Portage Mutual Insurance

Insurance With Integrity. Since 1884.

130th Annual Report 2013

DIRECTORS

B.E. Braden
Portage la Prairie, Manitoba

R.L. Clark, *CIP*
Edmonton, Alberta

P.R. Goodman, *CA*
Winnipeg, Manitoba

T.W. McCartney, *FCIP*
Portage la Prairie, Manitoba

J.G. Mitchell, *FCIP, CRM*
Portage la Prairie, Manitoba

J.R. Moorhouse
Portage la Prairie, Manitoba

D.G. Simpson, *CA*
Portage la Prairie, Manitoba

R.E. Stephenson, *BA, LLB*
Winnipeg, Manitoba

J.T. Trimble
Portage la Prairie, Manitoba

OFFICERS

J.T. Trimble
Chairman of the Board

J.G. Mitchell, *FCIP, CRM*
President and CEO

C.W. Wyborn, *FCIP, CRM*
Vice President and COO

D.G. Pedden, *BA*
Treasurer and CFO

HEAD OFFICE

Portage la Prairie, Manitoba
749 Saskatchewan Avenue East

Corporate

D. Borodenko, *BA, CIP, CRM*
Commercial Business Development Manager

J. Hannah, *MBA, CGA*
CRO/Director of Strategic Planning

G.R. Kirk, *CIP*
Corporate Marketing Manager

C. Low, *FCIA, FCAS, CFA, FCIP, CRM*
Corporate Actuary

K.W. Metcalfe, *ISP*
Director IT/Privacy Officer

R. Owens, *BA (Adv), FCIP, CRM*
Corporate Business Development Manager

K.L. Wallis, *FCIP*
Corporate Claims Manager

REGIONAL OFFICES

Western Canada

Edmonton, Alberta
Suite 310
12220 Stony Plain Road

T. Fata, *BSc, FCIP, CRM*
Regional Manager

V. Ray, *CIP*
Regional Claims Manager

K.G. Park, *CIP*
Regional Marketing Manager

Prairies

Portage la Prairie, Manitoba
749 Saskatchewan Avenue East

B. Mooney, *FCIP*
Regional Manager

M.R. Tarr, *CIP*
Regional Claims Manager

Ontario

St. Catharines, Ontario
Suite 201
25 Corporate Park Drive

P. DiTullio, *CIP, CRM*
Regional Manager

C. Lawson, *CIP, CRM*
Regional Claims Manager

J. Frydman, *CIP*
Regional Marketing Manager

Atlantic

Halifax, Nova Scotia
Suite 502
1595 Bedford Highway

D.G. Coolen, *CIP*
Regional Manager

B. McCann, *CIP*
Regional Claims Manager

R.A. Wrye, *BA, CIP*
Regional Marketing Manager

SERVICE OFFICES

Calgary, Alberta

Saskatoon, Saskatchewan

Brandon, Manitoba

Dauphin, Manitoba

Winnipeg, Manitoba

Insurance With Integrity. Since 1884.

A Canadian Mutual Insurance Company owned by the Policyholders, operating through some 500 Independent Brokers. Organized October 2, 1884. Federally Licensed 1930.

THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

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THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors present the 130th Annual Report covering the twelve months ending December 31, 2013.

- Premiums written – $214,848,000
- Investment income – $20,923,000
- Underwriting loss – $(19,664,000)
- Net after tax income – $1,643,000
- Earned surplus – $126,646,000

Premium growth for the year was 2.7%. We continued our plan to contain policy count growth in 2013, the effect of those actions resulted in a policy count reduction of 2.8%.

Investment income was robust, resulting in an increased investment income of $6,500,000 over 2012.

2013 was a very active year for the Company from a claims perspective. Our combined ratio was 110.00%, an increase in the loss ratio of 7.00% from the previous year. The losses began to negatively impact the underwriting account in March as high volumes of snow combined with an active freeze/thaw cycle resulted in significant losses from building collapse and ice damming. June saw extreme rainfall in Southern Alberta create a disaster that caused over $9,000,000 in losses for our Company. Hailstorms in July in Alberta resulted in another $2,500,000 in losses. A southern Manitoba hailstorm in August caused $1,500,000 in damage.

Our Auto portfolios in Ontario, Newfoundland, New Brunswick and Nova Scotia generated significant underwriting losses.

In Ontario a politically mandated auto rate reduction of 15% will create challenges for our Company. Regulations to help reduce loss costs will be required to offset the negative effect of the rate rollback.

The federal government process to create Demutualization regulations continues. Our Company is active in those discussions with the very strong support of the Canadian Association of Mutual Insurance Companies. (CAMIC). Regulations are expected in 2014.

Consolidation in the independent broker channel creates a reducing market for the distribution of our products. We expect consolidation to continue and will counteract the effects of the consolidation through succession planning initiatives with our brokers as well as a strategic alignment of products, service, and relationships with our brokers to ensure we are viewed as an insurer of choice for their customers.

Mergers of Companies creates a diminished distribution network for independent brokers, which in turn creates an opportunity for the Portage Mutual as a viable and desired market for those brokers who require multiple markets to provide choice for the consumer.

The federal regulator of financial institutions (OSFI) has created guidelines for Risk Management that the company will be complying with in 2014. The guidelines create a framework for the formalized structure of assessment, review and reporting of risk for the Company. The Own Risk and Self Assessment (ORSA) guideline will be completed in 2014.

In the last number of years the underwriting losses for the Company have been excessive. Severe weather related losses and large increases in prior year losses have contributed to unacceptable underwriting results.

To address these issues the Company will create a rating methodology employing a perils based approach. Weather related risks such as wind, hail, and sewer backup will be priced separately within our property products. This will allow us to match our premiums against the losses created by those perils.

To reduce the impact of prior year losses we have begun a more vigorous and collaborative approach to claims reserving. We will adopt a more expanded review of potential exposures and seek to employ a more conservative approach when setting reserves.

Disasters create an opportunity for our Company to exhibit the value of a Mutual. As the Alberta flooding illustrates, we responded to our policyholders in a timely, professional, and caring manner during a very chaotic and stressful time.

The Board would like to thank the staff for their dedicated efforts in 2013. We look forward to continued support from our broker force and we expect our strategic initiatives to create consistent, profitable results in the future.

Submitted on behalf of the Board of Directors,

J.T. Trimble
CHAIRMAN

J.G. Mitchell
PRESIDENT AND CEO

MANAGEMENT COMMENTARY

Year ended December 31, 2013

Overview

2013 was another very difficult year. Net underwriting losses of $19,600,000 were offset by very strong investment income resulting in a Net Income of $1,600,000. Underwriting losses occurred in 10 of the 12 months with the worst month being June due to weather related losses. Our customer base contracted to 170,000 policyholders. Our premium volume increased to over $214 million.

Management discussions on operations and strategic planning are listed below:

Underwriting

2013 was an extremely challenging year for both our Company and the entire Industry. Our Property portfolio was impacted by unprecedented water and sewer backup losses. Our challenges began in March when spring came late to the prairies and was accompanied by heavy snowfall and many freeze/thaw cycles which resulted in an unusually high number of ice damming claims. These claims had a significant impact on our underwriting account in the months of March, April and May. In late June, Alberta experienced heavy rains resulting in record floods in southern Alberta. The flooding caused extensive sewer backups and gross losses to the Company of over $9,000,000 (over $1.7 billion for the Industry) and net losses, after reinsurance recoveries, of approximately $4,200,000 on our Underwriting account. Wind and hail claims are always a concern on the prairies. 2013 turned out to be an average year on the wind and hail front with Alberta, once again, having the greatest number of storms. Finally, in December, water was once again causing problems, this time in the form of an ice storm in southern Ontario. The storm caused extensive damage to both homes and cars as a result of falling trees and the loss of power. By year end our property underwriting account was in a loss position in all four of our Branches. We, along with the industry, are responding to these losses by increasing premiums as well as limiting coverage in some areas. We are anticipating introducing these initiatives in most jurisdictions in 2014.

Unfortunately, our automobile portfolio did not perform any better than our property portfolio. Once again, adverse development on prior year claims has had a significant impact on the underwriting account. As detailed in the Claims section of this report, we are currently reviewing our outstanding losses and strengthening reserves where warranted. Automobile insurance is highly regulated in Canada and we continue to work with the provincial regulatory rate boards to get appropriate rate increases wherever possible. The Ontario government has announced their intention to reduce automobile premiums in the province by 15% by the middle of 2015. This is problematic for our Company as our results do not warrant a rate decrease; however, we will continue to work with the regulator to find a satisfactory solution.

In summary, 2013 was a record year for underwriting losses for the Company and for the Industry as a whole. According to the Insurance Bureau of Canada (IBC) claims for the industry reached $3.2 billion last year. Spread of risk across the country has always been a key component of our underwriting risk management; unfortunately, that spread of risk did not benefit us in 2013 as losses were high in all jurisdictions. We are committed to correcting the underwriting account through responsible rate increases and restrictions on coverage where warranted.

Information technology

Our broker portal (RTG) expansion continued, deploying habitational and auto new business functionality in a controlled deployment to brokers across Canada. The introduction of new business upload functionality from brokers' systems continues with the major vendor systems.

Mandated regulatory automobile changes updating rating and filing requirements were implemented on schedule.

We expanded the use of electronically downloading broker copy policy documents (eDocs) using CSIO standards. This technology speeds delivery, reduces broker's handling, and is environmentally friendly. Additionally, Direct Bill notices and Commercial declaration pages now reach our brokers electronically.

