

2010

Annual Report



Report to Policyholders

On behalf of the Board of Directors, I present to you the Policyholders of West Elgin Mutual Insurance Company, the 2010 Annual Report and Financial Statement.

Premium volume for your company has increased by over 9% this year. We also experienced a larger than normal number of fire losses which, along with other claims, has produced a small underwriting loss. Our investment income improved again this year to help us show an increase in policy holder surplus. That surplus now exceeds \$17.5 million. We continue to have a solid Minimum Capital Test which proves us to be a strong company. We are also part of Fire Mutual Guarantee Fund which increases our protection supported by all Farm Mutual's in Ontario. Our Reinsurance is placed exclusively with Farm Mutual Reinsurance Plan Inc.

This year we completed a thorough review of our corporate by-laws. We have chosen to drop geographic representation in favour of all Directors being elected at large. We have brought our titles in line with the business community. I was elected as President of the Board and when the by-laws are ratified the new title will be Chairman of the Board. Our Manager will assume the title of President.

It has been a pleasure to work with the Board of Directors, Staff and Agents this year. It takes all working together to make the business run so smoothly to serve you, the policyholders.

I would like, on behalf of the Company, to invite you all to attend our annual meeting on Wednesday March 9th at 2:00pm in Dutton.



Ken McCallum

President (Chairman) of the Board

WEST ELGIN MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2010

WEST ELGIN MUTUAL INSURANCE COMPANY

DECEMBER 31, 2010

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AUDITORS' REPORT

PARTNERS
JAMES D. KEARNEY, C.A.
STEPHEN J. OUTRIDGE, C.A.
KEVIN M. SABOURIN, C.A.

To the Policyholders of
West Elgin Mutual Insurance Company

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

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.

Auditors' 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 auditors' 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 entity'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 entity'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 West Elgin Mutual Insurance Company as at December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Bailey Kearney Ferguson LLP

January 20, 2011

Chartered Accountants
Licensed Public Accountants



WEST ELGIN MUTUAL INSURANCE COMPANY
(Incorporated under the Laws of Ontario)



CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2010

ASSETS	2010	2009
CURRENT		
Cash (Note 3)	\$ 951,665	\$ 1,650,268
Receivables (Note 4)	2,155,645	2,049,440
Investments (Note 5)	23,281,202	21,658,471
Deferred policy acquisition costs and other prepaids	541,494	436,248
Income taxes recoverable	39,771	25,038
Reinsurance recoverable	9,322,263	10,062,625
	36,292,040	35,882,090
INVESTMENT IN RELATED PARTY (Note 6)	1	1
CAPITAL ASSETS (Note 7)	992,450	1,041,920
FUTURE INCOME TAXES	75,000	110,000
	\$ 37,359,491	\$ 37,034,011

LIABILITIES	2010	2009
CURRENT		
Accounts payable and accrued liabilities	\$ 408,888	\$ 1,235,095
Gross provision for unpaid claims	14,987,860	15,698,974
Unearned premiums	4,389,283	4,051,572
Current portion of long-term debt	9,600	9,600
	19,795,631	20,995,241
LONG-TERM DEBT (Note 8)	4,803	14,405
POLICYHOLDERS' EQUITY		
POLICYHOLDERS' SURPLUS	17,420,353	16,748,377
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	138,704	(724,012)
	17,559,057	16,024,365
	\$ 37,359,491	\$ 37,034,011

APPROVED ON BEHALF OF THE BOARD


 _____ Tom Oegema, DIRECTOR

 _____ Norman Miller, DIRECTOR

The accompanying notes are an integral part of these financial statements.

