593</u>	\$ <u>51,399,401</u>

Liabilities

Current

Payables and accruals	\$ 614,852	\$ 419,117
Income taxes payable	-	439,593
Special mutual rebate payable (Note 11)	-	1,472,747
Reserve for unpaid claims	8,579,862	6,818,079
Unearned premium reserve	<u>9,062,875</u>	<u>8,345,483</u>
	18,257,589	17,495,019

Equity

Policyholders' security fund (Page 4)	34,707,361	33,694,104
Accumulated other comprehensive income (Page 4)	<u>957,643</u>	<u>210,278</u>
	35,665,004	33,904,382
	\$ <u>53,922,593</u>	\$ <u>51,399,401</u>

On behalf of the Board

_____ Director

_____ Director

Prince Edward Island Mutual Insurance Company

Statement of cash flows

Year Ended December 31

2010

2009

Increase (decrease) in cash and cash equivalents

Operating		
Net earnings	\$ 1,013,257	\$ 1,488,470
Depreciation	94,741	71,069
Bond premium amortized	175,880	153,001
Gain on sale of investments	(166,325)	(9,871)
(Gain) loss on sale of equipment	(1,721)	1,267
Future income taxes (recovery)	(551)	6,437
	<u>1,115,281</u>	<u>1,710,373</u>
Income tax provision - comprehensive loss	(156,450)	(246,937)
Change in non-cash operating working capital (Note 9)	(121,752)	3,045,161
	<u>837,079</u>	<u>4,508,597</u>
Investing		
Purchase of property and equipment	(122,966)	(67,997)
Proceeds on disposal of bonds and equities	3,316,410	3,717,312
Purchase of bonds and equities	(3,836,725)	(6,638,931)
Proceeds on disposal of property and equipment	21,945	-
	<u>(621,336)</u>	<u>(2,989,616)</u>
Net increase in cash and cash equivalents	215,743	1,518,981
Cash and cash equivalents, beginning of year	<u>1,844,050</u>	<u>325,069</u>
Cash and cash equivalents, end of year	<u>\$ 2,059,793</u>	<u>\$ 1,844,050</u>

See accompanying notes to the financial statements.

Prince Edward Island Mutual Insurance Company

Notes to the financial statements

December 31, 2010

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 7.

Unearned premium reserve

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.

Reserve 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

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.

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.

Prince Edward Island Mutual Insurance Company

Notes to the financial statements

December 31, 2010

2. Summary of significant accounting policies (cont'd)

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.

Use of estimates

In preparing the Company's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 estimates used in these financial statements.

Financial instruments

The Company's financial assets are classified as held for trading (HFT), held to maturity (HTM), available for sale (AFS), or loans and receivables (L&R). Financial liabilities are classified as HFT or other financial liabilities (OFL). Financial assets and liabilities are initially recognized at fair value with subsequent measurement based on classification. The classification depends on the purpose for which the financial instruments were acquired, their characteristics and choice where applicable.

All financial instruments, including derivatives, are measured at fair value except for L&R, HTM and OFL which are measured at amortized cost using the effective interest method. Unrealized gains and losses on available for sale investments are recognized in other comprehensive income until the financial asset is derecognized or other than temporarily impaired, at which time any unrealized gains or losses are recorded in net earnings.

Accumulated other comprehensive income is included in the balance sheet as a separate component of equity (net of income tax) and includes net unrealized gains or losses on available for sale assets.

Fair values are based on quoted market values where available from active markets, otherwise fair values are estimated using a variety of valuation techniques and models.

The Company has classified its financial assets and liabilities as follows:

Cash and cash equivalents - as held for trading; Receivables - as loans and receivables, which are measured at amortized cost; Bonds, term deposits and guaranteed investment certificate financial instruments - as held to maturity; Equity financial instruments - as available for sale; Accounts payable and accrued liabilities, refund due to policyholders, amounts due to reinsurers and other insurance companies - as other financial liabilities, which are measured at amortized cost.

Prince Edward Island Mutual Insurance Company

Notes to the financial statements

December 31, 2010

2. Summary of significant accounting policies (cont'd)

Fair values

The estimated fair values of financial instruments are intended to approximate values at which these instruments could be exchanged in a current market.

No fair values have been determined for property and equipment, or any other asset or liability that is not a financial instrument. The fair values of cash and cash equivalents, receivables, and payables and accruals are assumed to approximate their carrying values due to the short term nature of these financial instruments.

Transaction costs

Transaction costs relating to the purchase of available for sale assets are capitalized to the cost.

3. Future changes in accounting policies

International Financial Reporting Standards (IFRS)

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. Developments relating to existing standards and new standards are being monitored to assess the impact on the Conversion Plan. The Company's transition status is currently on track with their implementation schedule.