Risk management

The Company has been very active implementing regulatory requirements put in place by the Office of Superintendent of Financial Institutions (OSFI). OSFI released the Corporate Governance Guidelines in January of 2013 which prompted formulation of the Risk Committee and documentation of the Internal Control and Risk Management Frameworks. Both of these frameworks were approved by the Board of Directors in December 2013. OSFI finalized the Own Risk and Solvency Assessment (ORSA) Guideline in November of 2013. The Company will focus on completing and submitting the first Company ORSA report to OSFI as required prior to the end of 2014. In conjunction with regulatory compliance, the Company continues the process of managing risk in everyday business.

Claims

2013 was the fourth consecutive year of high weather related claims. It started in March with a high number of ice damming claims in the prairies due to the snow loads combined with freezing/thawing cycles. The weather related losses continued through the summer and concluded in December with the ice storm in Southern Ontario which caused damage from falling trees. Power outages also resulted in sump pumps being inoperable causing sewer backup losses. Fire remains a significant peril, and those losses accounted for 30% of our gross losses. Water continues to be the other major cause of loss.

Alberta saw the highest concentration of weather related damage. Excessive rains in June saw $9,000,000 in water related losses in High River and the Calgary area. Three hailstorms in July caused severe damage. The high volume of claims, extensive damage and coverage confusion regarding water related losses created a very stressful environment for our staff, our vendors and our insureds. Our policyholders were well supported during this very difficult time due to the professionalism, competency, and understanding of our staff. To avoid and reduce coverage confusion for our policyholders, Portage Mutual has been very proactive working with the government's Disaster Recovery Program (DRP) to identify uninsured losses caused by the flooding.

We have initiated changes in our claims reserving practices. Reserves on casualty losses will be reviewed 4 times annually while property losses will be reviewed twice. We initiated Corporate Round Tables for large and/or complex claim file reviews that utilize the resources of our senior Claims staff from all Branches. This collaborative review process will help us in developing more accurate reserves as well as being proactive on expediting claims settlements.

Marketing

At the core of our marketing strategy is our commitment to the broker channel. We believe the broker channel is the most effective distribution system for Property and Casualty insurance products. Members of this company-broker value chain are the best equipped to handle the critical advisory role required to properly assess, advise and guide insurance consumers through the complex insurance process.

We deploy a multipronged approach to marketing our product and service offerings. Broker focus groups are utilized in product development initiatives. Product training sessions provide our brokers with the detailed knowledge required to properly service their customers. We utilize a marketing representative system to maintain and develop relationships with the independent broker force.

We invest in the innovation, improvement, and marketing of our entire product suite. We realize that the pace of change is rapid, and our ability to respond to the requirements of our brokers and policyholders in a responsive, timely manner is crucial to our success.

Investments and capital management

Investment income increased this year to $20,923,000 due to exceptionally high unrealized market gains on our portfolio. Dividend income, realized gains and interest income were either flat or lower. We continue to invest in quality companies with strong dividends which has helped to offset the impact of the low interest rate environment. The yield on the investment increased to 7.44% in 2013 compared to 5.52% in 2012.

During the year interest rates increased but are still very low. The low interest rate environment continues to have a negative effect on our interest income, pension expense and claims liabilities. The company expects the low interest rate environment to continue until late 2015. The company will continue to focus on quality dividend paying stocks to partially offset the negative effects of low interest rates. See Notes 5 and 17 of the financial statements for more information on the composition and risks of the investment portfolio.

OSFI has continued to make significant changes to the Capital Management guidelines, the result of which has been significant changes in the calculation of the Minimum Capital Test (MCT), adding new risk factors and increasing the ratios required for existing risk factors. In 2015 the MCT calculation will again change and the Company is reviewing these latest changes to determine the impact on our capital. The company's MCT is 238%, which is down from last year due to the changes noted above and our poor underwriting result. The company's MCT is still significantly above the minimum requirement of 150% as prescribed by OSFI. See Note 18 of the financial statements for more information about capital management.

The company's financial strength continues to enable us to fulfill our promise to protect the assets of our policyholders.

Management

In 2014 the focus will be on the continuing efforts to improve the underwriting results. Initiatives to improve pricing and risk selection have been implemented with further steps being planned. Processes to improve the exchange of data between the company and the broker force continue to be refined and improved. Significant effort to comply with OSFI's risk management guidelines will be required in 2014.

A look ahead

Weather related losses continue to challenge our Company. In 2014 we will be investing in processes that will allow us to better price our products to reflect the cost of individual perils. We will also be providing our customers opportunities to help manage their insurance costs through increased deductible and reduced coverage options.

Investments that provide long term benefits such as technology improvement, employee education, and relationships with our brokers and business partners will continue in 2014. The value of the Mutual proposition allows our Company to focus on the immediate challenges while laying the foundation for success in the long term.

THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

APPOINTED ACTUARY'S REPORT

To the Policyholders of The Portage la Prairie Mutual Insurance Company:

I have valued the policy liabilities including reinsurance recoverables of The Portage la Prairie Mutual Insurance Company for its consolidated statement of financial position at 31 December 2013 and their changes in the consolidated statement of comprehensive income for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of the policy liabilities makes appropriate provision for all policy obligations and the financial statements fairly present the results of the valuation.

Brian G. Pelly,
FELLOW, CANADIAN INSTITUTE OF ACTUARIES

TORONTO, ONTARIO
FEBRUARY 24, 2014

INDEPENDENT AUDITORS' REPORT

To the Policyholders of The Portage la Prairie Mutual Insurance Company:

We have audited the accompanying consolidated financial statements of The Portage la Prairie Mutual Insurance Company, which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Portage la Prairie Mutual Insurance Company as at December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP
CHARTERED ACCOUNTANTS

FEBRUARY 24, 2014
WINNIPEG, CANADA

THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2013, with comparative figures for 2012

In thousands of dollars	2013	2012
Assets		
Cash and short term investments	$ 18,976	$ 16,306
Accounts receivable	62,063	59,962
Amounts due from other insurers	8,235	9,036
Investment income due and accrued	1,609	1,672
Investments *(note 5)*	283,130	261,469
Income taxes recoverable	1,891	9
Deferred policy acquisition expenses *(note 11)*	21,615	19,952
Reinsurers' share of unearned premiums	6,310	8,741
Reinsurers' share of provision for unpaid losses	14,848	10,459
Investments in associates *(note 5)*	12,324	9,758
Deferred income taxes *(note 14)*	362	2,651
Accrued pension asset *(note 8)*	5,941	-
Intangible assets *(note 7)*	2,467	3,644
Property and equipment *(note 6)*	3,361	3,505
Total assets	**$ 443,132**	**$ 407,164**
Liabilities and equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 6,837	$ 5,683
Amounts due to other insurers	7,804	8,223
Other payable	5,622	3,873
Income taxes payable	3	2,531
Unearned premiums *(note 10)*	111,461	108,583
Provision for unpaid losses *(note 12)*	180,636	150,208
Accrued pension liability *(note 8)*	-	5,013
Post-employment benefit liabilities	1,314	1,244
Total liabilities	313,677	285,358
Equity:		
Earned surplus	126,646	125,003
Accumulated other comprehensive income	2,809	(3,197)
Total equity	129,455	121,806
Total liabilities and equity	**$ 443,132**	**$ 407,164**

Commitments *(note 13)*

Contingencies *(note 16)*

On behalf of the Board:

J.T. Trimble, Director

J.G. Mitchell, Director

See accompanying notes to consolidated financial statements.

THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2013, with comparative figures for 2012

In thousands of dollars	**2013**	**2012**
Insurance operations:		
Premiums written	$ 214,848	$ 210,339
Reinsurance premiums ceded	20,332	23,316
Increase in unearned premiums	5,309	2,500
	25,641	25,816
Net premium earned	189,207	184,523
Fee, commission and other income	6,527	7,530
Total underwriting revenues	195,734	192,053
Claims and adjustment expenses	157,912	138,176
Less claims ceded to reinsurers	16,592	12,088
	141,320	126,088
General expenses	28,033	26,201
Commissions	38,397	37,925
Premium taxes	7,648	7,567
Total underwriting expenses	215,398	197,781
Underwriting income (loss)	(19,664)	(5,728)
Investment income *(note 5)*	20,923	14,324
Income (loss) before income tax	1,259	8,596
Income tax expense (recovery) *(note 14)*	(144)	1,979
Share of net income of associates	240	311
Net income	**$ 1,643**	**$ 6,928**
Other comprehensive income (loss), net of taxes:		
Items that may be reclassified subsequently to net income		
Net change in fair value of available for sale financial assets	(2,790)	1,134
Reclassification of net realized (gains) losses to income	(70)	(503)
Items that will not be reclassified subsequently to net income		
Actuarial gains (losses) on pension plan	8,806	(6,940)
Actuarial gains (losses) on post-employment benefit	60	(163)
Total other comprehensive income (loss)	6,006	(6,472)
Total comprehensive income	$ 7,649	$ 456

See accompanying notes to consolidated financial statements.

THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2013, with comparative figures for 2012

In thousands of dollars	**Earned surplus**	**Accumulated other comprehensive income (loss)**	**Total equity**
Balance as at January 1, 2012, as previously reported	$ 115,377	$ 5,849	$ 121,226
Restatement – change in accounting policy for employee benefits – IAS 19 *(note 3)*	2,574	(2,574)	-
Balance as at January 1, 2012, restated	117,951	3,275	121,226
Net income (loss)	6,928	-	6,928
Other comprehensive income (loss)	-	631	631
Actuarial losses on pension and employee benefits	-	(7,103)	(7,103)
Other	124	-	124
Balance as at December 31, 2012, restated	125,003	(3,197)	121,806
Net income (loss)	1,643	-	1,643
Other comprehensive income (loss)	-	(2,860)	(2,860)
Actuarial gains on pension and employee benefits	-	8,866	8,866
Other	-	-	-
Balance as at December 31, 2013	**$ 126,646**	**$ 2,809**	**$ 129,455**

Accumulated comprehensive income is composed of net unrealized gains (losses) on available-for-sale investments net of income taxes of ($1,359), (($2,626) at December 31, 2012) and actuarial gains (losses) on pension and employee benefits net of income taxes of $408 ($3,738 at December 31, 2012).

See accompanying notes to consolidated financial statements.

THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2013, with comparative figures for 2012

In thousands of dollars	**2013**	**2012**
Cash provided by (used in):		
Operation activities:		
Net income (loss)	$ 1,643	$ 6,928
Items not involving cash:		
Amortization of bond premiums	766	701
Depreciation on property and equipment	837	792
Amortization on intangible assets	1,434	1,454
Deferred income taxes	(1,041)	(749)
Loss (gain) on disposal of capital assets	(7)	(36)
Net realized gain on disposal of investments	(1,067)	(2,106)
Change in fair value through profit or loss financial assets	(10,367)	(2,563)
Change in non-cash balances relating to operations:		
Deferred policy acquisition expenses	(1,663)	(933)
Provision for unpaid losses, net of reinsurers' share	26,039	10,272
Unearned premiums, net of reinsurers' share	5,309	2,501
Payables and other	(13,661)	(6,134)
Income taxes	1,921	(887)
Share of net income of affiliated companies	240	311
Cash provided by operating activities	10,383	9,551
Income taxes received (paid)	(4,041)	5,658
Net cash provided by operating activities	6,342	15,209
Investing activities:		
Purchase of capital assets	(715)	(825)
Purchase of other assets	(257)	(637)
Purchase of investments	(69,803)	(66,847)
Proceeds from the sale of capital assets	30	88
Proceeds on disposal of investments	57,048	41,668
Proceeds of interest	7,293	7,358
Proceeds of dividends	2,732	2,762
Net cash (used in) investing activities	(3,672)	(16,433)
Net change in cash and short-term investments	2,670	(1,224)
Cash and short-term investments, beginning of year	16,306	17,530
Cash and short-term investments, end of year	18,976	16,306
Cash and short-term investments is comprised of:		
Cash in bank	$ 18,976	$ 16,306

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2013

1. Reporting organization

The Portage la Prairie Mutual Insurance Company (the "Company") is domiciled in Canada and the address of the Company's registered office is 749 Saskatchewan Avenue East, Portage la Prairie, Manitoba. The Company is incorporated under the Insurance Companies Act (Canada) without share capital under the laws of the Government of Canada and its principal business activities include the underwriting of property and casualty insurance. The Company is licensed in all provinces except Quebec. The consolidated financial statements of the Company as at and for the year ended December 31, 2013 comprise the Company and its wholly-owned subsidiary and the Company's interest in associates.

2. Basis of preparation

(A) STATEMENT OF COMPLIANCE:

The Company's consolidated financial statements have been prepared in accordance with Section 331(4) of the Insurance Companies Act which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). International Financial Reporting Standards ("IFRSs") became Canadian GAAP for publicly accountable enterprises in Canada, effective January 1, 2011.

The accounting policies used to prepare these consolidated financial statements are based on IFRSs issued by the International Accounting Standards Board in effect on February 24, 2014, the same date the Board of Directors approved the statements.

(B) BASIS OF MEASUREMENT:

Presentation of the consolidated financial statements is in Canadian dollars, which is the Company's functional currency, and figures are rounded to the nearest thousands of dollars unless otherwise indicated. All figures are prepared on the historical cost basis except for the following items in the statements of financial position:

- financial instruments at fair value through profit or loss are measured at fair value (note 3(c))
- available-for-sale financial assets are measured at fair value
- the defined benefit asset is recognized as the net total of the plan assets, plus unrecognized past service cost and unrecognized actuarial losses, less unrecognized actuarial gains and the present value of the defined benefit obligation.

(C) USE OF ESTIMATES AND JUDGEMENTS:

The preparation of these consolidated financial statements in conformity with IFRSs requires management of the Company to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and disclosure of contingent assets and liabilities – actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are included in the following notes:

- Note 8 – defined benefit obligation
- Note 10 – unearned premiums
- Note 12 – provision for unpaid losses
- Note 16 – contingencies.

(D) LIQUIDITY:

The Company presents its statements of financial position in order of highest to least liquidity. Assets and liabilities expected to be settled or recovered greater than 12 months from the reporting date are detailed under note 20.

3. Adoption of new accounting standards

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions of each new or revised standard.

(a) International Accounting Standard 1 – Presentation of Financial Statements ("IAS 1")

The Company has adopted the amendments to IAS 1 effective January 1, 2013. These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These changes were adopted retrospectively and did not result in any adjustments to other comprehensive income ("OCI") or comprehensive income.

(b) International Accounting Standard 19 – Employee Benefits ("IAS 19")

The amendments to IAS 19 require changes to the recognition and measurement of defined benefit pension and post-employment benefit expense and to the disclosures for all employee benefits. The net defined benefit liability (asset) is required to be recognized on the consolidated statement of financial position without any deferral of actuarial gains and losses and past service costs as previously permitted. Past service costs are recognized in the consolidated statement of comprehensive income when incurred. Expected returns on plan assets are no longer included in the determination of defined benefit expense. Instead, defined benefit expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in asset limitation amounts are recognized in other comprehensive income and reported in Accumulated other comprehensive income. Previously, such amounts were reported in Earned surplus. All remeasurements recognized in other comprehensive income are subsequently included in Accumulated other comprehensive income and cannot be recycled to the consolidated statement of comprehensive income in the future.

The company adopted the amendments to IAS19 retrospectively which had no impact on total equity as at January 1, 2012 or December 31, 2012, nor was there any impact on the net cash flows for the year ended December 31, 2012.

(c) International Financial Reporting Standard 10 – Consolidated Financial Statements ("IFRS 10")

IFRS 10 replaces the guidance on control and consolidation in IAS 27 - Consolidated and separate financial statements ("IAS 27"), and Standing Interpretation Comittee-12 - Consolidation - Special purpose entities ("SIC-12"). IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

4. Significant accounting policies

These consolidated financial statements have been prepared with the accounting policies set out below, applied consistently to all periods presented in the consolidated financial statements.

(A) PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements of the Company include the wholly-owned subsidiary, Portage Mutual Financial Inc., and has been included from the date that control commenced until the date that control shall cease. The accounting policies of the subsidiary have been aligned with the policies adopted by the Company. All intra-company transactions and dividends have been eliminated upon consolidation.

4. Significant accounting policies (continued)

Investments in associates includes those entities which the Company holds between 20 and 50 percent of the voting rights and exerts significant influence but not control. Investments in associates are accounted for using the equity method and are recognized initially at cost. The consolidated financial statements include the Company's share of the income and expenses and equity movements of such entities from the date that significant influence commences, until the date that significant influence ceases.

(B) FOREIGN CURRENCY TRANSACTIONS:

Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of the transactions. Monetary assets denominated in foreign currencies are translated to the functional currency at the exchange rate as of the reporting date. Non-monetary assets denominated in foreign currencies are translated to the functional currency at the same date fair value is determined, or in the case of historical cost items, the exchange rate at the date of the transaction.

(C) FINANCIAL INSTRUMENTS:

Financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from an asset expire or are transferred in a transaction where substantially all the risks and rewards of ownership are transferred.

The Company has the following non-derivative financial assets: investment-grade fixed income securities (such as government and corporate bonds and debentures), exchange traded equity instruments and other invested assets. Except for Investment in associates, non-derivative financial assets are classified as either: held-to-maturity financial assets ("HTM"), loans and receivables, available-for-sale financial assets ("AFS"), or financial assets at fair value through profit or loss ("FVTPL").

Held-to-maturity financial assets

Financial asset debt securities for which the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value on the settlement date and subsequent to that, are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. The Company includes loans to brokerages, trade and other receivables in this classification. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Financial assets at fair value through profit or loss

Financial assets are designated at fair value through profit or loss if classified as held for trading. These are recorded initially at fair value, with changes in fair value recorded in profit or loss. Cash and short-term investments and common share equity investments have been designated in this category with purchase and sale decisions based on their fair value in accordance with the Company's documented investment strategy.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets of the Company. These comprise investments in equity and debt securities not classified in any of the previous categories. Subsequent to initial recognition, available-for-sale

4. Significant accounting policies (continued)

financial assets are measured at fair value. Changes in fair value, other than impairment losses, are recognized in other comprehensive income. When investments are derecognized, the cumulative gains or losses in other comprehensive income are transferred to profit or loss.