WEST ELGIN MUTUAL INSURANCE COMPANY

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
GROSS INSURANCE PREMIUMS WRITTEN	\$ 9,512,682	\$ 8,664,513
REINSURANCE PREMIUMS	2,213,894	1,867,601
NET PREMIUMS WRITTEN	7,298,788	6,796,912
INCREASE IN PROVISION FOR UNEARNED PREMIUMS	338,208	279,268
NET PREMIUMS EARNED	6,960,580	6,517,644
SERVICE REVENUE	127,976	114,897
TOTAL UNDERWRITING REVENUE	7,088,556	6,632,541
CLAIMS AND EXPENSES INCURRED		
Net claims and adjustment expense	4,321,400	3,404,362
Net commissions	1,093,133	1,007,337
Premium tax	19,251	17,812
General	1,768,957	1,516,546
	7,202,741	5,946,057
UNDERWRITING GAIN (LOSS)	(114,185)	686,484
INVESTMENT INCOME	600,508	728,559
EARNINGS BEFORE UNUSUAL ITEM AND INCOME TAXES	486,323	1,415,043
UNUSUAL ITEM (Note 16)	-	(750,000)
EARNINGS BEFORE INCOME TAXES	486,323	665,043
PROVISION FOR (RECOVERY OF) INCOME TAXES		
Current	(220,653)	115,000
Future	35,000	(10,000)
	(185,653)	105,000
NET EARNINGS FOR THE YEAR	\$ 671,976	\$ 560,043

The accompanying notes are an integral part of these financial statements.

WEST ELGIN MUTUAL INSURANCE COMPANY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
NET EARNINGS FOR THE YEAR	\$ 671,976	\$ 560,043
OTHER COMPREHENSIVE INCOME		
Unrealized gain on available-for-sale securities	987,973	1,359,848
Reallocation to income of realized gain on available-for-sale securities	215,742	9,661
Related income tax effect	(340,999)	(245,000)
	862,716	1,124,509
COMPREHENSIVE INCOME FOR THE YEAR	\$ 1,534,692	\$ 1,684,552

CONSOLIDATED STATEMENT OF POLICYHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
POLICYHOLDERS' SURPLUS		
Balance, beginning of the year	\$ 16,748,377	\$ 16,188,334
Net earnings	671,976	560,043
Balance, end of the year	17,420,353	16,748,377
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of the year	(724,012)	(1,848,521)
Other comprehensive income for the year	862,716	1,124,509
Balance, end of the year	138,704	(724,012)
POLICYHOLDERS' EQUITY, end of the year	\$ 17,559,057	\$ 16,024,365

The accompanying notes are an integral part of these financial statements.

WEST ELGIN MUTUAL INSURANCE COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
OPERATING ACTIVITIES		
Net earnings for the year	\$ 671,976	\$ 560,043
Items not requiring cash		
Amortization	88,916	86,128
Future income taxes	35,000	(10,000)
Amortization of premium on bonds	48,309	43,634
Realized loss on disposal of investments	292,184	26,933
Income taxes related to Other Comprehensive Income	(340,999)	(245,000)
	795,386	461,738
Net change in non-cash working capital balances		
Receivables	(106,205)	305,009
Deferred policy acquisition costs and other prepaids	(105,246)	(31,754)
Income taxes recoverable	(14,733)	697,631
Reinsurance recoverable	740,362	1,754,286
Accounts payable and accrued liabilities	(826,207)	731,491
Gross provision for unpaid claims	(711,114)	(2,402,200)
Unearned premiums	337,711	279,268
Cash provided by operating activities	109,954	1,795,469
INVESTING ACTIVITIES		
Net increase in investments	(759,509)	(858,025)
Additions to capital assets	(39,446)	(155,371)
Cash used in investing activities	(798,955)	(1,013,396)
FINANCING ACTIVITIES		
Proceeds of long-term debt	-	28,805
Repayment of long-term debt	(9,602)	(4,800)
Cash provided by (used in) financing activities	(9,602)	24,005
INCREASE (DECREASE) IN CASH, during the year	(698,603)	806,078
CASH, beginning of the year	1,650,268	844,190
CASH, end of the year	\$ 951,665	\$ 1,650,268

During the year the company paid (recovered) income taxes in the amount of \$23,497 (2009 - \$(335,216)).