4. Receivables

	<u>2010</u>	<u>2009</u>
Policyholders for premiums	\$ 1,066,485	\$ 831,482
Accrued interest	465,918	465,607
Other	<u>4,052</u>	<u>1,180</u>
	<u>\$ 1,536,455</u>	<u>\$ 1,298,269</u>

Prince Edward Island Mutual Insurance Company

Notes to the financial statements

December 31, 2010

5. Investments - carrying value	2010	2009
Held to maturity, investments at cost	\$ 38,245,270	\$ 37,097,485
Available for sale, investments at fair value	<u>8,471,685</u>	<u>8,204,896</u>
	\$ 46,716,955	\$ 45,302,381

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Held to maturity - investments				
Term deposits and GIC's	\$ 1,020,000	\$ 1,020,000	\$ 1,380,000	\$ 1,380,000
Bonds at par less unamortized purchase discounts and premiums				
Federal	487,118	521,661	586,362	615,768
Provincial	15,101,939	16,881,570	15,759,438	17,432,850
Municipal	11,141,032	11,958,415	9,097,430	9,406,282
Corporate	10,495,181	11,035,058	10,274,255	10,645,192
Total bonds	<u>37,225,270</u>	<u>40,396,704</u>	<u>35,717,485</u>	<u>38,100,092</u>
Total held to maturity investments	\$ 38,245,270	\$ 41,416,704	\$ 37,097,485	\$ 39,480,092
Available for sale - investments				
Equities - Canadian				
Common stock	\$ 5,197,782	\$ 6,298,165	\$ 5,734,292	\$ 6,151,438
Equities - US				
Common stock	1,782,170	1,799,094	1,843,014	1,720,165
Farm Mutual Pooled Funds	<u>382,758</u>	<u>374,426</u>	<u>422,430</u>	<u>333,293</u>
Total available for sale investments	\$ 7,362,710	\$ 8,471,685	\$ 7,999,736	\$ 8,204,896

Held to maturity investments - maturity profile

	<u>Within 1 Year</u>	<u>1 to 5 Years</u>	<u>5 to 10 Years</u>	<u>10 to 20 Years</u>	<u>Total</u>
Bonds	\$ 2,255,000	\$ 10,128,404	\$ 13,287,013	\$ 11,554,853	\$ 37,225,270
Term deposits	<u>240,000</u>	<u>780,000</u>	<u>-</u>	<u>-</u>	<u>1,020,000</u>
Total	\$ 2,495,000	\$ 10,908,404	\$ 13,287,013	\$ 11,554,853	\$ 38,245,270
Percent of total	<u>7%</u>	<u>28%</u>	<u>35%</u>	<u>30%</u>	<u>100%</u>

The maximum exposure to credit risk would be the carrying value as shown above.

Prince Edward Island Mutual Insurance Company

Notes to the financial statements

December 31, 2010

6. Fair value measurement

In compliance with CICA Handbook Section 3862, the Company has categorized its assets and liabilities that are carried at fair value on a recurring basis, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Financial assets and liabilities measured at fair value are categorized as follows:

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

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

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 2,059,793	-	-	\$ 2,059,793
Farm Mutual pooled funds				
-Canadian fixed income	-	\$ 151,190	-	151,190
-Canadian equity	-	223,236	-	223,236
Equity investments				
-Canadian	6,298,165	-	-	6,298,165
-US	1,799,094	-	-	1,799,094
	<u>\$ 10,157,052</u>	<u>\$ 374,426</u>	<u>\$ -</u>	<u>\$ 10,531,478</u>

7. Property and equipment

				<u>2010</u>	<u>2009</u>
	<u>Rate</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Land		\$ 132,097	-	\$ 132,097	\$ 132,097
Building	5%	579,549	\$ 311,785	267,764	281,857
Office equipment	20%	228,771	173,624	55,147	68,477
Computer equipment	30%, 45%	172,242	137,687	34,555	27,767
Motor vehicle	30%	196,711	106,690	90,021	60,230
Parking lot	8%	25,711	12,434	13,277	14,431
		<u>\$ 1,335,081</u>	<u>\$ 742,220</u>	<u>\$ 592,861</u>	<u>\$ 584,859</u>

Prince Edward Island Mutual Insurance Company

Notes to the financial statements

December 31, 2010

8. Investment income	<u>2010</u>	<u>2009</u>
Interest from bonds and short term deposits	\$ 2,044,016	\$ 1,926,836
Dividend income	248,419	364,606
Gain on sale of investments	<u>166,325</u>	<u>9,871</u>
	<u>\$ 2,458,760</u>	<u>\$ 2,301,313</u>

Gain on sale of investments is net of equity write-downs in the amount of \$96,000 (2009 – \$162,000).