Impairment

Financial assets not carried at fair value through profit or loss, are assessed at each reporting date to determine whether there is objective evidence of impairment which has occurred after initial recognition of an asset. Objective evidence of impairment includes a loss event that has had a negative effect on the estimated future cash flows of an asset and which can be reliably estimated. For an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

All individually significant loans and receivables and held-to-maturity investment securities are assessed for impairment. Impairment loss of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Any such impairment losses would be recognized in profit or loss and reflected in an allowance account against receivables. Should a subsequent event cause the amount of impairment loss to decrease, the decrease is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains/losses on available-for-sale financial assets in equity, to profit or loss. The cumulative loss transferred to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recorded in profit or loss. If subsequent to an impairment loss, fair value increases and the increase is relatable to an event after the impairment loss was recognized, then the impairment loss is reversed with the amount of the reversal recognized in profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

Investments in associates are tested for impairment when there is objective evidence that it may be impaired.

Financial liabilities

The Company initially recognizes financial liabilities on the trade date at which it becomes a party to the contractual provisions of the instrument. A financial liability is derecognized when its contractual obligations are discharged, cancelled or expire.

The Company has non-derivative financial liabilities which consist of accounts payable and accrued liabilities. These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method.

(D) CASH AND SHORT-TERM INVESTMENTS:

Cash consists of bank balances, net of outstanding cheques and short-term investments which are highly liquid instruments maturing in 12 months or less. Bank overdrafts that are repayable on demand are included if utilized as a component of cash for the purpose of the statement of cash flows. These financial assets are classified as at fair value through profit or loss.

(E) INVESTMENT INCOME:

Investment income comprises interest and dividend income from invested debt and equity securities, and gains on the disposal of available-for-sale financial assets. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date. Finance cost includes impairment losses recognized on financial assets in profit or loss. Foreign currency gains and losses are reported on a net basis.

4. Significant accounting policies (continued)

(F) PROPERTY AND EQUIPMENT:

Non-financial asset recognition, measurement and subsequent costs

The Company measures items of property and equipment at cost less accumulated depreciation and accumulated impairment losses. Cost comprises expenditures directly attributable to acquisition of the asset. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within other income in profit or loss. The subsequent cost of maintaining an item of property and equipment is recognized in profit or loss as incurred.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognized in profit or loss on a straight-line basis using rates as follows which most closely reflect the expected pattern of consumption of the future economic benefits embodied in the assets:

Building	2%
Furniture and equipment	10%
Automobiles	30%
Data processing system	20%
Leasehold improvements	Over the term of the leases, 5–7 years

(G) INTANGIBLE ASSETS AND SUBSEQUENT EXPENDITURES:

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Other intangible assets are comprised of computer system software. Computer system software under development is not amortized until such time as the asset is available for use, after which it is amortized on a straight-line basis of 20% per year. Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

(H) IMPAIRMENT OF NON-FINANCIAL ASSETS:

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each year end. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is determined as the estimated future cash flows discounted to present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset. Impairment losses recognized reduce the carrying amounts of the assets.

Impairment losses recognized for assets of prior periods, are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

4. Significant accounting policies (continued)

(I) EMPLOYEE BENEFITS:

Defined benefit plan

The Company sponsors a defined benefit plan which covers substantially all of its employees. The Company's obligation in respect of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed annually by a qualified actuary using the projected benefit method. When the calculation results in a benefit, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Company recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income, and reports them in equity.

Post-employment benefits

The Company's obligation in respect of long-term employee benefits, other than the pension plan, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed using the projected benefit method. Any actuarial gains and losses are recognized in other comprehensive income, and reported in equity.

(J) INSURANCE CONTRACTS:

Revenue recognition

Insurance premiums written are deferred as unearned premiums and are recognized in income on a pro rata basis over the term of the policy. A reconciliation of the current and prior year's unearned premiums is detailed under note 10.

Deferred policy acquisition expenses

Acquisition expenses comprise commissions, premium taxes and other expenses which relate directly to the production of the business. Deferred policy acquisition costs related to unearned premiums are amortized to income over the periods in which the premiums are earned. The amount of deferred policy acquisition expenses is limited to its net realizable value by giving consideration to losses and expenses estimated to be incurred as the premiums are earned.

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 reinsurers on unpaid losses are recorded as assets on the balance sheet. Amounts recoverable from reinsurers are estimated in a manner consistent with the related claims liabilities.

4. Significant accounting policies (continued)

Provision for unpaid losses

The provision for unpaid losses represents an estimate for the full amount of all costs including investigations and the projected final settlements of claims incurred to the balance sheet date. This provision is calculated taking into consideration the time value of money and including an explicit provision for adverse deviations.

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 becomes known during the course of claims settlement. All changes in estimates are recorded in the current period.

(K) LEASE PAYMENTS:

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Details of future minimum lease commitments are provided in note 13.

(L) INCOME TAX:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences that do not affect accounting or taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are only offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(M) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Company, except for IFRS 9 Financial Instruments and the Insurance Contracts Exposure Draft – to replace IFRS 4. IFRS 9 becomes mandatory for the Company's 2017 consolidated financial statements and is expected to impact the classification and measurement of financial assets in the period of initial application although the extent of the impact has not yet been determined. The Insurance Contracts Exposure Draft is not expected to become effective until sometime after 2017 while its impact on the financial statements in the period of initial application continues to be assessed at this time.

5. Financial instruments

Classification

The carrying amounts of the Company's financial instruments by classification are as follows:

	Available-for-sale	Held-to-maturity	Fair value through profit or loss	Loans and receivables	Other	Total
December 31, 2013						
Investments						
Bonds and debentures	$ 182,049	$ 8,502	$ -	$ -	$ -	$ 190,551
Common shares	-	-	77,447	-	-	77,447
Preferred shares	7,824	-	-	-	-	7,824
Other invested assets	-	-	-	7,308	-	7,308
Due from policyholders and reinsurer	-	-	-	70,298	-	70,298
Investment income accrued	-	-	-	1,609	-	1,609
Accounts payable and accrued liabilities	-	-	-	-	(6,837)	(6,837)
	$ 189,873	$ 8,502	$ 77,447	$ 79,215	$ (6,837)	$ 348,200
December 31, 2012						
Investments						
Bonds and debentures	$ 173,790	$ 8,950	$ -	$ -	$ -	$ 182,740
Common shares	-	-	64,351	-	-	64,351
Preferred shares	9,436	-	-	-	-	9,436
Other invested assets	-	-	-	4,942	-	4,942
Due from policyholders and reinsurer	-	-	-	68,998	-	68,998
Investment income accrued	-	-	-	1,672	-	1,672
Accounts payable and accrued liabilities	-	-	-	-	(5,683)	(5,683)
	$ 183,226	$ 8,950	$ 64,351	$ 75,612	$ (5,683)	$ 326,456

The amortized costs and fair values of the Company's investment portfolio are detailed as follows:

	December 31, 2013		December 31, 2012	
	Amortized cost	Fair value	Amortized cost	Fair value
Bonds and debentures	$ 185,117	$ 190,551	$ 173,743	$ 182,740
Common shares	61,879	77,447	56,668	64,351
Preferred shares	8,277	7,824	9,327	9,436
Other invested assets	7,308	7,308	4,942	4,942
Total investments	**$ 262,581**	**$ 283,130**	**$ 244,680**	**$ 261,469**

Impairment

Management has reviewed investments for objective evidence of impairment at December 31, 2013 and determined there to be none (2012: nil).

The book value of the common share equity investments categorized as at fair value through profit or loss are equal to their fair values. The maximum exposure to credit risk would be the fair value indicated.

5. Financial instruments (continued)

Net investment income

Net investment income as at December 31, 2013, with 2012 comparatives, is comprised of the following:

	2013	2012
Interest	$ 7,293	$ 7,358
Dividends	2,732	2,762
Net realized gain on sale of investments	1,067	2,106
Change in unrealized gain (loss) on fair value through profit or loss for financial assets	10,367	2,563
Investment expenses	(536)	(465)
Total investment income	**$ 20,923**	**$ 14,324**

The coupon rates on bonds and debentures varies between 1.850% and 9.125% as at December 31, 2013 (2012: 1.500% to 9.125%). The maturity dates vary from January 2014 to December 2036.

Investments in associates

The Company's subsidiary, Portage Mutual Financial Inc. holds investments in two insurance brokerages. Summary financial information for associates (equity accounted investees), adjusted for the percentage ownership held by the Company are as follows:

	December 31, 2013	December 31, 2012
Assets	$ 5,761	$ 6,014
Liabilities	2,984	3,207
Revenues	4,503	4,435
Profit (loss)	240	311

6. Capital assets

	Land	Building	Data processing equipment	Furniture and equipment	Automobiles	Leasehold improvements	Total
Cost							
Balance at December 31, 2012	$ 80	$ 1,292	$ 2,839	$ 2,895	$ 1,023	$ 1,013	$ 9,142
Additions	365	54	127	38	131	-	715
Disposals	-	-	-	(3)	(80)	-	(83)
Balance at December 31, 2013	$ 445	$ 1,346	$ 2,966	$ 2,930	$ 1,074	$ 1,013	$ 9,774
Depreciation							
Balance at December 31, 2012	$ -	$ (414)	$ (2,214)	$ (2,165)	$ (456)	$ (388)	$ (5,637)
Depreciation for the year	-	(24)	(273)	(122)	(270)	(148)	(837)
Disposals	-	-	-	3	58	-	61
Balance at December 31, 2013	$ -	$ (438)	$ (2,487)	$ (2,284)	$ (668)	$ (536)	$ (6,413)
Carrying amounts							
At December 31, 2012	$ 80	$ 878	$ 625	$ 730	$ 567	$ 625	$ 3,505
At December 31, 2013	$ 445	$ 908	$ 479	$ 646	$ 406	$ 477	$ 3,361

7. Intangible assets

Computer system software	2013	2012
Cost		
Balance at January 1	$ 12,969	$ 12,332
Additions	257	637
Disposals	-	-
Balance at December 31	$ 13,226	$ 12,969
Amortization		
Balance at January 1	$ (9,325)	$ (7,871)
Depreciation for the year	(1,434)	(1,454)
Disposals	-	-
Balance at December 31	$ (10,759)	$ (9,325)
Carrying amounts		
At January 1	$ 3,644	$ 4,461
At December 31	$ 2,467	$ 3,644

Amortization is recorded in the statement of comprehensive income under general expenses.