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

NATURE OF BUSINESS

The company is incorporated without share capital under the laws of Ontario as a mutual insurance company. The 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF CONSOLIDATION

The consolidated financial statements reflect the operations of the company and its wholly owned subsidiary, Lake Erie Insurance Brokers Limited.

(b) PREMIUMS EARNED AND DEFERRED POLICY ACQUISITION COSTS

Insurance premiums are included in income on a pro rata basis over the life of the policies. Acquisition costs (commissions) related to unearned premiums are deferred and amortized to income over the periods in which the premiums are earned.

(c) PROVISION FOR UNPAID CLAIMS

The provision for unpaid claims represents an estimate for the full amount of all costs including investigation and the projected final settlements of claims incurred 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.

(d) REINSURANCE CEDED

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. Unearned premiums on business ceded and estimates of amounts recoverable from the reinsurer on unpaid claims and adjustment expenses are recorded as deductions from unearned premiums and the provision for unpaid claims respectively. 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.

(e) INCOME TAXES

The company follows the liability method of accounting for income taxes. Under this method, future income taxes assets are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the enacted and substantively enacted income tax rates for the years in which the differences are expected to reverse.

The company is responsible for income taxes on the portion of its income that relates to non-farm business.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(f) USE OF ESTIMATES**

The preparation of financial statements in conformity with Canadian 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

(g) CAPITAL ASSETS

Capital assets are stated at cost less accumulated amortization. Amortization is provided using the straight-line method at rates reflecting the useful lives of the assets as follows:

Parking lot	20 years
Buildings	20 years
Computer	5 years
Office equipment	5 years
Automobile	5 years
Generator system	20 years

(h) FINANCIAL INSTRUMENTS

The company recognizes and measures financial assets and financial liabilities on the balance sheet when they become a party to the contractual provisions of a financial instrument. All transactions related to financial instruments are recorded on a settlement date basis. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, loans and receivables, available for sale, held to maturity or other financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable repayment dates, usually with interest, that are not debt securities or instruments classified as held-for-trading on initial recognition. Receivables, income taxes recoverable and due from reinsurers have been classified as loans and receivables. These instruments are initially recognized at fair value. Direct and incremental transaction costs are expensed immediately. They are subsequently valued at amortized cost using the effective interest method less any provision for impairment.

AVAILABLE FOR SALE

Available for sale assets are non-derivative financial assets that are designated as available for sale or are not categorized into any of the other categories described above. Investments in equity instruments and debt securities have been classified as available for sale. They are initially recognized at fair value. Direct and incremental transaction costs are expensed immediately. They are subsequently held at fair value with gains and losses arising from changes in fair value being recognized in other comprehensive income in the Statement of Comprehensive Income when they have a quoted market price in an active market. Where a decline in the 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. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost less any provision for impairment.

HELD TO MATURITY

Held to Maturity investments are classified as such because the company has the positive intent and ability to hold the securities until maturity. Debt securities issued by local municipalities have been classified as held to maturity. These investments are recorded at amortized cost. Where it is determined that there is an impairment in value that is other than temporary, the impairment is recognized in net income.

OTHER FINANCIAL LIABILITIES

Other financial liabilities are non-derivative financial liabilities and include accounts payable and accruals. These instruments are initially recognized at fair value. Direct and incremental transaction costs are expensed immediately. They are subsequently measured at amortized cost using the effective interest method.

FAIR VALUE

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act.

The estimated fair value of bonds and debentures and pooled funds are based on quoted market values. The estimated fair value of equities are determined using last bid price.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

2. CHANGE IN ACCOUNTING POLICIES

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments - Disclosure and Presentation. Section 3863 carried forward unchanged the presentation requirements of Section 3861 while Section 3862 requires enhanced financial instrument disclosures focusing on disclosures related to the nature and extent of risks arising from financial instruments and how the entity manages those risks. During 2009, Section 3862 was amended to require enhanced disclosures about the relative reliability of the data used to measure the fair values of its financial instruments.