9. Change in non-cash operating working capital	<u>2010</u>	<u>2009</u>
Receivables	\$ (238,186)	\$ (30,730)
Prepaid expenses	(33,491)	22,165
Deferred premium acquisition expenses	(99,527)	(68,630)
Re-insurers' share of reserve for unpaid claims	(428,716)	(98,631)
Payables and accruals	195,735	117,956
Income taxes	(523,995)	837,603
Refund from surplus payable	(1,472,747)	1,472,747
Unpaid claims	1,761,783	227,725
Unearned premiums	<u>717,392</u>	<u>564,956</u>
	<u>\$ (121,752)</u>	<u>\$ 3,045,161</u>
Income taxes paid	<u>\$ 885,887</u>	<u>\$ 9,103</u>

10. 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 \$460,000 or liability loss to \$221,500. 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 plus 5% co-insurance. In addition, the Company has obtained reinsurance which limits the Company's overall liability on property losses and liability losses to a maximum of 80% and 100% respectively, of the Company's earned premium.

Reinsurance assumed

The Company is participating as a re-insurer of losses from catastrophe suffered by members of the Farm Mutual Reinsurance Plan Inc. to the extent of \$250,000 for a single catastrophe loss. The Company's participation commences if a catastrophe loss exceeds \$15 million and reaches the limit of \$250,000 if the loss is \$140 million or greater.

Prince Edward Island Mutual Insurance Company

Notes to the financial statements

December 31, 2010

11. Special mutual rebate

The Board of Directors declared a Special Mutual Rebate in December 2009, payable to all policyholders with policies in force on December 31, 2009, at a rate of 10% of gross written premiums on December 31, 2009. This rebate was paid out to all qualifying policyholders in April of 2010.

12. Income taxes

Thirty-eight percent (38%) 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.

During 2009, Canada Revenue Agency reassessed the Company's corporate income tax returns for the taxation years 2005, 2006 and 2007. The result was a tax refund in the amount of \$191,465, which has been included as a credit against 2009 provision for current income taxes.

13. Pensions

The Company has a defined contribution plan providing pension benefits to eligible employees. The total plan expense for the Company's defined contribution plan for all of 2010 was \$173,836 (2009 - \$134,826).

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 the Company's exposure to \$1.2 million plus 5% of the remaining loss. The \$1.2 million net retained amount represents approximately 3.4% of Company's capital. For the purpose of capital management, the Company has defined capital as policyholders' security fund, excluding accumulated other comprehensive income (loss).

Section 317.(1) of the Insurance Act of Prince Edward Island requires insurers to maintain a reserve fund equal to the sum of \$500 for every \$100,000 of the first \$1 million of insurance in force, and \$3,000 for each additional \$1 million or part thereof insurance in force. The Company's reserve fund as at December 31, 2010 was 1.7 times that, which is required by S317.(1) of the Insurance Act.

Prince Edward Island Mutual Insurance Company

Notes to the financial statements

December 31, 2010

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 includes guidelines on the bond portfolio relating to portfolio composition, issuer type, bond quality ratings (at time of acquisition - rated as "A" or better) and general guidelines for geographic exposure. All fixed income portfolios are 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 credit risk and concentration of this risk is outlined in Note 5.

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. 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.

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 25% in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when out of balance with investment policy. A 1% change in the value of the United States dollar would affect the fair value of stocks by \$17,991 which would be reflected in net income or OCI.

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

Prince Edward Island Mutual Insurance Company

Notes to the financial statements

December 31, 2010

15. Financial instrument risk management (cont'd)

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 not exposed to this risk as its interest bearing investments are being held to maturity.

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 and United States stocks with fair values that move with the S&P 500 Index. 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 Canadian common and United States common of \$808,000. 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 (losses) in income during the period.

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. 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. There are no 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 or policies procedures and methods used to measure the risk.

Prince Edward Island Mutual Insurance Company

Schedule of expenses

Year Ended December 31	2010	2009
Advertising	\$ 355,898	\$ 122,051
Canada pension plan	87,968	82,935
Conventions, courses and travel	113,267	74,533
Depreciation	65,320	63,281
Directors fee	210,028	199,463
Donations	95,533	111,033
Employment insurance	40,689	38,119
Fire prevention tax	158,547	147,275
Group insurance	131,891	119,517
Loss prevention	123,336	128,140
Office supplies	125,746	102,123
Other administration costs	234,191	206,121
Postage	127,898	123,676
Premium acquisition expenses	1,855,464	1,727,872
Professional fees	35,304	23,807
Salaries	1,335,655	1,215,992
Taxes, dues and licences	36,184	37,434
Telephone	58,291	57,492
	<u>\$ 5,191,210</u>	<u>\$ 4,580,864</u>