The Real-Time Gateway Underwriting System ("RTG") is the only individually significant intangible asset. RTG's carrying amount and remaining amortization period is $1,913 and 2 years, respectively.

8. Defined benefit obligation

Components of pension cost	**2013**	**2012**
Amounts recognized in profit or loss:		
Current service cost (employer portion)	$ 2,276	$ 1,327
Interest cost	1,651	1,428
Expected return on plan assets	(1,425)	(1,647)
Administrative expenses and taxes	49	-
Total pension cost/(credit) recognized in profit or loss	$ 2,551	$ 1,108
Amounts recognized in other comprehensive income (OCI):		
Actuarial loss (gain) immediately recognized	(12,113)	9,530
Variation of effect of the limit of paragraph 58(b)	-	-
Total pension cost/(credit) recognized in OCI	$ (12,113)	$ 9,530
Total pension cost/(credit)	$ (9,562)	$ 10,638

Actual return on plan assets	**2013**	**2012**
Actual return on plan assets	$ 3,650	$ 2,158

Cumulative loss (gain) recognized in OCI	**2013**	**2012**
Cumulative loss (gain) recognized in OCI	$ 1,462	$ 13,575

Change in benefit obligation	**2013**	**2012**
Benefit obligation at end of prior year	$ 37,156	$ 25,326
Current service cost (employer portion)	2,276	1,327
Interest cost	1,651	1,428
Plan participants' contributions	-	-
Plan amendments	-	-
Actuarial loss (gain)	(9,901)	10,041
Benefits paid	(910)	(966)
Benefit obligation at end of year	$ 30,272	$ 37,156

Change in plan assets	**2013**	**2012**
Fair value of plan assets at end of prior year	$ 32,143	$ 30,950
Expected return on plan assets	3,650	1,647
Actuarial (loss) gain on plan assets	-	512
Administrative expenses paid from plan assets	(62)	-
Employer contributions	1,392	-
Plan participants' contributions	-	-
Benefits paid	(910)	(966)
Plan settlements	-	-
Fair value of plan assets, end of year	$ 36,213	$ 32,143

8. Defined benefit obligation (continued)

Amounts recognized in the statements of financial position	**2013**	**2012**
Benefit obligation	$ 30,272	$ 37,156
Fair value of plan assets	$ 36,213	$ 32,143
Excess (deficit)	$ 5,941	$ (5,013)
Net asset (liability)	**$ 5,941**	**$ (5,013)**

Weighted-average assumptions for expense	**2013**	**2012**
Discount rate	4.50%	5.45%
Rate of salary increase	5.20%	5.40%
Rate of price inflation	2.20%	2.40%

Weighted-average assumptions to determine benefit obligation	**2013**	**2012**
Discount rate	5.05%	4.50%
Rate of salary increase	4.00%	5.20%
Rate of price inflation	2.20%	2.20%

Plan assets by asset category	**2013**	**2012**
Equity securities	57.30%	52.80%
Debt securities	31.90%	39.40%
Other	10.80%	7.80%
Total	100.00%	100.00%

The above numbers are presented gross of income taxes.

The plan's assets do not include any investments in The Portage la Prairie Mutual Insurance Company as of December 31, 2013 and December 31, 2012.

The expected employer contribution for the fiscal year ending December 31, 2014 is $831.

History of experience gains and losses	**2013**	**2012**	**2011**	**2010**
Benefit obligation	$ 30,272	$ 37,156	$ 25,325	$ 22,358
Fair value of plan assets	$ 36,213	$ 32,143	$ 30,950	$ 30,511
Excess (deficit)	$ 5,941	$ (5,013)	$ 5,625	$ 8,153
Return on plan assets (excluding interest):				
Amount	$ 2,163	$ 512	$ (475)	$ 1,213
Experience loss (gain) on plan liabilities:				
Amount	$ (11,043)	$ 10,041	$ 1,093	$ 3,963

8. Defined benefit obligation (continued)

Actuarial methods

Benefit obligations are estimated using the Projected Unit Credit method. Under this method each participant's benefits under the Plan are attributed to years of service, taking into consideration future salary increases and the plan's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service. If an employee's service in later years will lead to a materially higher level of benefit than in earlier years, these benefits are attributed on a straight-line basis. A description of the calculation follows:

- An individual's estimated attributed benefit for valuation purposes related to a particular separation date (for example, expected date of retirement, leaving service or death) is the benefit described under the Plan based on credited service as at the measurement date, but determined using the projected salary that would be used in the calculation estimate of the benefit on the expected separation date.

- The benefit attributed to an individual's service during a Plan year is the excess of the attributed benefit for valuation purposes at the end of the Plan year over the attributed benefit for valuation purposes at the beginning of the Plan year. Both attributed benefits are estimated from the same projections to the various anticipated separation dates.

- An individual's estimated benefit obligation is the present value of the attributed benefit for valuation purposes at the beginning of the Plan year, and the service cost is the present value of the benefit attributed to the year of service in the Plan year. If multiple decrements are used, the benefit obligation and the service cost for an individual are the sum of the component benefit obligations and service costs associated with the various anticipated separation dates. Such benefit obligations and service costs reflect the estimated attributed benefits and the probability of the individual separating on those dates.

In all cases, the benefit obligation is the total present value of the individuals' attributed benefits for valuation purposes at the measurement date, and the service cost is the total present value of the individuals' benefits attributable to service during the year.

If multiple decrements are used, the present values take into account the probability of the individual leaving employment at the various anticipated separation dates.

Sensitivity analysis

The provision represents the best estimate of the defined benefit obligation as of December 31, 2013. The valuation of the defined benefit obligation depends upon the discount rate used, the rate of salary increases, and the expected mortality of plan members. As at December 31, 2013, management estimates that an immediate hypothetical 100 basis point, or 1%, decrease in the discount rate would increase the defined benefit obligation by $5,345. As at December 31, 2013, management estimates that an immediate hypothetical 100 basis point, or 1%, increase in the rate of salary increases would increase the defined benefit obligation by $1,894. As at December 31, 2013, management estimates that a change in the mortality assumption to 81% UP94G CPM projection would increase the defined benefit obligation by $567.

9. Reinsurance

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 on any one loss of $1,000,000 (2012: $700,000) in the event of a property claim and an amount of $1,500,000 (2012: $1,500,000) in the event of a liability claim. In addition, the Company has obtained reinsurance having an upper amount of $100,000,000 (2012: $100,000,000) which limits the Company's liability to $2,500,000 (2012: $2,500,000) in the event of a series of claims arising out of a single occurrence.

9. Reinsurance (continued)

Reinsurance has been recorded in the statement of comprehensive income as follows:

	2013	2012
Gross premiums earned	$ 209,539	$ 207,839
Less earned premiums ceded	20,332	23,316
Net earned premiums	**$ 189,207**	**$ 184,523**

	2013	2012
Gross losses and expenses incurred	$ 157,912	$ 138,176
Less incurred losses and expenses ceded	16,592	12,088
Net claims and adjustment expenses	**$ 141,320**	**$ 126,088**

10. Unearned premiums

Reconciliations of Unearned premiums balances for the current and prior periods are as follows:

	2013		2012	
	Gross	Ceded	Gross	Ceded
Balance at beginning of the period	$ 108,583	$ 8,741	$ 104,812	$ 7,471
Premiums written and ceded during the period	214,848	20,332	210,339	23,316
Premiums earned in income	211,970	22,763	206,568	22,046
Unearned premiums at the end of the period	**$ 111,461**	**$ 6,310**	**$ 108,583**	**$ 8,741**

11. Deferred policy acquisition expenses

Reconciliations of Deferred policy acquisition expenses for the current and prior periods are as follows:

	2013	2012
Balance at beginning of the period	$ 19,952	$ 19,019
Acquisition expenses incurred during the period	55,965	53,702
Amortization of acquisition expenses during the period	54,302	52,769
Deferred policy acquisition expenses at the end of the period	**$ 21,615**	**$ 19,952**

12. Provision for unpaid losses

The Company's contract provisions and reinsurance assets as at December 31, 2013 and December 31, 2012 are as follows:

	2013	2012
Gross		
Provision for outstanding claims	$ 127,293	$ 103,798
Incurred but not reported	47,634	41,585
Provision for loss adjustment expenses	2,853	2,125
Discounting and provision for adverse deviations	2,856	2,700
Premium deficiency	-	-
Total	**$ 180,636**	**$ 150,208**
Ceded		
Provision for outstanding claims	$ 12,782	$ 9,495
Incurred but not reported	2,166	1,048
Provision for loss adjustment expenses	-	-
Discounting and provision for adverse deviations	(100)	(84)
Premium deficiency	-	-
Total	**$ 14,848**	**$ 10,459**
Net		
Provision for outstanding claims	$ 114,511	$ 94,303
Incurred but not reported	45,468	40,537
Provision for loss adjustment expenses	2,853	2,125
Discounting and provision for adverse deviations	2,956	2,784
Premium deficiency	-	-
Total	**$ 165,788**	**$ 139,749**