FUTURE ACCOUNTING CHANGES

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Accounting Standards Board has confirmed that all publicly accountable enterprises will have to comply with IFRS for fiscal years beginning on or after January 1, 2011. We understand there to be differences between current Canadian GAAP and IFRS. The company has completed its plan which sought to address all differences that could potentially impact the company. The company does not believe these differences will have a significant impact on the reported financial position or operating results of the company.

3. CASH

The company's accounts are held at one Canadian chartered bank and one of its investment subsidiaries.

4. RECEIVABLES

	2010	2009
Other receivables	\$ 2,073,872	\$ 1,966,226
Accrued investment income	81,773	83,214
	\$ 2,155,645	\$ 2,049,440

Included in other receivables is \$286,936 (2009 - \$326,297) due from Facility Association. The company is contingently liable for any future requests to pay additional amounts to the Facility.

WEST ELGIN MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

5. INVESTMENTS

The carrying value of bonds and equities by issuer and industry sector as at December 31 is shown in the following table. The carrying values are equal to their fair values.

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Available for Sale				
Interest bearing investments				
Bonds issued by - Federal	\$ 1,219,752	\$ 1,214,108	\$ 638,857	\$ 619,845
- Provincial	2,971,608	3,096,304	2,818,489	2,898,400
- Municipal	154,820	159,558	157,337	162,567
- Corporate A or better	4,179,025	4,350,852	4,562,220	4,723,789
Pooled funds - Fixed Income	6,524,104	6,468,657	6,082,869	6,028,404
	15,049,309	15,289,479	14,259,772	14,433,005
Equity investments				
Canadian common	2,176,738	2,354,377	2,043,146	2,017,808
U.S. equities	-	-	206,057	160,370
Pooled funds - Canadian Equity	4,194,991	3,929,761	4,193,955	3,386,602
Other	550,850	560,423	852,437	516,569
	6,922,579	6,844,561	7,295,595	6,081,349
Other investments				
Canada Treasury Bills	581,534	582,087	159,452	159,453
Bankers acceptances	-	-	267,391	267,391
Fire Mutuals Guarantee Fund	22,775	22,775	21,998	21,998
	604,309	604,862	448,841	448,842
Total	\$ 22,576,197	\$ 22,738,902	\$ 22,004,208	\$ 20,963,196

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Held to Maturity				
Bonds issued by:				
Local Municipalities	\$ 542,300	\$ 591,915	\$ 695,275	\$ 745,963

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

WEST ELGIN MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

5. INVESTMENTS (continued)

Bonds - maturity profile

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Maturing within one year	\$ 828,400	\$ 834,061	\$ 1,018,909	\$ 1,053,177
Maturing between one and five years	2,702,398	2,850,959	2,736,641	2,871,894
Maturing over five years	5,536,707	5,727,717	5,116,628	5,225,493
	\$ 9,067,505	\$ 9,412,737	\$ 8,872,178	\$ 9,150,564

Fair Value

The company uses the services of their investment custodians to obtain estimated fair values of securities in its investment portfolio. The company employs a fair value hierarchy to categorize the inputs it uses in valuation techniques to measure the fair value 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.

	Level 1	Level 2	Level 3	Total
Interest bearing investments	\$ -	\$ 9,412,737	\$ -	\$ 9,412,737
Equity investments	2,914,800	-	-	2,914,800
Pooled Funds	3,929,761	6,468,657	-	10,398,418
Other	582,087	22,775	-	604,862
Total Investments at Fair Value	\$ 7,426,648	\$ 15,904,169	\$ -	\$ 23,330,817

6. INVESTMENT IN RELATED PARTY

The company holds equity investments as follows:

	2010	2009
Mutual Concept Computer Group Inc.	\$ 1	\$ 1

Mutual Concept Computer Group Inc. was organized for the purpose of developing computer software for use by its shareholders and other farm mutuals. West Elgin Mutual Insurance Company holds a 2.6% interest in the company.

WEST ELGIN MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

7. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net 2010	Net 2009
Land	\$ 282,370	\$ -	\$ 282,370	\$ 282,370
Parking lot	50,265	3,143	47,122	49,635
Buildings	1,181,050	659,486	521,564	555,458
Computer	428,561	376,793	51,768	68,469
Office equipment	354,455	327,555	26,900	41,984
Automobile	58,777	12,390	46,387	25,925
Generator system	34,754	18,415	16,339	18,079
	\$ 2,390,232	\$ 1,397,782	\$ 992,450	\$ 1,041,920

Amortization in the amount of \$79,406 (2009 - \$83,248) is included in general expenses and \$9,510 (2009 - \$2,880) is included in net claims and adjustment expense on the consolidated statement of income.

8. LONG-TERM DEBT

Long-term debt is comprised of the following:

	2010	2009
Non-interest bearing finance contract repayable \$800 monthly, maturing in June, 2012	\$ 14,403	\$ 24,005
Less: Amount due within one year	9,600	9,600
	\$ 4,803	\$ 14,405

The finance contract is secured by the asset acquired with the proceeds.

Principal payments required on long-term debt during the next two years are estimated to be as follows using the repayment terms as they exist at the date of these financial statements:

2011	\$ 9,600
2012	\$ 4,803

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

9. REINSURANCE

The company follows the policy of underwriting and reinsuring contracts of insurance which limit the liability of the company to a maximum amount on any one claim as follows:

PROPERTY CLAIMS

First \$250,000 (2009 - \$250,000) plus 10% of any excess to \$1,000,000 (2009 - \$1,000,000).

AUTOMOBILE

First \$200,000 (2009 - \$150,000) plus 10% of any excess to \$1,000,000 (2009 - \$1,000,000).

LIABILITY

First \$125,000 (2009 - \$100,000) plus 10% of any excess to \$1,000,000 (2009 - \$1,000,000).

In addition, the company has stop-loss and catastrophe coverages. The applicability of these contracts is dependent on the amount of certain classes of losses in any given year in relation to premium income. The company co-insures certain portions of this excess coverage to a maximum of 10%.

10. PENSION PLAN

The company makes contributions to the Ontario Mutual Insurance Association Pension Plan, which is a multi-employer plan, on behalf of its staff. The plan is a money purchase, with a defined benefit option at retirement which specifies the amount of the retirement benefit to be received by the employees based on length of service and rates of pay. As of January 1, 2004, the company pooled together its pension plan with other mutual insurance companies in Ontario.

A triennial actuarial report was completed as of December 31, 2009. Contributions to the plan for 2010 amounted to \$251,541 (2009 - \$50,988) and includes a top-up payment of \$195,871.

The company also has a defined contribution pension plan for its agents. The total plan expense in 2010 for the company's defined contribution plan is \$30,792 (2009 - \$27,712).

11. INCOME TAXES

The company is liable for income taxes on the proportion of its income related to non-farm insurance. During 2010, 66.2% (2009 - 63.8%) of its revenue was generated from non-farm activities.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

12. GOVERNMENT REGULATION OF AUTOMOBILE INSURANCE

The company's generation of revenue from underwriting automobile risks is impacted by the regulation of automobile premium rates by the provincial government. Such regulation requires that the company file any changes in premium rates proposed for use in Ontario with the Financial Services Commission of Ontario.

Provincial government rate regulatory approval processes can result in the prescription of premium rates other than those the company deems appropriate for the risks to be underwritten. The company's exposure to such prescribed rates is increased in Ontario where the company is required to accept all risks presented to it under so called "all comers rules".

The company is also required by regulation to assume a share of automobile insurance underwritten through the Facility Association, which operates insurance pools in several provinces, and through Plan de repartition des risques du Groupement des assureurs automobiles, which operates an insurance pool in Quebec. Such pools are designed to insure higher risk drivers that might otherwise be unable to obtain insurance. The company's share of pool premiums and costs are generally determined in relation to its share of total automobile premiums written by all insurers in Ontario. Pool premium rates are regulated by provincial governments.