12. Provision for unpaid losses (continued)

The following is a summary of insurance contract liabilities by line of business as at December 31, 2013 and December 31, 2012:

	2013	2012
Gross		
Automobile	$ 126,858	$ 109,578
Property	39,200	26,746
Liability	11,722	11,184
Total undiscounted	177,780	147,508
Discounting and provision for adverse deviations	2,856	2,700
Total discounted insurance contract liabilities	**$ 180,636**	**$ 150,208**
Ceded		
Automobile	$ 3,553	$ 2,289
Property	11,384	7,848
Liability	11	406
Total undiscounted	14,948	10,543
Discounting and provision for adverse deviations	(100)	(84)
Total discounted insurance contract liabilities	**$ 14,848**	**$ 10,459**
Net		
Automobile	$123,305	$107,289
Property	27,816	18,898
Liability	11,711	10,778
Total undiscounted	162,832	136,965
Discounting and provision for adverse deviations	2,956	2,784
Total discounted insurance contract liabilities	**$ 165,788**	**$ 139,749**

(A) ASSUMPTIONS, CHANGES IN ASSUMPTIONS, AND SENSITIVITY ANALYSIS:

Assumptions and methodologies

The projected ultimate claims liabilities, including a provision for claims incurred but not reported (IBNR), are estimated using several methodologies involving consideration of incurred and paid loss development patterns and expected loss ratios, in a manner consistent with the prior year end. The provision for outstanding losses is also based upon the professional experience of the Company's claims department personnel and independent adjusters retained to handle individual claims, and the continually evolving and changing regulatory and legal environment. The establishment of the provision uses known facts and interpretation of circumstances, on a case by case basis, and is therefore a complex and dynamic process influenced by a large variety of factors as appropriate. These factors include the quality of data used for projection purposes, actuarial studies, and the effect of inflationary trends on future claims settlement costs and court decisions. In addition, time can be a critical part of the reserving determination, since the longer the span between the incidence of a loss and the final payment of the claims, the more potential for variability in the ultimate settlement amount. Short-term claims, such as property claims, tend to be more reasonably predictable than long-term claims, such as automobile liability and general liability claims.

12. Provision for unpaid losses (continued)

Provisions are calculated in accordance with accepted actuarial practice in Canada and applicable regulatory requirements. The appointed actuary produces gross and net of reinsurance loss triangles by accident year and development period using the last 10 years of claims information. Loss development triangles are also produced using ratios of claims amounts at successive development ages.

The undiscounted claims liabilities are then discounted to the actuarial present value using a discount rate determined from the estimated market value based yield to maturity of the Company's own investment portfolio.

The provision for unpaid losses is calculated as the present value of expected future payments plus actuarially determined provisions for adverse deviations and is considered an indicator of fair value, as there is no organized market for the trading of insurance liabilities.

The provision for unearned premiums ensures adequate coverage over the expected level of future claims and expenses for policies still in force.

Changes in assumptions

As at December 31, 2013, the discount rate, determined from the Company's investment portfolio, increased by less than 1% as compared to December 31, 2012, which resulted in an increase in the net claim provision by $211.

Sensitivity analysis

The provisions represent the best estimate of the claims liabilities at the reporting date. Provisions related to the Company's automobile line of business are subject to the greatest amount of uncertainty due to the greater length of claims resolution. If the factor affecting the tail of this line of business were increased by 1%, the net claims liabilities would increase by 1.4% (2012: 1.4%) and net profit for the Company would decrease by $2,284 (2012: $2,001). All other variability in the claims liabilities of the Company's other lines of business are considered to be less material.

(B) DISCOUNTING OF THE PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES AND RELATED REINSURANCE RECOVERIES:

The provision for unpaid claims and adjustment expenses and related reinsurance recoveries is discounted using rates based on the projected investment income from the assets supporting the provisions, and reflecting the estimated timing of payments and recoveries. The discount rates used are 1.91% for 2013 and 1.77% for 2012 after the investment return rate margin for adverse deviations is applied.

(C) PROVISION FOR UNPAID LOSSES BY RISK CATEGORIES:

	December 31, 2013		**December 31, 2012**	
Type of claim provision	**Gross**	**Ceded**	**Gross**	**Ceded**
Long-settlement term:				
General liability, automobile liability, and personal accident	$ 123,768	$ 3,562	$ 104,121	$ 2,505
Facility association and other residual pools	13,846	-	13,787	-
	137,614	3,562	117,908	2,505
Short-settlement term:				
Property and automobile other	43,022	11,286	32,300	7,954
Total	$ 180,636	$ 14,848	$ 150,208	$ 10,459

12. Provision for unpaid losses (continued)

(D) CLAIMS DEVELOPMENT:

The following summarizes claims development of the Company for the past seven years on a gross and net basis:

Gross

Accident year	2007	2008	2009	2010	2011	2012	2013	Total
Estimated ultimate claims costs								
At end of accident year	$ 88,673	$ 77,947	$ 94,958	$113,890	$123,214	$121,884	$141,157	
One year later	91,027	75,966	95,539	114,455	122,486	122,094		
Two years later	89,186	76,265	94,218	116,428	125,083			
Three years later	91,591	77,004	94,719	115,636				
Four years later	91,255	77,559	94,698					
Five years later	91,916	77,973						
Six years later	92,863							
Current estimate of ultimate claims costs	$ 92,863	$ 77,973	$ 94,698	$115,636	$125,083	$122,094	$141,157	
Cumulative payments to date	$ 90,145	$ 74,035	$ 87,082	$101,258	$103,687	$ 90,303	$ 65,756	
Undiscounted claims liabilities before								
Unallocated loss adjustment expenses (“ULAE”)	$ 2,718	$ 3,938	$ 7,616	$ 14,378	$ 21,396	$ 31,791	$ 75,401	
Undiscounted unpaid ULAE	48	70	136	258	399	593	1,305	
Undiscounted claim liabilities including (“ULAE”)	$ 2,766	$ 4,008	$ 7,752	$ 14,636	$ 21,795	$ 32,384	$ 76,706	$160,047
Undiscounted liability in respect of prior years								3,887
Total all years								163,934
Effect of discounting								2,856
Facility association and other residual pools								13,846
Gross claims liabilities in the financial statement								$180,636

Net

Accident year	2007	2008	2009	2010	2011	2012	2013	Total
Estimated ultimate claims costs								
At end of accident year	$ 78,625	$ 70,399	$ 83,854	$103,542	$110,784	$111,740	$129,795	
One year later	80,383	68,407	85,519	104,339	110,396	111,949		
Two years later	78,843	69,029	84,353	106,554	111,648			
Three years later	81,457	69.957	85,020	105,792				
Four years later	81,243	70,451	85,007					
Five years later	81,753	70,933						
Six years later	82,820							
Current estimate of ultimate claims costs	$ 82,820	$ 70,933	$ 85,007	$105,792	$111,648	$111,949	$129,795	
Cumulative payments to date	$ 80,161	$ 67,195	$ 77,617	$ 91,737	$ 92,665	$ 81,801	$ 60,113	
Undiscounted claims liabilities before								
Unallocated loss adjustment expenses (“ULAE”)	$ 2,659	$ 3,738	$ 7,390	$ 14,055	$ 18,983	$ 30,148	$ 69,682	
Undiscounted unpaid ULAE	48	70	136	258	399	593	1,305	
Undiscounted claims liabilities including ULAE	$ 2,707	$ 3,808	$ 7,526	$ 14,313	$ 19,382	$ 30,741	$ 70,987	$149,464
Undiscounted liability in respect to prior years								3,733
Total all years								153,197
Effect of discounting								2,956
Other liability recoverable from reinsurers								(4,211)
Facility association and other residual pools								13,846
Net liabilities in the statement of financial position								$165,788

13. Commitments

The Company leases office premises under operating leases which expire at various dates between 2015 and 2021. The following are the future minimum lease payments as at December 31, 2013 and December 31, 2012:

	2013	2012
Less than 1 year	$ 378	$ 397
Between 1 and 5 years	1,353	1,329
Greater than 5 years	544	851
	$ 2,275	$ 2,577

The Company has a commitment for computer processing and support services expiring in 2014. The total of the future minimum payments for these services is $467.

For the period ending December 31, 2013, $897 was recognized for operating lease expenses under the general expenses line item in the statement of comprehensive income (2012: $1,115).

14. Income taxes

The provision for income taxes differs from the statutory marginal rate as certain sources of income are exempt from tax or are taxed at other than the marginal rate.