The company's claims costs are influenced by governments to the extent they pass legislation or regulations that specify the nature and extent of benefits and other requirements that impact claims costs and the settlement process.

The company's gross written automobile insurance premiums are \$4,673,389 (2009 - \$4,243,839), which are subject to rate regulation. The extent to which gross premiums written would have differed in the absence of regulation is not determinable.

Amounts related to premiums subject to rate regulation are accounted for in these financial statements in the same manner as amounts related to other premiums.

13. 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 West Elgin Mutual Insurance Company's exposure to \$750,000 plus 5% of the remaining loss. The \$750,000 net retained amount represents approximately 4.3% (2009 - 4.5%) of the company's capital. For the purpose of capital management, the company has defined capital as policyholders' equity excluding 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 regulator has the authority to request more extensive reporting and can place restrictions on the company's operations if deemed necessary. The MCT for the company at December 31, 2010 was 682% (2009 - 691%).

DECEMBER 31, 2010

14. FINANCIAL INSTRUMENT RISK MANAGEMENT

CREDIT RISK

Credit risk is the risk of financial loss to the company if a debtor fails 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, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio remains very high quality with 98% 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 FMRP, a provincially regulated 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 their risk is outlined in note 4.

There have been no significant changes from the previous year 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 with the preservation of capital being the primary objective. The Policy limits the investment in any one corporate issuer to a maximum of 3% of the bond portfolio or \$300,000 for bonds rated 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 investment policy does not permit investment in bonds denominated in a foreign currency. 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 \$nil (2009 - \$1,600) which would be reflected in other comprehensive income.

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

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

14. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)**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 (T-bills, GICs, Bonds, BAs).

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 and policies and procedures for managing interest rate risk is to diversify the bond portfolio in such a way that the average term to maturity of the bond portfolio is in a range from 4.6 to 7.6 years. This protects the company from fluctuations in the interest rates.

At December 31, 2010, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by \$862,000 (2009 - \$799,000). 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 year.

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

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 equities with fair values that move with the Toronto Stock Exchange Composite Index and United States equities with fair values that move with the S&P 500 index. A 10% movement in the equity 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 \$695,000 (2009 - \$608,000). For equities that the company did not sell during the year, the change would be recognized in the asset value and in other comprehensive income. For equities that the company did sell during the year, the change during the year and changes prior to the year would be recognized as net realized gains in income during the year.

The company limits the total percentage of equities as part of the investment portfolio to a maximum of 25% with a target of 15%. The company also limits the amount invested in an individual equity to 10% of the stock portfolio. The company only invests in equities which are contained in the S&P/TSX 60.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

14. 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. Our current liabilities arise as claims are made. We do not have material liabilities that can be called unexpectedly at the demand of a lender or client. We have 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 year in the exposure to risk or policies, procedures and methods used to measure the risk.

15. CONTINGENCIES

Pursuant to an agreement effective January 1, 1976, the company is a member of the Fire Mutuals Guarantee Fund ("the fund"). The fund was established to provide payment of outstanding policyholders' claims if a member company becomes insolvent. As a result, the company may be required to contribute assets to their proportionate share in meeting this objective.

16. UNUSUAL ITEM

During the year the company participated in a settlement relating to legal actions, which had been commenced in 2009, that had named the company and certain of its officers and directors as defendants. The settlement resolves the litigation relating to the matter and was concluded out of court without admission of liability. The settlement amount was equal to the amount previously recorded in the 2009 financial results. The estimated cost of the action had been recorded under investment income (loss) in the 2009 financial statements but has been reclassified in the current year to an unusual item for comparative purposes. The litigation arose out of prior actions of a subsidiary company.

17. COMPARATIVE FIGURES

Certain of the comparative figures have been restated to conform with the method of financial statements presentation adopted for the current year.