The Company's provision for income taxes, compared to statutory rates is summarized as follows:

	2013	2012
Provision for income taxes at		
Statutory marginal income tax rate at 27.3% (2012: 27.3%)	$ 344	$ 2,347
Non-taxable investment income	(632)	(638)
Change in other taxes	-	(5)
Other	144	275
Provision for income taxes	$ (144)	$ 1,979

The components of deferred income tax balances are as follows:

	2013	2012
Deferred income tax assets:		
Unpaid claims	$ 2,275	$ 1,899
Pension plan	-	1,369
Post-employment benefit	359	-
Other	23	340
Deferred income tax assets	2,657	3,608
Deferred income tax liabilities:		
Pension plan	(1,622)	-
Investments	(3)	(14)
Other	(670)	(943)
Deferred income tax liabilities	(2,295)	(957)
Net deferred income tax assets (liabilities)	**$ 362**	**$ 2,651**

14. Income taxes (continued)

The income tax recognized in other comprehensive income is as follows:

	2013			2012		
	Before tax	Income tax (expense) benefit	Net of tax	Before tax	Income tax (expense) benefit	Net of tax
Actuarial gains (losses) on pension plan	$ 12,113	$ (3,307)	$ 8,806	$ (9,530)	$ 2,590	$ (6,940)
Actuarial gains (losses) on post-employment benefit	83	(23)	60	(223)	60	(163)
Change in unrealized gains or (losses) on available for sale investments	(4,030)	1,240	(2,790)	1,560	(426)	1,134
Reclassification of net realized (gains) losses to income	(96)	26	(70)	(1,186)	683	(503)
	$ 8,070	$ (2,064)	$ 6,006	$ (9,379)	$ 2,907	$ (6,472)

The movement in temporary differences related to deferred tax assets and liabilities during the years include:

2012	Balance, January 1	Recognized in profit or loss	Recognized directly in equity	Recognized in OCI	Balance, December 31
Unpaid claims	$ 6,474	$ 482	$ -	$ -	$ 6,956
Actuarial gains (losses) on pension plan	(5,625)	1,108	-	9,530	5,013
Actuarial gains (losses) on post-employment benefit	951	70	-	223	1,244
Change in unrealized gains or (losses) on available for sale investments	(110)	59	-	-	(51)
Other	(4,461)	1,008	-	-	(3,453)
	$ (2,771)	$ 2,727	$ -	$ 9,753	$ 9,709

2013	Balance, January 1	Recognized in profit or loss	Recognized directly in equity	Recognized in OCI	Balance, December 31
Unpaid claims	$ 6,956	$ 1,376	$ -	$ -	$ 8,332
Actuarial gains (losses) on pension plan	5,013	1,159	-	(12,113)	(5,941)
Actuarial gains (losses) on post-employment benefit	1,244	153	-	(83)	1,314
Change in unrealized gains or (losses) on available for sale investments	(51)	41	-	-	(10)
Other	(3,453)	1,085	-	-	(2,368)
	$ 9,709	$ 3,814	$ -	$ (12,196)	$ 1,327

15. Role of the actuary and auditor

The actuary has been appointed pursuant to the Insurance Companies Act. With respect to the preparation of these financial statements, the actuary is required to carry out a valuation of the Company's policy liabilities, both gross and net of reinsurance, and to report thereon to the policyholders. The policy liabilities consist of a provision for unpaid claims and adjustment expenses on the expired portion of insurance policies, and a provision for future obligations on the unexpired portion of insurance policies in force, which in turn may limit the amount of deferred policy acquisition expenses. The valuation is made in accordance with accepted actuarial practice in Canada, as well as any other matter specified in any direction that may be made by regulatory authorities. In performing the valuation of the policy liabilities, which are by their nature inherently variable, assumptions are made as to future loss ratios, trends, rates of claims frequency and severity, inflation, reinsurance recoveries, investment rates of return, expenses and other matters, taking into consideration the circumstances of the Company and the nature of the insurance coverage. The provisions do not include estimates for extraordinary future emergence of either new classes of claims or claims categories not sufficiently recognized in the historical claims database. It is certain that the actual development of claims and adjustment expenses will vary from the valuation and may, in fact, vary significantly. The actuary makes use of management information provided by the Company, and also uses the work of the independent auditors with respect to the verification of the underlying data used in the valuation. The Actuary's Report outlines the scope of his work and opinion.

The independent auditors have been appointed by the policyholders pursuant to the Insurance Companies Act 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 policyholders. In carrying out their audit, the independent auditors also make use of the work of the actuary and his report on the Company's policy liabilities. The Independent Auditors' Report outlines the scope of their audit and their opinion.

16. Contingencies

The Company has purchased a number of annuities in settlement of claims. These annuities have been purchased from registered Canadian life insurers with the highest claims paying ability ratings as determined by outside ratings organizations. The Company has a contingent credit risk with respect to the failure of these life insurers and the fair value of the financial guarantees is $4,034 (2012: $4,292)

From time to time, in connection with its operations, the Company is named in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome at this time, in the opinion of management, these matters are without substantial merit and therefore no provision has been made for them in the accounts.

17. Financial risk management

Risk management is carried out by the Finance Group and the Investment Committee under policies approved by the Board of Directors and Senior Management. The Company has written principles for overall risk management, as well as written policies covering specific areas, such as insurance risk, credit risk, liquidity risk, market risk, and the use of derivative and non-derivative financial instruments.

(A) INSURANCE RISK:

Is the risk that the total cost of claims and acquisition expenses will exceed premiums received and can arise from numerous factors, including pricing risk, reserving risk, catastrophic loss risk and reinsurance coverage risk.

Pricing risk: Arises when actual claims experience differs from the assumptions included in pricing calculations. Historically, the underwriting results of the property and casualty industry have fluctuated significantly due to the cyclicality of the insurance market.

Reserving risk: 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 becomes known during the course of claims settlement. All changes in estimates are recorded in the current period.

17. Financial risk management (continued)

Catastrophic loss risk: Is the exposure to losses resulting from multiple claims arising out of a single catastrophic event.

Reinsurance coverage risk: The Company relies on reinsurance to manage the underwriting risk, however, reinsurance does not release the Company from its primary commitments to its policyholders. The Company limits its exposure to individual reinsurers and regularly reviews the creditworthiness of reinsurers with whom it transacts.

The following demonstrates the Company's geographic dispersion of revenues by provinces for the year-ended December 31:

Gross premiums written by province

	BC	AB	SK	MB	ON	NB	NS	PE	NL	Total
2013										
Automobile	-	22,775	1,023	-	31,014	7,504	26,932	3,041	2,223	94,512
Property	1,173	9,389	8,321	26,202	11,496	3,511	10,477	575	764	71,908
Farm	95	6,518	3,135	19,527	-	2	4	-	-	29,281
Commercial	295	1,097	639	2,121	2,762	1,090	2,432	89	335	10,860
Liability	142	906	613	2,364	1,953	583	1,484	81	161	8,287
Total	$ 1,705	$ 40,685	$ 13,731	$ 50,214	$ 47,225	$ 12,690	$ 41,329	$ 3,786	$ 3,483	$214,848
2012										
Automobile	-	24,978	1,095	-	30,148	7,924	27,261	3,062	2,396	96,864
Property	950	8,430	8,082	25,404	11,012	3,468	10,366	564	668	68,944
Farm	89	5,830	3,179	18,803	-	2	4	-	-	27,907
Commercial	112	853	524	1,771	2,308	886	2,064	85	319	8,922
Liability	112	840	568	2,175	1,836	564	1,377	74	156	7,702
Total	$ 1,263	$ 40,931	$ 13,448	$ 48,153	$ 45,304	$ 12,844	$ 41,072	$ 3,785	$ 3,539	$210,339

(B) CREDIT RISK:

The Company is exposed to credit risk through its investments in fixed income securities, other invested assets and accounts receivable from policyholders and reinsurers. The Company monitors its exposure to individual issuers and classes of issuers of fixed income securities which do not carry the guarantee of a national or Canadian provincial government. Management believes the Company's credit exposure to any one individual policyholder is not material due to the geographic dispersion of revenues and diversified customer base. The Company monitors its exposure to credit risk with brokers and ensures that it works only with provincially licensed firms in good standing with their respective regulatory bodies.

The breakdown of the Company's fixed income portfolio by credit ratings from recognized external credit rating agencies is presented below:

	Fair values			
Credit rating	**December 31, 2013**		**December 31, 2012**	
AAA	$ 23,443	12%	$ 19,349	11%
AA	46,672	24%	53,182	29%
A	93,389	49%	82,578	45%
BBB	22,578	12%	22,976	13%
Not rated	4,469	3%	4,655	2%
Total	**$ 190,551**	**100%**	**$ 182,740**	**100%**

17. Financial risk management (continued)

As at December 31, 2013, 85.81% of the Company's fixed income portfolio is rated 'A' or better, compared to 84.88% at December 31, 2012.

As at December 31, 2013, financial assets of $269,766 (2012: $258,353) were exposed to credit risk consisting of accounts receivable, amounts due from reinsurers, bonds and debentures, investment income due and accrued, and other invested assets.

(C) LIQUIDITY RISK:

Is the risk that the Company will encounter difficulty in meeting obligations arising from its financial liabilities. To mitigate these risks the Company ensures that assets and liabilities are broadly matched in both their duration and currency and actions are taken to balance positions within approved risk tolerance limits. In the consolidated financial statements, Accounts payable and accrued liabilities, and Unearned premiums have a contractual maturity of less than one year.

The table below summarizes the carrying value and fair value by the earliest contractual maturity of the Company's bonds and debentures.

Maturity profile	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Total
As at December 31, 2013					
Bonds and debentures	$ 31,013	$ 114,900	$ 29,344	$ 15,294	$ 190,551
As at December 31, 2012					
Bonds and debentures	$ 19,548	$ 100,750	$ 43,348	$ 19,094	$ 182,740

(D) MARKET RISK:

The risk that changes in market prices, such as interest rates, equity market prices, foreign exchange rates and credit spreads will affect the Company's income or the value of its holdings of financial instruments. Market risk generally includes currency risk, interest rate risk, and equity market fluctuations risk.

The Company monitors its exposure to individual issuers, foreign currencies and classes of issuers of equity instruments. A hypothetical change in 1% of foreign exchange would not have a material impact on the financial statements.

As at December 31, 2013, management estimates that an immediate hypothetical 100 basis point, or 1%, parallel increase in interest rates would decrease the market value of the fixed income securities by $6,448 (2012: $6,929), representing 3.54% of the $182,048 (2012: $171,219) fair value fixed income securities portfolio, and decrease the value of unpaid claims reserves by $3,335 (2012: $2,771) thus partially offsetting the change in market value of bonds. The net result would be an increase in profit and equity of $3,113. Conversely, a 100 basis point decrease in interest rates would increase the market value of the fixed income securities and unpaid claims reserves and decrease profit and equity by the same amounts, respectively.

The Company's investments in equities are sensitive to market fluctuations. To properly manage the Company's other price risk, appropriate guidelines on asset diversification to address specific security, geographic, sector and investment manager risks are set and monitored. A decline of 10% in equity values, with all other variables held constant, will impact the Company's equity investments by an approximate loss of $7,745 (2012: $6,435).

The Company has no investments in derivative financial assets, collateral financial products or structured financial products.

Fair value

The carrying value of Accounts receivable, and Accounts payable and accrued liabilities approximate fair value due to their short-term nature. The carrying value of Held-to-Maturity (HTM) bonds and debentures and other invested assets approximates fair value.

17. Financial risk management (continued)

Fair value hierarchy

The Company has categorized its assets and liabilities that are carried at fair value on a recurring basis, based on the priority of inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy.

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.

Financial assets measured at fair value are categorized as follows:

	Level 1	Level 2	Level 3	Total
As at December 31, 2013				
Bonds and debentures				
Canadian government	$ -	$ 9,528	$ -	$ 9,528
Provincial	-	43,875	-	43,875
Corporate	-	128,646	-	128,646
Equity investments				
Canadian	63,310	-	-	63,310
Foreign	21,961	-	-	21,961
Total assets measured at fair value	$ 85,271	$ 182,049	$ -	$ 267,320
As at December 31, 2012				
Bonds and debentures				
Canadian government	$ -	$ 10,073	$ -	$ 10,073
Provincial	-	51,563	-	51,563
Corporate	-	112,154	-	112,154
Equity investments				
Canadian	59,602	-	-	59,602
Foreign	14,185	-	-	14,185
Total assets measured at fair value	$ 73,787	$ 173,790	$ -	$ 247,577

18. Capital management

Capital is comprised of the Company's earned surplus and Accumulated other comprehensive income (AOCI). As at December 31, 2013 the Company's earned surplus was $126,646 (2012: $125,003) and AOCI was $2,809 (2012: ($3,197)). The Company's objectives when managing capital are to maintain financial strength and protect its claims paying abilities. Senior management develops the capital strategy and oversees the capital management process of the Company. Capital is managed using both regulatory capital measures and internal metrics.

The Portage la Prairie Mutual Insurance Company is regulated by the Office of the Superintendent of Financial Institutions (OSFI). The Minimum Capital Test (MCT) ratio targeted by the Company is 200.0% compared to the regulatory minimum capital test requirement of 150.0%. To measure the degree to which the Company is able to meet regulatory solvency requirements, the appointed actuary presents an annual report to the Audit Committee and management on the Company's current and future solvency. As at December 31, 2013, the Company had a MCT ratio of 238% (2012: 254%) and aggregate available capital in excess of required capital by approximately $67,260 (2012: $66,157).

19. Related party transactions

Transactions between the Company and related parties are summarized as follows:

(A) SUBSIDIARY:

The Company enters into related party transactions with entities that Portage Mutual Financial Inc. has made investments in. These transactions consist of interest income and commissions and are carried out in the normal course of operations and on normal market terms.

	2013	2012
Revenue		
Interest income	$ 43	$ 84
Expenses		
Commissions	990	969

(B) CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AMOUNTS:

	2013	2012
Accounts receivable	$ 159	$ 131

(C) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL:

The key management of the company includes all senior management and directors. The total salaries and benefits paid to senior management and directors in 2013 were $884 (2012: $842).

None of the directors or senior management or their respective associates or affiliates is or has been indebted to the Company at any time in 2013 or 2012.

The Company sells insurance contracts to senior management and directors. This amounted to $22 in 2013 (2012: $21).

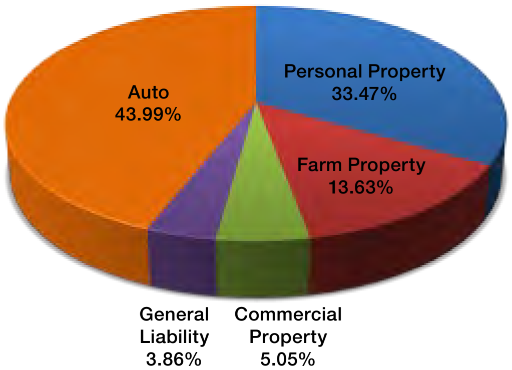
20. Assets and liabilities

The following presents assets and liabilities for which the Company expects to settle or recover in 12 months or greater as at December 31, 2013 and December 31, 2012.

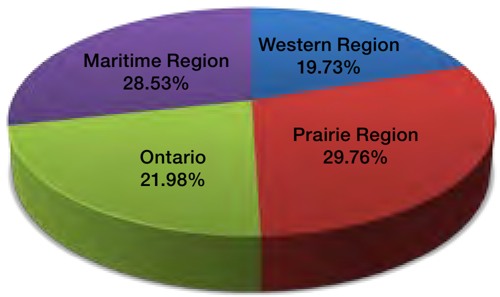
	December 31, 2013	December 31, 2012
Assets		
Investments	$ 166,802	$ 168,091
Reinsurers' share of provision for unpaid losses	14,848	10,459
Liabilities		
Provision for unpaid losses	$ 180,636	$ 150,208

NOTES:

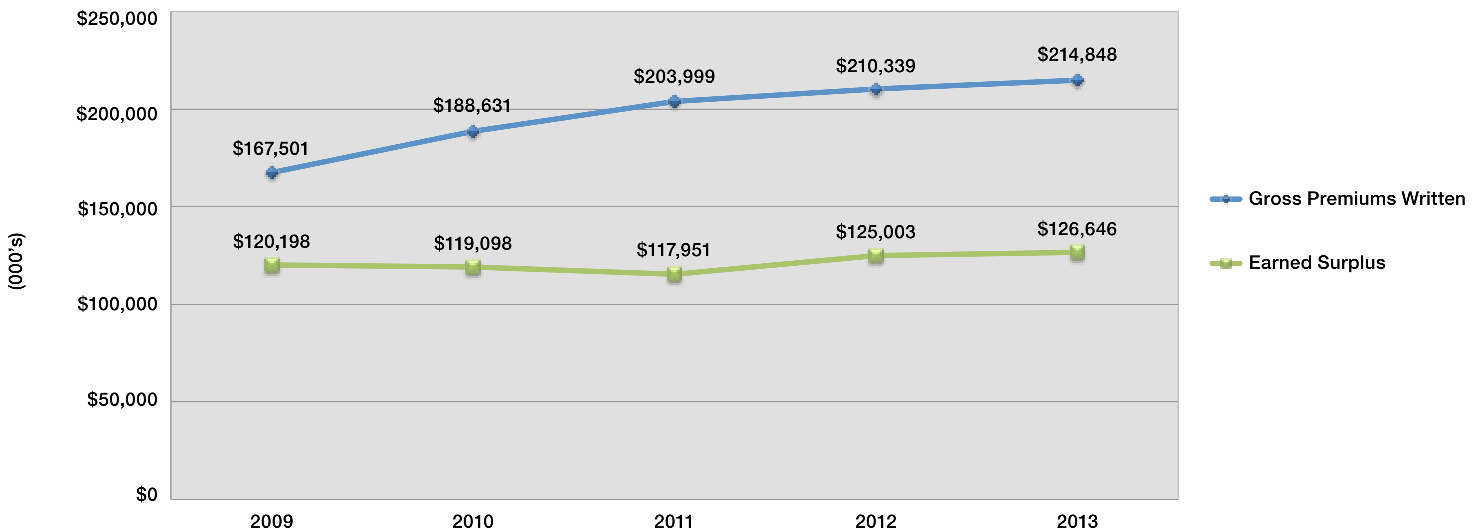
2013 GROSS PREMIUMS WRITTEN BY LINE OF BUSINESS



2013 GROSS PREMIUMS WRITTEN BY REGION



GROSS PREMIUMS & EARNED SURPLUS BY YEAR



Portage Mutual Insurance

Insurance With Integrity. Since 1884.

Mutual Service with Security

The Portage la Prairie Mutual Insurance Company was organized October 2, 1884, based on the underlying principles of security, integrity, hard work, and personalized service.

As a 100% Canadian-owned mutual insurance company, the success of Portage Mutual depends upon serving policyholders with fairness and showing genuine concern for their security. We do this by providing reasonably priced, flexible insurance products and by supporting our brokers with exemplary service.

At Portage Mutual, we believe that doing business with integrity never goes out of style. It is as important today as it was when we began 130 years ago, and it is part of what makes Portage Mutual customers so loyal.

Portage Mutual Insurance

An All Canadian Company